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Agriculture and Social Sectors  
Department (West)

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ADB

A quarterly Newsletter of the  
Focal Point for Microfinance

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# FINANCE for the POOR

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## Message from Directors, Agriculture and Social Sectors Departments

The interest in microfinance as an important tool in poverty reduction has burgeoned during the last two decades. This interest, triggered by a few success stories in microfinance, is gathering further momentum with the continuing search for innovations to address risk and transaction cost issues typically associated with provision of microfinance services. In the meantime, the landscape of microfinance is changing as a result of increasing understanding of how poor people use money and how their diverse demands for financial services can be met efficiently and effectively in a user-friendly manner.

The microfinance industry is evolving from a predominantly subsidy dependent activity into an increasingly commercial operation to serve a larger

segment of the potential market on a sustainable basis. Multilateral development institutions such as the Asian Development Bank (ADB) need to prepare themselves to support this development. This is because over 90 percent of the potential clients do not have access to microfinance services on reasonable terms and conditions, and outreach of microfinance services has to be massively expanded to achieve their potential for poverty reduction.

ADB needs to build its knowledge base as quickly as possible to respond effectively to the task of assisting microfinance development in the Asian and Pacific Region. Better knowledge is the key to quality and efficiency. It is essential that staff involved in microfinance operations have good knowledge of the development issues and trends in the sector and know where to obtain information relevant for their microfinance operations. This newsletter is one of the ways in which ADB's Focal Point for Microfinance helps staff improve their access to information and

reduce transaction costs of accessing information. We sincerely hope that staff at all levels will benefit from the newsletter.

ADB also launched the newsletter to disseminate information on microfinance among practitioners, policy makers and researchers in its developing member countries (DMCs). We hope the readers in DMCs will find it a useful source of information.

### **Nihal Amerasinghe**

Director, Agriculture and  
Social Sectors Department (*East*)

### **Akira Seki**

Director, Agriculture and  
Social Sectors Department (*West*) □

The quarterly newsletter of the Focal Point for Microfinance at ADB aims to provide information on microfinance. Articles in the newsletter, however, do not necessarily reflect official ADB views. Articles may be copied with proper acknowledgement of the source. Please address any inquiries concerning the newsletter or its content, comments and suggestions to the Head, Focal Point for Microfinance, Agriculture and Rural Development Division West, Asian Development Bank, P.O. Box 789, 0980 Manila, Philippines. Telephone: (632) 632-6931 Facsimile: (632) 636-2295 E-mail: [nfernando@adb.org](mailto:nfernando@adb.org)

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## ADB Approves A Microfinance Development Strategy

**M**icrofinance is not a new activity: it has a long history. The cooperatives started by Fredrick Raiffeisen to provide savings and credit services to low-income households in Germany were serving about 1.4 million clients in 1910. In India, over 400,000 poor households belonged to financial cooperatives in 1912, and this number exceeded 9 million by 1946. The Syndicate Bank of India introduced the pygmy deposit scheme in 1928 (see page 6) to mobilize microsavings.

What is new is the renewed interest in microfinance; and the changing landscape of microfinance, the recognition that low-income households have a diverse demand for financial services, and that this demand can be met on a commercial basis. Thus, many challenges have also emerged for multilateral institutions that, like ADB, support microfinance development.

resources at its command. ADB's microfinance development strategy outlines how ADB can address these concerns effectively and consistently, and maximize the development impact of its support to microfinance.

ADB's interdepartmental Task Force on Microfinance prepared the microfinance development strategy through an extensive consultation process that involved stakeholders in 12 DMCs, other funding agencies, and external experts on the subject. The strategy also benefited from the comments by Board members and ADB staff. The Board approved the strategy on 6 June 2000.

