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Taking AIM in a New Direction

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Malaysia

On 1st April 2003 Associate Professor Sukor Kasim assumed the position of Managing Director of Amanah Ikhtiar Malaysia (AIM).

Assoc. Prof. Sukor is no stranger to AIM, having co-founded its predecessor, Projek Ikhtiar in 1986, together with Prof. David Gibbons. His return to AIM was warmly greeted by many in the microfinance industry, and especially those familiar with AIM.

The general consensus is that with Sukor Kasim at the helm, AIM now stands a good chance of developing into a truly independent institution focussed on poverty alleviation, although the challenges ahead will be great.

Great, and numerous as well, as the following brief history of AIM indicates.

In 1986 Prof. David Gibbons and Assoc. Prof. Sukor Kasim, both researchers with the Centre for Policy Research, University Sains Malaysia, started Projek Ikhtiar, as an action-research pilot to determine if the Grameen Bank approach to poverty alleviation could be successful in the Malaysian context.

In December 1986, the first loan was disbursed. By late 1988, after weathering a serious repayment crisis, the Project was recognised as the first successful Grameen Bank replication in the world. Its status was changed to that of a Trust, renamed Amanah Ikhtiar Malaysia, and its focus was directed at poverty reduction among poor women. In the seven years that followed, membership grew quickly to 25,000.

Success however brought with it greater visibility and its own set of problems. AIM was not only a popular program among the poor, it had also become very attractive as a potential vehicle for mobilizing votes at election times. The strong political and financial support enjoyed by AIM gradually turned into intervention.

The takeover bid started in 1991 and took the guise of the need to "professionalise the management". An unstated but underlying objective was full islamicization of AIM. On-lending funds of 18.2 million ringgits (approx. US$ 6 million) from the Federal Government under the Sixth Malaysia Plan were not provided directly to AIM, but rather diverted to the Islamic Economic Development Foundation (YPEIM) and converted into a 30 year grant.

In 1993, after two years of struggle to stay in control, David Gibbons resigned as AIM's Managing Director, taking the view that the takeover was inevitable and that AIM would have to find a way to carry out its objectives without him at the helm. Sukor Kasim, long assumed by many to be Gibbons's successor, was not selected by the Board.

By 1995, the founders were replaced by Haji Mukhtar Ramili and his team of "professional" managers, all of whom had no previous experience in microfinance.

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Inside

Happenings

In India

Grameen Foundation USA has been declared an "ineligible lender" by the Reserve Bank of India, as it is not on the list of eligible lenders drawn-up recently on instructions from the Ministry of Home Affairs. Apparently this is a security measure to prevent terrorist money from entering the country. It has serious, if unintended, consequences for MFIs, however, as many get loans from social development institutions like GFUSA (Grameen Trust, Calvert Social Development Foundation, etc.) that will not be on the list of eligible lenders. Receiving loans from them would be illegal and any such funds would have to be returned to the lender.

Already, CFTS has had to return a loan to GF-USA. Efforts are being made to appeal on behalf of MFIs, but there has been no success as yet. If these efforts are unsuccessful, the poor throughout India will get less access to microfinance.

In Indonesia

The third workshop under the AusAID funded Capacity Building and Scaling-up Project took place in Brastagi from 30th March to 3rd April. According to the original plan, this was to be the concluding workshop under the program but in light of the need to devote more time to Financial Management and Accounting Issues, the Strategic Business Planning and Financial Modelling part of the workshop will be covered in a separate workshop, proposed to be held in Seremban, Malaysia from 6 to 12 July.

CASHPOR Technical Services has just been informed that the recently submitted application to USAID under the 2003 Microenterprise Implementation Grant Program to establish a new microfinance program in East Java has not been successful. It was hoped that the new program, besides contributing to poverty reduction in Indonesia, would demonstrate that MFIs can become sustainable while serving significant numbers of very poor households.

In Timor Leste

Ahasan Ullah Bhuiyan has taken over as sole Project Manager of Moris Rasik, with Norbaiti Rahmat taking over the field staff training program.

Moris Rasik is looking for an External Auditor to carry out the audit for the year end 31st December 2002. Several attempts at engaging External Auditors from outside of Timor Leste have failed; the assignment is apparently considered too much of a 'hardship' and proposed fees have therefore been unreasonably high and unjustifiable. Any suggestions/ nominations are welcome to Helen Todd at morisrasik@yahoo.com.

In Viet Nam

CEP Fund is hosting an international workshop on "Micro Credit in Poverty Reduction & its Challenges", from 21 to 23 May in Ho Chi Minh City. Further details can be obtained from Mdm Nguyen Thi Hoang Van, Managing Director, at <cep@saigonnet.vn>

Credit for the Poor via the Internet

Starting with our next issue, Volume 39, Credit for the Poor will be available on our soon to be launched website www.cashpor.org. Going forward, only CASHPOR members, affiliates and paying subscribers will continue to receive hard copies. Those readers receiving CP on a complimentary basis who are interested in receiving quarterly email notification of CP's availability on our website, please send an email to <cashporcp@yahoo.com> with your full contact details.

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AIM - in a New Direction...continued from page 1

At this point in time, AIM was working in every state of Malaysia, except Johor, Melaka, Negri Sembilan, Sabah and Sarawak and serving 35,000 borrowers. It was acknowledged as making a significant contribution towards poverty alleviation. Although it had not achieved sustainability because of the government mandated low interest rate, at the time Haji Mukhtar took over AIM, it was by best practice standards well managed.

Although Haji Mukthar and his new team left the day-to-day operations to the existing experienced managers, their lack of experience and commitment to the original objectives of AIM began taking its toll relatively quickly. As decisions began to be taken based on political expediency, the operational, financial and managerial quality began to deteriorate. Credit discipline began to break down and repayment problems mounted.

The computerized Management Information System, installed in the early 1990's, failed as it became overburdened and staff reverted to the manual system of reporting, leading to long delays and error in management reports. Haji Mukhtar directed the revamping of the MIS, but despite spending over US$1 million, the effort was fruitless and in the end, led in part to his dismissal.

The program also succumbed to pressure to take over other failing government programs as well as to expand to East Malaysia, against the experienced operations team's better judgement. The expansion to Sabah and Sarawak, as well as the inherited programs caused a serious drain on the resources of AIM. Management in the meantime lost control of the budget and expenses ballooned.

In 1999, a surprise audit by Bank Negara, the Malaysian Central Bank, raised sufficient concerns for the funding to AIM to be frozen. Then another audit, conducted by the Accountant General, added to the doubts about the soundness of AIM's financial management and in September 2000, the Board was asked by the Treasury to resign; they did so. Through deft political footwork however, Haji Mukhtar managed to get himself appointed as Chairman of the Board, as well as again as Managing Director.

This appointment however was short-lived. In December 2001 Haji Mukthar was suspended and in August 2002 formally charged with criminal breach of trust. He denied the allegations, and has since gone to trial.

In the meantime, a new Chairman-cum-acting-MD was appointed by the Government to take charge of AIM. Yang Berhormat Amihamzah bin Ahmad is a sitting Member of Parliament for UMNO, the senior partner in the ruling coalition. Along with him, two UMNO Youth leaders were appointed to the Board. While acknowledging that AIM needed a full-time Managing Director and a computerized MIS, Yang Berhormat did not do much about either in more than two years in office.

