

## Regional and Sustainable Development Department

A QUARTERLY NEWSLETTER OF THE  
FOCAL POINT FOR MICROFINANCE

June 2002 · Volume 3 Number 2

### IN THIS ISSUE

ASA – The Ford Motor Model of Microfinance	1
Microfinance in Difficult Environments: Perspectives from the Chars of Bangladesh	4
Regional Study on Commercialization of Microfinance Continues	6
Editor's Corner	7
Selected Readings on Microfinance	8

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- Telephone: (632) 632-6931
- Facsimile: (632) 636-2198
- E-mail: [nfernando@adb.org](mailto:nfernando@adb.org)

# ADB

# FINANCE for the POOR

## ASA – The Ford Motor Model of Microfinance

**NIMAL A. FERNANDO,**  
*Lead Rural Finance Specialist, Asian Development Bank*

**RICHARD L. MEYER,**  
*Professor Emeritus, The Ohio State University*

Henry Ford was one of the most innovative pioneers in the early production of motor vehicles. In 1913 he successfully introduced the moving assembly line method of production. It radically altered car manufacturing enabling him to sell the Model T for as little as \$500, putting car ownership within the economic reach of a large segment of the population. By 1923, his company was producing half of America's automobile vehicles. Standardization was the hallmark of his operations. By utilizing stan-

*“ I will build a car for the great multitude. It will be large enough for the family, but small enough for the individual to run and care for. It will be constructed of the best materials, by the best men to be hired, after the simplest designs that modern engineering can devise. But it will be low in price that no man making a good salary will be unable to own one – and enjoy with his family the blessing of hours of pleasure in God's great open spaces”*

**Henry Ford**

dardized parts and developing an assembly line composed of special purpose machines, he was able to hire semiskilled and unskilled workers. Ford engineers were able to reduce assembly time per automobile from 12 ½ worker-hours in 1912 to 1 ½ worker hours in 1914. Experimentation and refinements in production were continuous so costs were cut to a minimum. Consumer choice was limited for the Model T. Ford offered his clients “any color of Model T they want, as long as it is black.”

Md. Shafiqul Haque Choudhury, the founder and Managing Director of ASA (Association for Social Advancement) in Bangladesh is the Henry Ford of microfinance in Asia. He champions standardized low-cost microfinance, and created one of the most efficient MFLs in the world in the delivery of microfinance services to large numbers of poor households. Those who are interested in developing sustainable, cost-efficient microfinance can learn a great deal from Mr. Choudhury's “Ford Motor Model” of microfinance.

### The Origins of ASA

ASA was organized as a nongovernment organization (NGO) in 1978 with the “vision of creating an enabling environment to establish a just society.” Groups of villagers (samities in Bangla) were organized as a means to create a people's movement based on awareness and solidarity among the rural landless peasantry. It was expected that consciousness raising would lead to social action.

# ASA – The Ford Motor Model...

(Continued from page 1)

Legal aid was provided and the basic knowledge of law was taught to group members. Several European and Australian donors supported the program.

ASA's program changed fundamentally with the cyclone of 1985 and the floods of 1987 and 1988. Its grassroots organization made it a natural choice, along with other NGOs, to dispense foreign disaster relief and engage in reconstruction of the affected areas. Concrete development programs began to take the place of consciousness raising. Microcredit began to play an increasingly important role in these programs so by 1990 there was a patchwork of different credit systems, in kind and in cash, for men and for women, with varying interest rates and repayment schedules. Meanwhile, there was an enormous growth in the specialist credit-granting NGOs, especially the Grameen Bank and, to a lesser extent, BRAC and Proshika. They, along with ASA, experienced a surprisingly high level of loan recovery from poor people who were eager for loans to improve their lives in ways that consciousness raising efforts alone could not achieve.

The year 1991 was a watershed in ASA's history. Mr. Choudhury realized that ASA lacked focus, the operations were heavily donor dependent and unsustainable, and outreach was limited. To address these concerns, ASA restructured itself and shed all other services to become a specialized microcredit NGO. This reengineering was based on a candid self-assessment and accomplished without external assistance.

With the reengineering, the composition of all committees shifted from men to women, and operations were at once tightened and decentralized. Salaries continued to be modest as it hired less qualified staff than competitors, posted them to smaller branches, and simplified the number of tasks assigned to each person. Slowly ASA's version of the Model T assembly line for microcredit began to take shape.

