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FINANCE for the
POOR

**Adding Value to Microfinance
and to Public Health
Education—At the Same Time**

CHRISTOPHER DUNFORD
President, Freedom from Hunger

Microfinance can be a powerful tool for giving the poor more economic options. However, the very poor people need more than microfinance to address the causes and conditions of their poverty. Ideally, they would have access to a coordinated combination of microfinance services and other development services to improve business, income and assets, health, nutrition, family planning, education of children, social support networks, and so on. The question is how to ensure a “coordinated combination” of appropriate services, especially in rural communities and other communities where multiple services are simply unavailable.

Microfinance practitioners are often motivated to provide nonfinancial services to their clients, because they recognize the need and hear the demand. However, the



Very poor people need more than microfinance to address the causes and conditions of their poverty

legitimate concern for sustainability, interpreted as the financial viability of the microfinance service as a business, has made practitioners very cautious about nonfinancial add-ons. They believe that add-ons can only be a drag on the drive for sustainability. Where other, non-financial service organizations can provide these

other services for the same clients, some microfinance practitioners have fostered referrals and common points of service with their nonfinancial counterparts. But most microfinance institutions feel compelled or prefer to focus solely on

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the financial needs of their clients and do not attempt to meet their nonfinancial needs.

On the other hand, group-based microfinance provides a good opportunity to provide low-cost education services needed by the poor, if only to improve their performance as microfinance clients. This is especially true for village banking and related delivery systems (e.g., the systems used by the Grameen Bank) that bring large groups of relatively poor clients together in regular meetings. Freedom from Hunger has shown that with collaborating microfinance service providers on four continents good, nonformal adult education techniques can be used effectively at the regular meetings to cover a variety of education topics.¹ Examples include promoting changes in child care, personal health habits, and use of local health services, as well as improvement of business skills that enable microfinance clients to put their loans to more productive use and generate more profit and savings.

The Public Health Perspective

Three features of microfinance interest public health program planners. First, more income and assets due to microfinance participation should enable the poor to put what they learn from public health education into practice, to increase their “effective demand” for health.

Second, group-based microfinance usually brings poor women together regularly (weekly, biweekly, monthly) over periods of months and years. These finance-oriented meetings are also opportunities to provide education on a variety of topics over extended periods to mothers and also younger and older women who would not normally be reached by public health edu-

cation centered on maternal/child clinics, immunization days, growth monitoring sessions and such.

Third, best-practice microfinance programs are set up to achieve financial self-sufficiency with the interest paid on loans. Program-generated income can sustain not only the financial business but also an educational effort by the same staff. Much of the cost of community-based education is in bringing people together with an educator at set times and places. This cost is covered already by the microfinance operations so that the marginal cost of adding a well-focused educational program can be quite small.²

In fact, field officers who support groups of borrowers/savers are already engaged in developing the groups’ skills for group and financial management. An educational agenda built on this existing system can add value to the financial services the groups receive. However, Smith and Jain (1999) argue that integration of microfinance and health education may compromise the quality of both. The effectiveness and efficiency of generalist field officers will be less, according to the argument, than for specialists in one or the other type of service.

Freedom from Hunger has tested the proposition that a field officer can simultaneously and effectively offer loans, savings opportunities, and education for child survival and health to groups of poor women.

An educational agenda built on the existing system of microfinance institutions can add value to the financial services the clients receive

Freedom from Hunger has successfully tested the “microfinance with public health education” model in 14 developing countries, including the Philippines

Credit with Education—A Demonstration of Impact on Food Security and Nutrition

Freedom from Hunger, a California-based international nonprofit organization, has been developing and supporting “Credit with Education” since 1989 through partnerships with credit unions, rural banks, and local nongovernment organizations in 14 developing countries. Altogether, these Credit with Education services reached nearly 290,000 women with nonformal adult education and nearly \$24 million in small loans (average: \$100 per borrower) as of June 2003. On (weighted) average, for all the service organizations, the portfolio at risk³ was 4.5% and the operating self-sufficiency ratio⁴ was 119%. The program uses a village banking strategy to provide small-scale loans (less than \$300) and education at weekly meetings to economically active poor women in mostly rural areas of Africa, Asia, Latin America, and the Caribbean.

