

ANNEXES

To the Devfinance quarterly Review

April – June 2003

General information

➤ Planet Rating news: Rating of PADME, Benin

From: planet rating [mailto:anegre_list@planetfinance.org]
Sent: Saturday, June 7, 2003 12:36 p.m.
Subject: Devfinance: Rating of PADME, Benin

PlaNet Rating has recently updated the evaluation of PADME (Benin). PADME received an “A” (excellent) rating with a Stable outlook. Its composite rating is (a, b, a, a, a, a) for the six areas of the GIRAFE methodology, respectively.

Please note that the GIRAFE methodology was updated in February 2003 to account for the continuing evolution of the microfinance sector. We also improved the format of our report and added a new section called “Rating Plus.” Rating Plus offers a contextual basis for the rating we assign each MFI by providing, among other information, a description of the infrastructure in the MFIs country of domicile, how the MFI’s social mission might influence its strategic choices, and obstacles the MFI might face that are specifically related to its target clientele. The PADME report is the first report to follow this new format, and we welcome your comments.

The following executive summary and the entire report in Adobe Acrobat format (in French only) can be downloaded on www.planetrating.org. If you wish to receive a report through e-mail, please write to inforating@planetfinance.org.

Presentation

PADME was founded in September 1993 by the Benin government with financial support from the World Bank and technical assistance from VITA. PADME’s goal was to lower the effect of structural adjustment on microenterprises. The project was reorganised into an Association in November 1998. As of December 2002, PADME was the largest MFI in Benin’s urban areas in terms of loan portfolio size (€13.5 million) and number of active borrowers (23 836).

Products

Two main products represented 99% of PADME’s loan portfolio in December 2002, the individual loan product and the solidarity loan product, both of which are working capital loan products that were launched in 1994. Their basic features are as follows: Maturity: 1 to 18 months; Interest rate: 2% per month on a declining basis; Grace period: up to 6 months, differing collateral requirements according to the type and size of the loan. The Annual Percentage Rate for a 12 month loan is 30.2%. PADME developed another product in 2001 called “Credit Relais” to refinance NGOs that are granting loans to microentrepreneurs located outside PADME’s operating area (33 NGOs, reaching over 4 237 microentrepreneurs). PADME is working on developing new products with various partners.

PADME’s clientele is principally composed of informal urban traders, and women account for over 80% of the total number of customers. The competition between MFIs for this segment of the population is becoming increasingly intense. To diversify its clientele, PADME is exploring geographical expansion into rural areas and new products (new activities sectors). PADME’s PAR 31-365 is exceptionally low at 0.8 % with a loan loss rate of only 0.4 % as of December 2002.

Financial performance

PADME is a very efficient and profitable institution before and after adjustments. Remarkably, the institution achieved financial self-sufficiency of 166.7% and operational self-sufficiency was 200.1% for the year ended December 2002.

PADME is in good position to cover the expenses it incurs in upcoming geographical expansion, new product testing and new commercial debts.

Microfinance in Benin

The Benin financial sector underwent deep changes in the 1990's, due to several structural adjustments programs. To compensate for the closing of the public development banks and to finance the enormous rural and urban informal sectors, many MFIs were created, often with the support of international donors. In 2003, the Benin microfinance sector includes over 1000 initiatives: savings and credits unions, federations, Direct Credit Institutions, microfinance projects and "tontines" (ROSCAs). The sector is largely covered by FECECAM, the most important credit union in the country, which serves around 80% of the customers and maintains 40% of Benin's aggregate loan portfolio.

In Benin and the rest of the UMOA zone, microfinance is regulated by the PARMEC law (adopted by the Ministers Council in December 1993), which supplements traditional banking laws with respect to MFI-specific issues. PARMEC is applied through individual decrees in each country of the UMOA region. The MFIs are supervised by the Ministry of Economy and Finance with respect to approval of the statutes, quarterly financial reports, governance audits, internal and external control and maximum interest rate. However, only 40 of the 300 active MFIs in Benin are registered. The Microfinance Department within the Ministry of Economy and Finance, is not yet fully playing its role. The PARMEC law was one of the first laws to recognize the importance of microfinance, but today, certain points need to be considered for revision. Among them are the supervision of banking activities by an elected Minister, the complexity of the Ministry's bookkeeping format, the adaptation of the law to non credit union structures, the adequacy of minimum required ratios, the term length of registration, and the limitations on commercial financing. These issues are today being discussed by the BCEAO (West African Central Bank).

