ANNEXES

To the Devfinance quarterly Rewiew

April - June 2002

General information

➢ MicroSave-Africa's Action Research Partners Programme (1mail)

From:	Lillian Otieno [mailto:Lillian@afcap.or.ke]
Sent:	Donnerstag, 13. Juni 2002 14:36
Subject:	Devfinance: MicroSave-Africa's Action Research

Dear Colleagues,

Many of you have expressed interest in receiving more information about MicroSave-Africa's Action Research Partners programme and its progress to date. We have just concluded a detailed report which:

- **presents MicroSave-Africa's package of services,**
- **summarises the lessons learned from our Action Research Programme,**
- **covers the selection of our Action Research Partners,**
- **presents an overview of results, and then**
- **details the activities undertaken with each of our partners.**

The key lessons learned to date include:

Plan, Review and Re-plan: The truthfulness of the old adage, "If you fail to plan, you plan to fail" is self evident, but frequently ignored. Failing to have a product development team meeting regularly undermines the value of forming the team. Not providing the product development team with sufficient time or budget to monitor the pilot test means that lessons take longer to learn and longer to internalise. Conversely good planning combined with adequate resources pays dividends, as shown by Equity Building Society in their allocation based costing exercise.

Ensure Feedback: Feedback loops need to be built into the process of product development. This is done through setting up a product development team that meets regularly, building continuing market research into the pilot test process and being concerned about customer service standards and satisfaction. Client based feedback loops can be especially powerful.

Design a Winning Product: Do not shortcut the research process. TEBA Bank in South Africa were about to go to the market with a funeral insurance product, this product was designed to free clients from the burdens of financing and arranging a funeral for their family at a time of grief. Surely a winning product! However, participatory market research demonstrated that planning a funeral was an important family obligation to the deceased and a part of the grieving process. Had TEBA Bank's original funeral insurance product gone to the market it would have failed.

Use Market Research to Identify Quick Wins: MicroSave-Africa market research uncovers a significant number of "quick win", ways to improve existing or new products, which do not take an elaborate pilot test. In the case of FINCA Uganda, this was in improving communication to field staff when policies changed; for Equity Building Society one quick win was in relating charges more clearly to services delivered and for many other ARPs' opportunities to improve marketing/communication of their products.

Mainstream the Product: In larger institutions, new products can become sidelined, identified as a niche product developed by a particular department. New products should be regarded as priorities for the institution if they are to receive the support they require to make it to the market.

Develop Confident Financial Projections: A product will only be successful if it can make a profit. A financial institution needs to develop financial projections that demonstrate on the basis of the best knowledge available, that the product will be profitable. A financial model is built based upon key assumptions, which must be reviewed as the pilot test progresses.

Uncover and Understand Loss Making Products: Financial institutions need to understand the cost structure of their products. Most of MicroSave-Africa's Action Research Partners have at least one loss-making product. Generic reasons for loss making products, include inappropriate pricing, high head office overheads, low volumes of activity, over exposure to interest rate risk, low levels of fee income and over-elaborate back office processes.

Pay Attention to Pricing Your Products: MicroSave-Africa's Action Research Partners, frequently pay more attention to the costs of their operation, and indeed costing their products, than pricing their products. For Tanzania Postal Bank one problem was an institutional resistance to changing the interest rates on the Domicile Quick Account at a time when the investment income available to the bank was plummeting. In the case of Equity Building Society market research discovered that clients uniformly disliked the way that Equity priced their products. The Building Society was perceived to be expensive because of the way they communicated the interest rate on their loans when these were in fact cheaper than many competing products.

Craft Your Incentive Scheme: A well-designed incentive scheme can significantly enhance staff performance. However, an incentive scheme can pose significant challenges to the development of new products, especially where the new product affects the dynamics of the incentive scheme. Initially some FINCA Uganda Credit Officers were opposed to the introduction of the new Small Enterprise Partnership product, as transferring their existing, high-value clients to the new product affected their bonus payments.

