

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

April to June 2002

General Information

➤ Grameen adopts new strategy

“Grameen has taken the bull by its horn and done drastic changes to the way they used to do things.” This is the message sent by Assad J. Magaña from Rural Financial Services (RFS) to the devfinance list, encouraging everybody to read the article written by Muhammad Yunus. It explains their new strategy called *Grameen Generalized System (GGS)*: “The GGS centers around an interlocking loan system (Basic Loans and Flexible Loans). The final product is more demand driven, more in response to the client needs; flexibility is an underlying feature, where the emerging model appears more of that of a credit card operation than that of a line of credit. [...] The article also mentions the changes in the Group Fund, which is now gone, and replaced by three obligatory saving accounts.” It also discusses the changes in Grameen’s loan loss policy, which was such a controversial issue.”

We join Assad Magaña and congratulate Grameen for their efforts in this new endeavour, witnessing their firm belief that “the poor people always pay back their loans”!

You can download the article under: <http://www.gfusa.org/monthly/june/news.shtml>.

➤ **NEW:** Accion International’s new website

ACCION International has announced its new website, with streamlined navigation, enhanced content and added interactive features. The new site makes it easier to find information about micro finance in general and about ACCION specifically: Look for borrower success stories; ACCION International’s technical assistance services; ACCION e-News updates; a glossary of micro

finance terms; ACCION publications; a photo gallery; ACCION e-Cards, and a quiz on micro enterprise and poverty under www.accion.org.

➤ MicroSave-Africa’s Action Research Partners Programme

Following the interest of many, MicroSave-Africa has sent an update on the progress of its Action Research Partners programme. A detailed report is available which:

- * Presents MicroSave-Africa’s package of services,
- * Summarizes the lessons learned from the Action Research Programme,
- * Covers the selection of the Action Research Partners,
- * Presents an overview of results, and then
- * Details the activities undertaken with each of the partners. The key lessons learned to date include “Plan, Review and Re-plan”, “Ensure Feedback”, “Design a Winning Product” and other more. For detailed information please have a look at the enclosed mail.

➤ MicroSave-Africa’s Toolkit on “Costing and Pricing of Financial Services”

MicroSave-Africa has also made available on its website the new updated and improved MicroSave-Africa toolkit on “Costing and Pricing of Financial Services”. It provides a simple guide by:

- Explaining the many benefits of systematically costing products to assess their profitability;
- Outlining an allocation based costing method developed on the basis of two years of practical experience with a wide range of financial institutions;
- Providing a simple approach to marginal costing that allows MFIs to examine the contribution of individual products to the institution’s income and expenditure account;

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

- Offering practical guidance on pricing of products under a variety of marketing strategies. Just visit www.MicroSave-Africa.com.

➤ **CGAP's Costing tool ready for field testing**

An alternative tool is ready for field-testing: CGAP's Product Costing Tool, based on the activity-based costing (ABC) approach. It allows MFIs to improve efficiency and determine product viability by gaining information on the true structure and root causes of their costs.

For further information, contact Brigit Helms at CGAP: bhelms@worldbank.org.

Courses and seminars

➤ **CGAP and Soros Foundation develop a first MBA education in micro finance**

CGAP and the Soros Foundation are jointly exploring the potential for the development of micro finance courses in top-level business and management graduate schools in regions where micro finance is growing. The partners solicit recommendations from "Development Finance" subscribers for prospective universities serving targeted regions, micro finance "academic champions" and other stakeholders, which may participate in this program. The program objective is to prepare new and existing managers for an entrepreneurial leadership role in the field of micro finance. Please have a look at the essential elements of the Micro finance-MBA program briefly presented in the enclosed email.

➤ **Business planning and financial modeling using micro finance in Cape town, 9-14 September 2002**

This one-week intensive workshop will present a step-by-step framework for developing a business plan and financial projections for a micro enterprise program. The comprehensive business-planning framework separates the planning process into strategic and operational elements. A sophisticated financial modeling tool, "Microfin" (developed by Chuck Waterfield and Tony Sheldon through

contracts with CGAP and Women's World Banking), will also be explored in depth.

For more details read the enclosed mail or contact waterfield@microfin.com.

Publications

➤ **Credit Gurantee Fund Book review by Geetha Nagarajan**

Geetha Nagarajan has drawn the attention to a new publication by **Dr. Laura Vigano**, associate professor at Bergamo University, Italy: *Rural Credit Gurantee Funds: Best Practices, International Experiences and the case of MENA Region*, published by the Giordano Dell'Amore Foundation, Milan, Italy. According to Nagarajan, it is a very useful and interesting addition to the few existing good literature on credit gurantee funds: "The author carefully lays out the positive and negative aspects of credit gurantee funds, lists best practices, outlines some of the experiences from developed and developing countries as a start to carefully examine the credit gurantee funds established to serve SMEs and agriculture sectors in four North African and Middle Eastern countries: Egypt, Morocco, Jordan and Tunisia. [...] The author concludes that rural credit gurantee funds and other alternatives can only be helpful if banks have some genuine interest in serving the rural clientele." Contact laura@unibg.it for details on how to access the publication.

