

# ANNEX

## To the Devfinance quarterly review

October to December 2003

### News and infos

#### 1. India: Post Office Savings Banks to make loans to self-help groups

The post office savings banks (POSBs) in India, owned by the government, are now advised by the government to promote self help groups (SHGs) by providing credit to them. This is part of the SHG linkage to formal financial systems program. Pilot programs have been initiated in selected states of the country. 90% of the interest incomes will be allowed to be retained by the POSBs as maintenance charges.

Traditionally, the POSBs were only offering deposit, payment and money transfer services.

In India, there are about 154,000 POSBs with 90% located in rural areas. There is a post office to cover every 6,400 people, comparing well with USA and Singapore. These offices handle more than 110 million money orders and administer about 114 million savings accounts. As of 2002, all POSBs in rural areas offer twelve different types of saving schemes ranging from regular pass book savings accounts to time deposits to national savings certificates that are 100% tax exempt and offer deposit rates higher than banks. Money transfer facilities through money orders and limited life insurance facilities are also provided.

Indian POSBs are heavily subsidized by the regular post office system that is in turn financed up to 55% by the government to cover its costs. Even though POSBs offer a variety of deposits schemes, only few of them are profitable. Bulk of the revenue is derived from money transfer services. With declining incomes for regular post office systems due to competition from courier and internet services, the POSBs are now squeezed to generate more incomes to cover their costs and reduce their dependence on regular post offices. This has partly driven the POSBs to get into the credit business.

The POSBs in India lack experience in asset management. Currently, 80% of the savings collected in a state is diverted to fund deficits in that state and 20% are allocated to central government.

There is a growing interest in finding alternative institutions to service rural clients. POSBs are ideally suited for deposit mobilization, payment and transfer services in rural areas. But, they may not be efficient in retail lending due to weak ownership and governance structure and lack of skills among the staff. They can perhaps partner with MFIs to offer some microfinance products such as deposit services, fund transfers and payment services in a cost efficient way. They can function as agents for collection of information and collection windows for loan installments for banks and MFIs. POSBs can also be used for installing automatic teller machines (ATMs) and equipped for use of smart cards for MFIs. In places of high security risks, POSBs can help in transfer of MFI funds from branches to head quarters. On the one hand, these auxiliary services can generate fees and commissions for POSBs to become self-sustainable. On the other hand, the MFIs can expand financial services to unbanked areas and offer more types of financial products at a lower cost. POSBs can also channel some of the locally mobilized funds to finance promising local MFIs for their on-lending activities. There is also possibility of financial intermediation by earmarking some of the locally mobilized funds for a centrally based apex that can intermediate nationwide. All efficient options for efficient use of deposits mobilized by POSBs need to be identified.

It is important to carefully study the strengths and weaknesses of the POSBs and costs and benefits before launching new products. Else there may be cannibalization (to borrow term from Graham Wright and Monica Brand) of the existing products and loss of reputation for the institutions.

Are there any donors and/or researchers carefully documenting the outreach, potential and limitations of POSBs to service the rural clients? Existing literature on POSBs based on Kenya, Tanzania, South Africa, India are outdated and shed very little light on their ability to retail credit. It may be about time to examine POSBs and the implications of the above pilot project in India on rural financial systems. Need to check the genie before it gets out of the bottle.

Geetha Nagarajan

---

Geetha Nagarajan, Ph.D.  
Microfinance & Alternatives  
Specialist, Micro and Rural Finance; Adj. Faculty, the American University  
2889, Sutton Oaks Lane, Vienna, Virginia 22181, USA  
geetha@hers.com; microfin.alt@verizon.net

## 2. October 2003 IDS Bulletin: Imp-Act Edition

The *Imp-Act* issue of the October 2003 *IDS Bulletin* entitled: **Microfinance, Poverty, and Social Performance** is an important step in the dissemination phase of the *Imp-Act* programme, a three-year action-research programme designed to improve the quality of microfinance services and their impact on poverty through strengthening the development of impact assessment systems. The Programme is a global collaboration between 30 MFOs in 14 countries, and three UK universities: Bath, Sheffield and the Institute of Development Studies.

This Bulletin focuses on the experiences and lessons of *Imp-Act*, presenting a series of papers combining thematic overviews written by the UK academic team with practical perspectives from partner MFOs, bringing to the fore the experiences of those involved at the grassroots level. Papers in this volume are arranged under three broad headings: poverty, institutionalisation and wider impacts.

