

Product Diversity:

A growing responsiveness to client needs

Microfinance is often used interchangeably with “microcredit.” However, it is now well understood that the poor (or low-income families) normally classified as the target clients of microfinance need, and use, more financial services than just microloans. Therefore, it is advisable to use “microfinance” to more accurately describe financial services of any sort provided in very small (micro-) amounts. Thus, for the purpose of this paper, in addition to microcredit, microfinance covers the following:

- Deposit services (or savings facilities for clients)
- Insurance for microclients
- Money transfer (or remittance) services
- Microleasing

The discussion in chapter 1 about the fundamental difference between the origins and basis of the microfinance movement in South Asia compared with that in Latin America relates directly to the nature and suitability of the design of products offered. While products in Latin America were designed to address the need to scale up microenterprises in urban settings, from the start, the practice of microfinance in South Asia was firmly rooted in rural, agrarian economies. Paradoxically, because Professor Yunus' early experiment was undertaken with landless, poor women, the design of the early products was based not on the seasonality of agriculture but rather on microtrading and service activities undertaken through door-to-door selling or *haat*-based (marketplace-based) entrepreneurship at the village level. Thus, product design in the Grameen model was

based on a presumption of weekly cash flows from such activities. Elsewhere, particularly in many SHG and cooperative-based programs, more flexible approaches emerged as the agrarian basis of cash flows was taken into account for designing products.

Even in the Grameen-type system, starting with some rather rigid credit products designed to simplify delivery for the MFI rather than to reduce transactions costs for clients, a more diverse product range is now offered, particularly in countries like India and Bangladesh that have a number of years of microfinance experience and a solid base from which to add new products. In other countries (for example, Afghanistan and Pakistan), most MFIs still lack depth of experience and, therefore, focus on already-proven products before a transition to more flexible and diverse products and services takes place. The financial services offered by MFIs in the region are described and discussed in this chapter.

Loan Products

Loan products act as the vanguard of financial service providers' initiatives (although SHGs and other CBOs often start by offering mutual savings products before revolving the funds as loans). Thus, relatively rigid credit services originally were, and continue to be, the major activity in microfinance initiatives, although increasingly diverse and flexible arrangements are developing. The major types of loan products offered are discussed below.

General loan

General loans are the most common product. These loans usually are presented as enterprise support loans, but they are widely acknowledged as being general-purpose loans, which often (but not always) are used for productive investments.⁵⁵ It is usually the first loan product offered to clients after they join an MFI. The amount of the loan is limited by a ceiling that increases from one loan cycle to the next and generally varies from \$30 to \$300. Typically, repayment cycles are annual, with 50 regular weekly or 10 to 12 monthly installments. Many MFIs charge loan processing fees and, in addition, most MFIs using the Grameen delivery system levy interest as a flat charge on the disbursed amount. Other MFIs, most CBOs and SHG-based MFIs, charge on declining balances. Grameen-type organizations run loan utilization checks by credit officers, most others do not.

CBO programs, especially those based on SHGs rather than cooperatives, have additional flexibility built into them. Loans have fixed terms but not necessarily regular installment obligations. Many SHG programs in India, in particular, do not expect any repayment during the loan term as long as the principal plus interest is finally repaid at the end of the term.

In practice, however, many borrowers do repay occasionally during the loan term with the remaining amount paid in a lump sum at the end of the term. This loan product is a microfinance analyst's nightmare: there are no fixed installments, no repayment schedule, and only a loose understanding of the loan term. Quite often repayments that are made many months after the end of a loan term do not attract an interest penalty. It takes a heroic level of assumption to estimate a portfolio quality measure and determine the expected yield (or annual percentage rate, APR).

For the typical rural client, depending on the agrarian economy, this product (along with a voluntary savings account with the SHG) has the ultimate features of flexibility that meet borrowers' financial needs. Essentially, they are able to save and withdraw from their voluntary savings when they please and to deposit loan repayments when they have funds that exceed immediate needs. Only a loose understanding of loan term sets some boundaries on financial behavior.⁵⁶ This loan product works for the MFI (or bank) because it is based on the SHG partly intermediating its own members' deposits within the group and using MFI (or bank) funds largely as a supplement to the member deposits. Then, even high portfolio-at-risk (PAR) levels of 30 percent or more do not upset the system as long as the SHG can meet its repayment obligations to the MFI (or bank) on time.

