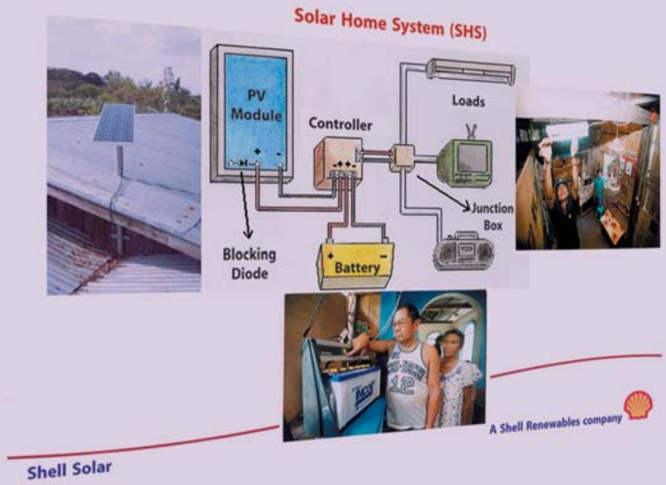
APRACA FinPower Programme

Financial Empowerment of Poor Rural Communities: **A Compendium of Rural Financial Innovations and Best Practices**



Benedicto S. Bayaua

An APRACA FinPower Publication with the Special Sponsorship of
the International Fund for Agricultural Development (IFAD)

APRACA FinPower Publication: 2011/2

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Published by:	Asia-Pacific Rural and Agricultural Credit Association (APRACA)
Printing by:	Erawan Printing Press
Distribution:	For copies, write to: The Secretary General Asia-Pacific Rural and Agricultural Credit Association (APRACA) 39 Maliwan Mansion, Phra Athit Road Bangkok 10200, Thailand Tel: (66 2) 280 0195 Fax: (66 2) 280 1524 E-mail: apraca@apraca.org, sofia@apraca.org Website: www.apraca.org
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Lay-out Credit:	Sofia Champanand
E-copies:	E-copies in PDF file can also be downloaded from the APRACA Website

This book is published by APRACA under the auspices of the IFAD-supported APRACA FinPower Programme.

The data gathered were based mainly on APRACA-commissioned publications and papers presented during APRACA FinPower forums and events as well as primary and secondary data from APRACA member institutions, IFAD-supported projects and partners. Opinions expressed by the author and by the various sources do not necessarily represent the official views of APRACA or of IFAD.

This book is published during the incumbency of Mr. Abdivakhov Tamikaev (APRACA Chairman), H.E. Pal Buy Bonnang (APRACA Vice-Chairman), and Mr. Won-Sik Noh (APRACA Secretary General).

MESSAGE from APRACA CHAIRMAN

Greetings!

The Asia-Pacific Rural and Agricultural Credit Association (APRACA) has successfully established among its members various platforms for systematic interchange of information on sustainable rural and agricultural financial services, encouraged inter-country studies and provided training, consultancy, research and publication services on matters of common interest in the field of rural/microfinance.

On the other hand, the International Fund for Agricultural Development (IFAD) has played the role of APRACA's major strategic partner under the five-year FinPower Programme. APRACA and IFAD have shared that mutual goal of accelerating the financial empowerment of poor rural communities in Asia and the Pacific region through sharing and disseminating rural finance innovations and by conducting policy forums, innovative pilot programmes, and various knowledge-sharing events among actors in the rural financial sector

This final FinPower publication, which puts together all major innovations and best practices shared and disseminated during the five-year period of the FinPower Programme, is a fitting conclusion to the joint and successful efforts of IFAD and APRACA. I wish to heartily thank Dr. Thomas Elhaut, the former IFAD Asia-Pacific Division Director and Dr. Ganesh Thapa, IFAD Asia-Pacific Division Regional Economist, for their untiring support to APRACA, through the FinPower Programme. I also wish to commend the entire APRACA members, the APRACA Executive Committee, the APRACA Secretary General and the author for a job well done.

Abdivakhob Tamikaev
APRACA Chairman

MESSAGE from APRACA VICE-CHAIRMAN

This final publication of APRACA under the just concluded five-year FinPower Programme puts together the lessons learned as well as the innovations and best practices extracted and shared during the various FinPower activities and events.

APRACA projects and programmes have always been consistent with its commitment to uplifting the plight of the rural poor in represented countries in the Asia and the Pacific region, through the promotion of efficient and effective rural finance and their access to rural financial services. The strategic partnership with IFAD, which began with the MICROSERV Programme in 1996-2001 and continued with the FinPower Programme in 2007-2011, has elevated this commitment to a higher level.

I wish to thank the entire leadership of APRACA and in particular, Dr. Thomas Elhaut, Asia-Pacific Division Director, and Dr. Ganesh B. Thapa, IFAD Regional Economist and Supervisor of the FinPower Programme, for supporting APRACA all the way. I wish to acknowledge the guidance of the APRACA Secretary General in bringing this FinPower Programme to a fruitful and meaningful end.

Thank you very much.

H.E. Pal Buy Bonnang
APRACA Vice-Chairman

ACKNOWLEDGEMENT

For thirty-five years, the Asia-Pacific Rural and Agricultural Credit Association (APRACA) has aspired to help alleviate rural poverty through the promotion of efficient and effective rural financial systems, broaden access to rural financial services and the disseminate rural financial innovations and best practices. Under the technical and financial support of the International Fund for Agricultural Development (IFAD), the just concluded five-year APRACA FinPower Programme (January 11, 2007-December 31, 2011) had conducted several studies, held forums, training programmes and exposure visits and provided technical support as well as shared, disseminated and replicated innovations and best practices. I take great pride in being a part of this programme since I joined APRACA as Secretary General on July 1, 2010, more than halfway through the programme.

I wish, therefore, to take this opportunity to acknowledge with gratitude the support of all the CEOs and heads of APRACA member institutions who, in one way or another, have deputed experts and have participated in various FinPower activities and events.

I wish to thank the APRACA Chairmen during the programme period: Mr. Thiraphong Tangthirasunan, former President of the Bank for Agriculture and Agricultural Cooperatives, Dr. Do Tat Ngoc, former Chairman of the Vietnam Bank for Agriculture and Rural Development, Mr. Abdurakhmat Boymuratov, former Chairman, and incumbent Mr. Abdivakhob Tamikaev, Chairman of the Open Joint Stock Commercial “AgroBank” of Uzbekistan, who had helped steer the Association as well as the FinPower Programme during the programme period.

H.E. Pal Buy Bonnang, the Assistant Governor of the National Bank of Cambodia (NBC) and concurrently, the incumbent APRACA Vice-Chairman, fully and truly deserves our warm applause for his active leadership in FinPower activities at the programme’s culminating stage and during the interim period of seeking the FinPower Programme continuation.

I wish to make special mention of the assistance provided by the APRACA Executive Committee, singly and as a collegial body, in ensuring broader participation of members and partners in all FinPower activities and events.

APRACA member institutions had been very supportive of the APRACA FinPower initiative, particularly in hosting various forums and activities: notably Bangladesh Bank (BB), Bhutan Development Finance Corporation, Limited (BDFCL), National Bank of Cambodia, the Rural Development Bank of Cambodia (RDB), Agricultural Development Bank of China (ADBC), the National Bank for Agriculture and Rural Development (NABARD) of India, Bank Indonesia (BI), Bank Keshavarzi (BK), National Agricultural Cooperative Federation (NACF) of Korea, Agriculture Promotion Bank (APB) of Lao PDR, XacBank of Mongolia, Nepal Rastra Bank (NRB), Agricultural Development Bank, Limited (ADBL) of Nepal, State Bank of Pakistan (SBP), Bangko Sentral ng Pilipinas, Inc. (BSPI), Agricultural Credit Policy Council (ACPC) of the Philippines, CARD MRI, Central Bank of Sri Lanka (CBSL), Bank of Thailand (BoT), Bank for Agriculture and Agricultural Cooperatives (BAAC) of Thailand, AgroBank Uzbekistan and Vietnam Bank for Agriculture and Rural Development (VBARD).

I wish to specially mention and gratefully acknowledge the support of Mr. Luck Wajananawat, BAAC President, who had provided, together with his officers and staff, technical and logistical support to various FinPower activities in Thailand and in Lao PDR, Cambodia and Nepal under the APRACA FinPower Member Assistance Programme (A-MAP).

Several activities of FinPower were conducted under the auspices of APRACA CENTRAB, led by Board President Ms. Jovita Corpuz, Executive Director of ACPC Philippines, the APRACA Consultancy Services (ACS) led by the late Mr. Budi Rochadi, Bank Indonesia Deputy Governor, and now by the Honorable Governor Mr. Darmin Nasution, and NABARD BIRD, as an APRACA Center of Excellence (ACE), under the leadership of the former NABARD Chairman Mr. Umesh Sarangi and Dr. Prakash Bakhshi, the incumbent NABARD Chairman. To them, I am truly grateful.

I also wish to acknowledge the genuine and untiring efforts of the numerous experts and consultants deputed by APRACA members and partners.

I wish to thank and acknowledge the participation of IFAD national projects and their holders, notably, IFAD Rural Livelihood Improvement Programme (RULIP) Cambodia, SIDBI India, IFAD Rural Livelihood Improvement Programme (RLIP) Attapeu, (Lao PDR), IFAD (Rural Livelihood Improvement Programme (RLIP) Sayabouri (Lao PDR), IFAD Rural Poverty Reduction Programme (RPRP) Mongolia, IFAD Western Upland Poverty Alleviation Programme (WUPAP) Nepal, IFAD Rural Micro Enterprise Promotion Programme (RUMEPP) Philippines, IFAD National Agribusiness Programme (NABP) Sri Lanka and IFAD Programme for Improving Market Participation of the Poor (IMPP) Vietnam, under the leadership of the national project managers, who had greatly enhanced the sharing on grass roots financing and development.

Most of all, our most profound gratitude goes to IFAD, particularly to Dr. Thomas Elhaut, the former IFAD Asia-Pacific Director, and Dr. Ganesh Thapa, IFAD Regional Economist, for their leadership, insight and advice, which had greatly helped ensure the successful implementation of the FinPower Programme to its desired level.

Lastly, I wish to thank Mr. Benedicto Bayaua, the former APRACA Secretary General, for graciously offering his time and acceding to support the FinPower Programme up to its conclusion and for his authorship of this compendium.

I earnestly greet you all on the occasion of the 35th Anniversary of APRACA. Thank you very much.

Won-Sik Noh
Secretary General

ACRONYMS

AABP	Anoma Agro-based Products
ACE	APRACA Center of Excellence
ACLEDA	(formerly) Association of Cambodian Local Economic Development Agencies
ACPC	Agricultural Credit Policy Council (Philippines)
ACS	APRACA Consultancy Services
ADBC	Agricultural Development Bank of China
ADBL	Agricultural Development Bank, Limited (Nepal)
AEPC	Alternative Energy Promotion Center
A-MAP	APRACA Member Assistance Programme
APB	Agriculture Promotion Bank of Lao PDR
APRACA	Asia-Pacific Rural and Agricultural Credit Association
APRACA CENTRAB	APRACA Center for Training and Research in Agricultural Banking
ASA	Association for Social Advancement
ATM	Automatic Tellering Machine
BAAC	Bank for Agriculture and Agricultural Cooperatives
BDFCL	Bhutan Development Finance Corporation, Limited
BI	Bank Indonesia
BK	Bank Keshavarzi
BLI	Bimputh Lanka Investments
BOAT	Build, Operate And Transfer
BoT	Bank of Thailand
BRAC	Bangladesh Rural Advancement Committee
BRI	Bank Rakyat Indonesia
BSPI	Bangko Sentral ng Pilipinas, Inc.
CAC	Cooperative Accreditation Criteria
CARD	Center for Agriculture and Rural Development
CARD MRI	Center for Agriculture and Rural Development Mutually Reinforcing Institutions
CBED	Community-based Enterprise Development
CBSL	Central Bank of Sri Lanka
CGAP	Consultative Group to Assist the Poorest
CMA	Cambodia Microfinance Association
CMDI	CARD Management Development Institute
CORDAID	Catholic Organization for Relief and Development AID
CUES	Credit Union Empowerment and Strengthening
CwE	Credit with Education
DEF	District Energy Fund
DSE	Deutsch Stiftung fur Entwicklung or German Foundation for International Development, (later renamed InWent and then merged with GIZ (see GTZ)
ED	Enterprise Development
EDC	Electronic Data Capture

EMI	Ekphatthana Microfinance Institution
ESAP	Energy Sector Assistance Program
FAO	Food and Agriculture Organization
FCI	Food Corporation of India
FINGO	Financial Intermediary – NGO
FinPower	Regional Programme for Accelerating the Financial Empowerment of Poor Rural Communities in Asia and the Pacific through Rural Finance Innovations
GA	General Assembly
GIZ	German Agency for International Cooperation
GoI	Government of India
GTZ	Gesellschaft für Technische Zusammenarbeit or German Agency for Technical Cooperation, now renamed together with other agencies as German Agency for International Cooperation (GIZ)
IB	Institution Building
IBS	Institution-Building Specialist
ICT	Information and Communication Technology
IFAD	International Fund for Agricultural Development
IGNOU	Indira Gandhi National Open University
IMPP	Improving Market Participation of the Poor (Vietnam)
KMBI	Kabalikat sa Maunlad na Buhay, Inc.
KTB	Krung Thai Bank
K-wealth	Knowledge Wealth
MABS	Microenterprise Access to Banking Services
MADB	Myanma Agricultural Development Bank
MAF	Mutual Assistance Fund
MAI	Mutual Assistance Insurance
MBA	Mutual Benefit Association
M-CRIL	Microcredit Ratings International, Limited
MDG	Millennium Development Goal
MEADA	Measure for Economic and Accelerated Development for All
MFI	Microfinance Institution
NABARD	National Bank for Agriculture and Rural Development
NABP	National Agribusiness Programme (Sri Lanka)
NACF	National Agricultural Cooperative Federation
NBC	National Bank of Cambodia
NBFI	Non-Bank Financial Institutions
NEM	New Economic Mechanism
NRB	Nepal Rastra Bank
NWAB	National Women's Association of Bhutan
NWTF	Negros Women for Tomorrow Foundation
OTOP	One Tambon One Product
PCFC	People's Credit and Finance Corporation
PV	Photo-Voltaic
R&D	Research and Development
RBAP	Rural Bankers Association of the Philippines
RBB	Rastriya Banijya Bank

RDB	Rural Development Bank (Cambodia)
RE	Renewable Energy
REF	Rural Energy Fund
RFI	Rural Financial Institutions
RLIP	Rural Livelihood Improvement Programme (Lao PDR)
RMA	Royal Monetary Authority (Bhutan)
RMG	Rythu Mithra Group
RPRP	Rural Poverty Reduction Programme (Mongolia)
RRB	Regional Rural Banks
RULIP	Rural Livelihood Improvement Programme (Cambodia)
RUMEPP	Rural Micro Enterprise Promotion Programme (Philippines)
SBP	State Bank of Pakistan
SCC	Savings And Credit Cooperative
SEWA	Self-Employed Women's Association
SHG	Self-Help Group
SHS	Solar Home System
SKBBL	Sana Kisan Bikash Bank, Limited
SSIL	Sevanagala Sugar Industries Limited
UN	United Nations
VBARD	Vietnam Bank for Agriculture and Rural Development
VFC	Vision Fund Cambodia
WOCCU	World Council of Credit Unions
WUPAP	Western Upland Poverty Alleviation Programme (Nepal)
WVC	World Vision Cambodia
WWB	Women's World Banking
YCMOU	Yashwantrao Chavan Maharashtra Open University (YCMOU)

TABLE OF CONTENTS

Table of Contents *(continued)*

Page

Figures

Tables

Boxes

INTRODUCTION

A. Background

1. Establishment of APRACA

The establishment of a regional association that promotes cooperation and facilitates mutual exchange of information and expertise in the field of rural finance was first proposed at a Regional Seminar on Agricultural Credit for Small Farmers, sponsored by the Food and Agriculture Organization (FAO) of the United Nations (UN) in Asia in October 1974. Subsequently under the auspices of FAO, rural finance and agricultural credit institutions in the region formally launched the Asia-Pacific Regional (now *Rural and*) Agricultural Credit Association (APRACA) to promote cooperation and facilitate mutual exchange of expertise during its first General Assembly (GA) Meeting in New Delhi, India on October 10-14, 1977. APRACA's Constitution and By-laws were also adopted during the meeting.

2. Collaboration with International Development Partners

Since then, APRACA has pursued, singly and in tandem with international development partners, the promotion of efficient and effective rural financial systems and broadened access to rural financial services.

APRACA has linked with the Food and Agriculture Organization (FAO) of the United Nations (UN) in conducting numerous conferences, training, workshops and missions. Among these were the very first collaboration in the Asian Conference on Agricultural Credit and Cooperatives, held in conjunction with the first APRACA GA meeting, the conduct of several FAO-APRACA workshops on fisheries financing, impact of disasters on rural financial institutions, transformation of non-governmental organizations into microfinance institutions, small trader finance during various years, the conduct of a study on agricultural insurance in 2009, the mission to identify geographic areas and rural finance partners for the FAO FishFinance Project in six Asian sites in 2010 and the conduct of the training course on Agricultural Value Chain Financing in 2011.

APRACA has strategically collaborated with the erstwhile German Agency for Technical Cooperation (GTZ), now known as GIZ, to pilot-test the bank-self-help group linkage project in several Asian countries for about a decade beginning 1988, a project precursor of the now highly acknowledged linkage banking programme in India. APRACA also conducted a series of Rural Finance courses in Asia with the then German Foundation for International Development (DSE, later renamed InWent).[1]

3. Strategic Linkage with IFAD

IFAD's goal is to reduce rural poverty through sustainable improvements in household food security and incomes. One of its strategic objectives is to provide improved financial and related non-financial services in rural areas. In fact, about two-thirds of the Fund's current projects have rural finance components and approximately one-fifth of the Fund's resources are dedicated to rural finance. Hence, IFAD aims at providing sustainable access of the rural poor to financial services, to be enhanced by institutional diversity and a supportive rural financial infrastructure. IFAD's rural finance policies highlight four focus areas: building sustainable rural finance institutions with outreach to the rural poor; fostering stakeholder

[1] The Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH or German Agency for International Cooperation brings together the long-standing expertise of the Deutscher Entwicklungsdienst (DED) GmbH (German Development Service), the Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH (German Agency for Technical Cooperation) and Inwent – Capacity Building International, Germany.

participation, including the poor, in the development of rural finance; building a diversified rural financial infrastructure; and promoting a conducive policy environment and regulatory framework.

The MicroServ Regional Programme: At the start of the IFAD-APRACA collaboration, IFAD provided financial and technical support to APRACA's five-year MicroServ Programme (1996-2001) of **strengthening financial services for the rural poor: building on the credit experiences in IFAD Member States of the Asia and the Pacific region through the dissemination of rural finance innovations** and best practices to APRACA members and to a wider audience.

The FinPower Regional Programme: Later, IFAD again re-engaged APRACA and again collaborated in a five-year programme dubbed as the FinPower Programme (2007- 2011), with its goal of **accelerating the financial empowerment of poor rural communities in Asia and the Pacific through rural financial innovations.** The three objectives of the FinPower programme were to:

- foster an enabling, pro-poor and client-friendly policy environment and regulatory framework for sustainable rural financial systems;
- encourage innovative approaches to rural finance through the adoption of reforms and improvement of rural finance mechanisms that empower the rural poor; and
- extract lessons from the wealth of rural finance innovations promoted by IFAD-supported projects and APRACA initiatives to promote information sharing and replicate successful approaches in the region.

The three programme objectives corresponded to the three central programme components: (a) participatory dialogue and policy forums; (b) pilot programmes and exposure visits; and (c) documentation, training, regional studies and dissemination of innovations and best practices.

B. Purpose of this Publication

A number of rural financial innovations evolved from Asia and particularly from APRACA member institutions, individually and in tandem with partners, since APRACA's establishment. More pronounced innovations and best practices were initiated in the early 1990s and are continuing at present, with certain modifications and upgrading. The knowledge extracted and lessons learned from the FinPower activities and studies undertaken were consolidated on a yearly basis and shared among key rural finance stakeholders in the Asia-Pacific region through yearly forums, hard copy publications and the APRACA website. In some instances, innovations were pilot tested by several key rural finance stakeholders.

This publication compiles and summarizes various rural financial innovations and best practices presented and shared by APRACA members, IFAD-supported projects and international development partners during FinPower activities and those highlighted in FinPower-commissioned studies, cases and paper presentations. It focuses on those current financial innovations that were espoused and practiced by innovative institutions and projects and which were subsequently replicated by early adopters, during the years 2007-2011.

C. Scope

The publication focuses on rural and agricultural finance as well as microfinance, focusing on policies, products and delivery methodologies and finance-related activities.

Amongst these are several microfinance methodologies and delivery channels developed by APRACA members as well as other innovators in the Asian region. APRACA, which includes as members the region's central banks, major agricultural and rural development banks, commercial banks, microfinance institutions and other finance-related agencies, has had significant experience in initiating innovative rural microfinance strategies such as the bank-self-help group linkage, village banking, women's business center models, joint liability groups and individual lending, which have been scaled up with considerable success by the National Bank for Agriculture and Rural Development (NABARD), Bank Rakyat Indonesia (BRI), CARD Mutually Reinforcing Institutions (CARD MRI), the Bank for Agriculture and Agricultural Cooperatives (BAAC), and ASA Bangladesh respectively. From these methodologies and delivery channels as well as from other member institutions and projects in APRACA-represented countries, a number of approaches, products services and instruments on rural and agricultural and microfinance have evolved.

