

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

April to June 2003

General Information

➤ 1st issue of Micro Finance Capacity Builder

Mitrabharathi, the Indian micro finance information hub and online encyclopedia (maintained by MCG, the Micro-Finance Consulting Group), has issued its first Micro Finance Capacity Builder, a monthly E-newsletter to provide capacity building inputs on a wide range of topics in micro finance. Each MFCB will focus on a specific topic. As this E-newsletter grows, specific case studies will be added as well as references and links to other relevant resources. Visit the site to download and sign up easily and freely to receive the MFCBs at www.mitrabharathi.com or write to signupmfc@mitrabharathi.com.

➤ Formation of the Micro Finance Equity Funds

ACCION International has announced the formation of the Council of Micro Finance Equity Funds. The Council was founded to address the growing demand for equity capital, arising by micro finance institutions (MFIs) in light of the increasing number of MFIs that are operating as commercial, regulated financial entities and that require equity capital.

The six founding members, ACCION International, Africap, Oikocredit, ProFund Internacional, Shorebank and Triodos Bank have invited additionally Andromeda Fund, Calvert Foundation, Citigroup, DOEN Foundation, Développement International Desjardins, SARONA Global Investment Fund Inc. and Société d'Investissement et de Développement International (SIDI).

For more information, contact: James C. Kaddaras at council@accion.org.

➤ Planet rating news

In 2002 rating methodologies and financial ratios have been extensively discussed. In order to take into account not only these discussions but also evolutions in the micro finance sector, Planet Rating updated its GIRAFE methodology in February of this year. Obviously, the ratings are still based on institutional performance and risks, but Rating Plus provides additional information on the institution's context and the target clientele. The first report to follow this revised methodology and format is for PADME (Benin) and is now available in French at www.planetrating.org. A short overview in English can be found in the enclosed mail. For more information, please read the article on Rating Plus and the Newsletter. You can download both documents from the website or request them at inforating@planetfinance.org.

➤ Papers for download from the Moscow conference in May 2003

The 2003 MFC Conference has taken place in Moscow and was attended by over 280 practitioners, donors, investors and other micro finance industry stakeholders from C&EE and the NIS region and worldwide. The conference materials and pictures can be downloaded from www.mfc.org.pl/conference. The conference was highly appreciated by the participants, in particular the great networking opportunities as well as learning about trends and micro finance innovations.

➤ Practitioners Learning Program newsletter

The April 2003 issue of PLP NEWS, a publication of the SEEP Network's Practitioner Learning Program, is now available at www.seepnetwork.org. It spotlights the two-year

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.

(2002-2004) program in "Putting Client Assessment to Work", which encourages micro finance organizations (MFIs) to respond to market forces by focusing more attention on their clients' diverse needs. The newsletter includes descriptions of the activities of the participating MFIs [ASA (India); Freedom from Hunger with CRECER (Bolivia) and ACLAM (Haiti); MDF-Kamurj (Armenia); The Micro Finance Centre for CEE and NIS; Pro Mujer (Bolivia and Peru); URWEGO (Rwanda)] in client assessment and articles on the start-up workshop and learning agenda for the program. The learning agenda will centre on the MFIs' experiences with institutionalising client assessment, improving client assessment methods, and tracking costs and benefits of implementing client assessment systems.

Courses and seminars

➤ International Symposium on Micro Finance and Rural Development, October 2003

The Belgian Government and the Belgian Technical Cooperation (BTC-CTB) are sponsoring "The Rural Financial Services Program in the Sierra Norte (Northern Andean Region)". This program is carried out by Banco Solidario and Fundación Alternativa as direct lenders, and Financoop as a second level savings and loans institution for the cooperative sector.

Together, these organizations organise a symposium in Quito, Ecuador from October 13, 2003 on experiences and challenges of micro finance and rural development. Contact: mfsalazar@enlace.fin.ec.

The selection of contribution proposals will be finished on July 15th. Please visit at a later stage SDC's BSM finance website at www.intercooperation.ch/finance for details about this conference.