Participants form self-managed Credit Associations (also known as “village banks” or “centers”) and guarantee each other’s loans used to invest in income-generating activities. The 15–50 members of each Credit Association (CA) meet weekly to repay portions of principal and interest, deposit savings, and learn about basic health and nutrition practices, family planning, and small business management. The

health education promotes ideal behaviors in the following areas: (i) diarrhea prevention and management, (ii)

¹ See Freedom from Hunger’s technical information web site at <http://www.ffhtechnical.org>.

² See <http://www.ffhtechnical.org>.

³ Defined as (total outstanding balance of late loans) divided by (the amount of loans outstanding).

⁴ Defined as [(financial income) + (other operating income)] divided by [(financial costs) + (loan loss reserve) + (operating costs, including the marginal cost of delivering education)].

breastfeeding, (iii) infant and child feeding, (iv) immunization, (v) family planning, (vi) women's health, (vii) child health, (viii) HIV/AIDS prevention and care and, soon, (ix) malaria prevention and treatment. This group-based dialogue education combines local knowledge and practices with global learning and experience. The education modules for each topic are delivered over a series of regular CA meetings, each "learning session" requiring from 20 to 40 minutes of the one- to two-hour meeting. A single field officer of the Credit with Education program facilitates all elements of the meeting, including the learning session. This multitasking of field officers is what makes it possible for Credit with Education, as an integrated *package* of services, to be financially self-sustaining.

Methods

Freedom from Hunger conducted impact research in the Credit with Education program area of the Lower Pra Rural Bank in coastal Ghana, with a focus on child health, nutrition, and household food security. Before program introduction, baseline data was collected in 1993 from 370 mother/child pairs selected randomly from comprehensive lists prepared in each community of all the women having one-year-old children. In the follow-up round in 1996, approximately 100 mother/child pairs were sampled from each of three groups:

- women who had participated in the program for at least one year;
- women living in program communities who had never joined; and
- women living in control communities.

Self-selection bias was minimized by randomly assigning study communities, before program introduction, to a program or control group and reclassifying baseline respondents in program communities as "future participants" if they ultimately joined. By comparing the measures of 1993 "future participants" to 1996 actual participants, the difference between years can better be attributed to the program rather than

inherent differences among respondent groups. The full study (MkNelly and Dunford, 1998) is available at <http://www.ffhtechnical.org>.

Results

The program stimulated positive and significant improvement in participants' economic capacity, empowerment (self-confidence and social status) and mothers' knowledge and practice relevant to child health and nutrition. For example, participants exclusively breastfed longer. Only 9% of the participants gave newborns water in their first month of life, compared with 56% in the control communities (with baseline measures of 96% and 97%, respectively). The mean age for introducing water was 4.2 months for participants and 1.7 months in control communities. In terms of diarrhea prevention, only 1% of the participants did not know a way to prevent diarrhea, compared with 32% in control communities.

Two, non-consecutive days of 24-hour dietary recall information was collected for a subsample of the children (those between 8 and 20 months) included in the impact research. Dr. Margaret Armar-Klemesu of the Noguchi Memorial Medical Institute in Ghana led this complementary research. In addition to what was eaten, the research determined the caloric and nutrient content of the food fed to children. Only children still breastfeeding were included in the final analysis. Feeding frequency was no greater for the participants' children, but the dietary quality of the food given was significantly higher for the participants' children relative to the other two groups. The estimated caloric intake was also significantly higher for the participants' children.