Subjects of Interest

➤ Remittances – a discussion cycle (4 mails)

From: Lisa Lindsley [llindsley@ureach.com]
Sent: Thursday, May 08, 2003 03:13 p.m.
Subject: Devfinance: Remittances and microfinance

Marco,

You have touched on a fascinating issue. To take each of your questions in turn:

1. Connections between remittances and microfinance - "Microfinance" refers to the provision of financial services to low-income self-employed persons and their businesses. So remittances, if they originate from or are directed toward low-income self-employed persons, are by definition a form of microfinance. The provision of remittances, while positive in its own right, can also facilitate asset building by microentrepreneurs. Linking remittances and savings, whether collective savings for community development projects or family savings, has the positive impacts on low-income populations that have been discussed at length on this listserve. Of course remittance flows and savings from remittances can also be incorporated into microcredit products as down payments, guarantees, etc.
2. Remittances as MFI Funding - to the extent remittance flows can be converted into savings in MFIs, they can replace other sources of funding. Remittances could be an important funding source for certain MFIs. It is important to remember that MFIs which capture savings should be well managed, possibly regulated, and well on their way to sustainability. We are talking about other people's money here, after all.

Best regards,
Lisa Lindsley
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Dear Friends:

Do you think that there are some real connections between remittances and microfinance? Do you think that it is possible that remittances can provide 'fresh' money to the MFI's rather than soft loans from International Financial Institutions? Do you think that remittances can be considered an important flow (maybe in the future) of resources available to MFI's?

Thanks for your answers.

Friendly,

Marco Cancino

From: Smith, Jeremy M. [jeremy@usaid.gov]
Sent: Friday, May 9, 2003 18:17
Subject: Devfinance: Re: Remittances and microfinance

An excellent response from Lisa. A couple of other thoughts.

There are essentially two related arguments for the link between remittances and microfinance: location and underserved markets. For the former, the vast majority of recipients are poor, from rural or semi-rural regions. Because many MFIs (including cooperatives) are often located in marginal areas, they have the potential to effectively serve this population. With regard to the latter, as we all know these marginal regions have long been ignored by traditional banks. Money transfer companies and others have filled this gap, but can't offer additional financial services. So MFIs have the potential to bridge this gap since they have demonstrated the capacity to provide financial services to the target population.

At this point, most of the case is based on this theoretical potential. There are, however, some exciting developments in Ecuador and several other Latin American (apologies to other regions) that are not only offering remittances but beginning to link them to savings and mortgages and retirement accounts. It will be very interesting to see if the incredible potential is realized.

Part of the reason for the surge in interest in remittances has been the entrance of banks and credit unions in the U.S., which has both driven down high transaction costs and led to an marked increase in "banking the unbanked" as financial institutions use remittances as an entry strategy to cross-market other financial services. To date, most banks in Latin America have yet to seize this opportunity, which is why the door is open for MFIs.

Critics of the link between microfinance and remittances note that money transfers are a highly competitive market that does not appear to need new entrants. This is undoubtedly true. However, it's important to remember that we are talking about two markets, in the sending and receiving countries. MFIs do not necessarily need to compete in the sending market; in fact it would be extremely difficult to do so. The successful examples we've seen to date are based on strategic alliances in which the MFI competes only on the receiving end. This market can be quite competitive as well, but MFIs would be providing value-added financial services that other providers do not currently offer. It could be argued then that, by offering new financial services in underserved markets, that MFIs would be creating a new market.

(As Lisa rightly notes, these are public funds, so any MFI contemplating providing remittance services would need to be regulated, or at least well on the way to transformation if they plan to offer services directly.)

There is not a lot written yet on the link between microfinance and remittances. However there is a very interesting study on the relationship between remittances and microenterprise financing by Chris Woodruff and Rene Zenteno that looks at remittances as a source of investment rather than microfinance per se. The authors estimate that 27% of

remittances are used to finance businesses, which if true would be an extraordinary development, amounting to \$2.7 billion of microenterprise investment. For those interested in the study, you can find it at <http://www2-irps.ucsd.edu/faculty/cwoodruff/RemittancesDec01.pdf>.

I look forward to continuing the conversation.

