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FINANCE for the POOR

Key Issues in Regulation and Supervision of Credit Cooperatives

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Introduction

This paper addresses some key issues in developing an appropriate regulatory environment for credit cooperatives. It begins from an underlying precept that regulatory agencies for banks and other deposit-taking institutions will find it problematic to become involved in regulating institutions that do not take deposits from the general public.² However, it is not necessarily simple to define what it means to take deposits from the general public, especially in the case of credit cooperatives. Whether depositors at credit cooperatives are members of the general public depends, among other things, on whether the credit cooperative is closed (affinity-based) or open

(community-based), the ease of becoming a member, and the size of the credit cooperative (what degree of internal surveillance can reasonably be expected). It can also include the way that share capital is defined and whether it can be withdrawn (or borrowed against) so easily that it effectively becomes a deposit substitute.

Whether credit cooperatives take deposits from the general public or only from a restricted membership, what could be the most appropriate regulatory approach for those that do, and what if anything to do about those that do not, are issues that are not unique to one particular country. In fact, these issues have become more pressing in recent years with the increasing role of credit cooperatives in microfinance. In

¹ I would like to thank my IMCC colleagues who have contributed much to my work on regulation, Lee Arbuckle and Arelis Gomez in particular, and especially Tom Fitzgerald with whom I have co-authored several papers on risk-based supervision. I would also like to thank numerous collaborators in the countries discussed and the donor agencies that have supported this work, USAID, the World Bank, the Asian Development Bank and the Inter-American Development Bank.

² For institutions not to be regulated, the recommended alternative is transparency to facilitate market-based decisions. Achieving transparency provides some specific challenges beginning with the implementation of standardized accounting and performance indicators, followed by improved auditing, both internal and external.

Key Issues . . . *(continued from page 1)*

addition to the Philippines, this paper focuses on credit cooperatives in four Latin American countries and the current status of regulatory efforts in each country. The paper concludes with some observations and recommendations with respect to the characteristics of credit cooperatives that should be given priority when making decisions about their regulation.

The Philippines

In the Philippines, consistent and reliable information about credit cooperatives has not even been available. The Cooperative Development Agency (CDA), the Philippine government entity responsible for cooperatives, including their registration, development and regulation, has not fulfilled the basic function of maintaining an up-to-date registry of cooperatives. While all

cooperatives are required to register and to maintain their registration by submitting financial statements and other pertinent data annually to CDA, relatively few do this, and CDA has generally not been able to take effective action to discipline delinquent cooperatives or to produce a list of active cooperatives.

In the Philippines, creating an appropriate regulatory environment for credit cooperatives thus had to begin at a more basic level by laying the basis for transparency. The National Credit Council (NCC), the agency responsible for credit policy in the Philippines, recognized the importance of this problem. With support from the USAID-funded Credit Policy Improvement Program (CPIP) project, NCC set out to develop a standard chart of accounts for credit cooperatives. Rather than focusing initially on thorny issues of which entity should regulate which credit cooperatives and how,

NCC put together interested parties (e.g., representative credit cooperatives, their federations, and various government agencies) into a technical working group that developed a chart of accounts with accompanying definitions and manuals, which have now been approved by the interested parties. Following this, a set of performance indicators were similarly developed and approved, with the next step being implementation. Support for implementation is currently being considered by a number of donor agencies.

Based on past performance, and despite its designation in law, CDA does not appear to be an appropriate candidate to be the regulatory agency for deposit-taking credit cooperatives. By institutional orientation and by the characteristics of its staff, CDA is too devoted to development and promotion as compared to regulation and too burdened by its responsibilities for the entire cooperative sector. Moreover, even if relevant law was changed to limit CDA's responsibility solely to the regulation of deposit-taking credit cooperatives, the requirements for technical assistance and staff training would be daunting. Furthermore, even at the end of a long and costly process, evidence from similar attempts at reform in other countries (e.g., see Guatemala and Honduras, below) suggests that efforts would not be successful in strengthening CDA sufficiently for it to regulate deposit-taking credit cooperatives effectively.

