

DEVFINANCE

Discussion list on development finance of the Ohio State University

Quarterly Review¹

July to September 2003

General Information

➤ **Special Focus on Savings in the Micro Banking Bulletin**

The latest issue of the MicroBanking Bulletin (MBB) focuses on savings mobilization, providing various short articles and case studies on the subject. The review of the MBB statistics put emphasis on the saving mobilizing institutions. The bulletin can be download at www.themix.org.

➤ **Remittances**

The Malaysian Bumiputra Commerce Bank (BCB) and its Indonesian unit PT Bank Niaga tied-up to introduce a speedy remittance service for some 600'000 Indonesian workers in Malaysia. BCB has some 270 outlets in the country and Bank Niaga has 160 branches all over Indonesia. For beneficiaries without any banking accounts, the funds can be collected at some 10'000 post offices under PT POS Indonesia between three to ten days. For more information on this theme, you can read the full article in the annex.

➤ **Microinsurance working group**

A quarterly newsletter on "Microinsurance, Improving risk management for the poor" has been launched by the microinsurance working group. Distributed electronically by ADA, it contains several links to access to more information. To register, contact: insurance@microfinance.lu.

➤ **Planet Rating in Morocco and Russia**

The *Association Marocaine Solidarité Sans Frontière, Micro Crédit* (AMSFF/MC), has been rated with a B- by Planet Rating. In Russia, Planet Rating evaluated the Russian Women's Microfinance Network (RWMN), an apex structure

for member or "partner" MFIs providing credit lines, technical assistance and legal/regulatory advocacy for microfinance. This institution received a rating of B+. To read the rating reports, go to www.planetfinance.org.

➤ **Microcredit summit E-News**

The July 2003 issue of this E-news is now available at www.microcreditsummit.org/enews. Themes treated in this issue are microfinance for poverty reduction and transparency on the depth of outreach.

➤ **Dominican Republic: Large scale micro credit initiative targeted to the rural poor**

Grameen Foundation USA (GF-USA) and the Bank of Reserve of the Dominican Republic (BRRD) have signed an agreement to develop a large-scale micro credit initiative targeted at poor rural households. GF-USA will provide intensive technical assistance and training to a selected group of local development NGOs. Over the 5 to 7 years of the project, the Foundation of the BRRD will invest over US\$8 million in operational and loan portfolio capital to reach more than 15'000 additional poor women with microfinance services.

Courses and seminars

➤ **Making insurance work for microfinance institutions**

A course on developing and delivering microinsurance will be held by two specialists from ILO, Michael McCord and Jim Roth, in Kampala Uganda, 3-7 November 2003. More information on the content of the courser and registration can be found under :

www.international.bankakademie.de/microinsurance.

¹ Some full texts of discussions are to be found in the annexe.

➤ **Conference on microfinance in South Africa**

The conference took place in Johannesburg from August 12 to 14. The presentations will soon be available on line under the following address: www.eventdynamics.co.za/microfinance. The conference themes were regulation, commercialization, impact assessment, product development, housing finance and rural finance.

Publications

➤ **Regulation of microfinance institutions**

The GTZ has published two papers on regulation of microfinance institutions, which are important readings for those involved in this subject.

Staschen Stefan (2003), *Regulatory Requirements for Microfinance: A Comparison of Legal Frameworks in 11 Countries*, GTZ, Eschborn, highlights the different regulatory options taken in eleven countries, comparing their benefits and drawbacks.²

Staschen Stefan (2003), *Possible Mechanisms to Regulate Tier 4 MGFIs in Uganda*, GTZ, Eschborn. Tier four institutions in Uganda do not operate as intermediaries for public deposits. Hence, the author suggests that they should not be supervised by the central bank, unlike institutions from tiers one to three, but should be subject to self-regulation and regulation by an NGO, focusing on performance monitoring. The documents can be downloaded at www.gtz.de.

