

**FORMS OF REGIONAL COOPERATION IN MICROFINANCE
IN
SOUTH ASIA**

By

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List of acronyms

A-IWC	All-India Women's Conference (India)
ARO	Adjusted Return on Assets
ADB	Asian Development Bank
AKRSP	Aga Khan Rural Support Programme (Pakistan)
ASA	Association for Social Advancement (Bangladesh)
BancoSol	Banco Solidario (Bolivia)
BDB	Bank Dagang Bali (Indonesia)
BKD	Village-owned credit organisation (Indonesia)
BPR	People's credit bank (Indonesia)
BRAC	Bangladesh Rural Advancement Committee (Bangladesh)
BRI	Bank Rakyat Indonesia (Indonesia)
BWTP	Banking With The Poor network
CBO	Community Based Organisation
CDF	Credit Development Forum (Bangladesh)
CGAP	Consultative Group to Assist the Poorest
CIDA	Canada International Development Agency
FDC	The Foundation for Development Cooperation
FINCA	The Foundation for International Community Assistance
FWWB	Friends of Women World Banking (India)
GNP	Gross National Product
GTZ	Government-owned Corporation for international cooperation (Germany)
IFAD	International Fund for Agricultural Development
ILO	International Labour Organisation
ImpAct	Improving the impact of Microfinance on poverty: an Action-research programme
MBB	Microbanking Bulletin
MC	Microcredit
M-CRIL	Micro-Credit Ratings International Ltd
MCS	Microcredit Summit
MFI	Microfinance Institution
NABARD	National Bank for Agriculture and Rural Development (India)
NGO	Non-Governmental Organisation
PaR	Portfolio at Risk
PCF	People's Credit Fund
PKSF	Palli Karma-Sahayak Foundation (Bangladesh)
PMN	Pakistan Microfinance Network (Pakistan)
PPAF	Pakistan Poverty Alleviation Fund (Pakistan)

PPP	Purchasing Power Parity
RDMC	Rural Microfinance Development Centre (Nepal)
RRDB	Regional Rural Development Bank (Nepal)
RSRF	Rural Self Reliance Fund (Nepal)
SEEDS	Sarvodaya Economic Enterprises Development Society (Sri Lanka)
SEWA	Self Employed Women Association (India)
SHARE	Society for Helping Awakening Rural poor through Education (India)
SHG	Self Help Group
SIDBI	Small Industries Development Bank of India (India)
SME	Small and Medium Enterprises
TCCS	Thrift and Credit Cooperatives Society (Sri Lanka)
UN	United Nations
UNDP	United Nations Development Program

Development of microfinance in South Asia

South Asia, seen as the birthplace of modern microfinance, houses the largest microfinance institutions in the world, in terms of outreach, and also in terms of poverty focus and sizes of loan portfolios (see table below).

Some of the largest microfinance providers in Asia in 2002 (membership)		
Bank Rakyat Indonesia*	Indonesia	27,045,000
NABARD	India	7,837,000
BAAC	Thailand	5,205,340
BRAC**	Bangladesh	3,410,000
Grameen Bank	Bangladesh	2,483,000
ASA	Bangladesh	2,136,000
Proshika**	Bangladesh	1,669,000
BDB*	Indonesia	405,000
SEEDS*	Sri Lanka	260,000
AKRSP / First Microfinance Bank**	Pakistan	160,000
SHARE	India	125,000

* data 2001

Source: Mixmaket, CASHPOR and organisations' web sites.

** data 2000

Despite this history, M-CRIL, the leading microfinance rating agency in Asia reports (Sinha, 2002) poor performance of rated MFIs in the region. Approximately 20% of the rated organisations have achieved the highest rating grades, while overall rated organisations are far behind international standards described in the microbanking bulletin - MBB (Mix, 2002). For example, the rated organisations disclose an average portfolio at risk (PAR)¹ of 15%, instead of 2% in the MBB, and a negative

return on assets (unadjusted) of -4.8% versus 1.5% in the MBB. However, M-CRIL notes that MFIs rated in the region, especially in India and Nepal are relatively young and therefore still subsidy-dependent.

It is also important to compare these results with the information reported in the issue number 8 of the MBB of November 2002 (Mix, 2002), which states that financially self-sufficient MFIs in Asia were the most profitable among the reporting organisations, with an average Adjusted Return on Assets (AROA) of 6.1%. These studies prove the diversity of actors in the region, where large and prosperous organisations serve as example for nascent, financially weak organisations with a strong potential for growth. Finally, the two benchmark surveys converge on the fact that Asia-based organisations operate under lower cost structures, and are generally more cost-efficient than elsewhere.