Best regards,

Jeremy Smith
Development Finance Advisor
USAID/MEXICO

From: nfernando@adb.org Sent: Monday, May 12, 2003 03:00 A.M. Subject: Devfinance: Remittances and peanuts
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I agree with Dale's main point that we need to think about, and take measures to reduce, the very high transaction costs of remittances by poor people. The poor suffer disproportionately because the lower the amount higher the incidence of the transaction cost. I heard the market in the US has gotten a bit more competitive recently and the TCs have come down a bit.

Of course, MFI aggregate loan amounts are not even peanuts when compared with the amount of inward remittances in most developing countries, and a large number of poor and low-income people are involved. Hence, the benefits to lowering transaction costs are immense.

The total official amounts of remittances from the US to Latin America exceeds \$25 billion a year. This is however, an under-estimation. Official data, show that Mexico gets about \$7.0 billion, Brazil over \$2.0 billion, Dominican Republic about \$2.0 billion and Ecuador about \$1.2 billion a year. Mexico's incoming remittances are more than 160% of its farm exports; Dominican Republic's is three times its ag exports, Colombia's about 50% of its annual coffee exports.

In the Asian region the top in the list is the Philippines with about \$6-7 billion a year. But other countries such as Pakistan, Bangladesh, Sri Lanka, and India also get huge amounts.

I am sure Dale knows about the MIF(IADB) conference in May 2001 on remittances. After this conference there is an increasing interest in the subject. This year, IFC's report " The Changing Face of Global Development Finance" also highlighted the importance of remittances.

Recently, I met a US expert here in Manila who is preparing a report for the US government on how it can help the Philippines to improve remittances, together with reduction of transaction costs.

Accion recently concluded a partnership with La Caixa, a leading European savings bank based in Spain, to develop a new remittance product for Accion's partner programs in Latin America. (Spanish banks seem to have a comparative advantage in this business partly because they were heavily involved in this business since 1960s. Many Spaniards who migrated out sent money back to Spain during the 1960s-1980s, and savings banks in Spain got involved).

I heard that a US bank has developed and uses a dual ATM card through which the card holder in the US can deposit money in the US and the other card holder at the other end can withdraw. This is certainly an excellent simple, transaction cost reducing innovation.

ACLEDA Bank in Cambodia has got into this business, and formed an alliance with Western Union. The problem in most countries is that most regulated non-bank financial institutions and specialized banks do not have a legal charter to do this business. Hence, some of them establish agency arrangements with institutions like Western Union; but this does not address the transaction cost issue that Dale refers to.

Having said the above, I also disagree with Dale to some extent. Those who receive remittances are not necessarily those who transact with MFIs in many of these countries. There are many who have not been successful in their migration efforts or who for some reason did not and do not consider this as an option. This means that we need a multi-pronged approach to the problems. Remittance issues are just one of many.

Regulated MFIs must think of how they can get into this business both internationally and locally. Some have taken steps. Again ACLEDA in Cambodia does local money transfers; In 2001, they transferred about \$7.0 million. Garment workers used this facility extensively. The amount of business increased sharply to about \$28 million in 2002. Of course, this service is used by both poor and non-poor. But who wants to target this type of activities ?

Bottom line: Yes, more focused attention is needed to reduce transaction costs; social and economic benefits of that would be immense. But , current trends are encouraging. Financial Institutions and promoters in developed countries have to play a major role in this.

Nimal A. Fernando
Lead Rural Finance Specialist
Asian Development Bank, Manila

----- Forwarded by Nimal A. Fernando/RSDD/ADB on 12/05/03 08:02 AM -----

"Dale W. Adams" <dwadams@burgoyne.com>

Sent by: "Development Finance" <devfinance@ag.ohio-state.edu>

10/05/03 10:18 AM

To: Development Finance" <devfinance@ag.ohio-state.edu>

cc:

Subject: Devfinance: Remittances and peanuts

Several of the recent exchanges on the dfn on remittances and MFIs in Latin America ignore the obvious. The magnitude of the flow of remittances from the U.S. to the Caribbean and Latin America are many times the volume of loans handled by MFIs in these areas. I suspect that the service charges and fees levied on these remittances alone exceed the total value of MFI lending in these two regions. Remittances are big stuff for poor people while MFI lending is peanuts.

For me at least, the lesson in all this is not that MFIs ought to cozy up to remittances. Instead, I'd to see more attention given to reducing the transaction costs associated with transferring these funds. I've heard that at least one large U.S. bank is offering inexpensive fees on these transfers to new clients who open accounts in the bank. Way to go!