These methodologies have been recognized worldwide as having been successful in reaching a large number of the rural poor as well as in providing sustainable financial services. IFAD supported projects have likewise developed methodologies and gained considerable experiences and expertise in rural/ microfinance in project implementing countries and have provided instructive lessons for other similarly situated countries.

While this publication focuses on rural financial innovations, it also partly tells, in the process, the stories of selected trailblazing and early adopting institutions and projects. And surely, beneath these grand stories are the countless sagas of many individuals within these institutions and projects- great and small, named and unnamed, individually and collectively – who turned dreams into realities, pushed further the boundaries of innovations and spearheaded change in their respective workstations, institutions and nations and even beyond their national borders.

While this publication strives to capture all presented and shared rural financial innovations, some may inevitably be downplayed while others may be highlighted. Likewise, what are considered innovations to some institutions and projects may not be new at all to others. Both judgments are within the purview of the author and may be considered a limitation of this publication.

The rural financial innovations are presented as success stories and in a positive light. This publication therefore does not make in-depth analysis of each innovation or look into what can go wrong with such innovations. This can well be the focus of subsequent APRACA books on rural financial innovations.

D. Contents

This compendium contains three parts organized as follows:

Part I focuses on six sections: a) a discourse on poverty in Asia and characteristics of the rural poor; b) impact of the 2008-2009 economic and financial crisis; c) rising fuel and food prices; d) climate change and variability; e) rural finance policy environment and regulatory framework; and f) institutional structure and key rural finance stakeholders, such as central banks, agricultural and rural development banks, commercial banks, microfinance institutions, NGOs and several development partners, as change agents.

Part II discusses the following sections: a) various rural finance methodologies and delivery channels adopted and practiced by key rural finance stakeholders; b) savings products; c) lending products; and d) special sections focusing on financing rural energy, financially empowering rural women, value chain financing, risks management and insurance, and credit plus and participatory approaches.

Part III summarizes the emerging developments, challenges and possible directions for APRACA in the future.

E. Methodology

The author has drawn information from the following FinPower published and unpublished knowledge wealth, collectively called, together with other documentations, **K-Wealth** materials:

- FinPower commissioned studies: regional studies on rural finance and regulatory framework by Llanto and Badiola (2007, 2011), innovations and best practices by Yedra (2007), agricultural value chain finance by Casuga *et al*., (2008), the financial crisis by Llanto and Badiola (2009), risk management by Yedra (2010), green financing by Chaulagain (2010), microinsurance in South East Asia by Alip, Navarro and Catibog (2010), participatory methods in rural finance by Navarro (2010) and women in rural finance by Navarro (2011).
- FinPower-commissioned cases on LandBank (Yedra, 2007), on the Indian rural financial system (NABARD, 2010) and the Pakistan rural financial system (Khan, 2010) as well as participatory methods by KMBI Philippines (Duque, 2010), CARD MRI (Navarro, 2010), WUPAP Nepal (Adhikari, 2010 and RLIP Lao PDR (Singh, 2010).
- Paper presentations during the regional forums on rural finance and regulatory framework (China, 2007 and Tehran, 2011), Asia-Africa rural finance dialogue (Bangkok, 2007), participatory approaches (Hanoi, 2008), financial crisis (Seoul, 2009), deepening NGO/MFI reforms (Phnom Penh, 2010) and rural finance innovations and challenges (Bangkok, 2011).
- Paper presentations during the national forums in the Philippines (2007), Lao PDR (2007, 2010), Cambodia (2007), Nepal (2008), Sri Lanka (2008), Pakistan (2008), Bhutan (2009), Uzbekistan (2009), Mongolia (2010) and Thailand (2010).
- Training/technical guides on small fisheries finance (Bautista, 2007), on women in rural finance (Endencia, 2007), on agricultural microfinance (Buenaflor, *et al.*, 2007), on linkage for animators (NABARD, 2009), on linkage for bank officers (NABARD, 2009) and on micro and small enterprise development, management and financing (Gunawan, 2011).
- Reports of pilot testing, study visits and technical support to member institutions/projects during 2007-2011.

The author updated old data, to the extent possible and when warranted, in order to make the information current. Notations to this effect are put in the text or in the footnotes.

F. Definition of Terms

In 2007, the FinPower Programme commissioned a study of innovations, which included the definition of terms – rural finance, agricultural finance and microfinance, financial innovations, key actors of change and key organizational factors. For the purpose of this publication, the same definitions of terms cited in the study are also used as parameters:

***Rural finance* –** to mean as the provision of broad range of financial services such as credit, savings, payments, and insurance to rural individuals, households, and enterprises both farm and non-farm; that is, rural finance to mean as financial services offered and used in rural areas by people of all income levels (Consultative Group to Assist the Poorest <CGAP>, 2003).

***Microfinance* –** to mean as the provision of financial services for the poor and low-income people who may either be in rural or urban areas (CGAP, 2003).

***Agricultural finance* –** as a subset of rural finance dedicated to financing agricultural related activities such as input supply, production, distribution, wholesale and marketing of agricultural products (CGAP, 2003).

Financial innovation – defined as something new that resulted from a deliberate change to an existing financial product, process or delivery system. The innovation results from interactions between key actors of change and the organization (Yedra, 2007).

Key actors of change – are referred to as the **introducers of the innovation** such as government promoting institution, donor or a key actor within the organization itself. These actors facilitated the introduction or development of the innovation. The cost and process by which the innovation was introduced by these actors give an insight on how the innovation can likewise be introduced to others (innovation diffusion) (Yedra, 2007).

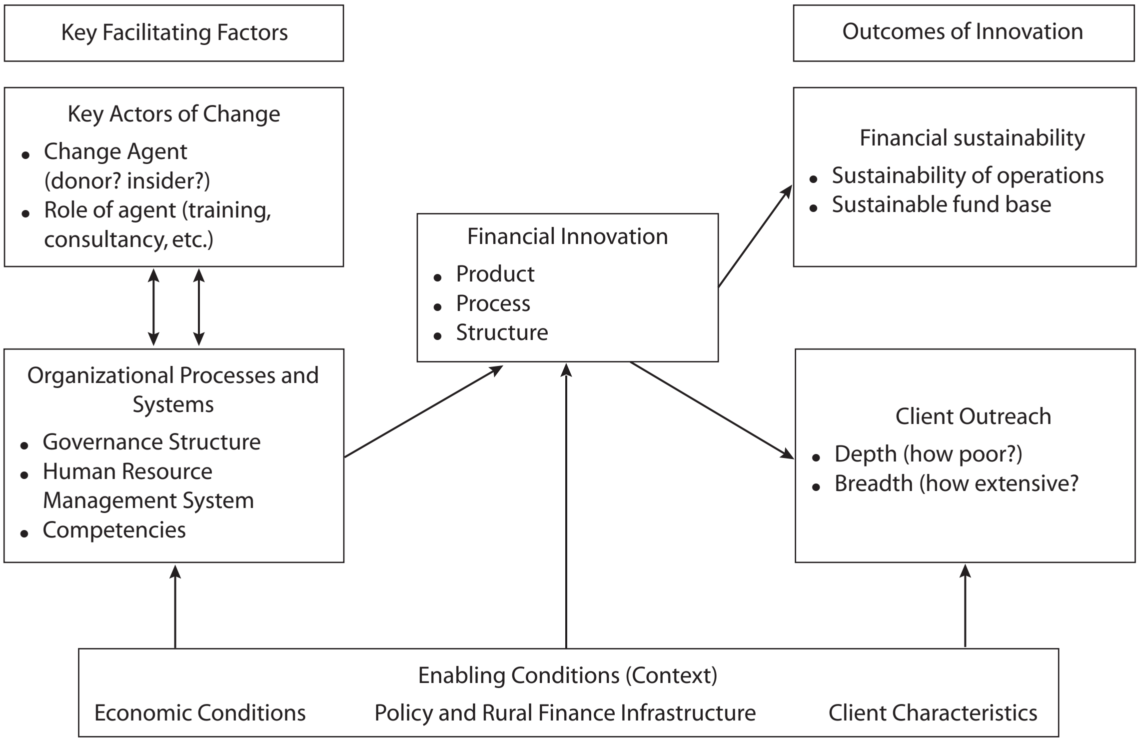
Key *organizational factors* – are organizational systems such as leadership, organizational culture and incentive systems that have facilitated the functioning of the innovation such that it produced good outcomes. An innovation can take the form of a new financial product or financial service (product innovation), a new process or methodology (process innovation) or a new form or structure of delivery system (system or institutional innovations) (Yedra, 2007).

Yedra (2007) stated that "an innovation will be considered a 'good practice' if such innovation has produced positive outcomes in terms of financial sustainability and improved client outreach. Financial sustainability means that the organization is able to continue the financial services on a long-term basis. Two core measures are important: sustainability of operations and sustainability of fund base. The generally acceptable indicators for these two measures for a particular sector or industry will be adopted. Client outreach would include either or both of 'breadth' (number of rural poor clients serviced) and 'depth' (how poor the clients that are being serviced). 'Best practice' on the other hand is understood as the outstanding practice in the particular process or function, i.e., producing the best results, among those in the same industry."

G. Conceptual Framework in Reviewing Innovations and Best Practices

An innovation is understood to have occurred or have operated within a particular ***context*** or environment. This includes economic conditions and rural policy environment (e.g. interest rate policy), rural finance infrastructure (set of regulations of the rural financial sector and financial system) and clients' socio-economic and cultural characteristics (e.g. poverty level, population density, role status of women, etc.). The particular relevant context may be at *macro* (national level) or *meso level* (at the immediate environment, e.g. communities where the organization operates). A particular innovation needs to be contextualized under these particular enabling conditions (or constraints). Figure 1 below illustrates the conceptual framework (Yedra, 2007), which is being used by this publication for the purpose.

Figure 1. A Conceptual Framework in Reviewing Financial Innovations



Part I

Rural Poverty, Shocks and Rural Financial Landscape

A. Introduction

This part discusses first the poverty quagmire, the inherent development weaknesses of rural areas and the external shocks such as the impact of the financial crisis and climate change/variability that impinge to a large extent on poor rural communities and households' capacity to lift themselves out of poverty. This is followed by a description of the rural financial policy landscape – policies and country-specific regulatory frameworks that enable (or disable) rural finance to prosper (or stagnate) – and institutional structure- an identification of selected key rural finance stakeholders (governmental, institutional, project, grass roots self-help initiatives and individuals), who spearhead change in selected countries.

The challenges for the rural poor in Asia, as elsewhere in the world, are enormous. In most cases they have to fend for themselves. In a few cases where those mandated entities (governments, state-owned financial institutions and finance-related agencies) are able to help, their support is usually far too little, too late. In recent years, though, several of these government institutions and agencies have undergone structural reforms aimed at broadening their respective target groups. The private sector, notably the non-governmental organizations and microfinance institutions as well as international funding and development agencies, have designed financial methodologies and delivery channels that provide financial access for the rural poor. But most of the time, these support mechanisms skim the surface of the rural populace and help only the more entrepreneurial among them. Thus, still the predominantly poor, "the least, the lost and the last" (NABARD statement, undated) are not fully served.

"The key problem for the poorest countries is that poverty itself can be a trap. When poverty is very extreme, the poor do not have the ability-by themselves – to get out of the mess" (Sachs 2005). Khan (2010) observed in Pakistan that people who have been able to come out of the poverty trap have access to only minimum subsistence level of living; any shock to the economy can push them back into poverty.

Rural poverty varies across Asia and also within countries. The factors, usually interrelated or sequential, trap majority of the rural populace in the poverty quagmire. Let us revisit some of the factors and reasons why most rural people are poor.

B. Inherent Weaknesses of Rural Areas

1. The rural-urban divide

The Rural Poverty Report 2011[2] (IFAD, 2010) states that "the population of the developing world is still more rural than urban: some 3.1 billion people, or 55 percent of the total population, live in rural areas. However between 2020 and 2025, the total rural population will peak and then start to decline, and the developing world's urban population will overtake its rural population. ...Despite massive progress in reducing poverty in some parts of the world over the past couple of decades – notably in East Asia – there are still about 1.4 billion people living on less than US$1.25 a day, and close to 1 billion people suffering from hunger."

Yedra (2007) also noted that about "80 to 90 percent of the poor in Asian major countries are in rural areas". Khan (2010) stated that urban poverty remained lower than both overall and rural poverty because of relatively easier accessibility to resources and opportunities in these areas. He pointed out that the government plans to reduce expenditure under the head of rural development through years 2009-2013, targeting poverty in rural and urban areas on equal footing. He added that allocating equal resources for

[2] The reader is referred to the International Fund for Agricultural Development (IFAD) **Rural Poverty Report 2011:** New realities, new challenges: new opportunities for tomorrow's generation for current poverty situation in the world.

urban and rural areas may increase the incidence of poverty in rural areas since those in the rural areas will have relatively less resources while already having higher poverty level than urban areas.

Dholakia (2010) noted that "…Home to over 1.1 billion people, India constitutes approximately one sixth of the world's total population. A predominantly rural country, India is classified as a country of medium human development, ranked 134th among 182 countries of the world in the UNDP's Human Development Index 2009. Life expectancy is 63.7 years at birth, and four-fifth of the population lives on less than US$2/day."

2. Agriculture and fisheries – the main sources of livelihood

In Lao PDR, the rural poor are dependent on agriculture as a primary occupation (Singh, 2010). The agriculture sector in Nepal (Mathema, 2007) occupies a significant portion among all other sectors of the economy. About 80 percent of the population is engaged in the agriculture sector. The share of agriculture sector in the GDP, though declining over the years, still accounts for 38 percent in total output of the economy. About 31 percent of Nepalese people are under the poverty line. IFAD (2010) noted that "Asia has some 25 million (1998) fishers and fishfarmers which constitute four-fifths of the world's total. In South and Southeast Asia, 10.4 million people work as full time or part time fishers. Majority are artisanal coastal operators and generally among the poorest of the poor".

3. Land scarcity, landlessness and marginal farms

IFAD (2010) pointed out in its Rural Poverty Report that "landlessness is highest in South Asian countries such as Bangladesh (49.6 percent), India (22 percent) and Nepal (10 percent). In Bangladesh, 69 percent of the poor and 80 percent of the severely poor are landless (defined as those with less than 0.2 hectare). Marginal farmers and tenants predominate in countries like Bangladesh, India (where 28 percent of small scale farmers have less than 0.4 hectare), Nepal and the Philippines. Marginal farmers in rain-fed areas are at the bottom of the socio-economic spectrum in most countries of the region."

Moniruzzaman (2011) states that Bangladesh is the birthplace of microfinance. The lead bank scheme has been in place since 1977 to provide financial support to the farmers. However, despite having a financing need, the agricultural sector had remained underserved by rural financial institutions, due to the tenant farmers' lack of collateral that made them less preferred. Microfinance institutions, which prefer weekly repayments, also leave them out due to the seasonal nature and risks associated with agriculture.

4. Low Productivity

In the rural areas of Lao PDR, most farmers and those that help them are highly risk-averse, with self-sufficiency strategies based on traditional methods of production, minimal use of inputs, low-quality, low-value outputs and therefore low productivity (Singh, 2010). The move towards high value crops as well as organic agriculture, which can cater to the demands of a special niche and can thus be more high-rewarding, is just starting to be accepted as an option.

5. Distance from political, business and social center

The rugged terrain and inaccessible places where some rural people live distance them from the source of government assistance and private sector initiatives. About 70 percent of the world's 250 million indigenous peoples live in Asia. They are known by different names, such as 'hill tribes' in Thailand, 'ethnic minorities' in Vietnam, 'scheduled castes' in India, and 'cultural minorities'[3] in the Philippines. Incidence of poverty among these peoples is high. In India, poverty incidence among scheduled castes

[3] Now referred to as cultural communities (author's note).

was 54 percent (1994) compared to 40 percent for the total population. In Vietnam, poverty incidence was 69 to 100 percent (1999) for ethnic minorities compared to 50 percent for the total population (IFAD, 2010).

In Lao PDR, mostly ethnic groups and women live in remote and less accessible villages and in upland areas. The distance and scattered pockets of rural population such as in Bhutan and Nepal greatly increase transaction, transportation and operating costs. In addition, many predominantly poor rural areas are physically and institutionally isolated, with little access to government services, roads, markets, basic education and health (Singh, 2010).

6. Lingo-cultural isolation

Socially isolated, with non-mainstream languages and traditional cultural and religious beliefs, rural poor are left behind (Singh, 2010). The IFAD report (2010) again pointed out that forest dwellers in South East and South Asia and pastoralists in North and Central Asia are increasingly getting marginalized.

Chatterjee (2011) noted that "…One of these obstacles is the day-to-day vulnerability that defines the lives of the rural poor. To many of these people – small land holders, landless wage labourers and share croppers, small entrepreneurs, nomadic pastoralists, artisans, fishermen and women, indigenous peoples, ethnic minorities and members of scheduled castes – vulnerability is a 'silent emergency' that is intimately linked to weak local governance. …an inability to take decisions affecting their lives, negotiate better terms of trade and barter; stop corruption, and make governmental and non-governmental organizations (NGOs) accountable to them. It is also about not being able to escape violence or earn enough to meet their basic needs. Powerlessness is clearly an effect of poverty."

7. Low levels of educational attainment, literacy

Again in Lao PDR, in view of their distance from capital centers, unless they leave the village (in most cases, they don't want, and even if they do want, they can't afford), children have low educational attainment and limited access to information. This results in poor human capital in the rural areas and dearth of permanent jobs (Singh, 2010). The adult literacy rate in India is 61 percent, added Dholakia (2010). Because of low level of educational attainment, almost always, rural poor are unaware of their rights and due legal processes (Singh, 2010). Thus, rural poor end up disadvantaged, disenfranchised and disillusioned.

8. Limited opportunities for off-farm, non-farm employment

Small (petty) traders, usually women, are usually the clients of emerging microfinancial institutions and those that provide services. Lao PDR, for instance, exhibits limited opportunities for off-farm, non-farm employment (Singh, 2010). IFAD (2010) noted that "given the insufficiency of agricultural income from small scale farming or from seasonal agricultural wage employment, non-farm income sources become important. In Asian countries, share of non-farm economy in rural areas is increasing. India had the smallest share at 23 percent (1994), Indonesia had 37 percent (1995), Bangladesh had 40 percent (1990) and Thailand had the highest at 50 percent (1996)."

9. Large family size

With many dependents, too many mouths to feed and most always with only one breadwinner in the household, Singh (2010) noted, these resulted in used-up savings (if ever there was surplus), day-to-day hand-to-mouth existence and poor quality of food.

10. Gender bias

"Severity of poverty is higher in women. Women in rural areas have fewer opportunities than men due to gender biases in their societies, unequal opportunities of access to education, employment and asset ownership. In Bangladesh and Nepal, literacy rates of women fall far below than men, 29 percent for women compared to 45 percent in men in Bangladesh (1999) and 17 percent for women compared to 51 percent for men in Nepal (1995). Women have generally fewer employment opportunities, less occupational mobility weaker skills, and less access to training" (IFAD, 2010).

11. Poverty incidences within countries

IFAD (2010) showed that there is a "…spatial dimension to rural poverty. There are large differences in rural poverty incidences within countries. In India, poverty incidence varied from 16 percent in Punjab to 66 percent in Bihar (1999). In China, while only 1 percent of households were poor in Beijing, Shanghai, Tianjin and Guangdong it was 20 percent (1999) in Inner Mongolia and Qinghai. A large part of the poor are found in the hilly and mountain ranges of Bhutan, Cambodia, China, India, Indonesia, Laos, Myanmar, Nepal, Pakistan, the Philippines and Vietnam. Nearly a quarter of the 250 million rural poor are in these areas. Majority of them are in the rain-fed cropping areas."

Final note

Deaths in rural poor's families, particularly of the breadwinners, almost always push back those above the poverty into the poverty trap. Countries ravaged by war and conflicts also find a more prolonged fight against poverty. Long illnesses also wipe out the meager resources they have. With no or limited access to health facilities, low or non-productivity follows; thus, only the government or charitable foundations can help. "Despair, disease, decline" (Sachs, 2005) characterize the rural poor. Thus when internal shocks occur, the rural poor resort to coping mechanisms: selling assets, more borrowings, leaving their existing abode to a poorer one, no schooling for children, less food, thereby making them more vulnerable to more shocks.

It has been observed that despite a decline in various indicators of poverty, i.e., headcount ratio, poverty gap, and severity of poverty, a significant proportion of the population remains clustered around the poverty line. Thus, while the headline numbers have shown improvement, this does not necessarily imply a substantial improvement in their living standards (Khan, 2010).

However, despite overall growth, around 300 million people, or about 60 million households, are still living below the poverty line. It is further estimated that of these households, only about 20 percent have access to credit from the formal sector. Additionally, the segment of the rural population marginally above the poverty line but not rich enough to be of interest to the formal financial institutions also does not have good access to the formal financial intermediary services, including savings services (Dholakia, 2010).

In the following sections on the economic and financial crisis, fuel and food crisis as well as climate change, we shall look into the external shocks that compound the problems of the rural poor.

C. Impact of the 2008-2009 Economic and Financial Crisis

In an APRACA FinPower-commissioned study, Llanto and Badiola (2011) noted that the years 2008-2009 ushered in the worst economic crisis since the Great Depression of the 1930s hitting Asian countries after wreaking havoc on Western economies. Citing Yap and others (2009), the authors recalled the events leading to the crisis: the collapse of an investment bank, the shock waves across the international financial system, the bankruptcies, bailouts and takeovers of financial institutions in the US and Europe, the admission by many economies to being in recession and finally the US economy itself coming in the grip of severe recessionary forces. Citing Loser (2009), the authors showed that the global growth slowed substantially in 2008, and a recession was in place in the US, Europe and Japan while growth in the emerging economies has come down sharply as well.