➤ **Doing Pro-Poor Microcredit in South Africa**

This paper by Ted Baumann from the CMN examines the performance of selected South African MFIs that have a poverty-alleviation focus. South Africa has the World's greatest income inequality, implying that poor households have very limited income, while salaries of workers are relatively high. In such a context, it is difficult to compare the situation of MFIs in South Africa with benchmarks from other countries. You will find

² You will find other documents on regulation and supervision of MFIs on the BSM Finance website (www.intercooperation.ch/finance/themes/#regulation).

more information on that topic in the full article in annex.

➤ **The state of microfinance in India**

The results of a virtual roundtable by famous microfinance practitioners in India are available in the Management review of the Indian Institute of Management, Bangalore. It can be downloaded from the website at: www.iimahd.ernet.in/~mssriram/microfinance-RT.pdf.

➤ **Profitable microfinance outreach: the case of Mibanco in Peru**

Nimal Fernando (2003), *Profitable Microfinance Outreach, with Lessons for Asia*, ADB, is a case study on Mibanco, a leading microfinance commercial bank in Peru that grew out of the non-government organization Acción Comunitaria del Perú (ACP) in 1998. The story of Mibanco provides important lessons for policymakers, practitioners, and funding agencies. This commercial microfinance institution has maintained its social mission, by adapting different services to rural and urban poor. The web address is: www.adb.org/documents/papers/mibanco/default

➤ **Small Enterprise Development**

The September issue of this journal has different articles about the process of developing new products by MFIs, from concept to pilot testing and the product costing. The experience of the Centenary Bank of Uganda shows how an initially savings driven institution also goes into offering credit. Another article analyzes why the MFIs in Bolivia have so far failed to offer savings accounts to the poor. You can order single copies of each article by writing to: marketing@itpubs.org.uk.

➤ **Emergency Loans: the other side of microcredit**

Craig Churchill from the ILO has written an interesting article on "Emergency Loans: The Other side of Microcredit". The article highlights and motivates the importance of emergency loans for low-income households, in particular when clients cannot deposit their savings in the MFI. To read the article, download the September quarterly

newsletter of the Focal Point for Microfinance from the Asian Development Bank: www.adb.org/documents/periodicals/microfinance.

➤ **The role of institutions in economic development**

Acemoglu D. (2003), "Root Causes: A historical approach to assessing the role of institutions in economic development". *Finance & Development*, June 2003. The author stresses the importance of good institutions to foster economic development. Conducive environments for good institutions are: 1. The enforcement of property rights for the whole population in order to encourage investments. 2. Constraints on the action of elites, politicians and other powerful groups, preventing them from expropriating the incomes and investment from others. 3. Equal opportunities for all. You can download the article on:

www.imf.org/external/pubs/fandd/2003/06/pdf/Acemoglu.pdf.

➤ **Selecting a software for microfinance institutions: the top 5 myths**

N. Arsenault wrote a paper entitled "Answering the Top 5 Myths about Selecting Software for Microfinance Institutions". This paper attempts to answer some of the common myths and misunderstandings surrounding the selection of software for microfinance institutions. It can be ordered from the author in pdf format (normand.arsenault@sympatico.ca).

➤ **Community development financial institutions**

These institutions have the mission to provide financial products and services to people and communities underserved by traditional financial markets in the United States. Between 800 and 1000 of these institutions operate in the United States at present. You can now read more on that experience by downloading publications on www.cfed.org, under "Learn more about Community Development Financial Institutions", or ordering the documents at cdppub@cfed.org.

Subjects of Interest

➤ **The role of institutions**

Different participants in the discussion list have addressed the question of the importance of institutions in the development of a financial sector that is accessible to all. N. Srinivasan from NABARD in India highlights the danger of subsidies: "Subsidized welfare programmes collapse when the donor departs". Based on the publication by D. Acemoglu on the importance of institutions in the development process of an economy (see earlier under "publications"), B. Wesselink reminds us of successful reforms of government owned and previously dysfunctional institutions, like Banrural in Guatemala and the Agricultural Bank of Mongolia.

