

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

February to March 2003

General Information

➤ French versions of MIX Market

The Microfinance Information eXchange (MIX) has announced the launch of the French versions of its portal page at www.themix.org/fr and of its MicroBanking Bulletin website at www.mixmbb.org/fr. Articles and tables from past MBB issues are still in English, as the team keeps working on developing these sites further and on adding "Le" MIX Market soon.

Questionnaires for participation in MBB No. 9 are also available online in English, French and Spanish at

www.mixmbb.org/en/membership/join_the_mbb.html.

➤ Awards of the CGAP/ IFAD Rural Pro-Poor Innovation Challenge

CGAP has announced the ten winners of the first round of the CGAP/ IFAD Rural Pro-Poor Innovation Challenge (RPPIC). Out of over 500 applications received, the selected candidates are listed below:

1. International Justice Mission (India) works to reverse the exploitation of bonded labor.
2. PRISMA (Peru) is a microcredit NGO that uses Community Banks and Solidarity Groups and is developing a Risk Management Rural Credit Pilot Program for Small Farmers.
3. Honduras: Asociacion PILARH (Proyectos e Iniciativas Locales para el Autodesarrollo Regional de Honduras) offers loans and social services to family-owned small businesses, primarily in agriculture.
4. Conservation Coffee Program with Conservation International (Mexico) offers credit services, business programs, and sustainable

agricultural education to small-scale coffee farmers, all of whom live below the poverty line.

5. Small Farmer Cooperatives Ltd (Nepal) is a system of innovative cooperatives with a range of savings, insurance, and credit products designed to fit agricultural activities.

6. Bai Tushum Financial Foundation (Kyrgyzstan) targets rural businesses from disadvantaged segments of the population that are engaged in agriculture or service industries.

7. MAFF (Albania) provides financial services to those in remote highland areas with little access to financial institutions, by targeting isolated villages and adapting services to the needs of the people.

8. Moldova Microfinance Alliance (Moldova) operates in small, rural villages, establishing and supporting Savings and Credit Associations.

9. Association pour la Promotion des Groupements Agricoles (Togo) targets groups of low-income women.

10. Kyrgyz Agricultural Finance Corporation (Kyrgyzstan) has an extensive branch network that will be used, with RPPIC support, to offer a new product, microsavings.

For the BSM Finance team, however, the criteria for the selection of some of the organizations are questionable.

➤ Launch of AFMIN website

The Africa Microfinance Network (AFMIN) has launched its website www.afmin-ci.org with comprehensive information on its programmes, activities and governance structures. It is a regional association of country-level micro finance networks in Africa, supported by Women's World Banking and UNDP. AFMIN was formally launched in 2000 with its secretariat in Abidjan, Republic of Côte d'Ivoire. The mission of AFMIN is to contribute to the provision of effective and sustainable financial services to the low-income population of Africa.

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.

Courses and seminars

➤ 6th Annual Conference of the Microfinance Institutions in C&EE and the NIS, May 2003

The 6th Annual Conference of the Microfinance Institutions in C&EE and the NIS will take place from 22-24 May 2003 in Moscow, Russia (working language: English). This year's overarching theme "Moving Towards Client Focused Microfinance" will allow participants to discuss strategies to improve service quality and remain competitive over time while adhering to the social mission. Microfinance Centre (MFC) has invited experts from outside the region to share their relevant experiences. In order to get more information on the Conference please contact conference@mfc.org.pl or visit MFC web page: <http://www.mfc.org.pl/conferences.php4?page=4>

Publications

➤ Micro credit Summit E-News

The inaugural issue of the electronic newsletter Micro credit Summit E-News, a publication of the Microcredit Summit Campaign, has been published. Please read the enclosed mail for more details.

➤ FAO booklet on group savings

FAO has published a booklet called "The Group Savings Resource Book: A Practical Guide to Help Groups Mobilize and Manage Their Savings" FAO, Rome: FAO, 2002.