Building Capacity - Start Simple: For MicroSave-Africa to promote high quality financial services for poor people, it builds capacity within its Action Research Partners to develop and promote their own financial services. MicroSave-Africa emphasises simplicity and incremental development. Workshops are used to introduce concepts, followed by practical work with our partners, in the field or in their offices, directly after the course, to develop and embed tangible results. There are often technically more rigorous - but more demanding, technically sound solutions, such as Activity Based Costing, cannot always be introduced without first building capacity.

Develop an IT Solution Appropriate for Your Pilot Test: Developing IT systems can be very challenging, but is made more so as the product changes and develops through its initial design, to concept to prototype work and during the pilot test. To control costs, it is essential that the product is well specified before IT development gets underway, where investment in IT is likely to be very heavy - it may be worth developing a low tech interim solution for the pilot test as TEBA Bank have done for the Home Improvement Loan.

Consider Contracting-Out Services: Where suppliers exist and capacity is required, it is possible to contract out elements of a Pilot Test, whether this is the management of the test, review or evaluation, market research or marketing. Table 1 presents the advantages and disadvantages of working in house or contracting out services.

Communicate Your Product: Examples of poor communication are all too common, whether in disseminating new policies, training staff or marketing products. Fortunately MicroSave-Africa research tools can clearly identify lapses in communication and can be used to facilitate the communication of products to staff and customers in "clear, concise client-friendly language" through developing benefit statements and FAQ guides.

The full report is available on the MicroSave-Africa website www.MicroSave-Africa.com under Action Research Programme - A Brief Review of MicroSave-Africa's Action Research Programme. We hope that you will find it useful.

Best regards

Graham A.N. Wright
Programme Director
MicroSave-Africa

Courses and seminars

➢ CGAP and Soros Foundation develop a first MBA education in micro finance (1 mail)

From: lbaracus@worldbank.org
Sent:Di 21.05.2002 01:28
Subject: Devfinance: Microfinance-MBA, A CGAP/Soros Foundation Joint Venture

Microfinance-MBA, A CGAP/Soros Foundation Joint Venture

CGAP and the Soros Foundation are jointly exploring the potential for the development of microfinance concentrations in top level business and management graduate schools in regions where microfinance is growing. This email briefly describes the essential elements of the Microfinance-MBA program. We solicit recommendations from "Development Finance" subscribers for prospective universities serving targeted regions, microfinance "academic champions" and other stakeholders (interested MFI's and local experts in our targeted countries) which may participate in this program. Noted below are 12 target countries of interest in Asia, Africa, Latin America and the Middle East.

After reviewing this posting, please submit your recommendations for prospective universities, microfinance "academic champions" and potentially interested stakeholders, or call the program managers for more information (contact information is provided at the end of this posting). Please list your own name as a potential stakeholder if you are interested in responding to a more detailed follow-up survey regarding the basic concept, target groups, complementarity to existing microfinance education, etc.

For each of your recommendations, please provide the following information:

Name/title:

Organization:

Complete street address:

Tel./fax:

Email:

Web site (if available):

Brief comments:

Program Objective: The objective of the program is to prepare new and existing managers for an entrepreneurial leadership role in the field of microfinance. The program will vest students with business strategies, theories and practices to address the everyday challenges faced by microfinance managers. The Microfinance-MBA program is also in large part about moving the microfinance stakeholder environment towards a better understanding of how sound business practices may be applied to enhance the operations and management of microfinance institutions.

The Means: The Microfinance-MBA seeks to establish academic chairs in leading and "prestigious" business schools in 4-5 key regions around the world, and will possibly create Microfinance Centers in regions characterized by significant microfinance activity and high student demand for graduate level courses in microfinance.

Key Elements of the Program:

1. Start With A Basic Microfinance Concepts and Practices Course and Eventually Develop A Full Specialization For The MBA:

   It is likely premature at this time for any one academic institution to launch a full MBA concentration in microfinance. Microfinance is a new or relatively unknown field in most business schools, and these schools will need time to learn about microfinance and to develop meaningful courses. We expect to find that most universities have limited or no microfinance curriculum at this time. Therefore, the CGAP/Soros Foundation program seeks to collaborate with universities that at a minimum commit to a basic microfinance concepts and practices course, with the strong prospect of gradually developing a full concentration in microfinance for the MBA. As part of the development of the concentration, it is envisaged that each participant school would be able to call upon an academic advisory board which will support the overall initiative.