## The Pillars of the ASA Model

ASA committed itself to large outreach, cost-effective lending and achieving financial self-sufficiency through efficiency within a relatively short time. Later in the growth process, it also committed itself to provide improved voluntary savings deposit services to members. These commitments led ASA to focus on four key organizational norms:

- provide a standardized loan product
- provide basic voluntary deposit services

- develop simple, effective and rigid procedures that allow cost-effective delivery of microcredit and limited deposit services, and
- practice zero-tolerance on the late repayment of loan installments.

According to Mr. Choudhury, sustainable outreach should be the central objective of microfinance institutions (MFIs). He argues, "MFIs must commit themselves to achieve a significant sustainable outreach within a short time spell." This means MFIs must be obsessed with cost-efficiency, explains Mr. Choudhury. MFIs have a social obligation to be cost-efficient because the poor cannot afford to pay for the inefficiencies of service providers. According to Mr. Choudhury, everything that ASA does and the way it conducts its operations flow from this "thirst for sustainable outreach of services to the poor."

## The Organizational Architecture

ASA developed a flat management structure with only three tiers. The head office (in Dhaka) is the highest tier, similar to any organization. But the ASA head office differs in appearance and operations from traditional bank head offices. It is housed in an old, purchased and renovated building. It is a lean operation with only 95 staff, 1.4 percent of the total ASA personnel. The seriousness with which ASA regards its commitment

*"When I see head offices of many MFIs around the developing world, the way they have been organized and the way they function, I often wonder whether these MFIs are genuinely serious about serving the poor cost-efficiently."*

**Shafiqul Choudhury,**  
*Managing Director, ASA*

to cost-efficiency is reflected in the fact that it has only three vehicles. Many MFIs in Asia, because of their social development origin and generous support by donors, "have cost structures that are more bloated than they should be," observed Stuart Rutherford, until recently a member of the ASA Board of Directors. ASA has been careful to avoid such structures. Although lean, the head office is heavily oriented to ensure the efficient operation of its core activities, such as internal control, policy formulation and the provision of broad directions to its branch network.

ASA's backbone is the branch or unit, which

reports to a Regional Coordinator in the Dhaka Head Office. Between these two tiers are regional managers and divisional managers, who do not have separate offices nor a secretarial staff. They travel among the branches by public transportation and perform their supervisory functions in the branch offices.

## The Unique Operating System

A typical branch has a manager, four or five credit officers, and one support staff. The branch manager is authorized to approve clients, groups, loan size, office expenses, etc. following the guidelines of a detailed operating manual. "ASA judiciously combines the maximum level of delegation with the minimum level of discretion. Through this system, it has not only enhanced cost-efficiency but reduced rent-seeking by its field staff", reports Stuart Rutherford. ASA branches are profit centers and are expected to fully cover costs after 9-12 months of operations.

Costs at the branch level are tightly managed. Branch offices are located in rented buildings and usually consist of three rooms, one for the office and two for staff residences. There is no security guard. A standard set of furniture with other utilities and office supplies are all detailed in the operations manual. Standardization of these items ensures cost-control and contributes to cost-effectiveness, which facilitates access to remote areas and increases outreach. Accounting systems are simple so branch managers perform the tasks of accountants and credit officers perform the tasks of cashier on a rotating basis, thereby eliminating the need for separate accountants and cashiers in the branches.

The uni-model standardized branch system has a major advantage. Because each branch is the same in terms of human resources and cost structure and operates exactly the same way in accordance with the operating manual, ASA can adopt a cookie-cutter approach to branch expansion. This partly explains how it could rapidly increase the number of branches from 732 in December 1998 to 1,121 in April 2002.

ASA's recruitment system for new staff is another innovative feature. It does not administer written examinations to applicants and conducts group rather than more time-consuming individual interviews of applicants. The successful applicants are provided with only nine days of on-the-job pre-service orientation conducted by experienced staff in the field. Practical rather than theoretical training is emphasized and it has no in-house training facility. This unique system produces only what is required for the staff to carry out their functions effectively and efficiently.

Lending and savings mobilization activi-

ties are conducted in each branch with about 1,800 clients in groups of 20-30 members. Savings deposits, withdrawals, and repayments are done in weekly meetings. Each credit officer is responsible for about 18 groups in a week (three per day). There is no group liability and groups are used solely to reduce operating costs. No non-financial services, such as client training, are provided. By keeping branches small and located close to clients, transaction costs are kept low for both ASA and its clients. Recently ASA began making larger microenterprise loans to mostly male borrowers.

The ASA model is designed to meet the basic demand for loans and savings services. It mainly offers members a standardized microloan and open access to savings. The group members have quick access to their first loan, usually after four weeks of being a member. Clients are permitted to have only a single loan to simplify accounting and facilitate good loan recovery. They can obtain a second loan immediately upon repayment of the first, and loan sizes can increase with each new loan. Loans are repaid in weekly installments with a two-week initial grace period. Members can save as much as they want and withdraw savings, keeping 10 percent against their outstanding loans.

