

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

July to September 2002

General Information

➤ Frits Bouman has passed away

On August 22, 2002 Professor Frits Bouman has died at the age of 75 years and after a long period of sickness. Share J.D. von Pischke's thoughts about Bouman's life and his major contributions to what has become known as New Development Finance in the enclosed mail.

➤ CGAP micro finance reporter

In September, CGAP has released information concerning the following three areas of interest:

- The launch of the Impact Assessment Center: This new resource center is a joint initiative between Imp-Act and CGAP. It offers all the guidance and resources you will need to do an impact assessment and are aimed at micro finance practitioners, donors and NGOs.

- Discussion Groups: ISS Discussion Center - addressing the development of cost effective IT solutions and applications; the Audit Discussion Center - for sharing knowledge on Micro finance Institution External audits. Please look at:

<http://www.microfinancegateway.org/audit/discuss.htm>

- Recent thematic highlights are: Micro finance in Morocco; Savings operations for very small or remote depositors; Increasing client access: credit bureaus and micro finance.

<http://www.microfinancegateway.org>

➤ News from PlaNet Finance

Ratings in Morocco and Armenia

In June 2002, Planet Rating rated three micro finance institutions in Morocco: Association Al

Amana, Fonddep Microcredit and la Fondation Zakoura. Interested persons may either view an executive summary or download each evaluation report from the web site at www.planetfinance.org. It is also possible to obtain more information or receive the reports via email by contacting Ms Alice Negre (anegre@planetfinance.org).

The Planet Rating Team is looking forward to receiving readers' comments on the reports. For more details please read the enclosed mail.

The rating report of UMCOR/Aregak, Armenia, is now on line. The summarized information can be viewed at:

<http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/En/Notation/Rating/RatingRealises/AREGAK/index.jsp>. To download the full report: <http://www.planetfinance.org/rcs/PlanetFinance/1484560/pub/index.xml>. To receive the report directly by email: rating@planetfinance.org.

Call for projects

PlaNet Finance is seeking to finance micro finance institutions (MFIs). Preference will be given to MFIs located in Sub-Saharan Africa and where PlaNet Finance has existing contacts or local representation. For details on the conditions look at the enclosed mail, visit or contact

http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New_Site/Include/Inc_All/Fcr_Appel/index.jsp or write to fcr@planetfinance.org.

➤ New software package for MFIs and credit unions

Southern Horizon Ltd. is pleased to announce the release of "Micro finance Manager", an integrated, very easy-to-use and affordable software package for small to mid-sized MFIs and credit unions. The package includes extensive client info, loans, savings, fixed deposits, shares, unlimited interest schemes, a growing list of reports and more. A

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.

huge context-sensitive online Help file offers step-by-step assistance.

Please check the low-bandwidth web site at www.southernhorizon.com for details and a fully functional "Flight Test" demo download. Enquiries may be addressed to info@southernhorizon.com.

Courses and seminars

➤ Course on Market Research for Micro Finance December 2002, Kathmandu

The Center for Micro-Finance (CMF) is organizing an international training program on "Market Research for Micro-Finance" in collaboration with MicroSave Africa from December 10-22, 2002 in Kathmandu, Nepal, responding to the demand of different MFIs, MF promoting agencies and donors from various countries. Visit the CMF website for details at www.cmfnepal.org.

➤ Fundamentals of Accounting at MF Center in Warsaw

The Microfinance Center for Central and Eastern Europe and the New Independent States will be delivering the CGAP developed training course from the curriculum for micro finance managers, "Fundamentals of Accounting" in November 18-21, 2002. The venue of the course is Warsaw, Poland and it will be delivered in English.

The course topics include:

- Introduction to Accounting
- Double entry Accounting
- Main Accounting principles in the context of Micro finance
- Financial and Managerial Accounting
- Accrual and Cash Accounting
- Accounting for Interest, Donor Funds and Concessional Funds
- Overview of MFI reports and Financial Statements
- Recording transactions of an MFI
- Journal entries
- Ledgers and posting entries
- Creating a trial Balance
- Making Accounting Adjustments
- Creating Financial Statements

- Analysis of Financial Statements
- The Balancing Act game

For details visit the website at www.mfc.org.pl or contact Agnieszka Pyziel at agnieszka@mfc.org.pl.

Publications

➤ Documenting the commercialisation of micro finance

Reading recommendation by Dale Adams

The second of three volumes that Marguerite Robinson is writing on micro finance – "The Micro finance Revolution; Volume 2; Lessons from Indonesia", Washington, D. C., World Bank, 2002 - has been read and recommended by Dale Adams. According to him, it is a serious tome that all doctors of development finance ought to read carefully and it may be the most interesting of the three tomes, since it covers the micro finance that Dr. Robinson knows best. Learn about the 12 key factors Adams summarizes to describe the successful work of Robinson, Patten and their Indonesian colleagues who were heavily involved in reforming the unit desa division of the Bank Rakyat Indonesia into a highly profitable micro finance operation.

Interested devfinance participants will get an interesting overview in the enclosed mail or may order the book at www.worldbank.org/publications.

Publication by Accion International

ACCION International has announced the publishing of "The Commercialization of Micro finance: Balancing Business and Development" by Kumarian Press in July 2002 (under the Micro finance Best Practices project of Development Alternatives, Inc. (DAI), funded by USAID).

According to Patty Lee, the book explores many of the issues derived from the increased commercialization of micro finance, including MFIs' experience with supervision and regulation, governance issues, the transformation process, the role of private investment, the experience of credit unions, various models for credit bureaus, the impact of competition as well as country and institutional case studies. To order a copy, go to www.accion.org/micro_order_our_pubs.asp.