**Jan van Heeswijk**

*Chairman, Task Force on Microfinance* □

## ADB'S Microfinance Development Strategy

**A**DB defines microfinance to include "a broad range of financial services such as

## Assumptions

The strategy is based on a number of key assumptions:

- financial services can play a critical role in poverty reduction;
- financial services are important for the poor;
- provision of institutional financial services to the poor can make a significant contribution to deepening the financial system; and
- informal microfinance serves a significant clientele, but has serious limitations.

## Experience

The global experience in microfinance shows clearly that poor and low-income households and their microenterprises can be provided with financial services on a sustainable basis if an enabling environment is created for commercial microfinance and the risk and transaction cost issues associated with providing microfinance services are dealt with effectively and efficiently. A number of microfinance institutions in the Region, particularly in Bangladesh and Indonesia, have proved the commercial potential of microfinance and the importance of commercial orientation to expand the services to more poor households.

## Challenges

Yet, to realize the vast potential of microfinance, a number of challenges need to be overcome. Improvement of the policy environment is on top of this list. In many countries, the policy environment remains unfavorable for sustainable growth of microfinance operations. Many governments in the Region, often with good intentions, inappropriately and extensively intervene to provide microcredit at subsidized interest rates. Most of these programs tolerate and thus encourage low recovery rates of these loans.

The other challenges include building appropriate financial infrastructure and retail institutional capacity for pro-



When the working paper on finance for the poor was discussed by ADB's Board on 14 March 2000, the President stated that ADB needs to prepare itself to meet the challenges. ADB has to increase the quality of its assistance to its DMCs for microfinance development and must reinforce its emphasis on more efficient allocation and use of the

deposits, loans, payment services, money transfers, and insurance to poor and low-income households and their microenterprises." ADB's microfinance development strategy aims to develop these services because most poor and low-income households and microenterprises in the Region do not currently have access to finance.

viding the services to more people. Without proper financial infrastructure, a sound institutional microfinance system cannot develop. Retail institutional capacity is critical to serve a large segment of the potential market on a commercial basis. The providers should be able to provide services that are attractive to the potential clients. The services should be provided at minimal transaction costs to providers and the clients, while allowing enough profits for the providers to stay in business.

Microfinance cannot thrive in a stagnant economy. Hence, investment in agriculture and rural development is crucial for microfinance development and achieve its poverty reduction potential. Finance does not create economic opportunities; it does enable people to make use of economic opportunities. Inadequate investment in agriculture and rural development is a major challenge for microfinance development in the Region. This is particularly true because most of the potential clients live in rural areas. These challenges are compounded by inadequate level of social development, a distinctive characteristic of the poor in the Region. Thus, it is essential to improve the policy environment and the economic and investment environment for sustainable microfinance to harness its potential for poverty reduction.

### Thrusts

The challenges outlined above call for a comprehensive strategy that takes cognizance of the diversity of microfinance development issues in different DMCs. This is what the ADB strategy encompasses. The goal of ADB's microfinance development strategy is to ensure permanent access to institutional financial services for a majority of poor and low-income households and their microenterprises. The purpose is to support the development of sustainable microfinance systems that can provide diverse services of high quality. The strategy focuses on five mutually reinforcing areas:

- (i) creating a policy environment conducive to microfinance,
- (ii) developing financial infrastructure,

- (iii) building viable institutions,
- (iv) supporting pro-poor innovations, and
- (v) supporting social intermediation.

All these areas converge toward one underlying strategic activity: ADB has to play a catalytic role in developing microfinance services for the poor in the Region. By focusing on these five areas, ADB enhances its ability to play this catalytic role effectively and efficiently.

### Support for Pro-Poor Innovations

The strategy clearly recognizes that policy reforms and improvement of institutional capacity are necessary but not sufficient to expand the outreach. This is particularly true for the poorest of the poor. If the products and services provided are not attractive to the poor and if delivery mechanisms are not user-friendly and are costly, the poor are unlikely to seek the services. Hence, the strategy emphasizes support for pro-poor innovations in particular.

