CHAPTER 3
OVERVIEW OF MFIS IN INDIA AND BANGLADESH

3.1 Microfinance: Industry Overview and Expansion Strategies

Informal financial institutions catering to the poorer sections of the society are documented as far back as the 15th century in Nigerian history [26]. In Europe they were first developed in the 18th century in response to the immense poverty engendered by the 30 years’ war (1618-48) [27]. The term microfinance was formally employed in academic literature in the 1980s [28]. The well known author Jonathan Swift began the first loan fund for the poor in Ireland; in 1720. In 1823 a special law legalized the operation of such charitable institutions as formal financial intermediaries. The loan funds created under the auspices of charitable work began to return rich profits and served over 20 percent of Irish households as per conservative estimates, until the government reigned in these booming businesses by regulating the permissible interest rates.

The Raiffeisen credit cooperatives started in Germany by Friedrich Wilhelm Raiffeisen, in 1847, were famously meant to “control the use made of money for economic improvements, and to improve the moral and physical values of people and also, their will to act by themselves” [29]. By the year 1910, the cooperatives were servicing 1.4 million people [30]. The British introduced this German model in the Indian city of Madras in the 1880s and consequently more than 9 million Indians were part of a vast credit-cooperative movement by the mid-20th century. Simultaneously, the Dutch colonial administration designed a rural cooperative banking system (the Badan Kredit Desas) in Indonesia, based on the Raiffeisen model, which later spawned the Bank Rakyat Indonesia, which is today one of the world’s largest microfinance institutions (MFIs).

3.1.1 The Rise of Microfinance since the 1970s:

Well into the 21st century, development has been driven either by governments or donor-financed credit programs. It is widely recognized that in spite of the high costs of administering aid driven initiatives, they have failed to make a significant impact on poverty reduction. Some critics also believe that charity has ruined the credit culture of the poor. From the 1950s, international aid donors and governments alike subsidized credit delivery to small farmers. The 1960s and 70s saw major efforts to expand rural finance in developing countries.
and Agricultural Development Banks were responsible for the delivery of this cheap credit [31].

In much of the developing world after the colonial era, governments were misguided into implementing development strategies premised on ‘supply-leading finance theory’ [30, pp. 1570]. This entailed the provision of loans in advance of the demand for credit, for the purpose of fostering economic growth [28, pp.140]. These loans were heavily subsidized and suffered alarmingly high default rates, between 50 to 90 percent. Often these loans were used as hand-outs by corrupt politicians to strengthen their vote-banks, while the credit-institutions continued to suffer financial losses due to the unsustainably low interest rates charged by them.

The provision of this subsidized credit was subject to the whims of governments and donors and the credibility and financial viability of these programs was often jeopardized when public funds were used to waive off outstanding loans at election time. At any rate, access by the poor to these programs tended to be low due to the misappropriation of loan funds despite the subsidies, and the costs of borrowing high, because of widespread inefficiency and corruption.

The mid-1970s saw trenchant criticism of this model with the consequence that donors and governments alike shifted focus from interventionist to market-based solutions. The failure of the earlier attempts resulted in concerted interest in alternate development tools such as microfinance. The microfinance revolution of today is essentially a financial and technological revolution, which began in the 1970s, developed in the 1980s and took off in the 1990s [28].

The Bank Dagan Bali (BDB) in Indonesia was started in September 1970 and is one of the earliest commercial microfinance institutions to serve a low-income clientele, without any subsidies. In 1973 ACCION International (NGO) disbursed its first loan in Brazil [32] and famously in 1974 Professor Muhammad Yunus started what later became known as the Grameen Bank by lending the modest sum of $27 from his own pocket to 42 people in Bangladesh. A year later the Self-Employed Women’s Association (SEWA) started to provide loans to poor women in India [33]. These institutions proved beyond doubt that poor people made good creditors, with repayment rates exceeding 95%, even when the interest rates charged were higher than those of traditional banks.

To begin with, microfinance was the exclusive domain of state driven and charitable aid [14]. Microfinance today is based on the principle of free markets, where resources are meant to be
capitalized on. However, while on the one hand the Indian microfinance giant, SKS Microfinance has hit stock market and raised money through an initial public stock offering (IPO), entirely self-sustaining MFIs are still far from the norm. It is generally agreed that while microfinance aims to become self-sustaining, governments still have an important role to play in terms of providing the suitable policy environment in which these institutions can flourish and be regulated.

At the Microcredit Summit (1996), held in Washington, US$20 billion was raised to provide microcredit to 100 million of the poorest households of the world, in the next ten years. Rogaly [34] questioned whether microcredit was the best form of aid for the poorest. Critics argued that it constituted a large part of the aid budget and had diverted funds from other initiatives aimed at better healthcare, food aid or monetary aid, as the case may be, without having proven its success.

Often public subsidization of microfinance is justified on the grounds that it may be the most cost-efficient means of reducing poverty. There are those that argue, and among them Yaron and Benjamin, that public works, rural infrastructure and human resource development are more viable alternatives to reducing poverty than targeted credit schemes for the poor. Furthermore, it cannot be denied that among the very poorest lie the destitute, feeble, sick, elderly and orphans, who cannot benefit from microfinance and must be supported by governments and donor driven aid.

3.1.2 Social and economic impacts: The experts have pointed out several specific conclusions about the impact of microfinance on poverty reduction. They are as under.

- a) Evidence shows the positive impact of microfinance on poverty reduction [13].
- b) While the quality of many studies could be improved; there is an overwhelming amount of evidence substantiating a beneficial effect on:
  - i) Increases in income
  - ii) Reductions in vulnerability

For instance, Piyush Tiwari and S.M. Fahad [25] find that the poor repay their loans and are willing to pay for higher interest rates than commercial banks. Secondly, the poor save and hence microfinance should provide both savings and loan facilities. These two findings imply that, due to microcredit, the income level of the poor has gone up and therefore they are able to save more.
3.1.3 Reaching the poorest: Despite disagreement on specific definitions of levels of poverty, there is a general consensus that:

a) Microfinance is not for everyone. Most importantly, entrepreneurial skills and ability are necessary to run a successful micro enterprise and not all potential customers are equally able to take on debt. While these points will be true across all strata of poverty, it is assumed that they will have a greater effect on the very poorest.

b) The sick, mentally ill, destitute etc. who form a minority of those living below the poverty line are typically not good candidates for microfinance. Most researchers agree that this group of people would be better candidates for direct basic assistance.

c) More optimistically, microfinance can be effective for a broad group of clients, including those who are living in the bottom half of those below a country’s poverty line (to use a categorization proposed by CGAP). We will call this strata the “poorest” and note that they constitute the group that generally intersects the various definitions of extreme poverty: landlessness, limited access to basic social services, average per capita income of less than $1 a day, and bottom third of a relative poverty ranking. Specifically, various studies show:

i) There is no evidence of an inverse relationship between a client’s level of poverty and their entrepreneurial ability.

ii) Borrowing patterns and the inclination to save have been found to be similar across clients at different levels of poverty.

Targeting: While it has been demonstrated in a number of studies that the poorest can improve their socio-economic conditions, researchers have pointed to several general issues that make microfinance work for the poorest.

Even a well-designed microfinance programme is unlikely to have a positive impact on the poorest unless it specifically seeks to reach them through appropriate product design and targeting. Experience shows that unless there is a targeting tool, the poorest will either be missed or they will tend to exclude themselves because they do not see the programs as being for them.

Savings vs. Credit: There is general consensus that facilitating savings is important, because there is a high demand for it among the poorest and because savings play a role in protecting against the seasonality of cash-flows and fulfilling an insurance function. In addition, building up deposits reinforces financial discipline for customers and can eventually yield collateral and serve as a source of funding for MFIs. Savings alone, however, have only a minor
developmental impact. The protection against shocks might allow children to remain in school or income-earners to get medical treatment and minimize time away from work, but it is slow to create any significant wealth in itself unless credit is also available. MFIs that focus on savings more than credit, tend to reach a smaller proportion of the poorest, have a lower and slower impact on poverty reduction.

While the savings-first institutions are easier to finance by donor agencies (far less start-up capital required), the few comparative studies available show that borrowers fare better than non-borrowers.

3.1.4 Comparative Strengths and Weaknesses of Microfinance:

Strengths:

1. Cost Effectiveness
Many researchers point out, the greater the microfinance institution’s outreach (i.e. the more clients it serves) the more cost effective and sustainable it becomes. In most development initiatives, the more people you serve, the greater the cost becomes; with microfinance initiatives, the opposite is true.

2. Powerful Leveraging Effect
Macro-economic policies linked to structural adjustment processes, although subsequently oriented in ways that tended to limit or minimize social problems, could hardly bring about a lasting solution. Such policies support the traditional approach, in which poverty is deemed to be alleviated by top-down money transfers initiated by the State in the direction of the poor.

When the Lower Rural Bank, using entirely its own loan capital, had been offering Credit with Education for about four years. at that time, the program had an operating self-sufficiency ratio of 81% (meaning that the interest paid by borrowers covered 81% of the Lower Rural Bank’s costs of delivering Credit with Education as one of its several services to surroundings Communities). These operating costs included financial costs, including interest on debt but not loan-loss reserve. As of June 2007, the reported operating self-sufficiency was 130%.

Weaknesses:

1. Less Universal in its Application
Where market opportunities are constrained by low population density and limited purchasing power or are flooded with similar goods and services, training, technological development or assistance with marketing may have a greater impact than microfinance. Even where market opportunities are promising, basic services and infrastructure that improve the productivity of
existing livelihood activities such as agricultural extension or veterinary services, improve natural resource management, and irrigation or health services which prevent sickness destroying livelihoods may be more appropriate than microfinance.

For microcredit to be an appropriate intervention, certain pre-conditions should not hold. Lending under these conditions may not produce tangible benefits. These include:

i) Immediately after emergencies

ii) For the chronically destitute

iii) In severely disadvantaged areas lacking infrastructure, services or access to markets

iv) Where illness such as HIV/AIDS pervades

2. Borrowers need to be suitably entrepreneurial

The sources of the success of microcredit are also the sources of its weaknesses. Microcredit is self-targeting and hence cost-effective. But not all rural poor are able to benefit from microcredit programs; utilizing loans in productive activities requires entrepreneurial skills that most people lack. Microcredit programs must target only those poor who have some ability to initiate activities with growth potential but lack capital. For the rural poor who are unable to become self-employed, targeted food programs and wage employment may be more appropriate. Microcredit also suffers from its limited ability to increase the size of the loan per borrower because of the limited capacity of borrowers to absorb loans.

