

# ANNEXES

## To the Devfinance quarterly Review

July – October 2002

### General information

➤ [Frits Bouman has passed away \(1 mail\)](#)

From: J. D. Von Pischke [mailto:jdvp@erols.com] Sent: Montag, 2. September 2002 14:08 Subject: Devfinance: Prof. Bouman has passed away
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Dear friends,

Frits Bouman, who recently passed away, was a key contributor to what has become known as the New Development Finance. He spent much of his career as a sociologist at the Agricultural University in Wageningen, the Netherlands. He demonstrated that the unfavorable image of informal finance held by government officials in some poor countries and many aid agency staff members was not correct. He achieved this through field research with his students in places such as Cameroun and India. He had the courage to speak out strongly in his book with the wonderful title that began SMALL, SHORT AND UNSECURED on informal finance in India that was published there by OUP. Later, with Otto Hospes (his student who became his most cherished colleague), he co-edited FINANCIAL LANDSCAPES RECONSTRUCTED, published by Westview, which carried the theme further and more broadly. That book was based on a highly successful conference held in Wageningen. Through these books and several articles he made his case convincingly.

(To minimize some readers' anxiety: Wageningen seems to be pronounced something like Vah kuh ning uh, with emphasis on the first syllable. It helps if you cough lightly at the beginning of the second syllable. Keep the final syllable short.)

I first met Frits through the kindness of one of his colleagues at Wageningen. I attended an SID conference near The Hague in September or October 1971, just after I enrolled at the University of Glasgow. I met Dirk van Dusseldorf (if I remember the name correctly) at the conference and he asked if I had heard of Ballendux, a professor at Wageningen who had been the chief of the rural credit system in Indonesia. I had not, and Dirk suggested that I come with him to Wageningen following the conference, which I did. An appointment had been arranged with the Professor, who arrived 20 minutes late. In the meantime his secretary suggested I meet Drs Bouman. We got along well from the start. When Ballendux arrived he was a bit ruffled and chided me for "beginning your discussions with my colleague, Doctorandus Bouman!" Ballendux was a complex man, but generous with his time, and I shall always remember the morning I spent with him. I then returned to Frits' office and this led to a correspondence that ended only a few months ago when Frits sent me an email that said that I would not hear from him again.

I always admired Frits' spirit. He met several disappointments along the way, one being that he was just a bit too old to have been in the running to succeed Ballendux as Professor and another being that OUP's publications in India were for some time not reflected in the catalog that it circulated outside of India (before the web, remember?). But in spite of this and more he remained positive, professional and effective.

Frits had some incredible experiences. One was being a 19-year old corporal in the Dutch Army in Indonesia when the Japanese surrendered. There were apparently very few Dutch troops there, and he was one of the very small group (about 20, if I recall correctly) in mismatched uniforms that hastily accepted the Japanese general's surrender. Later his small unit was harassed by British troops in Indonesia, adding injury to insult. After leaving Indonesia, his birthplace, he bought a pineapple smallholding in Australia and worked the farm all by himself. He discovered within a year that the return was not worth the effort and sold out, breaking even. His description of hauling pineapples in a big basket on his back in the Queensland sun was quite graphic. He was a development field worker in rural Ethiopia. For a year he tried to persuade a village he lived in to relocate from a hilltop to an area nearer to their fields, reasoning that not having to

make the long walk each day would save them a lot of time and energy. The villagers finally took his advice, and shortly afterward an earthquake destroyed the new village next to the fields while leaving untouched the deserted one on the heights.

Frits' first love in finance was the ROSCA. He once boasted that in a certain part of Sri Lanka he could tell, from his car window, which villages had ROSCAs and which did not. His students were incredulous, but found that his instincts were generally correct. He told me that new villages were much less likely to have them because the level of trust would be lower than in older villages.

His discoveries and those of his students inspired Dale Adams and many others to explore how ROSCAs work. The literature before Frits got into the business was relatively sparse and too often the financial aspects were not well explored by those observing them. Frits was able to describe their almost unending complexity and diversity and to relate these features to the incentives they provided to members and how they generated information. His research enabled him to compare ROSCAs with regulated financial institutions of the type that were ubiquitous before financial markets were liberalized. All readers of this note will know which form came out more favorably.