Llanto and Badiola (2009, 2011) noted that "…the severe crisis in subprime mortgage markets in the United States triggered global and financial crisis, which led to widespread recession among OECD countries. Global trade contracted and many low-income countries were caught in a bind. Exports and capital markets were in turmoil, while those low-income countries, which have relied on remittances of overseas workers dreaded the loss of overseas jobs as the global economic downturn continued with its onslaught on rich and poor countries alike".

Llanto and Badiola (2011) pointed out that "initial reports supported the expectation of increased unemployment of overseas foreign workers with evidence of decelerating remittances from countries that relied strongly on them such as in Pakistan and the Philippines. However, as the crisis unfolded, it has also become clear that the pattern of migration and remittances may be more complex than was previously imagined." Citing Chibber, Ghosh and Palanivel (2009), Llanto and Badiola showed that "while the growth of remittance flows moderated in some countries, overall flows remained resilient. In fact, in several countries such as Bangladesh, India, Pakistan, Philippines, Nepal and Sri Lanka, remittances have actually increased instead of declining."

To some extent, according to Chibber, et al, "this too can be expected because even if the crisis leads to large-scale retrenchment of migrant workers who are forced to come home, they would obviously return with some accumulated savings. In such a case, there could even be temporary spikes in remittances rather than a continuous decline because of the crisis. Eventually though, as the adverse conditions for overseas employment worsened, there were dips in remittance inflows."

Thus, in view of the economic and financial crisis, there followed a decline in commodity prices, demand for manufactured goods, stock market valuations, depreciation of currencies and reversal of capital flows. The economies of countries in the Asia-Pacific region were thus, affected by the crisis in varying degrees depending on how deeply they were linked and integrated to developed nations, especially the United States (Llanto and Badiola, 2011).

Major vulnerability factors included, inter alia, current account deficits, reliance on external funding, significant foreign exchange participation in domestic equity and bond markets; and domestic macro imbalance. Those that were more highly dependent on external demand contracted more sharply than the rest. Countries that were more open in terms of high dependence on exports and external fund sources suffered more as compared to those that were not as open (ADB, 2010).

However, it should be noted that unlike the Asian crisis of 1997-1998 and unlike the evolution of the current crisis in many other parts of the world, the banking system in most of the emerging Asia has thus far not been badly affected. There are several reasons for this: the relatively limited exposure of Asian banks to sub-prime financial products in the US (with some exceptions such as in Malaysia and Singapore); and the greater emphasis on supervision and regulation in the banking systems of the Asian-crisis affected economies, among others. Capital adequacy ratios have been healthy on average and non-performing loans have formed a low and declining proportion of total loans. However, there is substantial variation across countries in this regard, with non-performing loan ratios being much higher in Thailand, Malaysia and the Philippines (Llanto and Badiola, 2011).

Here are examples of how the crisis had affected selected countries.

The turmoil in the international financial markets of advanced economies that started around mid-2007 had exacerbated substantially since August 2008. Emerging market economies, which did not have direct or significant exposure to stressed financial instruments and troubled financial institutions were experiencing the indirect impact of the financial crisis which has been quite insignificant. India experienced the knock-on effects of the global crisis, because of the drying up of overseas financing for Indian banks and Indian corporates; constraints in raising funds in a bearish domestic capital market;

and the decline in the internal accruals of the corporates. Simultaneously, the reversal of capital flows, caused by the global de-leveraging process, has put pressure on the Indian forex market (Reserve Bank of India, 2009).

Having experienced robust economic growth with double digits over four consecutive years from 2004 to 2007, the Cambodian financial and economic sectors were also impacted by severe global financial and economic crisis. The crisis has created some levels of risks for the Cambodian financial and economic systems, particularly, the reduction of sources of capital financing and private capital inflows in the country. The key economic drivers such as garment, tourism, construction, and real estate sectors have also been suffering from the crisis. Fortunately, these impacts have not significantly been harmful to the financial and economic performance of Cambodia due to the limited international integration and the strength of the country's economic fundamentals on the agricultural field (Pal and Kim, 2011).

In Iran, because of some global sanctions the range of relations with the other banks in the world was reduced and so the Iranian banking system was influenced less by the world crisis. Thus, the global sanctions against Iran turned into an opportunity in its banking system (Motamed, 2011).

The financial crisis also affected the implementation of Lao PDR's 6th National Socio-economic Development Plan and its achievement. Economic growth was expected to be reduced, including exports volume and price of export products. The Government however sought to transform the global crises into opportunities for improving the national economic structure, modernizing industry and building capacities of the State and the private business sectors (Agricultural Promotion Bank, 2009).

The negative influence of the global financial crisis has resulted in a slowdown in the Vietnamese economic growth rate during the crisis years. The Vietnamese financial and banking systems had not seriously suffered from the impacts of the Global Financial Crisis because it has been only at the beginning of integration. Nonetheless, the Vietnamese financial and banking sectors were somewhat affected as shown by the decrease in their dealings with the international financial market, reduction in short term loans at banks and enterprises and reduction in profits, among others. Realizing the difficulties and challenges, the Vietnamese government has applied 6 groups of polices: policies for boosting production, policies for business and exports, policies for demand-stimulus of investment and consumption, fiscal and monetary policies, social welfare ensuring policies and enhancing management and organization policies (Do, 2009).

Llanto and Badiola (2009) pointed out that the extent to which the crisis could have either reduced or stalled the growth of microfinance and rural financial institutions depended on both internal and external factors. Internal factors are the individual strengths and weaknesses, management capacity, technical ability of loan officers and staff, policies and practices of RFIs and MFIs while the external factors include the macroeconomic and financial environment, government and regulators' policy responses factors that have a direct effect on the performance of these financial institutions. Microfinance institutions (MFIs) and rural financial institutions (RFIs) faced the prospects of liquidity crunches, a worsening of loan repayment behavior, and instability in fragile urban and rural economies in low-income countries as the economic downturn drove more people to informal economic activities. The crisis has particularly strained those financial institutions that were heavily reliant on donors and institutional investors as well as those with clients that were affected most by the decline in exports and loss of employment.

D. Rising Fuel and Food Prices

Rising fuel and food prices have likewise compounded the sad plight of the rural poor in Asia. While the low-income countries, including those of Asia and the Pacific, are still coping with the effects of the global economic and financial crisis, the phenomenon of rising fuel and food prices has created another challenge to those countries. Rising food and fuel prices have significant impacts on the rural economy and rural finance environment (Llanto and Badiola, 2011).

The Food and Agriculture Organization (2008), as cited by Llanto and Badiola (2011), reported that international nominal prices of all major food commodities reached their highest levels in nearly 50 years and prices in real terms peaking in nearly 30 years.

Wajananawat (2010), citing FAO estimates, said that that there were over 1,000 million poor people in the world at the end of 2009. A sharp increase in the number of poor people after 2006 was due to soaring oil prices which drove food prices to unusually higher levels. As a result, the lower rung of the non-poor slid downward and became poor. The poor slid and became poorer. Consequently, they were unable to afford those food prices. Poverty remains the biggest factor contributing to food insecurity. If we want to maintain food security, we have to eradicate poverty.

The Rural Poverty Report (IFAD 2010) showed that "…between 2006 and 2008, international food prices doubled. The rise in price has hit low-income, food-deficit countries. About 100 million poor people slid back into poverty. Feeding a global population of just over 9 billion in 2050 will require a 70 percent increase in global food production. Thus, the task of ensuring food security will demand addressing also issues of access and affordability, thus requiring a stronger role for agriculture. Today, higher prices for agricultural products at the global level are contributing to creating a new environment within which smallholders must operate, and these may provide new incentives for them to engage profitably in markets. However, for this to happen, the domestic environment also needs to improve. In many countries, there remains an urgent need to develop appropriate policies, adopt or scale up successful approaches, and invest more and better in agriculture and in rural areas."

In Pakistan, the share of "severely food insecure population" was estimated 23 percent in FY06 which has increased to 28 percent in 2008. The overall poverty has soared from 33.8 percent in FY08 to 36.1 percent in FY09. High incidence of poverty in rural region can be linked to inadequate infrastructure, lack of opportunities and resources (Khan, 2010).

The World Food Programme reported that among the poorest households, food already consumes three-fourths of their total income and many are now paying 15 percent more for food than they did in 2009-2010. News reports have highlighted the World Bank's pronouncement that "recent food price hikes have pushed about 44 million people into extreme poverty" (Llanto and Badiola, 2011).

The poor are now facing incredible pressure to feed themselves and their families and rising prices can make them more likely to reduce their food consumption. High food prices are therefore seen as a real threat as it could cause extreme poverty and endanger the lives and livelihoods of nearly one-sixth of the world's population.

UNICEF analysis showed that poor households have already implemented coping strategies, such as eating fewer meals, cutting health expenditure, increasing levels of indebtedness, and working longer hours in the informal sector. UNICEF concludes that the poor's capacity for resilience is very limited (Llanto and Badiola, 2011).

Citing World Bank (2008), the authors stressed that the impact could also vary depending upon household incomes and expenditure patterns, products involved, and policy responses of governments Households usually spend about 40-60 percent of their incomes on food items and therefore rising food prices are expected to increase households' consumption expenditure significantly. On the other hand, the incomes of farm households may go up owing to higher food prices. Overall the impact of price shocks depends on whether the gains to farming households outweigh the adverse impact on consuming households. The benefits of higher food prices to average farm households may be lower due to the limited extent of their net sales of food items as also the overbearing presence of non-farming middlemen in the farm-to-market supply chain who seem to be cornering the most of the incremental revenues. Since the majority of households, including in rural areas, are net buyers of food, the increase in food prices generally will have adverse effects on household consumption.

The increase in fuel price also affects households adversely through raising the cost of agricultural production. In addition, diverting food for bio-fuel production aggravates supply and demand imbalances. As poor households often spend about three fourths of their incomes on food, fuel and transport, soaring food and oil prices jointly affect the poorest the most. This jeopardizes progress towards attaining the Millennium Development Goals (MDGs) by risking gains made in reducing poverty and in increasing social cohesion (Llanto and Badiola, 2011).

In order to mitigate the adverse impact on consumers, governments intervene in food and energy markets in a variety of ways. Some governments in the food and oil importing countries directly intervene to control the quantity of imports as well as their distribution and prices. Some other governments allow the private sector to import and distribute food and petroleum products freely, but set price ceilings and compensate private sector distributors to cover losses, if any. In exporting countries, governments often set domestic prices below world levels, imposing an opportunity cost on farmers. Governments can also use fiscal and trade policies actively to mitigate the adverse impact of rising global food and oil prices, but this clearly depends upon the extent of "fiscal space" available. When rising food and oil prices cause an increase in overall inflation, countries' central banks may be prompted to react with monetary tightening. At the same time, governments and central banks also need to protect the interest of domestic producers. This complicates the policy making process, as policy makers have to tread a fine line between containing inflation and supporting the growth process. As global food and fuel prices once again show of increase from June 2009 onwards, these problems are likely to become significant again for developing Asia. This also underlines the crucial need for active public intervention to regulate financial speculation in commodity futures markets (Llanto and Badiola 2011, citing Chibber, Ghosh and Palanivel, 2009).

The rise of food prices has been attributed largely to the increased incidence of weather-based disasters such as droughts and floods due to climate change and slow supply adjustment vis-à-vis the increasing demand for food and fuel especially among emerging economies. Severe flooding and droughts are expected to reduce the availability of arable land even as more and more agricultural land is being devoted to bio-fuels rather than to food crops.

Wajananawat (2010) notes: Situated in the heart of Southeast Asia, **Thailand** is a mid-sized country with a total area of 513,115 square kilometers and a total population of 67 million. Nearly 78 percent of Thai population lives in rural areas. Agriculture is a predominant occupation for the rural people. Agricultural sector contributes only 10 percent of gross domestic product (GDP), and it tends to decrease consistently. However, the sector significantly employs more than 50 percent of the country's workforce. Food security is not only to produce sufficient food to feed the world population that will grow by 50 percent and reach 9 billion people by the year 2044, but also to find ways to guarantee that everyone has access to the food they need for an active and healthy life at reasonable price.

Wajananawat (2010) suggested four levels of solutions:

- At family level, a household should be encouraged to rely on themselves, being self-sufficient on food, reduce unnecessary expenses, increase incomes, save and record their incomes and expenses regularly.
- At a community level, it is essential to form groups of the same interest, reducing costs or generate through community handling, sharing of community resources and knowledge, identify their opportunities and challenges, and local government to support the learning and gathering of local and international wisdom.
- At a national level, government has to set an appropriate policy to support and promote rural development with the priority in agricultures, link communities, provide infrastructure such as logistic systems, power and water supply systems.
- At an international level, all nations have to join hands in sharing resources, happiness and sorrow, sustain right to access adequate and safe food, ensure reduction of poverty and food distribution disparity.

E. Climate Change and Variability

Nagarajan (2011) noted that "in many Asian countries, the effects of climate change are reflected in increased incidence of natural disasters of larger magnitude calling for effective policies and actions to effectively and efficiently manage systemic risks."

A few cases are shown below

In the case of Nepal, an analysis of about 30 years of observed temperature of the country has shown that maximum temperatures are increasing at an alarming rate. The average warming in annual temperature between 1977 and 2000 was 0.06 °C per year. Such warming is found to be more pronounced in the northern high altitude regions of Nepal. Further, warming in the winter is more pronounced compared to other season. In general, increasing trend is dominant over most of the country. The projection indicates that it could be warmer in Nepal by 4 °C in winter and 2.5-3 °C in summer by the end of this century. The assessment of 12 recent GCMs by OECD also shows a significant and consistent increase in temperature projected for Nepal for the years 2030, 2050 and 2100 across various models. In terms of precipitation, the models predict almost no change in the western part and 5-10 percent increase in the eastern part of the country in winter season. During summer, however, the whole country is expected to experience increase in precipitation in the range of 15-20 percent (Chaulagain, 2010).

In Bangladesh, natural calamities, such as floods, tropical cyclones, tornadoes, and tidal bores occur almost every year, combined with the effects of deforestation, soil degradation and erosion. In September 1998, Bangladesh saw the most severe flooding in modern world history. As the Brahmaputra, Ganges and Meghna spilt over and swallowed 300,000 houses, 9,700 kilometers of road and 2,700 kilometers of embankment, 1,000 people were killed and 30 million became homeless with 135,000 cattle killed, 50 square kilometers of land destroyed and 11,000 kilometers of roads damaged or destroyed. Two thirds of the country was underwater. The recent cyclones known as SIDR and AILA have also greatly affected Bangladesh. Bangladesh is now widely recognized to be one of the most vulnerable countries (Ahmed, 2010).

Climate change and social factors over the last 40-50 years have significantly affected Mongolia. Desertification can be caused by both human and natural factors and land degradation is accelerated if both factors are combined. The main livelihood for the rural Mongolians is the livestock production, based on the pasture land. Desertification is getting one of the big risks for rural herding families' livelihood by decreasing the pasture yield. From year to year the desertification has intensified and many herding families have been pushed to migrate to urban areas due to the fact that pasture land has been desertified (Progress report, Sustainable Land Management for Combating Desertification Project, 2009, cited by Dalantainyam, 2010).

Thus, the IFAD Rural Poverty Report (2010) stressed that "avoiding and managing risk is a prerequisite for poor rural households to move out of poverty, and it is thus central to their livelihood strategies. At the household level, decisions about how to allocate and use cash, land and labour are a function not only of available opportunities, but also of the need to minimize the possibility of shocks that can throw the household into poverty, prevent it from moving out of it, or reduce its ability to spend on its primary needs.

"In many cases, however, the need to minimize these possibilities undermines people's ability to seize opportunities, which generally come with a measure of risk. Rural households typically manage risk through diversification: smallholders may use highly diversified cropping or mixed farming systems and many households use non-farm activities to complement and reduce the risks attached to farming – or vice versa. Asset accumulation – including money, land, livestock and other assets – is also critical to build a buffer against shocks, and a crucial component of risk management strategies at the household level.

“Shocks are the major factor contributing to impoverishment or remaining in poverty. Poor rural people have less resilience than less-poor people because they have fewer assets to fall back on when shocks occur. When they do occur, poor people may have to resort to coping strategies that involve incurring debt, selling assets, or foregoing on education opportunities for children and youth – all of which leave them that much more vulnerable to future shocks.”

The report added: “Putting a proper appreciation of risks and shocks at the centre of a new agenda for rural growth and poverty reduction requires a multi-pronged approach. On the one hand, it involves strengthening the capacity of rural people to manage risk by supporting and scaling up the strategies and tools they use for risk management and for coping, and helping them to gain skills, knowledge and assets to develop new strategies. On the other hand, it requires that the conditions they face be made less risky, be it in terms of markets, health care and other essential services, natural environment, or security from conflict. Specific areas of focus include strengthening community-level organizations and assisting them to identify new mechanisms of social solidarity; promoting the expansion and deepening of a range of financial services to poor rural people; and supporting social protection programmes that can help poor households to build their assets, reduce risks and more easily invest in profitable income-generating activities.”

Finally, Thapa (2011) stated that “…although Asia and the Pacific Region has experienced massive reduction in poverty over the past three decades, the incidence of poverty remains high. The onset of fuel, food and financial crises has made meeting the Millennium Development Goal (MDG) of halving extreme poverty and hunger by 2015 a greater challenge.”

F. Rural Finance Policy Environment and Regulatory Framework in Asia

1. Government intervention

In the past three decades, the governments in Asian countries have intervened in their rural financial markets in vastly different ways. Often the intervention has been motivated by the objective of providing farm households with access to cheap credit in order to stimulate production and greater farm investments. Thus, in the 70s and 80s governments provided target clients with subsidized credit funded by donor money and government budgets. The range of governmental interventions have included interest rate regulation, lending quotas, directed and subsidized credits, special refinance facilities for agricultural lending, credit guarantees for small farmers, and creation and state-funding of specialized agricultural development banks (Llanto and Badiola, 2011).

In Iran, for instance, the Government’s policy of eliminating subsidies in 2010, affected all sectors of the economy. This policy forced the agricultural players and food producers to revise their commodities prices and simultaneously manage their methods for consuming energy (Motamed, 2011).

Loan repayment problems and loan defaults led to massive agricultural loan write-offs and rehabilitation and recapitalization of state-owned financial institutions. The high transaction costs and risks of providing financial services in rural areas underscore some of the problems encountered by rural financial institutions. Thus, poor governmental policies and inappropriate interventions also play a role. In some cases, heavy government intervention in rural financial markets created distortions and disincentives to the participation of private financial institutions.

Pal and Kim (2011) noted that despite the success reported in Cambodia, constraints on microfinance remain high, especially with regard to financial resources. Most rural credit operators have utilized external funds such as foreign aid and borrowing. This excessive reliance on external funds in the form of grants or project financing is mainly attributable to a lack of savings and good savings services. A microfinance institution should try to mobilize savings, and the authorities need to be proactive and have the right system in place to protect depositors while allowing licensed MFIs that meet the criteria to collect deposits. This means that sound MFI supervision has to be emphasized in order to maintain the trust and confidence of the people and to assure them that their money is secure and properly managed.

Llanto and Badiola (2011) noted, in retrospect, that the huge credit subsidies proved burdensome and unsustainable because of the huge fiscal cost implications. Whereas twenty five years ago the rationale for government interventions in rural credit markets was to stimulate the adoption of green revolution technologies, especially by small farmers, today the goal is to provide adequate and sustainable financial services to the rural and farm sector to make them more productive.

2. Financial Inclusion

Llanto and Badiola (2011) also emphasized the additional goal of promoting financial inclusion. The microfinance revolution has demonstrated the efficacy of adopting a market-oriented policy and regulatory environment, and allowing private institutions to work with the poor in designing loan and savings products that are responsive to the demand of poor households. In turn, rural financial institutions have adopted a more open mind to the benefits of market orientation. Governments, prodded by the success of the microfinance revolution, have started to craft policy and regulatory frameworks that would enhance and not distort rural financial markets.

Wajananawat (2010) observed that there are a large number of people who are unable to access financial services especially credit. Capital is essential for the underprivileged for income generation. BAAC in Thailand has succeeded in expanding its operation to cover all areas across the country. Its coverage outreach is 98 percent of rural farm households. However, approximately 10 percent of the country's 67 million people still have no access to or are not linked to financial institutions. These people live below the poverty line. It is Thailand's and BAAC's challenge to overcome this financial exclusion.

3. Lead role of bigger rural financial institutions

Llanto and Badiola (2011) cited Meyer and Nagarajan's observation in 2000 of a recent shift to more rural-friendly policies and a market approach to financial market development and their pessimism about the ability of Asian rural financial markets to meet the challenges of the 21st century. They argued that past negative policies and interventions have contributed to a fragile financial system in many Asia countries characterized by limited outreach and sustainability. According to Meyer and Nagarajan, "many institutions are weak and survive only because of government and donor funding. They lack technical competence to evaluate credit risks, the financial infrastructure is not supportive, and governmental policies are often more destructive than supportive."

Tal (2007) also noted that in Cambodia, banks are concentrated in the capital city, Phnom Penh, and in major cities. Few banks have branch networks covering the whole country. This makes it difficult for people to have access to banking services and cash has been used for a big part of payment transactions. The small number of branches and offices in the rural areas showed that there were insufficient institutions to meet the need of the people.

Notwithstanding the pessimism of Meyer and Nagarajan, Llanto and Badiola (2011) noted that most Asian countries have continued to work on establishing a sound financial infrastructure, that is, sound policy and regulatory frameworks that include better supervision of financial institutions. This, in turn, has enabled those countries to endure the global economic and financial crisis of 2008, as expounded earlier in Section C.