The nutritional status (height-for-age and weight-for-age scores) of one-year-old children of participating mothers showed significant and positive differences from baseline measures as compared with one-year-olds living in control communities. In 1993, the nutritional status of children from the

control communities was actually significantly better than that of the program communities. However, in the follow-up measurement round, the mean height-for-age z-score was 0.3 better for one-year-olds of 1996 participants than the mean z-score for one-year-olds of future participants in 1993. In contrast, the mean height-for-weight z-score dropped 0.2 for one-year-olds in control communities between 1993 and 1996. The same significant and positive interaction effect was found in analysis of mean weight-for-age z-scores.

The program also had a positive and significant impact on household food security. For the participant sample, the percentage of families who had experienced a period when they had to eat less food or food of lower quality during the preceding 12 months was cut almost in half. In contrast, virtually no change was evident for nonparticipants in program communities or for residents in control communities. The mean duration of this "hungry season" was also shorter for participants—less than one month in 1996, compared with almost two months for residents in control communities.

An Asian Example of Sustainable Credit with Education

The largest microfinance service in the Philippines realized that its clients needed more than financial services to deal with the problems of deep poverty. In 2000, the Center for Agriculture and

Rural Development (CARD)⁵ invited Freedom from Hunger to collaborate in a pilot test in one branch with about 1,200 women cli-

ents. CARD was already reaching about 50,000 poor, rural women with a well-developed group-based financial service delivery system, inspired by the Grameen Bank model. The pilot was intended primarily to test the feasibility of adding the type of nonformal adult education methods and materials

A recent survey showed clear evidence of effectiveness of the program

⁵ Web site: <http://www.cardbankph.com>

developed by Freedom from Hunger with collaborators in other countries. This was the first time Freedom from Hunger had introduced its educational approach into an already well-developed group-based microfinance system, involving training of existing field officers to add education on health, nutrition, and basic business management to their current financial service role.

After nearly two years of pilot-testing, CARD and Freedom from Hunger jointly carried out multi-branch assessments of client knowledge of basic health, nutrition, and business practices (addressed by education in just the one pilot branch). The effectiveness of the education was clearly demonstrated by the sampled clients—those from the pilot-test branch were significantly more knowledgeable than those from the non-pilot branches.

CARD staff also conducted focus group discussions in the same branches to determine the levels of client satisfaction with the various services offered by CARD, including ranking services in terms of client satisfaction. The staff analyzed commentary on each service to learn what could be changed to improve client satisfaction. Only the pilot branch clients could comment on the education received. They had only positive comments (in contrast to reactions to other financial services and program requirements). Based on staff analysis of these results, CARD decided to expand the education services to all its branches as soon as operationally feasible. Two years later, at the end of September 2003, CARD is serving about 100,000 poor, rural women. Of these women, about 64,000 now receive education integrated with the other, mostly financial services provided by field officers.

This momentous decision to integrate education with CARD's

microfinance services was motivated by more than the added value to clients. The field officers of the pilot branch were similar to those in other branches at the beginning of the pilot project. They had similar problems with their clients, as reflected in statistics on client retention and repayment rates. As the pilot proceeded, CARD management noticed that the field officers trained to do the education were becoming better field officers with better clients. The training in nonformal adult education skills positively affected overall field officer performance, not just their ability to facilitate learning sessions on particular topics at Center meetings. Managers also believed that client satisfaction and retention were improved by the field officers' better performance. It seems that the integration of education with group-based microfinance has the added benefit of improving the relationship between field staff and their clients.

The training and supervision for the education service add costs that were not there before, but it does not significantly reduce field officer case load. The major cost of the combined service delivery is in the salaries/benefits for field officers and supervisors and transportation to and from the villages, which are approximately the same with or without the added education service. The field officers have more tasks to master and perform, but they seem to appreciate the opportunity to do more for clients and get affirmation from the clients for well-facilitated learning sessions. Moreover, for the CARD branches offering the combined services, the operating cost ratio⁶ over 12 months ending June 2003 was only 32%. Also just for these branches, portfolio at risk was 1.69% for a portfolio of \$5,503,536 in loans outstanding at the end of June 2003. For all CARD branches, both those already providing

education and those still waiting to get started, the operating self-sufficiency ratio over the six months ending June 2003 was 137.26%.