### Implementation

To implement the strategy, ADB will

- integrate microfinance into its operations,
- make better use of current modalities of its assistance,
- enhance the involvement of its private sector operations in microfinance,
- build its internal capacity for microfinance activities, and
- coordinate with other funding agencies involved in microfinance.

Based on country-level poverty analysis, country operational strategies, sector studies, and operations of other funding agencies, the country assistance plans will propose a medium-term plan for assisting microfinance in selected DMCs. Assistance projects will be designed in close consultation with all stakeholders, including civil society and potential clients, to ensure that assis-

tance is client-focused, demand-driven, and effective in reaching the poor and the poorest.

### Private Sector

The strategy recognizes the importance of private sector institutions in microfinance development. Hence, ADB's private sector operations will encourage private sector involvement in the provision of microfinance services.

### Building ADB's Capacity

For effective implementation of the strategy, ADB will strengthen its human resources and knowledge base. This will be done by adjusting the skill-mix of operational departments and offices and training staff to improve and expand their assistance to microfinance. Core staff will be thoroughly trained in various aspects of microfinance operations. The Focal Point for Microfinance will be strengthened to support efforts aimed at improving the quality of ADB's microfinance operations. ADB will also increase its efforts to improve coordination among funding agencies involved in microfinance.

The strategy paper is available on ADB's website at <http://www.adb.org/Work/Strategy/Microfinance/>

### Nimal A. Fernando

*Senior Project Economist-Microfinance Head, Focal Point for Microfinance* □

## The Focal Point for Microfinance

Microfinance deals with provision of financial services mainly to the poor, low-income households, and their microenterprises, in both rural and urban sectors. ADB's microfinance operations are expected to cover policy reforms, financial infrastructure, institutional development of service providers, social intermediation, and pro-poor innovations. Given this wide scope and because of the multidimensional nature of microfinance in

*(continued on page 4)*

## The Focal Point (continued from page 3)

terms of services, clients, institutions, development objectives, and potential impact, a number of ADB's offices and departments are involved in microfinance operations. These include the (i) agriculture and social sectors departments; (ii) infrastructure, energy, and financial sectors departments; (iii) Private Sector Group; (iv) Strategy and Policy Department; (v) Office of Pacific Operations; (vi) programs departments; (vii) Operations Evaluations Office; and (viii) Office of Environment and Social Development. To achieve the objectives of the microfinance development strategy given ADB's current organizational structure, it is essential for the departments and offices to work closely with each other.

The Focal Point for Microfinance is responsible for interdepartmental coordination of microfinance. The Focal Point is located in the Agriculture and Rural Development Division West (AWAR), which is part of the Agriculture and Social Sectors Department West (AWD). The core staff of the Focal Point consists of Nimal A. Fernando (Sr. Project Economist—Microfinance and Head of the Focal Point), Maurice de Alwis (Sr. Financial Analyst), and Ashok Sharma (Project Economist).

The Focal Point will enhance ADB-wide coordination and collaboration by (i) maintaining a separate data base on ADB's microfinance operations; (ii) monitoring microfinance operations

and reporting the trends on key indicators (outreach, sustainability, poverty reduction impact, etc.); and (iii) providing specialist assistance to other staff involved in microfinance operations. In addition, other envisaged Focal Point functions are expected to enhance the quality of ADB's microfinance operations. These functions include (i) collection, analysis, and dissemination of information on international best practices; (ii) provision of assistance to the Budget, Personnel, and Management Systems Department to organize and conduct training programs to enhance microfinance related skills; and (iii) promotion of international networking.

### Selected Websites on Microfinance

#### Consultative Group to Assist the Poorest (CGAP)

The CGAP website includes very useful information and papers on microfinance operations. It can be accessed at: [www.cgap.org](http://www.cgap.org)

#### Financial and Development Research Project (FDRP)

The FDRP is a major three-year study aimed at identifying effective financial sector policies that support poverty-reducing economic growth in low-income countries. The FDRP is supported by the UK Department of International Development (DFID).