Supplementary loan

Offered mainly by Grameen-type organizations, supplementary loans are shorter-term loans (usually six-month terms in South Asia) intended to supplement the general loan for whatever purpose it was provided. Apart from the loan term, other conditions are similar to those applied to the general loan.

⁵⁵ Most frequently used in South Asia for animal husbandry but also extensively for trading, food processing, other microenterprise activities, and working capital for crop production.

⁵⁶ Sinha and Patole (2002) analyze the daily financial needs of low-income families based on the financial diaries of such families in India and argue that it is really microlines of credit rather than fixed-term finance with regular repayment instalments that microclients need.

Microenterprise loan

Microenterprise loans are larger loans in the \$300 to \$5,000 range offered to individual clients on the basis of collateral (land title or, at best, the hypothecation of productive assets acquired with the loan) or guarantors. Examples from Bangladesh include BRAC's microenterprise loan, Grameen's microenterprise loan, and Proshika's SEED. In India, Spandana, SHARE Microfin, and ASMITHA offer such loans, as does BASIX. The loan terms range from one to two years and interest rates and conditions are similar to those applied to the general loan. A few MFIs—such as BURO Tangail in Bangladesh—have lines of credit and other similar products for microenterprises.

Flexible loan

Designed for poor clients who have trouble meeting a rigid repayment schedule, ASA (Flexible Loan Program), SafeSave (flexible savings and borrowings), Grameen II (flexi-loan), and BRAC (Income Generation for Vulnerable Group Development [IGVGD]) are some of the prominent examples from Bangladesh. The common feature among these programs is that clients are not required to repay loans in fixed weekly installments. Instead, a variable amount can be paid, although some have set a minimum amount equivalent to all of the outstanding interest and a portion of the outstanding principal. Loan sizes start small (Tk 500, less than \$10) but typically range from \$30 to \$60. Unlike the “mainstream” Grameen-type MFIs, most of the flexible programs do not have a compulsion that clients must borrow. It is not clear how successful these programs have been in attracting and retaining very poor clients, maintaining flexibility (recent evidence from Bangladesh shows that the scope of flexibility has had to be reduced),⁵⁷ and achieving financial sustainability (of the flexi-microfinance programs, only SafeSave with

11,000 clients, of whom 70 percent are borrowers, has reached breakeven so far).

Home loan

Very few MFIs offer home loans, mainly Grameen Bank in Bangladesh and the Indian Association for Savings and Credit (IASC) in India. Grameen Bank gives a housing loan for up to Tk 15,000 (\$250) to be repaid over a five-year period in weekly installments. The interest rate of 8 percent is cross-subsidized with other loan products. IASC has loans ranging from Rs 20,000 (\$450) to Rs 54,000 (\$1,200) over loan terms of 7 to 15 years at an interest rate of 15.5 percent. Unlike Grameen, which has weekly installments, IASC has monthly payments, because its clientele is drawn mainly from SHGs promoted by SHPIs that are active under the bank-link program.

Special loan

In Afghanistan, special loan products have been designed to meet particular needs—for example, refinancing the opium debt of small farmers, or providing loans for nomadic people, people with disabilities, and demobilized fighters. Shariah-compliant lending remains a challenge, especially in Afghanistan and Pakistan. The problem is usually resolved by levying service charges and fixed fees instead of charging interest.

Grameen II

Given the seminal nature of Grameen Bank's early initiatives and the contribution it has made to microfinance in the region, the changes it has made recently in its products deserve closer examination. Grameen has attempted to do away with the large array of multiple loan types it had earlier and to replace it with just one loan type: the basic loan. In theory, members may now borrow for almost any term (minimum three months) and they

⁵⁷ EDA 2005.

may negotiate individual repayment schedules. In practice, however, most basic loans are still given for one year and repayments remain equal and weekly. A creeping proliferation of loan types has surfaced again, as Grameen struggles to meet the demand for bigger loans (and looks for profitable investment opportunities for the huge inflow of deposits). For example, business expansion loans are now available, ranging from about \$300 up to \$3,000: these loans are more likely to have terms longer than one year.