J.D. Von Pischke argues that each institution reflects the interest of its organizers. Good institutions are the ones which reduce transaction costs and innovate in order to create access to everybody. Having honest people in an institution helps keeping transaction costs low.

The Microfinance Club of New York organized a debate on "Poverty vs Commercialization", among important stakeholders of the sector (see full article in annex). The commercialization approach focuses on cost coverage and long-term sustainability, while the "pro-poor" approach puts more wait on the outreach and impact of its services. Nevertheless, microfinance practitioners all have the same goal, which is to develop a financial system that serves the whole population. What differs between the two approaches are the means towards reaching both sustainability and outreach. To make a lasting impact microfinance will need to integrate with the financial sector.

Concerning the outreach, specialists argue that the currently used metric (average loan size) is outdated and biased too heavily towards strategies that promote working capital loans. Much remains to be done in order to find indicators for poverty outreach. The social indicators of microfinance institutions remain weak and fragmented, and are not subject to widespread use and application.

Regulated microfinance institutions and NGOs can be complementary. While the former can mobilize savings and more easily access commercial funds, the latter have more playing room for innovation. NGOs should not all become banks; some manage to offer credit on a profitable base and use the

benefits to subsidize activities of their social service delivery system.

NGOs have shown limitations as to the diversification of financial services offer. In that sense, it is very important to promote different types of institutions. Experience also shows that the clients from “pro-poor” microfinance institutions do not know where to go, once they have graduated out of poverty. It is important not to forget the intermediary sector, and the possibility for “commercial” institutions to cross-subsidize between different client segments.

Interest rate caps are used again more frequently by governments because they are politically attractive to advocate. Nevertheless, rather than fixing caps, governments should foster a legal environment that allows competition, which will automatically lead to a reduction in interest rates. Consumer protection measures may help protect debtors from over indebtedness, be more transparent with the clients regarding effective interest rate charged, and prevent inappropriate collection methods. MFIs are starting to calculate the effective costs of delivering different products, leading to increasing efficiency and probably to decreasing interest rates.

The principal constraint of the microfinance sector nowadays is the capacity, in other words, the lack of available retail institutions and the lack of capital to develop that capacity. Another major problem is linked to the still high transaction costs, which are a barrier to expanding financial services to more people.

On the questions about how Wall Street can help developing the capacity, the participants in the debate are sceptical. Several funds for equity investment in microfinance have been created, which is positive. Nevertheless, microfinance institutions should not only rely on first world sources, but should seek to source funding locally, in particular through the promotion of savings services.

➤ **Microfinance and natural resource management**

The theme comes up every now and then as to whether microfinance can be used as a means to

reach another goal than the provision of financial services, i.e. education. The discussions on devfinance provide some examples of institutions that combine both types of services. R. Sunil from India gives us examples from NGOs in Southern India that support community/tribal Self-Help Groups, for the management of savings and credit, combining it with education on the use of forest and other natural resources. These efforts have been made by the Kerala Forest Department in association with the State Forest Research Institute, and by Nagarhole Wildlife Sanctuary.

Eco-Trust (www.ecotrustcan.org/) is a Canadian organization that combines environmental conservation and microfinance. They support community and small and medium enterprises that meet environmental and business criteria, in collaboration with a local credit union.

➤ **Microfinance and education on health**

Innovative financial services geared to AIDS affected youths include the establishment of education trusts for minors and allow youth from AIDS affected households to use microfinance services. Other institutions combine the provision of credit with education on sexual and reproductive health. Examples are provided from Malawi, Kenya (www.k-rep.org/devagency.asp) and Zambia (www.fhi.org). While these organizations use credit as a means to come to an end (education), their future challenge will be to obtain better results on the repayment rates.

Freedom from Hunger works with local partners to integrate health and better business education into their village banking savings and credit services. The field agents who assist the women with savings and loans also facilitate the dialogue on health and business services (www.ffhtechnical.org).

id/Intercooperation/September 2003