Experienced senior management staff who had up till now continued with their work in silence while watching AIM flounder saw this as an opportunity to rehabilitate the organisation and began to lobby in high places for support. The ensuing search for a microfinance professional to fill the position of Managing Director led to the doorstep of Sukor Kasim, who by now was working internationally as a microfinance consultant.

It took a while to satisfy Sukor that the he would have the authority to carry out the mandate to turn AIM around. But once satisfied, he agreed to come home "to serve the poor" in his own country.

In the words of David Gibbons, Sukor's return " is a sign that AIM has weathered the inevitable political takeover, but with the anticipated debilitating consequences. Despite these problems, AIM now has a real chance to develop as a truly independent Trust for the poor. Sukor will need the full support of the experienced, loyal staff who have done their best, under difficult circumstances, to keep AIM on track."

We agree it's a good sign indeed and wish Sukor Kasim and AIM the very best going forward. ❖

An Interview with Associate Professor Sukor Kasim, Managing Director of AIM

This interveiew was conducted via telephone and email by Wong Chia Lee, an editor of Credit for the Poor.

Wong Chia Lee (WCL): In the last several years, you have become very involved in providing consulting services to MFIs internationally, and if I am not mistaken, specialising in the field of rehabilitation. Can you comment on this development and what you have learnt from it?

Sukor Kasim (SK): Since 1994, after being ousted from AIM, CASHPOR has assigned me a number of tasks in the Philippines, Indonesia, China, Vietnam, Papua New Guinea and as far as South Africa to look into repayment crises of the programs over there and in some cases to assist in start-ups.

Thus rehabilitation and qualitative expansion became the main thrust of my activities with microcredit institutions. Such missions allow me to see programs under different socio-economic conditions, but under familiar "Essential Grameen Principles". With a strong Research and Development tradition from AIM and working closely with Professor Gibbons, putting those programs back on proper footing, retraining all level of staff, reviving groups and centres while ensuring to maximize impact of microcredit on the poor became the central themes which made me stay in those programs for months at a time and for years, like in South Africa.

Valuable lessons can be learned. The need to have professionalism and renewed commitment, especially at the highest governing level and senior management, to banking for the poor, the need to stay clear and far from politics, the role of R&D to spearhead transformation and impact, sticking to core business of banking for the poorest, and a clear vision towards the future are vital to understand why MFIs succumb to different situations.

WCL: How will you be applying what you have learnt to AIM?

SK: On the one hand, it is very sad to see the program you have nurtured cracking up with increasing portfolio at risk (PAR), deteriorating operating efficiency; i.e. all the symptoms of a defunct institution.

On the other, one can reflect on it as "a living example" of how programs can be transformed should professionalism, commitment, continuity in leadership, etc. be sacrificed for whatever motives or reasons. In December 1993 when we handed it over, the only branch with PAR was our oldest branch in Selangor, but in April 2003 almost all branches are having PAR; worse still, the amounts are in millions [of ringgits]. However, it is in 1997, with massive salary revision, extremely high loan ceilings and a major increase in transaction charge that repayment crisis began to be experienced in almost every branch!

New loan products such as SPIN (Skim Pinjaman Ikhtiar Nelayan), a loan scheme for Fishermen, and SKIT (Skim Khas Ibu Tunggal), a loan scheme directed at urban single mothers, immediately succumbed to PAR as these are 1986-87 mistakes that are repeated, but on a much bigger and expensive scale. One of the lessons learned is the urgent need for a professional and committed leadership in banking for the poorest women in a cost-effective and sustainable manner. This will be my main thrust in reforming AIM. Since most of the mid-management staff are my former "students" of AIM, it is much easier to tackle them.

The microcredit industry currently have a number of best practices that should be customised to our environment and with the political support to bring back professionalism, the stage is set for a major change in AIM.

WCL: What is your strategy for reform?

SK : As for a strategy for reform, it is vital to remove the denial syndrome. AIM is in a very bad shape. It is

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> a very expensive outfit. It is oversized. Financial Ratios are shameful. Its survival is only from strong financial support from the Federal Government.

In the first couple of weeks, the task is to visit branches and Area offices to look into operating and financial efficiency and review the quality of human resource there. Nine years of AIM 2 (January1994 to March 2003) while lacking professional and committed leadership brought AIM to her worst level, with criminal charges against the Managing Director. Within the brotherhood of Grameen Replicators, AIM has lost recognition as even Credit for the Poor no longer features her performance! In a report on AIM which I prepared in 1998 for the Centre of Policy Research, I identified a number of structural problems facing the institution and by the end of April, those will be updated and a major thrust of qualitative change will be instituted.

WCL: What do you see as the priority of your taking charge?

SK: As for priority, going back to the core business of banking for the poorest women in a cost-effective and sustainable manner will be the top priority for AIM 3. This means operating and financial efficiency, bringing down PAR, and maximising impact on the clients.

WCL: Is sustainability part of your priorities?

SK: Sustainability is being built into the priority and strategy. As such, cost-benefit analysis will feature in our approach. The over-sized and excessively expensive Head Office has to be trimmed, certain unsustainable area offices may have to be consolidated, branches will have to be structured as “profit and loss units”. AIM has to measure herself up against established international standards in institutional financial self-sufficiency.

WCL: What about loan-recovery? Especially the programs that are doing badly - such as SKIT and SKIM and the expansion into Sabah & Sarawak?

SK: Loan recovery is a critical element in our transformation as loan funds are being borrowed, thus low recovery is a sorry reflection of poor impact on the clients and structural mistakes of management. The terrible state of recovery is a repeat of AIM problems with massive upward revision in loan ceiling and introduction of loan products such as SPIN and SKIT. SPIN and SKIT are in a real mess with PAR levels so high that it is shameful to mention! The traditional loan product,“SPI” (Skim Pinjaman Ikhtiar) too is facing serious challenge to survival as AIM 2 lacked the professionalism to tackle them. Priority for rehabilitation and qualitative expansion will be for the poorest households. SPIN and SKIT are known to be a major leakage to non-poor and the “not-so-poor”. I am just thankful that these two programs are limited to Peninsular Malaysia.

WCL: How do you intend to tackle the MIS?

SK: The issue of MIS was another misadventure. Quite a large amount of financial resources have been directed at it since 1999 as part of the Year 2000 bug solution! I guess we must be the only institution that has not settled that bug by 2003!

It is also deplorable that AIM was the first Grameen Replicator to have a computerised accounting and MIS, even before Grameen introduced Grameen Banker 1, to have failed to live up to that leadership. We are sending a team to CASHPOR India to look into the Grameen Banker 2 [developed by Grameen Communications] to bring about credibility to our MIS. We hope to customise it to tackle a serious technical flaw in our operating system.

WCL: What will be the biggest change for clients?

SK: Our clients have abandoned the Special Centre Savings Fund, a kind of group responsibility fund designed to instill credit discipline especially in repayment. The high PAR in centres and equally high drop-out rates, and presence of inactive members, are a reflection of ailing membership.