What we need is an annual galactic conference in some posh place like Las Vegas to promote these efficiencies in transferring remittances. I'd even go, join hands and sing we shall overcome, but then I'd drift off and play the slots. jane.

From: JRWells [jrwells@erols.com] Sent: Friday, May 16, 2003 01:20 p.m. Subject: Devfinance: Re: Remittances and peanuts
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Dear Signis

You have in deed described a simple solution. The problem here in the US is that the relationship between insured depository institutions and low- to moderate-income consumers is such that an estimated 56 million individuals do not have such relationships, either by choice or circumstance. These people obtain financial services from non-bank financial intermediaries (check cashers, community currency exchanges, money transmitters, payday lenders) on a "fee-for-service or pay-as-you-go" basis. They know exactly how much each service costs and maximize in their own best interest, rather than use a bank where they may incur such after-the-fact charges as bounced check fees, account maintenance fees, per check charges, and the like. Eventhough many large banks have recently developed remittance programs for the so-called "un-banked," they are finding it difficult to attract this audience because of the way they had treated them in the past, and cultural issues relating to the way low-income people feel about large institutions. Therefore, alternative remittance systems have been needed that are available through the NBFIs. It is a pragmatic solution to the current situation.

Hope this explanation helps your understanding. The need for local distribution points for receivers of remittances from the US still represents a huge opportunity for MFIs.

Best regards, Jim Wells

----- Original Message -----

From: Signis Aliks
To: Development Finance
Sent: Thursday, May 15, 2003 9:28 PM
Subject: Devfinance: Re: Remittances and peanuts

Actually I had a much simpler method in mind. Somebody opens an account inside the country where he is working - US, for example. Then receives a debit card, which he sends back to relatives in his home country. His relatives then have no problem withdrawing any amounts desired using this card from the account in US. Generally overall cost of such withdrawal is 5-10\$ and nothing needs to be developed.

On the other hand I could see a benefit of creating links between banks or branches of one bank in different countries to provide even cheaper service.

Regards,
Signis Aliks

-----Original Message-----

From: Development Finance [mailto:devfinance@ag.ohio-state.edu] On Behalf Of Smith, Jeremy M.
Sent: Wednesday, May 14, 2003 11:23 PM
To: Development Finance
Subject: Devfinance: Re: Remittances and peanuts

Several banks have developed these cards. What is different about this type of ATM is that they give 2 cards to a client, the second to send to the relative in their home country, who then has access to an account in the US (or other sending country) for the amount of the remittance. It is not a link between two bank accounts with separate ATM cards, which I believe is what you are describing. Most banks in the US do this sort of wire transfer, but in fact typically charge much more for the service, since it's quite rare for most banks. In the US, they use the FedWire system, and charge about \$40 for a service that can take several days. Given the costs and time involved, many banks have developed alternate methods, such as the ATM method. Others have developed ways to link accounts, often with banks that they own (e.g., Citibank-Banamex in Mexico). This is also usually cheaper than a money transfer, and has the advantage of being linked to an account in the recipient country. Of course, this is also its main disadvantage, since in most recipient countries few people have such accounts and thus can't take advantage of this product. It is however, as you say, a very promising technology.

Regards.

Jeremy Smith

➤ **The cost of funds and the interest rate (4 mails)**

From: Stephanie Gober [plibrary@planetfinance.org] Sent: Wednesday, June 11, 2003 06:24 p.m. Subject: Devfinance: Linking cost of funds to loan size/interest rate caps

(Apologies for multiple postings.)

An apex institution is proposing a regulation in which the cost of funding for microfinance institutions (MFIs) will vary according to the size of the loans made by the MFI. For example, loans of \$1,000 or less will have a cost of funding of the apex institution's long term rate, and the MFIs can onlend these funds at a maximum rate of 2% per month. Loans of \$1,000 or greater would have a funding cost of the long-term rate + 8%, in which case the MFI will have to abide by a maximum on-lending rate of 5% per month.

We foresee that under this policy, MFIs may tend to concentrate on loans of \$1,000 or more because smaller loans will be less profitable

Is anyone aware of similar policies which have been implemented in different countries? What have been the results of such policies? Have there been unforeseen/undesirable consequences?

Thanks for any insight you can provide.