Publications

➤ New papers from the Australian Foundation for Development Cooperation

Pascal Marino has informed the devfinance listserve that the following new micro finance resources are now available on the Australian Foundation for Development Cooperation website www.fdc.org.au:

* *Five years on: the Microcredit Summit Campaign and the development of micro finance in Asia and the Pacific*. The paper examines the development of the Microcredit Summit Campaign over the last five years, using the development of micro finance in Asia and the Pacific as a field of study.

* *Microenterprise Development and Microbanking in APEC*. The paper reviews the outcomes of the APEC process in 2002 affecting micro enterprise development (MED) and micro banking. It also looks forward to prospects for further progress under Thailand as chair of the APEC process in 2003.

* *February-April 2003 Microfinance Update*. This newsletter outlines FDC's current micro finance activities and provides updates on recent press coverage, new publications and related events, with a specific focus on the Asia-Pacific region.

The Foundation for Development Cooperation would welcome feedback from Devfiners to be sent to pascalmarino@fdc.org.au.

➤ Publication of ACCION's *InSight No 5: Poverty Outreach Findings*

ACCION has announced the latest addition of its InSight series: Poverty Outreach Findings: Mibanco, Peru. This report presents an analysis and findings regarding the poverty profiles of microfinance clients at ACCION partner Mibanco. It is the first institutional analysis in ACCION's Poverty Outreach project, where they analyze client income data to compare borrower poverty levels with urban, national and international poverty lines.

To download a copy (14 pages), please visit www.accion.org/insight. For the more detailed data and additional findings, download a copy of ACCION Poverty Outreach Findings & Analysis: Mibanco, Peru (47 pages) at www.accion.org/publication_reports.

➤ IRIS paper on micro finance regulation

Microfinance Regulation in Developing Countries: A Comparative Review of Current Practice by

Patrick Meagher of the IRIS Center, University of Maryland.

This newly released paper analyses the critical issues in micro finance regulation and supervision in a comparative light. It reviews such areas as tiering, who regulates, and who is regulated, as well as ratios, reporting systems, entry and exit, and operating regulations. This paper should prove valuable to countries currently examining options for micro finance regulation and supervision, and those donors, foundations, or MFIs/ associations seeking to help regulators implement or enhance existing micro finance regulation and supervision systems. A set of tables is particularly useful for cross-country comparison of systems. IRIS is using these tables as the basis for a much broader set of multi-country data for CGAP's emergent web materials on micro finance legislation, regulation and supervision. The paper is available in PDF on <http://www.iris.umd.edu/adass/proj/zambia8.asp>.

➤ **Two books about micro finance in Mexico and Chile**

David Myhre from Ford Foundation has informed about the publication of two new books:

- Pablo Cotler, 2003: *Las entidades micro financieras del México urbano*. México City: Universidad Iberoamericana & La Colmena Milenaria. ISBN 968-859-487-3. 141 pp. For ordering information, please visit www.lacolmenamilenaria.org.mx or contact the author at pablo.cotler@uia.mx.

- Jose Andres Herrera, 2003: *Crédito a la micro empresa en Chile: Una revisión cualitativa (1991-2001)*. Santiago: Programa de Economía del Trabajo (PET). ISBN: 956-259-051-8. 238 pp. For ordering information, contact PET at www.petchile.cl or email pet@petchile.cl.

➤ **Techniques Financières et Développement**

Please find below an overview of the last issue (n°70) of the quarterly review "Techniques Financières et Développement" (available only in French !):

- President's letter: Are Africa and Latin America taking advantage of globalisation? by Jacques Cossart

- Tribune: Luis Ignacio «Lula» da Silva's speech at the World Economic Forum in Davos

I. The issues of measuring microfinance institutions' impact

- *Impact analysis or marketing approach?* by Yann Gauthier

- *Designing Impact Assessment Systems to Improve Understanding and Impact* by Anton Simanowitz

- *The recent evolution of the issues and the tools of the impact analysis in micro finance* by Cerise

- *From micro-credit impact towards social viability of proximity financial services: SIDI's process* by Marc Berger

- *The example of the network Nyesigiso in Mali* by Oumou Sidibe Van Hoorbeke

II. Which end to the crisis in Latin America?

- *Argentina 2002: the demolition of the monetary and financial institutions of the '90s* by Domingo Cavallo & Eduardo Cavallo

- *Venezuela: A forceful recapture of control* by Carlos Quenan & Béatrice Auzouy

This issue is available at the following address, 15 Euros for individuals, and 31 Euros for legal entities. Subscription for a year (4 issues) is 53 Euros for individuals and 107 Euros for legal entities.