What, then, are the alternatives for an agency to regulate deposit-taking credit cooperatives in the Philippines? Like bank regulatory entities in most other countries, the Central Bank (Bangko Sentral ng Pilipinas) has been adamantly opposed to taking on this responsibility. Nonetheless, failures of leading credit cooperatives in other countries — failures that could have had major negative repercussions on the overall financial system and not just on other credit cooperatives—have sometimes forced bank regulatory agencies to step in. BSP might try to avoid such an outcome by assuming



MEET OUR MICROFINANCE STAFF

Vo Van Cuong

Vo Van Cuong joined the Asian Development Bank (ADB) in February 1998 and, is now an Economist in the Economics and Research Department. He has

academic training and work experience in finance and banking. Cuong joined the State Bank of Vietnam (the central bank) in 1990, and worked in the Financial Institutions Department focusing on supervision and regulation of branches of foreign banks and joint venture banks. While working in the State Bank of Viet Nam, Cuong obtained his Master of Science in Financial Economics in 1994 from the School of Oriental and African Studies at the University of London. To satisfy his quest for further knowledge and training in finance and banking, he went to the Stern School of Business at New York University under a Fullbright Scholarship from where he graduated in May 1997 with a MBA. In June 1997, he joined the Bank of America and worked on a syndicated loan arrangement for a commercial joint stock bank in Vietnam.

At ADB, Cuong showed a keen interest in microfinance and participated in processing microfinance projects for countries such as Papua New Guinea, Samoa, Indonesia and the Philippines. With the reorganization of ADB in January 2002, Cuong also became a member of the Rural and Microfinance Committee which is responsible for peer review of microfinance and rural finance projects, among other things.

responsibility for deposit-taking credit cooperatives and then delegating this responsibility to another entity, but arrangements of this type have typically not worked well in other countries (see Peru, below). Alternatively, BSP is considering offering technical assistance to whatever other agency might ultimately be given the responsibility.

Another alternative could be to rely on the Land Bank of the Philippines (LBP) to become the regulatory agency for deposit-taking credit cooperatives because of its long-standing close relationship to rural cooperatives and its consequent interest in their financial health. However, it must be recognized that there would be a potential conflict of interest in such an arrangement because LBP's primary objective is to move its funds through these cooperatives to cooperative members and only secondarily to protect cooperatives' financial health. Moreover, in case of a failing credit cooperative, LBP would logically be more interested in recovering the funds that it had lent to the cooperative than in protecting the cooperative's depositors. Other alternatives include creating an entirely new regulatory agency or turning to self-regulation, for which there is considerable support in the credit cooperative movement. However, in developing countries there are few examples of long-run success with self-regulation by a federation or allied entity, although this might be the best interim solution.

Guatemala and Honduras

The credit cooperative movements in both Guatemala and Honduras suffered through difficult times in the 1970s and into the 1980s, with the situation further characterized by a lack of effective regulation. In both Guatemala and Honduras, there was a single government agency responsible for the development and regulation of the overall cooperative sector, but given the specialized technical nature of financial intermediation carried out by credit cooperatives and the inherent conflict between regulatory and developmental objectives, the responsible agency could not fulfill its obligations. Moreover, in

both countries the regulatory agency for the banking sector was totally unwilling to take on the responsibility for regulating credit cooperatives.

Efforts began in the mid-1980s to rehabilitate the credit cooperative systems in both countries, with financial support from USAID and technical collaboration from the World Council of Credit Union (WOCCU). While both projects were highly successful in strengthening the federation and a significant number of individual credit cooperatives, the result in Guatemala was a relatively centralized, top-down system, while in Honduras the individual credit cooperatives that had been successfully rehabilitated shared leadership with federation management. Nonetheless, little progress was made on the regulatory side, as efforts to strengthen the government agency responsible for credit cooperative regulation in each country proved totally unsuccessful. Resources provided to these agencies failed to strengthen their regulatory capacities, while legal changes were not forthcoming in either country to refocus the cooperative agency exclusively on the credit cooperative system rather than cooperatives in general and on regulation rather than promotion and development. Nonetheless, the credit cooperative federations in both countries have implemented standard charts of accounts with standard definitions and performance indicators for affiliated credit cooperatives.