Another innovation in Grameen II is the rapid rescheduling of loans that get into trouble. These contract or flexi loans are supposed to replace a basic loan as soon as it is in arrears

of repayment for more than a certain number of weeks. Here again, however, practice in the field differs. Most workers prefer not to issue flexi loans, and find other ways of managing troubled loans. For example, a provision in Grameen II “tops up” loans to their disbursed value (or even more) halfway through the term, and at the time of topping up, the loan term can also be lengthened: so workers may choose to nudge a troubled borrower along to the point at which the loan can be topped up. On the whole, joint liability has disappeared, although bank workers prefer to collect all weekly payments at the meeting and are prepared to keep members waiting until that is achieved.

Deposit Products

Services that enable clients to deposit savings are of significant interest and innovation for MFIs. However, they are also a potential minefield because of the risk of loss in the intermediation process—that is, use of the clients' deposits as part of the lending process. In practice, most NGO-MFIs have been forced by regulatory restraints to limit deposit-taking to credit-linked products. CBOs are able to offer such services because of their relatively informal nature and the limitation of their activities within a mutually supportive group of a small number of members. Similarly, cooperatives are legally permitted to do so on the understanding that it is mainly member funds that they revolve as loans. In Bangladesh, such considerations have been less of a problem because NGO-MFIs have dominated the rural financial system for some years. Recent moves to establish a regulatory framework for microfinance are effectively designed to regulate and supervise the practice of taking compulsory as well as voluntary deposits that have been undertaken without a license from the central bank until now. Similar moves are being offered in India. The introduction of regulatory frameworks, now in place in Pakistan as well as in Nepal, however

lax, has started to create a greater awareness of prudential issues among MFIs. The main deposit products available in microfinance may be classified as follows.

Compulsory savings

Compulsory savings are common among Grameen replicators in Bangladesh, India, Nepal, and Pakistan, where some amount has to be saved regularly as a condition for receiving loans. Each member saves \$0.02 to \$0.30 per week (Indian Rs 5 to Rs 20), which can only be withdrawn when the member leaves the program. The transactions cost of such deposits is limited by combining collection with repayment installments and by imposing limitations on withdrawals. Alternatively, compulsory deposits in Grameen programs are fixed at a proportion of the loan size, in the range 5 to 12 percent of the principal repayment. Compulsory deposits earn annual interest close to (but usually more than) the prevailing bank rate on savings accounts (4 to 5 percent per year).

Voluntary savings

Voluntary (or passbook) savings accounts with flexible deposit and withdrawal terms form the backbone of the operations of most credit cooperatives. But, regulatory restraints on NGO-MFIs apply particularly to such products and prevent voluntary deposits from commonly being offered. Typical products include regular deposits like recurring deposits (that could be fixed on a monthly, weekly, or sometimes even daily basis) or time deposits (fixed deposits). Interest paid is usually more (by 100 to 200 basis points) than the rates paid by banks on passbook deposits⁵⁸ and withdrawals are allowed flexibly (subject to minimum balances). Such products impose additional transactions costs on the MFI and expose them to the risk of provoking a response from the central bank, unless they are offered by cooperatives or at the CBO level.

Many MFIs in India have moved savings collection to separate institutions, wherever local laws allow the formation of MACS (Mutually Aided Cooperative Societies) or MBTs (Mutual Benefit Trusts). These MFIs are member-owned institutions that collect savings of Rs 5 to Rs 50 per month, usually without offering interest, although members can borrow from the savings pool. In recent months, however, the collection of savings by MFI staff on behalf of MBTs has been discontinued under the instructions of the Reserve Bank of India (RBI), because the practice constituted a violation of the spirit (if not, strictly, the letter) of the regulatory restrictions on unlicensed deposit collection.

Group savings

Like Grameen, most SHG programs as well as the SBS in Sri Lanka have fixed deposit installments. The group decides the rate of savings (\$0.50 to \$2.50 per month), collects the deposits, and rotates/lends the funds internally. Many cooperatives also follow this

practice. Members do not receive interest on deposits but instead receive a share of the profits earned from lending the savings to members or even nonmembers.