In **Bangladesh**, the Grameen Bank was the world pioneer in reaching the poorest on a large scale, but has stagnated since 1995 due to the heavy competition that its leading role has created and the rigidity of its credit-led methodology. While Grameen was only growing by 9% between 1997 and 2002, three other major providers were increasing their outreach far more significantly. This was particularly the case with ASA, the champion of cost efficiency and management, who more than

¹ PAR > 60 days

doubled its portfolio during that period (+165%), but also for BRAC and Proshika, recording growth between 30 and 50%. In 2000, the Credit Development Forum (CDF) and Palli Karma-Sahayak Foundation (PKSF) reported BRAC as the leading microfinance provider in the country, with a 28% market share, followed by Grameen, with 18%, ASA 11% and Proshika 10%. Among other emerging organisations were the Buro Tangail, with almost 100,000 members at the end of 2001 and the Palli Daridro Bimochon Foundation with 275,000 clients as of June 2002. Between 1996 and 1999, an annual average of 7.5 million of new members joined MFI-NGOs in Bangladesh. To sustain this tremendous growth, PKSF, the main wholesaler in the country, became the 'world's largest state-run microcredit funding institution', providing close to US\$200 million to more than 200 microfinance providers. This amount represented a quarter of the funding to MFIs in recent years. Following PKSF's success, the Sonali bank also became a major player in financing microfinance. In addition to its own microfinance services, in 1997 the largest state-owned commercial bank started an NGO linkage program, providing US\$10 million to a large group of MFIs. The CDF, apex body for more than 500 microfinance NGOs, also made a significant impact on the development of the sector through a wide range of support services. It is now estimated that 55% of the population of Bangladesh now has access to microfinance services, which is probably one of the highest rate in the world. In this context, high competition has had positive effects, providing increased choice and reducing interest rates, but also negative effects as many borrowers became clients of multiple providers and became over-indebted. Competition also encouraged innovations, such as the creation of the organisation Safesave by Stuart Rutherford, which pioneered a flexible microfinance delivery system totally adapted to the daily needs of poor people.

In **India**, the National Bank for Agriculture and Rural Development (NABARD) has had considerable success in developing its own methodology of a 'banks - self-help groups (SHG) linkages program'. From 146,000 clients in 1997, it grew to almost 8 million people in 460,000 SHGs in 2002. This program is particularly appealing due to its reliance on partnership and linkages between commercial banks, self-help groups, NGO promoters, and the government of India through NABARD. With this successful savings-led model, NABARD intends to reach 100 million people through 8 million self-help groups by 2008. The Small Industries Development Bank of India (SIDBI) has also developed its own linkages model, choosing to work with a close network of NGO partners. India has also been a fertile ground for the growth of diverse and innovative organisations, combining the financial and developmental goals of microfinance (Fisher and Sriram, 2002). Successful examples were BASIS with its high-tech and efficient management, the cooperative SEWA bank with microinsurance products, and MYRADA/Sanghamithra and PRADAN (and others) with the mobilisation and financing of self-help groups. Discussed in a separate

section, Grameen replications have also played an important role in reaching the poor, especially through the leader SHARE, but also through organisations like ASA. Despite the dynamism of the sector, there is still generally poor performance amongst MFIs in India (Sinha, 2002), and slow dissemination of best practices. In this context, it is important to highlight the impressive work of Friends of Women's World Banking (FWWB), an apex organisation providing financial and capacity-building services to a multitude of microfinance actors of diverse size and maturity. FWWB has multiplied its loan portfolio by five in the last five years (FWWB, 2001). Microfinance in India has also benefited from the activities initiated by Sa-Dhan, a pro-active national network, which among other things, encouraged the Indian government and the Reserve Bank of India to discuss the modernisation of the financial sector in India.