Unable to rehabilitate the government agency responsible for cooperatives and unable to persuade the regulatory agency for banks that it should also attend to the regulatory needs of credit cooperatives, credit cooperative leadership in both countries decided that the only option was to create their own regulatory agency. This effort was initiated first in Honduras through the creation of a private regulatory agency with voluntary participation. The main problem was that the regulatory agency was owned by the credit cooperatives to be regulated and had no legal means to discipline credit cooperatives that did not live up to regulatory standards beyond adverse publicity. In addition, some of the directors of the regulatory

agency did not come from the most financially sound credit cooperatives. The Guatemalan regulatory agency is also private and a creation of the credit cooperative federation, but was initiated more recently so that its chances for success are less clear at this point. Nonetheless, it has three potential advantages: (1) it was begun as a rating agency so that collecting and providing transparent information, rather than imposing penalties, is its primary mandate; (2) it has strong financial and technical support from the Consultative Group to Assist the Poorest and also from WOCCU, neither of which was actively involved in the Honduran effort; and (3) the Guatemalan federation has much greater leverage over its affiliates because it operates a financial network through which only the better credit cooperatives can participate to clear intra-system transactions.

Brazil

In Brazil credit cooperatives are only permitted to exist in the "closed" form, that is, they must be affinity based (i.e., all members have the same employer). All credit cooperatives are regulated by the Superintendency for Banks and required to use a standard chart of accounts, to have external audits and to send figures regularly to the Superintendency for off-site supervision. If the figures sent appear problematic, the credit cooperative is summoned to appear before the Superintendency to explain the situation firsthand in greater detail. Formerly, the Superintendency worked in conjunction with the "central" for credit cooperatives in each region to carry out regulatory functions, with periodic visits of the regional "central" to affiliated credit cooperatives.

Since by definition closed or affinity-based credit cooperatives cannot take deposits from the general public, they would not normally fall into the category of financial institutions subject to prudential regulation. The way such regulation is carried out in Brazil in practice suggests that the Superintendency is aware of the problematic aspects of its responsibility. To economize on the resources that

would be required for full-scale regulation of such a large number of small institutions, supervision is all off-site, with credit cooperatives in fact coming to the Superintendency to deal with any problems identified. Furthermore, a standard chart of accounts and external audits are required to promote transparency, which further reduces the burden on the Superintendency. It is also worth noting that the Superintendency has abandoned the practice of delegating supervision partially to “centrals” in each region.

Peru

Credit cooperatives are divided into two groups according to the law governing the Peruvian financial system: those that take deposits from the general public and those that take deposits only from members. Those that take deposits from the general public are to be regulated under this law, but in fact no credit cooperative has opted to declare that it takes deposits from the general public, presumably to avoid the regulation that would be involved. Those that take deposits only from members are under the purview of the cooperative law and, consequently, are regulated by the Credit Cooperative Federation (FENACREP) under delegation from the Superintendency of Banks and Insurance (SBS). Because an open credit cooperative (one that is not affinity based) can make it easy for anyone to become a member, any individual from the general public can readily become a member of such a credit cooperative, and hence a depositor. Based on this fact, current law notwithstanding, some of the more aggressive Peruvian credit cooperatives, three in particular, have become as large as small banks. This blurring of the line between “deposits from the general public” and “deposits not from the general public,” is at the heart of the need to reform how credit cooperative regulation is structured in Peru.

Until 1992 Peruvian credit cooperatives were covered by the General Law for Cooperatives (LGC) and regulated by the National Institute

for Cooperatives (INCOOP). Regulation was poor with no site visits, and information was deemed unreliable since there were few accountants, no standard chart of accounts and no requirements for internal or external auditing. Furthermore, INCOOP was supposed to regulate 4,500 cooperatives of all types. INCOOP was liquidated by government decree in 1992, a year of crisis in Peru, with responsibility for the supervision of credit cooperatives not taking deposits from the general public (effectively all credit cooperatives, as explained above) delegated to FENACREP.