Regards,
Stephanie Gober

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From: Loic Sadoulet [sadoulet@ulb.ac.be] Sent: Thursday, June 12, 2003 10:55 a.m. Subject: Devfinance: Re: Linking cost of funds to loan size/interest rate caps
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Reading Zvi and Bernard's comments made me want to put a few random ideas on the table.

- > From: "Zvi Galor" <copgalor@actcom.co.il>
- > "... the level of interest to an annual rate of around 30%. In western world terms, it is a killing rate of interest.
- > In developing world, it depends largely on the local rate of the inflation.
- > b. In the second case you are speaking of a rate which is around 5% per month.
- > At a compound rate of interest, the annual rate is almost 60%. Which business has a return rate of investment over 60% annually. I wonder.

What are the current financing opportunities that those clients face? Money lenders, deposit collectors? In most cases, the interest rates charged are very much above 30-60% annually. And yet people repay (or save). My guess is that these small businesses do have very high returns – or appear to have very high returns – because labor is remunerated at the opportunity cost, which is basically zero considering the (appropriately calculated) expected income on the spot labor market.

Which brings me to Bernard's comment:

From: Development Finance [mailto:devfinance@ag.ohio-state.edu] On Behalf Of BKERVYN
> In Việt Nam most microfinance programs have rates between 1 & 3,6%/month. In Cambodia up to 5%/month.
> Ours is flat 1,5% (equivalent to 2,9% monthly, >30% yearly as inflation is almost zero).
> Because we operate only in poor rural areas, & because of the subsidized banking system
> supplies the most profitable clients (loans of 200\$ and more), we have an average loan
> outstanding size < 30\$/client & an expensive weekly collection system. This is an over-regulated
> market and not typical of most other countries where MFIs flourish. Under these conditions I am not sure we will ever be sustainable

Is the secret to achieving sustainability finding ways to increase the revenue per transaction?

We see that microfinance clients really would like to have a broader range of financial services and more flexible ones (I found Meyer's paper about dropouts Bangladesh, Wright's work on savings, and Rutherford's book all very interesting on the topic). Is the SafeSave model of providing flexible savings/credit products replicable on a larger scale? Is there any value to providing payment/transfer services? (Western Union certainly proved it can be profitable!)

How about new technologies? The fixed costs and coordination to achieve a useful network are prohibitive for small institutions. But could "big actors" (such as BRI for example) come in and provide such tools on a shared-access and pay-per-use basis to small institutions? Volume, of course, is key when you are dealing with small markups.

(For some reason, the tone of my comments seems a bit off to me. I don't mean them to sound negative or be smirk in any way. These are genuine questions.)

best
Loïc

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From: BKERVYN [bkervyn@hcm.vnn.vn]
Sent: Thursday, June 12, 2003 02:59 p.m.
Subject: Devfinance: Re: Linking cost of funds to loan size/interest rate caps

I am sorry, I will be short, because you make pretty hasty judgements indeed! I feel we are in excellent company, I have a lot of respect for many organizations who do an very good job, although they charge "high" rates.

Our organization charges zero percent to the program, and the interests cover:
- risk of inflation or potential cost of capital (9%/year), provision for losses (2% loans).
- salaries, training of group members & village workers, incentives for the best clients etc.

When the cost of our capital is less than budgeted for, the equivalent interests are just added to the capital. Inflation in VN is almost zero. We charge 1,5% flat, which is equivalent to 35%/year, or >30% above inflation.

I worked also for 9 years in Bangladesh, but I feel Vietnam is a pretty difficult context: there is often too little support from the police & local authorities. Government programs are subsidized and often do not reach the poorest as they are supposed to. They have huge losses, in many communes the authorities can do nothing. In other areas the involvement of the authorities is higher, the selection of the clients is also more strict with rules which are not always transparent; there is a consensus that in most villages the situation is more like the first description.

However public pressure is strictly forbidden, the letter of the law is that a meeting of more than a few people (some say 4, others say 7 people) requires prior permission from the police and authorities. You cannot put the name of dishonest people on a billboard neither... I was used to effective public pressure in Bangladesh, this cannot happen in VN.

Therefore community organization is a priority and training is essential. This is long and expensive.

The poor have no problem with our interest rate, as they are used to 5-20%/month, but worse they are also used not to have access to capital at all. In many villages moneylenders are just not there, except for very small amounts (7 euros). One form of credit is to buy from the groceries or other small shops on credit, at a slightly inflated price. Or from friends and family members. Usually the friends and family of the poor have little to lend.