According to Dale Adams, it is a blend of finance and anthropology/ sociology. In clear and simple language it describes the three most common forms of group savings: roscas, ascas, and financial cooperatives.

Contact address: Maximiliano Cox, FAO Rural Development Division, FAO, Viale delle Terme di Caracalla, 00100, Rome, Italy.

➤ Bolivian micro finance in times of crisis

Heike Fiedler from FONDESIF-GTZ in Bolivia has informed that the Financial System Development Project (DSF), GTZ-FONDESIF has published its bulletin No 2 about "Bolivian Microfinance in Times of Crisis". The English version is available at <http://www.fondesif.gov.bo/BOLETIN%20TECNICO%20NO.2%20INGLES.pdf>.

➤ ADB focal point Newsletter March 2003

Vol 4 No.1 (March 2003) issue of this Newsletter of the Focal Point for Microfinance at the Asian Development Bank is now available at: http://www.adb.org/documents/periodicals/microfinance/finance_200341.pdf. This issue carries two articles: one on "Pawnshops and Microlending", and the other on "Postal Savings Banks".

➤ Ongoing reforming of traditional development banks

Continuing the positive comments made by Dale Adams regarding the reforming successes of traditional development banks (see our previous review), this time Adams shares his impressions about the following article: "Turning Around State-Owned Banks in Underserved Markets" by Robert Dressen, Jay Dyer and Zan Northrip, *Small Enterprise Development*, Vol. 13, No. 4, December 2002. According to Adams, again the main potential advantages of reforming those banks are quick scale and deposit mobilization. The authors report on bank reform efforts in Mongolia and Tanzania.

Read about the four pre-conditions that are necessary to carry out reforms in the enclosed mail.

➤ News from MicroSave-Africa

MicroSave-Africa has published its bi-monthly thematic e-bulletin featuring current issues in micro finance. In the new issue it looks at product development and has provided links to various MicroSave-Africa resources.

Please look at the enclosed mail for detailed information.

Subjects of Interest

➤ Demand for micro finance and debt capacity

Debt capacity has been described as the amount of debt a borrower can service on a sustainable basis. It depends on the size and variability of the potential borrower's income and would, in this understanding, belong to those factors influencing the shape and position of the demand curve for formal credit. However, John Conroy from the foundation for Development Cooperation became confused when he read JD von Pischke's statement that "The purpose of financial innovation is to increase debt capacity, to bring more people into the formal system because that system should be able to deliver services in a way that goes beyond the capacity of the informal market". Is debt capacity an aspect of supply innovation or a condition of demand?

Drew Tulchin suggests thinking in this context about the concept of price elasticity, but John Conroy reminds that, although poor people are certainly not indifferent to the price of credit in the sense of the rate of interest, access to credit is commonly considered to be more important than price. Because of that, clients' demand is probably relatively inelastic.

Nimal Fernando from ADB seems to agree to this point of view by adding that there do exist other quite relevant factors influencing the demand side such as e.g. transaction costs, term structure or repayment schedule. He is against the comparison of interest rates of loan products and prefers instead to look at whole packages when analysing demand side factors.

JD von Pischke himself enters the discussion by explaining how does debt capacity fit into the neo-classical models of supply and demand. He focuses on three questions:

- a) How to estimate existing demand?
- b) How to estimate increases in demand?
- c) Is there a gap between supply and demand at the lower end of potential clients?

As to a), he doubts in general whether demand estimation is possible, as performance can be evaluated only when the loan is repaid (for other products, such as e.g. soap, payment and transfer of the good is nearly simultaneous why demand is easier to determine). As to b), increases may not

be determined definitely but for concrete purposes market research can close important information gaps. Regarding c), von Pischke admits that he does not know how to measure potential gaps. In summary he thinks that debt capacity is determined by all three concepts: demand and supply side factors as well as framework aspects. But according to him the exact frontier cannot be defined exactly.

N. Srinivasan reminds that another important element of debt capacity is the borrower's capacities in handling money and the economic activity itself. For him, to build borrowers' skills to use money is crucial for an appropriate debt capacity.