➤ **Special issue of the Development Bulletin of micro finance: Micro Finance for poverty reduction**

The Australian Development Studies Network has published a special issue No 57 of *Development Bulletin*. Gender, sustainability and governance, each of them being core to micro finance, are explored in this paper, which discusses the role that micro finance is playing in poverty reduction and the practical issues involved in 'good' micro finance. A selection of case studies is also included, that illustrate micro finance outreach best practice. A range of papers considers the role of micro finance in women's empowerment. In

addition, supporting information on recent micro finance publications and major micro finance organisations and a list of recommended readings is provided. To order the issue or subscribe to the bulletin, write to: devnetwork@anu.edu.au.

➤ **Reading recommendations by Dale Adams**

1. *Depositos o Puerquitos? Las decisiones de ahorro en México.*
By Carola Conde Bonfil

Toluca, Mexico: Editorial Emahaia, 2001. Book sales: ventas@cmq.edu.mx Author: cconde@cmq.edu.mx (Deposits or piglets? Decisions to Save in Mexico)

The book is divided into three sections: 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.

According to Adams, Conde's book challenges to re-evaluate conventional wisdom regarding debt and savings – have a look at the enclosed mail for his review.

2. *Article on Loan Sharking*

Michael W. Lynch, *Legal Loan Sharking or Essential Service?*, "Reason" April, 2002, pp. 38-41 – about two prominent forms of micro finance in the U.S. Dale Adams:

"In the U.S., check cashing and/or payday lending offices are common in major urban areas. These facilities are typically used by individuals who don't care to use a bank and who may not wish to finance short-term purchases by using a credit card. The author estimates there are about 10 thousand payday lenders in the U.S. and that their lending amounts to about \$14 billion per year. (I suspect this is a much larger amount than the micro lending done by NGOs in the U.S.) It turns out that there are a fair number of people in the U.S. who prefer to use these informal financial services because they don't have to stand in line and transaction costs are low. The author argues that clients using these informal services may have valid economic reasons for avoiding banks and that banks may have rational reasons for not rushing into this market niche."

3. *Book on micro debting in the U.S*

Nitin Bhatt, *Inner-City Entrepreneurship Development: The Micro credit Challenge*, Oakland, California: ICS Press, 2002. ICS's web site is www.icspress.com.

The author notes that a number of U.S. foundations and government agencies jumped on the micro debt bandwagon in the late 1980 because debt was thought to be a helpful treatment for poverty in low-income countries. Despite Adams questions the comprehensiveness of the analysis, he finds that the results "should cause micro debtors to do some soul searching". The author discusses critically among other issues like the limited sustainability and outreach of these efforts, the loan recovery problems, the collapse of a substantial number of micro debt programs or that most of the loans go to the non-poor.

➤ **Recommended by Richard Rosenberg:**
Credit Scoring: The next breakthrough for micro credit? By Mark Schreiner

Richard Rosenberg mentions the increasing attention that has been paid in the last years to credit scoring and its possible relation to micro finance. He thinks readers may be interested in a new paper on the topic by Dr. Mark Schreiner: *Credit Scoring: the Next Breakthrough in Micro credit?*

The paper discusses credit-scoring techniques that help a lender judge a loan's riskiness by mining the lender's historical database to come up with statistical correlations between degree of risk and certain quantifiable characteristics of borrowers. In financially advanced countries, these scoring techniques, in combination with credit reference bureaus, have been by far the single most powerful tools for opening up credit to lower-income clients.

A pre-publication copy of can be found at http://www.cgap.org/html/p_occasional_papers07.html.

Subjects of Interest

➤ Financial deepening

Richard Rosenberg from World Bank raised the issue of finding the right terminology for the micro finance industry. To avoid misunderstandings, he suggests to choose the expression “deepen the outreach of financial services” when having in mind the process of making financial services available to lower-income clients. Economists are used to a different understanding; for them financial deepening refers to increasing the ratio of money supply to national income – being an important engine of overall economic development. While he is in doubt whether the micro finance objectives as outlined above have a similar effect, speak drive aggregate economic growth, his colleague Eric Nelson is convinced that increasing volumes of financial services to the poor *do* potentially contribute to economic growth in poor countries – if only it contributed to financial deepening in the economists’ sense. Unfortunately, in most countries micro finance and informal finance have not even arrived at the first stage of financial deepening, as this would imply interactions with the formal banking systems.

To his opinion, for financial deepening to occur in the sense outlined by Rosenberg, would require an integration of the informal into the formal system, meaning intermediation in the largest sense (time transformation, transfers, deposit mobilisation). He opts for regulatory regimes to break down the “Chinese wall” they have established between “banks”, near-banks and cooperative/credit union organisations as well as informal institutions.