Under the FDRP, a consortium of seven UK institutions are working in partnership with

counterpart institutions and researchers in selected countries.

The FDRP website includes a number of interesting research papers on microfinance. The website address is: [www.devinit.org/findev](http://www.devinit.org/findev)

#### Microfinance Best Practices Project (MBP)

MBP is funded by United States Agency for International Development and implemented by Development Alternatives Inc., a private consulting firm based in Maryland, USA, in collaboration with ACCION International, Foundation for International Community Assistance, Harvard Institute for International Development, International Management and Communications Corporation, Ohio State University Rural Finance Program, Opportunity International, and the Small Enterprise Education and Promotion Network.

MBP has released a number of excellent papers on aspects of microfinance. They can be downloaded free of charge from [www.mip.org/pubs/mbp-res.htm#npm](http://www.mip.org/pubs/mbp-res.htm#npm)

#### Calmeadow

Calmeadow, founded in 1983, is a Canadian nongovernment organization (NGO) committed to provide technical assistance for microfinance development. Calmeadow also conducts research and advocacy work to advance the microfinance industry, and makes selected investments in microfinance institutions or funds.

You can obtain information on microfinance from Calmeadow's website: [www.calmeadow.com](http://www.calmeadow.com) □

## ADB Supports Microfinance Development in Cambodia

On 27 April 2000, ADB approved a \$20 million loan for the Rural Credit and Savings Project in Cambodia. The project will enable NGOs to deliver reliable and effective financial services. NGOs will be licensed as microfinance institutions (MFIs) under the new regulatory framework of the financial sector in Cambodia.

The project scope includes the provision of credit lines to finance income-

generating activities of the rural poor; support for rural credit and savings schemes of licensed MFIs; and provision of project management support for the Rural Development Bank (RDB), which will channel funds to MFIs. The project will cover the operations of MFIs throughout Cambodia, but will be initially implemented mainly in the north-western, eastern, and southern regions, where the MFIs are currently active.

The Government will provide RDB with lines of credit under a subsidiary loan agreement. RDB will onlend funds to MFIs at a rate that covers administrative and financial risk charges appro-

prate to and calculated for each MFI. RDB and the National Bank of Cambodia will be the executing agencies. □

### Microfinance Mini Library

We have a microfinance mini library in AWAR and encourage staff to use it. Please contact Linda Dimayuga at (632) 632-6908 for more information. □

## Focal Point Operations

- The Focal Point has carried out a preliminary survey to identify ADB staff involved in microfinance operations and their broader training needs. On the basis of this information, the Focal Point will discuss microfinance training requirements of staff with ADB's Budget, Personnel and Management Systems Department's Human Resources Division.
- The Focal Point in association with ADB's librarian is preparing a bibliography on microfinance. This will be released in September 2000. □

## From the Experts on Savings

STUART RUTHERFORD

- "Cash held back from regular day-to-day expenditure by an act of will" is a pretty good definition of savings.
- Financial services for the poor may be defined as "money management services that help the poor turn their savings into usefully large lump sums."
- Managing money well begins with hanging on to what you have. This means avoiding unnecessary expenditure and then finding a safe place to store whatever money is left over. Making that choice—the choice to save rather than to consume—is the foundation of money management.