Conclusion

The impact research in Ghana reinforced by the operations research in the Philippines shows that public health and microfinance objectives can be achieved at the same time with the same staff through careful integration of education and financial service delivery. The experience of Freedom from Hunger indicates

that the major ingredients for successful integration are found in the general capacity to manage people and programs and the specific institutional will to succeed

in integrating services originating from different sectors of development. Where there is skill and will, each sector can add substantial value to the other for the benefit of very poor families.

The model brings benefits to the field staff as well

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President Chino Cites Microfinance at ADB Institute Conference

Asian Development Bank (ADB) President Tadao Chino highlighted the importance and power of microfinance as a means to reduce poverty in Asia and the Pacific during his opening remarks at the sixth anniversary of the ADB Institute (ADBI) on 5 December.

The 2003 ADBI Annual Conference entitled *Microfinance in Asia: Poverty Impact and Outreach to the Poor* brought together practitioners from the field, policymakers, and academic experts from across Asia to discuss the role of microfinance in poverty reduction in the region.

Nimal A. Fernando, Lead Rural Finance Specialist of ADB's Regional and Sustainable Development Department, and Brett Coleman, Microfinance Specialist of ADB's Mekong Department, presented papers on "Transformation of NGOs into Regulated Financial Institutions: Expectations Fulfilled?" and "ADB's Role in Developing the Rural and Microfinance Sectors in Lao PDR and Viet Nam", respectively.

Discussions at the conference highlighted the breadth, complexity, and ever-changing nature of the microfinance sector. Lessons drawn from these discussions will be used to strengthen ADBI's research agenda in microfinance over the coming years.

NEWS HIGHLIGHTS

ADB Technical Assistance for a Study on Overseas Workers' Remittances

The Asian Development Bank approved in September 2003 a \$150,000 technical assistance grant to assist the Government of the Philippines in reviewing the overseas' Filipino workers' remittance flows and identify constraints in the policy, regulatory, and institutional framework that impact these flows. The study will develop proposals to address the identified problems and constraints with the goal of (i) increasing remittance volume, (ii) facilitating the shift from informal to formal remittance channels, and (iii) where applicable, encouraging the use of remittance proceeds for sustainable poverty reduction.

Affordable Credit Study in Vanuatu

Supporting the goal of private sector development in Vanuatu, the Asian Development Bank has approved a technical assistance grant in September 2003 for \$150,000. The assistance is aimed at assisting the Government of Vanuatu in establishing a well-functioning secured transactions framework and a credit reference facility to improve the access of ni-Vanuatu to affordable credit. The study is expected to produce a detailed report on the legal and regulatory aspects of the proposed secured transactions system, on institutional issues related to an effective registry system for secured transactions, and on the viability of a credit reference facility including critical aspects for its establishment.

ASA : The Ford Motor Model of Microfinance—An Update

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I co-authored an article, with Richard Meyer, on the Association for Social Advancement (ASA) in the June 2002 issue of the *Finance for the Poor*. The article was titled "ASA – The Ford Motor Model of Microfinance." We stated in the article that Md Shafiqul Haque Choudhury, the founder and Managing Director of ASA, is the Henry Ford of Microfinance in Asia, because he is the champion of standardized low-cost microfinance, and created one of the most efficient microfinance institutions in the world. Ford offered his clients "any color of Model T they want as long as it was black," and Choudhury offered ASA clients a standardized loan product designed to meet their basic demand and open access to their savings. We concluded the article with the following:

"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. Nonetheless, 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" (Fernando and Meyer, June 2002, p. 3).