2. Develop Programs In Collaboration With Well-Positioned Microfinance "Academic Champions":

   We anticipate that each university initiative will be driven by a strong, well-positioned faculty leader or microfinance "academic champion." The academic champion will collaborate with the CGAP/Soros Foundation team in program design and imprint his or her entrepreneurial vision on the program structure. This individual may reside as a MBA faculty member in the participating university, or may be based in another academic department. Such schools may include graduate level programs in the school of engineering, social sciences or public management, for example. In this case, the academic champion must demonstrate the ability to build relationships between his or her respective academic arena and the business school.

3. Develop A Series Of Inputs To Enable Flexible Program Design:

   Over time, the project should provide a series of modular inputs to Courses (either generated within the university partners or through other outside sources) for integration into business and management programs. These inputs may vary in form, and might include case studies, games, seminars, and workshops, among other inputs. The development of the inputs will be based on a range of key management and business concepts drawn from the content of MBA degrees, but with the intent to adapt them to the nature of microfinance institutions.

   Countries of Interest: Initially, the search for universities and microfinance champions will focus on the following regions and countries:

- **Africa: South Africa, Senegal, Uganda**
- **Asia: India, Philippines, Kazakhstan**
- **Latin America: Nicaragua, Chile, Mexico**
- **Middle East: Egypt, Jordan**
- **Central and Eastern Europe: Hungary**

The CGAP/Soros Foundation team looks forward to receiving your Recommendations for universities and champions. Kindly respond with your ideas and questions to either of the joint venture program managers: Leslie Barcus at lbarcus@worldbank.org or Steve-Anna Stephens at sas@catalinacenter.com.

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- **Business planning and financial modeling using micro finance in Cape town, 9-14 September 2002 (1 mail)**

From: Chuck Waterfield [waterfield@microfin.com]
Sent:Mo 17.06.2002 14:31
Subject: Devfinance: Business Planning / Microfin course in Cape Town, September 2002

For a MS Word version of this file, with photos of the previous Cape Town course, please visit www.microfin.com/training.htm
For further information please email: waterfield@microfin.com
BUSINESS PLANNING AND FINANCIAL MODELING USING MICROFIN Cape Town, South Africa September 9-14, 2002 Principle instructor: Chuck Waterfield (Microfin author)

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

The workshop will be based on the course taught by Waterfield and Sheldon each summer at the Microfinance Training Program in Boulder, Colorado, and on the CGAP Handbook, Business Planning and Financial Modeling for Microfinance Institutions, written by the same. Over 1,800 people have attended this course in the past four years. The course is structured to be highly participatory, with participants applying the business planning framework to a detailed case study throughout the training, including extensive computer-based exercises using the Microfin model. Participants will receive a Workshop Manual, including a CD-ROM with the Handbook and the Microfin software.

Venue:

The Breakwater Lodge will provide hotel accommodations as well as conference space for the event. Just a minute away from restaurants, pubs, theatres and shops, the Breakwater Lodge is perfectly positioned in the heart of Cape Town's Waterfront development. Built in the 19th Century, the Lodge is located in a spectacular setting that looks over the bay and up onto Table Mountain. For more information on the lodge, visit http://breakwaterlodge.za.net
Cost of the Course:

Course registration includes 5 full days of training, all course materials, five nights lodging at the Breakwater Lodge, breakfast, lunch, and coffee breaks. Dinner is not included, as there are a variety of restaurants available in the area. We offer two types of hotel accommodations:

Price	Type of accommodation
US$850	Private room with shared bath (bath shared with one other room; bath is internal to the suite)
US$1050	Business suite (private room with private bath and additional living room)
US$725	No lodging, but includes morning coffee, lunch, and coffee breaks

Note that room selections are limited and we may not be able to provide first-choice accommodations for late registrations.

Agenda:

Monday through Friday, 9:00 AM to 5:00 PM.
Breakfast, lunch, and coffee/tea will be provided daily.

Day 1:

Overview of Business Planning: Participants will review and discuss the Business Planning framework. In particular, attention will be directed to the market-based approach of the framework and the ways in which the framework provides a perspective that differs from traditional NGO planning processes.