FENACREP has neither the human nor financial resources to undertake credit cooperative supervision effectively. Moreover, FENACREP is not only charged with promoting the development of credit cooperatives, as well as regulating them, but is also owned by the credit cooperatives that it is expected to regulate. FENACREP has only 16 employees, of whom only six are dedicated to supervision. In the area of control (off-site supervision) there is one senior person formerly at the SBS and two young economists. In the area of inspections (on-site supervision) there are three accountants, with the lead position vacant. In 2000, FENACREP’s revenues were about US\$372,000, mainly from fees for regulation, while expenditures were about US\$385,000, the majority for salaries, but not broken down according to activities such as regulation. In comparison, the costs incurred in 2000 by the SBS in regulating MFIs were estimated to be US\$3,022,000. Thus, FENACREP is spending far less to supervise 193 credit cooperatives than the SBS spends to supervise a far smaller number of MFIs, which have approximately the same assets in total as the 193 credit cooperatives.

Of Peru’s 193 credit cooperatives, as of mid 2000 a substantial majority were the 70 credit cooperatives not taking deposits plus the 67 small open credit cooperatives with assets less than US\$0.9 million that together accounted for less than 10 percent of total system loans. The 15 medium size open credit cooperatives (assets between US\$0.9 and US\$5.7 million) and the 9 military-

based credit cooperatives together accounted for slightly more than 20 percent of total system loans. By far the most important categories are the three large open credit cooperatives, more than 40 percent of total system loans, and the 29 affinity-based credit cooperatives, just under 30 percent of total system loans. Another important fact is that overdue loans are lowest for affinity-based credit cooperatives, only slightly higher for large open credit cooperatives, but substantially higher for medium size open credit cooperatives, and highest of all for small open credit cooperatives.

The three large open credit cooperatives that behave like banks are most clearly in need of regulation, like any deposit-taking entity, because of risks to the system. Whereas the small open credit cooperatives may be most in need of attention due to their problematic loan portfolios, the high costs of supervising all these small institutions must be recognized and, more importantly, that they pose minimal systemic risks. Thus, it may be best to treat them as “clubs” taking deposits from only a small, well-defined set of members where internal surveillance by these members must be deemed sufficient. Clearest is the lack of a need to regulate affinity-based credit cooperatives, given the effective common bond among members who cannot be from the general public, and thus the ease in making lending decisions and in collecting loans, as reflected in their low overdue rates. By following these guidelines on which credit cooperatives to regulate, the burden on whichever regulatory agency is chosen can be reduced to modest proportions.

Some Observations on Credit Cooperative Capital

Perceived problems of ownership and governance in credit cooperatives, especially the failure of members to be informed and to participate actively in the affairs of their credit cooperatives, are often cited as major weaknesses. A more basic starting point is the definition of capital and the operational implications of different types of capital.

First, institutional capital, consisting mainly of retained “earnings” plus various reserves for special purposes, needs to be separated from share capital that has been contributed by, and effectively belongs to, individual members. Institutional capital is available for the special purposes indicated and, more importantly, to cover losses that might occur in bad years, and which would only be distributed among members (after satisfying prior claims) if the credit cooperative were to be liquidated. On the other hand, share capital that an individual member has contributed can be withdrawn when that member leaves the credit cooperative. Since credit cooperatives, especially those with financial problems, often make it complicated for members to resign and withdraw contributed share capital, members wanting to resign often resort to taking “automatic loans,” which normally can be disbursed in just one day and can be up to 90 percent of a member’s share capital. The purpose of automatic loans is to give liquidity to members’ share capital, rightly seen as an attractive feature, and not to circumvent transparency by allowing members to resign effectively without resigning officially through designated procedures.

This analysis of credit cooperative capital has two important implications for regulatory purposes. First, unless it is made impossible for credit cooperative members to withdraw their share capital expeditiously (undesirable because of the importance of liquidity and the right to disassociate that comes with the right to associate), it is only institutional capital that stands fully behind the obligations of the credit cooperative and thus can be counted fully for fulfilling minimum capital requirements and capital adequacy ratios. Second, because members’ share capital can effectively be made as liquid as deposits, an arbitrary regulatory distinction between credit cooperatives that operate with member deposits and those that operate only with share capital will likely be no more effective in dealing with overly aggressive credit cooperatives than the distinction between taking deposits from the general public or only from members. Given the ability to blur the distinction not only between deposits from members and from the general public, but also between deposits and share capital, reliance needs to be placed on the concept of a “club” whereby freely-associating members are expected to know and police each other effectively (aided, of course, by a governmental commitment to deal with fraud, etc.) in order for credit cooperatives to be distinguished effectively from banks. Otherwise, if all credit cooperatives, even the smallest, are treated as if they were deposit-taking banks, and thereby required to comply with what is required for even the simplest category of bank, small groups of individuals of modest means will be thwarted in their efforts to join together to help each other, and related innovations in the delivery of financial services will likewise be thwarted.

