



ASA



ASA means hope



HELPING THE POOR TO HELP THEMSELVES OUT OF POVERTY

BETTER SERVING THE MULTITUDE Institutional Action Plan

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Microfinance is recognized as one of the most important tools in global poverty alleviation. Very recently formal recognition was given to it by awarding Nobel Peace Prize to Grameen Bank and its founder Prof. Dr. Muhammad Yunus. Recognition can be further strengthened by awarding another Nobel Prize in Economics during the second phase of the campaign.

There are about 1.3 billion eligible microfinance borrowers worldwide of which approximately 113 million have been reached by the providers. In spite of the efforts of multilateral and bilateral financial institutions, donor agencies, respective government and local microfinance institutions results are not satisfactory. Is it realistic? If not, where is the problem? Besides ASA, there are also two big non-governmental initiatives in Bangladesh, namely Grameen Bank and BRAC who have crossed 5 million marks. There are two in India who also have crossed 1 million mark. In other countries few are crossing 100,000. If we properly analyze all such institutions which were started by individual initiative from zero and now have achieved a position of hero in scale, profitability, serving the poor with positive socio economic impact, we may get the answer. Let us not spoil our time by attempting to re-invent the same. ASA started with few hundreds clients, cost of operation was 15%, totally depending on grant and negative FSS to reach 5.5 million client strength. Now it is expecting to reach 7 million by 2007 with no grant, no borrowing for last 3 years, managing the growth from the retained earnings within a decade. Few distinctions are prevailing with ASA. It's (1) lowest cost microfinance provider, (2) fastest growing, (3) profitable (FSS 163%), (4) reaching vast number of poor and hard core poor (5.5 million), (5) PAR - 1.28% (6) Productivity of Loan Officer 631.

To achieve all distinctions ASA developed a new way of managing microfinance, which is very simple, individually focused, standardized, achieving FS within 9-12 months: Staff recruitment through group interview, each one teach one instead of formal long training, default problem managed by loan and life insurance, disaster loan at 0% interest, education loan, health insurance for major diseases without premium, decentralization, following complete written working manual and committed leadership. The features were gradually reformed and integrated into ASA operations which turned into an innovative self-sustained micro-finance methodology.

ACHIEVEMENTS VIS-A-VIS CORE THEMES

Fundamental changes brought by ASA through flexible repayment schedule and operational modalities along with diverse loan products.

Theme 1: Reaching the poorest: ASA offers financial services to 6.5 million poor and the poorest families whose daily average income is around US\$ one. ASA's average loan size at the end of 2006 was US\$ 118. All ASA loans are made to individuals, with no collateral or group liability concept. The service charge is calculated flat on the principal of the loan.

Small Loan for Female: ASA's basic loan program offers Small Loans to women whose monthly income does not exceed \$52 and who own less than 0.5 acre of cultivatable land. Initial loan values range from \$150 to \$310 in urban areas and from \$70 to \$110 in rural areas. Typical income generating activities of Small Loan clients include paddy husking, livestock rearing, handicraft manufacturing, small trading, fishing, etc. ASA's Small Loan product has a standardized weekly repayment schedule and a fixed term of one year, making it easy to understand. Clients are attracted to this product because it is predictable and hassle-free. At the end of September 2006, ASA had 4.01 million Small Loan clients, and plans to increase this number to 4.63 million by 2007.

For Male: Fundamental changes were brought in microfinance industry by covering male members and hard-core poor through flexible approach and flexible payment along with specialized concept. It was introduced in 2005 to help the male members of ASA. It is often seen that the farmers can't buy the necessary inputs for cultivation as they always lack money. This loan is to help them mainly to meet this need. The loan size is US\$ 20 to US\$ 50 equivalent with the increase by US\$ 14. Members need not attend any group meeting. They are allowed to pay monthly instalment and the loan is for either 5 months or 10 months. At the end of September 2006, ASA had 1.95 million male Small Loan clients, and plans to increase this number to 2.27 million by 2007.

Small business loan program: This loan has two objectives: (1) To help with working capital; (2) To create job for hard core poor.

ASA's Small Business Loan Program offers loans to men and women who have demonstrated a competence in business but lack capital necessary for expansion. These loans are usually extended to members capable of handling a bigger amount of capital. Initial loan size is US\$250 - US\$350 equivalent. No group formation or coming together is required. Loan officers go to a particular spot for collection of instalments and savings. The term of loan is one year through weekly repayment. At the end of September 2006 ASA had 216,376 clients and plans to increase this number to 353,224 by year end. All enterprises could create minimum 353,224 jobs for the hard core poor.