When Frits was on a study leave in Le Kef, Tunisia, the term ROSCA evolved through our correspondence. The generic term at the time was "rotating credit association," but it was clear that the savings positions rotated, too. We had no idea that "rosca" is a Spanish word for cabal, which distressed us, but we took some comfort in the fact that it also was the name of a round pastry in Latin America, the shape of which symbolizes the financial operation of a "ROtating Savings and Credit Association." The insertion of "savings" in the title was a major coup that reflected the more balanced view of informal finance that evolved with Frits' efforts and inspiration.

Frits was modest and lived modestly. I believe that the possession that gave him greatest pleasure was an oil painting of a blonde Dutch girl, possibly three or four years old, happily seated on the steps of a farmhouse or farm building. Its character and charm symbolize to me Frits' dedication to his students and the hope and naivete that makes adventure possible.

J.D. Von Pischke

With deep regrets we hereby inform you that our beloved father has passed away at the age of 75 years. Professor Bouman has died after a long period of sickness, at August 22e 2002. His E-mail adress will be active till end of Octobre 2002 in case you want to leave any messages for his family.

Ruby van de Velde-Bouman  
Bas Bouman

Correspondence-adress:  
R.J. van de Velde  
Honderdbunder 5  
4823 BL Breda  
The Netherlands

➤ [News from PlaNet Finance \(2 mails\)](#)

***Ratings in Morocco and Armenia***

From: planet rating [mailto:anegre_list@planetfinance.org] Sent: Mittwoch, 25. September 2002 09:54 Subject: Devfinance: Rating au Maroc
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In June 2002, Planet Rating rated three microfinance institutions in Morocco: Association Al Amana, Fonddep Microcredit and la Fondation Zakoura. You may either view an executive summary or download each evaluation report from our Web site ([www.planetfinance.org](http://www.planetfinance.org)). You may also obtain more information or receive our reports via e-mail by contacting Ms Alice Negre ([anegre@planetfinance.org](mailto:anegre@planetfinance.org)).

With a favorable institutional environment (support from the King and increasing public funds dedicated to microfinance), the microfinance sector has expanded considerably over the last three years. The dynamism of Moroccan MFIs was noted at the June 2002 USAID conference in Marrakech. Participants estimated that there were almost 450,000 borrowers in the MENA zone (Middle East North Africa), with almost 185,000 borrowers in Morocco (133,000 of which are clients of Al Amana and Zakoura alone). The dynamism of this sector in Morocco is an isolated case in this region. Indeed, MFIs from the MENA zone face difficulties reaching larger size and economies of scale. However, the potential for growth in the region is considerable with an estimated potential market of 6 million microentrepreneurs (2.3 million for Egypt and 2 million for Morocco).

The clientele of Al Amana, Fondep and Zakoura is composed of microentrepreneurs (both men and women) who do not have access to the banking sector.

According to our 10 level rating scale, Al Amana, Fondep and Zakoura received respectively the third, fourth and fifth best scores (i.e. G4\*, G4 and G3\*). These three institutions all have high portfolio quality (PAR 30-365d <0.5%). Their different strengths and weaknesses are detailed in our evaluation reports.

It is worth noting that these evaluations were performed at the request of the institutions, thereby attesting to their commitment to transparency and openness to public scrutiny.

We look forward to your comments.

Best regards,

The Planet Rating Team

Zakoura:

[http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New\\_Site/En/Rating/Ratings/Fiches\\_Imf/Zakoura/index.jsp](http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New_Site/En/Rating/Ratings/Fiches_Imf/Zakoura/index.jsp)

Fondep :

[http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New\\_Site/En/Rating/Ratings/Fiches\\_Imf/Fondep/index.jsp](http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New_Site/En/Rating/Ratings/Fiches_Imf/Fondep/index.jsp)

Al Amana :

[http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New\\_Site/En/Rating/Ratings/Fiches\\_Imf/Alamana/index.jsp](http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New_Site/En/Rating/Ratings/Fiches_Imf/Alamana/index.jsp)

### ***Call for projects***

From: Miriam Djabali [<mailto:plibrary@planetfinance.org>]

Sent: Montag, 21. Oktober 2002 12:28

Subject: Devfinance: call for project

**Request for Projects** : PlaNet Finance is seeking to finance microfinance institutions (MFIs). Preference will be given to MFIs located in Sub-saharan Africa and where PlaNet Finance has existing contacts or local representation.