Strategic Planning: This section will address the key steps of strategic planning - articulating the mission, identifying clients and markets, performing an environmental analysis, carrying out an institutional assessment, and developing an overall strategy.

Days 2-5:

Operational Planning and Financial Modeling: These sessions will focus on the key steps in operational planning - designing financial products and services, establishing marketing channels and projecting activity levels, determining institutional resources and capacity, developing a financing strategy, and analyzing projected financial statements and ratios. Small group exercises will focus on applying the case study to the Microfin model.

Seminar Team:

The principal facilitator of the workshop, Chuck Waterfield, has 17 years' experience in microfinance, serving as microenterprise director for MEDA and for CARE International. He co-developed the Microfin financial projections tool with Tony Sheldon, and has founded MFI Solutions, the first company to develop Palm Pilot software for use in microfinance institutions. MFI Solutions' clients include ACCION, CGAP, Women's World Banking, Opportunity International, Aspen Institute, and USAID. He is on the faculty of the Boulder Microfinance Training Program, Southern New Hampshire University's Microenterprise Development Institute, and University of Washington School of Public Policy. In addition to the Business Planning handbook, he has a broad range of publications including the CARE Credit and Savings Sourcebook, GEMINI Technical Note on Designing for Financial Viability, and CGAP Handbook on Management Information Systems.

In addition to Mr. Waterfield, there will be two other MFI Solutions staff on hand to assist with teaching and small group facilitation. Maria Paula Carvajal served as the Manager of the Capacity Building Program and the Technical Advisor for Asia and Latin America in the Special Unit for Microfinance (SUM) of UNCDF from 1997-2002. Before joining SUM in 1997, she worked with an IDB funded initiative in Colombia to develop and conduct trainings programs for over 35 organizations in Latin America and the Caribbean on topics related to microenterprise and microfinance. She is an Economist with a Masters degree from Columbia University in Public Administration.

Kadry Furany has over 9 years of experience in the Micro Finance field. His experience includes establishing and strengthening the performance of Microfinance institutions by improving human resources capacity, establishing appropriate systems, and designing appropriate financial and non-financial products. He led the establishment of an independent Microfinance institution in Upper-Egypt including recruitment and training of board of directors and staff, market assessment, products design, and systems development. Mr. Furany has designed projects in Egypt, Tunisia, Ethiopia, Zambia, and Zimbabwe.

MFI Solutions is offering this course in Cape Town at the invitation of Temenos eMerge Banking Systems, the world's leading provider of MIS software for microfinance institutions.

BUSINESS PLANNING AND FINANCIAL MODELING
USING MICROFIN
Cape Town, South Africa   September 9-14, 2002

REGISTRATION FORM

Note: you may copy this text into an email and send it to waterfield@microfin.com. It is not necessary to fax a printed copy.

Name

Institution

Address

Position:

Phone:

E-mail:

Type of registration:

______ Business Suite (US$1050)
______ Private room, shared bath (US$850)
______ Course without lodging (US$725)

Full payment for the course registration must accompany this registration form in order to reserve a place in the workshop. Checks must be made out to "MFI Solutions, LLC" and drawn in US Dollars from a US Bank. Contact waterfield@microfin.com for information about making electronic bank transfers.

Refund policy: If we are able to find another participant to take your place, we will refund your fee less a 10% processing charge. If we are unable to find someone to take your place, then no refund can be made. You are free to send someone else in your place, but you need to inform us in advance. MFI Solutions reserves the right to cancel the course and refund registration fees in full.

Please send registration form and check to:

Chuck Waterfield

Phone: 717-295-9292

MFI Solutions, LLC

Fax: 717-295-9292

325 N. West End Ave
email:waterfield@microfin.com
Lancaster, PA 17603

Publications

➢ Reading recommendations by Dale Adams (1 mail)

From: Dale W. Adams [mailto:dwadams@burgoyne.com]
Sent:Monday, April 29, 2002 8:47 AM
Subject: Devfinance: New book on deposits

DFNers may find the following book of interest:

Carola Conde Bonfil, <<?Depositos o Puerquitos? Las Decisiones de Ahorro en Mexico>> Toluca, Mexico: Editorial Emahaia, 2001. Book sales: ventas@cmq.edu.mx Author: cconde@cmq.edu.mx (Deposits or piglets?: Decisions to Save in Mexico.)