Going back to Grameen decentralised supervision and delivering cost-effective loan products are changes that have to be expected by members. Demand driven loan products will have to be considered as part of the overall strategy in our core business of benefiting them with microcredit.

WCL: I know you have been extremely busy since coming back to take charge of AIM and as such, would like thank you for taking time out to share your thoughts and concerns with us and our readers. We wish you the very best and hope to be back to report on your successful progress before too long.❖

Watch the Yield Gap: A MFI Manager's Point of View

Helen Todd <morisrasik@yahoo.com>

Suai, Timor Leste

One of the central mysteries of microfinance, to me, is the way you never earn as much interest from your portfolio as that estimated based on the effective interest rate you charge your clients. There is always a difference between how much the MFI actually earns on the portfolio versus what one expects to earn. This difference is called the yield gap. The larger the yield gap, the less interest you earn vis-à-vis what is expected and the greater the delay in achieving break-even.

The Problem at Moris Rasik

Moris Rasik is a young program, charging 20% flat on a single loan product. Its effective interest rate is 40%. In tracking actual monthly performance against projected interest income in the business plan, in 2002 we ran behind projected interest income every month.

For the whole year, the yield on the average portfolio of USD62,000 was only 21.2%. We should have earned approximately $24,500; yet we earned only $13,000. (These figures have been rounded off for easy reading.) How can Moris Rasik reach its targets and break-even on schedule like this?

The Reasons

Puzzling over the figures, we realized that the estimate of interest income is arrived at on the assumption that every borrower has a loan (and is paying interest) every week of the year. With this in mind, we have identified the following likely causes for Moris Rasik's yield gap.

Turnaround Time:

Moris Rasik has a 6 month loan term. Since the loan term is only ½ year, there is pressure for Moris Rasik to disburse subsequent loans immediately if it is to ensure we are earning a full year of interest from each borrower. However, turnaround time between one loan and the next, at the most efficient, is two weeks. Clients submit their new loan proposal one week after their last loan repayment. The loan is disbursed the next week and they begin payment a week after that.

But it often takes longer. In one district, turnaround time was an average of 17 days; in another it was 27 days. In branches with some arrears, the staff use disbursement to instill discipline. If attendance is poor they do not disburse. If more than two members in the center have arrears then they do not disburse. If the report from the field staff on the impact of the previous loan is not complete, the program manager does not pass the loan proposal. This means that any one client may have a gap between paying off one loan and receiving the subsequent loan of 2 to 4 weeks or longer.

Festivals:

Although the loan term is 25 weeks and the interest amount payable is based on this, in practice the loan term is effectively longer due to festivals and holidays; no interest is collected during these extra weeks. Moris Rasik has been liberal with holidays for festivals. In 2002, we closed for a week at Easter and 16 days for Christmas. As a result, we lost another month of interest.

We believe that longer than expected turnaround time and interest lost due to holidays are the primary explanations for our yield gap. There are other reasons, however, that can explain the yield gap and should be considered by MFI's when they undertake this analysis.

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> ***Arrears:***

If you are not collecting repayments of the loan, then in effect the loan term is 'extended' and you are not earning interest over the extension weeks. This does not seem to be a significant reason for the yield gap with Moris Rasik as we began the year with a portfolio at risk (PAR) of 1% and ended it at 1%; the PAR never went higher than 2% in any month during the year.

Bunched Disbursement:

2002 was a year of rapid growth. We grew from 400 loan clients to almost 2,000. New clients must save for a month before the first two members of their group can put in their loan proposals and the 2-2-1 staggered disbursement spreads out the loan delivery over ten weeks. Both the number of new clients and the growth in loan outstanding accelerated in the second half of the year, meaning that our portfolio bunched towards the end of the year.

The impact on yield on portfolio is two-fold: 1) Moris Rasik earned less income than if loan disbursements had been evenly spread over the year and 2) average portfolio outstanding, used in calculating the yield on portfolio, was higher than the actual average given the larger disbursements during the 2nd half of the year. Both resulted in lower yield on portfolio.

Pilferage:

This is always possible, although we have not detected any cash missing through the monthly trial balance and bank reconciliation or the internal audit and surprise visits by supervisory staff.

Solutions to the Yield Gap

At a management meeting in January 2003 with Moris Rasik Advisor David Gibbons, we decided to try the following measures to reduce the yield gap on interest earnings.

- Allow clients to submit loan proposals on the same day that they make their last payments. Branch and Area managers must process proposals and disburse loans with the maximum speed consistent with maintaining credit discipline. This should reduce the turnaround to one week, if there are no arrears in the center.

- It is not feasible in Catholic Timor to abolish Christmas and Easter holidays! However, we decided that the program would allow only official government holidays and staff who needed more time with their families would have to apply for annual leave. At Easter, all center meetings affected by the two official festival days would be rescheduled to other days. At Christmas, the program would close for a maximum

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Calculating Yield Gap

According to *Definitions of Selected Financial Terms, Ratios, and Adjustments for Microfinance* prepared by CGAP, SEEP and others, the yield gap compares revenue actually received in cash with revenue expected under the terms of the loan contracts. While a small gap is common, a substantial yield gap (> 10%) may indicate significant past due payments (arrears), fraud, inefficiency or accounting error.

In order to calculate yield gap, an MFI must have two critical pieces of information: 1) Yield on Net Portfolio and 2) Expected Annual Yield. These calculations are provided below:

Yield on Net Portfolio

$$\frac{\text{Cash Revenue Earned from Loan Portfolio}}{\text{Avg. Net Loan Portfolio}}$$

Expected Annual Yield

$$\frac{\text{Total Interest Paid over Loan Term x 12 (Months)}}{\text{Avg. Loan Outstanding during loan term / \# of Months in Loan Term}}$$

Once these figures have been calculated, the yield gap can be estimated using the following formula:

Yield Gap

$$100\% - \frac{\text{Yield on Net Loan Portfolio}}{\text{Expected Annual Yield}}$$

Funder Profile: Consultative Group to Assist the Poor (CGAP)

Jennifer Meehan <jennifer_meehan@hotmail.com>[1]

CGAP, the Consultative Group to Assist the Poor, is a consortium of international donors and foundations committed to expanding the quality, quantity, and sustainability of financial services to poor and very poor clients. CGAP recently announced the launch of its Phase III strategy[1] for 2003–2008. The mission of CGAP III is to expand and to accelerate the access of the poor to a much broader range of convenient and sustainable financial services.

As part of its efforts to achieve this mission, CGAP makes funding available to MFIs – either directly or indirectly – for three basic types of activities. First, CGAP coordinates donor funding and consolidates reporting requirements for MFIs through its Appraisal and Monitoring Service. In addition, it provides grants through the CGAP/IFAD[2] Rural Pro-Poor Innovation Challenge and the IDB[3]/CGAP Rating Fund. A review of each of these activities is described in detail below.

CGAP is also in the process of analyzing microfinance industry funding. This research will help develop an improved picture of the involvement of both debt and equity investors in microfinance, and further investigate the funding mismatch between investors and MFIs. The ultimate goal of this work is to help all industry participants match different types of funds to different types of microfinance establishments.