Despite a young and weak microfinance sector, **Pakistan** has recently benefited from new initiatives launched by its government, with the creation of a microfinance retail bank, the Khushali Bank and an apex organisation, the Pakistan Poverty Alleviation Fund (PPAF) set up to serve retail microfinance organisations. Within the group of developing MFIs, the KASHF Foundation, founded in 1996 and an affiliate of ASA Bangladesh, has emerged as a leader, displaying very low risk on an increasing loan portfolio of 23,000 clients. Using Community Based Organisations (CBOs) as conduits for microfinance services, Rural Support Programs have also had a major impact on the development of microfinance in Pakistan. They represent the highest number of MFIs and the largest coverage in Pakistan. Their methodology is used by half of the eleven microfinance practitioner members of the Pakistan Microfinance Network (PMN, 2002). One of the oldest and largest programs is the Aga Khan Rural Support Program, which decided in 2002 to create the First Microfinance Bank. In the banking sector, the First Women's Bank provides microfinance support specifically to women, while the Bank of Khyber is also involved in the microfinance sector.

In **Nepal**, the microfinance sector comprises a wide spectrum of actors, such as numerous NGOs, supporting organisations, government projects, the Regional Rural Development Banks (RRDBs) owned by the Nepal Central Bank, as well as savings and credit cooperatives. The Grameen Bank has had a major influence on the development of the microfinance sector, through the creation of five RRDBs which doubled their outreach between 1997 and 2000 to reach 110,000 borrowers, and the establishment of the NGO Nirdhan which transformed into the Nirdhan Uttan Bank in 1999 and now reaches 35,000 people as of June 2002. The sector was further developed thanks to the role played by supporting organisations such as the Rural Microfinance Development Centre (RMDC), the Rural Self Reliance Fund (RSRF) and the Centre for Microfinance (CMF). The RMDC is a wholesale organisation

providing capacity-building and financial services to retail MFIs, while the RSRF is a government fund, and the CMF is an independent networking and capacity-building organisation created in 1998.

Sri Lanka also presents a very diverse microfinance sector, with an active cooperative movement, numerous government and central bank initiatives, and programs of commercial banks and MFIs. Emerging from the Sarvodaya people's movement, SEEDS is the leading MFI in the country, and one of the few sustainable NGOs. SEEDS uses a credit plus approach, reaching 260,000 members at the end of 2001 and recording high growth (almost 60%) over the period 1999-2001 (SEEDS, 2003). SEEDS plans to transform into a regulated development bank in 2003. In the banking sector, the Hatton National Bank has developed an innovative microfinance program, tailored to rural clients, that has encouraged other banks, such as the People's Bank supported by GTZ, to enter the sector. The cooperative movement comprises around 50% of all microfinance loans, through 1,500 cooperative rural banks and 8,000 thrift and credit cooperative societies (TCCS). Sanasa, the federation of TCCS, established the Sanasa Development Bank in 1997. The government and the Central Bank have also a strong presence in microfinance, through six licensed Regional Development Banks, the Samurdhi Banking Society and the National Development Trust Fund (NTDF), acting as a wholesaler. The intense competition and extensive outreach of microfinance in Sri Lanka might increase the risks of market saturation.

The United Nations Economic and Social Commission for Asia and Pacific Conference on Microfinance Policy and Governance was held in Bangkok from 6 to 8 March 2002, to build knowledge, institutional capacity, strategic alliances, and public-private sector cooperation in enhancing the effectiveness of microfinance for poverty reduction in the Asia-Pacific Region. The Conference unanimously adopted the "**Bangkok Declaration on Microfinance**".

Recognizing, that there are 800 million poor in Asia and the Pacific region that need to improve their livelihoods in the immediate future;

Considering, that a strong partnership between developing and donor countries for the social and economic upliftment of the poorest of poor is essential;

Acknowledging, that the poor work hard and have come together in formal and informal groups for the betterment of their, and their children's future;

Affirming, that sustainable development and significant reductions in the number of poor households requires more, especially by government and non-governmental

agencies responsible for development policy, poverty reduction planning and grass roots level project implementation;

Believing, that the goal set by the Millennium Summit in September 2000 by the Heads of State and Governments in New York to halve, by the year 2015, the proportion of the World's people whose income is less than one dollar a day is an important and bold target that will not be attained without substantial growth in microfinance outreach;

Further Acknowledging, that microfinance alone is not adequate to achieve this target. Sustained poverty alleviation also requires the adoption of pro-poor macro economic policies, the consequences of which will strengthen the link between microfinance and other economic and social components of holistic development for sustainable development and improved quality of life for all poor households; and

Reiterating, the desire and determination of the Conference to ensure that microfinance is used appropriately as an important and powerful tool for poverty reduction in the coming decade, the Conference

unanimously declared and participants commit themselves to:

1. Pivotal role of microfinance

The Conference acknowledges the overwhelming evidence showing the pivotal role that microfinance has and can play in poverty reduction in Asia and the Pacific region, and to the vision of better and broader access by the poorest of the poor to microfinance through strengthened institutions, appropriate regulatory mechanisms, and support for grass roots organizations of the poor.

