

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

October 2002 to January 2003

General Information

➤ Public launch of MIX Market

The Microfinance Information eXchange has announced the public launch of the MIX Market, a global information exchange for micro finance. Its mission is to facilitate information exchange and investment in micro finance by linking micro finance actors worldwide. It also seeks to promote greater transparency in micro finance and support the adoption of financial reporting standards.

Visit the MIX Market at www.mixmarket.org and access information on:

- 116 MFIs
- 35 investment funds
- 37 micro finance "market facilitators" (e.g., networks, raters, external evaluators, and development programs)
- The regulatory environment for MFIs worldwide.

The MIX Market is one of the three principal products offered by the Microfinance Information exchange (MIX), apart from the MicroBanking Bulletin (MBB) und the MBB Toolkit. Incorporated in June 2002, the MIX is a partnership between CGAP, the Citigroup Foundation, the Deutsche Bank Americas Foundation, the Open Society Institute, the Rockdale Foundation, and other private foundations. To learn more about the MIX, please visit www.themix.org.

➤ MIREDA Micro finance Report Database

A new website is now available on the web called www.mireda.org. MIREDA is a free database with more than 570 documents about micro finance (PDF format; 60% in English - 40% in French) collected on the web. The database offers selection by country, key words, authors etc.

Everybody is free to upload any document s/he thinks is of general interest. Visitors are free to make any comments for MIREDA to improve the site. Documents not related to the subject will be removed.

➤ Planet Rating in Bosnia and Herzegovina

Planet Rating has updated Prizma's rating report, a micro finance organization in Bosnia and Herzegovina. Prizma gets a G4* with the composite ratings of (aabacb) for the respective GIRAFE domains, thereby confirming a strong positive trend. The report is now online: you can either download the [executive summary](#) or the [full report](#). If you wish to receive it by email, please write to rating@planetfinance.org.

Look for more information on BiH and Prizma in the enclosed mail.

Courses and seminars

➤ International conference on Best Practices in Micro finance, June 2003

The objective of this conference in Washington, DC, June 3-5 2003, is to capture the lessons and best practices — the successes and failures in agricultural finance, financial liberalization, risk management and micro finance — to pave the way forward for smart, sustainable financial market services tailored for the specific challenges of rural economies. Examination of current institutions, programs and ways to improve rural finance policies will produce policy and programming recommendations for donors and practitioners involved in rural finance development. Visit the website for details: <http://www.basis.wisc.edu/rfc/>

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.

Publications

➤ ILO publication on demand for micro financial services

ILO has published *The Demand for Risk-managing Financial Services in Low-income Communities: Evidence from Zambia*, written by L. Manje and C. Churchill. It is downloadable along with other ILO papers on micro finance at:

<http://www.ilo.org/public/english/employment/finance/publ.htm>. Jim Roth thinks that the paper is useful not just for its exposition of the qualities of demand, but will prove useful to MFIs who are beginning to tailor products so that they more accurately fit the purpose for which clients use them.

➤ How to do deposit mobilization

Dale Adams recommends a new book from WOCCU "on the nuts and bolts of deposit mobilization", edited by Brian Branch and Janette Klaehn: *Striking the Balance in Micro finance: A Practical Guide to Mobilizing Savings, Lessons from Credit Unions in Latin America*, Washington, D.C.: Pact Publications, 2002.

Two classes of people should read this book carefully according to Adams: it is "a must for those leaders in the credit union movement in low-income countries who want to build stronger financial cooperatives with substantially more outreach. Second, all donor employees who attempt to design a credit union project should be required to sign an affidavit that they have carefully read this book and swear their project will not damage the willingness and ability of the associated credit unions to mobilize more deposits". Read Adams comment in the enclosed mail. For ordering: books@pacthq.org, www.pactpublications.org or www.woccu.org.

➤ A new publication series by ACCION International

InSight, a new publications series is available free-of-charge at www.accion.org/pubs. As short, frequent, one-topic bulletins, InSight is intended to share the results of ACCION's work with the micro finance community as quickly and efficiently as

possible. The series will highlight practical applications, policy viewpoints and ongoing research. The results presented can be considered as basis for further discussion and insight into what's ahead for ACCION.

For more information, please email: Patty Lee, ACCION International plee@accion.org.

➤ The Micro Finance Revolution, volume 2 – recommendation by R. Rosenberg

Richard Rosenberg from World Bank has posted his impressions about the second volume of Dr. Marguerite Robinson's book, *The Micro Finance Revolution*. Similar to Dale Adams, he recommends it to anyone interested in micro finance or development finance more generally. Robinson has worldwide experience with micro finance, but Indonesian micro finance she knows most intimately. Robinson portrays it, along with its political, economic, and cultural environment, in luxuriant detail. There are dozens of policy lessons, with plenty of real-life examples of rural and micro finance successes and "disasters". Read Rosenberg's overview on several chapters, that would appear especially useful for practitioners, in the enclosed mail.