For John Conroy and Paul McGuire from the Australian foundation for development cooperation, financial deepening is an increase in the stock of financial assets relative to the flow of economic activity. They agree with Rosenberg that there is no empirical evidence about micro finance as a driver of economic growth. One reason is certainly the low significance in terms of financial aggregates of micro finance in most countries – in opposite to the number of clients. However, as these clients count probably only for a small proportion of national income, any effect on the latter will be small. Yet, according to the two writers, the contributions of micro finance to distributional equity and financial sector

development may provide sufficient justification for taking interest in the field.

Del Fitchett suggests the term “outreach” instead of financial deepening. Mohammed Alin agrees to that; for him financial deepening is only the means to achieve the overall objective of outreach, i.e. expanding access to increasing numbers of low-income clients. Beth Porter, from Freedom from Hunger, adds that there are at least two dimensions of outreach – breadth (how many people are reached with financial services) and depth (how poor are people reached). As a conclusion, Gulli Hege from Norad provides the following definition of outreach:

Depth – how poor are the clients;

Scale - how many are reached;

Breadth - types of clients (petty trading, manufacturers, farmers, etc)

Geographical – rural, urban, semi-urban, remoteness

Quality – range and quality of services. (2 mails)

➤ Rating the village banking program CRECER in Bolivia

Claudio Gonzalez-Vega from Ohio State University commented on the Planet Rating appraisal and rating mission to the Bolivian NGO CRECER in April 2002.

According to him, the readiness of CRECER for the rating is an important step towards greater transparency in the operations of NGO-based micro finance. He underlines in particular the “superior professional and exceptional leadership qualifications of its current general manager, Ms Evelyn Grandi”, particularly her entrepreneurial approach to the implementation of CRECER’s altruistic goals.

Greg Pirie from RTA-Micro finance hooks on this comment by asking to which extent are MFIs dependent upon the qualities and continuing participation of individuals in critical positions? Is the dedicated driving force of a single person key to an MFI’s minimum level of success?

Gonzalez-Vega sees two major scenarios:

1. The key role of the pioneer innovator when the programme is launched – compensating for missing institutional structures. Of course, in case of growth this concentrated decision-making role and initial leadership asset can become a

liability and trigger quite a painful transition.

2. Strong leadership is also a key ingredient in the following stages of an organization, requiring the leader to lead the MFI to new levels of institutional development. And here it is of utmost importance that the leader understands her role correctly – to strengthen the structures in a way where the institution does not collapse in case the leader moves on to another task.

Hemal Bansal from University of Baroda (India) shares his rating experiences from India. According to him, because it is generally difficult to find a single individual leader being capable of handling a fast growing MF programme, the board gains new significance. However, as boards are also often weak, Bansal votes for donors or creditors taking over a major responsibility in trying to strengthen the board as well as the accounting systems. He wished there were some standard requirements from the donors' side helping the organizations to streamline their working practices and procedures. His fear behind, as far as India is concerned, is that rushing into an increasing outreach could affect the quality of micro finance services.

➤ **The differing economic usefulness of savings in money versus in kind**

The book *Depositos o Puerquitos?* By Carola Conde Bonfil (see section "Publications" as presented by Dale Adams to the Devfinance list) triggered questions about the dis-/advantages of savings in money or in kind. In regard of the current economic development, some participants point out the negative sides and risks of saving in money against in kind ("What happens when you put your money in a pile with other money? It sits there. What happens if you put your cattle in a herd with other cattle? You get calves."). José Luis Pizarro is in favour of diversification of assets as sound best practice to preserve and increase money.

To this exchange, Dale Adams provides a basic lesson on at least five major limitations for savings in kind, which can be overcome by savings in money:

1. In kind savings are not liquid enough.

2. Physical assets as savings (cows, vehicles, etc.) are seldom easily divisible.
3. The sale of physical assets often involves substantial transaction costs and time.
4. Some physical savings like livestock can be stolen or die.
5. Physical assets are highly visible and susceptible to friends and relatives who wish handouts or loans.

Jon Lacoste from Zimbabwe, though agreeing with these constraints, highlights the limitations of financial savings in countries like e.g. Zimbabwe, where these days visibility is a smaller risk than liquidity (meaning that social pressure is stronger on someone who is known to have a successful business than on someone who has cows or a nice house). Also, money does at present not bring any service – in comparison to cattle. Last but not least, the inflation rate being above 100%, cattle offer a much better return than money. Delbert Fitchett, however, calls the current situation in Zimbabwe "a prime example of abusive governments and politicians with stupid economic policies".

The author herself points out what is said in her book: that because of the limitations of savings in kind - as cited above – appropriate services should be created to win poor people's savings and give them in this way the opportunity of deciding whether they prefer to save in no monetary goods or in cash.

(2 mails)

ES/230702