3.1.5 Strategy of Integration:

There is consensus on the existence of fragmented financial markets and its adverse effects and the need to reduce or even eradicate fragmentation. However, the theoretical constructions in realizing this goal differ. In short, two main questions haunt the discussion: should the sectors be integrated or should interlink be strengthened? On the one hand, the strategy of integration would address the deficiencies and inefficiencies of the formal sector. The goal of this approach is to build one homogenous financial system. This shall be done through institutional and operational reforms, expanding and transforming the formal financial sector (financial liberalization). Implementing this would result in the formal sector absorbing the informal sector, and concurrently disregard the potential of the later.

Microfinance: A Different Segment or Industry

An approach which seems appropriate in helping to define an industry is the Social System Framework. It discusses the restrictions of the classical narrow definition of an industry and call for additionally considering organizations and functions that have been treated as externalities so far. They suggest that the infrastructure necessary for an industry to emerge
consist of three components that are interdependent and co-produce each other over time.

**Table-3.1: Social System Framework**

<table>
<thead>
<tr>
<th>Proprietary functions</th>
<th>Resource endowments</th>
<th>Institutional arrangements</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Technological development functions</td>
<td>• Scientific / technological research</td>
<td>• Governance</td>
</tr>
<tr>
<td>• Innovation network / resource channel activities</td>
<td>• Financing and insurance arrangements</td>
<td>• Legitimating</td>
</tr>
<tr>
<td>• Market creation and consumer demand</td>
<td>• Human competence pool</td>
<td>• Technological standards</td>
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</tbody>
</table>

*Source: Strategic Management by H Ignor Ansoff, Palgrave Macmillan, 2007.*

**Links between Market and Strategies:**

For markets to work better for poor people, they must provide access to the opportunity to build and acquire assets, and help to reduce vulnerability. To do this, markets must become progressively more developed, more complete and more accessible to poor people. Market development can contribute to enhancing growth, empowerment, opportunity and security in a variety of ways and through a range of mechanisms.

**3.1.6 Expansion Strategies in Microfinance:**

As microfinance markets become more competitive, institutions feel increasing pressure to achieve and sustain growth. A crucial driver of success allows MFIs to expand their portfolio by providing financial services to a larger number of clients while at the same time fulfilling an MFI’s social mission. Organizations can use a variety of organizational structures to facilitate expansion, including:

• Growing existing operations
• Legal restructuring
• Franchising
• Strategic alliances
• Mergers
• Acquisitions

Recent trends indicate that various strategies and structures are being deployed in the microfinance industry. “As microfinance matures and donor funding dries up, MFIs are beginning to look at market forces, such as customer demand and competition. This forces an
MFI to consider various expansion strategies beyond growth through existing business.” Such is the observation by a microfinance practitioner.

**Table-3.2: Market and Strategies**

<table>
<thead>
<tr>
<th>Strategy against poverty</th>
<th>Potential positive roles of markets</th>
<th>Examples of market factors that may work against the poor</th>
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</table>
| Growth                   | Promoting efficiency in allocation and use of resources. | • Market failures and distortions in factor markets (capital subsidies) that prevent efficient allocation of productive resources.  
  • Disabling economic framework. |
| Empowerment              | May provide incentives for local organization. | • Poor lack livelihood assets, and are disadvantaged by low education and poor health.  
  • Structure and functioning exclude poor.  
  • Poor not involved in setting market rules; lack of voice. |
| Equality of opportunity  | Access to assets, services. Markets for assets of poor (notably labor). | • Adverse or weak institutions that discriminate on the basis of transaction size or impose unnecessarily high technical standards.  
  • Social exclusion.  
  • Higher transaction costs in poor areas due to infrastructure.  
  • Weak demand for assets of poor people. |
| Security                 | Risk management. Supplies of food and other costs, basic requirements. | • High transactions  
  • Incompleteness of markets |


**Business Case for Expansion Strategies beyond Growth through Existing Business:**
A new and significant challenge facing many microfinance institutions is increased competition, which forces an MFI to focus on differentiation while maintaining low-cost products and services. MFIs, however, may not have the capability or core competency to meet this demand. Additionally, regulatory barriers preclude NGOs from meeting this demand for additional services such as savings, insurance, or leasing products. Change in legal structure may be possible, but requires a great deal of resources.

These constraints force many MFIs to be more focused on cutting costs and increasing efficiency, especially given the desire to reach scale and achieve financial sustainability. Various strategies, structures and alliances are available to MFIs to help them expand outreach and provide offerings in an increasingly competitive landscape.

It is essential to understand which type of expansion strategy is best for a given situation and marketplace. There is not a "one-size-fits-all" model for successful expansion. When should an MFI begin considering strategies beyond internal growth? There are two frameworks to help answer this question:

1. Customer-centric approach and
2. Firm-centric approach.

In the Customer-centric approach [35], the microfinance organization first seeks to understand customer needs and demands. This includes not only current needs, but also future trends in the marketplace. Once the MFI determines the types of products and services customers are demanding, the MFI must consider whether it can meet these needs given its internal capabilities and resources. If the MFI determines that its internal capabilities cannot meet these customer needs, yet offering these particular products and services fits into its overall strategy, it should begin considering various expansion strategies. Furthermore, the MFI should consider whether other organizations offer the products and services the customer is demanding, and if so, who these organizations are. The MFI can then consider opportunities to partner or potentially acquire.

In the Firm-centric approach, an organization evaluates its internal capabilities. If these internal capabilities cannot meet external market factors the organization should consider various expansion strategies. The figure outlines this framework. The two approaches can be complementary, with the starting point being the analysis of the market and clients.
Figure-3.1: Customer-centric Approach

Range of Expansion Strategies: It focuses on four kinds of expansion strategies:

- Increased competition
- Increased commoditization
- Increased customer demand
- Limited supply of financing

Source: Strategic Management by H Ignor Ansoff, Palgrave Macmillan, 2007

Figure-3.2: Firm-centric Approach
• Legal restructuring
• Franchising
• Strategic alliances and
• Mergers and acquisitions

Each strategy calls for a different amount of time and resources. The figure below highlights the steps, degrees of difficulty and key characteristics of the four types of expansion strategies. Contrary to existing hypotheses that expansion strategies correspond to a microfinance market's stage of development, different researches indicated that all forms of expansion strategies exist in all industry phases. The reason for choosing a particular expansion option lies in the strategic rationale of an organization. For example, in India, which is in an expansion stage, we see growth of NGOs through transformation into Non-Bank Finance Companies (NBFC), franchising by SKS and Bandhan, and strategic alliances between CARE and Hindustan Lever. In the microfinance industry, common expansion strategies include those that require fewer resources and are therefore easier to implement. Growth through customer loyalty programs, legal restructuring and strategic alliances is increasingly being observed. For the same reasons, franchising and mergers and acquisitions are less common. The following is a detailed analysis of each strategy.

1. **Legal Restructuring**

Legal restructuring is a form of expansion strategy whereby a microfinance organization reorganizes its operations into a different legal entity. Unlike other types of expansion strategies that require due diligence of other organizations, such as strategic partnerships or mergers and acquisitions, legal restructuring is an internal form of expansion. A common example of legal restructuring in microfinance is a credit-only NGO transforming into a regulated financial institution in order to provide other financial services to its clients. This transformation allows the MFI to offer a greater basket of products and services. However, transformation is lengthy and requires a great deal of resources.

Another example of legal restructuring in microfinance is the service company model, where a bank forms a non financial legal entity to serve microfinance clients. A third form of legal restructuring is transformation into a holding company model. BRAC in Bangladesh is organized similar to a holding company structure, with numerous related companies such as BRAC Industries, BRAC BD Mail Network and so on. This structure allows BRAC to offer a wide range of products, target different customer segments, and leverage the BRAC brand across industries.
**Benefits:** All forms of legal restructuring offer MFIs the opportunity to enter into new customer segments, products and geographies.

- Legal restructuring allows an organization to target different customer segments (e.g. a bank can now target microfinance clients)
- By offering a variety of products and services, an organization can become a "one-stop shop" for customer needs through a holding company model; an organization can leverage its brand name across several subsidiaries.

**Challenges:** Costs for transformation are high and a large amount of resources are required to change an organization's legal structure. Within the holding company model, there is a risk of "broken brand promise" if brand expectations are not reached across subsidiaries.

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**Growing existing operations and restructuring**
- Most MFIs expand by growing existing operations
- Legal restructuring allows product and market expansion
- Examples in microfinance include NGO transformation to regulated bank, transformation to holding company service company model (where bank forms non-financial legal entity to serve microfinance clients)

**Franchising**
- Way to expand without much up-front financing
- Franchising as it occurs in private sector (with franchisor using same name as franchisee) not currently found in microfinance.
- Most common form is methodology replication (e.g. Grameen, ASA) however, “Franchisees” use different name
- Franchising in microfinance more mentor-mentee relationship without strict quality controls

**Strategic alliance**
- Enables MFI to expand product offering without transformation
- Strategically beneficial for both parties; range from loose alliances (negotiating special prices, outsourcing) to front-end alliances (joint marketing) to close integration (joint ventures)
- Common form is strategic alliance between NGO and bank
- Numerous examples of MFIs allying with businesses (e.g. CARE/Hindustan Lever)

**Merger and acquisition**
- Most intensive in terms of time and resources required, most difficult to implement, high risk
- Some organizations use strategic alliance as stepping stone for M&A
- Delicate cultural issues that require careful change management
- Regulatory issues depending on country Growing number of M&A in microfinance (most are called mergers, although “mergers, although” in “Merger of equals” rarely exists)
- Examples include merger of XAC and Ge to form XacBank; Pro Credit acquisitions

**Time and resources required: Difficulty to implement**

*Source: Strategic Management by H Ignor Ansoff, Palgrave Macmillan, 2007.*

**Figure-3.3:** Steps Corresponding to Expansion Strategies

2. Franchising:

Franchising is a continuing relationship, in which the franchisor provides a license to the franchisee to do business. It also offers assistance in organizing, training, merchandising, marketing, and managing in return for a franchising fee. The organization is "cloned" by licensing the brand name and providing ongoing business support to the franchisee, which owns and operates the business outlet. An organization typically engages in franchising in
order to grow quickly and leverage its brand and business model. Franchising offers a means
to expand without much upfront financing and tends to occur in industries with standardized
products. The framework below highlights benefits to both the franchisor (in the centre) and
the franchisee (around the circle).