Subjects of Interest

Micro credit and poverty alleviation

Many contributions by devfinance list participants during the last months refer to the ongoing burning question regarding the potential of micro credit to contribute to poverty alleviation, particularly in rural areas. We have tried to highlight the spectrum of opinions and aspects by summarizing them up in the following paragraphs.

➤ Pawnshop lending

Nimal Fernando from ADB informed comprehensively about PERUM PEGADAIAN, an Indonesian state-owned pawnshop company with a very successful performance. Being the dominant micro credit supplier in the country, its highly efficient services include loan disbursements within 15 minutes while achieving extraordinary repayment rates: the company has

auctioned in 2001 only 0.5% of all pawned goods. It has a very large outreach in rural areas with 35% of its clients being farmers, fishermen and small-scale entrepreneurs. Fernando is wondering which might be the special recipe and why the institution seems to be less known among the devfinance community? Dale Adams suggests that one success factor could be the high population density, but has no answer to the question why Indonesia as a Muslim country had so many interesting and successful micro finance activities. Tom Timberg thinks "many Muslims have either decided that the charges involved are not banned or accept them as a necessary evil". Other contributors report of similarly successful systems in Sri Lanka, India and Bangladesh. Get into details by reading the enclosed five mails.

➤ **The future of rural finance**

Regardless of the positive Indonesian pawnshop example, which includes the serving of rural clients, Dale Adams remains sceptic as to the future of rural finance. After a short review about the historical development of the latter, he points out five options for filling "the void in rural finance", choosing himself the third as the most probable one (see enclosed mail). According to this, traditional micro finance lending will extend more deeply into rural areas, without, however, increasing significantly financial services such as agricultural credits or deposits: "As currently practiced, micro finance technology is better suited for areas with high population densities and where small, short-term loans are most useful." Denis Pommier from IRAM adds another major reason for this situation: "(...) the majority of bankers do not understand the economic and social logic of family agricultural production and haven't tried to adapt themselves to it". In addition, according to him it is less the lack of access to financial services for rural clients than the competition from the richest countries that inflicts on peasants working with hand tools.

You may follow the interesting opinions raised in the enclosed two mails.

➤ **Agricultural credit and agricultural banks**

The performance of rural credit programs has been limited ever since. Dale Adams, who is very pessimistic given the little number of efficient,

equitable and sustainable rural financial infrastructures in that area, mentions a new publication about the situation in Latin America and the Inter-American Development Bank (IDB) by Mark Wenner from IDB. Probably because of that, Adams highly appreciates the successful reform of Guatemala's government-owned agricultural bank BANRURAL, described by Luis Alfaro Gramajo from INCAE Business School in Nicaragua in his soon-to-be-published book. By most standard measures, this reform has been what Adams calls "a thumping success: independence, much outreach, and profitability". Clare Tawney, the editor of *Small Enterprise Development*, mentions the Micro finance Bank of Tanzania and the Agricultural Bank of Mongolia as two other successful examples and recommends the article "Turning around state-owned banks in underserved markets" by Dressen, Dyer and Northrip in last December's SED journal. Additional interesting information regarding critical success factors in this regard such as the necessary leadership skills is provided by Mark Havers from Caribbean Micro finance Limited. (3 mails)

➤ **Thinking "credit plus"**

The Micro Credit Summit that took place in November 2002 in New York led Linda Mayoux come to two major conclusions:

- Most donor agencies are trying to fulfil the Millennium development goals with limited budgets, driving them away from the poorest people. Therefore, it seems urgently needed to clarify who is meant by "the very poor".
- There is a general agreement that more is needed than just credit but no clear idea exists of what this could be or how it could be funded.

Betty Wilkinson from IRIS Zambia agrees fully with those statements and expresses her key concern: how investments are made and managed in the micro finance market. According to her, "micro finance investors often put too little money at the wrong time in the wrong way". However, it seems naive to believe that the strong "winner" MFIs would reach then out into rural areas. Also, the ownership question remains open: MFIs where investors have guaranteed only part of the money needed to reach break-even should not be licensed! To tackle the poverty issue, Wilkinson opts for systematically researching more

innovative ways of serving the poorest - savings, remittances, and insurance being some of them but not enough. Linda Mayoux in her reaction to this mentions the danger coming from gearing all so-called *best practice* towards the model of promoting commercial MFIs, resulting in significant resistance to "even considering the issue of continual subsidy of programmes which can show their effectiveness and developmental and poverty targeting terms". For her, savings and insurance are also no panaceas for development, and a new design of "joined up services" is needed. Mayoux is also worried by the decrease of donor funds for micro finance, as if "the job were now done". Imran Matin from BRAC sees a similar innovation challenge - " (...) to leverage the poverty alleviating potential of the micro finance institutional framework". As an example he describes BRAC's laddered approach of using the food aid safety net programme of the government as a training platform to later give credit, while the micro finance component is operationally completely independent. He thinks that the vulnerability dimensions of the extreme poor require programmes to consider increasingly the socio-political aspects such as advocating for those people at various political levels. Matin sees *second-generation* micro finance challenges emerging that take poverty focus and micro finance seriously.

The enclosed four mails allow you to follow this recent exchange.

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