Nagarajan (2011) now notes, however, the many new developments in Asia that now leads her to be "…cautiously optimistic about the future of rural finance in Asia. New set of service providers and new products, often enabled by technology, are seen to help broaden access to financial services to new sets of clients in rural areas with success. While most innovations are initiated and implemented by the private sector service providers, they are encouraged and supported by many governments and donors."

4. Resilience of financial systems

Llanto and Badiola (2011) cited the ADB (2008) indicating the following factors to be behind the resilience of regional banking and financial systems in East Asia: "(i) the very limited direct exposure of the region to subprime and other related securitized products; (ii) relatively strong bank balance sheets with a return to profitability—as impaired loans from the 1997/98 Asian financial crisis have been worked off; (iii) improvements in risk and liquidity management; (iv) strengthening of supervisory and regulatory systems; and (v) moves by banks into new and profitable domestic business lines such as consumer lending. The move into consumer lending implies an absence of the strong search for yield that led many banks and other financial institutions in industrialized countries to take on too much leverage and risk".

5. Emergence of microcredit NGOs

In the last two decades starting from the emergence of microcredit NGOs in Bangladesh, India, the Philippines and Latin America, which demonstrated the feasibility and viability of providing microcredits to poor borrowers, a number of Asian countries have started to focus on the creation of an enabling policy and regulatory environment for sound rural financial markets. As noted earlier, Asian countries have strengthened their supervisory and regulatory frameworks, which resulted among others in making financial institutions adopt better risk and liquidity management.

For example, the Royal Government of Cambodia has committed to the development of rural finance since it is a key ingredient for sustainable economic development, particularly rural development, and for alleviation of poverty. In addition, the Government had declared 2006 as the Year of Microfinance of Cambodia, to show its serious support to developing the microfinance sector through introduction of policies that create favorable environment for further growth. With the passage of time, NGOs have redefined their roles in terms of interventions in the microfinance development process and have been involved in virtually every sector of the economy, including microcredit programmes and savings. Microcredit is the most active service due to banking services of commercial banks being limited in urban areas and rural people are unable to receive such services, especially loans from the banks. Main practical rural financial services are individual loan, group loan and savings from members (Tal, 2007).

6. Efficient policy, regulatory, supervisory framework for MF

Llanto and Badiola (2011) observed that countries like the Philippines and India have laid the ground work for an efficient policy regulatory and supervisory framework for microfinance. The Philippines, in fact, has been adjudged very recently for the second year in a row, as one of the global leaders in microfinance by the Economist Intelligence Unit's Global Microscope on Microfinance. Out of 54 countries, the Philippines is ranked as the second best performing country for microfinance overall from 3rd place last year and was ranked as top country in the world for the sub-category of policy and regulatory framework for microfinance.

The National Bank of Cambodia likewise made it easy for MFIs to be established, with client friendly regulations without undermining prudential regulations. On the other hand, Myanmar, Lao PDR and Bhutan are still on their way towards becoming a full market economy. Vietnam and Cambodia are ahead of this group in adopting market-friendly policies. Although their financial sectors are still relatively underdeveloped, most of these countries are already undertaking financial reforms that are needed for a functioning market economy. The banking system in Cambodia started in the early 1990s when the government launched the economic reform programme from a centrally planned to a free market economy. Reform programmes have been introduced and good progress has been achieved in regulating and supervising banks and microfinance institutions.

However, as noted by Llanto and Badiola (2011), there are still some countries which have only partially deregulated, meaning that while the concerned government allows financial institutions to charge market-based interest rates, it also continues to provide subsidized loans to certain targeted sectors.

7. Role of regulatory authorities

Following the 2008 global financial crisis, Central Banks in Asian countries have become more aware of the importance of putting greater emphasis on stronger bank supervision anchored on managing risk exposures and the reduction of non-performing loans as well as on relying more on local equity and local deposits as sources of funds. There has also been an increased emphasis on institution building to build up local capacity for efficient financial intermediation. In the case of microfinance, the Philippines, India and Cambodia have recognized the special features and peculiarities of microfinance and have issued appropriate regulations and adopted supervisory practices attuned to the needs of banks that are engaged in the provision of microfinance products and services. With respect to performance standards for microfinance institutions, the Philippines is reported to be the first country in Asia that has developed microfinance performance standards for banks, cooperatives and NGO-MFIs (Llanto and Badiola, 2011).

Pal and Kim (2011) noted that some microfinance institutions have even achieved financial stability and have effective self-regulation mechanisms in place. As the experience has shown, effective self-regulation mechanisms associated with the motive of attaining self-sustainability through commercialization of services are possible. Regulators see that microfinancial service providers need to develop themselves in order to meet the dynamic operational conditions. They have to consider various elements when moving to commercialization, which include, among others, management information structures, institutional values, operating systems and professional staff. Bilateral and multilateral agencies can play an active role in promoting the commercialization of microfinance, in particular through equity participation. Just like the advantages of traditional forms of foreign direct investment in the manufacturing or formal banking sector for the host economy, such participation on the part of those agencies in the rural finance institution framework brings both financial benefits and technical expertise to the local service providers. The National Bank of Cambodia also promotes participation of private investors involved in microfinance activity. Some of them have been transformed from informal moneylenders into formal microfinance lenders.

8. Delivery of a wide range of financial services

Financial inclusion has recently generated great interest in various countries and donors alike. Financial inclusion involves the delivery of a wide range of financial services such as savings, credit, insurance, remittances and payment services to the poor who traditionally could not participate in the formal financial systems. A basic strategy is to bring more poor people into the financial system through wide and ubiquitous delivery channels (both bank and non-bank institutions), which can be designed to reach more effectively the financially excluded. Financial inclusion can be promoted through financial innovations, which provide the poor with better access to financial services amid the harsh environment of poverty and exclusion. Modern information and communications technology offer great potential in developing systems for access to and participation in financial markets by the unbanked. India and the Philippines are pioneers in using mobile banking technologies to address the problem of financial exclusion of the poor who have remained unbanked despite the progress made in financial reforms. Taking advantage of the growing usage of mobile phone among a wide segment of the population, Indian and the Philippine rural financial institutions, including MFIs, have started to offer deposit taking, withdrawal of savings, payment transactions and other traditional banking services through mobile communications technologies (Llanto and Badiola, 2011).

9. Emerging problems and issues

The rural and microfinance industry in Asia may have generally survived the global financial crisis but some new problems have arisen. Particularly, there also have been changes in the perception of risk among players in the dynamic and fast-moving microfinance industry. Fierce competition is seen to be encouraging bad lending practices and declining business ethics. In particular, it is contributing to the widespread problem of over-indebtedness, with the risk of potentially severe loan losses for MFIs.

Pal and Kim (2011) noted that a downward trend in microfinance interest rates has resulted from fair competition in the industry including development of physical infrastructure, improvement of internal management and better cost control mechanisms. Sound management and regulatory compliance also contributed to better operations and higher public confidence. These factors are important for microfinance institutions to access funding sources from the market. The operational structures of regulated MFIs are now designed in a more efficient and prudential manner in pursuit of strengthening their institutional capacity. Moreover, since the transformational mechanism aims at making microcredit operations self-sufficient, virtually all MFIs are targeting commercial funding sources to prove the ability of the institutions to develop self-generating income and cover their expenses.

Pal and Kim (2011) further noted that the purpose of establishing a credit information sharing system is to promote sound credit activities and risk management of all entities participating in the financial system by allowing authorized member banks and financial institutions to share positive and negative credit information relating to borrowers amongst their clients. The Credit Information System is an important tool in the loan approval process and thus in rural credit growth, especially when there is high competition among microfinance institutions in one operating area.

Llanto and Badiola (2011) noted the inability of MFIs to monitor the status of indebtedness of clients. This results from over-focus of loan officers on loan quotas, as they are geared to profitability and performance targets. Such excessive focus is thus at the cost of prudent screening of clients. Given the opportunity of access to more liquidity, highly indebted clients may not let the opportunity pass away: they may take still another loan to repay loans that are becoming due or simply use the additional loan for consumption purposes. In the process, the probability of non-repayment of the loans becomes real. Clearly, there is now a real concern of oversaturated microfinance markets.

Another preoccupation of the region is with the institutional strength of MFIs. Management quality and corporate governance are both among top ten risks. Compared to other regions, however, the East Asia region seemed more optimistic about its economic prospects since macro-economic risk was placed at the bottom of its list of biggest risks.

Llanto and Badiola (2011) noted that in South Asia, MFIs consider political interference as the biggest risk. Risks of the political and reputational kind are seen as more severe than credit risk which tops the ranking in most of the other regions. Even so, over-indebtedness is also a major problem in this area, made worse by economic uncertainty and food price inflation. In Pakistan, a difficult security situation made things far worse. There is also concern about the institutional strength of MFIs in these countries. The quality of management and corporate governance remain in the top ten risks faced by MFIs.

Overall, the policy and regulatory framework in microfinance has helped provide an enabling environment for microfinance institutions composed of different types of organizations to offer financial services. The private sector has responded with alacrity to the market opportunities offered by a permissive but prudential regulatory environment by establishing microfinance institutions, initially as non-governmental organizations providing microcredits, cooperatives, cooperative banks, rural banks, finance companies and other types of organizations. Some microcredit NGOs have also transformed into regulated entities although others have opted to remain as such. Some countries have also initiated market-friendly reforms in rural finance although others continue to intervene in rural financial markets through subsidized credits, loan quotas, and regulated interest rates while at the same time, allowing private rural finance institutions to provide financing to agriculture and the countryside. However, the threat of political interference looms in some other countries where the authorities have become concerned about the burden of clients' over-indebtedness.

Nagarajan (2011) noted; "Three major facts are now well known to most rural finance practitioners, researchers and policy makers: (i) rural financial markets matter for economic growth in most developing countries; (ii) demand for rural finance outstrips supply; and (iii) it is challenging to achieve viability due to high fixed and transactions costs, issues in combining financial and non-financial products, seasonality, and high exposure to systemic risks."

Wajananawat (2010) observed that in support of rural finance, the government should set a policy which places a priority on rural development. Basic infrastructure i.e. roads, logistics, irrigation systems, electricity, markets, etc. are required. There is also a need for providing rural people an opportunity to produce effectively rather than giving them free rations. Furthermore, emphasis should be placed on strengthening rural households and communities to ensure self-help and mutual help.

G. Institutional Structure

Financial intermediation is an important process that involves safe, liquid and convenient savings (deposit) facilities, accessible and convenient client-centric credit facilities, an efficient mobilizing and transferring of surplus funds (savings) to deficit units (borrowing), smooth systems for payments and fund transfers; and immediate and adequate cover against variability in output, price and market uncertainties.

In view of the aforementioned factors in Sections B-E – poverty, inherent risks in agriculture, financial crisis and climate change and variability, there is a need to create and organize institutional structures to increase outreach in a sustainable manner. Thus, in most countries, a diversity of institutions, instruments and markets have evolved to meet the objectives of sustaining and increasing rural outreach as well as facing the new and emerging challenges in rural, agricultural and microfinance.

Rural financial institutions usually include formal banks (agricultural banks, rural development banks, commercial banks with rural financing components, development banks, rural banks and microfinance institutions). In some cases, out of the bigger banks, new banks or financing institutions are created to cater to prospective clients in the lower economic rungs. Semi-formal financial institutions include cooperatives and savings and loan associations. Informal providers include certain NGOs, traders, money lenders, and informal grass roots groups (self-help groups, village credit funds, etc.).

This section looks into the predominant institutional structure for rural finance and microfinance outreach and delivery in selected countries in Asia. It draws mostly from the APRACA FinPower-commissioned study on rural finance policy, innovations and financial inclusion by Llanto and Badiola (2011) and from papers of APRACA member institutions.

A common characteristic of countries in Asia is the dominant role of specialized banks and non-government organizations (NGOs) as formal credit providers. These countries have adopted and developed financial institutions or intermediaries, which can most suitably provide rural finance and microfinance services under different economic and financial environments (Llanto and Badiola, 2011). Additionally some commercial banks and cooperative banks have sections fully devoted to agricultural finance and microfinance.

Bangladesh

The top MFIs in Bangladesh include Grameen Bank, ASA (formerly Association for Social Advancement) and BRAC (known formerly as Bangladesh Rehabilitation Assistance Committee and later as Bangladesh Rural Advancement Committee). In addition, there are several large, medium and small MFIs operating in the country (Llanto and Badiola, 2011).

ASA was established in 1978 with a view to empowering the oppressed through mobilization of people's organization for social action against exploitation and through legal aid to the poor to fight for their rights. In the 2nd phase of its operation in 1985, ASA included some developmental programme like health, nutrition, education and mini-irrigation project. ASA shifted its attention towards microfinance programme in 1992 in order to run the operations in a cost-effective, innovative and sustainable way to promote financial inclusion (Rahman, 2011).

Bhutan

Bhutan's financial sector is very small with the Royal Monetary Authority (RMA) functioning as the country's central bank and the financial sector's supervisor. Bhutan has two commercial banks, two non-bank financial institutions, which include the Bhutan Development Finance Corporation, Limited (BDFCL). and the National Provident and Pension Fund Bureau. The RMA has recently approved the opening of two more private banks, Druk Punjab Bank and Tashi Bank, and also one insurance company known as the Bhutan Insurance Company.

BDFCL, established in 1988, is the sole development finance institution in the country and is wholly owned by the government. It promotes and finances agricultural, industrial and commercial ventures, including microfinance activities. Accordingly, BDFCL acts as the only rural credit facility in the country, however its success in such endeavor is hampered by its high operating costs.

Informal lenders exist and provide access to credit and farm inputs, but there are very little or no data at all to analyze and study these particular informal arrangements. It is a common knowledge that some of the well-to-do families in the rural areas provide loans or inputs such as grains or a combination of the two to the poorer villagers. Loans are normally for periods from three to six months that carry interest rate of around 5.0 percent a month. Loans in kind are expected to be paid in kind.

Most villages had one or more such informal lenders, who, in some cases, may be the more enterprising individuals in the community. Bhutan's monastic institutions that have substantial revenue collections of its own practiced lending money, grains and dairy products to certain credit-worthy individuals or families. The rate of interest ranges between 15 percent and 25 percent per annum. Lending by the monastic institutions can be treated as a form of informal type of financial and credit arrangement.

During the period 1989-1991, the National Women's Association of Bhutan (NWAB), a non-governmental organization initiated a special credit scheme focused on the credit requirements of women in Trashigang District. Another scheme was started by the National Fodder Seed Production Centre to assist farmers in their requirement for fodder seeds. The scheme was later transferred in 1994 to BDFCL due to logistical challenges. Overall, these initiatives taken by non-governmental organizations to address the financial needs and requirements of the poor had limited success and over time were either stopped or absorbed by another agency (Jimenez, 2009).

Cambodia

The only State-owned bank is the Rural Development Bank (RDB), which services the wholesale fund needs of MFIs for retailing to micro and small enterprises. In addition, by 2010, there were 20 licensed MFIs of which 6 are deposit-taking institutions (so called MDIs to distinguish them from non-deposit-taking MFIs), 25 registered credit operators and around 60 small unregistered NGOs operating in the rural areas. Recently, commercial banks started to expand their operational outreach to rural areas due to competitive demand among microfinance institutions. Notably, ACLEDA Bank has proven a great success in terms of its outreach (Pal and Kim, 2011).

ACLEDA[4] has transformed from an NGO-operating microfinance into a specialized bank and finally into a commercial bank, now known as ACLEDA Bank, one of the 15 commercial banks in the country. The bank has the largest network all over the country, in the cities as well as in remote areas of the countryside. ACLEDA Bank provides both commercial banking and rural financial services.

Other commercial banks have limited branches in Phnom Penh and major provinces such as Siem Reap, Sihanoukville, Battambang, Kampong Cham and Banteay Meanchey. Canadia Bank, for instance, provides wholesale lending to the MFIs and to small and medium enterprises with funds from the international community, KfW, IFC and USAID (Tal, 2007).

The blossoming of MFIs was encouraged by the successful experience of ACLEDA and other MFIs in providing microentrepreneurs and rural households with access to financial services. Many of those Cambodian MFIs can trace their origins from non-government organizations, which were involved in humanitarian work while at the same time, implementing microcredit projects (Llanto and Badiola, 2011).

Most rural financial operators in Cambodia have been transformed from non-government organizations (NGOs) that were involved with humanitarian work amongst refugees in the Cambodia-Thai border. After Paris Peace Accord in October 1991, the refugees had returned home (Tal 2007).

As of March 2010, the *Cambodia Microfinance Association* (CMA), the country's main microfinance support network, reported that their members operate in all 24 provinces and have over 1 million borrowers with a gross loan portfolio of almost US$510 million and 770,000 depositors with US$750 million in aggregate deposits. These figures represent a nearly 20 percent increase in gross loan portfolio and a 56 percent growth of total deposits from December 2008.

India

The banking system in India consists of three distinct categories of banks:

- **Commercial Banks:** Originally under private sector ownership, 28 commercial banks were nationalized in phases to enable the Government of India (GoI) to direct the flow of credit to important but vulnerable sections of the economy and society such as agriculture, cottage and village industry, medium, micro and small enterprises, etc.
- **Co-operative Banks:** These are oldest institutions of the Indian banking system. In existence since the 1900s, the co-operative credit structure, in terms of outreach, especially in rural areas, has the widest network servicing a varied clientele.
- **Regional Rural Banks (RRBs):** The RRBs were established in 1975 with the objective of developing rural economy by providing credit plus services for developing agriculture and allied activities, particularly to small and marginal farmers, agriculture labourers, rural artisans, small entrepreneurships etc. The RRBs are public sector institutions, regionally based, rural oriented and engaged in commercial banking. They were meant to embody the business acumen of commercial banks with the spirit of co-operatives to serve the rural clientele.

[4] It was formerly an NGO, known as the Association of Cambodian Local Economic Development Agencies.

The setting up of NABARD in 1982 as an apex body for rural credit was a step in the organizational evolution of the Reserve Bank of India to decentralize its functions, particularly in the area of rural financing. NABARD took over from the RBI the overseeing of the entire rural credit system, and the statutory inspection of cooperative banks and RRBs on an agency basis. NABARD's rural credit operations are conducted through refinancing activities. NABARD as an apex agriculture development bank has taken up the diversified activities of financing, microfinance, institutional development, cooperative development, and rural infrastructure development, etc. making a fine balance between its inspection and developmental roles.

The National Bank for Agriculture and Rural Development has successfully increased its outreach by linking with self-help groups (SHG) through the SHG-Bank Linkage Programme. The SHG-Bank Linkage Programme represents a successful approach to breaking barriers to formal credit faced by informal self-help groups and similar organizations. Many of Indian microfinance institutions have patterned their microfinance lending techniques after the Grameen Bank model of Bangladesh (Llanto and Badiola, 2011).

In terms of number of outlets in the rural and semi-urban areas, cooperatives with a network of 124,355 outlets, have much larger presence than commercial banks and regional rural banks put together with 47,162 rural outlets. In terms of outreach i.e. number of borrowers financed, cooperatives outperform the CBs and RRBs put together. However, CBs and RRBs exceed cooperatives in terms of total outstanding rural credit (Table 1 given below) and also average loan outstanding per borrower. This is explainable as significant share of coop credit goes to small and marginal farmers (Thorat, 2007).

Despite their vast network and outreach, the cooperatives' market share in rural credit has been steadily declining. From nearly two-thirds of the total market during the 1970s, their market share has been steadily dwindling and now hovers around less than 20 percent of the total.

Table 1. Comparison Between Cooperatives and Commercial Banks/ Regional Rural Banks Combined

Parameter	Unit	CBs + RRBs	Coops
Rural and semi-urban outlets	Number	47,162	124,355
Borrowers at ground level	Million	41	64
Rural credit outstanding	Rs. Billion	682	624
Crop loan issued	Rs. Billion	260	203
Deposits	Rs. Billion	4,183	724
Ground level interest rates for crop loans	% p.a.	9-12%	12%

Source: NABARD Task Force Report

Indonesia

Rural finance outreach in Indonesia consists of commercial banks: Bank Rakyat Indonesia, with its Unit Desa, Bank Danamon with its Danamon Savings and Lending Units, National Saving and Pension Fund and Bank Mandiri. In addition, Indonesia has Bank Perkreditan Rakyat (People's Credit Banks or so called Indonesia's rural banks and Badan Kredit Desa (village banks) (Wibowo, 2010).

Indonesia's Bank Rakyat Indonesia (BRI), has been very successful in providing financial services to small farmers, and micro/small entrepreneurs. BRI's *Unit Desa* (unit banking, literally village unit) is known worldwide for its successful savings mobilization, which has generated millions of dollars of savings from the countryside (Llanto and Badiola, 2011).

In line with the rapid development of the banking industry, Bank Rakyat Indonesia has also expanded its branching operations, currently consisting of 4,600 work units: its headquarters, 18 regional offices, 14 inspection offices, 409 branch offices (domestic), 470 supporting branch offices, 431 cash payment offices, 1 special branch office, 1 mobile banking unit and 4,538 BRI Units. For international transactions it has also an agency each in New York Agency and Cayman Islands plus one representative office in Hong Kong. In the 2000s, BRI developed into one of the largest banks in Indonesia with assets going up from Rp203.7 trillion as of the end of 2007 to Rp396.6 trillion as of the end of 2010. The global economic crisis in 2008 did not adversely impact on the financial performance of BRI (Gunawan, 2010).