**Benefits:** Organization can grow with relatively low financing up-front additional revenue
through franchise fees and added growth. Standardization of processes allows for quality
control. Brand equity leveraged across geographies. Franchisee may be able to reach
populations in remote areas which have important implications for microfinance. Franchising
offers a means to be entrepreneurial while minimizing risk. Franchisee receives benefits such
as training, advertising and site selection.

**Figure-3.4:** Franchising: Creating Value by Leveraging Successful Business Model

**Challenges:** Strict standardization of business processes makes it harder for an organization
to innovate and respond to local market needs. A successful business does not automatically
translate into a successful franchise. While franchising frequently occurs in the private sector
(McDonalds, Coca-Cola), there is little franchising in microfinance. Franchising as it occurs
in the private sector, with the same brand, strict checks on quality control and standardization,
does not currently occur in microfinance. Even in the financial services industry within the
private sector, franchising is less common because it seems to work better with a standardized
product than it does with a service. Additionally, franchising is rare in this industry because of the high skill and capital needed. For instance, there is an inherent risk for someone with little financial experience to open up a bank franchise branch, no matter how straightforward or standardized the franchise package is. A form of franchising does exist in microfinance, through replication of business processes and a credit franchise package. Examples of replication include the establishment of Bandhan, which was based on the ASA model. The Grameen methodology has also been replicated by numerous MFIs. These forms of franchising tend to be more of a mentor-mentee relationship, in which advice is offered but not imposed. Brand equity is not emphasized, as replicated organizations have different names and are different legal entities.

3. Strategic Alliances:

Alliance is an umbrella term for a vast array of "organizational partnerships" where each party's core business model remains separate and intact [36]. It is an agreement between two or more separate companies in which there is shared risk, returns, and control, as well as some operational integration and mutual dependence. An MFI can seek to achieve market leadership through a strategy of differentiation by building upon its core competencies. Often however, it is challenging to achieve organizational goals in more competitive and mature markets. In a strategic alliance, a partner could complement an organization's capabilities in achieving its goals by:

a) Broadening brand awareness and deepening the image of trust by association with a reputable institution

b) Providing new ways for staff to service and interact with clients

c) Supporting growth by providing a more attractive product offering

d) Deepening client insight by understanding their needs better examples of such competencies include customer insight, brand reputation, decentralized operations.
Alliances in the microfinance field include negotiating bulk rate deals, outsourcing, product alliances, channel alliances and full service alliances. Spandana, an MFI in India, has entered into an agreement with a local gas company to provide gas stoves to Spandana's clients at a specially negotiated bulk rate which make it cheaper for the client to purchase the product. This service allows clients more time in their business and homes as they no longer have to collect and carry firewood. It has allowed Spandana to expand its client outreach and to achieve its social mission of strengthening the socio-economic status of poor women in rural and urban areas.

Outsourcing is when MFIs subcontract a particular function to a third party vendor. Examples of functions that can be outsourced include MIS operations or cash transactions. Mi-Bospo7 in Bosnia has no cash activity in its branches as it has forged relationships with several banks through which clients access and repays loans.
Product alliances take place when an MFI is looking to offer additional products to its clients using the partner's existing products as in the case of Equity Building Society (EBS) in Kenya and Western Union.

A channel alliance occurs when MFIs use the channels of the partner to sell their own products as in the case of Fincomunand PanBimbo in Mexico. Finally, an example of a full service alliance is when an MFI runs outsourced operations on behalf of a third party. The partnership agreement between ICICI and multiple MFIs in India is typical of this kind of alliance.

Benefits
Alliances give organizations the ability to differentiate without reinventing the wheel; institutions can move forward relatively quickly and can be more flexible and easier to implement in comparison to mergers and acquisitions. A partner can exit a strategic alliance and fewer resources are needed including less cash. Institutions have the opportunity to learn more about key processes/new industries/new geographies. Organizations can also focus on their strengths (e.g. Starbucks-Barnes and Noble Partnership).

Challenges
There are following challenges faced by alliance.

a) The lack of trust between organizations may explain the low overall success rate of alliances, around 50%.

b) Challenge of understanding each partner's role, which is especially critical in decision-making.

c) Lower risk implies lower potential reward relative to other expansion strategies such as acquisitions.

d) Maintaining distinct market segments is necessary to avoid overlapping of clients.

4. Mergers and Acquisitions:
Organizations can also expand through a merger or acquisition. Some organizations use strategic alliances as a stepping stone for M&A. A merger is the combination of two or more entities into one, whereas an acquisition occurs when an organization obtains control of another organization by purchasing its assets or shares. M&A is the most intensive expansion strategy, in terms of time and resources, difficulty in implementation, and level of risk. There are also delicate cultural issues that require careful change management and regulatory issues that vary by country. There have been a number of mergers and acquisitions in the microfinance field, including the merger of XAC and GE to form Xac Bank and acquisitions
undertaken by Pro Credit. While mergers and acquisitions differ in definition, they are often lumped together when discussing expansion strategies. Why is this case? In interviews with private sector experts, whether to call a deal a "merger" or an "acquisition" is usually based on practical implications. According to one academic, "The decision over whether to do a merger versus an acquisition is much less strategic and much more pragmatic. It often has little to do with strategy and much more to do with financial concerns, tax implications, stock deals, etc."

According to another academic, "In the real world, there is rarely a true marriage of equals. Even if it's called a merger, usually one firm is dominant over another, so it's really an acquisition but called a merger for more practical reasons, like stock price." The key value proposition in engaging in a merger or acquisition is to create value by realizing synergies. Cost savings synergies (reducing duplicating functions and sharing operating activities or facilities) can be realized quickly and are more likely to succeed. Revenue-generating synergies (the ability to expand to new channels and new products post-merger or acquisition) are more difficult to realize, thus resulting in a lower probability of success.

Companies often overestimate the amount of synergies that a merger or acquisition will create. A 2004 Bain & Company survey found that two-thirds of executives admitted to having overestimated the synergies available from combining companies. Moreover, companies often fail to recognize potential negative synergies, such as joint customers curtailing their purchases once two companies combine their accounts, for fear of being overly reliant on a single supplier. Careful due diligence is required to assess the potential synergies of the resulting merger or acquisition. Organizations need to maintain a balance between achieving synergies and positioning themselves as a leader in the market. Microfinance institutions considering M&A must take these lessons from the private sector into account.

**Benefits**

There is a great potential for MFIs to scale up and reach economies of scale in a timely way. MFIs are able to spread organization’s fixed costs over a large client base, providing more services at a lower cost to clients. MFIs increase efficiency by decreasing overhead and administrative costs and expand product offering in light of customer demand. They also achieve portfolio risk diversification through an expanded product offering, increase number of distribution channels, e.g. buying portfolio or client base.
Challenges

Careful due diligence is crucial; however, it is difficult to value MFIs, and there are few specialists found in this area in microfinance. MFIs face resource constraints that make M&A difficult; as a microfinance practitioner stated: "A merger should not be a MFIs first choice if it's looking for an arrangement that is fast and relatively straight-forward; a merger is very challenging and resource-intensive". Risks of spreading management talent are too thin. Cultural issues present in all M&A are especially difficult in microfinance, due to the social aspect of the organization's mission (being sustainable, yet staying true to the mission). Many countries have regulatory issues related to M&A. A large part of M&A involves streamlining operations; therefore, potential risk concerning funders, who prefer covering program, costs rather than operational cost.

3.2 MFIs in India:
An understanding of India’s poverty, economy, and growth helps in making informed statements about the commercialization of microfinance and its impact on microfinance outreach in India. This sets the stage for defining microfinance and analyzing the costs and benefits of a more commercial model of microfinance delivery. A more in-depth look at the country’s financial sector and its regulation provides the context within which microfinance has evolved and outlines its constraints. This section then focuses on providing a summary of the wealth of information on India and the evolution of its financial sector. Later it discusses and analyses the role of major MFIs like SHARE, SKS, and BASIX in microfinance delivery in India.

3.2.1 Economy
Home to 1.2 billion people as of 2010, India constitutes approximately one sixth of the world’s total population. It is the world’s largest democracy and a key emerging market alongside China and Brazil. India is the world’s tenth largest economy with a gross domestic product in 2009-10 of US$1310 billion as reported by the World Bank. The country’s growth is also strong, with real GDP growing in by 7.2% in 2009-10 and exports touching US$ 200 billion in the same period. The picture presented shows an environment where wealth is increasing for the nation but it is not accruing to all citizens.

Microfinance is one development approach that can contribute to achieving the national and international goal of improving the livelihoods of those Indians that are not yet seeing the benefits of growth.

3.2.2 Poverty
Part of understanding the costs and benefits of various organizational forms of MFIs, involves understanding the overarching goal that motivates most MFIs: poverty reduction. The way microfinance impacts overall poverty reduction in a given country is then shaped by the nature of poverty in that country. India has over a quarter of its population below the poverty line. The World Bank reports that India is still home to some 260 to 290 million poor, numbers that rise to 390 million if poverty is measured by the international standard of those living on less than US$1 dollar a day. Almost half of India’s poor, approximately 133 million, are concentrated in three states: Uttar Pradesh, Bihar, and Madhya Pradesh. Rural areas in India are home to three quarters of India’s poor which is strengthened by the increasing urban/rural disparities. There are substantial disparities within the country as the gap between the rich and poor widens. The Indian government’s poverty reduction strategy focuses on infrastructure, social development (especially education and health), and rural livelihoods.
The improvement of rural livelihoods is the aspect of poverty reduction that MFIs focus on. In the past fifteen years poverty reduction has become an integral part of development paradigms. It has emerged as a World Bank objective in the 1990s and was adopted as one of the UN Millennium Development Goals in 2000. Just as poverty is not restricted to developing nations, neither is microfinance. Although it is most entrenched in parts of South Asia and Latin America, it is also being promoted in Canada, France, Germany, Ireland, United Kingdom and the United States.

