

# DEVFINANCE

Discussion list on development finance of the Ohio State University

## Quarterly Review<sup>1</sup>

October to December 2003

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### News and infos

#### ➤ Indian post office savings banks start offering credit

The government owned post office savings banks (POSBs) in India are now starting to promote self help groups by providing credit to them. Traditionally, these banks were only offering deposits, payment and money transfer services. There are about 154'000 POSBs in India of which 90% are located in rural areas (read full text in annex: article 1).

#### ➤ Poverty assessment tools website

The United States Congress has asked USAID to develop and certify at least two tools for poverty assessment in development projects. The IRIS center is managing the website on the subject under [www.povertytools.org](http://www.povertytools.org). The site contains information on the project with links to relevant websites and literature on poverty assessment, as well as information on field tests, including the field testing methodology.

#### ➤ Social or financial inclinations for MFIs?

*Epargne Sans Frontière* has launched a discussion forum in English on the topic of social impact versus financial efficiency for Microfinance Institutions on [www.esf.asso.fr](http://www.esf.asso.fr). For the French-speaking practitioners, a parallel forum already exists in French on the same website. On this theme, see also the October 2003 IDS Bulletin on Imp-Act entitled Microfinance, Poverty and Social Performance (read article 2 in annex).

#### ➤ Client assessment in microfinance institutions

The results from a workshop held in Bolivia last September on "Putting Client Assessment to Work" is now available on [www.seepnetwork.org](http://www.seepnetwork.org). Three learning themes emerged from the workshop: 1) identifying tools for cost benefit analysis; 2) improving the communication feedback loop process; 3) building a cross-sectional client assessment focused team.

#### ➤ CGAP fund for the selection of Management Information Systems

Since the beginning of 2004, CGAP (Consultative Group to Assist the Poor) provides funding to help MFIs (Microfinance Institutions) meet the costs of conducting a needs assessment and choosing the appropriate information systems software. Moreover, the Information Systems (IS) Services Resource Center at [www.cgap.org/iss\\_site](http://www.cgap.org/iss_site) has information on about 30 commercially available software packages that service a range of institutional types and sizes. CGAP provides an independent evaluation of these software.

#### ➤ Evaluation of the CRG in Guinea by PlanetFinance

The Crédit Mutuel de Guinée (CRG) is the only institution in Guinea that operates in rural areas. It has been evaluated by PlanetFinance and obtained the note C+ with a positive tendency. The CRG has 100 branches and a very professional staff and management. The members of the elected bodies are very active, which is one of the main success factors for the quality of the portfolio and the low costs in the branches. In order to reach the breakeven point they still need to have a better exchange of information and a more efficient

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<sup>1</sup> Some full texts of discussions are to be found in the annexe.

financial management of the network. To read the report, contact [inforating@planetfinance.org](mailto:inforating@planetfinance.org).

➤ **Grassroots savings and credit movements in South Africa**

In August 2003, the Community Microfinance Network (CMN) in South Africa has organized a meeting of almost 100 members of grassroots savings and credit movements. Most of these groups practice an informal Accumulating Savings and Credit Association (ASCA) model rather than a microfinance approach. "They are social movements that use savings to respond directly to poverty on terms and in ways set by their members." (read the full article in annex: no. 3).

## Courses and seminars

➤ **Field based exposure combined with classroom learning, India and Bangladesh**

This international training program will take place in Madurai, India, from February 1<sup>st</sup> to 21<sup>st</sup>, and includes exposures in famous microfinance institutions of India and Bangladesh. It is organized by the DHAN Foundation, a leading MFI in India which works closely with the commercial banks in the promotion and financing of self-help groups. For more information, contact [tadadhanacademy@satyam.net.in](mailto:tadadhanacademy@satyam.net.in) or [dhan@md3.vsnl.net.in](mailto:dhan@md3.vsnl.net.in).

➤ **7<sup>th</sup> annual Conference of Microfinance Institutions in Central and Eastern Europe and the Newly Independent States**

This conference, organized by the Micro Finance Center (MFC) for C&EE and the NIS will take place from May 27<sup>th</sup> to 29<sup>th</sup> in Warsaw, Poland. MFC Conferences are attended by 300 representatives of practitioners, donors, investors, policy makers and other regional microfinance industry stakeholders. They are a unique learning and networking opportunity. Please visit [www.mfc.org.pl/conference](http://www.mfc.org.pl/conference) for more information on the conference.

## Publications

➤ **E-newsletters on microfinance**

Many organizations offer free subscription-services to subject specific e-mail updates on matters related to microfinance and development issues. For more information, see article 4 in the annex.