The non-bank financial institutions consist of formal and non-formal institutions. Formal institutions consist of savings and credit cooperatives (Koperasi Simpan Pinjam/KSP) and rural fund and credit institutions (Lembaga Dan Kredit Pedesaan/LDKP). The informal sectors that provide microfinance are various sorts of non-government organizations (Lembaga Swadaya Masyarakat/LSM) and Self-Help Groups (Kelompok Swadaya Masyarakat/KSM), moneylenders, local sources of trade and consumer credit, and mutual credit arrangements especially Arisan and Gotong Royong, the indigenous forms of Rotating Savings and Credit Associations (ROSCA) (Wibowo, 2011).

Since its establishment on 10 July 1970, Bank Bukopin has been focusing on the micro, small, medium and cooperative business segments. The Bank has more than 280 offices spread in 22 provinces. Bank Bukopin has also established a microbanking network named Swamitra, with over 543 offices (outlets), as a realization of its partnership programme with cooperative unions and microfinance institutions (Gunawan, 2010).

Iran

As the only bank of Iran catering to the agricultural sector, Bank Keshavarzi (BK) has an important role in financing this sector. Bank Keshavarzi finances farming, horticulture, aquaculture, animal husbandry and any other related agricultural activities and industries. BK is financing both parts by micro and macro financing (Motamed, 2011).

Lao PDR

In the case of Lao PDR, the Agriculture Promotion Bank, has an extensive network of branches in all three regions and provinces in the country. It has a broad exposure in agricultural credit, including microfinance loans, to the rural populace. The semi-formal market is characterized by the presence of credit unions and cooperatives, international NGOs and locally registered organizations.

Various government agencies are also implementing development projects with the support of bilateral and multilateral donors and they are also part of this sector. They work closely with the Lao Women's Union as their conduits. A number of cooperatives also exist and the Bank of Lao PDR has also issued guidelines to support their work. Lao PDR is still in its embryonic phase of development when it comes to rural finance and microfinance unlike some of its neighbouring countries (Jimenez, 2010).

Ekphatthana Microfinance Institution (EMI), on the other hand, is the leading microfinance institution throughout Lao PDR which aims at providing innovative financial and non-financial services to marginal clients and other stakeholders (Llanto and Badiola, 2011). EMI is the first licensed microfinance institution to operate in Lao PDR under the government's new microfinance regulations issued in 2005 (Mingboupha, 2011).

Nepal

The Agricultural Development Bank Limited (ADBL) of Nepal provides loans for the agricultural sector. On the other hand, Nepal has quite a diversified financial sector but its rural microfinance banks are mostly Grameen Bank replications such as the Grameen Bikas Banks operating in the five development regions of Nepal. The Paschimanchal Grameen Bikas Bank Ltd., which operates in the western development regions, is considered the most successful of those banks. Nepal also has Sana Kisan Bikash Bank, Limited (SKBBL) or the Small Farmers Development Bank which is considered the apex microfinance bank as it provides wholesale credit to other cooperatives and microfinance institutions (Llanto and Badiola, 2011).

Malaysia

Malaysia's main rural financial institutions for rural finance are AgroBank Malaysia (formerly Bank Pertanian Malaysia), Amanah Ikhtiar Malaysia, Yayasan Tabung Ekonomi Kumpulan and the Usaha Niaga Nasional (Llanto and Badiola, 2011).

Mongolia

XacBank is one of the largest banks in Mongolia and acknowledged as Mongolia's largest microfinance institution. As of December 31, 2010, XacBank had total assets recorded at 468 billion MNT (Mongolian tugrug) or 47 percent increase from previous year. Gross loans of the Bank amounted to 324 billion MNT.

XacBank maintained a nationwide network of 84 branches, out of which 49 were rural branches or support centers located in every provinces in the country. In addition to the Bank's own rural network, it maintained close relationship with 64 savings and credit cooperatives (SCCs) in the provinces under franchise contracts. It was estimated that the SCCs provided microfinance to 9,000 members in 2010.

The collaboration of XacBank and SCCs is a result of an effort to alleviate the difficulties arising from the low population density in rural Mongolia. On the average, there are a little more than two XacBank's branches or supporting centers per province. Considering that average land area of a province in Mongolia is 74.5 thousand km^2, it is not uncommon to find a situation that potential borrowers are located 100 or 200 kilometers away from the nearest XacBank's office. A SCC located in rural town (soum) is a good window for XacBank in extending credit to remote rural residents. This franchise arrangement increases credit accessibility for rural borrowers, and it enables the SCCs viable through providing financial resources for lending, technical training and supervision for more efficient management (Koh, 2011).

Khan Bank is the only bank to have established branches in every province and town in the nation. The factors leading to the success of Khan Bank as a microfinance provider (similar to XacBank) are:

- It occupied the market earlier than the other microfinance providers;
- It provides demand-driven products and services;
- It has operated under the direct supervision of the Central Bank of Mongolia since its establishment;
- It organizes regular human resources training;
- It has received significant amounts of international donor support and technical assistance; and
- It closely follows international principles and guidelines for prudential and transparent banking, even when it is not required by the Central Bank (Dholakia, 2010).

Myanmar

The Myanma Agricultural Development Bank (MADB), a state-owned bank, is virtually the only major source of institutional credit in the rural areas of Myanmar (Llanto and Badiola, 2011).

Pakistan

Keeping in view the importance of agriculture in the country's economy and recognizing the vital role of rural and agricultural credit to increase yield and productivity of this sector via use of improved seeds, fertilizer and mechanization, the Zarai Taraqiati Bank, Ltd (previously called Agricultural Development Bank of Pakistan) was established in 1961 by the Government of Pakistan to cater to the financing needs of farmers/agriculturists. Later, a few cooperative banks were also established for the purpose. Besides, five big commercial banks (in public sector) were given mandatory targets with regard to agricultural sector lending. Commercial Banks and cooperatives are major sources of rural financing in Pakistan (Khan, 2011).

The Philippines

Rural financing is undertaken by the Land Bank of the Philippines, Development Bank of the Philippines, People's Credit Finance Corporation, Small Business Corporation as well as rural and cooperative banks.

The rural and cooperative banks, on the other hand, totaling 692 are the more popular and closest to the rural communities. These banks are primarily established to promote and expand the rural economy, which are normally run by the local entrepreneurs. Rural banks as well as cooperative banks help farmers by providing the needed financial services so that production, marketing and distribution of agricultural produce can be done efficiently. Generally, rural banks are organized by private individuals and families while cooperative banks are set up and managed primarily by cooperatives or federations of cooperatives. A total of 7,898 units composed of head offices, branches and other banking offices support the banking requirements of the Filipinos. Since most of these units are located in highly urbanized and developed centers, there is a big need to address the requirements of those in the rural and other areas outside of the urban centers (Jimenez, 2010).

The Philippines has close to 60 NGO-MFIs active in microfinance, the largest of which is CARD Rural Bank, a very successful microfinance institution. The Bangko Sentral ng Pilipinas (country's central bank) reports that as of April 30, 2010 there were 202 microfinance-oriented banks from only 30 in 2000 (Llanto and Badiola, 2011). The CARD NGO, and later as CARD Rural Bank, started using the Grameen solidarity lending scheme that was modified to fit the context of the Philippines until 2001 when it shifted to a modified version of the ASA individual lending model. With women members demonstrating their credit trustworthiness and the way they manage their borrowed fund, CARD NGO and CARD Rural Bank focus on serving women members until they have dominated the membership in these two CARD MRI subsidiaries (Inciong, 2011).

Sri Lanka

Rural and agricultural financing is provided by the bigger banks- State-owned Bank of Ceylon and People's Bank – and private commercial banks- Hatton National Bank and Seylan Bank. The four institutions are members of APRACA.

At People's Bank of Sri Lanka, its outreach is evident with a massive customer base of over 13 million out of the country's total population of little over 20 million. Having maintained a loan deposit ratio of more than 80 percent, People's Bank, has disbursed a sizable amount towards the rural empowerment by reaching the non-bankable small entrepreneurs in villages to the SME levels who are located in rural, sub-urban and urban areas covering the entire 24 districts of the country. The bank's business model is to encourage microcustomers, recognizing their potential to migrate to the SME levels. The bank's target is to migrate at least 25 percent of such microcustomers to SME level in each year, perhaps gradually to the higher levels (Ariyapala, 2011).

Sri Lanka too has different types of rural and microfinance financial institutions including cooperative rural banks, regional development banks, SANASA Development Bank, National Development Trust Fund and Samurdhi Banking Societies and the SANASA Thrift Societies (Llanto and Badiola, 2011).

Thailand

The Bank for Agriculture and Agricultural Cooperatives (BAAC) is also a highly successful rural financial institution. Based on updated data from the Management Department of BAAC, a total of 6.25 million farm families had access to BAAC's credit services representing nearly 98 percent of Thailand's total number of farm households as of March 31, 2011 (Llanto and Badiola, 2011). Being a unique agriculture-specialized bank in Thailand, BAAC seeks to further enhance efficiency of its services by offering loans and banking services, together with managerial and technical guidance under a supervised credit scheme. At the same time, it also supports the grassroots economy to offer loans for micro and small community-based enterprises and provide assistance to strengthen the operation of a National Village and Urban Community Fund. The Bank envisions this fund to be a village bank that will serve as a future financial intermediary. At the end of FY 2010, BAAC's outstanding credits (outstanding loans) totaled more than 577 billion baht. The figure increased by more than 72 billion baht which is 14.40 percent higher than last year's loan. Of these, credit was provided to individual farmers, agricultural cooperatives, farmers' associations, government-secured loan projects and other types of borrowers (BAAC, 2010).

Krung Thai Bank Public Company Limited (KTB), a State-owned bank, became the first commercial bank to have branch network and Automatic Tellering Machines (ATMs) in all provinces nationwide. It was also the first state enterprise listed in the Stock Exchange of Thailand on August 2, 1989. KTB also serves as the government's channel to render financial services supporting government policies through lending to businesses of certain type, such as, One Tambon One Product (OTOP) loan, ICT computer loan, and education loan. During Thailand economic crisis, the Bank fully supported the government policy in stimulating national economy by providing the "Thai Khem Kheng stimulus package 2012" to boost the liquidity of Thai entrepreneurs (Jimenez, 2010).

Vietnam

Vietnam, in turn, has the Vietnam Bank for Agriculture and Rural Development (VBARD), which has been the major source of credit and savings in rural Vietnam since its establishment in 1988. Vietnam also has the Vietnam Bank for Social Policies, Vietnam Postal Saving Company and the People's Credit Funds, including almost 60 internal non-government organizations and 4 government-recognized microfinance organizations (Llanto and Badiola, 2011).

Part II

Rural Financial Innovations and Best Practices

A. Introduction

The mandate to fight poverty, the goal to reduce risks and meet challenges posed by the changing global environment such as the 2008 financial crisis, climate change and rising food and fuel prices, as well as the fierce competition for clients and need for institutional reinvention (deepening reforms, mandate expansion, paradigm shift) have motivated rural and microfinance players in Asia to further innovate.

These rural and microfinance players are now conscious of the deleterious effects that the different risks spawned by the changing and challenging global and regional environments could cause. These effects could weaken their institutional capacities to continue with providing finance services to clients, and/ or adversely impact on their urban and rural clients, including microbusinesses as well as rural and countryside economic activities. In either case, their balance sheets would be put at risk and future plans for expansion and intensification of rural and microfinance service provision could be put on hold or postponed until better times come (Llanto and Badiola, 2011).

Various rural and microfinance institutions also sometimes have distinct and compelling reasons to innovate. After government and donor funds have ceased or dried up, State-owned banks and other similarly mandated institutions would have to innovate to address inherent national concerns and at the same time devise ways of meeting their agency and client concerns. All institutions want to be sustainable, to remain competitive and to yield better profits and at the same time satisfy the clients' demands and requirements for innovative products and services. These institutions seek to yield better profit, reduce transaction, information, search or marketing costs, reduce risks and information asymmetries.

As commercial banks and other financial intermediaries are allowed by governments to enter the rural financial market, this market becomes crowded as they jostle for greater share of the market, to branch out, seek better methodologies and delivery channels, get closer to the potential clients and accommodate economies of scale.

Likewise, as the clients' needs become complex and the rural activities become more complex, more and more client support and advice are provided, not just for start-up groups at the lowest rung of the social and financial ladder, but also to those moving from microfinance into small and medium enterprises. To provide client advice and support to an educated clientele means more business to an institution. At the same time, the concerns for food security means that key rural and microfinance players would have to take a more serious look into small holder farmers.

With the advent of information and communications technology, bigger players are finding it easier to deal with microfinance clients. Nagarajan (2011) noted that efforts are now made to develop and test new financial products and services, especially through use of information and communication technology (ICT) and value chains, in order to provide cost-effective and sustainable financial services in rural Asia.

Some immediate objectives of different product and process innovations are to reduce credit risks and high transaction costs, improve the access of the poor and facilitate the inclusion of hitherto un-banked and financially excluded people into the financial systems (Llanto and Badiola, 2011).

Nagarajan (2011) observed that "the current financial landscape appears rich and efforts are made to build and operate responsible financial institutions. As a result, there are now new opportunities opening up that are client centric to incorporate newer set of clients, chains, climate change issues, cell phones, consumers protection and consumer education to push the rural finance frontier in Asia and in other developing countries. These new avenues have the potential to help manage the old and current new rural finance challenges to provide inclusive financial services in rural areas."

Part II contains a description of various rural financial innovations divided into the following sections: delivery channels/methodologies, savings products, loan products and special sections on financing rural energy and green financing, financially empowering women, financing the agricultural value chain, other credit plus approaches, microinsurance and other risk-reducing mechanisms.

B. Rural/Microfinance Delivery Channels and Methodologies

This section discusses the major microfinance methodologies that have gained wide application in Asian countries in the 1990s that resulted in the improved outreach and financial sustainability of those that adopted them. In a FinPower-commissioned study (Yedra, 2007), four major rural microfinance methodologies were highlighted: the Grameen Bank methodology, the ASA model of microfinance, the bank-self-help group (SHG) linkage model and the BRI *Unit Desa* village banking model. A few other mixed model and emerging initiatives were likewise presented.

Since then, a number of new and mixed models of delivery channels and methodologies sprang out of these four methodologies. These shall also be highlighted in appropriate sections.

1. The Grameen Bank methodology

From among the golden words of Prof. Muhammad Yunus, this statement "…The bank, which started with Tk856 given out as loans, today disburses Tk1,000 crore in loans every month. We can give interest free loans to over 100 thousand beggars to find ways to get out of the humiliating life of begging[5]," encapsulates the beginnings of Grameen Bank and its expansion to surprisingly new client areas.

Thus far, the Grameen microfinance methodology has been the most popular and widely replicated model in Asia with considerable consistency in attaining successful results particularly in achieving greater outreach and high repayment rate. Grameen Bank, as of December 2006, has US$475 million in loan outstanding, 6.9 million borrowers from 74,462 villages and repayment rate of 98.8 percent[6] (source: www.grameen-info.org). The Grameen Trust alone has helped out replication projects in 37 countries around the globe. Among countries where there has been considerable replication of the model are the Philippines, Malaysia, India, and Indonesia. Microfinance in China also started with a pilot replication project on the Grameen model (Yedra, 2007).

In the study by Yedra, he cited David Gibbons (2006), one of the pioneering replicators in Southeast Asia, who stated the following as the '*essential Grameen*': "(a) exclusive focus on the poor with priority on the 'poorest' women; (b) financial services delivery that facilitates participation and ensures timely repayment (small loans payable in periodic mostly, weekly installments; formation of solidarity groups, self-choice of loan activities, loans for income generation only, eligibility of succeeding loans based on repayment of previous loans); and (c) attainment of financial self-sustainability. Recognizing that replication is an art and most replicators adjusted the model to fit particular local contexts, Gibbons cited the following as among the essential conditions for successful replication of the model: "(a) poverty density – it is clear that cost is related to density of clients and thus, operational sustainability is reached in areas where there are high concentrations of the poor; and (b) freedom to create self-employment (ease of entry of microenterprises), i.e., there are no serious impediments or constraints in putting up self-employment activities."

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[5] Words of Nobel Laureate Professor Muhammad Yunus captured from his statement addressed to his colleagues on the occasion of his departure from Grameen Bank (source: www.grameen-info.org).

[6] As of December 2011, Grameen Bank has US$945.47 million in loan outstanding, 8.370 million borrowers from 81,380 villages and repayment rate of 96.75 percent.

Citing Morshed, 2006, Yedra noted that the new innovation in Grameen is in the *transfer of technology*. In the early 1990s the mode of technology diffusion was "exposure-then-training" – i.e., early innovators in one country were sent for exposure followed by training in Bangladesh. These innovators then became the resource institutions in extending the technology to other financial institutions in their respective countries. The new mode of technology transfer is "Build-Operate-Transfer" that has been piloted by Grameen Trust. The approach was noted to have contributed to the expansion of microcredit in the countries where the model does not exist and where there are very few rural financial institutions. The Grameen Trust reported good results with their pilot "Build-Operate-Transfer" projects in Turkey, Myanmar, Kosovo and Zambia over the last nine years. Myanmar project for instance has reached 95,000 clients as of 2006.

2. Bank-SHG Linkage Model

In 1986, the then Deutsche Gesellschaft fur Technische Zusammenarbeit (GTZ) or German Agency for Technical Cooperation (now GIZ) and APRACA collaborated to design the bank-self-help group linkage beginning in 1986 in a Kunming workshop. GTZ and APRACA joined Land Bank of the Philippines in 1988 in pilot-testing the first linkage banking project, Bank for Agriculture and Agricultural Cooperatives in Thailand in 1989 and then with Bank Indonesia and Bank Rakyat Indonesia in 1990. In 1992, GTZ-APRACA conducted a ZOPP IV methodology[7] workshop at the NABARD Headquarters in Mumbai to jumpstart the programme in India.

The Bank-Self-Help Groups (SHG) Linkage Programme, launched in 1992 and envisaging the synthesis of the Indian formal financial system and informal sector, has become a powerful movement throughout the country. It is considered as the largest microfinance programme in terms of outreach in the world and many other countries are keen to replicate this model (Dholakia 2010). Thus, the microfinance sector in India has traversed a long journey from microsavings to microcredit and then to microenterprises and now into the field of microinsurance, microremittance and micropension (Dathathree, 2011).

In the Indian context, a self-help group (SHG) is a group of around 15 to 20 poor individuals, usually women, who provide financial support to one another in the form of pooled savings and internal credit assistance. SHG members generally use the loan for both consumption and productive purposes. Given the nature of money, most MFIs do not scrutinize loan utilization. The bank issues a loan to the group, after rating them based on their savings and internal credit behavior. The SHG can also lend internally both before and after the bank linkage takes place. The SHG may choose to keep only part of their savings in the bank account, partly in order to maintain internal financing capability for emergency loans (Dathathree, 2011).

There are two main models of microfinance in India (Dathathree, 2011).

- **SHG-Bank Linkage Model:** This model involves the SHGs financed directly by the banks viz., commercial banks (public sector and private sector), regional rural banks and cooperative Banks.
- **MFI-Bank Linkage Model:** This model covers financing of microfinance Institutions (MFIs) by the banking system for on-lending to SHGs and other small borrowers.

[7] Objective-oriented programme planning, a GTZ planning methodology.

The overall progress under these two models is depicted in the table below:

Table 2. Overall Progress under Microfinance during the last three years

(Rs In Million)

Particulars		2007-08		2008-09		% Growth (2008-09)		2009-10		% Growth (2009-10)	
		No. of SHGs	Amt	No. of SHGs	Amt	No. of SHGs	Amt %	No. of SHGs	Amt	No. of SHGs	Amt
A. SHG-Bank Linkage Model											
Savings of SHGs with Banks as on 31 March	Total SHGs	5,009,794	37,853.9	6,121,147	55,456.2	22.2	46.5	6,953,250	61,987.1	13.6	11.8
	Out of which SGSY	1,203,070	8,095.1	1,505,581	15,633.8	25.1	93.1	1,693,910	12,926.2	12.5	(17.3)
Bank loans disbursed to SHGs during the year	Total SHGs	1,227,770	88,492.6	1,609,586	122,535.1	31.1	38.5	1,586,822	144,533.0	(1.4)	17.9
	Out of which SGSY	246,649	18,577.4	264,653	20,152.2	7.3	8.5	267,403	21,980.0	1.0	9.1
Bank loans out-standing with SHGs as of 31 March	Total SHGs	3,625,941	169,999.1	4,224,338	226,798.4	16.5	33.4	4,851,356	280,382.8	14.8	23.6
	Out of which SGSY	916,978	48,168.7	976,887	58,617.2	6.5	21.7	1,245,394	62,510.8	27.5	6.6

B. (1) MFI-Bank Linkage Model

Particulars	2007-08		2008-09		Growth during 2008-09 (%)		2009-10		Growth during 2009-10 (%)	
	No. of MFIs	Amt	No. of MFIs	Amt	No. of MFIs	Amt	No. of MFIs	Amt	No. of MFIs	Amt
Bank loans disbursed to MFIs during the year	518	19701.5	581	37,323.3	12.2%	89.4%	691	80627.4	18.9%	116.0%
Banks loans outstanding with MFIs as of 31 March	1,109	27,488.4		50,090.9	72.7%	82.2%	1513	101,475.4	(21%)	102.6%

Note: Actual number of MFIs provided with bank loans would be less as several MFIs could have availed loans from more than one bank.

This programme is also the main contributor towards the financial inclusion process in the country. Up to 31 March 2009, a total of 3.77 million SHGs, representing 54 million poor families or approximately 221 million people, have received cumulative loans of nearly US$6 billion (Rs298.30 billion) from commercial banks. Currently, roughly 66 percent of the formal supply is disbursed through the self-help group-bank linkage route, largely refinanced by the National Bank for Agriculture and Rural Development (NABARD) while the rest comes from private-sector microfinance institutions (MFIs), increasingly backed by commercial banks.