The introduction and overview is presented by Anton Simanowitz, manager of the *Imp-Act* Programme. This highlights the importance of social performance, and discusses how the articles in the *Bulletin* fit into the three components of a social performance management framework: performance goals, performance assessment and performance management.

Martin Greeley introduces the first section which focuses on poverty and microfinance, reviewing recent developments in the discipline of poverty assessment. He proposes that poverty assessment has two components: poverty performance and organisational performance. While the latter is largely determined by the local context, the former, he asserts, is a function of global development objectives. In this section the experiences of PRIZMA, BRAC and South Africa in general are explored by the institutions themselves as they relate to microfinance and poverty.

Introducing the institutionalisation section of the *Bulletin*, James Copestake argues in favour of establishing a single universal standard for social performance, a standard that is both simple and flexible. *Imp-Act* partners' efforts of incorporating social performance monitoring and measurement into daily institutional practice is detailed, including the work of PRADAN, SEF, CARD and FINRURAL.

Naila Kabeer, in her prefacing article to the wider impacts section, details a framework for classifying different categories of impacts, and considers some examples from *Imp-Act* partners of wider social impacts, including methodological observations on the challenge of wider social impacts. Papers authored by Integra Foundation, PRADAN and CYSD serve to highlight the main messages in this section.

IDS began publishing its quarterly bulletin in June of 1968, aiming to bridge the gap between professional journals and development journalism, as well as stimulate the debate on current topics in development. Each thematic issue is commissioned and edited by IDS fellows, presenting policy-relevant research to academics, development professionals and policy-makers worldwide.

To subscribe to the *Bulletin*, or to order further copies of the *Imp-Act* edition, please contact the IDS publications department at: [publications@ids.ac.uk](mailto:publications@ids.ac.uk).

Katherine E Knotts  
Information and Research Officer  
*Imp-Act* Programme - Improving Impact of Microfinance on Poverty: an Action-Research Programme  
Institute of Development Studies (Charitable Company No. 877338)  
University of Sussex  
Brighton, BN1 9RE, UK  
Direct line: 44 (0)1273 873 733  
Fax: 44 (0)1273 621 202 or 691 647  
[www.Imp-Act.org](http://www.Imp-Act.org)  
[www.microfinancegateway.org/impact](http://www.microfinancegateway.org/impact)

### 3. Savings and credit groups in South Africa

From: "BRCS" <brcs@iafrica.com>  
Subject: Devfinance: CMN (South Africa) Newsletter September 2003  
Date: Thu, 2 Oct 2003 11:30:58 +0200  
Community Microfinance Network Newsletter  
September 2003

#### **Savings and credit groups gather**

On Sunday 17 August, the CMN and the Shackdwellers' International network jointly hosted a first-of-its kind gathering in Cape Town. This brought together nearly 100 members of grassroots savings and credit movements from all over South Africa to share ideas, practises, and discuss issues of common concern. The groups in attendance were

- The SA Youth Federation
- The Poor People's Movement
- The South African Homeless People's Federation
- The 5 in 6 savings groups.

The main points arising from the meeting:

First, South Africa's savings and credit networks have many more members than most people realise. The total membership of the groups at the meeting is around 120 000 households, meaning that they affect the lives of about 600 000 low-income South Africans.

Second, most of these groups practise an informal Accumulating Savings and Credit Association (ASCA) model rather than a stokvel or microcredit approach. This allows them to provide both savings and credit 'services' when they are needed, as part of households' attempts to mitigate their income insecurity. None of these groups think of themselves as "people's banks" or as microfinance institutions. They are social movements that use savings to respond directly to poverty on terms and in ways set by their members.

Third, all of the groups self-consciously use savings mobilisation as a way to build 'social capita' in their communities. A strong theme of the meeting was that collective savings and credit builds unity, trust, and grassroots capacity to tackle bigger development problems. Thus they reject the use of microfinance (microcredit in particular) as an end in itself, but see microsavings and self-managed microcredit as a way to help poor communities to begin to address the reasons why they are poor in the first place.

Fourth, some of the groups have experienced problems with internal management, but interestingly, this has been due to over-centralisation rather than too much autonomy. The SAHPF in particular has learnt that when a

centralised structure (NGO or leadership) decides and implements rules, members in individual savings schemes lose their sense of ownership and responsibility, leading to lax systems, allowing local leaders to become lazy and/or corrupt.