Flexible approach for reaching the risk-averse poor: In the past, NGOs that had tried to target the poorest members of society in Bangladesh had been faced with two obstacles: the high risk-aversion of some hard-core poor and the geographic isolation. ASA's new flexible approach, introduced in December 2003, offers a product for the hard-core poor. It is opening new mini-branches that will allow this product to be delivered cost-effectively in remote areas. This innovative strategy ensures broad-based outreach while maintaining institutional viability.

ASA has found that the poorest members are not attracted to its regular loan product. Faced with chronic food insecurity, the hard-core or ultra poor are simply too risk-averse to commit to a weekly payment schedule. The Flexible Loan product offers small loans of US\$ 18-\$70 equivalent, with a monthly, bi-monthly, or one-time annually repayment schedule, and a term of 1-6 months. No formal meeting is essential. Getting together in a place once in a month has been introduced. Savings is not mandatory. ASA staff also provide clients with practical business development service advice and basic training in specific enterprise.

Many of the Bangladesh's hard-core poor live in the economically depressed remote areas, where lack of infrastructure makes it impossible to run conventional microfinance programs, on a cost-recovery basis. Revenues from the flexible product are also significantly lower than those from ASA's Small Loan product, and cannot support the salary of the traditional ASA branch staff. To solve this delivery problem, ASA is opening new low-cost mini-branches that will operate alongside its regular branches. ASA currently has 193,347 Flexible Loan clients. It plans to recruit 326,224 Flexible Loan clients by the end of 2007.

Small Entrepreneur Lending (SEL) program: ASA believes small, productive enterprises can create employment opportunities for the poorest of the poor. Introduced in 2003, ASA's SEL program offers larger loans of US\$ 520 to \$2,600 equivalent to medium sized enterprises. ASA plans to expand this program, graduating current successful Small Loan clients and recruiting new clients. ASA's goal is to graduate one woman member from each of its Small Loan groups an effort that could result in the creation of 100,000 new jobs for the hard-core poor. At the end of September 2006, ASA had 19,647 SEL clients, and plans to expand this number to 52,988 by 2007.

BDS program: Many clients fail to repay the loan in spite of willingness due to scarcity and extreme poverty. They are the worst victims of natural disasters like tornado, flood, river erosion, heavy rain, drought etc. ASA provides supplementary loans to these members to continue the income generating activities (IGA). Loan size for the program is US\$ 30 to US\$ 60 equivalent. At the end of September 2006, ASA had 9,628 BDS clients, and plans to expand this number to 25,265 by 2007.

Education loan program: The main objective of this program is to help the group members to continue their children's education especially in time of depositing examination and admission fees. Loan size is US\$ 30 to US\$ 40 equivalent. At the end of September 2006, ASA had 16,117 education loan clients and plans to expand this number gradually.

Theme 2: Reaching and empowering women: All of ASA's Small Loan clients are women. Women are benefited from their participation in ASA programs in two ways: the income generated by their projects supplement household income and women gain increased bargaining power as they are able to make a larger financial contribution to the household. In addition, ASA's Small Loan delivery methodology allows women to form and build a support network and sense of community without sharing the economic burden of other group members' loans.

Theme 3: Building financially self-sufficient institutions: The keys to building financially sustainable institutions are to keep the cost structure minimum and surplus generation high through attaining efficiency. ASA is widely recognized as a leader in developing efficient microfinance operational methodology, and firmly believes that an institution must be sustainable if it is to benefit its clients in the long run. ASA is constantly looking for new and innovative ways to improve

its operations. ASA has been financially self-sufficient since 1995, and currently operates free of grants and borrowings. It is now expanding its products line, developing new products and reaching new segments of the population. The capital for this expansion comes from both ASA's own revenue and interest-bearing savings taken from members.

The keys to ASA's model are simple operational procedure, standardization and decentralization along with a simple written manual. The ASA Manual clearly outlines all details of operation from loan application steps, record-keeping procedures and staff responsibilities. The Manual makes ASA's bookkeeping processes simple and easy to understand, thereby eliminating the need for specialized accounting and bookkeeping staff. ASA's training methodology focuses on practical experience and learning-by-doing, reducing recruitment and staff costs. ASA hires staff with educational background appropriate to their responsibilities. All such effects contributed to reduce cost drastically. Solving client's various challenges through economic manner, kept the default rate at the lowest. Increasing the productivity of staff and timely utilization of available resources have made ASA very profitable by generating surplus with the help of efficiency instead of raising interest rate.