ASA is occasionally criticized for being too rigid in its approach to microfinance and for not offering greater choices for the poor. Mr. Choudhury responds by saying that "our organization has not been designed to provide a wide array of and flexible services. If clients want such services, they are free to go somewhere else. So clients have choices." But ASA's basic, limited service-oriented approach has enabled it to serve a large number of clients efficiently and on a sustainable basis. The trade-offs between serving large numbers of poor households with standardized microloan and basic savings services, on the one hand and providing a range of flexible services, on the other hand, are clear and

substantial. ASA has recognized these trade-offs and decided to follow its model.

ASA has taken a pragmatic approach to its business. It accepts the need to charge cost-covering interest rates for its microcredit. It does not hesitate to increase interest rates when deemed necessary. Thus, ASA increased its interest rates from a flat 12.5 percent per year to a flat 15.0 percent in January 2000. The number of clients did not decline due to this increase. Similarly, it reduced its line of deposit services because of cost and revenue considerations in the late 1990s.

### Achievements

ASA has experienced rapid growth without a decline of quality of services. As of end of April 2002, it had 1,121 branches with over 4,000 credit officers serving over 1.68 million clients with outstanding loans. About 96 percent of its clients are women. The average of over 400 clients per credit officer is one of the highest in the region and the average outstanding loan portfolio per credit officer has surpassed Tk1.6 million. ASA had Tk6.7 billion (approximately \$118.0 million) in outstanding loans and savings deposits totaled roughly Tk1.85 billion (about \$32.5 million). On-time loan recovery rates have been impressive exceeding 98 percent during the last five years. The ratio of average loan balance to GNP per capita has been about 18-20 percent for the past several years suggesting that it serves clients who are quite poor. ASA has been a financially self-sufficient MFI since the mid 1990s.

### Lessons from ASA

Cost efficiency is not something that can be easily achieved through a piece-meal approach; it is a direct function of organizational architecture, operating system and institutional culture. It also requires a strong commitment by the organization's management. The ASA model shows how tight cost control, emphasis on transaction costs, loan officer productivity, and a lean administrative structure can efficiently deliver financial services to millions of poor clients. It has systematically cut costs and avoided the fat of a top heavy organization. A major challenge for many Asian MFIs is to cut excessive fat without cutting institutional muscle. They can learn a lot from ASA.

### Questions for the future

Henry Ford's experience in facing competition may also hold some lessons for ASA's future. In 1922, Ford introduced the Model A with 17 body styles and four-color options.

Ford's market share fell, however, during the 1920s compared to General Motors and other companies that offered a wider variety of models and more luxury options.

Microfinance competition is now fierce in most locations in Bangladesh. Many MFIs report high dropout rates, clients that borrow from more than one MFI, and rising delinquency rates. Many clients also report having informal loans. These developments can be interpreted as suggesting that the standardized approach followed by ASA and other MFIs may be too rigid to satisfy customer demands. More flexible loan products may be necessary for MFIs to retain their clients. Their challenge is that introducing more flexibility will probably raise operating costs, complicate the tasks performed by loan officers, and require more complicated methods of internal control and supervision.

Like the Ford Motor Company, ASA has been a leader in developing simple standardized products for the mass market. But its leadership in microfinance may be challenged, as customers demand more flexible and comprehensive products. Mr. Choudhury, however, is confident that ASA's standardized products will continue to enjoy a large market niche. None the less, he admits that ASA will need to take market changes into account, if such changes begin to erode its market niche significantly and threaten its viability and sustainability. ■

### ASA: Selected Performance Indicators (%)

	2000	1999
Administrative Expenses/ Ave. Loan Portfolio	9.0	9.6
Adjusted Return on Assets	3.7	7.6
Adjusted Return on Equity	10.5	22.5
Adjusted Financial Self-Sufficiency	120	157
Active Borrowers (number in millions)	1.12	1.08

Source: Microbanking Standards Project. Financial Performance Reports for ASA, September 2000 and November 2001. Washington D.C.

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The authors thank Mr. Shafiqul Choudhury, Managing Director, ASA for granting permission to publish data included in the Microbanking Standards Project's financial performance report for ASA.