J.D. VON PISCHKE

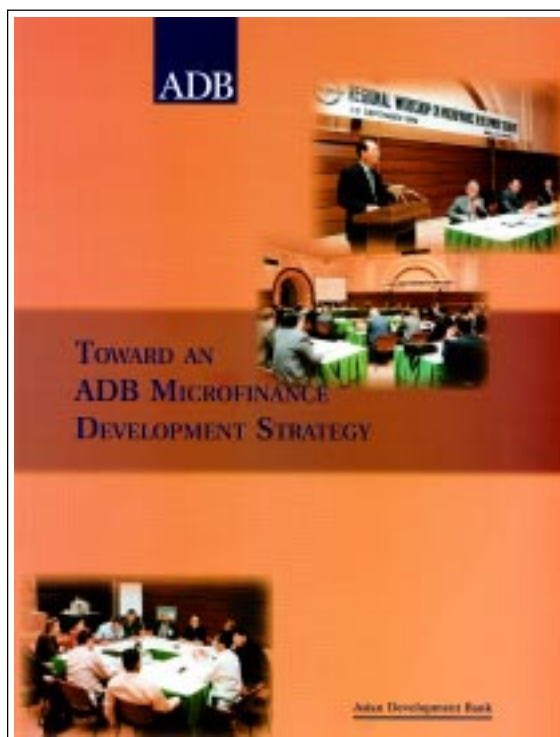
- Virtually everyone saves. Saving behavior is a fundamental aspect of the human condition, as is exchange.
- The view that savings consist only of funds put away for a relatively long period of time is misleading.

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## New ADB Publication on Microfinance

**T**oward an ADB Microfinance Development Strategy (Proceedings of the Regional Workshop on Microfinance Development Strategy held 1-3 September 1999).

To request for a copy, contact Linda Dimayuga at (632) 632-6908. The publication may also be downloaded from <http://www.adb.org/Work/Microfinance/Conference/> □



## Selected Readings on Microfinance

### Books

- Otero, Maria and Elisabeth Rhyne. 1994. *The New World of Microenterprise Finance*. West Hartford: Kumarian Press.
- ADB. 1997. *Microenterprise Development: Not by Credit-Alone*. Manila: ADB.
- Kimenyi, M. et al. 1998. *Strategic Issues in Microfinance*. London: Ashgate.
- Gulli Hege. 1998. *Microfinance and Poverty: Questioning the Conventional Wisdom*. Washington DC: Inter-American Development Bank.

Ledgerwood, Joanna. 1999. *Microfinance Handbook. An Institutional and Financial Perspective*. Washington DC: The World Bank.

Churchill, Craig F. 1999. *Client-Focused Lending: The Art of Individual Lending*. Washington DC: Calmeadow.

Rutherford, Stuart. 2000. *The Poor and Their Money*. New Delhi: Oxford University Press.

### Journal Articles

Mosley, P. and David Hulme. 1998. Microenterprise Finance: Is There a Conflict Between Growth and Poverty Alleviation. *World Development*. 26 (5) 783-790.

McGuire, Paul B. 1999. Policy and Regulation for Sustainable Microfinance: Country Experiences in Asia. *Journal of International Development* 11 (6): 717-729.

Morduch, Jonathan. 1999. The Microfinance Schism. *World Development*. 28 (4): 617-629.

\_\_\_\_\_. 1999. Between the State and the Market: Can Informal Insurance Patch the Safety Net? *The World Bank Research Observer*. 14 (2) 187-207.

\_\_\_\_\_. 1999. The Role of Subsidies in Microfinance: Evidence from the Grameen Bank. *Journal of Development Economics*. 60 (1): 229-248.

Rutherford, Stuart. 2000. Raising the Curtain on the 'Microfinancial Services Era'. *Small Enterprise Development*. 11 (1) 13-25.

Zeller, Manfred and Manohar Sharma. 2000. Many Borrow, More Save, and All Insure: Implications for Food and Microfinance Policy. *Food Policy*. 25 (2): 143-167.

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## From the Experts (continued from page 5)

- Any income not disbursed the instant it is received may be regarded as saved until such time as it is disbursed. Saving commonly precedes expenditure.
- The task of institutionalizing rural savings is primarily a question of financial technology.

ELISABETH RHYNE AND MARIA OTERO

- Saving is an essential and widely used component of the finances of poor households. When there is no institution available, poor people tend to save in other than financial form, such as in small livestock or jewelry. However, if they can determine that their assets are securely held, will maintain value, are relatively liquid, and are in a convenient location, poor people prefer to save in monetary form.
- Because saving is a part of the liquidity strategy of most households, it is likely that more people will demand savings services than credit. This position discards the previous belief that the poor do not save or do not demand savings services.