Applicants requesting a loan from the Revolving Credit Fund must be microfinance institutions, defined as credit and savings cooperatives, village banks, mutualist organizations, or NGOs implementing microcredit programs and which foster micro-entrepreneurship or funding income-generating activities, in rural or urban areas.

Applicant MFIs must:

- have been in operation for at least one year. The Revolving Credit Fund program mainly targets young MFIs, whose growth has been limited due to lack of loan funds.
- have an interesting and detailed project.
- be situated in the zone determined by the RCF.

MFIs that satisfy the above three conditions are invited to fill in the application form at the following address: [http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New\\_Site/Include/Inc\\_All/Fcr\\_Appel/index.jsp](http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New_Site/Include/Inc_All/Fcr_Appel/index.jsp) or by contacting us at [fcr@planetfinance.org](mailto:fcr@planetfinance.org)

Sincerely,

PlaNet Finance

[www.planetfinance.org](http://www.planetfinance.org)

## Publications

### ➤ Documenting the commercialisation of micro finance (1 mail)

#### *Reading recommendation by Dale Adams*

From: Dale W. Adams Dale W. Adams [mailto:dwadams@burgoyne.com]  
Sent: Donnerstag, 29. August 2002 18:27  
Subject: Devfinance: Greek God

I enjoyed reading the second of three volumes that Marguerite Robinson is writing on microfinance: <<The Microfinance Revolution; Volume 2 Lessons from Indonesia>>Washington, D. C.: World Bank, 2002. It is a serious tome that all doctors of development finance ought to read carefully. Ordering address: [www.worldbank.org/publications](http://www.worldbank.org/publications).

This second volume may be the most interesting of the three tomes, since it covers the microfinance that Dr. Robinson knows best. She and a few other Harvard colleagues were heavily involved in reforming the unit desa division of the Bank Rakyat Indonesia into a highly profitable microfinance operation.

The volume is a three-day read. For those with less time I suggest you read Chapters 10-13 where the recent development of microfinance in Indonesia is described. The later part of Chapter 15 is also vital reading where Robinson describes how microfinance weathered the turmoil suffered by Indonesia during the later 1990s.

In Chapter 10 the author fondly describes the growth of a private bank on Bali, Bank Dagang Bali, that created a profitable microfinance program from scratch. The couple that founded the bank learned microfinance by starting out as informal moneylenders. In Chapter 11 Robinson describes the traditional subsidized-credit efforts of the Bank Rakyat Indonesia (BRI) from 1970-1983. The next couple of chapters cover the later highly successful microcredit and deposit mobilization efforts of BRI in rural areas.

Serious students of microfinance will gain much from the insightful and interesting information that Robinson provides on these Indonesian cases. Having tried, unsuccessfully, to reform several traditional agricultural development banks similar to BRI, I'm envious of what was accomplished by the Harvard group and their Indonesian colleagues. This led me wonder how a devious Greek Goddess might have derailed the reform of BRI's unit desas, as she has done in dozens of other cases around the world. Most of these banks have been liquidated or are among the walking dead.