3.2.3 The Need for Microfinance

The Reserve Bank of India (RBI) defines microfinance as “the provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi-urban and urban areas for enabling them to raise their income levels and improve their living standards [37].” It also serves as an umbrella term for the provision of financial access, through focused financial intermediaries, to those parts of the population that are not being served by mainstream financial services providers [38].

Today microfinance is not limited to the provision of microcredit [39]. It denotes short-term financial products for those who do not have access to these from traditional formal sources. These products include individual and group loans, savings services, facilities to encash cheques, payment orders, micro insurance, loan-guarantees and the transfer of remittances from abroad. Marguerite Robinson contends that about 80 per cent of the world’s 4.5 billion people living in low and lower middle income economies do not have access to formal financial sector services. In another set of statistics, the Census of India 2001 states that only 35.5% of all Indian families own and operate bank accounts, thereby necessitating interventions such as microfinance.

In the Indian context, especially in rural areas, there remains a vast lacuna in the availability of formal finance, and informal finance often comes tagged with extortionary terms or conditions of servitude. Following the bank nationalization drive started by Indira Gandhi in 1969, where commercial banks were required to open rural branches, India's banking network grew exponentially. Today India boasts of over 32,000 rural branches of commercial banks and regional rural banks, around 14,000 cooperative bank branches, 98,000 primary agricultural credit societies, 154,000 outlets of the post office network, as well as several other non-bank finance companies and mutual fund sellers [40]. While the numbers seem impressive, it has been estimated that 70% of the marginal and landless farmers do not have a bank account and 87% have no access to credit from a formal source [7], leading to the
conclusion that rural banks primarily serve the interests of the richer rural populace. From among the households surveyed under the RFAS-2003 (Rural Finance Access Survey 2003), over 90% reported that they funded unexpected expenses from cash at home, and the second most significant source was informal borrowing from friends, relatives and moneylenders. These statistics gave microfinance a vast playing-field, and taking heed of this potential, the industry has grown to serve over 70 million clients in India alone [11].

**Failure of Bank Network to deliver**

In order to understand why most Indians are unable to borrow from formal financial institutions, Basu and Srivastava cite a combination of factors involving the banks and the clients themselves. They argue that the banks are wary of the repayment capacity of poor borrowers, their volatile income streams and incapability to provide collateral. The clients also make bad-borrowers as they typically avail of loans for consumption smoothing rather than investment in business and when the loans are for entrepreneurial purposes the poor borrowers often lack the technical/business skills and market information to make their businesses viable. Further, the transaction costs of rural loans are significantly higher since the loan size is usually small, there is widespread illiteracy among poorer clients and they are spread over a large geographical area.

From the perspective of the borrowers, rural banks are unattractive for multiple reasons as well. As noted previously, the services offered by banks are not well suited to the non-uniform income patterns of the poor, compounded with the transaction costs and in some cases bribes to bank officials, banks begin to seem as tedious an option as usurious moneylenders. Borrowers also usually have to travel long distances from their villages to reach the bank, and alongside paying for the transportation cost, lose close to a day’s wages due to the time spent travelling. Finally, bank loans take, on average, about 33 weeks to process, and are made out against collateral, making them unavailable for poorer rural borrowers.

**Drawbacks of Informal Finance**

The RFAS-2003 report indicates that informal finance remains the mainstay of rural borrowers, where 44% of the households surveyed had borrowed from informal sources at least once over the past year and the interest charged on these loans averaged 48% per annum. Interestingly, while nearly half the loans were used to finance “family emergencies” and “social expenditures” (related to births, deaths, marriages etc.) and only 13% were used for investment related purposes. The attractions of informal finance range from flexible
repayment schedules to ease of access to the loans and less reliance on collateral. However, it was noted that in most cases where collateral was involved, landless and marginal farmers tended to pledge self-labor in lieu of other assets, thereby leaving them vulnerable to exploitation as bonded labor. Until the 1980s, credit for agriculture was accorded high priority and the presence of informal microenterprises – street vendors, home workshops, market stalls, providers of informal transportation services etc. were perceived by policymakers and economists to be a result of economic dysfunction. The typical profile of those operating in the informal economy include a scarcity of capital, non-legal status, operation in unregulated markets, labor intensive production modes, non-formal education and low skill levels, irregular work hours and small inventories. While these traits formerly led to their exclusion from access to formal finance, commercial microfinance recognizes the profit-potential of the informal sector, which not only provides employment to millions in India, but is also an important contributor to the economy.

The Microfinance Agenda
To begin with, microfinance set out to address income and gender inequality by empowering poor women. In the course of time, the emphasis shifted to sustainability and outreach and lately, the core emphasis seems to have become profit generation.

Institutional microfinance started as a means of alleviating poverty and helping the poor to create sustainable livelihoods for themselves. Optimists argue that “microfinance seems to have squared the circle; this was an intervention that could not only alleviate poverty, but that could and should also pay for itself, be sustainable and even make profits. Only in that way, it is argued, can it reach the millions who need it.” Against the backdrop of the global financial/liquidity crisis, the microfinance sector has stood firm and continually shown higher profits and weathered the global financial crisis better than many of the trusted institutions of mainstream finance [41]. The perception that catering to the poor is risky business seems to have firmly been proved wrong by microfinance.

Writing about the limitations of the post-independence development initiatives in India, Udaia Kumar rightly points out that “The experts and technocrats, who tailored development programs for such a vast country (India), failed to provide the necessary space for the involvement of the local community in the design, implementation and monitoring of such programs [42].” Microfinance is poised well to infuse some democratic spirit into development initiatives, seeing client satisfaction as the premise for its financial sustainability.
However, it is still debatable whether microfinance can make profits and pursue the social welfare agenda at the same time. Christopher Dunford of ‘Freedom from Hunger’ believes that these are irreconcilable aims. He argues that “profitability and growth are more likely to be achieved by offering more services to the same clients, rather than reaching out to new ones” and if this is achieved “the client profile will inevitably drift upwards and away from the poor, and what started like a businesslike activity with charitable goals will become no more than another profit seeking business.”

3.2.4 Concern in Indian Microfinance Sector

Mission Drift

It would be foolhardy to believe that the involvement of banks and other financial institutions is simply altruistic. After all, microfinance has been recognized as an astute business opportunity, and herein lies another potential negative turn of events. There is an apparent shift in the focus of MFIs, from the philanthropic bent and missionary zeal to alleviate poverty, towards the hard-nosed business ethic of calculating success based on the financial bottom line. In an environment where the measure for success often remains the number of loans disbursed or the number of clients acquired, the poor often become casualties rather than beneficiaries. Malcolm Harper [39] points out that poor people have always been prey to unscrupulous and recalcitrant moneylenders or other bogus savings institutions. Therefore, there is a very real risk that in the guise of genuine MFIs, swindlers or worse incompetent people may injure them even further.

Use of Loans

There is a latent assumption that microloans will lead to entrepreneurial and profit generating activity, thereby perpetuating a virtuous cycle of poverty reduction. However, the reality is that a large portion of loans are taken for non-productive activities, such as weddings, funerals, dowries, roof-repair, subsistence etc. This is not to say that such activities do no merit loans, in fact, one of the primary merits of microfinance is that it makes the poor less vulnerable to destitution by making available these small loans. It may also be argued that by smoothing over the expenditure on food consumption of a farmer for instance, a microloan may allow him/her to work better in the fields, and is therefore eventually remunerative.

“The clients of microfinance institutions have always used some of their loans for purposes other than microenterprise investment. This may still be known as ‘misuse’ by some agencies but most providers of microfinance services are coming to realize that money is fungible, and that their customers probably know better than they do how to best use their money.”
However, a cautionary note must be added that when microloans are made available for non-remunerative purposes, by an over-zealous loan officer to a financially-uneducated client, they may engender a spiral of further poverty. The State of the Sector (SOS) Report 2009 [11] explicitly warns against such loans and recommends that the ability of the client to repay the loan amount must be established prior to the disbursement of the loan.

**Multiple-borrowing**

Often when a borrower is unable to repay a microloan within the stipulated time, she may be forced to take another loan, from a different MFI in order to meet her commitment. The problem of multiple lending has permeated most regions in southern India, where there is a high concentration of MFIs, and intense competition to woo the maximum number of clients. In such a scenario, it would be appropriate to cite Pischke’s dictum that ‘microcredit is also micro debt’ [43].

As MFIs expand and loan officer incentives are tied to client repayment, there may be a clash between profitability and sensitivity to client needs and circumstances. The most heinous consequence of taking a microloan and being unable to repay it was evident in the much publicized Krishna district debacle of 2006 where some farmers committed suicide due to the debt-burden. However, to the credit of the microfinance community, there is a concerted effort towards sensitizing field officers and higher management towards the needs of the microfinance clientele. In fact, Indian NBFC MFIs have come together to initiate the formation of a ‘credit-bureau’ in order to avoid the cataclysmic consequences being repeated elsewhere. Most MFIs have some sort of procedure in place to re-schedule loan repayments in the face of genuine circumstances.

**Quality Issues**

There have also been allegations against the quality of MFIs in India, many of which suffer from weak governance and management structures, the absence of internal controls and the lack of financial discipline. This is particularly true of the many opportunistic start-up enterprises that are keen on cashing-in on the current microfinance boom. Attracted by the high returns that established MFIs have yielded for their investors, these start-ups are able to break even in a mere 18 months of operation, at the risk of providing poor quality services and charging high rates of interest to clients.

**Over-empowerment**
Shahin Yaqub of BRAC offers another interesting perspective when he writes that “poor people save and repay as instructed and work within the often inconvenient group mechanisms. When microfinance helps them to become less poor, they become empowered.” He writes that, “Empowerment and virtue are not the same thing” suggesting that in their empowered position, poor people are better able to resist not just unjust socio-political conditions, but also the legitimate claims of microfinance and are no longer willing to be subservient to the MFIs various procedural demands.

**Regulation of Indian MFIs**

The Indian government mandates a policy where banks are required to direct 40% of their lending to the “priority sector” segment (including agriculturalists and other rural borrowers) of the economy. Banks have the option of subscribing to government issued bonds to fulfill this requirement, but more and more commercial banks are now financing microfinance loans, as these are more lucrative.

