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FINANCE for the POOR

ASA – The Ford Motor Model of Microfinance

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Henry Ford was one of the most innovative pioneers in the early production of motor vehicles. In 1913 he successfully introduced the moving assembly line method of production. It radically altered car manufacturing enabling him to sell the Model T for as little as \$500, putting car ownership within the economic reach of a large segment of the population. By 1923, his company was producing half of America's automobile vehicles. Standardization was the hallmark of his operations. By utilizing stan-

“ I will build a car for the great multitude. It will be large enough for the family, but small enough for the individual to run and care for. It will be constructed of the best materials, by the best men to be hired, after the simplest designs that modern engineering can devise. But it will be low in price that no man making a good salary will be unable to own one – and enjoy with his family the blessing of hours of pleasure in God's great open spaces”

Henry Ford

dardized parts and developing an assembly line composed of special purpose machines, he was able to hire semiskilled and unskilled workers. Ford engineers were able to reduce assembly time per automobile from 12 ½ worker-hours in 1912 to 1 ½ worker hours in 1914. Experimentation and refinements in production were continuous so costs were cut to a minimum. Consumer choice was limited for the Model T. Ford offered his clients “any color of Model T they want, as long as it is black.”

Md. Shafiqul Haque Choudhury, the founder and Managing Director of ASA (Association for Social Advancement) in Bangladesh is the Henry Ford of microfinance in Asia. He champions standardized low-cost microfinance, and created one of the most efficient MFLs in the world in the delivery of microfinance services to large numbers of poor households. Those who are interested in developing sustainable, cost-efficient microfinance can learn a great deal from Mr. Choudhury's “Ford Motor Model” of microfinance.

The Origins of ASA

ASA was organized as a nongovernment organization (NGO) in 1978 with the “vision of creating an enabling environment to establish a just society.” Groups of villagers (samities in Bangla) were organized as a means to create a people's movement based on awareness and solidarity among the rural landless peasantry. It was expected that consciousness raising would lead to social action.

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Legal aid was provided and the basic knowledge of law was taught to group members. Several European and Australian donors supported the program.

ASA's program changed fundamentally with the cyclone of 1985 and the floods of 1987 and 1988. Its grassroots organization made it a natural choice, along with other NGOs, to dispense foreign disaster relief and engage in reconstruction of the affected areas. Concrete development programs began to take the place of consciousness raising. Microcredit began to play an increasingly important role in these programs so by 1990 there was a patchwork of different credit systems, in kind and in cash, for men and for women, with varying interest rates and repayment schedules. Meanwhile, there was an enormous growth in the specialist credit-granting NGOs, especially the Grameen Bank and, to a lesser extent, BRAC and Proshika. They, along with ASA, experienced a surprisingly high level of loan recovery from poor people who were eager for loans to improve their lives in ways that consciousness raising efforts alone could not achieve.

The year 1991 was a watershed in ASA's history. Mr. Choudhury realized that ASA lacked focus, the operations were heavily donor dependent and unsustainable, and outreach was limited. To address these concerns, ASA restructured itself and shed all other services to become a specialized microcredit NGO. This reengineering was based on a candid self-assessment and accomplished without external assistance.

With the reengineering, the composition of all committees shifted from men to women, and operations were at once tightened and decentralized. Salaries continued to be modest as it hired less qualified staff than competitors, posted them to smaller branches, and simplified the number of tasks assigned to each person. Slowly ASA's version of the Model T assembly line for microcredit began to take shape.

The Pillars of the ASA Model

ASA committed itself to large outreach, cost-effective lending and achieving financial self-sufficiency through efficiency within a relatively short time. Later in the growth process, it also committed itself to provide improved voluntary savings deposit services to members. These commitments led ASA to focus on four key organizational norms:

- provide a standardized loan product
- provide basic voluntary deposit services

- develop simple, effective and rigid procedures that allow cost-effective delivery of microcredit and limited deposit services, and
- practice zero-tolerance on the late repayment of loan installments.