If you are interested in more details, read the enclosed five mails.

Once again: How to do deposit mobilization?

➤ Part II of a feedback round on WOCCU's new book

Richard Rosenberg from World Bank has seconded Dale Adams' positive feedback on the new savings book published by WOCCU (see *publications* in our previous review). His main impression is that "WOCCU has gotten its formula right in recent years". The emphasis on safety as presented in the book, the fact that WOCCU no longer feels obliged to work through federations in all cases and that external supervision has finally been accepted as a critical success factor for healthy credit unions are some of the changes Rosenberg has mentioned in his contribution to the devfinance list.

Existing diversity of micro finance practitioners' opinions is reflected in Zvi Galor's mail who shares his opinion about WOCCU under the overall statement of "turning good money of members into bad money". Galor starts his critique by looking at the current shares system of the credit cooperatives, which according to him means practically long-term deposits that are not linked to the fixed assets of the cooperative and do not grow in real value over time. Inflation rate changes are not considered in WOCCU's credit policy - to the advantage of borrowers and disadvantage of savers. Other points he considers as necessary to

criticize extensively are the weak operational cost control connected with the existing practices of internal income distribution, including the way of managing reserve funds. Thus a major conclusion made by Galor is that the credit cooperatives practically do not belong to their members, why according to him WOCCU is doing important development work in a wrong way.

Not surprisingly, Dave Richardson from WOCCU answers to Galor declaring his statements as "proclamations that unequivocally qualify for the Guinness Record of Poppycock". He accuses Galor of being misguided and asks him to tell about his own way of preventing "turning good money into bad money". Galor, however, calls Richardson frustrated and someone who is "crying instead of answering", to what Richardson explains that there cannot be a debate where arguments are totally false. He recommends Galor to read the new book "from cover to cover", after what he himself would be ready for a discussion on the book's merits. Galor now fires back by quoting different mails sent earlier to the Listserve by participants supporting his view, e.g. concerning the value of alternative saving options as opposed to savings in money as promoted by WOCCU's credit cooperatives (compare also our contribution in the review II/2002). Richardson puts a preliminary end to this - according to him - "African Safari" (calling Galor's postings *wild elephants*) by citing a paragraph from a WOCCU resolution in 1984 with the purpose "to clearly show how incorrect your statements are". Last but not least Richardson warns to avoid confusing the actions of WOCCU with actions of individual saving and credit cooperatives – who might not always follow one-by-one WOCCU's guidelines.

Dive into the enclosed four mails to learn about a hot exchange of two opposite points of view concerning the pros and cons of WOCCU's work!

to existing private deposit collectors. While Jim Roth from ILO does not think that private collectors suffer from a lack of reliability - who would hand over her savings to strangers? -, JD von Pischke considers the new offering to be "an interesting move for a large commercial bank" and asks about the control systems applied by GCB to ensure the collectors' reliability as to the correct amounts. Also, conflict resolution procedures for critical situations with depositors who feel that they were cheated and avoidance of absconding collectors are burning topics in this context. Mask's contact person in Ghana, Emmanuel Kwaa from Habitat for Humanity Ghana, delivers interesting details about Kudi Nkosuo, e.g. the function of the depositors' pass books, uniform wearing and card bearing but also the difficulties GCB is facing with the extension of loans to savings contributors. For Kwaa, GCB's critical success factor as opposed to private collectors is without doubt the ability to not only avoid taking fees but also even to pay interest on the savings. In his opinion, thanks to the bank's significant financial credibility it is very likely to get more clients if it does well.

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➤ Deposit collectors in Ghana

Russell Mask from Chalmers Center for Economic Development at Covenant College has informed that the Ghana Commercial Bank (GCB) has launched a new savings collection product called *Kudi Nkosuo* (=money development). Thanks to the interest paid and the safety aspect extensively promoted as GCB's comparative advantage this service obviously has created serious competition