ASA has not yet experienced any erosion in its market niche as evident from the increase in its client base in recent years. However, recent developments at ASA suggest that Choudhury has identified a new potential market niche and taken measure to extend ASA's scope of services well beyond provision of basic microfinance services to the poor. Essentially ASA is moving away from the minimalist approach that it faithfully followed for many years.

An innovative new product

ASA's microfinance model seems to be changing, as was the case with the Ford Motor Company's business model. Choudhury has kept his eyes on the potential for maximizing ASA's social and economic impact. The financial

sustainability of ASA has given it the necessary strength, and of course resources, to expand its products to maximize the social impact. The Ford Motor Company moved largely up-market as it evolved. ASA seems to be moving toward the lower-end of the market. In line with its still strong social mission, and responding to the increasing concerns that microfinance institutions in general do not reach the poorest of the poor, ASA has taken a bold and commendable decision to include the hardcore poor in its target group. Undoubtedly, ASA has learned from, and seems to have been inspired by, the success story of BRAC's (Bangladesh Rural Advancement Committee) Income Generation for Vulnerable Groups Development program focused on the hardcore poor.¹ ASA also most probably

felt competitive pressures in the market, also primarily from BRAC's operations.

To go down-market, ASA has introduced a flexible product directly targeted at the poorest members of society.²

Both the term and the repayment schedule of the flexible loan product are tailored to suit specific projects undertaken by the clients. The term of the loan can vary from just one month to six months, while repayment schedule may be monthly, bimonthly, or even a one-time balloon payment at the end of the term. Initial loan size ranges from a low of taka (Tk)1,000 (\$1= Tk58) to Tk2,000, with subsequent increases of Tk500 to Tk1,000. A flat interest rate of 2% per month is charged on these loans (ASA, November 2003).

The savings component of the flexible product is designed to facilitate even small amounts of savings that the poorest households may save. During the first three months, members are not required to make any mandatory savings. However after this period, each member is required to save Tk10 per month.

ASA's Loan Insurance and Security Fund is expected to protect the client's

family in the event of the client's death during the term of the loan. ASA hopes that this product with its other associated characteristics, will be attractive to risk-averse households in the bottom of the poverty pyramid.

But ASA is still faithful to its unique operating system and continues its obsession with cost-efficiency.

ASA has recognized that reaching the hard-core poor is a more costly and challenging task than reaching those who are around the poverty line. At the same time, hard-core poor are different in many respects from the other categories of poor. For example, they lack the skills and capacity to effectively implement sustainable income-generating activities and need access to effective business development services (BDSs). Thus to address these issues, ASA has developed a new system with two elements. First, it has introduced two categories of staff to deliver its Flexible Products: local loan assistants and credit representatives. Second, it has introduced a system of practical BDSs to help build the capacity of the targeted hardcore poor. Through BDSs, ASA staff will provide advice and suitable training in specific ventures, mostly agriculture and related activities.

ASA will introduce these new products and services in January 2004 and integrate them into all existing branches by the end of 2005. In addition, ASA will establish 1,200 outposts in remote locations to facilitate hard-core poor households' access to its products and services. The local staff responsible for flexible products will operate from these outposts. ASA expects to reach one million hard-core poor households by the end of 2006 through this new initiative. What is perhaps more interesting is that ASA plans to do this while increasing its non-hard-core poor client base also by one million during the same period.

In the meantime, ASA has, not surprisingly, continued its impressive growth record in recent times, as shown in the following table.