There are three sections in the book: The first summarizes how deposits/savings have been viewed theoretically. The second section presents information on deposits/savings in Mexico over the period 1968-1995. The third section focuses on opportunities to mobilize deposits from low-income households.

In the first two sections the author leads readers through a series of important points: Students of development have underestimated the potential for poor people to save. This has led to financial market policies that provide weak incentives and few opportunities for poor people to hold their surpluses in formal deposits. As a result, poor people are forced to hold their surpluses in other forms, such as animals or other physical goods. In the third section the author goes on to describe organization around the world that have been successful in mobilizing deposits from poor people and concludes that policy makers in Mexico should learn from this experience. She also argues that Mexico could reduce its reliance on external funds if they did a better job of mobilizing deposits internally, to say nothing of the benefits that poor people would realize.

Conde's book challenges us to reevaluate conventional wisdom regarding debt and savings. Most people, most families, and most countries that have pulled themselves out of the muck of poverty have done so by working hard and saving more. Done right, a financial system that properly supports development should mobilize deposits first from many people and provide loans to only a few. Donor driven development hsd turned this on its head. Instead of helping large numbers of people to save more by offering them attractive and convenient deposit services, financial markets have been warped into mostly debt dispensing channels.

Conde might have strengthened her argument further if she had given more attention to remittances and to informal finance. The huge flow of remittance from the U.S. into Mexico, mostly going to poor people, provides lots of opportunities to capture more of this flow in formal deposits. Likewise, the dense networks of informal rotating savings and credit associations (tandas) in Mexico show that people of modest means are creating ways to express their desire to save more. Lots of these informal savings could be mobilized in formal deposits if appropriate actions were taken—Conde's primary point...............................jane.

Subjects of Interest

➢ Financial deepening (2 mails)

From: Ernelson@worldbank.org
Sent: Mi 12.06.2002 05:36
Subject: "Financial deepening"

Rich Rosenberg poses a question but reveals maybe an unintended split amongst us. I believe that financial deepening in the sense he suggests (deepens the outreach of financial services) is a welfare goal in itself for the poor, but for it to contribute to economic growth in poor countries it must contribute to financial deepening in the economists' sense. In most countries, microfinance and informal finance have barely arrived at the first stage of financial deepening, which is interacting with the formal banking system where such things (1) get measured and (2) make a difference for economic growth.

Concerning the second point, investment opportunities in the village are irregular, lumpy, and not necessarily the source of the highest return to the poor/rural/other saver in a country undergoing firm-, sector- or region-specific growth. Indonesia's SIMPEDES is popular not because it recycles savings within the community (which it does to the extent there are appropriate loans to be made) but becuase it intermediates small rural savings deposits into the highest-yield investments available in all of Indonesia (I ignore in this email the performance of BRI in doing so!). SIMPEDES is possible because BRI has established a transfer price between the national financial system and the particular program. Establishment of a national money market (the source of a transfer price) is an important step in financial deepening because it provides a reference point for all other risk calculations (liquidity, time, sector...) It sounds complex but even in the smallest countries, where not prohibited by the Central Bank there exists an interbank market which is sufficiently competitive to provide this transfer price. ROSCAs are not included in calculations of financial deeping, because no formal "financial institution" is involved; the economist considers them inter-household transfers. This is a forced definition; they are in a grey zone. ROSCAs have provided financial resilance when financial systems have collapsed (e.g. the history of the two CFA zones in Africa where the banking system had no need for deposit taking over 3 decades and collapsed when the Central Bank rediscount mechanism could no longer support the arrears, while ROSCAs (tontines) and donor-supported micro-finance institutions were flourishing). Central Bankers appear to detest them, with each new legislation giving them the opportunity to convert to Credit Unions or to disappear.

