

# **Microfinance Industry: Some Changes and Continuities**

Presentation by

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# Outline

- Introduction
- What are the changes in the industry?
- What are the continuities?
- Conclusions

# Introduction

- Microfinance services have grown
  - data limitations
- But strong evidence of growth
  - Microcredit Summit Campaign data
  - Data on flagship institutions like Grameen/BRAC/ASA
  - BRI-Units in Indonesia
  - Self-Help-Groups in India
- Compartamos in Mexico

# What Changed?

- Conceptual changes
- Changes in institutional composition
- Changes in scope of services
- Changes in orientation
- Reality of profits in microfinance
- Changes in funding sources and volumes

# Conceptual Changes

- From narrow microcredit to broad spectrum of financial services
  - it is not just microcredit anymore
- Perspectives on target group changed
  - not just poor women
  - broader target group

# Changes in Institutional Composition

- Institutional landscape is diverse
- How did this diversity emerge?
  - transformation of NGOs
  - new microfinance banks
  - entry of conventional banks
  - greater role of co-ops
- Non-financial companies (telecoms) – new kids in the block

# Changes in Scope of Services

- More diversified products and services
- Less rigidity in product offerings
- Broader microcredit products
- Voluntary deposit services
- Money transfers and payment services
- Microinsurance is expanding

# Changes in Orientation

- From social orientation to commercial orientation
- Competition and its impact
  - operating cost declines
  - interest rates decline
  - better quality products
- From supply-driven to demand-driven approaches

# Emergence of Profitable Institutions

- Profitable MFIs were rare and profits were not sought before
  - BRI-Units was an exception
  - Now there are other well-known cases
    - Khan Bank and Xac Bank in Mongolia
    - ACLEDA Bank in Cambodia
    - ASA and BRAC in Bangladesh
    - Many NBFCs in India
- \* Average ROE of Spandana (India), last 3 years: 95%

# Changes in Funding Sources and Volumes

- Reduced dependency on donor grants
- Increased reliance on retained earnings and deposits
- Commercial borrowings and social investors

# What Continues?

- Majority of institutions are not yet viable
- Government programs/institutions undermine overall industry viability
- Many policy makers/practitioners do not support commercial approaches

# Changes in a minority; Continuities in a majority

- Majority of institutions do not adopt commercial practices
- Majority are not viable
- Majority remain small

# Government Programs

- Most do not adopt commercial approaches
- Rely on heavy subsidies
- Some are very large
- Undermines commercial microfinance
  - Bangladesh Rural Development Board (BRDB)
  - Viet Nam Bank for Social Policies (VBSP)

# Old Paradigm of Microfinance Continues

- Many do not support commercial approaches
- This leads to continuation of unviable programs/approaches
- And policies that undermine commercial microfinance
- Interest rates inadequate to cover costs
- Interest rate caps

# Conclusions

- Modern microfinance has evolved
- But it has not undergone a full transformation
- It is an industry in transition
- Most changes are confined to a small group of institutions
- Financial exclusion is still acute
- Development community must continue to work together to build inclusive financial systems to end financial exclusion

# Thank you for listening.

For more information on ADB's  
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