International seminar in Asunción 2001

Bert Wesselink informs that the contributions presented during this seminar organised by the Paraguay Central Bank on commercialization of micro finance are now available in the Spanish language book "*Microfinanzas: nuevas tecnologías crediticias en América Latina*" or at <http://www.bcp.gov.py/utep/index.html>.

➤ **ILO paper on micro insurance in Burkina Faso**

The new paper is one of a series of studies of micro insurance that will be available in the coming weeks.

It presents findings of fieldwork in Burkina Faso on life, health and cattle insurance, suggesting that even in a country as poor as Burkina Faso, micro insurance schemes can flourish. The research finds that simpler forms of insurance can be operated relatively effectively, with limited actuarial skills, provided that pricing is prudent and that institutional defenses are in place to combat the hazards that typically affect micro insurance schemes. The paper concludes with a series of recommendations for changes in the existing insurance legislation that will both promote and regulate the nascent micro insurance industry in Burkina Faso. Download the paper at <http://mirror/public/english/employment/finance/public.htm> or www.ilo.org/public/english/employment/finance/public.htm.

➤ **Latest issue of *Savings and Development***

The latest issue of the journal *Savings and Development* (Vol. 26, No. 2, 2002) has the following articles in it:

1. Self-Employment of Micro and Small Entrepreneurs in Urban Northern Thailand after the Asian Crisis - by Klaus Peter Dickhoven and Gertrud Buchenrieder.
2. SHG Banking: A Financial Technology for Very Poor Microentrepreneurs - by Hans Dieter Seibel and Shyam Khandka.
3. Measuring International Financial Liberalisation in CARICOM - by Carlene Belford and Kevin Greenidge.

4. Testing Long-Run Neutrality of Money in a Developing Country - by Muzafar Shah Habibullah, C. H. Puah and M. Azail.

5. Volatility Interactions Between Stock Returns and Macroeconomic Variables: Malaysian Evidence - by Mansor H. Ibrahim.

6. An Overview of the Micro Finance Sector in Sri Lanka - by S. M. P. Senanayake.

Subjects of Interest

➤ **Group vs. individual lending**

Dean Karlan and Ashok Rai from Princeton respectively Yale University are researching about the conditions under which group lending is better than the individual lending and vice versa – an issue that, according to them, is little understood. The advantage of peer pressure in the one situation can turn into a disadvantage when a bad group stimulates individuals not to pay back their loan. Karlan and Rai mention also costs as an aspect that is difficult to judge upon when counter weighting both lending approaches. Their mail triggered an exchange about particularly the group lending methodology, with Linda Mayoux underlining the challenge of building networks and social capital as an effective development strategy. Ted Bauman from Cape Town supports her by reminding that the single-minded focus on "financial efficiency" obscures the overall purpose of micro finance that is to reduce poverty. Bauman looks at two different levels of impact regarding micro lending programmes. At community level, social intermediation methodologies create social capital; at micro economic level, the financial efficiency criterion generates equilibrium in the transactions between borrowers and lenders. The latter, however, may have significant opportunity costs in the sense of foregone social capital formation. Therefore he thinks that financially efficient MFIs do not necessarily have an impact on poverty alleviation as opposed to MFIs who have been using social intermediation methodologies.

J. Roth from Ohio State University, however, is much more critical regarding group lending and the potential opportunity costs related to this methodology. He cites members from a scheme in Uganda speaking about "humiliation groups"

because of the approach of naming and shaming defaulters. Also, Roth sees a central weakness in the inflexibility of group lending products as opposed to individual lending, apart from the time intensity.

Learn more about this debate in the enclosed mails.

➤ Rural finance in China

J. D. von Pischke raised the issue of the state of rural credit in China, based on an article from THE ECONOMIST printed in July 2002. The rural credit cooperatives (RCC), while being most notable among legal rural financial institutions in China, are in effect run by county governments and being kept afloat by cheap credit from the Bank of China. Greg Pirie from Catholic Relief Services wonders which are the key differences of running credit cooperatives in most existing or former socialist countries as opposed to the related European traditions. Sarah Raz Tsien from PlaNet Finance China confirms that the cooperatives are indeed only cooperatives in name, but not in the way they operate. Nevertheless they have been a sticking point in rural reform and undergone profound change in the last 50 years. According to her, the challenge is now to help them do a better job by doing better micro finance particularly when targeting the poor. However, it is unclear whether the emerging micro finance sector in China would develop alongside the RCCs, develop separately and then merge or stay completely separate from other rural banking.

Have a look at her interesting mail providing important information on the status of rural finance in China as well as the information links provided by N. Arsenault from Canada.

➤ Mergers and acquisitions

Devfinance participants are increasingly interested in this topic. Sean Kline from Prizma in Bosnia considers four issues as most interesting, thus mirroring the challenges similarly identified as key in the corporate private sector:

- Deciding what to keep in a merger
- What to discard
- How to leverage each organisation's strengths and
- How to reconcile distinct organisational cultures and systems.

However, what have been observed so far mostly were non-hostile takeovers between non-profit entities with one MFI acquiring the physical and intangible assets of another being on the verge of disappearing - but less real mergers in the sense of gaining significant strategic advantage.

Jim Hudock from Catholic Relief Services (CRS) considers the case of CRS merging with Save the Children in Armenia as offering most useful insights, written by CRS representative Elissa McCarter, responsible during the merger process. The documentation called "Tying the Knot: A Guide to Mergers in Micro Finance" is expected to be available soon for free downloading at the micro finance gateway website.

Have also a look at the information provided by Nimal Fernando from Asian Development Bank about mergers in Asia in the enclosed mail.

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