SYLVIA WISNIWSKI AND  
ALFRED HANNIG

- Savings mobilization can help microfinance institutions (MFIs) expand and deepen their outreach.
- A large number of poor households may use savings services, whereas a smaller number of the poor will need credit.
- Microsavings facilities allow them to even out irregular income streams and to insure against casualties. The mobilization of small and microsavings, therefore, has great potential for poverty alleviation because the poor in particular require effective management of scarce liquidity. □

## Selected Readings (continued from page 5)

### Other Publications

*The MicroBanking Bulletin*. A Calmeadow Publication. [can be downloaded from CALMEADOW's website: [www.calmeadow.com](http://www.calmeadow.com)]

CGAP. 1999. Measuring Microcredit Delinquency: Ratios Can Be Harmful to Your Health. CGAP Occasional Paper No. 3. [can be downloaded from the CGAP Website: [www.cgap.org](http://www.cgap.org)]

Saltzman, Sonia B, Rachel Rock, and Darcy Salinger. 1998. *Performance and Standards in Microfinance: ACCION's Experience with the CAMEL Instrument*. Discussion Paper Series Document 7. Somerville: ACCION.

Rutherford, S. 1997. *City Savers. How the poor, the DFID and its partners are promoting financial Services in Urban India*. New Delhi: DFID.

Greuning, Hennie Van et. al., 1999. *A Framework for Regulating Microfinance Institutions*. Policy Research Working Paper 2061. Washington DC: The World Bank.

Pankaj, Jain S. 2000. *Maturing of Micro-Credit Movement: Some Pointers from ASA*. Dhaka: Association for Social Advancement. □

## From the History.... The PYGMY Deposit Scheme

The Syndicate Bank was established in 1925 in Manipal, a small town located in Karnataka State of India. At the time, it was the only bank with a head office in a rural area. Starting with an initial paid-up capital of only Rs8,000, the bank has since grown remarkably. Its market share in the banking business rose from about 1% in 1960 to 4% in 1975. In 1968, 32% of its branches were in rural areas. Its loans to agriculture and small enterprises constituted 30% of its total loans, whereas such loans were less than

8% of the total loans of other banks. 90% of its deposit accounts were small accounts below Rs1,500. Such accounts comprised 50% of its total deposits.

The Syndicate Bank introduced the pygmy deposit scheme in 1928, and became famous as a result. The scheme was part of the crusade to inculcate the thrift habit among relatively poor people. At the same time, the promoters regarded the scheme as a business opportunity. Other banks had not harnessed this opportunity because of the high costs of collecting a large number of small deposits.

However, the Syndicate Bank devised a system attractive to the depositors. The system involved door-to-door collection of a given amount of deposits (as low as 25 paise) at stated intervals. Most poor people do not have time to go to a bank and deposit small amounts regularly. The Syndicate Bank appointed agents to collect the small deposits on a commission basis. Until 1962, the Syndicate Bank permitted its staff to work as agents during their spare time. (The Central Bank prohibited this practice in 1962.) The commission rate was 3 percent per annum, and was linked to the amount of deposits collected.

The interest rate on the deposits was 3.13% per year, provided the saver did not withdraw from the scheme for 7 years. Within this period, the saver could borrow from the bank against the security of his or her deposit. The scheme's specific features have changed since 1969, but the broad principles remained the same.

The bank was able to harness a business opportunity without competition from other banks until 1960. The pygmy deposits accounted for 14-15% of total deposits in 1946. This share rose to 21% in 1960. Since then the share has declined because of faster growth of other type of deposits, and competition from other banks. Still, in 1975, the pygmy deposits constituted 7-8% of Syndicate Bank's total deposits.