2. Unequivocal support for partnership with the poor

An enduring partnership between the clients and providers of microfinance services is a hallmark of success of any microfinance initiative. This partnership is grounded in participatory approaches to development, which needs to be further nurtured as microfinance providers assume an even greater role in pro-poor economic growth for sustainable development and better quality of life in all poor households.

3. Forward looking perspective

Microfinance providers must be forward looking to meet the growing, diverse, and changing needs of the poor for financial intermediation in their money management and financial planning. While traditional microfinance services continue to be required, the advent of new technologies, particularly

information, communication and data management, has opened up new avenues for microfinance to help bridge gaps between the rich and the poor. Poor households are empowered when they are given access to these new technologies.

4. Build on critical linkages

Where the linkages between microfinance services, market-oriented mechanisms and enterprise development have been established, the multiplier effects have proven to be substantial, contributing significantly to sustained income and employment generation for poor families surviving on average incomes of less than one US\$ per person per day. Strengthening these linkages will contribute to bringing microfinance into the mainstreams of development policy and poverty reduction initiatives.

5. Recommend increased financial and technical resources

Increased financial and technical assistance is warranted and needed by the developing countries of the region to promote, expand and strengthen access by the poor to microfinance products and services. The bold goal of the Millennium Summit, to halve the number of poor people by 2015, cannot be achieved without increased financial and technical assistance for microfinance outreach to the poor, especially the poorest of the poor.

6. The urgent need for follow up activities to promote access to microfinance by the poor at regional, national and local levels to fulfil the dreams of the millions of poor of Asia and the Pacific region.

What needs to be done

1. Partnerships need to be established between the MFIs with the largest outreach, for example with the 39 organisations currently serving 55% of the poorest clients reported by the Microcredit Summit Campaign. These partnerships will deepen and increase these organisations' outreach and transfer their 'know-how' in serving the poor to smaller but promising organisations, in their own countries and abroad.
2. Establishment of partnerships between national and regional networks to provide technical and advocacy support to their members, to achieve the dual objective of reaching the poor on a large scale and attain sustainability. The Banking with the Poor network Asia, for which the Foundation for Development Cooperation acts as secretariat, could be used as partner in the region.

3. Modernising the collection of data. BWTP, MCS Campaign, INAFI Network can play an important role. In this regard, capacity of national and regional network should be built.
4. BWTP, MCS and INAFI need to co-organise regional and national workshops with regional and local microfinance networks, in order to build their capacity, develop synergy, widen scope and involve local experts. This will result in strengthening these networks and provide a more tailored approach to the challenge of increasing and deepening outreach.
5. Exposure of MFIs to successful models like NABARD scheme in India that aim at reaching 100 million poor by 2008, or to the Bank Rakyat Indonesia Unit system for replication in other countries.
6. Focused efforts on a small group of developing countries are needed, where poverty reduction would have a large impact on the campaign, such as India, Bangladesh, China, Pakistan and Indonesia in Asia, which house almost 60% of the world poor.
7. Encourage transparency and the development of international and regional standards in microfinance. In this regard, it is important to work with government authorities, international donors through the CGAP secretariat, and other international organisations or regional entities. Again, MCS Campaign, BWTP Network, INAFI Network can play an important role in encouraging the adoption of sound management practices.
8. Giving a more important place to non-credit services, such as micro-savings and micro-insurance products, which have proven to be of great benefit to the poorest. This will counterbalance the bias created towards credit methodologies in MFIs world wide, and the over-reliance on the single approach to Microcredit.
9. Moving out of the 'one-model fits all' of the Grameen Bank and promoting the diversity of approaches in microfinance and the successes of alternative models. Reaching the poor on a massive scale will only be possible through the inclusion and promotion of highly successful NGOs, formal financial institutions, wholesale and supporting organisations and community groups. The acclaimed achievements of ASA (Bangladesh), Bancosol/Prodem (Bolivia), Bank Rakyat Indonesia Unit (Indonesia) and other schemes with a

more commercial approach also need to be publicised and promoted in the South Asia.

10. Recognising that direct poverty targeting is not the only option for reaching large numbers of people among the poorest, as proven by the success of formal financing institutions in Asia (BAAC and BRI) and the role played by international funds and apex bodies. In other development fields, reaching the poor and the not-so poor have produced ripple effects in the welfare and status of the poorest.