1. If someone from the Farmers' Home Administration in the U.S., from the Reserve Bank of India, or from an altruistic ngo had provided the technical assistance for banking, rather than Dick Patten who was a commercial banker.
2. If the technical assistance team was from Podunk State College, rather than from prestigious Harvard University.
3. If the leader of the technical assistance group had held the traditional view that poor people could not and would not save in deposit facilities.
4. If policy makers in the Indonesian government had suppressed agriculture, thinking it was a cash cow that could be milked without feeding.
5. If the minister of finance had been a fervent Muslim who believed realistic interest rates on loans and deposits were evil.
6. If the president of the country thought that cheap credit was an effective political and development tool.
7. If leaders in the ministry of finance had not supported the critical policy research that helped to guide the reform.
8. If key employees in USAID had not been willing to support a new approach to rural finance in Indonesia in the early 1980s.
9. If the head of BRI and the unit desa division had been political hacks who were changed with each shift in the political wind.
10. If there had been influential congress members who had continued to periodically impose ad hoc cheap credit program on the unit desa system.
11. If the Indonesian policy makers and technical assistance members had been spineless and allowed donors to dump money into the credit efforts on the cheap, thereby subverting the deposit mobilization efforts.

12. If key donor employees (World Bank and the Japanese) had not participated in the charade of inserting large doses of donor funding, supposedly to support the successful credit efforts of BRI, but in a form that was essentially balance of payments support.

Any one of these changes would have debilitated the reform of BRI. Patten, Robinson and a handful of enlightened Indonesians deserve a standing applause for their efforts in keeping the Greek Goddess at bay.

I have only one tiny bone to pick with Robinson. She provides the reader with ample background information on Indonesia, but says next to nothing about informal finance in the country. After all, informal finance is the most serious competition for microfinance efforts. I would have expected an anthropologist to provide much more detail on informal moneylending and on the extremely popular roscas that are found everywhere in the country. I remember talking with about 50 Indonesian bankers a number of years ago, asking how many of them were members of roscas (arisans), and being surprised when most of them responded they were members. A modest amount of research on roscas might have been an inexpensive way to establish the potential for deposit mobilization efforts in the country. Robinson notes that the founders of the Bank Dagang Bali learned their trade by being informal lenders and that BRI later copied some of the techniques used by these founders. Why not go to the source, informal finance, if one wishes to learn how microfinance is done?  
Jane.

## Subjects of Interest

### ➤ Group vs. individual lending (5 mails)

From: "Dean Karlan" <[dkarlan@Princeton.EDU](mailto:dkarlan@Princeton.EDU)>  
Sent: Thursday, July 11, 2002 3:41 PM  
Subject: Devfinance: group vs individual lending

Many MFIs have faced and made the critical group vs individual lending decision at some point in their organization's history. We would like to study this decision and its consequences more, and are looking for an MFI that would like to collaborate with us to help learn more about this critical issue.

The pros and cons of group vs. individual lending have been much debated, but it is always difficult to analyze because comparisons across institutions are difficult if not impossible. Furthermore, comparison within an organization, if both types of products are offered is often useless because the client pool is different and other aspects of the loans are different (e.g., individual loans are often to more well off clients). Some argue for group loans because of the advantages of peer pressure to generate repayment (other argue that this peer pressure can be destructive to social networks). Others argue that individual loans are better because in group lending good borrowers often end up not repaying if in a bad group. Also, many believe the group lending process is too costly for borrowers, and dropout rates perhaps would improve with individual lending rather than group lending (but MFI costs might rise with individual lending). Obviously, arguments exist to support both types of products, but the conditions under which one product is better than another is little understood. We hope to create a collaborative project between practitioners and researchers that could be very useful not just for that particular microfinance organization, but for the industry as a whole.

Specifically, we are looking for an MFI that meets the following criteria:

- 1) Has already been in operation for at least one year, or has experience working in other countries under similar circumstances.
- 2) If the MFI is a group-lender, the MFI is interested in converting some of those existing clients to individual loans.
- 3) Is interested in participating in a research project and having the results disseminated to others so that others can learn from their experience.
- 4) Is willing to offer both group and individual lending products to similar clients.
- 5) There are no geographic requirements.

The "we" is Dean Karlan and Ashok Rai. Dean Karlan is a professor at Princeton University in the Woodrow Wilson School of Public and International Affairs and the Economics Department and Ashok Rai is at Yale University in the Economics Growth Center. Please email Dean Karlan at [dkarlan@princeton.edu](mailto:dkarlan@princeton.edu) if interested.

