

Devfinance

Discussion list on development finance of the Ohio State University

Quarterly Review

April to June 2004

News, publications and events, like courses, workshops and seminars on financial sector development and microfinance can be obtained by:

- Regularly visiting the website of SDC's Backstopping Mandate Finance:

www.intercooperation.ch/finance

- Ordering the monthly news brief from CEREM available in French, Spanish and English by sending an e-mail to:

adain@microfinance.lu

- Ordering the CGAP e-bulletin on specific information concerning CGAP by e-mailing to:

cgap@worldbank.org

- For our readers from **Eastern Europe** we want to draw you attention to the Microfinance Centre for CEE and the NIS (MFC) web page at Impact/Research section: <http://www.mfc.org.pl/index.php?section=R&page=Impact>. The findings of 3-year action research work on developing institutionalised systems of learning from clients has been made available in the form of 10 short notes there.
- The Asian Development Bank has just released a new book titled "**Commercialization of Microfinance: Perspectives from South and Southeast Asia**", authored by Stephanie Charitonenko, Anita Campion and Nimal A. Fernando. This book is based on a regional study on Commercialization of Microfinance that covered four countries: Bangladesh, Indonesia, Philippines, and Sri Lanka. The book also includes observations on the industry's developments in other countries in the region and in Latin America. The book highlights different perspectives on commercialization of microfinance, identifies issues and challenges relating to commercialization, and recommends a range of approaches to promote the process of commercialization. The book is available from the Publications Unit at adbpub@adb.org. Invoiced at \$10.00 for shipping and handling. It is also now available on ADB's microfinance website: <http://www.adb.org/microfinance/>.
- Staying in Asia: **Financing agricultural marketing** - The Asian experience, by Andrew W. Shepherd, FAO.
It can be downloaded at:
<http://www.fao.org/ag/ags/subjects/en/agmarket/markfinance.html>.
Hard copies will be available in a couple of weeks and can be ordered from Andrew.Shepherd@fao.org.

- For the interested ones in **Rural Finance**: FAO has with the support of other international organizations (IFAD, GTZ, World Bank, IDB, CARE Intern. and CGAP) created a **Rural Finance Learning Centre**, which incorporates a database of resources to facilitate capacity building in this field. For more information go to the website www.ruralfinance.org. The project still being new, don't expect much content yet, but follow up!
As rural finance is a vital issue also for SDC you find a short paper on "**Rural Finance – What is so special about it?**" on the SDC Backstopping mandate Finance website www.intercooperation.ch/finance.
- ACCION announces two new studies: PortaCredit: Increasing MFI **Efficiency** with **Technology** by Susana Barton and Carlos del Busto.
Leveraging the Impact of **Remittances** through Microfinance Products: Perspectives from Market Research, by Maria Jaramillo.
To download these and other reports, please visit www.accion.org/insight.
We also draw your attention to the SDC Backstopping Mandate Finance website where a short paper on **Remittances**, together with the relevant literature, has been posted (www.intercooperation.ch/finance).

Main discussion topics:¹

➤ Interest versus costs

The question by Nimal A. Fernando from ADB, what are major issues in microfinance, provoked again an animated discussion on the rightfulness of high interest rates for poor people. The combination (and maintenance) of a social mandate and profitability are seen as key to provide financial services on a long term basis to poor people. This doesn't exclude subsidies to build up an institution, to develop new products and services or to introduce new technologies. A major concern, however, is that such cost reductions aren't usually reflected in a reduction of interest rates. There seems to be general agreement that competition is necessary to force MFIs into analysing their possibilities to reduce cost and to reconsider their interest rate structure. Remains the question of delivering cost covering financial services in rural areas with low density of population, less possibilities for technological innovations and a lower chance of a healthy competition. (See also Jonathan Morduch, The Microfinance Schism, World Development, 2000 (28), No. 4, pp 617-629).

➤ Reckless lending

An issue that has several dimensions:

- a) Should the state protect the borrowers from getting over-indebted?
- b) Should the "good" clients pay for the "bad" clients by paying high interest rates? or
- c) Is the system self regulatory, e.g. have the lenders the capacity to judge their clients' repayment abilities, and the borrowers their capacities to repay?

For the latter: both are questioned and there is quite some evidence for cases that they have and that they don't have the capacities or will. For the former: there are regulations in our hemisphere to protect people from over-indebtedness especially with regard to consumer loans and with regard to salary "confiscation". At the same time it seems impossible to extend such a system into the informal market of money lenders, etc.

¹ If you are interested to read the whole discussion on each topic, you can download it from <http://postoffice.ag.ohio-state.edu:8100/Lists/devfinance/> (entering the topic in the search engine).

➤ Governance should not be taken lightly

With the closing down of the Bank Dagang Bali, the bank with which began the micro-finance revolution in Indonesia, the issue of governance and control came up again. Independence and professionalism of the governing body, taking its function serious and insisting on the existence and application of the necessary tools and control mechanisms are seen as vital (see also FECECAM from the last Devfinance).

➤ CGAP's Microfinance Technology Program (MTP)

If you haven't noted yet (see Devfinance October to December 2003), CGAP has launched a fund for Information Systems (IS). This fund will provide co-funding (60%) for MFIs trying to improve their information systems. For more information or to apply to the IS Fund see <http://www.isfund.org>.

CGAP has also updated the review of 6 softwares and conducted 4 new reviews of commercially-available information systems packages. This software ranges from less expensive products for smaller institutions to products that can meet the needs of banking institutions. To view the software review visit http://64.78.5.216/dev/cgap/iss/product_detail.cfm?id=384&tab=review. For more information or assistance please e-mail CGAP's Microfinance Technology Program at cgapmtp@worldbank.org.

"Answering the Top 5 Myths about Selecting software for Microfinance Institutions by Normand Arsenault c.a. normand.arsenault@sympatico.ca - August 2003", might help you asking yourself the right questions to make the right choice.