Two separate incidents, in recent years, that greatly embarrassed the Indian microfinance community have reinforced the need to put regulatory mechanisms in place. In the Krishna district of Andhra Pradesh the government shut down certain MFI branches after farmers committed suicide due to indebtedness, while in Kolar district of Karnataka, the local Muslim leadership forbid Muslim women from repaying MFI loans, leading to large scale default with the crisis, spreading to non-Muslim communities as well. Interestingly, after the debacles in the Krishna and Kolar, the microfinance industry has become increasingly keen on establishing a regulatory framework, and a microfinance bill, pending in the parliament is eagerly anticipated.

Currently, non-profit MFIs in the form of trusts or societies are unregulated, while NBFC MFIs are regulated by the reserve bank. However, the RBI includes them under the broad spectrum of all Non-Banking Finance Companies. There are therefore no special regulations for the microfinance industry, an oversight which will hopefully be corrected by the microfinance bill.

**Types of Institutions**

The microcredit programs by the informal sector in India have evolved over the years. There is no single appropriate form of legislation for institutions undertaking microcredit. Institutions have been getting registered under different legislations, categorized under three heads.

1. **Non-for-profit MFIs**
• Societies registered under the Societies Registration Act, 1860 or similar State Acts.
• Public Trusts registered under the Indian Trust Act, 1882
• Non-profit companies registered under Section 25 of the Companies Act, 1956

2. Mutual Benefit Companies
• State Credit Cooperatives
• National Credit Cooperatives
• Mutually Aided Cooperative Societies

3. For-Profit MFIs
• NBFCs registered under the Companies Act, 1956

The North-South Skew in India
There is a distinct regional imbalance in the access to financial services, whereby the most heavily populated and poverty stricken regions of eastern, central and north-eastern India have a disproportionately lower level of financial access. While these states account for 54 percent of the country’s population and 40.5 percent of the total bank branches, they have only a 20 percent share in outstanding bank credit and 29 percent share of deposits [7]. The growth and spread of MFIs has reflected a similarly skewed trend, where the more prosperous southern states are nearly saturated, and the poorer states show a rather sparse presence of MFIs.

3.2.5 Major MFIs and Their Role in India:
3.2.5.1 Swayam Krishi Sangam (SKS):
Development of Organization: Swayam Krishi Sangam (SKS), which is the largest MFI in India, employs the Grameen Bank lending methodology. SKS is relatively a young MFI, which in 2005, transformed into an NBFC and was established as an NGO in 1997 by Vikram Akula, a social entrepreneur and graduate of both Yale and Tufts Universities [44]. The mission of SKS is, “To eradicate poverty by providing financial services to the poor and by using our channel to provide goods and services that the poor need.” SKS is most notable for developing the first MIS system among Indian MFIs for which it won awards. Its goal going forward is to raise money (launched successful IPO in the Year 2010) in order to scale up and reach more and more poor. Since its inception, SKS has delivered US$ 960 million in microcredit to over 5.8 million women in India through 11878 loan officer (March, 2010).

Sources of Capital: SKS cited the benefits that it now enjoys as an NBFC as:
1. Greater access to funds as commercial lenders have greater comfort lending to a regulated company with transparent ownership.

2. A diverse funding source because as an NBFC, SKS can raise equity and offer financial returns, enabling it to access commercial investors and international capital markets.

3. Greater outreach potential due to increased access to funds.

SKS has historically sourced most of its capital from donors and loans. This isn’t surprising considering that it is a younger MFI than SHARE or BASIX and it transformed into an NBFC recently. In 2001, SKS indicated that 40% of the company is owned by its clients with 15% of it owned by employees and the rest by a group of institutional and individual investors.

**Organization & Management Analysis:**

**Strategic Vision**

The strategy of SKS to achieve its mission is to help poor people access small, low interest loans during times of crisis, so that they can avoid falling into debt traps. SKS endeavors to offer the poor alternatives from banks that require collateral and bureaucratic procedures as well as moneylenders that charge exorbitant interest rates. The company does so by delivering collateral-free microfinance in the form of small loans and savings facilities to the doorstep of the poor. SKS seems to have a strong strategic mission but there is some uncertainty about its ability to balance that mission while attempting to transform into a more financially sustainable and commercially oriented institution. The rapid growth of the organization shows its commitment to outreach and scale in the service of the mandate of microfinance.

**Management & Governance**

SKS has a board of directors composed of seven members. The members of SKS’s foundation, its fundraising arm, are a diverse group of professionals and academics from the U.S. and India. SKS’s management also appears to be quite strong based simply upon ranges of experience in business and development and education.

**Transparency**

The transparency of SKS seems rather good in that its financial statements are readily available and up to date, however not all information was outlined as clearly as that of BASIX or in some instances SHARE. Information detailing governance, human resource management, and poverty impact analysis as well as poverty outreach strategy was hard to extract and not readily available. Again, this may simply be a factor of the size of the company and its length of time in operation.

**Information Technology System**
SKS has won numerous awards for its innovation in technology for microfinance and particularly its management information system, which it pioneered in India. SKS’s MIS system is the cornerstone of the organization’s technology platform in that it enables the company to manage small transactions efficiently, to increase staff productivity, to reduce operational costs, etc. It is designed for simple use, scale, and integrates all the accounts of the organization. SKS created a technology management team which has developed software applications to manage client’s portfolios and accounts. In addition, SKS developed a smart card program that enables technology to replace the manual passbooks and collection sheets with palm pilots and smart cards that serve as “electronic passbooks.” While the effect of such technologies is not yet clear, the endeavor to employ technology to improve the impact and efficiency of the organization is a positive sign.

**Loan Methodology**

SKS’s loan methodology is to offer solidarity loans to groups of women and require some small mandatory savings and use peer pressure to ensure repayment. The main three loan products it offers are income generating loans, group fund loans, and emergency loans. However, SKS has adapted the Grameen methodology by integrating some industry practices and some of its own innovations, such as technology development. Currently, SKS seems to offer little in terms of additional products.

**3.2.5.2 SHARE Microfinance Ltd**

**Background:** SHARE is India’s second largest MFI in terms of outreach or number of loans given. Thus, any comprehensive study of MFIs in India will have to consider SHARE. SHARE provides a contrast to BASIX in both lending methodology and organizational style. SHARE (Society for Helping, Awakening Rural poor through Education) was originally registered under the Societies Act as a service organization in the year 1989 by Mr. M. Udaia Kumar, founder and chairman. It then transformed into ‘SHARE Microfin Ltd,’ a regulated non-banking financial company (NBFC) under the companies act in the year 2000. SHARE operates mostly in the rural areas of the states of Andhra Pradesh and Karnataka. Its mission is “The reduction of poverty by providing financial & support services to the poor, particularly women, for viable productive income generation enterprises enabling them to use their skills and reduce their poverty.” SHARE is one of the few Grameen Bank replicators in India, meaning that it uses the Grameen methodology in its operations by focusing on loaning

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6 SHARE Microfinance Profile available from: http://www.mixmarket.org
to groups of women. The focus on women is to ensure that the benefits of increased income accrue to the general welfare of the family, particularly children.

During the years 1991-1994 SHARE had started its microcredit operations as a two year action research project with a US$25,000 recoverable grant from the Asia Pacific Development center and a soft loan of US$35,788 from the Grameen Trust in Bangladesh. SHARE’s major expansion however, began in 1997 with the opening of six new branches to a total of ten branches with one branch achieving self sufficiency. With this, SHARE felt it had a viable model that could be replicated all over India. Until this point, SHARE had been a non-profit organization registered as a charitable society.

SHARE decided to transform for several reasons, one of which was the legal constraints it faced as an NGO. However, it also felt that transformation would allow it to attain financial self-sufficiency which its NGO legal status did not permit. SHARE saw the profit motive as against the principles of charity.

There was a recognition that the activities of SHARE needed to be transformed in order to achieve financial sustainability. The legal status of SHARE at that time did not permit it due to a conflict of interest between the profit motive and the notion of a charity embedded in the legal identity of NGOs. According to SHARE, the two major limitations of being registered as a society were that the income tax law in India does not recognize charitable institutions carrying on microfinance activity and thus, the MFI loses its tax exemption. Secondly, raising funds become a difficult task when financial leverages cannot be optimized because the net worth and equity of the MFI do not work for profit.

Recognizing these constraints, SHARE transformed to a community owned and managed for-profit regulated financial institution registered under the companies act in the year 2000. SHARE’s target clients are women whose per capita income is less than Rs. 250 per month (Approx. US$5.80) and their asset holding is less than Rs. 20,000 (Approx. US$465).

**Sources of Capital**

SHARE’s sources of capital, both historically and going forward, are critical to its viability as an MFI and its ability to grow and reach more clients. Since MFIs are in the business of lending, a steady and growing stream of capital is central to its business.

SHARE’s 2001 annual report states that 99% of the equity in SHARE has been contributed by its clients with the remaining 1% from unspecified individuals. In the year 2009, the share capital was listed at US$ 6.4 million. However, the debt equity ratio of SHARE for 2009 was 7.88 indicating that the organization is highly leveraged with share capital not constituting a
significant source of funding for the MFI. Data from the MIX market shows that SHARE’s debt to equity ratio was 0.65 in 1998 when it was an NGO and has risen significantly over the years, showing that SHARE has accessed capital for growth mainly from debt. This is not necessarily unusual of a bank. However, more caution is needed in microfinance when leveraging assets than compared to traditional banking due to the lack of empirical data on performance of microfinance banks. Therefore, the same assumptions cannot be made about the ‘appropriate’ level of leverage for an MFI in the same way that is done in commercial banking by using years of empirical data on defaults risk in order to assess the safe level of leverage for the bank. Therefore, while becoming an NBFC might increase an MFI’s access to commercial capital, if this capital is mainly in the form of debt it could increase the risk of the organization if it becomes too highly leveraged.

Organization & Management Analysis

Strategic Vision

SHARE’s stated mission is the reduction of poverty by providing financial & support services to the poor, particularly women. Since SHARE has converted from a society under the Societies Act in India to an NBFC under the Companies Act it has become a regulated entity. Overall, SHARE’s operations still seem to support its mission thus far with its continued focus as an organization to reduce poverty.

Also, now that SHARE has made the transition to an NBFC, should it consider raising equity for growth in the future, it will have to find a way to balance its heavily socially motivated mission with the imperative to improve shareholders value. This will partly depend on the type of shareholders it might attract and whether they are motivated by social as well as financial gains. Currently, 99% of its shareholders are its clients so this is not as much a concern. However, the balancing of social and financial goals is one of the challenges of becoming an NBFC. An MFI will have to work that much harder to maintain the same focus on social impact that it had as an NGO while also dealing with the regulatory constraints and financial pressures that come with being a regulated financial entity. This makes the clarity and strength of an MFI’s mission very important as well as staff having a good understanding of that mission in their work.