Dean S. Karlan, Assistant Professor of Economics and International Affairs  
337 Wallace Hall, Princeton University, Princeton, NJ 08544, (609) 258-6916  
dkarlan@princeton.edu

From: Linda MAYOUX [[rcy12@dial.pipex.com](mailto:rcy12@dial.pipex.com)]  
Sent: jeu. 11.07.2002 17:20

Dear Dean,

But the arguments for group vs individual lending are not only in these terms. There are also arguments in terms of building networks and social capital. The degree to which this is the case, and the balance of costs versus benefits for both clients/members and as an effective development strategy depends very much on the nature of the groups, their structure and the types of support offered. It would be most interesting to look at programmes with different visions of the role of groups. Also you should disaggregate benefits to clients by gender, class etc. This would be a very interesting study!

Linda

From: "Dean Karlan" <[dkarlan@Princeton.EDU](mailto:dkarlan@Princeton.EDU)>  
Sent: Friday, July 12, 2002 10:05 PM

Linda,

Thanks for the comments. Yes, i agree whole-heartedly the social context is critical to understand... our goal is to study not just what types of social environments produce better financial results under group vs individual lending, but also what impact the group vs individual lending has on the development (or destruction) of social networks. I'll keep you posted on the project, if you like.

Cheers,  
Dean

From: BRCS [[brcs@iafrica.com](mailto:brcs@iafrica.com)]  
Sent: sam. 13.07.2002 11:48

Dean,

I think you may be missing Linda's important (if implicit) points. Linda was not referring to the 'social context' or 'social networks'. Instead:

1. There is increasing recognition that social intermediation methodologies (including group lending) \_create\_ (not just influence) positive outcomes that are not reducible to 'financial efficiency'. Social intermediation methodologies can produce social capital at community level. This social capital can help to reduce poverty by (a) creating new institutions within which development activity can take place and (b) creating means through which previously marginalised households can be represented vis-a-vis external actors.

2. At a microeconomic level, the 'financial efficiency' criterion leads to equilibria in the transaction between the borrower and lender, but ignores potentially positive social externalities. The decision whether to adopt social intermediation methodologies can thus not be limited to whether it facilitates financial efficiency, since an 'efficient' individualised microlending programme may have significant social opportunity costs (in the sense of foregone social capital formation, not in the Schriener/Yaron sense).

The danger is that the single-minded focus on 'financial efficiency' obscures the purpose of microfinance - to reduce poverty (well, IMHO). Here South Africa we have had nearly a decade of policy in pursuit of financially efficient MFIs, but no impact on poverty (or job creation or economic growth). MFIs who have been using social intermediation

methodologies, by contrast, have had demonstrated impact on poverty in all its facets, and have had a good financial track record to boot.

Regards,

Ted Baumann

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From: J. Roth [jr243@cam.ac.uk] Sent: lun. 15.07.2002 16:38 Subject: Devfinance: The social cost of group lending methodologies
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While I agree that there are many social benefits to group lending methodologies one needs to factor in some of social costs of the methodology. My own experience of group lending schemes around suggests that these are rather significant. Although in some instances group-lending schemes can create social capital they can also destroy it. The term "solidarity group" conceals more than it reveals. A central purpose of mutual guarantees and public repayment is to name and shame defaulters, an institutional defence against moral hazard that works by increasing the social costs of default. When conducting research on a solidarity group-lending scheme in Uganda members of the groups expressed a deep dislike of "solidarity groups." When I asked a member what she thought of "solidarity groups," her response was "why do you try and fool us, why do you call them solidarity groups, why not call them what they are "humiliation groups"". It is interesting to note that Balkenhol in his review of enforcement mechanism in West African Tontines writes that the act of public exposure in attempting to remedy a default is an act of last resort. In group lending methodologies it is embedded into the very fabric of methodology.

Humiliation often takes place at another level. Groups are frequently trained in all manner things, managing their money, managing their husbands, primary health care, HIV. The implication of compulsory mass based training before lending can occur. The social costs of this are two fold. The implication of compulsory training is essentially insulting - you are ignorant, because you are ignorant you not worthy of receiving our loan. And of course the implicit, once you have sat through the course you then become worthy of receiving a loan. Such an approach has some rather unpleasant resonances with Victorian distinctions between the worthy and unworthy poor.