As on 31 March 2009, there were more than 6.10 million savings-linked SHGs and more than 4.20 million credit-linked SHGs, thus covering under the programme about 86 million poor households. NABARD's original goal of supporting one million SHGs under this programme by 2008 was already achieved by 2005.

This Indian model of microcredit has some important distinguishing features that set it in its own unique class:

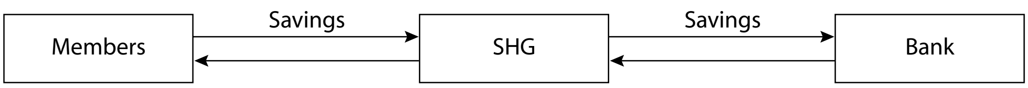
- Loans under the programme are very small;
- The emphasis is on poor women as the money in the hands of a woman is better used;
- Credit walks apace with thrift;

- The repayment period is generally short;
- Loans are devoid of any concession bearing a comparatively higher rate of interest;
- The rate of repayment is generally very high, often exceeding 95 percent; and
- Lastly, a striking contrast between sponsored poverty alleviation schemes and microfinance is the admitted fact that the former has failed to make any significant dent on poverty, while the latter has produced positive results. The former bred corruption and the latter promoted honesty and integrity. The world has so far learned to cope with poverty, only one way – through charity. But charity does not change the situation; it sustains poverty.

There are several variations in linking with the rural poor:

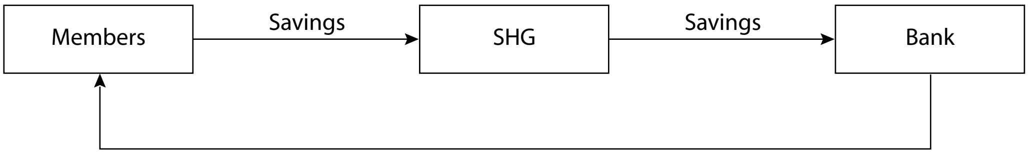
- **Direct linkage model**

In the case of the direct linkage model, the bank identifies the group (or facilitates evolution of the group) and deals with the SHG directly for both mobilizing the savings and for making available credit facilities to the group as a whole or to individual members. Group cohesion acts as social collateral. In this model, the credit is generally made available to the group and members to be financed are identified by the group itself, which takes the responsibility of loan repayment.



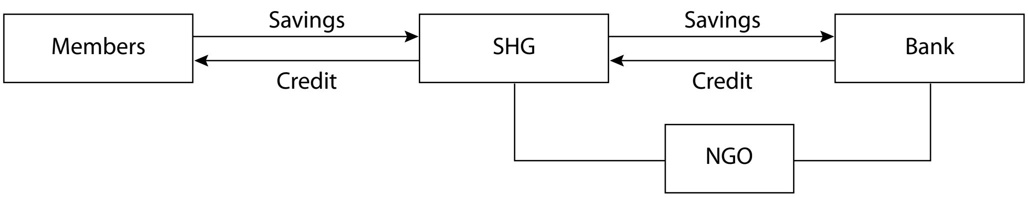
- **Modified direct linkage model I**

Here the activity and member to whom loan is given are both identified by group. The group is morally responsible for repayment but credit is given as an individual loan.



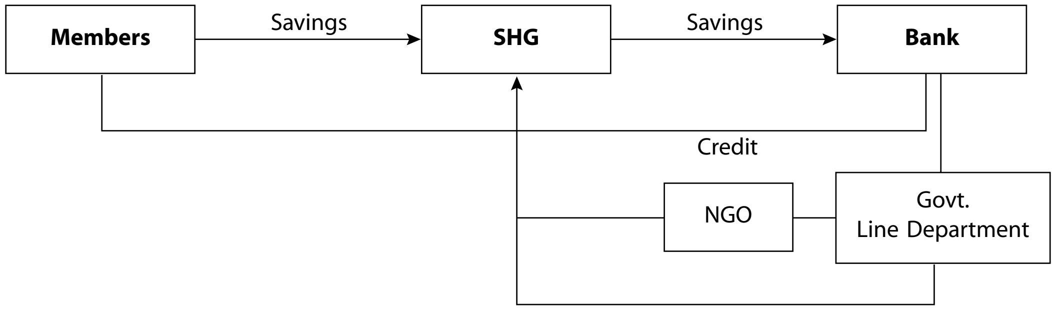
- **Modified direct linkage model II**

In this model, the non-government organization (NGO) is not a financial intermediary. The NGO's role is only in group evolution and stabilization, whereas the financial linkage is directly with the group.



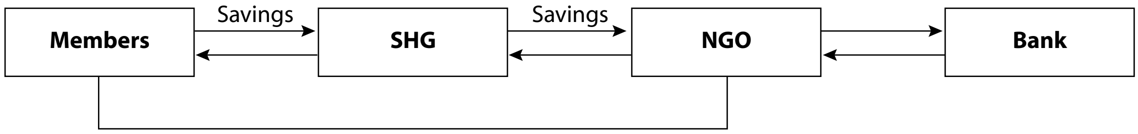
- **IFAD Model**

In this model, the NGO is involved as in third model above but the line departments of the Government like the Women Development Corporation, Sericulture and Rural Development are also involved in identification of activity, beneficiary, etc. The model is in existence in areas where IFAD projects are being implemented in the States of Tamil Nadu, Maharashtra and Uttar Pradesh in India.



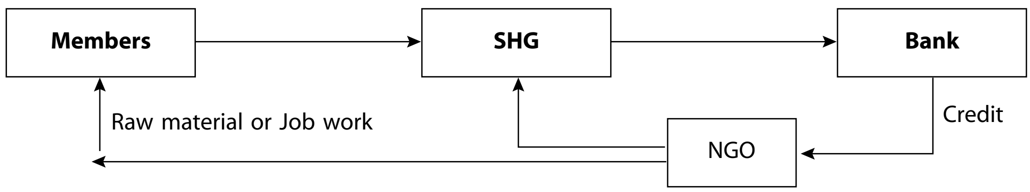
- **Indirect Linkage Models**

In this model, basically the funds flow through the NGO as the financial intermediary. In case of this linkage model, various types are existing as follows:



- **Modified Indirect Model**

This model exists in cases where the groups are artisan/handicraft groups and NGO support like SEWA, Lucknow for marketing is also available.



In the above models, apart from two-way flow of funds, there is also flow of services, extension, consultancy, training, etc., from banks and voluntary agencies.

3. The Village Banking Model

The BRI unit system is a "strategic business unit" of Bank Rakyat Indonesia. The units operate at the sub-district level under the supervision of BRI branches at the district levels, but they are separate profit centers with their own financial statements. The units' financial operations are included in the financial statements of BRI. Some BRI units also maintain village services posts *(Pos Pelayanan Desa)* or village service points *(Tempat Pelayanan Desa)* which service areas in which units appear not yet profitable and able to break even. As of December 2010, there were 4,538 units and 68 service posts. The first are typically manned by a cashier and bookkeeper, and are open three to five days a week to handle financial transactions. The second may be better understood as mobile services that usually operate on market days and one to two times a week. Depending on the business volume, service posts may be upgraded to units and units downgraded to service posts. In 2010, there were no more village service posts; some of them might have been upgraded into units and partially transformed to 'Teras BRI', which is a new type of BRI outlet supervised by the unit (Rachmadi, 2007, Gunawan, 2010).

A typical BRI unit has a staff consisting of four to six employees, while larger ones have up to 11 employees. The basic staff is made up of a unit manager, who approves loans and is responsible for the unit's performance, a credit officer who maintains 400 borrowers, a teller who has 250 average daily cash transactions, and a deskman who has 150 average daily book transactions.

Growing units employ additional loan officers based on pre-defined standards. The unit's personnel are often recruited from the bank's areas of operation in order to inspire confidence and maintain closer customer contact. A striking feature of the unit system is its staff incentive system. Features such as decentralized authority and responsibility as well as giving employees a stake in performance have to be regarded as a major factor predicating the units' success.

Other success factors have been simplicity, standardization and transparency in organization and management. This is particularly true for the system's accounting, supervision and financial reporting, which are functioning effectively and efficiently. The management information system, consisting of six reports, provides information on the number of deposit customers, the *Kupedes* loan classification, the unit's business development, the unit's budget and annual performance, the balance sheet and income statement.

The BRI district branches are responsible for the supervision of units in their areas of operation. The branch manager is obliged to visit the units himself and is authorized to take swift action, including direct warnings and score penalties for employee performance. Branch supervisory personnel work under the supervision of a unit officer and, on average, are responsible for four units. Off-site supervision is carried out based on the management reports provided by the units. On-site supervision is carried out once a month for each unit and takes up to five days. These inspections are based on a standard report format that helps to examine financial and human resource aspects, and includes recommendations and a follow-up plan for the unit. BRI also maintains 18 regional inspection offices that carry out on-site audits once in 18 months.

BRI units are among the most accountable and professionally supervised local financial institutions in Indonesia. It is also safe to say that unit staff members receive the best training available for microfinance professionals.

The existence of markets, particularly the traditional ones, is one of the most obvious indicators of economic activity of a region. BRI is very concerned about the existence of traditional markets such as one with huge potential target market. In order to enhance the role of BRI as Bank-based SMEs and to explore the potential in traditional markets, BRI introduced a new business unit called 'Teras BRI' on August 21, 2009.

The launching of these new business units are meant to regain some of the microfinance 'cake' that has been for some time sold by the competitors. TERAS BRI provides banking services to microcustomers with the assistance of a teller, a customer service, and an account officer, equipped with electronic data capture (EDC) instrument real time on-line. This EDC instrument, which becomes mandatory for the account officer to have, enables customers to deposit and pay their installment without having to visit BRI Units because BRI Unit account officer will visit them. Since the transactions are basically on-line in nature, they will be automatically recorded in the BRI bookkeeping system.

As of June 2010, Teras BRI reached as much as Rp135.41 billion and disbursed loans amounting to Rp333.61 billion. Teras BRI is a new breakthrough in the development of micro- and small business market in the country, since BRI is designed not only to serve the savings and loan transactions, but also to serve with a touch of personal, familial, and financial consulting for traders of traditional markets.

As of December 2010, the number of BRI units grew to 4,538 units, the *Kupedes* loan portfolio to Rp71.178 trillion, and their total deposits to Rp89,924 trillion. The *Simpedes* product contributed 82 percent to total deposits. Deposits financed 91 percent of the unit's assets, while *Kupedes* loans made up only 49 percent of their assets. On average, the units had 998 loan accounts with an average outstanding amount of Rp11 million.

Contrary to other financial institutions, BRI units maintained their good performance and experienced an unprecedented growth during the monetary crisis in 1997/1998 and global economic crisis in 2008. Between December 2007 and December 2010, the units' deposits increased by 69 percent. This was partly due to the liquidation and deteriorated image of other banks, motivating many customers to transfer deposits to the sound BRI units, which, as State-owned institutions, were regarded as comparably safe places to save. Another reason was the crisis' economic impact on the units' clientele. Part of the clientele experienced increasing incomes because of the inflationary pressure on prices of agricultural products.

From 2007 to 2010, the amount of time deposit increased by 93 percent. Time deposit mobilization allowed the units to increase average assets from Rp14 trillion in 2007 to Rp22 trillion in 2010 or increased by 59 percent.

The development trend of BRI Unit can be seen in the following table:

Table 3. Development Trend of BRI Unit (December 2007-December 2010, in Billion Rupiah)

	December 2007	December 2008	Growth	December 2009	December 2010	Growth
Number of units	4,300	4,417	2.7%	4,538	4,538	0.0%
Assets = Liabilities	58,914	67,605	14.8%	82,007	99,116	20.9%
Average assets per unit	14.0	15.0	7.1%	18.0	22.0	22.2%
Kupedes loan portfolio	32,602	43,222	32.6%	54,076	71,178	31.6%
as % of assets	55.3%	63.9%		65.9%	71.8%	
Total deposits	53,183	64,400	21.1%	75,334	89,924	19.4%
as % of assets	90.3%	95.3%		91.9%	90.7%	
Simpedes deposit	45,977	55,136	19.9%	62,571	73,357	17.2%
as % of total deposit	86.5%	85.6%		83.1%	81.6%	
Time deposits	4,631	5,410	16.8%	7,054	8,949	26.9%
as % of total deposit	8.7%	8.4%		9.4%	10.0%	
Kupedes accounts per unit	818	1,010	23.5%	1,045	1,122	7.4%
Avg. amount [Rp million]	8.0	10.0	25.0%	12.0	16.0	33.3%

Source: Bank Rakyat Indonesia

4. The ASA Model

ASA was established in 1978 with a view to empowering the oppressed through people's organization, mobilized for social action against exploitation and through legal aid to fight for the poor people's right. In the 2nd phase of its operation in 1985, ASA included some developmental programmes such as on health, nutrition, education and mini-irrigation. ASA shifted its attention towards microfinance programme in 1992 with a view to operating this programme in a cost effective, innovative and sustainable way to reach financial inclusion (Rahman, 2011).

ASA offers various types of loans, savings, insurance, and remittance services to its valued clients. At present, ASA has 3,177 branches functioning throughout Bangladesh. Ninety-one percent of these branches are located in rural areas and serve about 90 percent clients living in rural or village areas. The financial products have been designed considering the client's demand, capacity and socio-economic condition of the operational areas.

With a view to providing financial services in the remotest areas, ASA has set up some branches where there is no commercial bank or any other financial institution. ASA has to face a lot of challenges for extending financial services in those areas like providing extra allowances to the staff of those branches which are mostly located in coastal, hilly and flood affected areas where law and order situation are somehow relaxed and snatching/robbery are sometimes prevalent. The organization has to compensate a huge amount of money for such incidents. In some cases loans are disbursed at the meeting place to avoid the harassment of the clients as communications of those areas are disrupted or in bad shape.

There are some places in island, coastal and hilly areas, where it is difficult to get required number of clients for opening a branch or where the financial services are purely lacking. ASA is committed to deliver its financial services to those areas by setting up out-post or mini-branch with the deployment of 2 to 3 staff members.

In order to cover rural poor under financial services in a large scale, ASA extends its support to the local and small NGOs/MFIs both financially and technically through partnership approach.

Some reforms to meet the challenges of financial inclusion were put in place such as abandoning of group liability approach, implementing group as well as individual lending, flexible loan duration, shorter period for disbursing loan, flexible repayment – weekly, monthly and one time at the end of maturity and easy withdrawal of savings. A quick look at ASA is shown in Table 4 below.

Table 4. ASA at a Glance (as of June 2011)

1.	Total number of branch offices:	3,177
2.	Total number of districts covered:	64
3.	Total number of staff:	21,795
4.	Total number of active members (in million):	5.10
5.	Cumulative savings deposit (in million US$):	783.83
6.	Cumulative savings withdrawn and return/adjust (in million US$):	622.73
7.	Total amount of savings balance including long-term savings (in million US$):	161.10
8.	Total amount of members security fund balance (in million US$):	55.26
9.	Total number of active clients (in million):	4.52
10.	Total amount of loan outstanding-principal (in million US$):	608.08
11.	Cumulative loan disbursement (in million US$)	6,193.71
12.	PAR	3.37%
13.	Operational self-sufficiency (OSS) June '11	182.48%
14.	Financial self-sufficiency (FSS) June '11	118.32%

5. Joint liability groups

Among APRACA member institutions, the Bank for Agriculture and Agricultural Cooperatives of Thailand offers its rich experiences in implementing agricultural loan programmes. Joint liability loan facility allows famers who cannot offer mortgage collateral to avail loans from the bank. This attracts most farmers as most of them do not have proof of ownership of land. Under this financing facility, agricultural production loans are extended to informal groups of small farmers whose security is the joint-liability of members. Group members are self-chosen and vary in size from 5-15 farmers per group. The group members are encouraged to follow common production schedules to keep track of each other's production activities (Llanto and Badiola, 2011, Yedra, 2007).

The development of the joint liability groups' concept dates back to the founding of BAAC in 1996. As few Thai farmers had land title documents to use as collateral in the 1960s, BAAC adopted the joint liability group approach as the principal form of security for small loans. Joint liability has been at the heart of the BAAC's lending ever since. Joint liability groups are formed by people who know and trust each other. In general, joint liability groups are primarily client groups and not what is normally understood as self-help groups that function as financial intermediaries. Individual loans up to Baht 150,000 are granted on the basis of joint liability. Loans above this amount must by secured by tangible collateral, usually through mortgage of land and buildings. All transactions are conducted between BAAC and the individual members; the group leader has no role in disbursements or recovery of loans and is responsible for distributing repayment notes and reminding the members of their obligations (BAAC, 2008).

6. CARD Business Centers

CARD continued organizing its members into a center or a group of initially 8 members to a maximum of 30 members (considered as full center) even after the shift from the Grameen-inspired group lending scheme to the ASA-inspired individual lending approach. The center members elect customarily a center chief, secretary and treasurer and meet 30 minutes to 1 hour every week for a routine agenda crafted by senior managers. While performing their specific functions, the officers formally participate in the microfinance undertaking. The center chief presides over discussion on social and institutional concerns. The secretary monitors the attendance, which before the end of the meeting is validated by the account officer through a roll call. The treasurer collects the payment on a first-come-first served basis even if the meeting has not formally started. The actors in these roles strengthen if not learn administrative skills that enhance their self-confidence and add value to their potential competencies.

The center meeting has become a venue for receiving solicited and unsolicited feedback in an informal and unstructured way. Familiar suggestions such as shortening of meeting duration become the basis for top level decisions. CARD requires branch managers to visit at least two centers in a day to observe the meetings and casually solicit feedback on the quality of services from the attendees. Moreover, it requires the higher-level managers including the members of the management and executive committee to do the same. CARD uses a standard checklist for the assessment of centers and branches (Inciong, 2011).

7. Mixed Model Microfinance

Over time, the microfinance institutions (MFIs) that replicated the Grameen Bank (GB) model made modifications to fit to their local contexts. As further modifications ensued as a result of cross-diffusion of other methodologies, a "mixed model" approach has emerged particularly from MFIs of the Philippines and India.

Microcredit Ratings International, Limited (M-CRIL) referred to "mixed model" approach as a mixture of features of two or more models (group-based lending, linkage banking and individual lending) under one approach. It reported that mixed model approach was adopted by 21 MFIs among 110 sample MFIs (Yedra, 2007).

8. Philippine Diverse Microfinance Practices (this subsection from Yedra 2007)

According to Mixmarket (Sicat and Graham, 2006) benchmarking report, the Philippine microfinance institutions ranked first among the Asian top MFIs in terms of depth of outreach (reaching the very poor). Average loan balance of Philippine top MFIs is US$100 per borrower compared to the average of US$113 of Asian top MFIs while ratio of average loan to per capita GNI was 9.2 percent compared to the average of 18.7 percent for Asian MFIs. Philippine MFIs, in general adopt two approaches: (a) group-based approaches where loans are provided to individuals who are required to be members of a group; and (b) individual lending where group membership is not required.

The Grameen Bank approach has the greatest influence on the Agricultural Credit Policy Council (ACPC) of the Philippines, which started in 1989 its Grameen Replication Program where 27 institutions participated. The following are examples of the more recently evolved methodologies:

- The **village lending unit pilot project** of the ACPC was implemented in two cooperative banks in 2003. The approach borrowed the concept of linkage banking while sticking to Grameen as the microfinance methodology. Cooperative banks lend to community-based organizations that are taught the Grameen methodology for on-lending activities to members. The transfer of the Grameen technology used a "franchising" approach. This involved installing a complete set of operating system (lending operations system, accounting and loan tracking system) of the Grameen methodology to the community organization and on-site training. The franchise approach was observed to cut down the learning period of the grass roots organizations. Similar successful results (e.g. high repayment rate) were achieved by the grass roots organizations. In 2007, repayment rate of the community organizations to the rural banks stood at 100 percent while on-time repayment rate of members to their organization stood at 98 percent and net income per peso loan stood at PhP0.04.
- The **Credit Union Empowerment and Strengthening (CUES) project** of the World Council of Credit Unions (WOCCU) grafted a microfinance approach in its credit union model – forming of women savings and credit groups who are then linked with the cooperative. Along with lending and savings services, the field staff provides education to women on topics such as health and nutrition. The members of the women groups eventually become regular members of the cooperative.
- The **Microenterprise Access to Banking Services (MABS) Project**, a USAID-funded project in partnership with the Rural Bankers Association of the Philippines (RBAP), introduced to rural banks a business approach to microfinance. The approach used business management tools such as market research in designing loan and deposit products, introduced individual lending using household cashflow in determining debt payment capacity of borrowers and emphasis on loan collection-called "zero tolerance" on loan delinquency. In its 10 year period, the 335 participating rural banks disbursed cumulative loans of US$250 million to 375,000 micro-borrowers (source: www.rbap.org). Business development services (consultancy, systems development, training) are provided by the MABS office to interested banks for a fee. A rural bank pays around US$7,200 for the business development services. MABS Office is a technical assistance provider and does not extend any loan to the participating banks.

Most of the rural banks participating in MABS also adopt features of the Grameen model as most of these banks borrow wholesale funds from the People's Credit and Finance Corporation (PCFC) – a subsidiary of the LandBank. The PCFC microfinance programme was supported by a US$34.7 million ADB-IFAD Rural Microenterprise Loan Project. PCFC extends wholesale loans to private microfinance institutions (MFIs). The ADB-IFAD project supported the replication of Grameen methodology but allowed modifications by local implementers during the mid-project period. The modifications of the Grameen model included loan terms, group size and rules of loan release, meeting cycles, roles of groups and "centers" resulting to minor variations amongst local microfinance institutions. As of project completion, rural banks' loan clients accounted for 52 percent of all participating institutions while NGOs accounted for 16 percent. From an outreach of 1,097 clients and a handful of replicators in 1997, the client outreach of PCFC reached 1.7 million in 2005 and Grameen replicators grew to more than 200 institutions. Operating efficiency of microfinance institutions stood at 104 (Source: ADB-IFAD Evaluation Report). In July 2006, the outreach of PCFC reached 1.8 million clients and loan collection rate of 97.86 percent from 201 partner MFIs.

