Seibel, Hans Dieter

Working Paper

Frontiers of Rural and Microfinance

Working Paper, No. 2006,3b

Provided in Cooperation with:
University of Cologne, Development Research Center

Suggested Citation: Seibel, Hans Dieter (2006) : Frontiers of Rural and Microfinance, Working Paper, No. 2006,3b, Universität zu Köln, Arbeitsstelle für Entwicklungsländerforschung (AEF), Köln

This Version is available at:
http://hdl.handle.net/10419/23658

Terms of use:
Documents in EconStor may be saved and copied for your personal and scholarly purposes.
You are not to copy documents for public or commercial purposes, to exhibit the documents publicly, to make them publicly available on the internet, or to distribute or otherwise use the documents in public.
If the documents have been made available under an Open Content Licence (especially Creative Commons Licences), you may exercise further usage rights as specified in the indicated licence.
Frontiers of Rural and Microfinance
By
Hans Dieter Seibel
Six tenets of RMF
(regardless of type, ownership, sphere of operation)

MFIs ultimately have to:

- Mobilize their own resources through savings, equity, retained earnings; domestic borrowings
- Recover their loans
- Cover their costs from their operational income
- Acquire an appropriate legal status
- Submit to prudential regulation and effective supervision
The new paradigm in rural finance:

From agricultural credit to financial system development

Shifts in development policy:
- from targeting bigger farmers and SMEs to inclusive finance, incl. smallholders, microentrepreneurs, all segments of the rural population;
- from agricultural credit to rural financial services for a diversified economy;
- from development banks and credit NGOs to (rural) financial system development, with conducive policies and self-reliant institutions.
Frontier issues:
1. Local resource mobilization matters: donor vs. local initiatives

Source of funds: Internal vs. external

Risks: 1. Donor funds discourage local resource mob. (savings, equity, retained earnings) and growth
       2. Inadequate equity curtails growth

Opportunities:
1. Dynamic growth through local resource mobilization
2. Donor equity leverages savings mob. & credit expansion

Proposals:
1. Comparative study of savings vs. grant-driven RMFIs
2. Study of leveraging effects of donor equity
3. Capacity building in savings-driven local FIs
2. Legal framework for local financial institutions matters

Legal form: Regulated deposit-taking FI (local bank, coop)

Risks: 1. Non-formal FIs: lack of deposit mobilization, regulation and supervision
2. Formal FIs: Inappropriate regulation; gvt. interference

Opportunities: 1. Rapid endogenous growth of sector
2. Institutional sustainability and unlimited growth of inclusive saver and borrower outreach

2. Preparation of model laws for private, coop and communal/public RMFIs; facilitation of pilot implementation
3. Agricultural development banks matter

**AgDBs** are the largest providers of RMF services

**Risks:** Unreformed AgDBs waste public resources, lack growth and outreach, undermine rural finance

**Opportunities:** Reform may lead to sustainable outreach to all segments of the rural population through retail or wholesale services (*linkages*)

**Proposals:**
1. Regional reform policy seminars with fin. authorities
2. AgDB reform workshops through Regional Agricultural Credit Associations with FAO & other donors
3. Regular state-of-the-art reporting on AgDB reform
4. Institutions matter. Are there viable alternatives?

*Eg, buyer/supplier credit:*
Yes, if complementary to RMFIs
As an alternative: expensive and unsustainable

*Other:*
Warehouse receipts as collateral
Supplier credit vs. RMFIs:
The case of the Netherlands, 1880-1900

From subsistence to commercial agriculture, in response to the agric. depression, 1882-1896:
Traders and shopkeepers main source of credit: „exorbitant interest rates“; „forced sourcing“
State Commission for Agriculture Report, 1886:
Establish savings and credit (Raiffeisen) coops + agric. purchasing, processing, marketing coops
Preconditions: agric. commercialization, savings
1896-...: Farmers coop banks“ (>>>Rabobank)
1898: 2 central funds for refinancing, supervision
5. Linkages matter

**Linkages:** SHGs-MFIs-banks (start-up: by AgDBs)

**Risks:** Discouraging savings mobilization, growth

**Functions and opportunities:**
- Safe-keeping of deposits & excess liquidity
- Access to bank credit; channelling donor funds
- Liquidity balancing
- Equity participation
- Money transfer, check clearing, payments
- Capacity building
- Monitoring
- Supervision
Recommended linkages

**Support bank credit linkages for:**
- Bridging initial liquidity shortages
- Liquidity balancing

**Support equity investments for:**
- Leveraging savings, other domestic resources
- Leveraging credit expansion
- Meeting minimum capital requirements
- Demonstrating the viability of microbanking (e.g., ProCredit)

**Proposal:** Support model projects of horizontal networking among non-formal MFIs, incl. SHGs in remote areas (incl. incentives-driven upgrading) and vertical linkages with banks (incl. downgrading)
6. Development matters

**Complex relations:** Does RMF lead to poverty alleviation and development, or does development lead to the growth of RMF and poverty alleviation?

**Risks:** An exclusive emphasis on the poor undermines development & outreach to the poor, sends wrong signals

**Opportunities:** 1. Establishing RMFIs for all segments of the population to respond to market forces in due course
2. Facilitating the establishment and upgrading of member-owned RMFIs/SHGs for the lower segments of the pop.

**Proposals:** 1. Study of interrelations between development, RMF and poverty alleviation: exclusive finance for women and the poor vs. inclusive finance
2. Study of SHGs in marginal areas, their upgrading in coop federations and livelihoods impact
General recommendations:

Objective of support:
Sustainable outreach of RMF to all segments of the rural population

RMFIs: formal, semiformal, informal – in private, cooperative, community or public ownership

Activities to be funded:
Studies, exploratory projects, dissemination of results

Studies to be supported:
Longitudinal studies, eg of impact, linkages, upgrading
Historical research on RMF in developed and developing countries
Packaging of results for practitioners
Facilitating collaboration of research funding and dev. agencies
Suggested key program areas

- Piloting appropriate legal frameworks, conducive regulation and effective (delegated) supervision for **self-reliant RMFIs** in private, cooperative, community and public ownership
- Innovative approaches to inclusive finance by integrating informal and semiformal FIs owned by people from the lower segments of the population into the financial sector
- Linkages of informal and semiformal RMFIs, including SHGs in remote and marginal areas, with the banking sector and their upgrading to recognized or regulated institutions
- AgDB reform through policy seminars and RACA workshops
- Equity participation for bridging and leveraging purposes

**Caveat:** Don’t sustain unsustainable institutions