According to Mr. Choudhury, sustainable outreach should be the central objective of microfinance institutions (MFIs). He argues, "MFIs must commit themselves to achieve a significant sustainable outreach within a short time spell." This means MFIs must be obsessed with cost-efficiency, explains Mr. Choudhury. MFIs have a social obligation to be cost-efficient because the poor cannot afford to pay for the inefficiencies of service providers. According to Mr. Choudhury, everything that ASA does and the way it conducts its operations flow from this "thirst for sustainable outreach of services to the poor."

The Organizational Architecture

ASA developed a flat management structure with only three tiers. The head office (in Dhaka) is the highest tier, similar to any organization. But the ASA head office differs in appearance and operations from traditional bank head offices. It is housed in an old, purchased and renovated building. It is a lean operation with only 95 staff, 1.4 percent of the total ASA personnel. The seriousness with which ASA regards its commitment

"When I see head offices of many MFIs around the developing world, the way they have been organized and the way they function, I often wonder whether these MFIs are genuinely serious about serving the poor cost-efficiently."

Shafiqul Choudhury,
Managing Director, ASA

to cost-efficiency is reflected in the fact that it has only three vehicles. Many MFIs in Asia, because of their social development origin and generous support by donors, "have cost structures that are more bloated than they should be," observed Stuart Rutherford, until recently a member of the ASA Board of Directors. ASA has been careful to avoid such structures. Although lean, the head office is heavily oriented to ensure the efficient operation of its core activities, such as internal control, policy formulation and the provision of broad directions to its branch network.

ASA's backbone is the branch or unit, which

reports to a Regional Coordinator in the Dhaka Head Office. Between these two tiers are regional managers and divisional managers, who do not have separate offices nor a secretarial staff. They travel among the branches by public transportation and perform their supervisory functions in the branch offices.

The Unique Operating System

A typical branch has a manager, four or five credit officers, and one support staff. The branch manager is authorized to approve clients, groups, loan size, office expenses, etc. following the guidelines of a detailed operating manual. "ASA judiciously combines the maximum level of delegation with the minimum level of discretion. Through this system, it has not only enhanced cost-efficiency but reduced rent-seeking by its field staff", reports Stuart Rutherford. ASA branches are profit centers and are expected to fully cover costs after 9-12 months of operations.

Costs at the branch level are tightly managed. Branch offices are located in rented buildings and usually consist of three rooms, one for the office and two for staff residences. There is no security guard. A standard set of furniture with other utilities and office supplies are all detailed in the operations manual. Standardization of these items ensures cost-control and contributes to cost-effectiveness, which facilitates access to remote areas and increases outreach. Accounting systems are simple so branch managers perform the tasks of accountants and credit officers perform the tasks of cashier on a rotating basis, thereby eliminating the need for separate accountants and cashiers in the branches.

The uni-model standardized branch system has a major advantage. Because each branch is the same in terms of human resources and cost structure and operates exactly the same way in accordance with the operating manual, ASA can adopt a cookie-cutter approach to branch expansion. This partly explains how it could rapidly increase the number of branches from 732 in December 1998 to 1,121 in April 2002.

ASA's recruitment system for new staff is another innovative feature. It does not administer written examinations to applicants and conducts group rather than more time-consuming individual interviews of applicants. The successful applicants are provided with only nine days of on-the-job pre-service orientation conducted by experienced staff in the field. Practical rather than theoretical training is emphasized and it has no in-house training facility. This unique system produces only what is required for the staff to carry out their functions effectively and efficiently.

Lending and savings mobilization activi-

ties are conducted in each branch with about 1,800 clients in groups of 20-30 members. Savings deposits, withdrawals, and repayments are done in weekly meetings. Each credit officer is responsible for about 18 groups in a week (three per day). There is no group liability and groups are used solely to reduce operating costs. No non-financial services, such as client training, are provided. By keeping branches small and located close to clients, transaction costs are kept low for both ASA and its clients. Recently ASA began making larger microenterprise loans to mostly male borrowers.

The ASA model is designed to meet the basic demand for loans and savings services. It mainly offers members a standardized microloan and open access to savings. The group members have quick access to their first loan, usually after four weeks of being a member. Clients are permitted to have only a single loan to simplify accounting and facilitate good loan recovery. They can obtain a second loan immediately upon repayment of the first, and loan sizes can increase with each new loan. Loans are repaid in weekly installments with a two-week initial grace period. Members can save as much as they want and withdraw savings, keeping 10 percent against their outstanding loans.