Management & Governance

The shareholders of SHARE are mainly its clients with the exception of a few individuals with experience in microfinance who have contributed to the equity of SHARE and have taken up positions in the board of directors. SHARE’s board of directors is elected yearly,
once from amongst the shareholders of the company and two women clients of SHARE also serve on the board of directors. Roughly a total of eight members constitute the board of SHARE. The board members render continuous support to the institution through their valuable suggestions and active participation in policy decision making and operations of the institution. SHARE’s board is the final policy maker in guiding the institution.

**Transparency**

SHARE has regular publication of audited financial statements that are in line with its counterparts and are clear and easy to interpret. This is a direct result of transformation to an NBFC as annual reports are now legally required of the organization, and SHARE did not publish such reports prior to transformation. Very little incentive exists for an NGO to publish audited financial statements because of the time consuming process and cost of putting together these reports on an annual basis. However, on the social impact side, there is greater incentive for an NGO than an NBFC to do a careful impact assessment of poverty alleviation because donors might often require it. Therefore, it remains to be seen whether SHARE will continue to conduct such careful poverty alleviation impact assessments now that greater pressure is placed upon it to report on its financials annually.

**Human Resources**

In the practice of its human resource management policy SHARE endeavors to instill a rigid discipline throughout the organization when it comes to loan disbursement and staff ethics. A paper presented by the founder and chairman, Mr. Udaia Kumar stated, “The dedication and integrity of every staff member is maintained in a unique way. He takes a pledge in front of the borrowers at their weekly meetings that he will dedicate himself, to their welfare, and will not be corrupted by taking even a glass of water.” Mr. Kumar attributes some of SHARE’s success to the close monitoring and supervision of all activities of SHARE and its borrowers in the village. Training programs and workshops are also mentioned as contributors to the success of SHARE. There does not seem to be a formal performance evaluation system for staff aside from routine evaluations from managers, which is assumed standard practice. SHARE had an issue initially with staff dropout during its first two years of operation due to the laborious and rural nature of the work. It was also mentioned that the staff did not see as much career opportunity with SHARE. This problem has lessened with the expansion of the program.

Now SHARE recruits graduates, undergraduates, and fresh candidates with no experience for the post of project assistants and later promotes them for senior positions.
Information Technology System

SHARE also computerized every branch before transformation to an NBFC which it uses to monitor individual sources and uses of funds. In SHARE’s 2001 annual report it also announced the launching of a smart card which allows it to automate data capturing and transactions processing to increase efficiency and coverage.

Loan Methodology

As mentioned, SHARE employs the Grameen loan methodology. This involves providing small loans to groups of women along with some training, consulting, and business development services. The Grameen model is a widespread model of microfinance that focuses mainly on credit with some basic training. SHARE’s products are all loans, with some housing and sanitary loans and six different types of loans in total. The longest term loans are housing loans which have duration of 4 years. This loan methodology has not changed with transformation.

3.2.5.3 BASIX Finance

Background

Bhartiya Samruddhi Finance Limited (BASIX) is also one of the largest MFIs in India when it comes to total loan portfolio, although its outreach in terms of number of loans is smaller than that of SHARE and SKS. BASIX is unique from both SHARE and SKS in that it began as an NBFC, but evolved into a holding company in which an NBFC, Local Area Bank (LAB), and NGO are held. The NBFC portion of the BASIX group is Bhartiya Samruddhi Finance Limited (BSFL). The founder of the BASIX companies, Vijay Mahajan, had also founded an NGO, PRADAN and after conducting research decided to open a development finance company. BSFL’s experience is the experience of an MFI from start to beginning as an NBFC. Bhartiya Samruddhi Finance Limited (BSFL) is an NBFC registered under the Indian companies act and regulated by the Reserve Bank of India (RBI). ‘Bhartiya’ means ‘Indian’ and ‘Samruddhi’ means ‘prosperity.’ The name was chosen in order to emphasize prosperity rather than poverty. The BASIX companies have a unique organizational structure and are very innovative in their loan methodology. BSFL uses its own hybrid method of both individual lending and Grameen-like group lending.

The BASIX group together provides approximately 1100000 clients in more than ten states with credit, insurance, agricultural business development services and capacity building.

Samruddhi (BSFL) is the financial arm of BASIX which provides financial services, predominantly microcredit, insurance, and technical assistance to the rural poor. The business
is characterized by intense field presence due to unit offices located in the field and loans originated at the customer’s home or workplace through customer service agents (CSAs). The company has cumulatively disbursed US$172 million as on 31 March, 2010.

Krishna Bhima Samruddhi (KBS LAB) is BASIX’s local area bank (LAB) and is therefore a regulated bank that can mobilize deposits in its local district in Andhra Pradesh. KBS LAB is BASIX’s newest company and India’s first microfinance bank started in 2001 in efforts to offer clients savings services. The challenge for KBS LAB so far has been the geographical restriction in offering savings to BASIX clients. However, KBS LAB is young and pending its success, BASIX may be able to scale up operations.

The last company, Indian Grameen Services (ISI), at BASIX is a non-profit registered “section 25” company that conducts livelihood research and development of potential products and services for the BASIX group.

The CEO and founder of BASIX, Vijay Mahajan, founded BASIX as an NBFC in 1996 along with Bharti Gupta Ramola and Deep Joshi. Mahajan is a graduate of the Indian Institute of Technology (IIT) in Delhi and the Indian Institute of Management (IIM) in Ahmedabad. BASIX was started with approximately US$25,500 (43 Rs/$) contributed by its founders who intended to leverage this equity with developmental loans. The founders of BASIX believed in promoting sustainable livelihood for the poor through social entrepreneurship which they defined as, “Business for a Social Purpose.”

Thus, BASIX was founded upon the idea of an institution that would focus on reducing poverty through increased livelihood opportunities for the poor. The founders of BASIX believed in an institution in which there was a zone of overlap between business and a social mission, and a deep engagement in the social part. Originally, Mr. Mahajan’s concept paper for BASIX envisioned a commercial bank; however he was not able to raise the requisite equity of US$ 30 million in those days and instead, along with two other promoters, he created BASIX as an NBFC.

The slogan for BASIX is “equity for equity” and its stated mission is, “To promote a large number of sustainable livelihoods, including for the rural poor and women, through the provision of financial services and technical assistance in an integrated manner.”

BASIX’s mission also states, “BASIX will strive to yield a competitive rate of return to its investors as to be able to access mainstream capital markets and human resources on a continuous basis.”

**Sources of Capital**
BASIX started in 1996 with equity from its founders which was followed by concessional loans from Indian and foreign donors such as the Ford Foundation and the Swiss Development Corporation (SDC). By 2002, BASIX had over fifteen different funders providing seven different forms of financing from convertible loans to deposits from the public and had achieved its goal of a diversified and reliable funding base. This positions BASIX to provide a wide range of financial services to its clients over time. The flexibility of initial bilateral donors allowed BASIX to use subsidized funds for startup operations while equity from quasi-commercial and fully commercial sources has provided a base for leverage and scale. Commercial borrowings have enabled BASIX to manage liquidity and public deposits which have provided stable, community based funding.

BASIX’s shareholders as of 2009 are BASIX itself, The International Finance Corporation (IFC), Triodos Funds of the Netherlands, Shorebank Corporation, ICICI Bank, HDFC (Housing Development Finance Corporation) of India, and other individuals not specified. The total share capital of BASIX, as on March 2009, is approximately US $42,823,234. BASIX’s funding evolution shows that it has tried to diversify its funding base in order to manage risk and ensure sustainability.

Organization & Management Analysis

Strategic Vision

BASIX has a strong strategic vision both in terms of clarity of mission and operational support for that mission. BASIX is in the business of improving livelihoods through the provision of financial services and support. Part of BASIX’s strong strategic inclination might be attributed to its visionary founder whose good education and development experience bring vision and wisdom to the company. What is important for the future is maintaining this strong vision without the founder, so that it will continue long beyond his tenure. This will involve grooming a strong second tier of management, something MFIs often forget or neglect to do.

Management & Governance

The board of directors of BASIX is comprised of individuals with a wide array of relevant experience from the fields of finance and rural development. Six key board members including the three founders hold office year round while during the year individuals from Shorebank Corporation in the U.S. and Hivos-Triodos Fonds in the Netherlands were inducted into the board. Both of these organizations are shareholders of BASIX. These individuals have very relevant experience and are diverse both in nationality and field of
practice. M-Cril, a microfinance rating agency, rated BASIX’s finance arm, Samruddhi an “alpha” indicating good systems and high safety. M-Cril’s rating of BASIX gave high rating grades in the categories of governance aspects and managerial performance.

**Transparency**

In regards to transparency, BASIX ranks highly. It’s audited financial statements and annual reports are the most detailed and clear for the reader with an overall high quality. Transparency in microfinance might be measured best to ease of access to information and the clarity of its presentation. The professional quality of BASIX’s financial statements is an indicator of the importance the organization places on sharing its information to investors and other interested parties. As previously mentioned, this might be attributable to the fact that BASIX was founded as an NBFC and therefore has had more extensive experience than SHARE and other NGOs in reporting financials.

Generally, the greater the transparency, the more likely an organization is to access commercial funding. Transparency is so important in microfinance because it promotes greater efficiency. It is much harder to hide inefficiency and bad systems when an MFI must report its financials, management, and systems on an annual basis.