# Microfinance in Difficult Environments: Perspectives from the Chars of Bangladesh \*

IMRAN MATIN

Senior Economist, Research and Evaluation Division of BRAC, Bangladesh

M. EMRUL HASAN

Microfinance Specialist, Plan International, Bangladesh

## I. Introduction

The core of our knowledge about microfinancing comes from working in relatively stable environments. Such stability has several dimensions, broadly physical and social, which often act on each other to create biases and exclusion. The stability bias in a 'physical' sense would include avoiding marginal areas and people living there, such as geographically remote, or areas subject to natural calamities, etc. The biases created due to a preference for social stability, on the other hand, would avoid working with say the adolescents or the aged, or certain socially difficult occupation groups, such as sweepers. There may be very good reasons for such biases, but more often than not, these are predicated on 'received' perspectives, just like the (now thankfully shattered) received perspective of the yester years, that the poor are not creditworthy or bankable. Often, the constraints are at the level of perspectives, knowledge and the creativity and determination to innovate.

The problem is that, these notions of stability underlie many standards of what good practices should be on the supply side and on the demand side, generate implicit and explicit norms of who deserve or can be served. Yet, instability is closely related to

poverty, both as a cause and effect. Thus deepening poverty outreach and innovation in microfinance is fundamentally linked with increasing our knowledge about microfinancing in difficult environments.

Bangladesh is situated in the world's largest river delta of three major rivers—the Brahmaputra-Jamuna, Ganges-Padma and Meghna and their numerous tributaries and distributaries. These rivers carry a huge sediment load and are typically braided and very mobile. The islands within these braided channels of the rivers are known as *chars* in Bangla.

According to the latest available information (1992-93), a total of 4.3 million people were reported to be living in the main river charlands, of which 42% live in the Jamuna-Brahmaputra charlands, the study areas of the study on which this note is based on.<sup>1</sup> One of the main geographical concentrations of extreme poverty and vulnerability in Bangladesh are the charlands. The char communities are largely cut-off from mainland services and infrastructure and not a priority to mainland based government administrations. Environmental and economic vulnerabilities are compounded by a lack of social services, perpetuating poor

health and educational status. Thus such communities are amongst the poorest, most vulnerable, and least served and visible in the existing development landscape.

## II. Microfinance in the Jamuna-Brahmaputra Chars: The Current Status

This study explored the current microfinance scenario in two districts—Kurigram and Gaibandha. These two districts have a large area of chars in the Jamuna-Brahmaputra river system. According to the inventory update, not less than 25 operators are providing microfinance in the char and char adjacent mainland in the districts of Kurigram and Gaibandha. Table 1 gives some sub-district (upazilla) level information on these microfinance providers. The table clearly shows that most of the microfinance institutions (MFIs) working in the char areas are very local (working in no more than one upazilla) and their char outreach tend to be pretty small.<sup>2</sup>

We asked the MFIs operating in these char upazillas and who had char clients to tell us about the differences in their experiences between char and mainland cli-



## MEET OUR MICROFINANCE PROJECT STAFF

Brett E. Coleman

Brett is a Project Economist in the Governance, Finance, and Trade Division of the Mekong Regional Department of the Asian Development Bank (ADB). Before joining ADB in 1999, he worked as a Project Manager for Catholic Relief Services (CRS) in Burkina Faso from 1990-92. In Burkina Faso, Brett first developed an interest in microfinance, which resulted in his designing and processing CRS's first microfinance project there. In 1992, he returned to graduate school at the University of California, Berkeley, and obtained a Ph.D. in Economics in 1999 after writing a dissertation on microfinance in Northeast Thailand. While a graduate student, Brett also worked as a consultant in 1998, first for the World Bank to assist in preparing a microfinance strategy in Thailand as part of a post-crisis rural development strategy, and then for CRS to evaluate the impact of one of their microfinance projects in Burkina Faso (but not the one he designed!). Brett has published an article on the impact of group lending in Northeast Thailand in the *Journal of Development Economics* in 1999, has a second article on microfinance forthcoming in *World Development*, and presented a third paper at the Heidelberg Workshop on Theoretical and Empirical Research in Microfinance in September 2001.

Brett spent his first two years at ADB as country economist for Tajikistan and he is now responsible for ADB's rural and microfinance projects in the Mekong Region.

\* This paper is based on an assignment undertaken by the authors commissioned by DFID-Bangladesh as a part of the microfinance component design phase of its Chars Livelihood Project. The original report is titled, 'Microfinance in the Jamuna-Brahmaputra Chars: Review of Financial Landscape, Preferences and Way Forward'. The authors are grateful to Frank Matsuert, Enterprise Development Adviser of DFID-Bangladesh for his insightful comments which helped in enriching the original report.