From Elizabeth Littlefield, CGAP Director: Thoughts on Donor Funding of Microfinance

"While institutional capacity remains the key bottleneck to scaling up microfinance, clearly, there are many small or young MFIs with high potential in the world that merit funding and are not getting it. We need to do everything we can to ensure that donor resources are channeled most effectively to the institutions that show the most promise. Most donor funding is not demand-driven but donor-driven. Funds are country-driven, project-driven or politically-driven, often with unhelpful structures or onerous reporting conditions.

We must continue to urge donors use good practices in selecting institutions for funding that show promise for real size and a leadership which understands and is committed to sustainability but which may lack track record or scale. These institutions are currently off the radar screen of donors, who tend to gravitate to proven 'winners.' Donors should understand that their role is to take smart risk while allowing those MFIs that are capable to graduate to more commercial sources of funds. CGAP has a range of tools and services and an entire team of staff members dedicated to improving the effectiveness of donor support to microfinance."

CGAP Appraisal and Monitoring Service

As CGAP transitions into its third phase, its member donors have redirected CGAP's focus away from providing financial resources directly to MFIs. In the last 7 years, such funds were instrumental in jump-starting growth at a number of CASHPOR members, including SHARE, CARD, Nirdhan Uttan Bank (formerly Nirdhan Nepal), and Project Dungannon. CGAP's intention now is to better allocate >

[1] CASHPOR would like to thank Elizabeth Littlefield, and particularly Tamara Cook, for their contributions and assistance in preparing this article.
[2] Please see *CGAP Takes Three with the Goal of 'Massifying Microfinance for the Poor'* in CP36 for a detailed discussion.
[3] IFAD = International Fund for Agricultural Development (www.ifad.org)
[4] IDB = Inter-American Development Bank (www.iadb.org/sds)

> its resources by focusing on: helping donors spend their funds more effectively and helping donors identify MFIs to fund. Since CGAP staff felt strongly that its role of funder should be preserved in some way, it will continue to use its funding as a catalyst to attract consortiums of other donors and funding for MFIs. However, the annual application process will cease.

CGAP launched its Appraisal and Monitoring Service in 2001 to coordinate joint appraisals of microfinance organizations by interested donors, then facilitate a consortium approach to funding by consolidating the reporting and monitoring requirements of those donors who choose to fund. This service helps donors with limited staff resources available to evaluate and follow-up the MFIs they fund. At the same time, it liberates the staff resources that microfinance providers must devote to managing different reporting periods, information, and conditions required by separate donors. Since 2001, CGAP has helped leverage co-funding of more than $10 million for eight microfinance providers and networks.

Initially, CGAP identified opportunities for this service from funding applications submitted directly to CGAP and recommendations from donors. Beginning in 2003, all institutions will be selected for this service on a rotating basis via donor recommendations and promising institutions who post on the Microfinance Information eXchange (MIX) Market (www.mixmarket.org), an on-line resource to facilitate exchanges and investment flows for microfinance providers. Although CGAP will no longer accept funding applications, Cashpor members interested in this service should register on the MIX Market and encourage donors to recommend them for this service.

In 2002, 68 applications were received for the Appraisal and Monitoring Service, of which 9 (see box on page 10), 3 of whom are CASHPOR members, were selected for circulation to donors. CGAP is soliciting interest from donors through late April to determine if any appraisals will be scheduled.

CGAP/IFAD Rural Pro-Poor Innovation Challenge

The Rural Pro-Poor Innovation Challenge (Rural PPIC) is a partnership between IFAD (the International Fund for Agricultural Development) and CGAP to support pro-poor innovations in rural microfinance. In the most recent round of funding, 10 awards of $50,000 each were made from over 500 applicants.

Thirty MFIs whose applications made it through the initial review but did not receive funds were also sent to CGAP's 29 member-donors for their consideration. CFTS is the only CASHPOR member to receive a Pro-Poor Innovation Challenge grant thus far.

Rural PPIC applications are evaluated on the basis of three criteria:

1) depth of outreach;
2) innovation and effectiveness in client identification, delivery methodology, product/ service design; and
3) demonstrated commitment to the project proposed and to eventual sustainability.

Applications can be downloaded from the CGAP website at www.cgap.org/html/mfis_funding.html. The date for the next round of applications has not yet been finalized, but will be posted on this web site.

As the central purpose of the Rural PPIC is to pass on lessons learned and ideas from these pro-poor innovations, recipient institutions are expected to subsequently participate in a case study on the introduction and rollout of the innovation funded. CGAP and IFAD will also reserve the right to visit the recipient institution and conduct that case study if so desired.

IDB/CGAP Rating Fund

The Rating Fund provides financing for ratings and assessment services for MFIs. As of early March 2003, the Rating Fund had approved 75 MFIs for ratings/assessments. The Rating Fund will finance 80% (up to a maximum of $8,000) of the cost of the rating/assessment of an MFI. It will also finance further rating or evaluation updates on a declining basis (60% of total costs up to $6,000 for the first update and 40% of total costs up to $4,000 for the second updatefor the same institution). A number of CASHPOR members, including ASA, CFTS, SHARE, and Project Dungannon, have benefited from this service. >

> The Rating Fund is available to MFIs that have provided financial services for more than three years in some institutional form and that have total assets greater than US$300,000. A strong preference is given to MFIs that commit beforehand to full public disclosure of its adjusted financial statements and the rating/assessment report. To date, more than 90% of completed rating reports have been posted and can be accessed at www.ratingfund.org.

While the Rating Fund accepts applications from transformed MFIs as well as NGOs, it will **not** approve applications from MFIs that are required by local regulations to conduct a rating exercise.

In order to apply, MFIs must select a rating agency from among CGAP's pre-qualified agencies; in Asia these include CRISIL, HORUS, MCRIL, ACCION, and PlaNet Finance. Once a cost estimate has been obtained, MFIs should send a letter to the IDB-CGAP Rating Fund, including:

1) a one-page institutional summary highlighting operational results;

2) a copy of the most recent audited financial statements;

3) a copy of any existing ratings reports or evaluations by third parties;

4) a cost estimate for carrying out the exercise; and

5) a number of commitments ensuring that the exercise is being carried out in good faith.

Approvals of applications are made on a rolling basis, so MFIs can apply as needed.

The IDB and CGAP will approve a proposal only if it contains all the required information. Disbursements will be made directly to the MFI upon submission of the rating/assessment report, the feedback report, and the invoice of the rater/assessor. The full application and instructions are available on the website www.ratingfund.org.

Contact Details

For more detailed information, the best resource is CGAP's website, www.cgap.org.

Other inquiries can be sent to:

CGAP,
c/o The World Bank
1818 H Street, NW
Washington, DC 20433, U.S.A.
Fax: (202) 522-3744
E-mail: cgap@Worldbank.org

MFIs Selected for the 2002 Appraisal & Monitoring Service

Activists for Social Alternatives, Tamil Nadu, India—a microfinance program focusing on empowering poor women and the socially excluded lower castes.

Amhara Credit and Savings Institution (ACSI), Ethiopia—a government-sponsored microfinance institution in Ethiopia serving primarily rural clients in the Amhara regions; recommended by SIDA.