ASA's decision-making process is highly decentralized. Mid-level managers are based in the field, allowing them to work closely with their subordinates and facilitating fast and effective decision-making. ASA has developed effective internal control mechanisms in horizontal way which includes frequent rotating of Loan Officers within a branch, regular field visits by senior management and the presence of a strong, field-based rotating Auditor. External Audits are conducted yearly by PKSF, ACNABIN and Shiraz Khan Basak (CA firm). ASA has built a disciplined institutional culture that helps it to maintain a high rate of financial self-sufficiency. ASA's Finance & Management Information System (MIS) Section works with the Operation Section to plan and ensure institutional sustainability. The Finance & MIS section prepares careful business plans, taking such factors as Return on Investment into account when setting effective interest rate.

Financial self-sufficiency and operational capacity are crucial to expand outreach and deliver financial products to the hard-core poor cost-effectively. ASA's model shows that financial self-sufficiency and



reaching the poorest of the poor are not incompatible goals. To achieve the goal mindset fixing also plays an important role.

Theme 4: Ensuring a positive measurable impact on the lives of the clients and their families: ASA's Research Cell periodically designs and implements impact assessments of its programs. In addition to formal studies, programs are monitored on an on-going basis by senior management who visit field-level operations regularly. ASA's open institutional culture encourages feedback from all levels of staff and clientele.

Highlights from previous Impact Assessment: ASA Research Cell designed and initiated an Impact Assessment on ASA's long-term members (minimum 5-years) throughout the country to identify the changes in their day-to-day life. In designing the survey, ASA researchers aimed to determine the changes in living conditions experienced by long-term ASA clients. Clients were asked to recall their situation five years ago (in 2001) and to compare this to their current socio-economic status. This assessment was carried from September 2005 to December 2005.

Conclusion: ASA has developed an effective microfinance service delivery model that proves to grow exponentially, can cover a large number of new clients and maintain financial viability. ASA has demonstrated this ability in the past, and plans to continue with the introduction of its new SEL and Flexible programs. ASA's strengths are

its innovative management and operational processes, which are simple, standardized, transparent, decentralized with written working manual. To reduce further cost and increase efficiency ASA Book Keeping, Record Keeping, and Accounts have been computerized and automated. This automation has been launched in December 2006.

Impact of Credit & Savings Program		
Positive changes in the lives of longterm members (minimum 5 Years)		
Particulars	Yes %	No %
Capital in Business Increased	95.70	4.30
Increase of Income through IGAs	95.07	4.93
Standard of Food Increased	94.88	5.12
Education Increased	72.69	27.31
Employment Opportunity Increased	91.64	8.36
Availed Better Treatment	95.79	4.21
Drinking of Pure & Arsenic-Free Water Increased	96.88	3.12
Using Sanitary Latrine Increased	91.37	8.63
Family Assets Increased	88.16	11.84
Repairing of House Increased	86.96	13.04

ASA is among the world's most efficient microfinance service providers with cost of Tk.3.6 per 100 lent, and a high Loan Officer productivity of 631 clients per LO, FSS is 165%. ASA's Rate of recovery has been over 99% since 1992, PAR - 1.28%, and the organization's staff and client discipline along with economic measures in the form of loan and life insurance, health insurance, disaster loan, flexible easy access saving to protect the borrowers ensure a low rate of delinquency. ASA has shown that its model can be applied outside Bangladesh with its participation in the UNDP's MicroStart Program in the Philippines and Nigeria, during 2000-2006 as well as through its partnerships with institutions in West Bengal, Yemen, Sri Lanka and Indonesia. If institutions wish to replicate ASA's cost-effective model, they must concentrate on four key factors:

- 1) The leaders of the institution must have a firm determination to manage in a cost-efficient manner along with growth.
- 2) Microfinance Operational Procedures must be simple and standardized (methodology must be cost-effective) and policy should be client friendly.
- 3) Institutions must have access to a reliable source of capital for on-lending.
- 4) The leaders of microfinance institutions must work together with government officials to create an enabling environment conducive to microfinance operation.