Grameen II

Grameen Bank has made extensive changes in its own approach to deposits. Grameen II has done away with the old system of pooling member savings and offers instead individual passbook savings into which members are encouraged to save regularly each week, but from which they can withdraw at will. A second savings account, known as “special savings,” is opened for all members who borrow: 2.5 percent of the disbursed value of all loans goes into this account, but when the account is three years old, it can be drawn down to Tk 2,000 (about \$30). A commitment (or recurrent, or contractual) savings product, the GPS, is offered to all members and has proven to be very popular. A low-value GPS is mandatory for all borrowers who take loans of \$120 or more. Deposits are made monthly and the term is usually 10 years, although there are some 5-year terms. For the 10-year term GPS, the interest rate offered is 12 percent per year, so that the matured sum is almost double the deposits. As a result of these changes, two-thirds of the total savings portfolio at Grameen Bank belong to members—a characteristic that has brought this product much closer to that of many SHGs and, as argued earlier, has made it more suitable to the financial needs of low-income clients.

⁵⁸ Interest on passbook savings accounts held with commercial banks range from 3.5 percent in India up to around 8 percent in Bangladesh.

Microinsurance

Microinsurance is a service now drawing increased attention; it is still in the experimental stages in India and, perhaps, is a little more established in Bangladesh. However, its implications for cost and delivery systems are little understood by MFIs and insurance companies. A key factor stimulating the growth of microinsurance in India is the regulator's (Insurance Regulation and Development Agency, IRDA) stipulation that insurance companies must offer a certain proportion of their policies to rural clients. Thus, life insurance companies with more than six years' operations are required to place at least 18 percent of their policies with rural clients. For general insurance, the maximum stipulation is 5 percent of policies for three or more years' operations. This cost has driven insurance companies operating in India to work with MFIs to limit their transactions costs effectively by using the ready pool of potential clients available with the latter.

Insurance is available in Bangladesh and India for a variety of risks and covers the following:

- Life—of the client and (occasionally) her spouse—for natural and/or accidental death
 - Health—of the client and her family
 - Assets—dwellings as well as productive assets with livestock often attracting separate cover
- Some interesting experiments in Bangladesh and India include the following three types of insurance models:

- **Community-based models** (Swayamkrushi Women's Development Mutually Aided Cooperative and Thrift Society [SWDMACTTS] in Andhra Pradesh, India): Essentially, the group pools the premium of its members and uses the funds to pay benefits when the need arises. This is possible only within cooperative structures in which members know each other. It limits the coverage of risk (to the overall financial strength of the group) and the scope for expansion.

- **Full-service schemes** (Grameen Kalyan, Delta Life in Bangladesh, Spandana in India): The institution offering the service carries the risk by itself and is able to achieve high outreach by offering simple products. Claims processing is internal but the (contingent) risks are high, and none of the providers have purchased reinsurance.
- **Partner-agent model** (BASIX, SEWA, ASA Grama Vidiyal in India, BRAC in Bangladesh): Allows for rapid increase in outreach. MFIs can use the expertise of established insurance companies to design products and determine premium, whereas the latter can piggyback on MFIs to enroll clients, collect premiums, and, most important, facilitate the verification and processing of claims. As an extension of this, FWWB (the Indian apex NGO) has organized seven of its partners under its Microinsurance Project. Under this program, the partner organizations cover various risks—life, livestock, health, dwellings—and link up with life and general insurance companies to provide a single composite product for their clients. Sometimes the partners include benefits like funeral expenses and loans to meet medical expenses from their own resources to meet client needs.⁵⁹

Life insurance – most successful

Delta Life in Bangladesh is the best known of the microinsurance programs in the region. It covers nearly 800,000 policy holders—that is, roughly one-third of all microinsurance policies in Bangladesh (by late 2004).⁶⁰ Delta Life offers two highly successful endowment products: 10- and 15-year endowment policies with sum assured from \$85 to \$1,650. The bonus of 7 percent per year paid at the end of the term positions this as a long-term contractual savings account by low-income client households. The innovation here is doorstep premium collection on a weekly, monthly, or biannual basis.

⁵⁹ FWWB 2005.

⁶⁰ McCord 2005.

In India, VimoSEWA and Spandana's life insurance are two of the largest microinsurance schemes. VimoSEWA, started in 1992, provides voluntary insurance covering life (of the client, spouse, and children), accident, health, and asset protection. The scheme had an outreach of 106,000 clients by late 2004 but was not yet profitable.⁶¹ Its viability was affected by low renewal rates and full coverage extended to higher-risk households. It was expected to take another seven years to breakeven.

Spandana runs a profitable microinsurance business in the Guntur region of Andhra Pradesh through a compulsory life insurance scheme for borrowers. It offers a single product with no riders and a low claims processing time with 75 percent of claims settled within one week. The program is perhaps the largest of its type and had reached more than 300,000 clients by March 2005.⁶² However, it has been criticized for charging high premiums and having low value to clients.