Fifth, South African NGOs have not yet developed the requisite skills, capacities, and attitudes to support these savings and credit movements appropriately. On one extreme, there has been a tendency to ignore the 'technical' aspects of support for savings and credit groups in the belief that any intervention in "people's processes" is inappropriate. At the other extreme, some NGOs react to problems by wanting to centralize rule-making and control, reinforcing the problems identified above.

Sixth, savings activity linked to particular goals, such as housing, works well as far as it goes, but tends to fall away once the goal is achieved. Such groups expressed a desire for support and exposure to broader savings and credit practises so that they could learn ways to continue their activities once housing had been achieved.

Finally, the groups concluded that the single most important intervention NGOs and other professionals can make is not to develop rule-based governance systems or to 'teach' people how to save and borrow, but to facilitate people-to-people exposure - like this meeting - so that groups can learn from one another. Such an 'exchange-based' approach to capacity building has proved far more effective and empowering than top-down methods.

Accordingly, the CMN has agreed to assist this group of South African savings and credit movements over the next two years through support for exchange programmes geared towards identifying and spreading 'best practices'.

## Publications

### 4. Electronic newsletters on microfinance

Currently, there are many organizations that offer free subscription-services to subject-specific email updates on matters related to development issues. The following (many well known) might be of interest to microfinance practitioners:

- (i) DEC Express is a free, bi-weekly, e-publication that provides a listing of the latest **USAID** development experience reports, including recent reports on microfinance-related topics:  
<http://www.dec.org/addtolist.cfm> ;
- (ii) **ACCION International** offers to sign up to receive periodic email updates on new publications available on the ACCION website: [http://www.accion.org/micro\\_enevs\\_signups.asp](http://www.accion.org/micro_enevs_signups.asp) ;
- (iii) The **Microcredit Summit Campaign** provides free subscription to its Microcredit Summit E-news:  
<http://microcreditsummit.org/enews/subscribe.html> ;
- (iv) **CGAP** offers its Microfinance Gateway newsletter, with periodic email updates on CGAP events and publications: <http://www.microfinancegateway.org/> ;
- (v) **IADB** offers e-subscriptions to the Microenterprise Development Review and Micro Enterprise Américas magazine: [http://www.iadb.org/NEWS/DISPLAY/e\\_subscription.cfm?Language=English](http://www.iadb.org/NEWS/DISPLAY/e_subscription.cfm?Language=English)
- (vi) **PlaNNet Finance** provides free e-subscription to its Library News with information on recent microfinance developments and PlanetRating News with all the latest MFI rating reports carried out by PlanNet Finance:  
[http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New\\_Site/En/NewsLetter/index.jsp](http://www.planetfinance.org/rcs/PlanetFinance/Site/Web/New_Site/En/NewsLetter/index.jsp);
- (vii) **ADA** offers subscription to a free monthly newsletter of recent and forthcoming events, trends, training sessions and publications in the microfinance sector: <http://www.microfinance.lu/ada/subscribe.php> ;
- (viii) **Microlending-News** provides regular updates on microfinance topics in Germany:  
<http://www.microlending-news.de/newsletterabo/newsletter.htm> ; and,
- (ix) **BLDS** at the Institute of Development Studies - Europe's largest library on international development - offers free subscription to email updates every 2-4 weeks giving details of the latest published material added to BLDS in the field of Microfinance, including new journal titles, articles from selected journals, monographs, and additions to series e.g. research reports and working papers (print documents can be

accessed through the document delivery and interlibrary loan services at BLDS):  
<http://www.ids.ac.uk/blds/updates/> .

Bert Wesselink  
[bwesseli@conxion.com.py](mailto:bwesseli@conxion.com.py)

## 5. The Development of the Financial Sector in Southeast Europe : Innovative Approaches in Volatile Environments

Eds. Ingrid Mathaus Maier and J.D. von Pischke  
Published by: Springer-Verlag, Berlin and New York, 2004

**Another one of the well complied books from J.D.s workshop based on the symposium funded by FEFAD, a microfinance bank funded by kfw, in November of 2002 in Berlin.**

The editors of this brand new book present a very informative set of papers that provide a realistic assessment of the financial sector development supported by kfw and its partners in Southeast Europe since the 1990s. It is an essential read for donors who want to support financial sector development in transition economies and conflict affected areas, practitioners who want to try innovative ways to increase their outreach to unconventional clientele, and to researchers who want to understand the challenges and opportunities for financial institutions in volatile environments.

