

Devfinance

Discussion list on development finance of the Ohio State University

Latest and Last Review

July to November 2004

News, publications, links and events (courses 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 from:
adainfo@microfinance.lu
- Ordering the CGAP e-bulletin for information on CGAP's initiatives and publications from:
cgap@worldbank.org

Selected topics discussed on devfinance between July and November 2004:¹

➤ Renewed interest for savings

Although the microfinance community has generally recognized the importance of savings services for poverty alleviation, still few of the alternative financial institutions offer diversified, voluntary and adapted savings services to their clients. Although regional differences are important, i.e. in Asian countries, households have much higher savings rates than in Africa or Latin America, experience shows that those institutions (savings and credit cooperatives, microfinance banks, postal banks, etc.) which offer savings services have much more savers than borrowers as clients.

In order to gain a deeper understanding on how to massively expand the reach of high quality savings services, CGAP has launched a new Savings Initiative, where institutions which mobilize savings are invited to share their experience. CGAP will collect examples and make them available on their website (www.cgap.org).

We would also like to draw your attention to MicroSave's new website, which contains documents, toolkits and contacts for trainers and services providers. MicroSave is a project that promotes the development of savings and other more client-responsive financial services among microfinance institutions (MFIs).

➤ Intermediation of migrant remittances

The topic of remittances has gained importance in the microfinance sector, since studies have shown that the volume of money sent to developing countries by migrants living and working in the North are bigger than the flows of development aid or foreign direct investment. Nevertheless, migrants pay high fees to transfer money. Partly because money transfer companies take advantage of their clients being "illegal", partly because they have a monopolistic power, but also because their service is fast and reliable. Microfinance

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).

specialists see the advantages of MFIs offering transfer services (in collaboration with institutions in the North) in their capacity to serve remote rural areas, to charge lower and more equitable fees and to promote savings among the recipient population.

Mark Wenner from the Interamerican Development Bank draws our attention to the importance of the development of savings products, of a performing asset-liability management and of strong supervision, before an MFI enters into the remittances transfer business. According to him, "... We should be careful about how the "sweet money" of laborers who traveled thousands of miles to work for minimum wages in distant foreign lands and who daily endure many hardships is managed and protected."

Examples of MFIs which offer money transfer services are:

- **Ecuador:** Banco Solidario has a partnership with the Caja de Madrid in Spain.
- **El Salvador:** FEDECACES, federation of credit unions, offers better rates than the big transfer companies and a debit smart card that the recipient "family members" of the sender can use.
- **Philippines:** Smart Communications Inc., the country's largest mobile company, offers a text-based remittance service. The partners present in 17 countries where Filipino migrants work, include firms such as New York Bay Remittance, Forex Hong Kong, Travelex Money Transfer (article by Carlos H. Conde: <http://www.kniff.de/cgi-bin/cgiproxy/nph-proxy.cgi/010110A/http/www.iht.com/articles/533122.htm>).
- **Uganda:** the Uganda Microfinance Union has developed non-cash transfer mechanisms to facilitate rural-urban remittances, preventing vulnerable small traders from the danger of carrying lots of cash.
- **Senegal-France:** Senegalese immigrants in France have launched a credit union, Mutuelle d'Epargne et de Cr dit des S n galais de France (Mecsef), which will make use of savings towards development in Senegal. The system is somehow different from a money transfer company: members in France make a term deposit (5 years), which is used to make credit in Senegal for development projects (article in French under www.afrik.com/article7517.html).

➤ Transformation from NGO into SACCO

Stefan Staschen from the London School of Economics, with a broad knowledge on regulation and supervision of microfinance institutions, has submitted the question to devfinance whether cases of transformation from a credit NGO into a Savings and Credit Cooperative (SACCO) exist and are illustrated. The contributions of the discussion list participants show that examples of such transformations are rare, may be due to the complexity of such a transformation.

Examples:

- It seems that in West Africa many NGO MFIs have transformed into SACCOs under the pressure of the PARMEC law.
- In Ecuador, the NGO FEPP has created a SACCO, CODESARROLLO, which is regulated by the banking supervision authority.
- In France, the Caisse d'Epargne Ecureuil, whose ownership was not clear, became a cooperative in 1998.
- The Hunger Project in Uganda supports women solidarity credit groups to become SACCOs. They worked with the Uganda Cooperative Alliance (UCA) as technical partner for training and institutional development.

One of the main reason why an NGO might be willing to become a SACCO is related to legal aspects. In many countries, NGOs cannot mobilize voluntary savings from its clients, while SACCOs can. What speaks against transformation, from the point of view of the NGO, is that its managers loose power and control over the resources, given that SACCOs are owned and governed by their members. And transforming an NGO into a SACCO "... would require all previous NGO clients to become shareholders of the new SACCO." (S. Staschen, 25.08.2004)

Hereafter, we present a summary of the main arguments in favor or against becoming a SACCO, raised in the discussions:

In favour of SACCOs:

- The clients can participate in decision-making.
- SACCOs focus only on microfinance, while NGOs tend to be more "fashion" driven.
- Focus on savings first.

- Decentralized, member-owned, savings-led organizations are more viable in remote, low density population areas.

Against SACCOs:

- The participation of members in decision-taking mechanisms becomes difficult when the cooperative reaches a certain size (over 10'000 members).
- SACCOs are usually supervised by a cooperative department which lacks the know-how and capacity to do good supervision.
- Governance is more complicated in member-owned institutions. In high corruption environments it may become a

difficult challenge to promote efficient internal control mechanisms.

- In some countries, SACCOs have low prestige.

Finally, some argue that SACCOs should directly start as a SACCO, because of the long and complicated process of transformation. But creating a SACCO from scratch is a long term commitment.

If an NGO still wants to transform into a cooperative, it should use the accumulated grants and retained earnings of the NGO as a reserve for the newly created cooperative to be used for training, development and as guaranty.

Isabel Dauner Gardiol/December 2004

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