1 Population census data collected by the Bangladesh Bureau of Statistics (BBS) does not provide a break down according to charland-mainland, making it very difficult to get reliable estimates even on basic variables such as population. This reflects in a very fundamental way, the not only physical, but also social remoteness of the charlands from the mainstream national policy processes.

ents (Table 2). The table lists the responses categorized thematically. Responses in the third theme are the most interesting. We notice a lot of remarks in this theme where MFIs are essentially alluding to the fact that they face challenges in making use of the kinds of informal, social sanction based mechanisms they can use in the mainland to manage repayment problems. This is an important point that needs some elaboration.

The physical distance between the chars and the mainland and the consequent general lack of external agents (developmental or not) engagement with the chars makes the task of microfinancing in the chars quite challenging. A number of very vital mechanisms that ensure successful microfinancing are predicated on building relationship and a level of generalized trust in the community of operation. These relationships are the foundation behind 'knowing the clients and the ebbs and flows of their lives' to design good products and mechanisms that serve their financial service preferences. The providers will also be unable to use the types of relationship based informal mechanisms to solve a range of problems from locating clients to solving repayment problems.

What lies at the heart of this mutual relationship dysfunctionality is the fact that most microfinance operations have not set up physical infrastructure (however modest) in the chars and thus remain to be seen as a socially disembedded intervention. They have also not invested in creating the social intermediation platform (building relationships, trust, reliability, a credit repayment culture, etc.) needed for good microfinancing. Any microfinancing strategy in the char areas would have to take these issues very se-

riously and provide for conducive funding and partnership strategy that allows room for the partners to take them importantly as well.

Our analysis of a range of microfinance institutions working in the charlands shows that all are facing difficulties in delinquency management. The portfolio at risk for all institutions studies are quite

high suggesting a disturbing picture in their loan and field operation. It has also implication on the existing product feature (rigid and fixed) and delivery mechanisms (mostly Grameen methodology).

There is also a strong perception among the providers that char dwellers are too poor to be good microfinance clients. This has created a culture of com-

**Table 1: Microfinance Institution Inventory: Kurigram and Gaibandha**

	Kurigram	Gaibandha
Char upazillas	Rajibpur, Roumari, Ulipur, Chilmari, Kurigram sadar	Shaghata, Fulchari, Sundarganj
No. of MFIs reported to have clients in the chars	12	17
Total clients served	18,838	20,620
% of MFIs who have char MFI clients only in one upazilla of the district	58%	82%
No. of MFIs with char clients...		
>5000	1	None
4000-5000	0	1
3000-<4000	0	1
2000-<3000	2	2
1000-<2000	1	3
<1000	8	10

**Table 2: Differences between char and mainland MF clients: MFIs Responses**

Thematic categories	Remarks made by MFIs about the differences between char and mainland MF clients....
Relocation, seasonal migration, vulnerability to river action	People in the chars do not live permanently. Char people are always moving as migrants. They are not stable. Char areas get flooded frequently and can get submerged suddenly. It is very risky to work there.
Lack of work opportunities, limited investment opportunities, etc.	There are different types of work opportunities in the mainland—not so in the chars. The areas of loan investment are very limited in the chars. People in the chars do not have access to markets to sell their produce. Lack of work opportunities. Difficult to commute. Much dependence on agriculture.
Perception of char peoples' characteristics with respect to loan installment repayment	The people in chars do not work much—they are content too easily and lazy. Char people often take loans and move to another char. That does not happen in the mainland. People in the chars are very straightforward and much more united. It is difficult to control them. Char people use any little excuse (such as slight storm, etc.) to delay repaying instalment. It is much more difficult to get loan instalments in the chars—it is much more difficult to manage. In the chars there are times when you do not even get partial loan instalment. Often clients can not be located on the instalment day in the chars. In the mainland we can locate them. Often we find lock on the door on the day of the instalment.
Exceptional views...minority views	The people in the chars are simple and honest. They do not borrow from several NGOs. We are local—we understand the lives of the char people. Others do not understand that. They are afraid of the char dwellers.