Within the groups we cannot assume a priori that the group is in some sense democratic. Groups often reflect local power structures. People may join groups not as freely contracting agents making decisions about their own utility, but may be coerced into joining and remaining in groups. So for example: p needs a loan, p has enough power to coerce q, r and s into providing surety but not enough to force them to lend to her. P forces q, r and s into forming a solidarity group. The welfare of q, r and s does not necessarily improve by being in the solidarity in fact it may worsen because of the opportunity cost of involvement.

Aside from these issue there are other social opportunity costs that need to be factored in. When borrowers are attending the endless training session and public repayment ceremonies they could be doing other things with their time. Individual lending methodologies tend to be less time intensive for the borrower giving her more time to pursue a livelihood. I have not seen a setup cost comparison between indiv and group lending schemes, but costs of setting up group lending schemes are often immense (Cf work by Jonathan Morduch on the Grameen Bank for example). If they are more expensive (which I suspect) in what other socially beneficial ways can this money be spent. Group lending schemes are not only borrower time intensive but the products tend to be inflexible compared to the flexibility of individual lending methodologies. This has implications for poor people who often need to sieze socially beneficial opportunities and need flexible arrangements to do so.

These are some of the social costs of group lending methodologies. I suspect there may be more.

➤ Rural finance in China (2 mails)

From: Sarah Raz Tsien [mailto:tsien@fas.harvard.edu]  
Sent: Mittwoch, 31. Juli 2002 21:45  
Subject: Devfinance: China's Rural Cr Coops

The question is, can we help the Rural Credit Cooperatives in China do a better job by doing better microfinance?

Yes, indeed, the Rural Credit Cooperatives of China are only cooperative in name, certainly not in the way they operate. Thank you, Greg Pirie and J.D. Von Pischke, for your thoughts on this. Here is what I have said about the issue of RCCs in China and their relation to Chinese microfinance programs in an in-progress paper.

Sarah Tsien  
PlaNet Finance China

Most notable among legal rural financial institutions in China are the Rural Credit Cooperatives which have undergone profound change during the past 50 years and which continue to be a sticking point in rural reform.

According to Andrew Watson, rural finance specialist and country representative for the Ford Foundation in China, the Rural Credit Cooperative (RCCs) system is that which, in official terms, most directly services the needs of China's farmers and has the broadest reach at the most basic levels of the countryside. By the end of 1998, the RCC was reported to hold 12.7 percent of all bank deposits, 19.5 percent of all saving deposits, 9.6 percent of all bank loans, and 59.8 percent of all agricultural loans (Zheng 1999). The RCCs have been, since their inception in the 1920s and their troubled evolution after 1949, unable to clarify their status as cooperatives or financial institutions (Watson 2002).

It is important to make mention of the fact that the RCCs themselves have become involved in what they call "microfinance" (Druschel 2002). In a conversation with a senior official at the People's Bank of China, it seemed that from the central bank perspective, RCCs were stepping up to the plate (PBC 2000), following a 2001 State Council directive to begin microfinance lending (typically 1000-3000 RMB loans, for period of 3-14 months). However, microfinance program officials on the ground don't consider the highly inconsistent and disparate RCC activity strong in targeting the poor. Hybrid programs that link RCC financial activity to microfinance poverty alleviation activity seem to hold some promise.

The Asian Development Bank puts the services of the RCCs in context by listing the following financial services available in rural areas:

Table 2. Financial Services in Rural Areas

Financial Institution & Description
· Agricultural Bank of China (ABC)-- a state commercial bank involved with microfinance funding via Poverty Alleviation Bureaus
· Agricultural Development Bank of China (ADBC), a 'policy lending bank' which no longer issues microfinance funds
· Rural Credit Cooperatives (RCCs)
· Rural Credit Foundations (now completely phased out)
· Microfinance programs
· Informal lenders

Forging a working link between the formal financial system (i.e. RCCs) and microfinance activities is clearly not simple. During different phases of the Communist Era the RCCs became policy puppets, and rural investments were routinely siphoned off for urban or industrial use (not the least of which were TVE investments—also thought to be beneficial engines of growth (Oi 1999)). The members of the RCCs were 'owners' of their own cooperative funds only on a nominal basis. It is unclear whether microfinance should be given a niche within the system of formal rural finance or whether it should be allowed to become an official "alternative form of finance." The answer to this question is largely predicated on the speed with which the current rural financial system can reform.