**Human Resources**

BASIX states that it believes that high quality human resources need to be deployed at the cutting edge to address the problem of promoting rural livelihoods in a creative manner. Therefore, the company selects people who combine practical skills and experience with analytical and conceptual abilities. BASIX then endeavors to employ staff that have management, technical, and commerce graduate experience and hires its field executives from reputable educational institutions and professional streams. This practice is a direct contrast to SHARE which sees such employees as a high cost to the organization. BASIX also employs a performance evaluation system called the Personal Learning Review (PLR) in which employees participate in retreats every six months and to undergo a personal review with their superiors in order to develop areas of improvement and opportunities for learning. Utilizing a system of performance evaluation that is participatory and promotes learning by all staff might be considered an indicator of good human resource management because it promotes learning by the staff and the organization. Another indication of this is training and induction. Along with classroom training, BASIX puts its new recruits through a rigorous induction program that covers the overall concept of the company as well as operational issues through a six month induction phase before field executives are selected.
Information Technology System

BASIX has developed technology with a local software company in India particularly for microfinance, its FAMIS software, which is the backbone of its operating system. FAMIS provides online accounting and borrower information to the company and is updated regularly. BASIX management believes that a successful back office and MIS are critical to managing a retail portfolio such as that of BASIX. The company has also piloted a ‘Sudama Card,’ a computer with smart card reader and modem, in 2002 to integrate finance and technology in its rural lending. It is a point of transaction technology that allows customer service agents to capture financial transactions with accuracy and transfer it to unit offices accurately and securely. This type of innovation in technology is becoming more and more important in microfinance as with any other industry because of the potential it has for the reduction of costs and improving efficiency.

Loan Methodology

BASIX’s loan methodology is somewhat of a hybrid in that it considers itself in the business of improving livelihoods, in which ‘livelihood financial services’ is one piece. It places equal emphasis on the provision of agricultural business development services and technical services in addition to the provision of financial services, which includes credit but is not limited to it. BASIX operates under the philosophy that credit is not sufficient alone to guarantee an improvement in the livelihoods of the rural poor. It believes that other financial and technical services are necessary and can be provided on a revenue model in order to be sustainable. Therefore, BASIX offers several types of group and individual insurance products as well as savings to its clients. This type of flexibility and innovation might be considered one of the key strengths of the company. The corporate structure of BASIX, as well as its loan methodology, reflects this complexity. BASIX’s research arm focuses its energy on identifying livelihood intervention opportunities for which its financial arm, Samruddhi, can implement through its “Livelihood Strategy,” comprised of the equal provision of three services: livelihood financial services, institutional development services (technical assistance, capacity building), and agricultural business development services.

3.3 MFI in Bangladesh:

3.3.1 History

Historically Bangladesh was the part of Bengal, an eastern province of undivided India. When India became independent in 1947, the independent nation of Pakistan came into existence,
comprising of western part of India and the eastern half of Bengal province. In 1971, this eastern part of province of Bengal became independent nation, known as People’s Republic of Bangladesh. Its current population is approximately 150 million with the total area of around 144,000 sq km. Dhaka is the capital city and the largest city of Bangladesh. Other major cities of Bangladesh are Chittagong, Sylhet, Khulna, Barisal and Rajshahi.

3.3.2 Land and People

Bangladesh is mainly composed of the combined delta of the Ganges, Brahmaputra, and Meghna rivers, except the area of and around Chittagong, which is a mountainous region located along the Myanmar border. Most of the country is humid, low-lying and alluvial region with approximately 300 ft (90m) above the sea level. Bangladesh is laced with numerous streams, distributaries, and tidal creeks, forming an intricate network of waterways that also constitutes the country’s chief transportation system. Along the southern coast is the Sundarbans, a mangrove swamp area with numerous low islands, which now being considered as one of the world heritages of United Nations.

Bangladesh has a tropical monsoon-type climate, with a hot and rainy summer and a dry winter. January is the coldest month with the average temperature of around 26°C (78°F) and April is the warmest with temperatures ranging from 33 to 36 deg C (91 to 96 deg F).

The climate is one of the wettest in the world. Most places receive more than 1,525 mm of yearly rainfall, and areas near the hills receive 5,080 mm. Most rains occur during the monsoon season (June-September) and little in winter (November-February). Bangladesh is subject to devastating cyclones, originating over the Bay of Bengal, in the periods of April to May and September to November. These are often accompanied by surging waves, often causing great damage to property and loss of life.

Bangladesh is one of the world’s ten most populated countries and has one of the highest population densities (about 2,100 people per sq miles/810 people per sq km.). The least densely populated areas are in the Sundarbans jungle and the Chittagong Hill Tracts.

Bangladesh had one of the highest rates of population growth in the world in the 1960’s and 1970’s. But as a result of social awareness and development, it has seen a marked reduction in its fertility rate, from 6.2, thirty years ago, to 3.281. The religions practiced in the region have changed significantly through history. At various times in the past, Buddhism and Hinduism were each the dominant religions. The 1947 partition of Bengal along religious lines augmented the existing Sunni Muslim majority in the region. The most recent estimate of religious makeup from the 2001 census reported that the population was 89.58% Muslim,
9.34% Hindu, 0.62% Buddhist, 0.31% Christian and 0.15% Animist. Similar to neighbouring India, more than half of the population lives in agrarian rural villages. But urbanization is proceeding rapidly and the capital Dhaka is one of the fastest growing cities in the world. Other major urban centres include Chittagong and Khulna.

3.3.3 Economy
Bangladesh has made significant strides in its economic sector since independence in 1971. Garments industry is one of the largest and comprehensive industries in the world. Bangladesh has also made major progress in the agriculture sector to meet the needs of its increasing population and growing agro-based industries. Currently, Bangladesh is the third largest rice producing country in the world. Although improving, infrastructure to support transportation, communications, and power supply is poorly developed. The country has large reserves of natural gas but limited reserves of coal and oil. While Bangladesh’s industrial base is weak, unskilled labour is inexpensive and plentiful. However, Bangladesh’s poverty rate remains high, with nearly half of its 147 million people living below the poverty line. GDP is US $ 89 billion and growing at 6% in the year 2009. The per capita income is US $ 1300 in the same period.

A significant contribution to the development of the country has been made by the several MFI’s e.g. Grameen Bank, BRAC, ASA, Prashika, etc.

3.3.4 The Structure of the Education System
Education in Bangladesh has three major stages-primary, secondary and higher educations. Primary education is a 5-year cycle while secondary education is a 7-year one with three sub-stages: 3 years of junior secondary, 2 years of secondary and 2 years of higher secondary. The entry age for primary is 6 years. The junior, secondary and higher stages are designed for age groups 11-13, 14-15 and 16-17 years. Higher secondary is followed by graduate level education in general, technical, engineering, agriculture, business studies, and medical streams requiring 5-6 years to obtain a masters’ degree.

In the general education stream, higher secondary is followed by college/university level education through the pass/honors graduate courses. The master’s degree is of one year's duration for holders of bachelor degree (honors) and two years duration for holders of (pass) bachelor degree. Higher education in the technical area also starts after higher secondary level. Engineering, agriculture, business, medical and information & communication technology are the major technical and technological education areas. In each of the courses of study, except for medical education, a 5- year course of study is required for the first
degree.

3.4 Major MFIs and their role in Bangladesh:

Bangladesh has been the pioneer in the field of microfinance movement since 1980s. Today, Bangladesh is the home to the most extensive microfinance operations in the world. Starting from the resource of few pennies and with the clients in double digit counts, microfinance movement gained such a momentum that it has not only made great strides in Bangladesh in delivering financial services to the poor, specially women, but also has become a pioneer in the developing world. There are many MFIs working in Bangladesh and in the other parts of world, which have differences in their organizational structure and working methodology, but they all work on the common theory, philosophy and goal.

Many studies and surveys have been carried out by different agencies regarding the working of MFIs and their impact on the poor people in Bangladesh. The agencies like Bangladesh Institute of Development Studies and World Bank have found strong evidence that functioning of MFIs have helped the people in meeting their daily needs and at the same time building their assets. It has been stated in The World Bank Economic Review that microfinance has not only helped people to develop in their material capital but also in the human capital, by better access to health care and education system, and general awareness among the people about their rights and duties towards society. One of the most important features has been the reduction of gender biasness in the society. MFIs have helped women acquire assets of their own, educated them and thus gave them the right and power in the household decision making.

However, there are numerous MFIs working in Bangladesh at present so it is almost impossible to mention all of them. Therefore, we have chosen three of the most important ones and try to give the overview of them.

3.4.1 Bangladesh Rural Advancement Committee (BRAC)

Vision and History

With a vision of "a just, enlightened, healthy and democratic Bangladesh free from hunger, poverty, environmental degradation and all forms of exploitation based on age, sex, religion and ethnicity", BRAC started as an almost entirely donor funded, small-scale relief and rehabilitation project to help the country overcome the devastation and trauma of the Liberation War. Today, BRAC has emerged as an independent, virtually self-financed paradigm in sustainable human development with its motto “alleviation of poverty and empowerment of the poor”. It is the largest in the world employing 97,192 people, with the
twin objectives of poverty alleviation and empowerment of the poor. Diagnosing poverty in human terms and recognizing its multidimensional nature, BRAC approaches poverty alleviation with a holistic approach. BRAC's outreach covers all 64 districts of the country and furthermore, has been called upon to assist a number of MFIs in countries including Afghanistan and Sri Lanka.

From the time of its modest inception in 1972, BRAC recognized women as the primary caregivers who would ensure the education of their children and the subsequent inter-generational sustainability of their families and households. Its comprehensive approach combines microfinance under BRAC's economic development program with health, education and other social development programs, linking all the programs strategically to counter poverty through livelihood generation and protection.

**Core and Support Programs**

BRAC implements a comprehensive development approach, with a number of programs for economic and social development of the people. BRAC core programs include four main ones: BRAC Economic Development Program, BRAC Social Development, Human Rights and Legal Education Services Program, BRAC Education Program and BRAC Health Program.

Beside these core programs there are several support programs, institutions and divisions, initiated in order to support core programs of BRAC. These programs support the activities of BRAC, to mention few, through research and studies (RED), public affairs and public relations, training in various fields, accounting and finance (supporting in monetary things), etc.

**Organizational Structure**

The adage "It is never the same after a war," has proved to be utterly true in the life of Fazle Hasan Abed, the founder and chairperson of BRAC, one of the largest non-government development organizations in the world. Born in 1936 in Bangladesh, Abed was educated in Dhaka and Glasgow Universities. BRAC today is a combined effort of many thousands of people – starting from the interns, volunteers, donors, staff, executives, governing body and those working at fields.

BRAC is the combination of hard work and determination of its people along with the support and encouragement of many others.

**BRAC in World**

Besides its expanding network and working areas in its birth country of Bangladesh, it has
been continuously expanding in other parts of world, especially in Africa and some parts of Europe. By expanding its working area, it is trying to reach more and more needed people and at the same time reaching out to rich people and countries to get funds and donations for its programs. Due to its expanding activities in the world and growing recognition, its chairperson Fazle Hasan Abed received first Clinton Global Citizen Award and $271m as an education commitment at 2007 Clinton Global Initiative.