ARCDI Vision Bank, Philippines—a microfinance-oriented rural bank planning to expand its activities to the Bicol region, a poor and sparsely populated area; recommended by the Asian Development Bank.

Capital Fund for Employment for the Poor (CEP), Vietnam—a leading microfinance institution in a country where few sustainable institutions exist.

Swayam Krishi Sangam (SKS), Andra Pradesh, India—an NGO operating in very poor, rural areas of Andra Pradesh. SKS was also a recipient of a Pro-Poor Innovation Challenge award.

Funding the Poor Cooperative (FPC), China—a pilot program created by the Research Development Institute which has become the leading example of microfinance in China.

Femme Développement Entreprise en Afrique (FDEA), Sénégal—a promising MFI managing 31,700 savings accounts and 1,300 active loans.

Fonkoze/MEDA, Haiti—two local MFIs working in rural areas planning to consolidate their portfolios into the commercial bank that Fonkoze is launching.

SafeSave, Bangladesh - a cooperative society using a doorstep savings and credit product for individuals with flexible terms.

Congratulations to the three CASHPOR members who made the shortlist!

Financial Issues: Broadening the Scope of MFI Fundraising to the Capital Markets

Jennifer Meehan <jennifer_meehan@hotmail.com>

A mere 5 years ago, when CASHPOR members sought funds to support scaling-up they normally turned to two traditional sources of financing: international donors, like CGAP, or international microfinance support networks, such as the Grameen Trust.

Today the situation is dramatically different. Potential sources of local currency debt financing are available in many Asian countries. These funds come from:

· government and development banks (like Landbank in the Philippines and the Small Industries Development Bank and National Bank for Agriculture and Rural Development in India);

· apex institutions (like PCFC in the Philippines, RMDC in Nepal, and PKSF in Bangladesh)

· and increasingly commercial banks, who've come to view microfinance as a bankable business.

The latter in particular is a significant break-through, long sought in the microfinance industry, and illustrates how microfinance has "matured".

Exploring Uncharted Territory

These developments are extremely encouraging. But the microfinance industry in Asia should not yet >

Watch the Yield Gap....continued from page 7

of one week. Finance staff would have to work through 23 December to close the books, and reopen immediately after New Year.

· We discussed, and rejected, other measures which would reduce the yield gap. An annual loan would eliminate the turnaround time, but is not suitable for most Moris Rasik clients who need more frequent lumps of capital for trading activities. An upfront disbursement fee would cover up the inefficiencies, but would be an additional burden on our clients. We could, like Grameen Bank, change to a declining interest rate in order to continue charging interest on loans not settled within 25 weeks rather than a 'flat' rate. But it is politically difficult in Timor – and most other places – to announce a rate of 40% on the declining balance.

It will take time to see whether these measures will increase our interest earnings. But the results in the first two months of 2003 show some improvement. The yield on portfolio in January was 29%, and over the first two months was 29.6%. (These percentages are annualized.) The highest earning of 32% was in the largest and older branch, where there are few arrears. This branch is already covering all its costs, including cost of funds from Head Office, from its interest earnings. A ten month old branch with an efficient branch manager and good repayment out-performed an older branch with both leadership and repayment problems.

The message is clear. First we have to reduce to a minimum the 'empty weeks' when we do not collect interest. Then our yield on portfolio will depend on efficient management of the disbursement of repeat loans and faithful repayment by our clients. As the new branches mature, and the disbursement spreads more evenly through the year, interest earnings for the year will also rise. ❖

be satisfied. A huge reservoir of financing, regularly accessed by traditional businesses, including banks, remains untapped by microfinance institutions in Asia. This is the capital markets.

According to Barron's *Dictionary of Banking Terms,* a capital market is "a financial market where corporations and governments raise funds by selling stocks, bonds and other kinds of investments, mostly to long-term savers and investors." In Asia, with its relatively developed capital markets and where some of the world's leading MFIs, (among them some CASHPOR members) operate, the opportunity is ripe for this next step.

Why Consider the Capital Markets?

What are the incentives for MFIs to participate in the capital markets? The primary incentive is larger amounts of funds on better terms and conditions than might be available from banks. Moreover, since the market is very large, and inhabited by investors with widely differing investment strategies and objectives, it allows for a better alignment of the MFI's interests with those of the investor.

While both debt and equity financing is available in the capital markets[1], given the market's unfamiliarity with the microfinance industry, it is likely that early activity in the capital markets will focus on simple debt financing – such as bond issues and asset-backed securitizations. We will introduce these two different types of financing instruments in detail below.

Issuing Bonds: Learning from Experience in Latin America

In 2002, three microfinance institutions in three different countries in Latin America issued bonds in local capital markets, raising approximately US$25 million in new debt financing on terms more favorable than those available from banks.

When a company issues a bond, it is obligated by a written agreement (called an indenture) to pay interest (the coupon rate), normally on a semi-annual basis, and return the full amount of the bond issued (the face or par value) at maturity. **The primary feature of bonds is that they are long-term obligations. A microfinance institution should be able to get longer-term financing by issuing bonds than is available from banks.**

Let's take a closer look at the terms and conditions on the bonds issues by two Latin American MFI's, Compartamos in Mexico and Mibanco in Peru:

General Terms & Conditions

	Compartamos	Mibanco
Amount	US$10 million[2]	US$6 million
Coupon	11%	12%
Term	3 Years	2 Years
Other	Bonds rated A+ by Standard & Poors[3]	50% USAID Guarantee Bonds rated AA by Standard & Poors

From the perspective of Asian MFI's, the amount of financing and the coupon rate are extremely attractive, but the term of only two years is less so. As the managers of these MFI's pointed out, however, in Latin America, a 2-3 year term is actually considered "long-term," particularly when compared to financing available from banks. For Mibanco, issuing bonds was also part of a financing diversification strategy, to break its strong dependence on lines of credit from government development banks.

One of the things I find most promising for Asian MFIs about these two bond issues is that they were oversubscribed, even in the case of Compartamos where no external guarantee or support was provided. In other words, there were more investors (institutional investors like pension funds) wanting to buy the bonds than there were bonds available. When the managers of these MFIs were asked why the bond issues were so successful, both cited excellent

[1] It is important to note that this article focuses on debt financing, or borrowings, available to MFIs in capital markets. As this column, and a paper entitled Financing Microfinance for Poverty Reduction co-authored by David Gibbons and Jennifer Meehan and presented at the Microcredit Summit Campaign +5 meeting in NY in November, has long argued, a lack of capital (equity and quasi-equity financing) is the primary constraint to scaling-up outreach among CASHPOR members and other promising MFIs today. In these early days of tapping the capital markets in Asia, I feel it will only be an option for those MFIs with a strong equity/capital base.

[2] This represents the first half of a targeted $20 million bond program for Compartamos.

[3] Standard & Poor's is a US-based, internationally-reputed rating agency.

> financial and operational performance; it should be noted, both are regulated financial entities. The strong ratings from an internationally-reputed rating agency gave further confidence to investors. And finally, Citibank in Peru and its local affiliate, Banamex in Mexico, both of whom regularly manage bond issues for companies and banks, managed these bond issues. As MFIs in Asia look to consider these options, there are lessons to be learned from these experiences.