Financial deeping, to occur in both senses mentioned by Rich, would **progressively** integrate the informal into the formal by any measure which links the most marginal subject of outreach to the services of a national banking system. We tend to think of credit, but we should think of intermediation in the largest sense (time transformation, transfers, deposit mobilization, instant liquidity). This would provide the greatest yield for the small depositor, the transfer services sought by the trader or producer, the stability of deposits required for the term transformation sought by the medium-term borrower.The informal continue to out-perform banks in offering rapid liquidity. With a few exceptions (Philippines, probably others) they have not done so.

Regularatory regimes must break down the "chinese wall" they have established between "banks", near-banks and cooperative/credit union organizations, and informal institutions. To turn the wall into a ramp (by ramping up costly regulatory oversight proportionally to the amount of risks to agents of activities undertaken) would increase competiton and relate local institutions with few activites to local supervision Such actions are consistent with both definitions.

- Eric Nelson

From:	Paul McGuire [paul.mcguire@uq.net.au]
Sent:	Mi 12.06.2002 13:36
Subject:	financial deepening

Richard Rosenberg suggests substituting 'deepen[ed] outreach' for 'financial deepening' in discourse within the microfinance community. This seems sensible. But it shouldn't dissuade commentators from pointing to the financial deepening properties of microfinance, in the proper (economic) sense of the term.

We agree with Rosenberg that discussions of microfinance should not use the term 'financial deepening' as a synonym for 'outreach'. But that shouldn't stop anyone from asserting (as we have done in studies of the role of central banks in microfinance and of the policy and regulatory environment for microfinance in Asia) that increased outreach of microfinancial services will prove conducive to financial deepening, as economists understand the term.

Broadly speaking, financial deepening is an increase in the stock of financial assets relative to the flow of economic activity, as measured by GNP. Higher-income countries tend to have 'deeper' financial systems than lower-income countries, and countries growing relatively fast tend to be financially deeper than slower-growing ones. Where economic growth is accompanied by financial deepening, the financial sector grows relatively faster than the economy as a whole.

In making his point, Richard Rosenberg chooses the narrow definition of money supply (currency plus commercial bank deposits, known to economists as M1). This is not the most helpful definition if one's intention is to illustrate how the diversification of financial institutions which normally accompanies development will support financial deepening. The broad measure of money known as M3 includes Rosenberg's M1, together with time and savings deposits at commercial banks, and also the deposits held by non-bank thrift institutions. As far as I am aware, no central bank in the world actually counts the deposits of MFIs in its measure of M3, but in principle they could and perhaps should be counted. The reasons why such deposits aren't counted are partly practical (difficulties of data-collection and the fact that they are insignificant in relation to the totality of financial assets everywhere except, perhaps, Bangladesh). There is also a perceptual difficulty, in that financial sector authorities are slow to appreciate either the nature and significance of microfinance as an instrument for financial service delivery to the poor or its capacity to support financial deepening. This is no doubt changing as more countries grapple with the issues of policy and regulation for the microfinance subsector, and as that subsector becomes relatively more significant as an element in the financial sector of some countries.

It is not surprising that, as Rosenberg comments, there is no empirical evidence that microfinance drives aggregate economic growth. Quite apart from the methodological problems in establishing such a linkage, in most if not all countries microfinance is likely to be insignificant in terms of financial aggregates, as suggested above. (This is not to say it is not significant in terms of numbers of clients). Hence microfinance is unlikely to have a significant effect on aggregate income. To put it another way, even if microfinance has a significant effect on the income of the clients (and this is subject to differing views), these clients are likely to account for a small proportion of national income so any effect on national income will be very small. It would therefore not seem appropriate to evaluate microfinance in terms of its effect on aggregate economic growth.

In any case, establishing cause and effect at this level of aggregate economic analysis has been the subject of many controversies, and much public policy (for example, expenditure decisions in health and education) is based to at least some degree on faith, intuition and the feeling that 'it must be so'. Many are prepared to make a similar leap of faith in the case of microfinance. For those of a more sceptical frame of mind, the contributions of microfinance to distributional equity and financial sector development ('financial deepening' again!) may provide sufficient justification for taking an interest in the field.

John Conroy and Paul McGuire

The Foundation for Development Cooperation

Brisbane, Australia.