Good Governance and Community Assistance Program

It is common knowledge that microfinance is a necessary but not a sufficient condition for lifting poor households out of poverty. ASA has recognized this from the beginning of its microfinance operations but was not prepared to venture into other areas that

ASA: SELECTED INDICATORS

	2001 (end December)	2002 (end December)	2003 (end September)
No. of Branches	1,060	1,172	1,262
No. of Active Members (million)	1.58	2.14	2.3
No. of Active Borrowers (million)	1.41	1.98	n.a.
No. of Loans Disbursed (million)	1.48	2.12	1.75
Total Loans Outstanding (Tk million)	5,359	8,076	11,000
Total Savings (Tk million)	1,697	2,505	2,665
Of which: Voluntary Savings (Tk million)	693	1,011	908
Portfolio at Risk (%)	0.64	0.36	0.43 ^a
Average Loan Size (Tk)	6,743	7,507	8,468
Cost per 100 Tk Lent (Tk)	4.10	3.70	3.20
Adjusted Operational Self-Sufficiency (%)	149	160	160 ^{a,b}
Adjusted Financial Self-Sufficiency (%)	135	146	147 ^{a,b}

^a As of 30 June 2003.

^b Unadjusted.

Source: ASA Annual Report 2002; data obtained from head office of ASA.

¹ See Consultative Group to Assist the Poor (2001) and Matin and Hulme (March 2003).

² Remaining sections of this Update draws extensively on ASA (November 2003).

influence welfare of the poor people; it relied on the minimalist approach to microfinance. Now that ASA is stronger financially and institutionally and gained acceptance within the wider society, there is solid ground for moving away from the minimalist approach. This explains why it has introduced the Good Governance and Community Assistance Program (GGACAP). The GGACAP focuses on building linkages between members of the civil society and the landless poor households, and consists of two initiatives: good governance initiative and community assistance initiative.

Good Governance Initiative

With this initiative, ASA expects to ensure accountability of, and reduce corruption in, local level public institutions. ASA will organize two types of committees for this purpose and liaise between the two: the Landless Members Committee (LMC) and the Good Governance and Community Assistance Committee (GGCAC).

LMC will consist of women elected from among ASA group leaders and play a key role by bringing issues faced by poor members of the community to the attention of the GGCAC, made up of members of the civil society with skills to advocate on behalf of the poor. ASA will establish a GGCAC in each of Bangladesh's 480 *thanas* (subdistricts). The Governance mechanism will monitor local government and quasi-government service agencies and their programs, encourage accountability and stability in their operations at *thana*

level. For this purpose, GGCAC may establish subcommittees based on specific local concerns, monitoring local institutions and agencies such as health care providers, local law enforcement agencies, and government development programs. The cases of malpractices and corruption will be brought to the attention of higher authorities.

Each GGCAC will hire a Project Officer to maintain records, meeting reports and other program documents, and to carry out correspondence. GGCACs are not permitted to spend more than 10% of their funds on administration, including salaries for the project officers. Thus 90% of the funds provided to each GGCAC will be spent on community project activities. ASA's head office will produce a monthly newsletter on good governance, incorporating major findings and activities of the GGCACs to create pressure for corrective actions.

Community Assistance Initiative

The community assistance component aims to support development of community infrastructure. Through the initiative, ASA will provide financial support mainly for local community-based projects. The operations will be funded through a special fund created for the purpose by allocating annually 2% of ASA's operating surplus. The funds will be used, among other things, to provide grants to help disabled persons, acid-burned victims in their rehabilitation, oppressed or divorced women to obtain legal assistance, provide educational assistance to very poor

school children, plan and promote a community sanitation campaign, and develop and implement a waste collection service that will operate on a cost-recovery basis.

Conclusion

These are commendable initiatives with potentially significant positive impact on the welfare of the poor. These initiatives, however, will test the robustness of ASA as a sustainable organization. If ASA's past achievements are an indicator of its strength and commitment to serve the poor effectively, it is possible to be confident that these initiatives will achieve desired results.

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Jeffrey Sachs.... on the Poor

If it were true that the poor were just like the rich but with less money, the global situation would be vastly easier than it is. As it happens, the poor live in different ecological zones, face different health conditions and must overcome agronomic limitations that are very different from those of rich countries. Those differences, indeed, are often a fundamental cause of persistent poverty.

The Economist, 14 August 1999. p.17