Lessons and Recommendations

To implement an effective regulatory environment for credit cooperatives in countries such as the Philippines, an essential first step is to ensure there is a standard chart of

accounts with standard definitions for all credit cooperatives and then to secure agreement on key indicators of condition and performance. Categorizing which credit cooperatives effectively take deposits from the general public and which take deposits only from a well-defined set of members can come next, and then which institution(s) should regulate cooperatives deemed to take deposits from the general public, recognizing that for implementation in the most countries, including the Philippines, this will likely require changes in the cooperative law and the general banking law, followed by substantial technical assistance for the chosen regulatory institution(s).

Transparency through standard accounting. The environment for non-deposit-taking credit cooperatives should encourage the provision of transparent information so that potential donors, lenders and investors can make well-informed market-based decisions. The best starting point is the chart of accounts required for the country’s deposit-taking institutions (e.g., banks), adjusted as necessary to international best practice standards (e.g., Basle or GAAP), and also taking into account possible simplifications stemming from the lack of deposit-taking and other more complex banking activities in the typical credit cooperative.³ Using the chart of accounts for the country’s banks as the basis facilitates more effective comparisons among all types of financial institutions and can also economize on audit costs.

Auditing. Improved internal auditing and external audits by qualified auditors following a prescribed format can also contribute to the transparency of non-regulated credit cooperatives, and with audit cost reduced by the increased efficiency stemming from standardized accounting. Regulatory agencies often provide lists of approved auditors, but, to be efficient and effective, auditors also need to be familiar with credit cooperatives. Also important can be the development of a standard scope of work for external audits of credit cooperatives, as many credit cooperatives may not be “educated consumers” of audit services.

Guidelines for regulatory categories. Differentiating between open, community-based credit cooperatives and closed, affinity-based credit cooperatives is essential. The latter cannot take deposits from the general public and thus should not generally fall into the category of being regulated like banks.⁴ Credit cooperative size (e.g., numbers of members, assets and branches) must also be considered, not only because of the greater likelihood of club-type relationships in smaller groups but also because of costs. To the cost of implementing standard accounts must be added the costs of external audits and of supervision itself, however

³ The standard chart of accounts of course includes standardized definitions as given in detail in the accounting manual(s) that accompany the chart of accounts.

⁴ Risk management is also far simpler, as lending only to the employees of a single enterprise, given that the enterprise itself does not have serious economic problems, requires little more than verifying employment status and having arrangements that permit loan payments to be taken out of salaries.

divided between the regulatory agency and the regulated institution. In balancing the goal of allowing individuals to cooperate and innovate against that of protecting depositors and the stability of the financial system, it would be both uneconomical and repressive to regulate credit cooperatives that do not have branches and have only a small number of members and a small amount of assets.

Summary of Recommendations:

Open deposit-taking credit cooperatives above a certain size with flexible membership requirements that allow the

general public effectively to be depositors would be regulated, basically like banks.

Affinity-based credit cooperatives, and some intermediate range of open credit cooperatives (depending on size, flexibility of membership requirements and characteristics of deposits and shares), would be required to report their financial statements, based on standardized accounting and supported by external audits.

Small credit cooperatives would receive no regulatory attention unless membership requirements and share and deposit characteristics were defined to encourage the general public to be depositors. ■

NEWS HIGHLIGHTS

ADB Cosponsors Microfinance Donor Training Course in Manila

The Asian Development Bank (ADB), with the assistance of the Consultative Group to Assist the Poorest (CGAP), organized and conducted the CGAP donor course "Appraising a Microfinance Institution" on 3–6 December 2002. The course was held at ADB headquarters in Manila. This was the second time that ADB cosponsored this training program. In addition to ADB staff involved in microfinance, staff from other funding agencies such as the United States Agency for International Development and the World Bank attended the training.