9. Wholesale Financing to Cooperatives

As a major development partner in the countryside, LandBank's development assistance has been extended to support cooperatives. This is essentially aimed at improving the absorptive capacity of cooperatives. Development assistance consists of two key interrelated components, namely, capacity and institution building (IB) and business or enterprise development (ED). IB interventions are meant to enhance the operations and economic viability, while ED support aims at increasing productivity and improving market efficiency of cooperatives (Yedra, 2007).

The significant technical or development assistance being provided by the Bank to these cooperatives includes the following:

Cooperative Accreditation: This activity was started in 1994 and has undergone fine-tuning in succeeding years. The process involves evaluating the qualifications of potential/newly accessing coops using the Cooperative Accreditation Criteria (CAC). CAC is a prescribed set of performance standards and credit availment requirements that co-ops must meet so they can be provided with appropriate technical financing and technical assistance by LandBank. CAC is meant to enable the Bank's development assistance and lending units to assess and calibrate credit assistance to BACs, as well as to plan and implement timely, adequate and necessary measures to graduate BACs to higher levels of maturity. The accreditation criteria contains two major parts, namely, requirements that co-ops must attain to access or continuously receive financing assistance, and system for categorizing assisted co-ops based on their maturity level. When co-ops fail to meet the requirements, they are required to submit a written undertaking to comply with the same within a timeframe mutually agreed upon by the co-op and the lending unit.

LandBank's CAC as performance yardstick has been institutionalized by the Bank, especially for co-op operations review.

Key Cooperative Strategy: The key cooperative strategy aims at identifying, strengthening, and accrediting at least one key co-op per municipality nationwide, which can act as LandBank's valued development partner. The premise is that one strong cooperative is better than many weak ones.

A distinct feature of a key cooperative is its willingness to accommodate and absorb good paying members of dis-enfranchised cooperatives in an area. As an incentive, accredited and eligible co-ops are entitled to the waiver of the service fee (2 percent of the loan) being charged by the Bank.

Integrated Rural Financing Programme: The programme is a tie-up with the Agricultural Credit Policy Council (ACPC) – also an APRACA member institution. Under the programme, cooperative development technicians (referred to as "Institution-building Specialists" <IBS>) provide on-site, hands-on technical support – business/enterprise project identification, planning, packaging, marketing assistance, technology transfer, project monitoring and documentation, operations management training and the like to some 574 cooperatives in 12 regions and 29 provinces nationwide. On an average, one IBS staff is assigned to 15 cooperatives. Credit assistance is provided by LandBank, with PhP230 million seed fund from ACPC.

10. Use of ICT as delivery channel

Transactions can be facilitated through the use of mobile phones. Clients can make loan repayments via the mobile phone by entering a code that transfers funds from a personal account to the bank's account (Llanto and Badiola <2011> citing Kapoor, Morduch, and Ravi, 2007). For example, many of the unbanked are poor and mobile technology offers the possibility of both filling financial gaps and improving the economic lives of customers.

Nagarajan (2011) observed that "…efforts are now made to develop and test new financial products and services, especially through use of information and communication technology (ICT) and value chains, in order to provide cost-effective and sustainable financial services in rural Asia."

Pal and Kim (2011) noted, for example, that even in Cambodia which is catching up with the leaders, MFIs are quite mature in terms of lending to the rural poor, particularly the small entrepreneurs, farmers, traders, and the like. The basic loan methodologies such as individual and solidarity lending remain unchanged. However, they are better responding to the needs of particular types of clients following their income stream and repayment ability. The effort of employing technology in microfinance operations is gaining momentum. The MFIs are now starting to engage and employ mobile phone operations technology in order to service savings, transfer and payment. The piloting stage for loan transactions in this regard is seen emerging.

An example of WING's operation has been a remarkable stage for innovative product in rural Cambodia. WING is a mobile phone payment provider established by the ANZ, which launched its operations in Cambodia in early 2009. Customers can use WING's services for money transfers, cash in and out, and payment. WING's targeted customers are garment workers and rural people moving to work in urban areas. So far, WING has built and extended its operational network to include 567 WING Cash X-Press outlets across 19 of 24 provinces. WING's customers have increased to 71,067. Currently, two MFIs, the Vision Fund and PRASAC, have conducted piloting project with WING in using mobile financial services such as cash transfer and withdrawal. Later, the transaction of WING will be employed in lending to a larger group of rural people.

Electronic banking is a means by which banking business is transacted through automated processes, for example ATMs and electronic devices such as computers/internet, telephones and plastic card payment. As the number of banks and financial institutions and their branch networks increase, the banking business becomes more competitive. Banks and financial institutions seek to design and develop new financial products to satisfy their clients in terms of quicker services, speedier access to financial services and cheap costs. In view of the introduction of electronic banking and spread of IT in banks and financial institutions in Cambodia, it is important to establish a regulatory framework for electronic banking to protect depositors' money. The risks associated with electronic banking include all the inherent banking risks. The newly established mobile phone banking and micro insurance services are also an illustration of growing product diversification in the microfinance industry. But, these are yet to be brought under particular supervisory regulations or requirements.

In response to this emerging challenge, the next task of the NBC needs to be a further study of the possible application and impact of these new products and technologies in the Cambodian context, with a view to preserving the interests of banking and microfinance clients directly involved in these services. The NBC is in the process of discussing with banks and financial institutions about the establishment of a regulatory framework for mobile and e-banking to ensure safety of the payment system and depositors' money.

11. Delivery through financial institutions and business companies

Paguia (2011), citing the presentation of a success case: The Daya Group of Companies in Sri Lanka by Daya Gamage, explained how the value chain approach and finance became a critical aspect of Gamage's company's success and its successful support to farmers. The Daya Group of Companies thus emerged and has since expanded its business portfolio into numerous industry sectors such as agro, media, electro-mechanics, and financing, comprising more than 35 companies at present.

Value chain finance is a key ingredient of success for Sevanagala Sugar Industries Limited (SSIL) and the Anoma Agro-Based Products (AABP).

At the production stage, SSIL provides technical assistance to farmers in land preparation and sells fertilisers and pesticides at below market prices. Initially, SSIL borrows from private banks and relends to farmers for their financing requirements.

Later on, vertical integration was achieved by the Daya Group when it formed the Bimputh Lanka Investments (BLI) in 2008 to provide loans to sugarcane farmers at favourable interest rates.

- The creation of the BLI benefits both farmers and SSIL. The transaction costs involved in dealing with private banks was eliminated. Farmers no longer had to worry about their cash flows exceeding an amount above which they could no longer repay their loans. Now, SSIL deducts their loan dues from the payments given for the purchase of sugarcane to BLI. Also, since BLI already has the sugarcane as collateral, it can charge lower interest rates and therefore increase the incomes of the farmers.
- Vertical integration was again made when SSIL invested in a small packing plant within the factory premises, allowing the farmers to benefit from a higher mark-up. SSIL also developed its own distribution channels by selling sugar directly to retailers, thus eliminating the market inefficiencies of middle wholesalers.
- SSIL also provides transportation, storage and processing wherein value is added in innovative ways as sugarcane is processed with sugar and ethanol as the primary products and *bagasse* and *spent wash* as useful, cost-reducing by-products.
- Bagasse is the fibrous matter that remains after sugarcane stalks are crushed to extract their juice. Through research and development (R&D), SSIL found a resourceful way of using bagasse as an energy source which eliminated the need for furnace oil to power the boilers of the plant. Hence, SSIL was able to gain an independent source of power.
- Spent wash is a by-product of ethanol production and is highly toxic. However, through the Daya Group's research and development initiatives, they again found two innovative uses for the otherwise toxic by-product. One, spent wash is converted into bio-gas which is used to power the distillery arm of SSIL. Two, aerobic composting of spent wash with pressed mud from the juice extraction process yields quality organic manure.

Like the SSIL, the Anoma Agro-Based Products (AABP) has also successfully employed value chain finance for paddy farming and fruit cultivation.

- AABP distributes seed paddy to farmers and provides technical assistance in land preparation, planting and maintenance.
- The financing requirement for the purchase of seed paddy is also being provided by BLI.
- Through R&D, AABP was also able to develop seeds that provided higher yields and possessed greater levels of resistance to diseases.
- AABP entered into forward contracts with farmers to purchase their produce at a fixed price upon harvest. This arrangement benefits farmers in two ways. One, it shields them from the high volatility of prices experienced in paddy cultivation. Two, their previous problems on transportation and marketing were eliminated as AABP buys and collects the produce.

C. Rural Savings Mobilization and Promotion

There are various reasons why people save- to manage shocks and emergencies, to smooth out peaks and troughs in incomes and expenditures, to make investments in homes, families and businesses and to provide for old age. Cultural as well as religious (festivals, travel to holy places) and social ceremonies (dowries, marriage expenses) also compel people to save.

People usually save in cash through banks or semi-formal groups, due to easy and fast withdrawal in case of emergencies; however, others also use different forms: such as in kind (jewelry), land, equipment, livestock reproduction, etc. There are still others who save in cash not through banks or other semi-formal groups, but by using unconventional means (keeping money in containers, bamboo tubes and the like), unmindful of the lack of safety and fund growth.

Innovative rural financial institutions, responding to such purposes and future needs and such savings form desired, have developed and designed various savings products to suit their needs and requirements.

Karlan, *et al.* (2003), cited in Yedra (2007), conducted a survey in 2003 among 113 microfinance institutions from developing countries, 31 of whom are from Asia, to examine different savings product designs. The savings products surveyed are those comprising the non-compulsory deposit liabilities of the financial institutions. The survey which yielded 124 savings products from 25 countries, examined the deposit-side features that help individuals make regular deposits into savings account, and withdrawal-side features that deter individuals to withdraw. Among the findings were:

For deposit-side features, the following are the most common schemes:

- 40 percent of savings products have a 'bonus' deadline (bonus refers to lotteries and raffles open to deposit account holders) reported to be popular among rural clients. A 'deadline' can be linked to accumulating tickets for lottery, e.g. one can only increase chances of winning if one makes a regular minimum deposit.
- 26 percent employed deposit collectors. Though this increases costs, this scheme is more convenient for depositors and encourages discipline to save consistently. The deployment of staff to do "door-to-door" deposit collection was subsequently studied by Ashraf, *et al.*, (2006) in a rural bank in the Philippines (Rural Bank of Caraga). The collection mimicked the door-to-door cash collection scheme of informal lenders quite popular in a number of Asian countries. The research confirmed that the use of deposit collectors substantially increased the savings of rural depositors. The research also found two factors as determinants of the deposit take-out rate, namely, proximity to the bank and being married (an indication of the importance of household savings decision patterns in rural areas).

For withdrawal-side features, the most common feature is withdrawal fee (30 percent of deposit products) which serves as a means of the finance institution to cover cost of opening and servicing the account. This is intended to deter individuals to withdraw money but for individuals with little discretionary expenditure, the authors noted, it may serve as incentive to withdraw money less frequently but in larger amounts. The other most common feature is restricted time (25 percent of products). Restricted time is a standard feature of term deposits and programmed savings accounts. The use of lock boxes (e.g. use of "piggy banks") is less common (used in only 5 products, out of the 124 products surveyed).

This section focuses on innovative savings products used by APRACA member institutions, IFAD supported projects and partners.

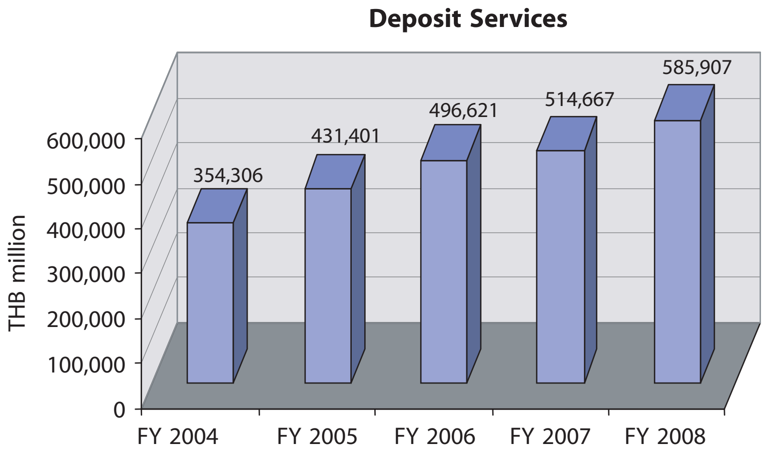
1. BAAC Savings Mobilization Schemes

In 1986, the Saving Promotion Section was established at BAAC to respond to mobilizing deposits in order to support credit provision by coordinating with government agencies and convincing them to deposit with BAAC. This source of fund has a relatively low cost. In 1990, BAAC was restructured and the Saving Promotion Division was established to develop strategies and design deposit products that fit the target customers.

Finally, in 2004 BAAC modified its organizational structure again as well as established the Governmental Saving Unit to deal with mobilizing deposits from the government sector. The Saving Promotion Division was renamed Deposit Business Division.

BAAC has successfully mobilized financial resources by strong saving mobilization since 1980. Although the direct motive for the savings mobilization appears to be the Government policy to enhance savings, utilizing domestic financial resources is more effective for the investment. BAAC has developed and provided customer-oriented deposit schemes for farmer clients who need not only credit but also savings services to keep their financial assets in a reliable and easily accessible place. The strong branch network, supported by well-trained field staff, and trust fostered by the close relationship between BAAC field staff and farmer clients are the foundation of the rapid expansion of savings services. Figure 2 shows the growth of deposits at BAAC from 2004 to 2008.

Figure 2. Growth of BAAC Deposit Services from Fiscal Year 2004 to 2008



Since 2004, BAAC's savings mobilization campaign has noticeably increased, growing from 2004 to 2008 at baht 231,602 or 65.36 percent. The deposit customers are people in general, government offices, state enterprises, farmers, and others.

People in general deposited the biggest amount at 190,260 million Baht or 37 percent, followed by Government offices at 179,894 million baht or 35 percent, farmers at 85,398 million baht or 17 percent, state enterprises at 30,176 million baht or 6 percent as well as others at 29,104 or 5 percent.

BAAC offers products and services similar to commercial banks. These products and services ranged from traditional products and services to innovative ones. The products and services are mainly provided for encouraging savings habit of its clients and general public. These products and services are as follows:

Basic product and services

- **Savings Deposits**

Savings deposits are payable at sight upon request. The deposits are exempted from Government income tax. Savings deposits pay interest twice each year in late March and late September. Interest is computed daily based on the amount outstanding. A minimum of 50 baht is required to open a saving account, with further deposits for any amount. Depositors can withdraw their deposits without any restriction. There are two types of these accounts, one with a passbook and the other without a passbook.

- **Time Deposits**

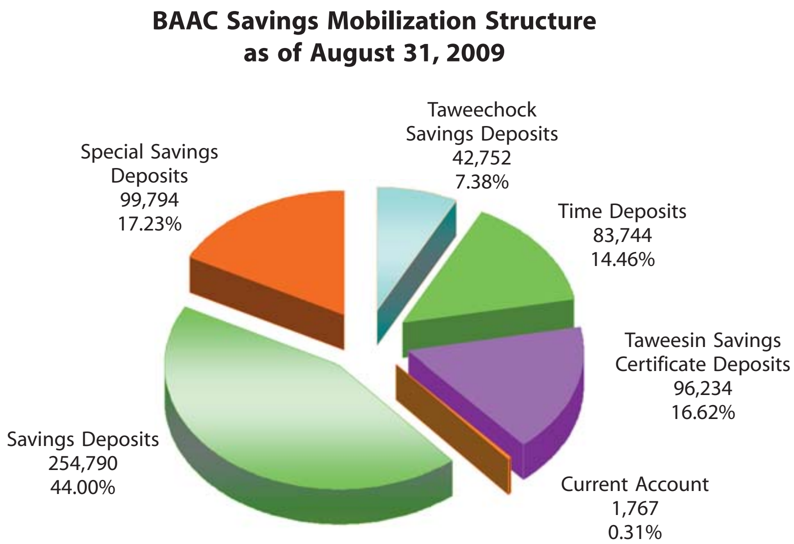
This type of deposit is for a fixed period of 3, 6, 12, 24, 36, 48 and 60 months. Interest is paid at the end of the maturity period. Opening an account and each of the following deposits require a minimum of 1,000 Baht. Time deposit accounts may be with or without passbooks.

- **Special Saving Deposits**

These deposits are payable at sight upon request. The deposits are exempted from Government income tax and yield a high return. Interest is paid twice each year in late March and late September. The first deposit requires a minimum of 10,000 baht. Each further deposit and withdrawal must be for at least 1,000 baht. Depositors can withdraw their deposit once a month free of charge. For additional withdrawals, the depositor is charged 1 percent of the amount withdrawn but at least 500 baht. The outstanding balance must be at least 1,000 baht, otherwise the interest paid is reduced to the normal savings deposit rate.

BAAC's savings mobilization structure is shown in Figure 3 below.

Figure 3. BAAC's savings mobilization structure



BAAC has designed savings facilities to fulfill its mission of reducing farmers' financial risk as well as mobilizing fund for credit provision purpose.

Recently, competition in the financial market has become very intense. Commercial banks are likely to struggle for capturing the market share of deposits as this fund has the lowest cost. For the same reason, BAAC researches and develops innovative products to attract customers.

BAAC innovative products range from products for specific groups to products for general clients. Those products include Thaweesuk Fund, Om Sap Taweechoke Savings Deposits, Om Sap Taweesin Savings Certificate Deposits, Permsub Savings Certificate Deposits, Savings for Retirement, Advance Interest Savings and School Banking.

The **Thaweesuk Fund** targets farmer-clients in rural areas. This encourages farmer-clients to save funds for their retirement age as well as to strengthen stability of their economy base. BAAC farmer-clients, aged between 20 and 55 years, are encouraged to deposit with BAAC at amount of 1,200 baht per month or 12,000 baht for at least one year. After the clients reach 65 year of age, they will receive the principal with special tax-free interest rate as well as the principal and interest compounded twice a year. For BAAC, credit clients will receive additional money at 0.75 percent. In addition, clients can also use this deposit as collateral for borrowing from BAAC as well as receiving life insurance, healthcare budget and pension fund in case they are unable to work. Moreover, they will receive a “welcome new born” money for the first two child delivered. Key successes are security, convenience and yield.

The **Om Sap Taweechoke Savings Deposit** is designed to attract low-income market especially in rural area. After successful pilot-testing in selected branches, the innovative savings product called “Om Sap Taweechock” or Om Sap Taweechock Savings Deposit was launched nationwide in early 1996. The minimum opening deposit is easy to afford which is only 50 Baht* and the account holder is entitled to participate in semi-annual drawing parties. The winners are offered goods such as motor cars, motorbikes, gold, refrigerators, television sets, and radio sets as prizes based on their lucky draws each year. The prizes are drawn once every six months at the regional level and once a year at national level. To be eligible for each draw, accounts must have a balance of at least 2,000 baht over the preceding three months.

Depositors will have an additional prize-drawing card for each additional 2,000 baht of their deposits. Besides those prizes, depositors will receive 0.50 percent of interest rate (as of 31 March 2008). Although the interest rate paid on deposit is slightly below the standard rate BAAC pays for savings account, it is found very popular in the rural areas. By June 2007, Om Sap Thawi Chocke attracted more than 3.6 million depositors with an average deposit of 6,200 Baht per account holder. Depositors can withdraw anytime as long as the minimum balance is maintained

The **Om Sap Taweesin Savings Certificate Deposit caters** to upper middle class savers in the city. This innovative savings certificates deposit was introduced with the slogan of mobilizing fund from the well-to-do to raise the poor, following the spirit of sharing and caring along the Buddhism path. As risk-taking is a part of Thais’ way of life, populations spend pretty much of their income on buying lottery. Therefore, Thaweesin was designed to meet those lifestyles and still can secure the capital with interest rate if they do not win the prizes. Thaweesin is an innovative savings product that applies art banking into savings product in order to attract depositors. The savings certificates have a nominal value of 500 Baht* each, with a three-year term and no limitation on amount per depositor. Interest is paid upon withdrawal of the principal at the end of the maturity period. Although the savings certificate offers low interest rate, certificate holders have chances to participate in a highly publicized prize drawn 36 times at national level in 3 years. The tax-free first prize is worth 20,000,000 Baht.