<sup>2</sup> Though the national NGO-MFIs, such as Grameen Bank, ASA, BRAC, or Proshika do not 'officially' do microfinance in the char areas, we found that all of them have char microfinance clients in their branches located near the chars. Grameen had 4,700 char microfinance clients in two of the char upazillas in Gaibandha district and 2,239 char clients in two char upazillas of Kurigram district. BRAC had a total char microfinance clientele of 4,775 in six char upazillas of Gaibandha and Kurigram district. Proshika also had a similar size char membership of 4,455. ASA, however seemed to be the most 'consistent' between the official policy and practice—they had only 87 char clients. We got two main responses from these 'reluctant' char serving NGO/MFIs as to why they work there—'half of this area is char—so we can't avoid chars' and 'these clients were in the mainland before—they moved to the chars due to river bank erosion'.

placency in terms of loan default, management and control in the microfinance programmes working in the char areas. It almost seems that microfinance institutions working there are doing so out of sheer generosity. This has impeded examining the real issues and challenges of microfinancing in the char areas, such as:

- Understanding the ways in which access to financial services can be useful to the char dwellers.
- Exploring appropriate products and delivery mechanisms broadly in line with the livelihood dynamics of the char dwellers.
- Investing in entering a 'new' market by understanding the market, building relationship, and signaling reliability and institutional permanence.
- Developing the capacity of the microfinance programme staff at all levels in order to ensure transparent accounting, good internal control, and functional separateness from other programmes being undertaken by the institutions.

### III. Way Forward

High chances of relocation and frequent seasonal migration are two important features of char dwellers' livelihood. Incomings into the household is usually much less regular than it is on the mainland and a large proportion of income come in lumps from seasonal migration. Livestock earning is the most regular of all other common sources that char dwellers derive their income from. Opportunities to engage in activities that will smoothen the income flow is restricted by difficulties of market access and general decline in the adjoining mainland.

The need for financial intermediation that enables the char dwellers to smoothen consumption in the face of quite strong seasonality in income in a less expensive and more reliable way than what is currently available is thus very important. However, realizing the 'opportunities driven' use of financial services however will have to be preceded by significant improvements in the real sector of the char and adjoining mainland economy. Much of these investments are public good in nature and need to be coordinated with a good understanding of the sectoral interlinkages and bottlenecks. Financial services should be an integral component of such an exercise but not be leading it.

In the short term, microfinance in the char areas should be focussing on providing basic financial intermediation services

for reducing vulnerability— essentially being much stronger on developing the 'protection' dimension of microfinance through varied savings based instruments and emergency credit, rather than a 'promotional' one. The 'promotional' instruments need careful targeting as opportunities for multiple livelihoods that can secure regular instalments and create greater capacity to absorb larger loans over time, is much less likely for a vast majority of the char people.

Informal financial sources dominate the financial landscape in the char areas in ways that it does not in the mainland areas of rural Bangladesh. Microfinance in the char areas has not even scratched the sur-

face of the first basic microfinance challenge of outreach. However, the challenges of expanding outreach and developing innovative products and delivery mechanisms, goes hand in hand in the char areas, in a way that it does not in the general mainland rural Bangladesh. This is because investments in a core product and methodology experimentation that largely works in mainland rural Bangladesh was already undertaken by Grameen and other microfinance pioneers, such as BRAC and ASA. This is not the case for the char areas. Good microfinancing in the char areas would involve significant investment in building knowledge and capacity, and freeing biases from received perspectives. ■

## Regional Study on Commercialization of Microfinance Continues

ADB approved a technical assistance grant in November 2000 to carry out a regional study on the commercialization of microfinance. The study covers four countries: Bangladesh, Indonesia, Philippines, and Sri Lanka. The international consultant, Stephanie Charitonenko, with the assistance of domestic consultants, finished the country studies and workshops in Sri Lanka and Bangladesh. These studies are being prepared for publication. The international consultant is now working on the Philippine country study. A country workshop will be held in mid-July 2002 to provide an opportunity for microfinance stakeholders in the Philippines to review, discuss, and submit comments on the consultant's draft paper.



*Minister Kiyokazu Ota from the Embassy of Japan in Bangladesh giving opening remarks at the Bangladesh Country Workshop on Commercialization of Microfinance.*

## Trends in the Asian Microfinance Industry



*Amidst the changing landscape of microfinance in the region, diversity continues to prevail*

When the popularity of microfinance was increasing rapidly about a decade or so ago, some argued that this interest would subside in a few years and eventually fade away. Microfinance was—and still is—presumed by some as just another development fad or a transitory phenomenon. Some who compared the burgeoning interest in microfinance with the experience of small-scale farm credit in the 1970s even suspected that, in terms of performance, it would most likely be de ja vu for microfinance. Fortunately, the pessimism about the future of microfinance has been unrealistic.

The microfinance industry has grown substantially over the last decade. This growth can be seen in the types of institutions involved in the industry as suppliers, breadth and depth of the outreach, and sustainability. Today, the suppliers include a wide spectrum of institutions: commercial banks, cooperatives, rural banks, and specialized microfinance banks, in addition to nongovernment organization (NGO)-microfinance institutions (MFIs).