ADB Lead Rural Finance Specialist Joins Donor Peer Review of Microfinance

Nimal A. Fernando, ADB's Lead Rural Finance Specialist, was a member of the Donor Peer Review Team that reviewed microfinance operations of the United Nations Capital Development Fund (UNCDF) and the United Nations Development Programme (UNDP) on 20–25 October 2002. The other members of the team were Brigit Helms (Lead Microfinance Specialist of CGAP), Alexia Latortue (Microfinance Specialist of CGAP), and Arlina Tarigan-Sibero (Senior Sector Economist in the Sector Policy Department of KfW). The team interviewed 67 staff members of UNCDF and UNDP, including 30 UNDP field staff members scattered in different parts of the world. The team's recommendations were presented to UNCDF and UNDP at a debriefing meeting at UNDP Headquarters in New York on 25 October 2002.

Microfinance Information eXchange (MIX) Founded

In June 2002, CGAP and several nonprofit foundations including Open Society Institute, Rockdale Foundation, and the Foundations of Citibank and Deutsche Bank, established the Microfinance Information eXchange (MIX). The Mix is a nonprofit organization dedicated to providing global professional information services to the microfinance industry. The mission of MIX is to help build the microfinance market infrastructure. More information on MIX can be obtained from www.themix.org

Accion Introduces a New Publication

Accion—a US-based international nongovernment organization promoting microfinance services primarily in Latin American countries—introduced InSight, a new publications series that shares the latest results of its microfinance research. These free, one-topic bulletins highlight practical applications, policy viewpoints, and the latest developments in the microfinance field. The bulletins can be downloaded from www.accion.org/pubs

UNCDF-SUM Releases a Distance Learning Course in Microfinance

The Special Unit for Microfinance (SUM) at the UNCDF published in September 2002 a course on basic principles of microfinance. The course comes in a package with two CD-ROMs; one contains Computer-Based Instructions and the other a selection of readings to accompany the 11 lessons. A workbook is included that explores the topics in more depth, offering practice questions and solutions. "I have been through the course in great detail, and think it is the best introduction to

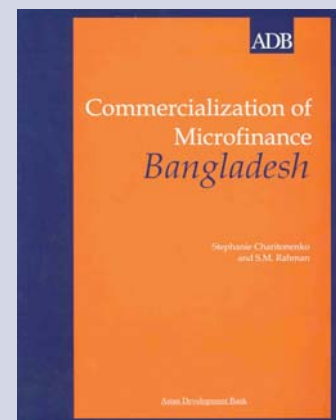
microfinance I have seen," says Richard Rosenberg, CGAP's Senior Advisor. Detailed information on the course, including ordering information, can be obtained from www.uncdf.org/sum ■

NEW ADB PUBLICATION ON MICROFINANCE

Commercialization of Microfinance: Bangladesh. September 2002. Asian Development Bank: Manila. Hard copy price: \$10 (inclusive of shipping charges).

To order directly from the ADB headquarters, e-mail adbpub@adb.org. Please allow at least two weeks for order fulfillment. Send a copy of your earlier e-mail to Lynette Mallery at lmallery@adb.org if your order remains unfulfilled after this period.

The publication may also be downloaded free of charge from http://www.adb.org/Documents/Reports/Commercialization_Microfinance/BAN/default.asp



BOOK REVIEW

Marguerite S. Robinson. July 2002. *The Microfinance Revolution: Lessons from Indonesia*. The World Bank: Washington, D.C.

I have finally found time to read this book. Like Dale Adams, who reviewed it, I would recommend this volume to anyone interested in microfinance, or development finance more generally. There are several chapters, noted below, that would appear especially useful for practitioners.

Robinson has wide experience with microfinance worldwide, but Indonesian microfinance is piece of it she knows most intimately. Most of us involved in microfinance have heard about the performance of the Unit Desa system of Bank Rakyat Indonesia (BRI). What is less well known is that Indonesian microfinance is over a century old, and that besides BRI there is a rich panorama of other microfinance

providers, some of them very large, and some of the smaller ones very interesting—particularly the private Bank Dagang Bali, which was founded by a poor couple as a way to extend their money-lending business, and has been serving rich and poor customers under the same roof for three decades now.