As indicated above, although a number of the leading insurance companies in India have become engaged in microinsurance through the partner-agent model, one insurance provider (TATA AIG) is experimenting with a different model in which the company has decided to offer insurance services on its own.⁶³ The insurer forms groups of village-level insurance sellers, only one of whom is a registered insurance agent. The group of sellers is jointly required to ensure that there is no fraud or false claims. The premium collected by the group members is passed on to the insurance company, which pays them a commission. As of March 2005, 34,100 policies had been sold under this scheme.

Health insurance

Relatively few examples of health insurance schemes are available to low-income clients. A couple in Bangladesh (Grameen Kalyan with 60,000 families and SSS with 45,000 families)⁶⁴ have relatively large outreach; however, these are not really insurance schemes but more like subsidized health service provision. In this example, the NGO plays the dual role of insurer and service provider. These programs have received grants for start-up and continue to require ongoing support.

In Pakistan, the rural support programs recently linked up with Adamjee Insurance to provide hospitalization insurance to members of the community organizations with whom they work. Thus far, about 130,000 members have signed up for a program, which charges an annual premium of about \$4 for hospitalization coverage with a cap of about \$400.

In India, health insurance has been offered on a small scale by a few NGO-MFIs (FWWB partners Shepherd and PSA) to about 6,000 people.⁶⁵ It is commonly acknowledged that the main hurdle to acquiring health insurance is not the availability of the insurance service but the availability of good health facilities for the facilitating MFIs to link up with in rural areas. Shepherd's Uni-Micro Health Insurance, offered in conjunction with the United India Insurance Company Limited, provides for the risk of destruction of assets caused by fire and allied perils, death or disability because of accident, and reimbursement of hospitalization expenses. Shepherd's Sugam (Health) Fund provides loans to meet medical expenses until the reimbursement is available from the insurance company.

⁶¹ Garand 2005. Coverage information from Devadasan 2005.

⁶² FWWB 2005.

⁶³ Roth and Athrye 2005.

⁶⁴ EDA 2005.

⁶⁵ Roth, Churchill, Ramm, and Namerta 2005.

Weather insurance—a novel idea

A leading Indian provider of financial services to low-income clients, BASIX, is piloting a weather insurance scheme as an alternative to the traditional government-sponsored crop insurance schemes that have failed across the region. Under this new scheme, launched in collaboration with a formal insurer (ICICI Lombard), farmers are entitled to a payout if their crop production suffers because of poor rainfall or if it does not rain at the right time (affecting seed plantation and germination, for instance). This insurance currently is being offered to castor and soy farmers in two districts of Andhra Pradesh, India. By late March 2005, 657 customers were insured for an average sum of Rs 6,000 (\$133);⁶⁶ 305 claims were settled, and the claim amount presently exceeds the total premiums collected.

Livestock insurance—few takers

Many FWFB partners in India offer livestock insurance. By August 2004, six FWFB partners were offering this product to 6,700 customers. However, large-scale fraud was reported in one northern MFI that offered this

product. In rural, southern India little fraud was reported by MFIs.⁶⁷

Key lessons on microinsurance

Following are the key lessons on microinsurance:⁶⁸

- Successful microinsurance schemes are most likely to be run by insurance companies that also have a mainstream insurance product and that are not looking for immediate profits from the microinsurance sector.
- Insurance companies and MFIs often face a mismatch while trying to form partnerships because insurance companies cannot find progressive and trustworthy partners in rural areas. Conversely, the common problem faced by the MFI partners is the lengthy and highly technical documentation required by insurance companies. This results in delays in the processing of claims.
- Most microinsurance schemes cover clients (who are usually women), whereas the real need reported by low-income families is to cover the breadwinner (usually a husband or son).
- To reach large numbers of clients, a microinsurance product must be simple, with easy-to-understand terms and conditions (riders can be confusing and complicate claims processing).

Money Transfers

Money transfers are increasingly talked about but have still drawn little attention in the region. As discussed in section 3.1.5, the use of the post office money order for remittances to low-income families from migrant relatives has been a tradition for more than half a century. In the modern world, however, analysis shows that the money order imposes very high transaction costs on the remitter and the family. In India, the post office charge for the money order amounts to 5 percent of the remitted amount. Given that most postal

carriers in north India are prone to collect an informal “delivery fee” on the order of 2 to 5 percent from the low-income recipient as well, the cost of the service becomes prohibitive and results in the use of the money order only where and when there is no alternative.