How should the regional cooperation be strengthened

Due to the presence of strong microfinance networks in the region, the cooperation has taken place in various forms, from time to time but not on regular basis. It is important that institutional arrangements are made to give this cooperation a formal shape so that continuity is ensured. Such cooperation can be ensured in the following forms:

1. Government to government cooperation

We can see that a number of initiatives have been taken in South Asia at the level of government to promote microfinance e.g. the constitutional cover to the Grameen Bank in Bangladesh, the legislation for microfinance in Pakistan and Nepal, the establishment of second tier apex institutions PKSF and PPAF in Bangladesh and Pakistan respectively. If a mechanism is in place where such information is shared at the government level and exposure is given to the central bank staff, the successful models can be adapted by the countries in the region according to their own requirements.

2. MFIs to MFIs

Various successful models with well developed systems of microfinance are operating in various countries in the region. Though there are examples of affiliations and associations between MFIs but the number is negligible. The different initiatives, innovations and best practices of such MFIs can be disseminated for the benefit of microfinance industry in the region. Networks like BWTP can play an important role in bringing these MFIs to common forum, primarily with the objective of sharing and learning from one another.

3. Exposures to different programs, both intra regional and interregional

The most effective way of cooperation and learning is the exposure to successful models within the region and to other regions. Workshops, seminars and training can be augmented by encouraging exposure visits. But it should be

done in a way that the visiting members are given clear TORs to learn, absorb and disseminate the information on their return. Such exposures should be arranged for staff from a mix of different MFIs who have the ability to learn, analyse, disseminate and adapt the successful models.

4. Capacity building

Capacity building / training in microfinance is being done by mostly the networks or MFIs themselves in the South Asian countries individually. It is important that quality trainings, wherever available, are arranged in an institutionalized manner. The various networks like PMN can play an important role but what is more important is to internalize these in a way that these trainings are available at costs, affordable to most of the MFIs and NGOs. Projects like Financial Sector Strengthening Programme of SDC in Pakistan have developed a mechanism that not only ensures the availability of training for the MFIs and their staff from within Pakistan, South Asia region and the world over, FSSP also simultaneously builds the capacity of the local service providers in the private sector by twining them with the resource persons. Exchange of such ideas between the networks in the region and an effort on the part of such projects would enhance availability of capacity building opportunities in microfinance in the region.

5. Financing consortiums

The availability of resources for microcredit has been a major problem in some of the countries, including, Pakistan till recently. This difficulty can be overcome by inter-regional consortiums. Grameen bank has been in the forefront among the MFIs in providing finances to initiate microfinance programmes in the region. Similar efforts can be jointly done by consortiums of DFIs, donors and other financial institutions. The benefit of forming such consortiums will not only be confined to the provision of finances, it would provide learning experience to all such players across the region

6. Public-private partnership

The new phenomena seen in the recent past is public-private partnership for development and poverty alleviation. Turner Foundation of CNN, the Bill and Melinda Gates Foundation of Microsoft are some of the examples which have international recognition. In Pakistan, National Commission for Human Development is such initiative in which the Pakistani expatriates living abroad and the Government of Pakistan have joined hands for human development through improvement of education, health and poverty indices in the country. The initiative is strongly supported by UNDP and some other countries have

shown interest in replication of such initiatives. It is important that such initiatives are also promoted for microfinance.

Some bold steps have to be taken by the central banks in the region to attract the private investors to invest in microfinance. This will encourage the respective governments in the region to facilitate and partner with the investors who share the objective of poverty alleviation and sustainable development in the region. The cross-border public-private partnership in microfinance can give a new dimension to economic activities between the countries and can give rise to trade initiatives at the micro level that are needed to make full use of the potentials that exist in these countries.

7. The role of networks

The networks have played an important role in the promotion of microfinance in all the countries of South Asia. The presence of networks at country as well regional level, have filled the gap that would otherwise be difficult to achieve. The regional networks like BWTP, INAFI and more recently the regionalised MCS have still a lot to contribute. It is worth mentioning that these Networks have the credit to introduce and promote best practices in microfinance, attracting the commercial sector to get involved, convince donors and governments to invest in initiatives like PKSF and PPAF, dissemination of information about innovations and initiatives of the MFIs and governments. While this role is necessary, it is equally important to create linkages between these national and regional networks. All the donors and countries in South Asia must take the responsibility to promote and encourage the activities of these networks for the success of microfinance in the region.