Asset-Backed Securitization: Under Exploration in India

Another popular capital market instrument that is often discussed in relation to microfinance is an asset-backed securitization. This is a very complicated way of saying that bonds issued are collateralized by the future cash flows (repayments of principal and interest by customers) generated from a financial institution's loan portfolio. In other words, principal and interest payments to bond-holders are made from principal and interest payments made by an MFI's clients. The nature of this financing instrument does require the setting up of a new special purpose company to manage the loan portfolio that has been set aside to make payments of principal and interest to investors.

Let's take an example to illustrate, in simple terms, how this might work. Assume an MFI has a loan portfolio of US$10 million. There are no claims by banks or other funders on US$4 million of the loan portfolio, so it decides to issue bonds against this portion of their loan portfolio. The relationship between the MFI, the MFI's clients, the special purpose vehicle, and the investors , as well as the movement of funds would be as shown in the diagram below.

Interestingly, SHARE Microfin Limited is engaged in ongoing discussions with Citibank in Singapore to structure an asset-backed securitization of their loan portfolio.

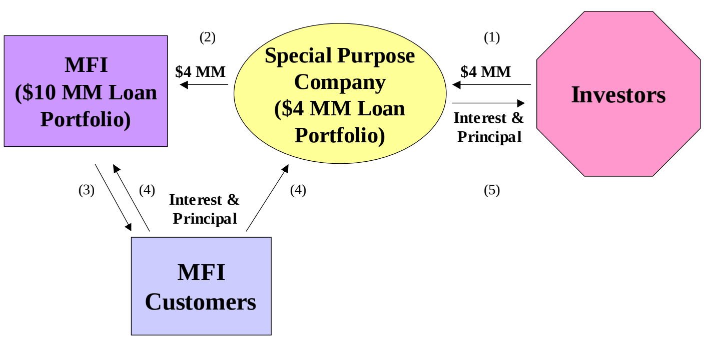
The Grameen Foundation USA, in partnership with an Indian commercial bank, ICICI, is also exploring this option as part of a larger plan to establish a Non-Banking Finance Company in India, in part to facilitate the securitization and sale of MFI loan portfolios. In addition, it plans to offer quasi-equity financing, credit wraps and guarantees; provide financial advisory services to help MFIs leverage domestic debt/capital; and assist in replication of the "agency model" between commercial banks and MFIs, currently being piloted by ICICI Bank and CFTS[4/5] .

Moving Forward

As we seek to overcome financing hurdles in order to reach large numbers, the capital markets option should be explored. As experience in Latin America and interest in India have shown, investors will likely consider investing in strong financial intermediaries – even if their clients are the poor! It will however be important to have experienced banking institutions, like Citibank, or banking professionals, such as GF-USA and ICICI have identified, as partners as this effort moves forward.

The question remains, who will be the first CASHPOR member to take advantage of these opportunities? ❖

Conceptual Diagram of Asset-Backed Securitization



[1] For more information of GF-USA's efforts, please contact Alex Counts, President of GF-USA, <acounts@gfusa.org>
[2] An article about the CFTS-ICICI partnership appeared on the cover of CP37.

Book Review
A Closer Look at the Implications of Commercialization in "The Commercialization of Microfinance: Balancing Business & Development"[1]

Jennifer Meehan <jennifer_meehan@hotmail.com>

This collection of essays, edited by Deborah Drake and Elisabeth Rhyne for ACCION International, provides a thought-provoking and insightful look at the commercialization of microfinance and its implications – both positive and negative – for the industry in the future. The book defines *commercialize* as "to manage on a business basis", or a "market approach to microfinance." (p. 3) With its almost exclusive focus on Latin America, it is an important and useful read for those wanting to better understand how this trend has rapidly evolved in that region. Moreover, it offers a fairly candid analysis of the lessons learned to date. For MFI practitioners and stakeholders in Asia, it provides a preview of the benefits and challenges the region will face as commercialization becomes more widespread.

The book is divided into four parts. Part 1, with only one chapter, offers A Framework for Understanding the Commercialization of Microfinance. Part II, Approaches to a Commercialized Microfinance Industry, starts getting into the meat of the issue. Chapters cover the transformation of NGOs to Regulated MFIs, the experience of commercial banks which have "downscaled" into microfinance, the role of specialized microfinance investors, and finally a look at the commercialization of credit unions. Part III, Commercial Entrants into Microfinance, turns to specific case studies, including a very interesting review of "Commercialization & Crisis in Bolivian Microfinance" written by Elisabeth Rhyne, as well as overviews of the experience of FASSIL, Corposol & Finansol, and creation of a microfinance bank in Peru. The book closes with a section entitled Challenges to Commercial Microfinance, analyzing competition, governance and ownership of MFIs, the experience of MFIs with regulation and supervision, and finally, a look at whether credit bureaus are necessary in microfinance.

The issues I found most relevant and interesting in the context of Asia were the following:

The Implications of Competition:

Clients have been the main beneficiaries of competition, through lower interest rates on loans and better products and services. As one example, the average annualized interest rate charged by MFIs in Bolivia prior to the introduction of the country's microfinance law was 72%. This rate has now decreased by half, to 36%! For MFIs in places like the Philippines, where effective rates are closer to the former Bolivian rate, the time is now to begin focus on efficiency and productivity in anticipation of lower interest rates, and the resulting lower revenues. The implications are not all good, however. In many countries, competition has led to client over-indebtedness and rising portfolio at risk. In the final chapter of the book, Anita Campion (Chemonics International) and Liza Valenzuela (USAID) have written an excellent paper that details the pros and cons of establishing credit bureaus to share client information in highly competitive markets; the chapter also evaluates the various types of credit bureaus available. MFIs in Asia operating where competition is on the rise need to consider these issues today.

The Unfortunate Reality – Commercialization is not, as hoped, Leading Private Investors to Get Involved:

While commercialization may lead to greater availability of financing from local development and commercial banks, private investors in Latin America have remained (so far) reluctant to invest in microfinance. This mirrors experience here in Asia. As a result, specialized investors in Latin America, like Profund and the ACCION Gateway have come in to "plug the gap". A chapter by Rochus Mommartz and Gabriel Schor (IPC) explores this in detail. The implications for Asia are damning, since as of yet, no such specialized funds exist.

>

[1] *Deborah Drake & Elizabeth Rhyne.* The Commercialization of Microfinance: Balancing Business & Development. *Kumarian Press, Inc.: Bloomfield, CT. 2002.* To purchase this book, visit the Kumarian Press website at <www.kpbooks.com>

> *Converting to a Regulated Entity – Good or Bad?:*

The chapter written by Leslie Theodore (an independent consultant) with Jacques Trigo Loubiere (Minister of Finance in Bolivia and previously Bolivia's superintendent of banks and financial entities) is one of the most interesting in the book, discussing regulation and supervision from the perspective of MFIs as well as supervisors. Of the 7 institutions interviewed, "most believe that the benefits of being regulated outweigh the costs…" though Compartamos, a Mexican MFI, "noted that while it is heavily supervised, as an SOFOL it is legally unable to capture savings and, therefore, the benefits may not (yet) outweigh the costs." (p.250) For those MFIs considering transformation, this is an extremely relevant piece.