In several countries where microfinance had previously reached only a few poor and low-income households, outreach continues to grow. These diverse countries include Cambodia, Philippines, Nepal, India, and Kyrgyz Republic. The scope of services provided by MFIs has also increased in many countries. More MFIs today are offering voluntary deposit facilities than a decade ago. Some MFIs are offering insurance services as well, although the number of MFIs and the menu of insurance products they offer are still limited. In many countries, interesting innovations to reach the poorest of the poor, provide flexible deposit services, and reduce transaction costs through the integration of information and communication technology are being tried to deepen and broaden microfinance services.

Equally important is the gradual movement of an increasing segment of the industry toward financial sustainability. This movement has generally not resulted in a “mission drift.” Besides the flagship MFIs, such as BRAC and ASA in Bangladesh, and Unit Desas of Bank Rakyat Indonesia—well known for their massive outreach and stellar financial performance—several small-scale MFIs are also now in this category. Such MFIs include the CARD Bank and TSPI (NGO-MFI) in the Philippines, and the ACLEDA Bank in Cambodia. A few others—such as SHARE in India—are on the verge of financial self-sufficiency. But the number of financially sustainable institutions is still small compared with the size of the universe of MFIs in the region. Yet, the trend is encouraging. If more MFIs adopt commercial interest rates and pay greater attention to the cost side of the financial viability equation, this trend will gather additional momentum.

Many MFIs in the region are moving toward a unique operational culture where their social mis-

sion is blended appropriately with a search for an adequate surplus to stay in business as permanent operators. The continuing search for efficiency and greater responsiveness to the demands of existing and potential clients and the thirst to expand the poverty outreach in a sustainable way reflect this unique operational culture and their loyalty and commitment to the social mission of reaching the poor and low-income groups.

It is this same desire that has strengthened the trend toward formal MFIs in several countries. Some organizations are realizing that within their operational milieu, a semiformal or NGO modality seriously limits their ability to respond to the demands of the target market on a significant scale—as well as efficiently and effectively. Some of these institutions have already transformed themselves into formal microfinance banks and acquired a greater capacity to leverage funds in the market and offer relatively safer deposit facilities to the target groups. Although the transformations have not been easy, they have so far managed to deal with the challenges effectively.

Amidst the changing landscape of microfinance in the region, diversity continues to prevail: it is seen not only in institutional types but also in approaches and delivery mechanisms. This is something that must be nurtured by all those who support the development of a sustainable microfinance industry that can potentially reach millions of unserved and underserved poor and low-income households with quality, varied financial services. The diversity not only reduces the risk of industry failures but also enables reaching different market segments more effectively. However, this does not mean that inefficient institutions, ineffective approaches, and inappropriate delivery mechanisms must be protected and supported to continue in the same way. There is no unique, universally applicable institutional modality, approach, or delivery mechanism to reach the millions who are still outside the frontier of formal and semiformal finance.

Microfinance is not just another development fad. It is about building inclusive financial systems—financial systems that enable previously “excluded” poor and low-income households to be “included” in a wide web of financial services provided by semiformal and formal institutions on a permanent basis at reasonable prices. In this sense, it represents not only an essential but also an irreversible process—one that obviously cannot be completed within a short time frame. Therefore, we need to have a long-term perspective on this industry and support its positive developments with vision, passion, utmost commitment, and responsibility.

**Nimal A. Fernando**

## Book Review

### Development Bulletin No. 57 February 2002

*A Journal of Development Studies Network, Canberra, Australia*

#### Special Issue on Microfinance for Poverty Reduction

Guest Editor: Joe Remenyi

This special issue contains 28 papers grouped under four headings: outreach, best practice, gender, and human resource development. The papers are brief and descriptive. The authors are from diverse backgrounds: academics, microfinance practitioners including those from nongovernment organizations (NGOs), and donor agencies.

One can learn something new and interesting from this collection of wide-ranging and individually short presentations. In terms of outreach, one paper on microfinance in the People's Republic of China discusses an approach of "downscaling" formal financial institutions to reach poor clients, in contrast to a frequently discussed topic in the literature for "upscaling" NGO microfinance operations. Another paper on risks to the savings of poor people reports relatively high degree of risks that poor savers are exposed to in the informal sectors in Africa, and discusses its policy implications. Craig Churchill's paper on microinsurance clarifies the concept of insurance as a risk-pooling mechanism and places it in a broad context of delivering financial services that help poor manage their risks. It then presents an informative overview of major policy and operational concerns that donors should consider when considering support for microfinance development. On best practice, one paper presents the experience of micro-savings facilities in the Philippines. Two "best practice" papers present African experiences with MFI regulations in general. On human resource development, the two papers present practical methods for group preparation and MFI internal capacity building.