ESF-Epargne Sans Frontière

32 rue Le Peletier

75009 Paris

Tél : + 33 (0)1 48 00 96 82

Fax : + 33 (0)1 48 00 96 59

www.esf.asso.fr

Subjects of Interest

➤ **Remittances – a discussion cycle**

Already like a tradition, once a year the topic comes back on the devfinance listserve – including, of course, an observable development on how remittances are being perceived by participants regarding the potential opportunities created by a linkage between remittances and micro finance.

For Lisa Lindsley (Chemonics International Inc.) it seems reasonable that an MFI gets involved into remittances as they are for her clearly MF services, corresponding to her definition of MF as the "provision of financial services to low-income

self-employed persons and their businesses". She opts for linking them with savings respectively to convert remittance flows into savings to replace other forms of funding.

Jeremy Smith from USAID has identified the two aspects of location and underserved markets as those that concern both remittances and micro finance: "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."

Dale Adams, who has always pointed out the enormous volume of remittances in comparison to MFI financing, doubts whether MFIs "ought to cozy up to remittances" – he suggests focusing instead on the reduction of the transaction costs. Nimal Fernando (ADB), however, states, "regulated MFIs must think of how they can get into this business both internationally and locally". He supports his opinion by providing concrete information regarding amounts transferred between sending and receiving countries as well as concerning institutions already successfully involved in the business.

Other listserve participants mention interesting forms of lowering transaction costs such as the use of ATM cards: the account holder sends the respective debit card to the relative in the receiving country who may then access for low costs the funds deposited on the account. Jim Wells reminds in this context that even in the US around 56m "low-to-moderate-income" individuals still do not maintain any relationship to insured depository institutions (have no bank accounts, comment by the author). Also, the previous history between banks and the so-called "unbanked" represent currently a barrier for the former to attract audience for remittance services – another argument for why they have to be considered as a significant opportunity for MFIs to extend their services to the poor and conquer new business.

Read more about remittances in the enclosed four mails.

➤ The cost of funds and the interest rate

Stephanie Gober from Planetfinance is wondering whether MFIs use varying interest rates in dependence of loan amounts and whether the implications of such policies are known and studied by researchers and practitioners. In former devfinance reviews, the question of how the respective interest rate is being and should be determined had come up, discussed by experienced insiders such as Adams and Von Pischke. This time, concrete rate examples provided by Ms Gober as well as the respective information given by Bernard Kervyn from the NGO *Viet Nam Plus* trigger again a reaction by Zvi Galor (see his contributions in the previous review), who calls the mentioned figures "killing rates" and suggests using the so-called "competitive rate of interest" (see review IV/2000 for suggested alternative definitions). Such rate is built, first of all, on the interest of the borrower or beneficiary and should be below the usual banking rates in a given country. Loic Sadoulet from *ECARES* Belgium, however, does not support Galor. He reminds that the existing other providers of financial services, such as moneylenders or deposit collectors, mostly do charge even more than MFIs. With regard to the special situation in Vietnam, he is wondering whether finding ways of increasing the revenue per transaction may contribute to achieving sustainability. Offering a broader range of services in a more flexible way (he refers among other to Rutherford's SaveSafe model) could be a solution, while new technologies are often too costly for small MFIs. Sadoulet thinks that big players (e.g. Bank Rakyat Indonesia) could provide tools in this area on a shared-access and pay-per-use basis to small institutions.

Get acquainted with the different points of view in the four mails attached. Of particular interest might be the contribution by Bernard Kervyn, who describes in details the special working conditions in Vietnam – differing significantly from those e.g. Bangladesh, where he has also worked for almost a decade.

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