Was the pygmy deposit scheme a loss making activity for the Syndicate Bank? No. On an average, the total cost to the bank of this long-term deposit varied between 3% and 5% per year. This was significantly lower than the cost of a three- to five-year fixed deposit.

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In 1975, its total cost was only 5.52% per year as against the cost of fixed deposits at 13% per year.

The Syndicate Bank's experience shows that

- transaction costs of mobilizing small deposits can be reduced by adapting banking technology innovatively to suit local conditions, and
- low income households value deposit services; they can and do save.

Source: V.V Bhatt. 1988. "On Financial Innovations and Credit Market Evolution," *World Development* 16 (2). □

## Banks in Microfinance: Bank Dagang Bali

The Bank Dagang Bali (BDB) was established as a savings and lending institution in 1970 and is considered the bank that began the microfinance revolution in Indonesia. BDB is the first licensed private bank in Bali and has been owned and is managed by its founder owners: Gusti Made Oka and Sri Adyani Oka, husband and wife. Since its inception, BDB has been providing commercial microfinance services to poor households.

The Okas established BDB with a small capital of about \$55,000 equivalent, 30 staff, and no formal banking experience. However, they had extensive experience in local markets and informal finance and knew that the microfinance market is profitable and the poor can benefit greatly from conveniently available financial services. BDB has been profitable every year since 1971. In 1980, BDB made a profit of about \$83,000. During the 1990s, annual profits have ranged from about \$1.0 million to \$1.7 million. BDB has expanded its operations from Bali to other parts of Java.

In 1980, BDB had assets of about \$10.7 million. In 1994, it had assets worth over \$112 million, \$91 million in deposits, \$76 million in loans outstanding. At the end of 1999, the assets amounted to \$102 million, deposits to \$76 million, and loans outstanding to \$31 million.

Bank Indonesia (the central bank) did not allow BDB to open branches until the

mid-1980s. The Okas were innovative. They bought an old car and did profitable mobile banking. The central bank changed the regulations in 1988 permitting BDB to open branches. At the end of 1998, BDB had 8 branch offices, 18 sub-branch offices, and 4 cash offices.

BDB provides small and large loans. Many of BDB's large borrowers are long-term clients who began at BDB as small savers and borrowers during the 1970s. BDB has been extremely active in savings mobilization, providing many services including mobile daily collections. BDB has three types of mobile savings teams: one team travels by foot, covering the areas nearest the branch; the second team travels by motorcycle and covers more distant clients; and the third team travels by car and serves the most

distantly-located clients of the branch. BDB has used lotteries since 1971 to promote its savings. Many other Indonesian banks have adapted the BDB lottery system for their savings mobilization programs.

BDB's clients come from a wide variety of backgrounds and engage in many types of economic activities. Many, probably most, have been poor at some time in their lives. Many have become better-off because of the convenient access to financial services offered by BDB on a permanent basis.

Sources: Robinson, M.S. 1995. "Where the Microfinance Revolution Began: The First 25 Years of the Bank Dagang Bali (1970-1994)", Harvard Institute of International Development, Boston; Author's conversation with. Gusti Made Oka, March 2000. □

## Microinsurance A Milestone

Efforts to provide microinsurance for the poor is another important milestone in the evolution of microfinance.

This was noted by Dr. Nihal Amerasinghe, the ADB's Director, Agriculture and Social Sectors Department East, at a discussion forum on microinsurance at the ADB's headquarters in Manila on 8 June 2000.

"The microfinance industry has evolved from a credit-focused operation into one encompassing a more diverse set of financial services," he said.

The Forum, aimed at increasing awareness of the potential, as well as the limitations, of microinsurance, was attended by 70 representatives from a variety of microfinance institutions in the Philippines

Participants discussed microinsurance experience of Bangladesh and the Philippines and different microinsurance products available in these countries.