Since 1983, the RCC have been undergoing a phase of prolonged restructuring focused on restoring ownership to rural shareholder members, refocusing on rural development, and detaching from the centrally controlled Agricultural Bank of

China. Reforms have been undertaken at the impetus of the State Council and the CCP Committee. Yet, the RCC network faces the challenge of coordinating phased reform amongst 40-50,000 independent local level branches. The reform of the RCCs is a management nightmare to be balanced against the value of stability and consistency (Watson 2002).

The significance of the RCCs reform process to the microfinance sector can be viewed in two parts. On the one hand, the inadequacies of the RCCs invite microfinance programs to fill the gaps in the provision of rural finance. The discussion of the group lending methodology is thus relevant here. On the other hand, advocacy for the reform of the microfinance sector appears pale and immature in light of the more profound changes required of the RCC system. We shall save discussion of this point for the next section on government intervention. One possibility is that microfinance develop alongside RCCs, another is that it develop separately and then merge, a third is that microfinance stay separate from other rural banking.

Much more authoritative on the subject is Andrew Watson who can be reached at [a.watson@fordfound.org](mailto:a.watson@fordfound.org)

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From: Normand Arsenault [<mailto:normand.arsenault@sympatico.ca>]  
Sent: Samstag, 3. August 2002 21:18

In the June 15 2002 Edition of The Economist, there was also an interesting survey on China providing some information on China's rural economy. I have MSWord files of this survey (380ko) as well of the article "Rural credit in China - Neither creditable nor co-operative" of July 20 (35ko). Anyone interested can contact me directly.

Also interesting is: "China in the World Economy - The Domestic Policy Challenges - OECD-Synthesis Report  
English Edition  
<http://www.oecd.org/pdf/M00029000/M00029062.pdf>  
Chinese Edition  
<http://www.oecd.org/pdf/M00029000/M00029065.pdf>  
Summary  
<http://www.oecd.org/pdf/M00029000/M00029066.pdf>

N. Arsenault

#### ➤ **Mergers and acquisitions (1 mail)**

From: Nimal A. Fernando [<mailto:nfernando@adb.org>]  
Sent: Donnerstag, 22. August 2002 03:50  
Subject: Devfinance: Re: Acquisitions/Mergers

Genia:

There were few mergers in Asia that I know of. In the Philippines, Opportunity Microfinance Bank (OMB) was established in 2001 August merging five NGO-MFIs. I have not seen any articles on OMB but I know a graduate student from Washington DC is already writing the OMB story.

Then in Mongolia the Golden Fund for Development (X.A.C LLC) [a non-bank MFI established with support from Microstart of UNDP] was merged in October 2001 with Govin Ekhlel, another MFI established in December 1999. Govin

specialized in SME, herder, and cooperative lending, initially supported by USAID and the US Embassy in Mongolia. This was the first commercial microfinance merger in Mongolia. The merged institution got a banking license in December 2001. The name of the new bank is XAC Bank. XAC has issued short term commercial notes and raised private capital, mobilizes savings. The Bank has 21 branches.

IFC has provided technical assistance to XAC LLC in mid-2000. The Netherlands Ministry of Foreign Affairs also assisted XAC through its SME trust fund. In May 2002, IFC approved a loan of \$400,000 to this bank.

For many Asian countries, mergers is a necessity given the proliferation of small scale MFIs and their inability to realize economies of scale and a reasonable level of efficiency, and provide a career path for their dedicated staff. I hope the mergers will increase and benefit the clients from the poor households which these MFIs hope to reach.

Hope this will help you.

Nimal A. Fernando  
Lead Rural Finance Specialist  
Asian Development Bank