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SI657/757: Information Technology and Global Development (WI 10)

Wk 11: Finance and Administration
General Notes:

- Reminder: no class next week
- Tuesday, April 13th, 11:30-1:00 Ehrlicher Room: IPOL Student Paper Competition Winners
- April 19th session (12-4 + food!) and final project/paper submissions: 5 pm, Sat Apr 17th, ‘FINAL paper and projects’ folder, discussion section of Ctools site
- 657 policy papers
- this week’s additional readings
- course feedback
Role of Finance in Economic Development

- Payment services beyond cash
- Matching savers and investors
- Allocating credit efficiently
- Pricing, pooling, and trading risks
- Generating and distributing information

*(Todaro & Smith, 751-752)*
Why are the poor ‘unbankable’?

- High default risks
- High transaction and service costs
- Absence of land tenure for financing housing
- Irregular flow of income due to seasonality
- Lack of tangible proof for assessment of income
- Unacceptable collateral such as crops, utensils and jewelry

Existing Financial Institutions for the Poor

- Informal finance (family & commercial moneylenders)
- Development banks (industrial and medium-sized enterprises)
- **Microfinance** (credit, also savings, insurance, and fund transfers)
Grameen Bank (Bangladesh)

- Founded in 1976; founder Muhammed Yunus wins Nobel Peace Prize in 2006
- No collateral, legal instrument, or joint liability; borrowers organized into 5 member groups, loans disbursed at rates ranging from 0-20% for income-generation, housing, student, and struggling member loans
- More than 8 million borrowers, 97% women; 8.96 bn in loans disbursed, 7.95 bn repaid (+ outstanding); 95% borrower owned and non-grant supported since 1995
- 97-98% repayment rate; profitable in all but 3 years
10 Principles, Consultative Group to Assist the Poor, 2004

- Poor people need not just loans but also savings, insurance, and money transfer services.
- Microfinance must be useful to poor households: helping them raise income, build up assets and/or cushion themselves against external shocks."
- Subsidies from donors and government are scarce and uncertain, and so to reach large numbers of poor people, microfinance must pay for itself.
- Microfinance means building permanent local institutions.
- Microfinance also means integrating the financial needs of poor people into a country's mainstream financial system.
- "The job of government is to enable financial services, not to provide them."
- Donor funds should complement private capital, not compete with it."
- "The key bottleneck is the shortage of strong institutions and managers." Donors should focus on capacity building.
- Interest rate ceilings hurt poor people by preventing microfinance institutions from covering their costs, which chokes off the supply of credit.
- Microfinance institutions should measure and disclose their performance – both financially and socially
Additional sources on microfinance:

- Microfinance Information Exchange (www.mixmarket.org)
- http://en.wikipedia.org/wiki/Microfinance
Administrative Capacity & Good Governance

- Weak administrative capacity for core state functions, incl. carrying out identified development programs
- High coordination costs with and between international donors (see 2005 Paris Declaration on Aid Effectiveness; 2008 Accra Agenda for Action)
- Variety of standardization / coordination efforts:
  * WB/IMF country framework papers
  * ‘country lead’ strategies
  * Development Gateway’s Aid Management Platform
Discussion (go to the text!)

- What are some of the principal administrative challenges currently faced by developing country governments (Schuppan) and micro-finance organizations (Parikh, Abad & Matin) (i.e., what are the problem(s) that new information system investments are meant to address)?

- What are some of the principal challenges encountered by efforts to implement new information systems in developing country government and microfinance institution contexts?
Additional reading discussion:

- Working in small groups, explain the key points, findings, and lessons from your additional reading from the ICTD 2009 conference.
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