ASA is occasionally criticized for being too rigid in its approach to microfinance and for not offering greater choices for the poor. Mr. Choudhury responds by saying that "our organization has not been designed to provide a wide array of and flexible services. If clients want such services, they are free to go somewhere else. So clients have choices." But ASA's basic, limited service-oriented approach has enabled it to serve a large number of clients efficiently and on a sustainable basis. The trade-offs between serving large numbers of poor households with standardized microloan and basic savings services, on the one hand and providing a range of flexible services, on the other hand, are clear and

substantial. ASA has recognized these trade-offs and decided to follow its model.

ASA has taken a pragmatic approach to its business. It accepts the need to charge cost-covering interest rates for its microcredit. It does not hesitate to increase interest rates when deemed necessary. Thus, ASA increased its interest rates from a flat 12.5 percent per year to a flat 15.0 percent in January 2000. The number of clients did not decline due to this increase. Similarly, it reduced its line of deposit services because of cost and revenue considerations in the late 1990s.

Achievements

ASA has experienced rapid growth without a decline of quality of services. As of end of April 2002, it had 1,121 branches with over 4,000 credit officers serving over 1.68 million clients with outstanding loans. About 96 percent of its clients are women. The average of over 400 clients per credit officer is one of the highest in the region and the average outstanding loan portfolio per credit officer has surpassed Tk1.6 million. ASA had Tk6.7 billion (approximately \$118.0 million) in outstanding loans and savings deposits totaled roughly Tk1.85 billion (about \$32.5 million). On-time loan recovery rates have been impressive exceeding 98 percent during the last five years. The ratio of average loan balance to GNP per capita has been about 18-20 percent for the past several years suggesting that it serves clients who are quite poor. ASA has been a financially self-sufficient MFI since the mid 1990s.

Lessons from ASA

Cost efficiency is not something that can be easily achieved through a piece-meal approach; it is a direct function of organizational architecture, operating system and institutional culture. It also requires a strong commitment by the organization's management. The ASA model shows how tight cost control, emphasis on transaction costs, loan officer productivity, and a lean administrative structure can efficiently deliver financial services to millions of poor clients. It has systematically cut costs and avoided the fat of a top heavy organization. A major challenge for many Asian MFIs is to cut excessive fat without cutting institutional muscle. They can learn a lot from ASA.

Questions for the future

Henry Ford's experience in facing competition may also hold some lessons for ASA's future. In 1922, Ford introduced the Model A with 17 body styles and four-color options.

Ford's market share fell, however, during the 1920s compared to General Motors and other companies that offered a wider variety of models and more luxury options.

Microfinance competition is now fierce in most locations in Bangladesh. Many MFIs report high dropout rates, clients that borrow from more than one MFI, and rising delinquency rates. Many clients also report having informal loans. These developments can be interpreted as suggesting that the standardized approach followed by ASA and other MFIs may be too rigid to satisfy customer demands. More flexible loan products may be necessary for MFIs to retain their clients. Their challenge is that introducing more flexibility will probably raise operating costs, complicate the tasks performed by loan officers, and require more complicated methods of internal control and supervision.

Like the Ford Motor Company, ASA has been a leader in developing simple standardized products for the mass market. But its leadership in microfinance may be challenged, as customers demand more flexible and comprehensive products. Mr. Choudhury, however, is confident that ASA's standardized products will continue to enjoy a large market niche. None the less, he admits that ASA will need to take market changes into account, if such changes begin to erode its market niche significantly and threaten its viability and sustainability. ■

ASA: Selected Performance Indicators (%)

	2000	1999
Administrative Expenses/ Ave. Loan Portfolio	9.0	9.6
Adjusted Return on Assets	3.7	7.6
Adjusted Return on Equity	10.5	22.5
Adjusted Financial Self-Sufficiency	120	157
Active Borrowers (number in millions)	1.12	1.08

Source: Microbanking Standards Project. Financial Performance Reports for ASA, September 2000 and November 2001. Washington D.C.

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