

THE PERFORMANCE OF
SUBSIDIZED MICROFINANCE ORGANIZATIONS-
BANCOSOL OF BOLIVIA
AND THE GRAMEEN BANK OF BANGLADESH

Mark Schreiner

Mellen Studies in Economics
Volume 19

The Edwin Mellen Press
Lewiston°Queenston Lampeter

Table of Contents

Preface.	i.
Foreword.	v
Acknowledgments.	vii
Introduction.	1
A. Questions and answers	2
B. Why answer these questions?	5
C. The answers for BancoSol and Grameen.	8
D. New worth added by the framework.	11
E. Guide to the rest of the book.	12
1. The Analysis of MFOs.	17
A. Frameworks guide analysis.	17
B. The analysis of MFOs is qualitative.	18
C. DFIs and MFOs.	19
D. MFOs versus other public projects.	21
E. Traits of MFOs.	22
F. Analysis should predict and improve future performance.	23
G. Guidelines for the analysis of MFOs.	24
H. How measurement boosts performance.	28
2. Subsidies and Subsidized Funds.	31
A. The cost of public funds entrusted to an MFO___	31
1. The point of view of an investor___	33
2. The point of view of workers.	34
3. The point of view of the poor and of donors.	34
4. The link between opportunity costs.	36

B. Subsidies versus subsidized funds	37
1. What funds are subsidized?	38
2. The need for a rule to identify subsidized funds.	39
3. Example uses of the rule.	40
a. Forced deposits.	40
b. Gifts from big churches.	40
c. Gifts from small churches.	40
d. Inexpensive debt from private banks.	41
e. Shares bought by members.	42
f. Shares bought by non-members.	42
g. Deposits from NGOs.	42
4. The relationship between subsidy and sustainability.	42
C. Types of subsidized funds.	43
1. Equity grants.	43
a. Direct grants.	43
b. Public paid-in capital.	43
2. Profit grants.	44
a. Revenue grants.	45
b. Discounts.	46
i. Discount on soft debt.	46
ii. Discount on expenses.	47
3. True profit.	47
D. How the form of subsidized funds matters.	48
1. Opportunity costs.	48
2. Business performance.	49
a. Technical help.	50
b. Shares.	51
3. Sustainability.	53
A. Why does sustainability matter?	53
B. Sustainability versus self-sustainability.	55
C. Time frames for sustainability.	56
D. Sustainability in a market niche.	56
4. Repeated Use by Poor Customers.	57
A. Why measure repeated use?	57
1. Loans per borrower since birth.	58
2. The drop-out rate.	59
3. Repayment	60
B. Better measures of repeated use from panel data.	60
C. Repeated use of deposits.	61
D. Repeated use by poor customers of BancoSol and Grameen.	62

5. Private Profitability for Investors.	65
A. The standard SDI.	66
1. The received formula of the standard SDI. i.	68
a. Subsidy, the numerator of the standard SDI.	68
b. How subsidized funds affect the SDI.	70
c. The denominator of the standard SDI.	73
d. The standard SDI uses the wrong denominator.	73
e. The standard SDI leaves out taxes.	75
f. The interpretation of the SDI.....	80
i. Why does the SDI compare subsidy to revenue from lending?	81
ii. Other items to compare with subsidy.	82
2. Weaknesses of the standard SDI.....	83
a. The point of view of the standard SDI.	83
b. The standard SDI and self-sustainability.	84
c. The SDI does not discount flows.	85
3. Strengths of the SDI.	86
a. The SDI as a subsidy-adjusted ROE.	86
b. Other strengths of the standard SDI.	87
4. Examples of the standard SDI, the SDI, and SAROE.	88
a. BancoSbl.	88
i. The standard SDI.	88
ii. The SDI-	88
iii. The subsidy-adjusted ROE.	90
b. Grameen.	94
i. The standard SDI.	94
ii. The SDI.	94
iii. The subsidy-adjusted ROE.	95
B. Net present cost of flows: A better measure of private profitability .	100
1. The SDI versus the NPC,.	100
2. How the NPC, discounts flows.	101
3. The formula for the NPC,.	102
4. The use of the NPC,.	105
a. A long-term SDI with the NPC,.	105
b. The SDI with the one-year NPC,.	106
i. Is subsidy in the SDI just the one-year case of NPC,?	107
ii. The worth of the SDI.	110
5, Examples of the one-year NPC, and the NPC, since birth ...	111
a. BancoSol	111
i. SDI with the one-year NPC,.	111
ii. SDI with the NPC, since birth.	111