**Microfinance Programs of BRAC:**

**Table 3.3:** BRAC, at a glance as on December, 2009

<table>
<thead>
<tr>
<th>Inception of microfinance programme</th>
<th>1974</th>
</tr>
</thead>
<tbody>
<tr>
<td>Program coverage</td>
<td>Districts 64, Thanas: 507</td>
</tr>
<tr>
<td>Total No of Area/Branch Offices</td>
<td>1,381</td>
</tr>
<tr>
<td>Total No of village Organizations</td>
<td>160,197</td>
</tr>
<tr>
<td>Total No of Members</td>
<td>6.24 million</td>
</tr>
<tr>
<td>Percentage of Women Members</td>
<td>98%</td>
</tr>
<tr>
<td>Gross Portfolio</td>
<td>US $ 636 million</td>
</tr>
<tr>
<td>Average Loan Size</td>
<td>US $102</td>
</tr>
<tr>
<td>Repayment Rate</td>
<td>99.49%</td>
</tr>
</tbody>
</table>

**3.4.2 Grameen Bank:**

**Vision and History**

The history of origin of Grameen Bank can be traced back to 1976, when Professor Muhammad Yunus, head of the Rural Economics Program at the University of Chittagong, launched an action research project to examine the possibility of designing a credit delivery system to provide banking services targeted at the rural poor. The initial activities started from Jobra village (adjacent to Chittagong University) and some in the neighbouring villages in the following years. Later in 1979, with the sponsorship of central bank and support of the nationalized commercial banks, the project was extended to Tangail, a district north of Dhaka. Later the Grameen Bank became an autonomous organization through the government legislation of October 1983. Today, Grameen Bank is mainly owned by the people whom it serves and they own 90% of its shares and remaining 10% are owned by the government.

**Objectives**

The main objective or inspiration of the Grameen Bank is to examine the possibilities of
designing a comprehensive banking framework to provide the banking services to the rural poor. Professor Muhammad Yunus, the founder of Grameen Bank and its managing director reasoned that if financial resources can be made available to the poor people at terms and conditions which are appropriate and reasonable, these millions of small people with their millions of small pursuits can add up to create the biggest development wonder. Grameen Bank sees credit as an empowering agent, an enabling element in the development of socio-economic conditions of the poor who have been kept outside the banking orbit on the simple ground that they are poor and hence not bankable. Based on this vision some the main objective and programs include:

1. Extend banking facilities to poor men and women.
2. Eliminate the exploitation of the poor by money lenders.
3. Create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh.
4. Bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format, which they can understand and manage by themselves.
5. Reverse the age-old vicious circle of "low income, low saving & low investment", into virtuous circle of "low income, injection of credit, investment, more income, more savings, more investment, more income".

**Programs and Organizational Structure**

The Grameen Bank started to diversify in the late 1980s when it started attending to unutilized or underutilized fishing ponds, as well as irrigation pumps like deep tube wells. In 1989, these diversified interests started growing into separate organizations, as the fisheries project became Grameen Fisheries Foundation and the irrigation project became Grameen Krishi Foundation. These ventures were included in different areas as trust and fund, communications, energy, telecom, education, software etc.

Besides these some of the programs taken up by Grameen Bank are:

1. Basic loans
2. Housing for the poor
3. Scholarship programs for education of poor children
4. Struggling (Beggars) Members Program, to reach out to the beggars

**Grameen Bank in the World**

Grameen Bank, in its long journey since its birth, has traversed a long path, inspiring numerous societies and countries, and benefiting millions around the world. One of the most
underline achievements of Grameen Bank is the Grameen Foundation. This was founded in 1997 as a vehicle to replicate the model of Grameen Bank beyond the borders of Bangladesh and increase the access of poor people to microcredit by millions worldwide. The success of the Grameen Bank and similar microcredit efforts in India and Latin America eventually captured the attention of President Clinton, who has made it a centrepiece of his strategy to lift people out of poverty. In February of 1997, 2900 people from 137 countries gathered in Washington for the first Microcredit Summit and they launched a campaign with the remarkably ambitious goal of providing credit for self-employment and other financial services to 100 million of the world’s poorest families by 2005. "We have these global summits, and the enthusiasm is always there at the end,” says Sam Daley Harris, director of the Microcredit Summit Campaign.

**Microfinance Programs of Grameen Bank:**

**Table 3.4:** Grameen Bank, at a glance as on December, 2009

<table>
<thead>
<tr>
<th>Inception of microfinance programme</th>
<th>1983</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers of Members</td>
<td>6.43 million</td>
</tr>
<tr>
<td>Percent of Women Members</td>
<td>96%</td>
</tr>
<tr>
<td>Gross Loan portfolio</td>
<td>US $ 817.3 million</td>
</tr>
<tr>
<td>Average Loan Size</td>
<td>US $127</td>
</tr>
<tr>
<td>Repayment Rate</td>
<td>99%</td>
</tr>
</tbody>
</table>

**3.4.3 Association for Social Advancement (ASA):**

**Overview and History**

ASA in Bengali means ‘HOPE’. ASA is a non-governmental organization based in Bangladesh, which provides microcredit financing. It was established in 1978 by Shafiqual Haque Choudhury who is also the current chairman. Its functioning is based on the institutional support system. Innovations and simplifications of staff training, monitoring and bookkeeping are the three areas responsible for ASA's ability to effectively manage established units and pursue bold growth initiatives simultaneously. This makes the operations smooth and efficient. This makes it simple and easy to operate both for the organization and for the clients, without the unnecessary delays of bureaucracy and red tape. Its mission is to "reduce poverty and improve the quality of life of the poor through the provision of qualitative and responsive microfinance services in an innovative and sustainable
ASA offers a successful alternative microfinance model to that of the Grameen Bank. ASA combines low cost operations and high growth to fuel its success. ASA continues to perfect the role of financial intermediation by developing a variety of savings products that are quite successful at generating the necessary funds from local sources. The experiences of ASA's managerial dynamism and replication of its simple model have much to offer the diverse microfinance sector as it accommodates demand for quality financial services by the poor masses. ASA is confident that a financially viable microfinance sector that provides competitive financial services to its customers will be able to expand outreach at a pace similar to its own.

**Objective**

ASA envisions a microfinance sector that shares experiences and expertise at the global level to take full advantage of its diversity. Upcoming microfinance institutions are sure to add their own charisma and innovations, from which ASA will in turn benefit. At the local level, ASA sees competition among successful microfinance institutions and cooperation with other financial institutions as the catalyst for improved efficiency and outreach. Only a fully developed financial sector competing for customers at all levels of society will ensure that the poor have access to quality financial services. Therefore, ASA is not satisfied with its own brisk expansion alone, but is dedicated to contributing through various means to a financially viable microfinance sector that can afford to put the customers where they belong.

**Programs and Organizational Structure**

ASA at present is the most cost-effective microfinance institution in the world. It follows its own internationally acknowledged self-sustainable microfinance model. ASA has been involved in various aspects and programs of development. Some of the main programs, initiated by ASA that have gained high success and popularity are:

1. Small loan program for women and men, designed to help the landless women
2. Small business loan program, designed for the individuals who are willing to start or continue business but don’t have capital
3. Small entrepreneur lending program, structured with the view to help the small entrepreneurs and creating an employment opportunity for the jobless poor
4. Education loan program
5. Flexible loan program
6. Business development service
7. Rehabilitation loan program for natural disaster victims

ASA adopts the close relation approach between the field staff and upper management. This ensures the smooth operation by avoiding the unnecessary hurdles and steps and at any step or level things does not stuck due to the swamp of paper work. The Branch Manager (BM) is actively involved with groups, visiting regularly to check passbooks of individual group members and the books in the branch office. The District Officer (DO) visits two or three branches daily to make sure the accounts are up-to-date and accurate.

To make the operations smoother and easily accessible by the people, the system is highly decentralized. In this direction, recently, District Managers (DMs) are moved from the central office to occupy a desk near the centre of a district. DM also handles all staff promotions and transfers thus easing the burden on the central office considerably, besides planning the expansion of ASA and revolving credit funds between branches. All most all authorities and responsibilities of general managers in the central office has been shifted to the DMs, now operating in the field, so that the people or clients can contact and get the things operational at the field itself and plans start taking shape almost instantly.

**ASA and its Global Impact**

Since its beginning in 1978, it has made its presence felt in the global arena. It not only provides the help to the people in Bangladesh, which was its earlier aim, it now provides technical assistance and consultancy services to other small and emerging MFIs, at home and abroad, with a view to making them self-dependent. It was elected by International Technical Service Provider (ITSP) to provide consultancy to many MFIs in Philippines and Nigeria.

Social Fund for Development (SFD) is an NGO of Yemen, which has been working in collaboration with ASA since 2002. Besides this ASA has been working in close contact with numerous MFIs in various parts of developing world, providing them with technical assistance and helping them in their operations and making them self sufficient.

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**Microfinance Programs of ASA**

**Table 3.5:** ASA, at a glance as on December, 2009

<table>
<thead>
<tr>
<th>Inception of microfinance programme</th>
<th>1978</th>
</tr>
</thead>
<tbody>
<tr>
<td>Programme coverage</td>
<td>evenly distributed over the country</td>
</tr>
<tr>
<td></td>
<td>Value</td>
</tr>
<tr>
<td>--------------------------------</td>
<td>------------------------</td>
</tr>
<tr>
<td>Total No of Area/Branch Offices</td>
<td>2,291</td>
</tr>
<tr>
<td>Total No of village Organizations or groups</td>
<td>178,904</td>
</tr>
<tr>
<td>Total No of Members</td>
<td>4 millions</td>
</tr>
<tr>
<td>Percentage of Women Members</td>
<td>Not sex biased</td>
</tr>
<tr>
<td>Gross Loan Portfolio</td>
<td>US $ 456.1 million</td>
</tr>
<tr>
<td>Average Loan Size</td>
<td>US $ 114</td>
</tr>
</tbody>
</table>

**CHAPTER 4**

**RESEARCH METHODOLOGY**

In this chapter, a brief overview of various dimensions of the research, tools and techniques and methods used to achieve various research objectives have been discussed.