Poverty targeting is a crosscutting subject that several papers address. Remenyi in his paper on microfinance best practice argues that "poverty targeting" is one of the essential factors (p.43) for success of development NGOs working on microfinance. Alison Mathie summarizes the findings of targeting strategies of 25 microfinance providers worldwide. Here we learn different targeting approaches and methods and also differential costs and benefits associated with these methods. A couple of other papers present the research findings on gender dimensions of microfinance and raise many complex and complicating concerns deserving further inquiry. One of the papers notes "development agencies committed to the empowerment of women need to question the nature of the link between access to credit by targeting women, and the transformation in gender relations needed for empowerment and equality" (p.71). Added to this may be the need for serious rethinking on a longstanding issue of targets versus instruments. In this respect, a concluding passage from Judith Shaw's paper on microenterprise performance in Sri Lanka is worth quoting. "A central paradox facing poverty reduction strategies based on microenterprise credit [in Sri Lanka] is that they tend to be least effective where they are most needed... as the deficiencies which discourage other forms of economic activity also restrict the scope for high-earning microenterprises" (p. 99).

The papers in this special issue deal with a range of issues that go beyond the four thematic areas under which they are presented. The value of this special issue lies primarily in the diversity of issues raised and the food for thought provided by the papers as a whole for those who are interested in microfinance development.

**Xianbin Yao**  
Assistant Chief Economist  
Asian Development Bank

## ADB Joins the Donor Peer Review

The Consultative Group to Assist the Poorest (CGAP) and the Department for International Development (DFID), United Kingdom initiated a proposal for peer review of institutional policies, practices, and processes relating to funding organizations' support of microfinance. The objective of the review is to improve the microfinance operations of funding agencies and enhance communication among agencies. More than 20 funding agencies, including the Asian Development Bank (ADB), have volunteered to participate in this exercise. A team consisting of staff of CGAP, DFID, and the International Fund for Agricultural Development is expected to carry out the review of ADB's microfinance operations during July 2002.

## Selected Readings on Microfinance

### Journal Articles

**Mckernan, Signe-Mary. February 2002.** *The Impact of Microcredit Programs on Self-Employment Profits: Do Noncredit Program Aspects Matter?* *The Review of Economics and Statistics*, 84 (1): 93-115.

**Ruthven, Orlanda. March 2002.** *Money Mosaics: Financial Choice and Strategy in a West Delhi Squatter Settlement.* *Journal of International Development*, 14 (2): 249-271.

**Matin, Imran, D. Hulme and S. Rutherford. March 2002.** *Finance for the Poor: From Microcredit to Microfinancial Services.* *Journal of International Development*, 14 (2): 273-294.

**Cunningham Wendy, V and W.F. Maloney. October 2001.** *Heterogeneity among Mexico's Microenterprises: An Application of Factor and Cluster Analysis.* *Economic Development and Cultural Change*, 50 (1): 131-156.

**Siwar, Chamhuri and Basri A. Talib. 2001.** *Micro-finance Capacity Assessment for Poverty Alleviation: Outreach, Viability and Sustainability.* *Humanomics* 17 (1-2): 116-133.

**Gomez, Rafael and Eric Santor. November 2001.** *Membership has its privileges: The effect of social capital and neighbourhood characteristics on the earnings of microfinance borrowers.* *Canadian Journal of Economics*, 34(4): 943-966.

**Labie, Marc.** *Corporate Governance in Microfinance Organizations: a Long and Winding Road.* *Management Decision* 39:296-302, 2001.

### Other Publications:

**Churchill Craig and Dan Coster. 2001.** *Micro-finance Risk Management Handbook.* Pact Publications: New York.

**Snodgrass, Donald R. and J. Sebstad. January 2002.** *Clients in Context: The Impacts of Microfinance in Three Countries-Synthesis Report.* Management Systems International. Washington, D.C.

**Zeller Manfred et. al. December 2001.** *Group-based Financial Institutions for the Rural Poor in Bangladesh: An Institutional and Household-level Analysis.* Research Report 120. International Food Policy Research Institute: Washington D.C.



The Asian Development Bank (ADB) has been assisting East Timor in developing its microfinance services. The Prime Minister, Hon. Mari Alkatiri, inaugurated the East Timor Microfinance Institution on 13 May 2002. The ADB President, Mr. Tadao Chino, toured the Microfinance Institution during his recent visit to East Timor for the independence day celebrations on 20 May 2002.

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