

COMMERCIALIZATION OF MICROFINANCE

PERSPECTIVES FROM SOUTH
AND SOUTHEAST ASIA

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FOREWORD

The gap between the potential demand for, and the actual supply of, microfinance services remains large. Bridging this gap remains a major challenge. Microfinance reduces financial exclusion and can have a significant impact on poverty reduction. Commercialization of microfinance is a possible solution for expansion of microfinance.

The Microfinance Development Strategy of the Asian Development Bank (ADB), approved in June 2000, and formulated through an extensive consultative process involving many industry stakeholders, recognizes the importance of commercialization, not as an end in itself but as a means to expand financial services to poor and low-income households and their microenterprises on a sustainable basis. Thus, an element of the strategy is to “support development of viable microfinance institutions that can set in motion a process of commercialization of microfinance services.” To facilitate this, in November 2000, ADB approved a regional technical assistance project on Commercialization of Microfinance. The project was funded from the Japan Special Fund and its main objective was to improve understanding of the process of microfinance commercialization as well as its challenges, implications, and prospects. The project consisted of country studies, in-country workshops to discuss the findings of the country studies and institutional experiences, a regional study, and a regional workshop.

This publication is the report of the regional study, which was based primarily on the country studies—covering Bangladesh, Indonesia, Philippines, and Sri Lanka—enriched by observations on industry developments in other countries in the region and in Latin America. The report highlights the different perspectives on commercialization of microfinance and identifies issues and challenges relating to commercialization in the region. The report also recommends a range of approaches to promote the process of commercialization. Overall, the study provides excellent insights into the issues of commercialization of microfinance.

It is hoped that this publication will contribute to a better understanding of the issues involved in commercialization of

microfinance and lead to better approaches to minimize the financial exclusion that characterizes the financial system, not only in the developing countries of the Asia and Pacific region but also in similar countries in other regions.



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ABBREVIATIONS

ACLEDA	Association of Cambodian Local Economic Development Agencies
ADB	Asian Development Bank
ASA	Association for Social Advancement
BDB	<i>Bank Dagang Bali</i>
BKD	<i>Badan Kredit Desa</i> , or village credit association
BPR	<i>Bank Perkreditan Rakyat</i> , or people's credit bank
BRAC	Bangladesh Rural Advancement Committee
BRI	<i>Bank Rakyat Indonesia</i> , or People's Bank of Indonesia
CARD	Center for Agriculture and Rural Development
CRB	cooperative rural bank
CUES	Credit Union Empowerment and Strengthening Project
FOCCUS	Finance Organizations Achieving Certified Credit Union Standards
FSS	financial self-sufficiency
GDP	gross domestic product
HNB	Hatton National Bank
IPC	Internationale Projekt Consult, GmbH
LDKP	<i>Lembaga Dana Kredit Pedesaan</i> , or Rural Fund and Credit Institution
LPD	<i>Lembaga Perkreditan Desa</i> , or Village Credit Institution, LDKP in Bali
MABS	Microenterprise Access to Banking Services
MBB	MicroBanking Bulletin
MCUB	Model Credit Union Building
MEB	MicroEnterprise Bank
MFI	microfinance institution
NCC	National Credit Council
NGO	nongovernment organization
PKSF	<i>Palli Karma-Sahayak</i> Foundation
PP	<i>Perum Pegadaian</i>
RDB	rural development bank
SBS	Samurdhi Banking Society
SEEDS	Sarvodaya Economic Enterprise Development Services
TCCS	Thrift and Credit Cooperative Society
TSPI	<i>Tulay Sa Pag-Unlad</i> , Inc.
USAID	United States Agency for International Development
WOCCU	World Council of Credit Unions