5 Conclusions

Commercialization of microfinance in the Asia and Pacific region holds the promise of capitalizing on the achievements in outreach that MFIs have made to date. General improvements in MFIs' financial self-sufficiency and efficiency are promising, but the industry is far from achieving all the potential benefits of microfinance commercialization.

The largest impediment to commercialization may be the persistence of large, subsidized microcredit programs, which continue to be promoted by governments and donors alike. Continuance of these programs is mainly due to a negative perception of commercial microfinance. Many Asian policymakers and practitioners continue to have paternalistic attitudes and hold the false belief that microborrrowers are too poor to pay cost-recovery interest rates. This notion appears to have a very strong influence on the speed with which the microfinance industry is moving toward a higher level of commercialization (Fernando 2002, p. 6).

Favorable attitudes toward commercialization in Indonesia and the Philippines have contributed to greater levels of microfinance commercialization in Southeast Asia than South Asia. The long history of microfinance in the region yields ample evidence that commercialization has contributed to substantial and sustainable increases in outreach in terms of breadth, depth, and scope. Mission drift, commonly assumed to be associated with increased commercialization, has not occurred in some of the most commercial MFIs in the region. Although significant impediments still exist to inflows of private equity and debt capital, progress toward commercialization has led many leading MFIs to expand savings mobilization dramatically, both as a valuable service to their predominantly poor clients and as a source of funding. By tapping into savings, the most commercial MFIs have achieved scale and efficiency, while providing an important financial service to the poor. As examples like these of the benefits of commercial microfinance become more widely disseminated, attitudes may change, allowing the commercialization of the industry to progress more rapidly.

The two countries that offer the greatest potential for microfinance outreach are the PRC and India, with their large and growing populations. To date, however, MFIs in these countries have not yet achieved significant outreach, mostly because of the lack of enabling environments. Most of the microfinance programs in the PRC are either government controlled or government influenced, and usury laws have impeded MFIs from charging cost-recovery interest rates. In India, banks have provided access to deposit services for a large number of small savers, but total demand for microfinance is far from being met. The rapid growth of self-help groups and other community-based intermediaries is still insufficient to meet the ever-increasing demands of microborrowers (Titus 2002, p. 303). The number of poor households with demand for microcredit in India is estimated to be 75 million, of which less than 4% (3 million) are currently served (Fisher and Sriram 2002, p. 41). Microfinance expansion in India has been stalled by government-sponsored and donor-subsidized credit programs and poor physical infrastructure, which have hindered commercial microfinance from taking root. Until these issues are addressed, microfinance in the Asia and Pacific region will be far from achieving its full impact.

While NGOs have played a key role in demonstrating that the poor can save and repay loans, a significant amount of microfinance outreach has been and will continue to be provided by commercial MFIs. A few microfinance NGOs have been able to achieve vast outreach, primarily because of charismatic leaders with strong commitments to serving the poor. However, most have not been able to achieve scale, mainly because of difficulties in accessing funds to fuel their growth. Nonetheless, microfinance NGOs can still play a role in expanding microfinance by experimenting with new methodologies to reach further down-market, especially to the rural poor. Difficult terrains, low population densities, and limited infrastructure predominant in rural areas all pose a challenge to commercial microfinance. With donor support, microfinance NGOs should continue to seek ways to reduce transaction costs and increase efficiencies through innovation and experimentation, without undermining market mechanisms. Once more efficient and profitable models are identified, it is likely that commercial financial institutions will be attracted to serve poor and low-income segments of rural markets as well.

Implementation of the recommendations contained in this report would assist the movement of each of the countries in the Asia and Pacific region further along the commercialization continuum, which should result in expanding access to microfinance for the poor as well as higher-income clients. Clients will likely be offered an increasing variety of products and services that are more customized to their specific needs and preferences, resulting in greater customer satisfaction. In turn, clients' businesses will be able to grow, yielding more income and creating jobs for other low-income individuals. This is a model that is likely to lead to economic growth for each of the countries as a whole and create more wealth from which to pay for necessary social services, including those that reach the poorest segment of society.