A Trend of Moving Away from Specialized MFIs:

In the opening chapter of the book, "Commercialization: The New Reality of Microfinance" written by Robert Christen (CGAP) with Deborah Drake (ACCION International), the authors state that "the ultimate irony of microfinance may be that the best way to reach a large number of truly poor with financial services will be through commercial banking institutions, not microfinance NGOs." (p. 15) However, a later chapter "Getting the Recipe Right: The Experience & Challenges of Commercial Bank Downscalers" by Liza Valenzuela (USAID) notes experience has been only "mixed." (p.72) "Outreach (measured by the number of active loans) is generally modest" (p.53) among the forty-two banks surveyed for the paper, though "there are a few banks that have been able to reach large numbers." (p. 72) The jury is still out on this issue.

A Few Important Limitations

The two biggest limitations of the book are its exclusive focus on the Latin America experience and only a passing mention of the implications of commercialization on microfinance for the poor. With respect to the first, while Latin America has certainly led the move towards commercialization, one cannot dismiss the fact that commercialization is taking place in other regions, particularly Asia. Among CASHPOR's own members, there are four MFIs which have transformed from NGOs to regulated entities in three different countries — India, Nepal and the Philippines — in the last 3 years; a number of other members are considering or in the process of transforming now. Moreover, competition is becoming a reality in certain parts of Asia outside of Bangladesh, most notably in the Philippines (Luzon), Cambodia, and Andhra Pradesh state in India, among others. The book would have been greatly strengthened by drawing upon a broader universe of experiences from Asia, Africa, and other regions.

More importantly, the book spends very little time questioning the implications of commercialization on reaching the poor. Bolivia is famous as the first microfinance market to commercialize. A recent paper entitled *The Finance of Microfinance*[2] prepared by Microrate, a US-based microfinance rating agency that has evaluated more than 100 MFIs in Latin America and Africa, notes that developments in the Bolivian microfinance market "have often foreshadowed what will happen in other countries. If this is still the case, microfinance has reason to worry…The three Bolivian MFIs tracked by MicroRate have responded [to recession and flooding of the market with excessive credit] by moving upmarket.[2]"

In the opening chapter of the book by Christen with Drake, this issue is acknowledged though the authors feel "the scant evidence we have to date suggests that more commercially oriented entrants into microfinance tend to come into the market at the same level and with the same general target groups as their nonprofit precursors." (p. 19) While the authors do acknowledge that "Mohammed Yunus of the Grameen Bank and others have a very powerful point – less poor clients crowd out poorer clients in any credit scheme," they conclude that it "remains up to the 'development finance' community to continue to innovate in the areas of targeting tools, product and service delivery design, and the organization of low-income families in any given market with effective, institutionally based microfinance services." (p. 19) In a later chapter on the downscaling of commercial banks, Liza Valenzuela (USAID) notes that "with few exceptions, banks are not targeting the poorest of the self-employed poor. By and large, they are reaching clients that are slightly better off than the average NGO client." (p.73)

This is one of the central issues surrounding commercialization, yet it does not receive special treatment in the book. A minimum of a chapter on this topic would have greatly strengthened this overview of the Commercialization of Microfinance.❖

[2] *The Finance of Microfinance*, October 2002, Microrate, p. 5.

MICROFINANCE BOOKS, MANUALS & PUBLICATIONS

OPERATIONS MANUALS

CASHPOR Operational Manual: Tracking Operational and Financial Performance By Jennifer Meehan & David Gibbons, June, 1999. (Price : US$20.00)

CASHPOR-SEF Operational Manual : Cost-Effective Targeting - Two Tools to Identify the Poor. By David Gibbons & Anton Simanowitz with Ben Nkuna, June, 1999. (Price : US$20.00)

Internal and External Audits. By Ratan Kumar Nag et al, 1998, CASHPOR-Grameen Trust (Price : US$15.00)

BOOKS ON GRAMEEN BANKING

Poverty Reduced Through Microfinance : The Impact of ASHI in the Philippines. Edited by Helen Todd, CASHPOR, 2000. (Price US$15.00)

The Price of a Dream: The Story of the Grameen Bank and Idea That Is Helping the Poor to Change Their Lives. By David Bornstein, Simon & Schuster/UPL, 1996 (Price US$15.00)

Give Us Credit: How Small Loans Today Can Shape Our Tomorrow By Alex Counts, Times Books Random House Research Press, 1996 (PriceUS$15.00)

Women at the Center: Grameen Bank Borrowers After One Decade. By Helen Todd, Westview Press, 1996. (Price US$15.00)

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CASHPOR MEMBER PERFORMANCE UPDATE

December 31st, 2002 Reporting Period

CLIENT OUTREACH

	Member GB Adaptors[1]	Country of Operation	Total Savers Dec-02	Total Savers Dec-01	% Change	Total Loan Clients Dec-02	Total Loan Clients Dec-01	% Change
1	SHARE Microfin Ltd.	India	145,265	116,853	24.3%	109,212	89,955	21.4%
2	CARD	Philippines	100,288	84,037	19.3%	69,223	49,887	38.8%
3	TSPI (Kabuhayan)	Philippines	68,042	39,378	72.8%	57,936	32,627	77.6%
4	GB Biratnagar[2]	Nepal	52,874	50,366	5.0%	48,558	46,780	3.8%
5	Project Dungganon[3]	Philippines	45,808	34,759	31.8%	41,370	30,677	34.9%
6	ASA	India	43,946	27,699	58.7%	37,695	23,357	61.4%
7	Nirdhan Uttan Bank	Nepal	35,256	35,556	-0.8%	28,199	30,291	-6.9%
8	SBB Bank	Nepal	33,343	35,270	-5.5%	27,057	29,303	-7.7%
9	CFTS	India	23,786	18,165	30.9%	20,030	14,458	38.5%
10	GB Dhangadhi	Nepal	19,007	12,290	54.7%	12,103	12,290	-1.5%
11	CEP Fund	Vietnam	16,108	11,298	42.6%	14,302	10,024	42.7%
12	FPC[2]	China	15,304	15,008	2.0%	15,304	15,008	2.0%
13	TYM[4]	Vietnam	15,286	13,112	16.6%	14,101	13,022	8.3%
14	MKEJ	Indonesia	13,237	8,599	53.9%	12,967	8,406	54.3%
15	Nirdhan WB	India	9,953	7,954	25.1%	9,953	7,922	25.6%
16	Ahon Sa Hirap[4]	Philippines	9,760	9,044	7.9%	8,809	8,051	9.4%
17	BSS	India	2,612	1,068	144.6%	1,892	609	210.7%
18	Moris Rasik	Timor Leste	2,392	481	397.3%	1,903	366	419.9%
19	ARDPAS	China	0	19,800	-100.0%	3,620	34,600	-89.5%
	TOTAL		652,267	540,737	20.6%	534,234	457,633	16.7%