The various chapters focus on the links between the financial sector and economic development, on the components of successful and innovative financial sector approaches such as downscaling efforts of commercial banks and specialized micro and SME banks to improve financial services to small entrepreneurs, refugees and other underprivileged groups, on the impact of financial sector projects at the household, institutional and financial sector levels and on the potential for more private sector leadership in institutional development and commercialization.

All chapters, except for one, are set in the context of SouthEast Europe. The 16 chapters are arranged in 5 parts

Part I - The evolution of financial sector and economic development in Southeast Europe

Part II - Innovative approaches to building financial sectors in Southeast Europe

Part III - Pioneering banks and bankers in Southeast Europe

Part IV - Research and impact analysis for accountability and management

Part V - Summary and conclusion

Authors of these chapters include Arnaud Mehl, Adalbert Winkler, Doris Kohn, Wolfram Erhard, Klaus Glaubitt, Haje Schutte, Syed Aftab Ahmed, Elizabeth Wallace, Elizabeth Rhyne, Volker Neuschutz, Alexander Witte, Claus Peter Zeiting, Jan Baechle, Franz Heidhues, Elizabeth Dunn, Abena Addai, Sylvia Wisniwski and Klaus Maurer.

<<http://www.springer.de/>>www.springer.de; Hard cover, 245 pages.

-- Geetha, Dec. 4, 2003

Geetha Nagarajan, Ph.D.  
Director, Microfinance & Alternatives  
and Adj. Faculty, the American University  
2889, Sutton Oaks Lane, Vienna, Virginia 22181, USA

## 6. Comments by Dale Adams on the Matthaus-Maier and von Pischke book

I enjoyed reading the book by Matthaus-Maier and von Pischke mentioned on the dfn by Gheeta several weeks ago. It provides valuable insights into a fascinating topic: financial sector development in countries that were formerly centrally planned.

The financial sector in centrally planned economies were more fiscal in nature than financial. They mopped up deposits from consumers who had few consumption options, dumped these funds into central coffers, and then dispensed large dollops of money to state-owned enterprises in the guise of loans. If borrowers were inefficient or unlucky the loans were converted to subsidies.

When most centrally planned economies collapsed these ersatz financial systems could not service the financial needs of new economies. From the perspective of those of us interested in financial systems and development, the reconstruction of new financial systems in places such as Kosovo, Russia, and Romania present exceptionally useful cases for enhancing our basic understanding. In my opinion, far too little has been written about this reconstruction, the Matthaus-Maier/von Pischke book being a rare exception.

Five dimensions of this reconstruction interest me:

1. How does one create a new financial system that is flexible, regulated, and efficient to provide financial service and to intermediate among large numbers of depositors and borrowers?
2. What happens to deposit mobilization and the interests of depositors in the process?
3. To what extent does informal finance fill the financial needs in the new economy?
4. What do you do with state owned bank?
5. How does one create elements in the financial system that can efficiently lend to small enterprises?

Of these five topics, only the small enterprise issue received much attention in this book. More discussion of deposit mobilization -- of which there was a lot in some countries -- would have been useful. A few details on informal finance and remittances would also have allowed readers to put the microfinancing accomplishments in some perspective.

I especially enjoyed the chapter by Elizabeth Dunn on impact studies. She does an exceptionally good job of summarizing the major flaws in these studies, but I was less impressed by her suggestions on how to fudge these problems. Several other chapters in the book present impact studies and illustrate how many of the major flaws in impact studies are ignored to satisfy donors' desires.

Perhaps it is inevitable that evaluations of development finance projects will most always be sponsored, or even done, by the agencies who funded the projects. I plead guilty to having participated in a number of these conflicts of interest. Consultants aren't asked to do additional studies if they report the "emperor is naked" in an evaluation of a finance project. Likewise, donor employees who are assigned evaluation duties have difficulties finding lunch companions in the agency, or getting promoted, if they report that a finance project accomplished far less than designers anticipated. I suspect this helps explain why there is so much tolerance, even enthusiasm, for badly flawed impact studies that can be adjusted to find positive results. Given this, it might be appropriate to apply a discount factor of say 50 percent to impact results reported for finance projects. Even if we do this, it appears the Germans and kfw have done some excellent work on financial market development in Southeast Europe

jane.