b. Grameen	113
i. SDI with the one-year NPC.	113
ii. SDI with the NPC, since birth.	116
iii. Discussion.	117
6. Financial Self-sufficiency for Workers.	121
A. The point of view of workers.	122
1. The quiet life.	122
2. Subsidized funds lodged in net worth.	123
B. Levels of performance for workers.	124
1. Accounting profitability.	125
2. Operational profitability.	125
3. Financial self-sufficiency.	125
4. Private profitability.	126
C. Examples of financial self-sufficiency.	127
1. BancoSol	127
2. Grameen.	127
7. Cost-effectiveness for the Poor.	131
A. The cost to the poor of a subsidized MFO.	132
1. The opportunity cost of equity for the poor.	133
2. The time frame of the NPC _p	134
3. The formula of the NPC _p	135
B. Comparing NPC _p to measures of benefits.	139
C. Cost-effectiveness analysis.	142
1. A lower bound on average surplus.	144
2. A higher lower bound on average surplus.	144
3. An upper bound on average surplus.	145
D. Measuring the cost to the poor per unit of output.	145
1. A test of bang-for-the-buck	146
2. Benefits from deposits.	147
E. Examples of CEA.	147
1. BancoSol from the point of view of the poor in 1987.	147
2. Grameen from the point of view of the poor of 1983.	149
a. Estimates of the impact of Grameen.	153
b. The constancy of Grameen.	154
c. Discussion.	155
8. Market Leverage for Donors.	159
A. The Nirvana of market leverage	160
1. Is more market leverage good?	161
2. Market leverage is good.	162

B. Measuring market leverage.	162
1. Problems with this measure.	163
2. A new measure of market leverage.....'	164
3. The use of the measure of market leverage	166
C. Market leverage for BancoSol.	166
D. Market leverage for Grameen.	167
9. Links between Views of Performance.	171
A. Repeated use for customers.	173
B. Market leverage for donors.	174
C. Financial self-sufficiency for workers.	175
D. Private profitability for investors.	175
E. Self-sustainability.	176 -
F. Worthwhileness for the poor.	177
G. Why bother with any measure except CEA?	177
10. Weaknesses of the Framework.....	179
Appendix A. The Parable of the Subsidized Servant.	181
Appendix B. EVA, an SDI for For-profit Firms.	185
Appendix C. The Denominator of the Standard SDI	187
Appendix D. Opportunity Costs for the Market.	191
1. The price of market debt m	192
a. When deposits will replace soft debt	192
b. When market debt will replace soft debt	192
i. Age affects the price of market debt	192
ii. Profit affects the price of market debt.	192
2. The price of market equity \bar{r}	193
3. Example opportunity costs for the market.	194
a. BancoSol.	194
b. Grameen.	194
c. Discussion.	195
Appendix E. How Profit Grants Change Profit and ROE.	199
Appendix F. How to Convert between Real and Nominal Rates.	201
1. How to convert between real and nominal rates.	201
2. Demand, default, and real yields on lending.	201
a. Grameen.	202
b. BancoSol.	202

Appendix G. From Nominal Units of Local Currency to Constant Dollars . . .	205
1. Inflation and financial statements.	206
2. How to convert stocks.	206
3. How to convert flows.	207
a. Flows at a constant pace.	208
b. Flows in step with an average stock.	208
Appendix H. How to Estimate Average Stocks.	211
1. Estimated average stocks	211
2. Constant growth.	212
3. Estimates with frequent measurements of some stock.	213
Appendix I. How to Estimate Discounted Accumulated Flows.	216
1. How to discount flows with a constant pace.	216
2. How to discount non-constant flows.	217
a. How to estimate discounted non-constant flows.	217
b. How to estimate discounted non-constant change in stocks	220
Appendix J. How to Estimate Discounted Average Stocks.	221
1. Stocks that change at a constant pace.	221
2. Extrapolated estimates of discounted average stocks.	224.
Appendix K. Benefits as a Multiple of Output_____	225
Appendix L. BancoSol Of Bolivia	229
1. The morph from PRODEM to BancoSol.	230
2. Macroeconomic indicators.	231
3. Financial statements of BancoSol, 1987-96.	232
4. Other assumptions.	233
Appendix M. Grameen Bank of Bangladesh.	239
1. Macroeconomic indicators.	240
2. Financial statements of Grameen, 1983-94.	241
3. Other assumptions.	242
Appendix N. Why Society Subsidizes MFOs.	247
1. When subsidizing an MFO can make sense.	248
a. MFOs and market failure.	248
b. MFOs and social goals.	250
2. The record of MFOs.	251
Bibliography.	253
Index.	271