PORTFOLIO STATISTICS

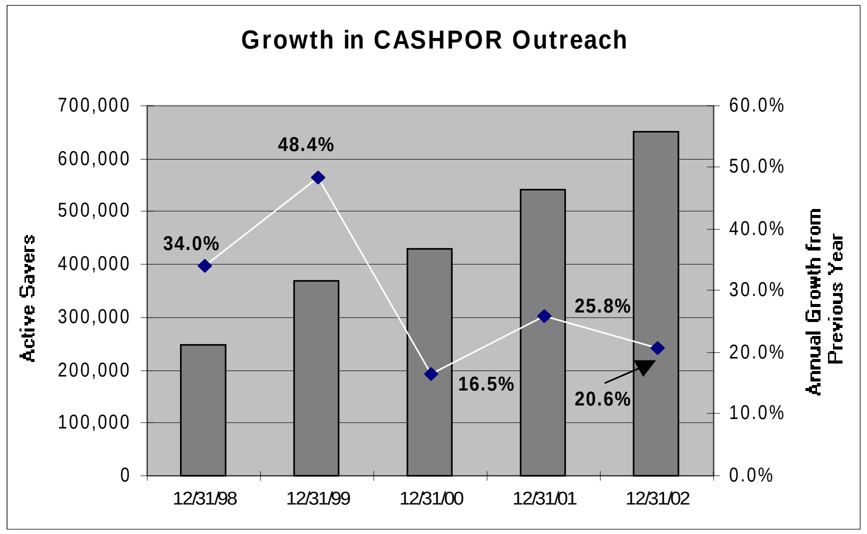
	Member GB Adaptors	Total Loan Portfolio Dec-02	Total Loan Portfolio Dec-01	% Change	PAR % (>4 weeks) Dec-02	PAR % (>4 weeks) Dec-01	Avg. Loan Outstanding Dec-02	Avg. Loan Outstanding Dec-01
1	SHARE Microfin Ltd.	8,636,071	6,519,197	32.5%	0.0%	0.0%	79	72
2	CARD	10,237,852	7,288,297	40.5%	0.4%	0.4%	148	146
3	TSPI (Kabuhayan)	5,329,665	3,762,127	41.7%	2.7%	4.7%	92	115
4	GB Biratnagar	5,955,320	4,715,653	26.3%	n/p	0.1%	123	101
5	Project Dungganon	4,635,214	3,501,097	32.4%	6.2%	2.2%	112	114
6	ASA	2,089,259	1,154,357	81.0%	3.0%	2.1%	55	49
7	Nirdhan Uttan Bank	2,873,615	2,435,843	18.0%	7.9%	8.4%	102	80
8	SBB Bank	2,241,093	2,135,153	5.0%	1.4%	0.4%	83	73
9	CFTS	1,552,502	927,571	67.4%	2.8%	2.5%	78	64
10	GB Dhangadhi	1,351,280	n/p		n/p	n/p	112	n/p
11	CEP Fund	1,370,562	732,682	87.1%	1.7%	1.8%	96	73
12	FPC	1,997,251	1,698,978	17.6%	10.2%	11.0%	131	113
13	TYM	1,407,039	1,206,324	16.6%	0.1%	0.2%	100	93
14	MKEJ	161,634	77,621	108.2%	1.9%	0.8%	12	9
15	Nirdhan WB	469,181	354,982	32.2%	n/p	5.2%	47	45
16	Ahon Sa Hirap	532,497	548,887	-3.0%	2.7%	2.2%	60	68
17	BSS	116,668	34,901	234.3%	0.0%	0.0%	62	57
18	Moris Rasik	105,735	16,972	523.0%	1.1%	0.9%	56	46
19	ARDPAS	389,600	2,625,300	-85.2%	4.4%	3.6%	108	76
	TOTAL	51,452,036	39,735,942	29.5%			96	87

SAVINGS STATISTICS

	Member GB Adaptors	Total Savings Balance Dec-02	Total Savings Balance Dec-01	% Change	Saving to LP Dec-02
1	SHARE Microfin Ltd.	0	0		0.0%
2	CARD	4,874,565	3,250,328	50.0%	47.6%
3	TSPI (Kabuhayan)	2,097,046	1,646,664	27.4%	39.3%
4	GB Biratnagar	1,871,693	1,455,587	28.6%	31.4%
5	Project Dungganon	868,113	691,401	25.6%	18.7%
6	ASA	759,787	631,769	20.3%	36.4%
7	Nirdhan Uttan Bank	682,814	266,479	156.2%	23.8%
8	SBB Bank	919,899	767,834	19.8%	41.0%
9	CFTS	126,549	89,679	41.1%	8.2%
10	GB Dhangadhi	631,200	n/p		46.7%
11	CEP Fund	207,835	169,666	22.5%	15.2%
12	FPC	528,828	428,666	23.4%	26.5%
13	TYM	0	62,200	-100.0%	0.0%
14	MKEJ	460,773	314,244	46.6%	285.1%
15	Nirdhan WB	48,270	27,133	77.9%	10.3%
16	Ahon Sa Hirap	389,937	327,487	19.1%	73.2%
17	BSS	167,244	104,326	60.3%	143.4%
18	Moris Rasik	17,111	5,547	208.5%	16.2%
19	ARDPAS	18,124	2,525	617.8%	4.7%
	TOTAL	14,669,789	10,241,536	43.2%	28.5%

(1) Both Aim and YUM have been removed from the CASHPOR Update as they have not reported performance in over 1 year. We hope to hear from them soon.
(2) GB Biratnagar figures reported in the December column are from mid- November 2002. FPC's are from November 30th, 2002.
(3) Project Dungganon is reporting PAR at >90 days, not >30 days.
(4) Neither TYM or ASHI provided December 31st 2003 results. As a result, September 30th results appear in the December column.

US$ Exchange Rates	
Indian Rupee	48
Philippine Peso	52
Chinese Renminbi	8.26
Vietnamese Dong	14,000
Indonesian Rupiah	9,750
Nepalese Rupee	75



Network Outreach Over the Last Five Years

What a difference five years make! On December 31st, 1998, CASHPOR members together were reaching 248,701 active savers (clients). As of December 31st, 2002, that figure rose to 652,267. Annual growth rates in new active savers have remained relatively steady over the last three years, averaging approximately 20%. Assuming this growth rate is maintained, it will take CASHPOR members only 2.5 years to reach one million active savers. This would be an important milestone indeed!

It's interesting to look back at where CASHPOR's largest six members were five years ago. SHARE, CASHPOR's largest member with 145,265 cleints. was reaching only 15,935 then. CARD, which as of December 31st, 2002 was the second CASHPOR member to break the 100,000 active savers threshold, was reaching only 22,613 clients. TSPI was reaching only 10,071 clients and Project Dungganon only 17,111. ASA was reaching as few as 6,547 clients. GB Biratnagar has grown more slowly than the others, starting with a base of 36,653 clients.

While part of this analysis is to congratulate those who have come so far in rapidly expanding outreach to the poor, the more important point is to learn from these successes so that other CASHPOR members, the majority of whom are reaching more than 10,000 but less than 50,000 clients, can follow suit. The next issue of Credit for the Poor will feature an article addressing just this topic. ❖