Home Page: www.fdc.org.au

- **The differing economic usefulness of savings in money versus in kind (2 mails)**

From: Dale W. Adams [dwadams@burgoyne.com] Sent:Di 21.05.2002 03:04 Subject: Saving in kind

Muriel essentially argues in her recent dfn posting that developers ought to continue to ignore financial deposits because physical assets, cattle and such, are a better investment for the poor. While there is certainly nothing wrong with people holding some of their savings in real estate, livestock, and other productive assets, these forms of savings have at least five major limitations. The first is that they often are not liquid. For example, it may be difficult to sell a cow immediately to obtain cash to meet an emergency or capitalize on an opportunity. Second, physical assets are seldom easily divisible. Selling just one quarter of a pig or cow, for example, to raise a small amount of cash is not very convenient for the animal. Third, the sale of physical assets often involves substantial transaction costs and time. Fourth, livestock can be stolen or die. Fifth, physical assets are highly visible and susceptible to friends and relatives who wish handouts or loans.

Savings held in financial deposits overcome most of these problems: they should be highly liquid, they should be high divisible, depositing or withdrawing funds should involve few transaction costs, and the funds should be beyond the reach of thieves and leaching relatives. The fact that hundreds of millions of poor people in low-income countries regularly place some of their savings in self-help financial groups suggest the advantages of financial savings are real and widely understood by many poor people.

Financial deposits are likewise important for a modern economy. A financial system that mobilizes funds from individuals who have some surpluses and few attractive investment alternatives, and then lends these funds to individuals who have too few funds to capitalize on their economic opportunities essential discourages low return investments and fosters high return investments. The net result of the redeployment of resources that results from efficient financial intermediation is more output for all. Said more simply, if you deny poor people in one valley an opportunity to hold part of their savings in attractive deposit facilities they are likely to put too much savings into cows who will eat too much grass, resulting in more erosion. Others in another valley may have lots of grass and too few cattle. If we connect these deficit and surplus individuals with an efficient financial system some will put money on deposit that is then lent to others, resulting in all of the participants, not just the borrowers, being empowered. ......jane

From: Carola Conde Bonfil [cconde_mx@yahoo.com.mx]
Sent:Mi 22.05.2002 00:58
Subject: Devfinance: Re: new book on deposits

I'd like to apologize for the delay answering this mail, I was out of town and I hadn't been able to read the mails related with my book.

Savings on physical assets are useful for the ones that have no access to formal or informal intermediaries this is because they can be protected against the uncertainty in a future about goods and assets for the formers can be sold later on a second hand market or, in an emergency case, pawn them.
This assets also offer a service to their owners

- **usually what economy describes as the term**

consumption- as well as means of production (i.e. a sewing machine can be used to mend at home; however, it can also be used as a means of work for a seamstress or a tailor)

However, there are several reasons that can lead us to think that the form of saving is not convenient:

1. In an emergency case a person can not sell half of the hog or half of the cow
2. It is more difficult and it becomes very slow to sell a physical asset (in an emergency case), than to make a withdrawal from the bank.
3. In some cases, this king of saving is very exposed, it is exposed to lost, theft (and in the case of the animals they can get sick and die).
4. Some ways of savings depreciate (or have a higher value in a very slow term) so, the savers do not have an effective protection against devaluations and inflations.

5. As some physical assets are expensive (land, gold etc) and can not be divided they are far beyond the possibilities of some savers, whose incomes are very low. There are some possibilities that when they finish saving the asset cost may have increased.

6. Savings on physical assets and other goods are useful, relatively, to the individuals and their families but not to the community they live in. Time these assets stay as savings (without moving) could be used for some others if they were transformed on liquid savings leading them to be moved and intermediated. The other persons could get some credits to repair their housing or just to acquire some other goods.

However, this does not mean that it would be pretended to turn everything into a kind of monetary saving. It is not possible because besides giving well-being (in the case of long term consumption goods) it obeys, in several cases, some cultural practices that it is important to understand and respect.

What it is pointed out is that some institutions and appropriate elements should be created to be able to win poor people's savings and, in this way, give them the opportunity of deciding whether they prefer to save in no monetary goods or in cash. In this sense we could avoid the liability for them to save in physical assets only and without any other option.

best regards

Carola Conde Bonfil