➤ **Microfinance and public health**

The president of Freedom from Hunger, Christopher Dunford, has written a short article that explains how the offer of financial services by microfinance institutions can be combined with the provision of education on public health to low income households. The article has been published in the December 2003 issue of Finance for the Poor from the Asian Development Bank ([www.adb.org/microfinance](http://www.adb.org/microfinance)).

➤ **The financial sector in Southeast Europe**

Mathaus Maier I. And J.D. von Pischke, eds. (2004), *The Development of the Financial Sector in Southeast Europe: Innovative Approaches in Volatile Environments*. Springer-Verlag, Berlin and New York. "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." (by G. Nagarajan.) See more in articles 5 and 6 of the annex.

➤ **Remittances to Latin America and The Caribbean**

The Interamerican Development Bank (IADB) and the Pew Hispanic Center (PHC) have released a new report on remittances to Latin America and the Caribbean, titled "Remittances Senders and Receivers: Tracking the Transnational Channels". Among the key findings of the study: (i) Wire

transfer companies such as Western Union and Money Gram remain by far the main channels of remittances, while banks and informal channels have smaller weights. (ii) A high proportion of the adult population in the studied countries are receiving remittances. (iii) Remittance flows were not affected by the economic downturn in the US economy of 2001-2002. (iv) In Mexico, remittances flow to all sectors of society and all regions. In other countries remittance receivers belong to the lower rungs of the socio-economic ladder. (v) a majority of remittance receivers are women. The study is available on [www.iadb.org/NEWS/Display/PRView.cfm](http://www.iadb.org/NEWS/Display/PRView.cfm).

### ➤ Social return or microfinance institutions

SEA (2003), *Microfinance and the Double Bottom Line – Working Paper on Measuring Social Return for the Microfinance Industry*, USA. This working paper is available for download on [www.socialenterprise.net/resources.html](http://www.socialenterprise.net/resources.html). It investigates the double bottom line that revenue generating activities produce financial as well as social returns as it pertains to microfinance. Actually, the social return of microfinance is gaining more and more attention in the business and non profit sectors.

## Subjects of Interest

### ➤ Micro credit of micro finance?

In 1998, the United Nations declared that 2005 would be the Year of **Microcredit** in order to highlight “the importance of **microfinance** instruments such as credit, savings and related business services in providing access t capital for people living in poverty”. This message on devfinance has received strong reactions from the microfinance community enhancing the need to develop a whole set of financial services for low income households, not only credit. The term microcredit has led to misconceptions and damages in the sector. The same critique is made to the name given to the “Microcredit Summit”, which takes lace each year since the mid 90’s. According to P. van Dijk from the IMF, “...**credit** is an allocation of money, decided on for different motives. **Finance** indicates the intermediate function, identifying sources of excess liquidity for

transformation into investments towards best opportunities, as well as it covers the important services of payment transfers. Microfinance can, therefore, play a central role for helping authorities, companies and individuals, to better understand the potential and needs of local economies.”

According to Ch. Barrineau from UNDP, the report of the Secretary General of the United Nations on the Implementation of the first United Nations Decade for the Eradication of Poverty (1997 – 2006) and the draft programme of action for the International Year of Microcredit, 2005, speak both of microfinance and microcredit. The definition however cannot be changed because it is a General Assembly resolution. Both the report and the draft programme can be downloaded from [www.unctf.org](http://www.unctf.org).

### ➤ Microfinance program in Vietnam in question

B. Kervyn from an NGO in Vietnam is worried about the quick expansion of the agriculture bank (VBA), in partnership with the Women’s Unions (arm of the communist party) given by an improved performance. Borrowing from the VBA has become easy and quick, the interest rate is low, and people obtain loans from moneylenders with which they repay the bank. The banks encourage increasing indebtedness, while they do not offer protection for small savings deposits.

In such a context, the Grameen type women’s groups supported by the NGO will have difficulties to grow. Women use the groups for small credits and go to the banks for the higher loans. B. Kervyn thus suggests that: 1. the women’s groups should lower their interest rate; 2. make renewed efforts to better cover the 30% poorest part of the population and 3. focus on loans plus technical/marketing support (which the bank cannot provide). He then states that these changes would make financial sustainability even more impossible but at least the NGO would increase its performance in terms of community development!

N. Arsenault mentions a similar problem that he as seen in China: the Rural Credit Cooperatives (RCCs) provide loans without guarantees, repayable in one lump sum payment at the term of the loan. Clients repay their loans by borrowing

from relatives or moneylenders. This will last as long as the RCC can offer higher loans to its clients but can also collapse from one day to the other. In such a context, microfinance institutions are able to relatively compete successfully with the RCCs by offering better services: simple procedures, loan officers who come out to the villages to give out and take in loans, educating clients about credit, especially about the advantages of periodic repayments and how to avoid over-indebtedness.

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