The Forum was co-sponsored by ADB, the US Agency for International Development, TSPI Development Corporation and the Coalition for Microfinance Standards of the Philippines. It was organized by the Coalition for Microfinance Standards, Philippines. □



## ADB ASSISTS EAST TIMOR IN MICROFINANCE DEVELOPMENT

East Timor has recently come through a traumatic experience that has, in large measure, wrecked its already struggling economy. Gross Domestic Product has fallen by almost 50 per cent and about six months ago the economy almost came to a virtual halt. A huge rehabilitation and restructuring effort is underway, addressing very basic issues such as infrastructure rehabilitation, establishing a new currency and financial system, and instituting the essentials of a new government. Absorptive capacity of local entrepreneurs and business still remains modest, and must be cautiously nurtured so as to ensure a balanced and sustainable economic recovery. In this context, the broad availability of microfinance becomes essential.

The Asian Development Bank in May 2000 approved a technical assistance grant for East Timor for microfinance development. This constitutes part of the package of assistance that ADB is providing for the reconstruction and development of the economy of East Timor.

Banking services continue to be severely limited in East Timor and are confined to Dili at present. The prospects for comprehensive commercial banking services stretching out to rural towns and villages remain very uncertain. In the meantime the bulk of the demand for financial services is expected to come from micro- and small enterprises in the agricultural, service and manufacturing sectors in the medium-term.

The ADB's technical assistance will assess supply of and demand for microfinance services, provide support to rehabilitate existing credit unions to provide microfinance services, and assess options for development of the microfinance sector including the feasibility of establishing a microfinance bank. □

## BOOK REVIEW

Rutherford, Stuart. 2000. *The Poor and Their Money*. New Delhi. Oxford University Press. 121pp.

The contribution of this book to the microfinance literature is the new interpretation of various types of financial transactions undertaken by the poor as some form of savings mechanism to illustrate that the poor want to save and do save. The author draws on his extensive experience in Asia and Africa to illustrate the underlying principles of financial services available to the poor.

Rutherford develops a simple but powerful framework of "basic personal financial intermediation" to describe the financial transactions of the poor: savings, loans and rotating savings and credit association (ROSCA) participation. The framework considers accumulation of savings first for later use as "saving up", availing of a loan first as "saving down" and ROSCA participation as "saving through" activity. These savings activities are examined in detail using examples from slums and villages in developing countries including India and Bangladesh. While fine-tuning is required to make the framework rigorous, it is still an excellent starting point for academics to examine financial services for the poor from a savings point of view.

The author shows that it has not been easy for the poor to save. The financial services for the poor are organized by the poor themselves in the form of savings clubs or by others. The author classifies those who organize financial services for the poor as "managers", "providers" and "promoters" and shows how these organizers can help poor to manage their money. The providers may develop different types of products and delivery systems designed to attract the poor and the promoters may help the poor to set up financial systems that they themselves own and control. NGOs in India who form self-

help groups (SHGs) and link them to commercial banks are considered as promoters while village banks developed by the Foundation for International Community Assistance are considered as providers. The differences in the motivation of the organizers are shown to influence the type of financial products developed and delivered to the poor.

The book, organized into 6 chapters, includes examples of several types of loan, savings and insurance products, developed by indigenous and semi-formal financial intermediaries, to demonstrate how they facilitate the poor to swap frequently saved small sums of varied value into lump sums when required in a quick, affordable and transparent manner.

The clarity of the book is excellent. I would recommend the book as a must read to all enthusiasts of microfinance - practitioners, consultants, researchers and staff of funding agencies.

**Geetha Nagarajan**

*Program Manager*

Microbanking Standards Project

Calmeadow, Washington DC, USA □

## Your suggestions and comments...

Our objectives are two-fold: to help you increase your knowledge in microfinance; and to facilitate your access to microfinance information.

We welcome your comments on this issue and suggestions to improve future issues of the newsletter.

Please send them to the Focal Point for Microfinance.