Robinson portrays Indonesian microfinance, along with its political, economic, and cultural environment, in luxuriant detail. There are dozens of policy lessons, with plenty of real-life examples of rural and microfinance disasters. The most operationally useful part of the volume lies in three chapters that give an extraordinary step-by-step account of the challenges, decisions, and discoveries that went into building the modern Unit Desa System, a strongly profitable intermediary that had 2.7 million borrowers by 2000 with an average outstanding loan size of \$300, and 25.8 million savers with an average account size of \$77. Chapters 12 and 13 examine the development of the loan and savings products, while Chapter 14 looks at the key organizational issues that were dealt with along the way. I

have never before seen such a detailed and insightful dissection of the building of a great microfinance institution (MFI). These chapters should be particularly interesting to microfinance managers. BRI's "model" is not a template for copying, but other MFIs face many of the same challenges, and will probably find helpful ideas and perspectives in the BRI story—especially its disciplined, systematic approach to product design and roll-out. Commercial bankers considering microfinance will find a lot to think about in the chapter on organizational issues, because yoking microfinance to a commercial bank is a process that has proved to have its share of landmines.

The most striking part of the volume is its last chapter, which analyzes the amazing resiliency shown by Indonesian MFIs in the face of the country's financial melt-down in recent years.

Rich Rosenberg
Senior Advisor
Consultative Group to Assist the Poorest, Washington, DC.

MARGUERITE ROBINSON'S BOOK.....

is a serious tome that all doctors of development finance ought to read carefully. This volume covers the microfinance that Dr. Robinson knows best. She and a few other Harvard colleagues were heavily involved in reforming the Unit Desa division of the Bank Rakyat Indonesia into a highly profitable microfinance operation.

The volume is a three-day read. For those with less time I suggest reading Chapters 10–13 where the recent development of microfinance in Indonesia is discussed. In Chapter 10 the author fondly describes the growth of a private bank in Bali, Bank Dagang Bali, that created a profitable microfinance operation from scratch. The couple that founded the bank learned microfinance by starting out as informal moneylenders. In Chapter 11 Robinson describes the traditional subsidized-credit efforts of the BRI from 1970–1983. The next couple of chapters cover the highly successful microcredit and deposit mobilization efforts of BRI in rural areas during the post-reform period beginning 1984. The latter part of Chapter 15 is also vital reading where Robinson discusses how microfinance weathered the financial turmoil suffered by Indonesia during the late 1990s.

Serious students of microfinance will gain much from the insightful and interesting information that Robinson provides on these Indonesian cases. Having tried, unsuccessfully, to reform several traditional agricultural development banks similar to BRI, I am envious of what was accomplished by the Harvard group and their Indonesian colleagues. This led me wonder how a devious Greek Goddess might have derailed the reform of BRI's Unit Desas, as she has done in dozens of other cases around the world. Most of these banks have been liquidated or are among the walking dead.

I have only one tiny bone to pick with Robinson. Her background information provides next to nothing about informal finance in the country. After all, informal finance is the most serious competition for microfinance efforts. Robinson notes that the founders of the Bank Dagang Bali learned their trade by being informal lenders and the BRI later copied some of the techniques used by these founders. Why not go to the source, informal finance, if one wishes to learn how microfinance is done?

Dale W. Adams
Consultant in Rural and Microfinance
Utah, USA

ADB President Emphasizes Importance of Microfinance

Microfinance is a powerful and effective tool for reducing poverty in the developing world, said ADB President Tadao Chino during an address recently to the Sydney-based nonprofit organization Opportunity International Australia.

"Microfinance can help enhance the ability of poor households to increase incomes, build assets, and reduce their vulnerability in times of economic stress," Mr. Chino said in his speech, which focused on the challenges of achieving sustainable growth and reducing poverty in Asia and the Pacific. "With better access to microfinance services on a continuing basis, the poor, particularly women, become more active partners and, in many cases, proactive partners, in the development process."

"The real power of microfinance lies in its ability to empower the individual," he said, adding that empowerment, at the most basic level, means "increasing one's control over resources and decisions which, in turn, can shape and define one's life and destiny." Mr. Chino continued to highlight how, based on his own personal observations, ADB assistance has contributed to the development of the microfinance industry in countries such as East Timor and Pakistan.

He was Keynote Speaker in a special event on 14 November 2002 organized by Opportunity International, a leading international nonprofit organization involved in promoting microfinance services.

SELECTED READINGS ON MICROFINANCE

Books

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