

19 July 2007
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International development and Business

Date and Time: Tuesday, July 3, 2007, From 15:30 to 17:30

Venue: FASID Seminar Room 1

Session 1

Mr. David Roodman (Director Research Fellow, Center for Global Development)

“Secrets of Commercial Success in Microfinance”

Presentation

In my work, I try to describe the whole field and understand the big picture of microfinance. When this research started, the main question was “why do some Microfinance Institutions (MFIs) do well as business? ” . The first thing to point out in discussing this question is that poor *can* save and borrow. Because of a mismatch between income and consumption needs, they need savings and borrowing in some way whether in formal or informal channel. So we can say there is a *market*.

The job of MFIs is to serve the market, and the question is how they can do this cost effectively. The business problem of providing finance to the poor is very difficult when transactions are small, and transaction costs are high, with poor education, no collateral, weak contract enforcement and so on. The business problem is that they have to build high volume of transactions to get transaction cost down. And they need very high repayment because otherwise the transaction cost will be very quickly got out of control and they have to spend a lot of time collecting small amount of payment. Also, they need to do this while requiring no collateral or little collateral

Grameen have developed a series of innovations for solving microfinance business problems. There are two processes of spreading innovation, one is selection process and another is more human process of copying. For example, when Grameen started in 1976, mostly they lent to men, not women. But they discovered over time that women pay back much more reliably. So then they shifted official policy primarily to women in the early 1980's. They made this change for business reasons and it may well empower women. And other MFIs copy that because they want to empower women.

What are the key determinants of MFI success? There are three factors: product design, management of MFI, and environment.

On product design, the dominant form of microfinance is credit, not saving. There are three main kinds of microcredit. One is called joint liability or classic model (villagers can borrow money if they make group of five people who are liable each other for repayment), village banking (organizer will give villagers one big loan and they decide how to use it), and individual lending or classic banking (villagers go to bank to get loan). Group lending shifts responsibility on to the borrowers, things like monitoring, enforcing, and payment by weekly meeting. Individual lenders have much larger loans and solidarity lending have smaller. Expense for microfinance organization per loan are the highest for the individual lenders, middle for solidarity loan, and lowest for village banking. In the rich world, they customize services and cost more. But the expense per dollar lent is less for individual lending to rich people.

Another factor is management. The top three percent of microfinance organizations have eighty five percent of clients. There is a series of management techniques of MFIs that helps them succeed: going to the customer, sense of mission, charging interest rates that cover cost, hiring young people and training them, standardization (like Indonesia BRI), decentralization, information system or gathering data.

The question on the environment for microfinance is which country has more microfinance and which have little, and why there is a big concentration. Possible reasons are cultural, government barriers, and macroeconomic problems.

We need to understand the impact on the borrowers. But in the reality, there is the very little good academic evidence on the impact of microfinance. We are spending around 1.0 billion dollars into microfinance each year. We should put small percent into rigorous evaluation. True economic development is this kind of transformation. Step by step, new organizations are raised. It is easy to say that microfinance does not live up to its reputation, but we need to look more realistically at microfinance as another development tool. I hope that we will be developing more information on the impact of microfinance in the future.

Discussion for session 1

On the way to evaluate the success of microfinance, smoothing consumption can be a very good thing even if people do not start business. It is hard to determine causality between income and credit because credit can be used in many ways. On the environment, we want to see how microfinance institution can be sustainable under

what environment. We can compare successful microfinance across the country or some variables. In US, USAID help to develop microfinance. In Asia, it's done through technical cooperation. Common elements are circumstances are misunderstood to be flexible to work with non-profit organization like Grameen foundation. The top problem is policy environment. It is not possible to outreach microfinance for the poorest of the poor in the low density are on the basis of business. Cell phone banking technology may be one possible solution.

Session 2

Dr. Keiichi Takaki (Program Officer, FASID)

“MDGs , Business and ODA”

Presentation

This presentation is the outcome of our research contracted by MOFA in 2006, which aimed at finding out the contribution of business to MDGs, with special focus on the modality of their partnership with aid agencies.

31 cases were selected based on their contributions to the attainment of MDGs. We have then categorized them into 2 groups; (1) strategic CSR, and (2) philanthropic CSR. Admittedly, the distinction between the two is not clear-cut, and some cases were categorized somewhere between for-profit and for-CSR (i.e. supporting development) activities. This is especially the case in companies that regards CSR as at the core of their corporate strategy.

Our research had revealed that many of these successful cases were sought in an arena in which a company possesses its core competence (ex. Nestle, Unilever). In such cases, companies have strong motivation to continue on their activities. Also, they were often carried through partnerships with other aid agencies. The analysis shows that the key elements of successful partnership lie in a complementing relationship between the two. Private enterprises can serve a society through their business and also provide an employment, while they often lack local experience or knowledge in development. ODA agencies can supplement their needs by providing policy influence, information on local economies and how these enterprises can build their business in an environmentally-sound manner (ex. the case of alliances between USAID and Nestle, Hershey's, Starbucks and Chevron, etc.).

There *is* a realm for business to make a contribution to society. In order to get “properly focused,” we recommend ODA agencies to; (1) further invite an active participation of private sector, (2) assist private sector in identifying strategic relevance

to development, which can be motivated by promoting 'business to development' campaign, and (3) provide a venue where public enterprises, aid agencies, NGOs, etc would be able to seek broader, cross-sectoral partnerships.

One of the key issues for ODA agencies is question of accountability to taxpayers; that is, whether public money should benefit particular private enterprises. This also seems to remain a challenge in some aid organizations, including UN agencies (with an exception of *The Growing Sustainable Business* initiative by UNDP). This underlines the importance of improving public concern.

According to the Keizai-douyukai survey, Japanese companies are very much concerned with natural environmental problems and are quite willing to make a contribution to the issue. At the same time, merely 3% of them recognized poverty reduction as the objectives of their CSR activities. This implies that, environment can be a good starting point to broaden partnership between ODA agencies and private entrepreneurs, while we also need to raise their consciousness about development.

Discussion: Common ground/ relationship between 1st and 2nd presentation.

Both cases involved a blur distinction between business and charity. Doing good is also good for business in a long run, and many board members of private companies are quite aware of it. There should be a way to actualize their ideas. On the other hand, there always is a dilemma between efficiency and philanthropy. The issue is thus how to link business and motivation for CSR activities, which again highlights the importance of improving public concern, particularly the significant influence of stakeholders have in the process of deciding a corporate mission. Perhaps further research about this is useful.