With its effective operational structure and efficient service delivery, ASA is well placed to reach its goal of serving about 7 million of Bangladesh's poor by 2007. After clear and proven success of ASA economic model of profitability, ASA, SEQUOIA and K-Rep have jointly established a private equity fund named Catalyst Microfinance Investors which is managed by CMIC (ASA, SEQUOIA and K-Rep). The goal of this fund is to bring private equity into microfinance operation for fueling the growth along with reasonable return for the investors (www.catalyst-microfinance.com).

CMI will invest among the second tier MFIs in Asia and Africa for expansion of their operations. CARD, Life Bank from the Philippines, Lakjaya from Sri Lanka, Bandhan, Share Microfinance, Cashpor in India and LAPO of Nigeria are in the pipeline of investment. With equity infusion MFIs will be able to ensure leverage, 6 times more credit facilities from the financial sector. CMI investment will bring help in management and governance, which will help attain efficiency through reducing cost and increasing revenue from which investors will get more dividend than from traditional fund. If MFIs are interested for equity please contact Mohammed Azim Hossain (ahossain@catalyst-microfinance.com)/ Md. Ashrafur Haque Chowdhury (achowdhury@catalyst-microfinance.com), CMI Asia office. If investors are interested to invest please contact William Nolens (wnolens@catalyst-microfinance.com).

Besides equity issues, MFIs which are in 1st tier or 2nd tier but could not implement operation efficiently due to lack of capacity or methodology, may approach for Technical Assistance from newly formed ASA Foundation International, a U.S. based non-profit institution. Please contact David MacDougall (dmacdougall@verizon.net).

Very recently Government of Bangladesh has approved ASA University. This will start functioning from 2007. ASA University will offer, among other courses, M.B.A. in Microfinance.

Catalyst Microfinance Investors (CMI) International Equity Fund by ASA

Executive Summary: Catalyst Microfinance Investors is a private equity fund that invests in and intends to build a diversified portfolio of emerging, high-potential microfinance institutions, selected and managed by a team of globally renowned microfinance practitioners and corporate finance specialists (the 'Fund').

Investment Objective: The Fund seeks to provide its investors ('Investors') investment returns in excess of 20% per annum, through its investment in emerging and fast-growing high-potential microfinance institutions in Asia and Africa ('MFIs'). The Fund invests in these types of MFIs by means of equity or equity-linked financial instruments. The Fund generally seeks to obtain at the minimum a substantial minority equity interest in the MFIs it invests in. The Fund is a closed end fund with a term of ten years. It focuses on realising capital gains upon the sale or listing of reached individual investment or portfolio of investments, which subsequently will be distributed to the investors.

The Fund seeks to be instrumental in making microfinance a mainstream asset class, open to those interested for investing in emerging markets.

Investment Manager: The Fund is managed by Catalyst Microfinance Investment Company (the 'CMIC' or 'Investment Manager'), a company that merges best-practice microfinance expertise with Anglo-Saxon corporate finance skills. CMIC is owned by, on the one hand, the most successful microfinance institutions in Asia and Africa (ASA and K-Rep Group) and on the other hand, an established and reputable Europe-based corporate finance advisory and private equity firm Sequoia. CMIC is one of the founding investors of the Fund. CMIC is governed and managed by its 'Executive Committee', consisting of Mr. Shafiqul Haque Choudhury, CMIC Executive Chairman and Founder and President of ASA, Mr. Kimanthi Mutua (CMIC Executive Director and Founder and Managing Director of Sequoia). The Executive Committee is responsible for overall strategic decision-making and the identification and negotiation of potential



investments and divestments. Each member of the Executive Committee expects to spend on average approximately one day a week on its duties and responsibilities with CMIC.

The Fund is one of the first private equity funds dedicated to investing in MFIs in Asia and Africa on a commercial basis. It intends to capitalise on the strong demand and currently limited supply of growth capital. Many fast-growing MFIs benefit especially from equity finance as a means to strengthening their capital base and enabling them to attract a multiple of additional loans on local and international bank and capital markets to finance their growth. Besides, many MFIs,

especially those that are on the brink of transforming from not-for-profit organisations into formal financial institutions, seek professional investors that support their drive for expansion and are willing and able to be actively involved in the governance of such MFIs. CMI is preparing green field operation in seven countries such as India, Pakistan, Sri Lanka, Indonesia, the Philippines, Nepal and Nigeria where ASA staff will head the operation along with theirs. Initially \$ 100 Million raised from Gray Ghost, Deutsch Bank as equity for such green field operation.



ASA President Md. Shafiqul Haque Choudhury recently inaugurated CMI Europe Office at Nijmegen, the Netherlands