The question about how profitable their "business" probably is, is not entirely relevant, at least in the quick way you seem to calculate it. What is the true value of a fishing net for a fishing family, or the value of seeds in time for a farmer, in a pretty conservative and remote village context? What is the value of a pig for a woman, for whom this is the only way to put some capital aside, day by day?

Of course one always prefers a cheaper price, and when they have access to the bank, they borrow a large amount (>200 euros) from the bank at 0,7%/month, but then they still borrow from other sources at higher rates for smaller amounts. Our hope is to progressively increase the amounts lent. But in many villages the people are afraid not to be able to repay and limit their borrowings to 50 euros only. According to our calculations, if the average loan was 60 euros we would make it, and yes!, we could envisage to lower our rate!!! I feel we are caught in between deep poverty and lack of potential economic development, and on the other hand the bank which targets the better off clients.

What about reducing the costs? Monthly reimbursements have proven too risky and a source of trouble for the clients (group pressure, failure to collect more than 3-5 euros at a time...). Some would like daily reimbursements, for the time being we stick to weekly operations.

Very important are the savings, which the banks refuse to collect in small amounts. Savings/member amount usually to 0,3 euro/week. The capital in our program is about 50% made of the people's savings (entirely managed by the groups themselves). By the way, they have decided to charge (between themselves) the same rate as ours, often higher. Strange? For savings deposited on the program account we offer 10%/year. Deposits are about 20% of the loans we lend.

I am always ready to learn and if you have good recipes and advice so that we could improve our job, I would be more than ready. Detailed reports can be downloaded from our website.

Sincerely,

Bernard KERVYN - Việt Nam Plus (NGO)
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& try also: TTRUONG@hcmc.netnam.vn

From: Zvi Galor [copgalor@actcom.co.il]
Sent: Saturday, June 14, 2003 04:09 p.m.
Subject: Devfinance: Re: Linking cost of funds to loan size/inter...

From: "Zvi Galor" <copgalor@actcom.co.il>
Date: Thu, 12 Jun 2003 07:35:40 +0300
Charset: macintosh

Hello,

In my view the issue is the policy undertaken by MFIs as regards to the rate of interest. The first mail of Stephanie spoke about a rate of 5% per month. She didn't tell us in which country it is, and what is the rate of annual inflation. She didn't mention that 5% a month is almost 80% on annual basis (I made a mistake in my first mail, by saying it is only 60%) and this rate of interest in countries where inflation is 30% a year is too high. It is a killing rate of interest.

I don't believe MFIs should compare themselves to money-lenders rate of interest, and money-lenders are very important and fulfil an essential indispensable role where no other source of finance exists.

- MFIs may take on themselves other functions of money-lenders. Money-lenders in the traditional societies, especially in traditional rural areas, are not only allocating credit. They supply, as well, the necessary inputs (we still remember the five-six system exists as well in the Philippines). They are in charge of the Marketing function, in many instances. So money-lenders are allocating credit at the highest possible rate of interest, they supply inputs at the highest possible price, and sell produce of borrowers at the lowest possible return to the them. They ensure the return of their credit allocation when controlling the marketing.

In my view, MFIs should supply credit at the lowest possible cost, supply inputs at the lowest cost, and enable marketing produce at the highest return to borrowers. This may enable MFIs a way, a supplementary one, to ensure a sort of guarantee to the credit allocation.

I think that the rate of interest should be determined on the principle of Competitive rate of interest. This principle vises, first of all, the interest of the borrower, the beneficiary. The criteria to be considered are:

- The rate of annual inflation in the given country. In many cases where accurate givens are camouflaged by the government, one index may be utilized, even though not completely exactitude, is the rate of interest charged by the commercial banks on the regular credit to commercial clients. It is almost always higher than the rate of inflation, approximately, from 5% on lower inflation to even 20-30% on annual base, where inflation is high.

- Savings. MFIs should encourage savings by offering a competitive rate of interest. Meanings is the rate should be at least the level of inflation and preferably a bit higher.

- Credit. MFIs should charge their clients at a ate of interest which will be competitive. That means lower than that applied at the commercial banks of the country.

This is the basis of the principle of Competitive Rate of Interest (CRI) to be applied, as I recommend.

Adaptations should be applied according to each country local conditions.

Regards

Zvi

Zvi Galor
www.coopgalor.com