A couple of “alternative” experiments such as Adhikar and ICICI Bank in India are in progress and a BRAC-Western Union collaboration has been launched in Bangladesh. Yet, the total value of domestic remittances (in-country

⁶⁶ See <http://www.basixindia.com/insurance.asp>.

⁶⁷ Roth, Churchill, Ramm, and Namerta 2005.

⁶⁸ Culled from CGAP paper on microinsurance and Pathak 2005.

transfers) in India alone is estimated to be \$4 trillion in 2000.⁶⁹

In Pakistan, First MicroFinanceBank is one of the key providers of the remittance service to all kinds of clients. According to the SBP regulations, however, microfinance banks are allowed only domestic remittances. Hence, transfers are generally made from major cities in Pakistan to upcountry areas (small towns or villages) by main earners for their families' household requirements (like living expenses, education fees, or hospitalization and other health needs). Remittance services of the bank are also used by upcountry traders to pay wholesale suppliers sending goods from city-based depots.

Notable initiatives in the microremittance market in India include the following:

- Adhikar, an NGO in the eastern Indian state of Orissa, started a money transfer service (*Shramik Sahajog*, help for the worker) in 2002 targeting migrant Oriya laborers working in the western state of Gujarat. NGO staff collect remittances from the workers in Gujarat and deposit it in a

single account in a local commercial bank with branches in Orissa and Gujarat. Twice a week, this money is transferred internally between the bank's branches to the NGO account in Orissa. Adhikar staff then deliver the money to the remitter's family in Orissa. Thus, Adhikar provides doorstep collection and delivery for a service fee of 3 percent.⁷⁰

- As of September 2005, Adhikar offers this service in two districts of Gujarat (Surat and Gandhidham) to a total of 960 clients and an average amount of Rs 3,400 (\$75) remitted per member. Costs in the Adhikar scheme are low because most of the migrants are from the same district in Orissa where the NGO also runs its microfinance operations.
- ICICI Bank has linked its international money transfer service (Money2India) with village-level kiosks. This is expected to eliminate the need for villagers to travel to towns or ICICI Bank branches. The kiosk operator will inform the recipient when the money is transferred, and the latter can collect at the kiosk (through a low-cost automated teller machine [ATM]) or at the local bank branch. The bank estimates that a kiosk can profitably service a village (or group of villages) of 2,000 households.

Microleasing

Microleasing is an “underutilized tool”⁷¹ in microfinance, especially in rural areas. As the World Bank discussion paper notes, “Leasing has the potential of partially addressing the market failure in rural credit...Apart from the benefit of access to a means of financing equipment, leasing is also likely to be more affordable to rural enterprises than are loans.”⁷² Leasing overcomes most of the collateral constraints with low down payments and much lower equity (or borrower contribution to the asset) than often required by lenders. However, the growth of microleasing is constrained by an overall lack of experience with leasing as a tool in South Asia. According to the World Bank discussion

paper, leasing facilitated just 7 percent of overall productive investment in Pakistan and an even lower 3 percent in India. South Asia has few experiences with microleasing.

Grameen Bank has been offering microleases in Bangladesh for more than 10 years, but no other major player in the market has followed their example. Grameen Bank has offered this product since 1992 with an average lease amount of \$364 and total outstanding lease portfolio of \$22 million in 200203. The lease enables the purchase of equipment for rural microenterprises. Lessees are selected among existing microfinance clients, which tend to be those who are better off and have additional sources of income. No down payment is

⁶⁹ Isern et al. 2005

⁷⁰ By comparison, post office money orders in India cost 5 percent, there is no doorstep collection (although there is delivery) and there are problems with postal carriers expecting a “commission” on the remitted amount from the recipient. In practice, this effectively doubles the cost of the money order to the sender.

⁷¹ Nair, Kloppinger-Todd, and Mulder 2004.

⁷² Ibid.

required from the lessee and a 20 percent flat interest rate is charged. Flexible repayments include allowing lessees to repay the entire amount if they wish.

Two private companies in Pakistan, Orix Leasing and Network Leasing, offer specific microleasing products, and have around 5,000

and 2,000 microclients, respectively. Network Leasing has a greater focus on microenterprises than Orix.

Greater focus on leasing is required to build on these experiences and enhance the suitability of the product for microclients.

Conclusions on Microfinance Products

Despite the diversity of products offered in South Asia, in practice, the average microfinance client's relationship with an MFI can be defined by a fairly standard set of obligations:

- Attendance at regular weekly (fortnightly or monthly) meetings of the group
- Training in “loan utilization” or participation in discussions of development issues, such as social discrimination, gender awareness, health, sanitation, and education (optional)
- Contribution of fixed amounts, termed “savings,” to a fund managed by the group or by the MFI with direct access of the member limited or even barred
- Repayment of fixed amounts as installments (weekly, fortnightly, or monthly) on any loan she or he obtains from the MFI or from the group
- Visits from MFI staff or the institution's guests to verify loan utilization or to assess impactformally or informally (occasional)

What the client actually receives in return for fulfilling these obligations are as follows:

- Fixed amounts of loan apparently “for productive activities”with the size of the loan usually determined by the longevity of his or her relationship with the MFI or, in the case of some cooperatives and CBOs, by the volume of savings rather than by financial needs
- Emergency loans for “consumption”—in the case of some MFIs/CBOs—but relatively small amounts and subject to the approval of her

group

- A small pool of savings resulting from her or his compulsory deposit available to her or him if she or he decides to withdraw from the program
- In some cases (especially Grameen Bank in Bangladesh, CBOs in Sri Lanka, and microfinance development banks in Nepal and Pakistan), access to flexible and voluntary deposit services
- Insurance—provided by a risk fund or insurance fund created by a few MFIs or by an insurance company in collaboration with the MFI
- In the case of SHGs and some cooperatives, a degree of empowerment based on a sense of belonging to a group with similar social concerns and reinforced by knowledge and understanding of issues in the financial management of group funds

By and large, fulfilling these obligations results in enhancing the ability of the microfinance client to meet his or her need for funds for productive activities, health and education services, and life cycle events. Enhancing ability is not the same as enabling complete fulfillment of those needs, however, and research studies have shown that most microfinance clients have loans from other sources as well. One study of the programs of 20 MFIs in India showed that 75 percent of MFI clients must also borrow from other sources⁷³ and that 58 percent of their total borrowings are obtained from these other sources. Another study in Bangladesh shows that 31 percent of

⁷³ EDA 2003.

households borrow from sources other than a single NGO-MFI, but these data are likely to be highly understated because there is considerable apprehension (in Bangladesh) about reporting borrowing from multiple MFIs.⁷⁴

However, as discussed in chapter 2, microfinance outreach to the genuinely poor is achieved among less than 15 percent of the population in all countries of South Asia except Bangladesh and Sri Lanka. The average for the region as a whole is just 17 percent. One reason for this poor outreach is the rigidity of products: poorer clients need products that provide them with the flexibility to deposit money and to borrow very small sums of money (equivalent to a few dollars at a time) almost on a daily basis. Except for SafeSave's famous experiment in Bangladesh, this model has not been tried by MFIs. Regarding the depth of outreach, even the results of SafeSave's experiments are mixed thus far; its client profile is doing little more than reflecting the overall income distribution of the slums in which it operates. While SafeSave has now reached sustainability, the 45 percent effective interest rate charged by it on borrowings (relative to 6 percent paid on deposits) is somewhat higher than the rates that are politically acceptable in the region.⁷⁵ So, although a greater emphasis on deposit and insurance products may be the key to increasing depth of outreach in microfinance, balancing this emphasis with an equally important concern for sustainability has not yet been achieved. Thus, the debate about "plain vanilla" (the Ford motor model of ASA in Bangladesh⁷⁶ and of much of Pakistani microfinance) versus product variety rages on; however, inevitably, the increasing concern for social performance in microfinance is likely to result in a greater focus on product relevance to meet the needs of the poorest.

Although the practice of microfinance has made some contribution to the lives of low-income families in South Asia, questions still exist about the extent to which it fulfils its purpose. Ultimately, whether or not microfinance has a substantive impact on a microfinance client's social and economic status is a matter of debate. This debate is summarized in chapter 7 after a discussion of MFI performance in chapter 6.

⁷⁵ EM-CRIL 2006.

⁷⁶ Fernando and Meyer 2002.