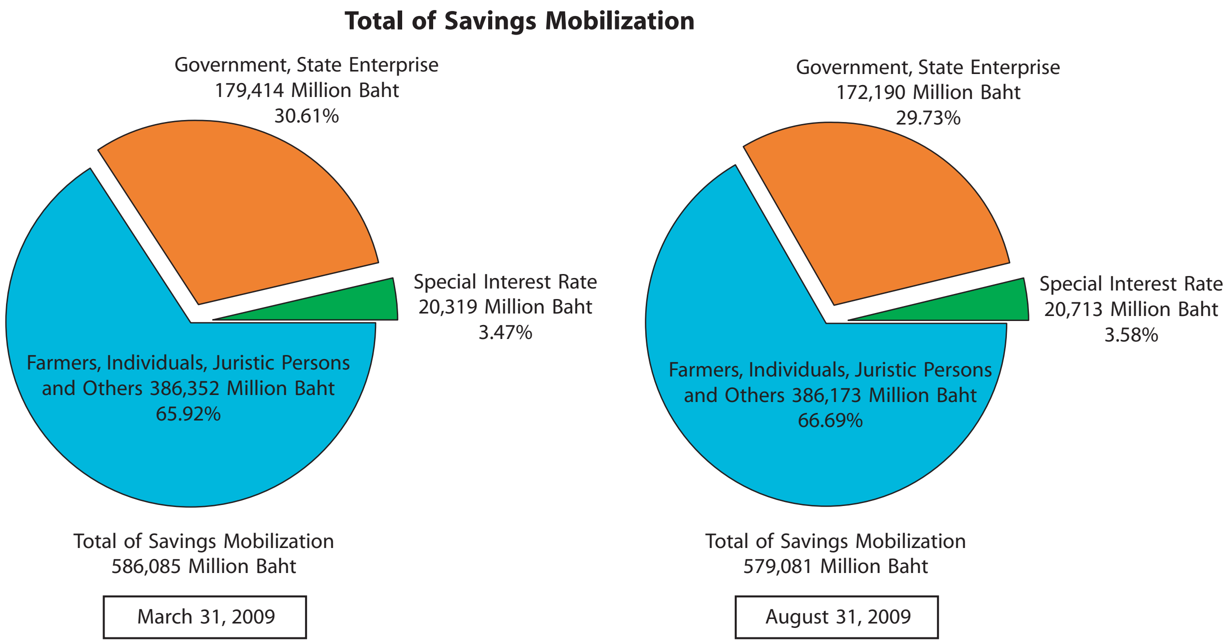
The **Permsub Saving Certificate Deposit** is for the upcountry lower-amount savers. A unit of Permsub cost 100 Baht with the winning prize of 1,000,000 Baht.

Savings for Retirement is a long-term savings product designed to fit the elderly age. Depositors will receive interest every month, which help them to manage and control their finance to deal with expenses after retirement.

School Banking is a product designed to build up awareness as well as develop good habit among the youth towards savings and also respond to the sufficiency economy theory of His Majesty the King. Moreover, the youth can also have a good practice in good banking management.

Although BAAC is a specialized government financial institution, it provides services as other commercial banks as well as mobilizes its operating fund through attractive financial products. BAAC’s savings mobilization is mainly from two main sectors, Government and private sector. On August 31, 2009, the fund mobilized from government sector amounted to 172,195 million Baht or 29.73 percent while the fund from private sector was 386,352 Baht or 65.92 percent. These funds are generated in order to fulfill its mission of helping farmers and entrepreneurs though credit provision (see Figure 4 on page 51).

Figure 4. BAAC's Savings Mobilization Portfolio



2. ASA Savings Products

ASA (Rahman, 2011) has designed its savings product considering client's protection and ensure easy access to their deposits. While normal savings is obligatory for all members, members have easy access to withdraw at door-step by keeping a very minimum amount. In case of any emergency, the whole amount can be withdrawn. Although the amount of normal weekly savings per individual is Tk10 (USD 0.013 as of June 2011), members, due to free access, usually deposit more as voluntary savings.

In terms of its long-term savings policy, ASA Bangladesh (Rahman, 2011) has a contractual savings policy for 5 and 10 years. Installments are deposited on a monthly basis, attracting high interest rate close to fixed deposit rate. ASA has been operating this savings policy for the last 7 years and is open only for ASA organized members. Some clients have opened two to three accounts in the name of their children with the purpose of covering the future expenses of their children for education and marriage.

3. EMI Savings

It is important for both the Ekphattana Microfinance Institution (EMI) and its clients to maintain mutual trust (Mingboupha, 2011). This is being achieved through continuous promotion of savings and furthering EMI's image and reputation. EMI has four main types of savings products (passbook savings, term deposit, smart kids' savings products and smart parents' savings products) as illustrated in the Table 5 (on page 52).

Table 5. EMI Savings Products and Features

Product Features	Passbook Savings	Term Deposit	Smart Kids Savings Product	Smart Parents Savings Product
Minimum Balance	10,000 kip (US$1.2)	100,000 kip (US$12)	5,000 kip (US$0.7)	10,000 kip (US$1.2)
Interest Rate	8 percent p.a. (1-2 percent higher than a commercial bank)	(1-2 percent higher than a commercial bank)	10 percent p.a. (3-4 percent higher than a commercial bank)	10 percent p.a. (3-4 percent higher than commercial bank)
Withdrawal Restrictions	Unlimited	– Early withdrawal earns passbook interest rate – Interest earned is withdrawable every month	Unlimited	Before School opens.
Term	N/A	3, 6, 9, 12, 18, 24 months	N/A	N/A
Target Clients	Individuals who want to deposit small amount and practice their savings habit	Individuals who are looking for convenience and high return on deposit	Students from Grades 4-12 can deposit and withdraw anytime	Parents who want to save money to prepare for the next year's school expenses
Benefits	Can deposit small amount and can withdraw any time, higher returns compared to a commercial bank	High returns and can withdraw interest every month	Students learn how to save money and take care of their future	Parents mobilize enough money to pay for education expenses

4. BRI Savings

Bank Rakyat Indonesia has developed a range of deposit products, which are adjusted to the varying demand of its customers. Savings deposit products, which allow withdrawals at any time, are the rural savings scheme *Simpedes*. All of these products provide semi-annual lottery prices. BRI time deposit products are offered with maturities of 1 to 24 months in Rupiah and foreign currencies (Gunawan, 2010).

BRI has devised a systematic approach to mobilizing savings, following these sequential steps: find the funds potential of the MFI, identify the unit potential savers in the unit business area, make the potential saver visit plan and make the map of the unit potential savers (Rachmadi, 2007).

To find the potential funds in the MFI working area, the MFI Staff (Manager or Credit Officer) should at least collect data on such aspects as the population of the working business area, the average Income per capita in the last data and the income ratio between the rural people to urban people.

For the MFI Potential Saver Identification, the policies on savings mobilization to the MFI are: savings mobilization is focused on the total savings below USD50 thousand, savings mobilization is stressed on savings deposit only and the number of savers, and the savings mobilization is done consistently.

The Steps to Implement Savings Mobilization are as follows: identify the MFI Potential Savers, make more intensive personal selling, keep in touch with the relevant corporate or other parties, sell the savings products appropriate to the market and use the promotion funds selectively and accurately.

The steps taken to identify the Unit Potential Savers are as follows: collect business economic data of unit business area from district/Sub-district/commune office or village office, collect demographic data of the MFI working business area and collect potential savers data that has probability to save USD50 or more, and make a register of the potential savers: individual, corporate and organization.

Individual potential savers include priority rural clients, farmers, fishermen, traders, service providers and employees, etc. The data is collected from business colleges, suppliers, various offices and neighbours. For these individual potential savers, the savings collection strategies include door-to-door selling, making a presentation during special occasions (e.g., community meetings) and promoting savings during special events (e.g., drawing lottery event).

Corporate company potential savers include government offices, schools, factories, hospitals and public health units. For this group, the strategies are as follows: make a banking service agreement with the corporate manager, build a close business relationship with the corporate treasurer manager, give a presentation during their corporate meeting and undertake promotions during their corporate events (e.g., corporate anniversary).

Organization or group potential savers include rotating savings clubs, sports clubs, NGOs, self-help groups and cooperatives. For this group, the strategies are to give a presentation in an organization/group meeting and undertake promotions in an organization/group event.

The personal selling is more effective if the MFI staff uses a promotion during his visit. The promotion may be in brochure, a gift or souvenir. A brochure is more effective after presentation in a group or community meeting. A gift or souvenir is effective to invite savers to save a certain amount of savings. During the personal selling visit, it is imperative to offer the MFI savings products that meet with the potential savers needs:

- Time Deposit: if the client needs high savings interest rate but illiquid savings
- Savings product: if the client needs liquid enough savings with interest even gives him/her special bonus (lottery prize).
- GIRO or Checking Account: if the client needs very liquid savings and cares less about interest gained.

The result of Unit Potential Saver's identification is the list of Potential Savers in the Unit business area. The next step is defining the target and visit work plan to the potential saver. To make more efficient and effective, the visit plan should be based on priority:

- *The first priority:* The village that has many potential savers, has a big probability to save, and the potential savers location is easy to be visited.
- *The second priority:* The village that has many potential savers, has a big probability to save but the savers location is rather difficult to be visited.
- *The third priority:* The village that has scattered potential savers and with difficult communication.

5. IFAD RLIP Savings Products

The Rural Livelihood Improvement Programme (Singh, 2010) in Attapeu Province, Lao PDR, has started its rural microfinance services and has supported the formation of microfinance self-help groups (SHGs). By 2009, about 300 SHGs for microfinance have been established, with a total membership of 3,000 persons, including 2,230 women. Most of the microfinance groups have converted into village banks. By October 2010, there were 27 village banks, consisting of 3,665 families, out of which 2,434 have women members.

The microfinance SHGs/village banks have regularly continued their savings, reaching in 2010 more than 200 million kip (equivalent to US$20,000). This figure has shown that the savings habit of the villagers has dramatically changed in comparison with the past when almost all income have gone for consumption, with almost nothing left for emergency needs or for income-generating activities. This shows a positive development among villagers in their attempt to get out of poverty.

As savings-linked credit is part of the programme, so far, there are 1,390 families who have borrowed from RMF groups to undertake income-generating activities, with a total credit amount of over 1,027 million kip.

D. Innovations in Rural Lending

This section presents previous innovations that are still workable and therefore are continually adopted and replicated by rural and microfinancial institutions. Likewise new products have been observed, including new strategies of selling these products.

Innovative financial products create additional value and expand the frontier of finance if they create access to the formal financial system by groups previously without access, if they reduce transaction cost of the financial services provider or the clients or both (Yedra, 2007 citing Buchenau, 2003). The products that have evolved are either an offshoot of the efforts of rural financial institution to stay relevant, remain competitive or simply to survive as an institution or deliberate attempts to develop new products (e.g. introduced by a donor or by the government) in response to recognized constraints.

1. Microagriculture loans

The Philippines and Bangladesh are already implementing microagriculture loans. These are loans for agricultural activities of small farming households. Microagriculture loans are different from the regular and traditional agricultural loans of banks where a collateral, usually agricultural land, is required and payments are usually made after harvest. The MFIs allow a lump sum payment with incremental small payments from income derived from off-farm activities. Collateral may not be required and small farmers only have to accomplish simple documentation (Llanto and Badiola, 2011).

For instance, Indian RFIs are able to extend microagriculture loans through the bank-self-help group (SHG) linkage model. A CGAP (2007) study on sample SHGs found that the proportion of loans used for agricultural purposes was on average, 55 percent.

Being a relatively new scheme, there is not much evidence yet of the efficiency of microagriculture loans in reaching small farming households.

2. ASA flexible loan products

ASA offers various types of loans (including savings, insurance, and remittance services) to its valued clients. At present, ASA has 3,177 branches functioning throughout Bangladesh. Out of them 91 percent are located in rural areas and these branches serve about 90 percent clients living in rural or village areas. The financial products have been designed considering the client's demand, capacity and socio-economic condition of the operational areas (Rahman, 2011).

ASA's loan products have been categorized into two major types considering the size of the loan. These two types are – primary loan and special loan. Some innovations/flexibilities of ASA's loan products are:

- Loans are not disbursed based on group liability/group guarantee approach;
- Providing collateral free loan. Loan size depends on client's capacity and viability of the scheme;
- Flexible loan duration – 4 months, 6 months, 12 months, 18 months, 24 months and 30 months according to the nature of scheme and choice of the client;

- Mode of repayment: weekly, monthly and one time at the end of cycle, which are determined according to the nature of scheme and choice of the client;
- Disbursement of loan – 7 days after enrollment and for next or subsequent loan; same day after full repayment of previous one;
- Loan installments are collected from door-step of the borrowers;
- Allowing a pause in repayment during emergency;
- No penalty for late payment;
- Up front deduction is strictly prohibited; and
- Attendance of the group meeting is not compulsory for the client.

3. Housing microfinance

Housing microfinance provides loans to existing microfinance clients and other poor and low-income households who are unable to access traditional housing finance for house acquisition, construction and repair. This new loan product is seen as a way to improve the living conditions of the poor and the low-income households, which will contribute to better health, productivity and quality of life. Countries like the Philippines, India and Bangladesh are already pilot-testing the effectiveness of this product. The idea is that small loans for incremental housing repair has a great demand among low-income clients but this has not been satisfied because traditionally banks provide loans covering the purchase of a residential lot and construction of a house, or a purchase of an already built housing unit (Llanto and Badiola, 2011).

4. BAAC's lending products through JLGs

The joint-liability group lending is the most extensively used among the lending approaches of BAAC (Llanto and Badiola, 2011). Under this scheme, BAAC extends non-collateralized loans through groups of farmers who are made co-liable for each other loan. The minimum number of borrowers per JLG is five and the average is 15. First-time borrowers are provided with small loans and loan size is increased with repeat loans. The loan ceiling per borrower is B50,000 but average loan size has been less than half this amount. Group members are also eligible for additional individual loans of up to ฿50,000 on the basis of two guarantors. Farmers with titled land can also use it as collateral for individual loans. BAAC staff held group meetings to encourage timely loan recovery and increase peer pressure (Muraki, Webster, and Yaron, 1998). In practice, BAAC still asks farmers for individual landholdings and may require the deed for "safekeeping" as added loan security. Loan size is set at about 60 percent of projected revenue of sale of the crop.

5. Credit and Savings Linkage

The linkage between self-help groups and formal financial agencies (FFAs) has to be a symbiotic relationship. In most of the developing countries, savings and credit schemes of FFAs are separate, each with its own set of clientele. For the purpose of linking the SHGs to FFAs two basic models with some modifications are at present working in India. In each model, there exists a two-way flow of funds as shown below (Dathathree, 2011).

- **Direct linkage model:** In the case of the direct linkage model, the bank identifies the group (or facilitates evolution of the group) and deals with the SHG directly for both mobilizing the savings and for making available credit facilities to the group as a whole or to individual members. Group cohesion acts as social collateral. In this model, the credit is generally made available to the group and members to be financed are identified by the group itself, which takes the responsibility of loan repayment.
- **Modified direct linkage model I:** Here the activity and member to whom loan is given are both identified by group. The group is morally responsible for repayment but credit is given as an individual loan.

- **Modified direct linkage model II:** In this model, the non-government organization (NGO) is not a financial intermediary. The NGO's role is only in group evolution and stabilization, whereas the financial linkage is directly with the group.
- **IFAD Model:** In this model, the NGO is involved as in third model above but the line departments of the Government like the Women Development Corporation, Sericulture and Rural Development are also involved in identification of activity, beneficiary, etc. The model is in existence in areas where IFAD projects are being implemented in the States of Tamil Nadu, Maharashtra and Uttar Pradesh in India.

In the above models, apart from two-way flow of funds, there are also flows of services, extension, consultancy, training, etc., from banks and voluntary agencies.

6. BRI loans

Besides its normal corporate loan products, small-enterprise credit schemes and the rural loan product *Kupedes*, BRI channels loans to targeted sectors and cooperatives, and also participates as a stakeholder of microfinance programmes such as the P4K project in cooperation with the Ministry of Agriculture (Gunawan, 2010).

7. Grain Bank Scheme, India

The Grain Bank scheme (Chatterjee, 2011) was conceptualized in 1999-2000 and implemented in three tribal-dominated States of India: Odisha, Chhattisgarh and Jharkhand. Based on the experiences in implementation of the scheme in the above states, the salient features for possible replication in other countries are as follows:

- Approximately USD2,000 is required to start a Grain Bank in one village;
- The initial corpus could be contributed by a development financial institution as a one-time grant.
- To start with, the pilot project could cover around ten villages and after the successful running of the pilot for one crop cycle, the same could be repeated in the same village and extended to other villages. The total grant required for ten villages would be around USD20,000.
- In each village, there could be one Grain Bank. All willing villagers could be members of the Bank.
- In the villages, an indigenous hut (locally known as PUDA, which is built with intertwined paddy straw) is built according to local custom and can serve as the actual Grain Bank building. The use of cow dung, *neem* leaves and sticks in the traditional method ensures that the Grain Bank is rodent- and pest-free. A similar low cost structure could be used for setting up of Grain Bank.
- The storage of grain is basically required for 6-7 months i.e. from November/December to June/July (in mono-crop conditions). During the lean months from May to October, when the stock of cereals with the tribal/poor families gets depleted, either they have to borrow from money lenders to feed themselves, look at alternate livelihood option such as collection of minor forest produce, migrate to urban centres in search of wage employment or in an extreme case, simply starve. It is in such situations that the stocks in the Grain Bank come handy which could be used for lending to the poor and needy in kind till their next harvesting of agriculture produce.
- The initial corpus of grain is created through the grant support and thereafter, periodical contribution can come from the members.
- Each year, just before harvest, the members can decide the quantum of contribution each family has to make. It could be either by way of grain or free labour, say for a day.
- Repayments of grain are made in kind with rate of interest as decided by the members.

- Even when the initial corpus comes as grant, the stocks are replenished by contribution from members. However, the whole process gets internalized after one crop cycle. Thus, stocks of the Grain Bank could be considered as savings and when SHG is formed the same could be used for obtaining loans from the banks.
- Self-Help Groups (SHGs) and Grain Banks can be interdependent on each other. The successful operation of SHGs and their linkage with bank will help in making the Grain Banks financially more viable.
- Once the Grain Bank stabilizes, the Food Corporation of India (FCI), a Government of India-owned corporation which collects paddy and other cereals from the farmers could also directly link-up with them. While it is costly and time taking to have FCI godowns at remote places, it will be relatively cheaper to have Grain Banks, through which, FCI's objective of food security can be met without the hassles of transportation and distribution of food grains through Government channels.
- While for each village there may be only one Grain Bank, there could be 2-3 SHGs in each such village engaged in managing of the Grain Banks on a rotation basis.

The system of grain bank is intended to provide an alternative sustainable system of food security through community participation. The vulnerable sections of the tribal areas of India adopted the system to their advantage and fall back on the grain bank in the lean season of the year.

8. EMI Lending Scheme

The Ek Phatthana Microfinance Institution lending scheme provides four grades of loans: individual loan with center meeting, individual loan, business loan and wholesale loan. The loan products and features by percentage share of clients are shown in Table 6 below (Mingboupha, 2011):

Table 6. EMI Loan Products and Features by Percentage Share of Clients

Product Features	Individual loan with Center Meeting (60 percent of the borrowers)	Individual Loan (30 percent of the borrowers)	Business Loan (15 percent of the borrowers)	Wholesale Loan (15 percent of the borrowers)
Collateral risk	No collateral risk	Based on risk weight	Based on risk weight	Based on risk weight
Number of People	Individual liability with Center meeting 5-40 Members	One person	One person	One Village (member from 50-300 members)
Disbursement/ Repayment Location	EMI office/on-site collection	EMI office/on-site collection	EMI office/on-site collection	On-site collection
Maximum Loan Amount	1.5 million kip (US$150)	1.5 to 5.5 million kip (US$150 to US$550)	5.5 to 50 million kip (US$550 to US$6,000)	30 to 102 million kip (US$3,500 to US$12,000)
Term	24 to 40 weeks	1 to 12 months	1 to 12 months	1 to 24 months
Repayments	Equal weekly repayments of interest and principal. Advance capital repayment accepted without penalty	Equal daily, weekly, monthly repayments of interest and principal. Advance capital repayment accepted without penalty	Equal monthly repayments of interest and principal. Advance capital repayment accepted without penalty	Interest monthly and principal at loan maturity date

Table 6. *(continued)*

Product Features	Individual loan with Center Meeting (60 percent of the borrowers)	Individual Loan (30 percent of the borrowers)	Business Loan (15 percent of the borrowers)	Wholesale Loan (15 percent of the borrowers)
Monthly Interest Rate	Interest rate of 4 percent flat	Interest rate of 4 percent flat. The best clients will get interest reduction to 3.5 percent	Interest rate of 4 percent flat. If the loan is more than 10 M, the interest will be charged on a declining balance	Interest rate of 2 percent flat
Target Clients	Small traders, shop owners	Individual traders, shop owners, Micro-businesses	Small business owners or individuals	Village Development Fund

E. Financing Rural Energy

Chaulagain (2010) stated that economy and ecology are two systems that are bound tightly together. Without matching basic economical parameters, ecological or better renewable technologies will not be accepted and implemented. Also without fulfilling ecological criteria like sustainability, smooth growth and energy efficiency, economical concepts are no longer competitive and will fail in the long run.

A big percentage of the rural areas do not have access to the electric grid or to other sources of energy. So far, bio-mass resources like forest and agriculture residue contribute to a big chunk of the energy supply need of the rural areas. Due to rapidly growing population, increasing economic activities and growing urbanization, there is an increasing pressure on forest areas resulting in deforestation, land degradation and soil erosion in an often fragile eco-system. Nonetheless, this scenario offers great opportunities for technological intervention and innovation, e.g. providing electricity through renewable energy technologies.

On the other hand, these technologies have to be affordable to everyone. Costly solutions may not be applicable as otherwise people will again fall back on their old practices of going into the forest for collecting fuel wood. In this context, we need proven and affordable technologies that resolve the energy problem for a particular household, village or areas and that repay back within a manageable period of time.

Another aspect that comes into play when we look at the investment is the source of funds. Only for a few exceptions, the required amount of money comes totally out of equity. The general case is a balanced structure between equity, subsidy and debt. This holds true on the household level as well as on community or project level. This implies that access to financial services is required especially for the microlevel. Unfortunately, renewable energy technologies are not very well-known to banks, microfinance institutions and other cooperatives; hence, lending and investments are still the exception, rather than the rule. Additionally, many people do not have access to financial services at all. Moreover, commercial and well-established banks are reluctant to go to the rural areas to engage in microfinance, which generally results in a lack of financial means in these areas. Therefore, it is challenging to find practical solutions for everyone and bridge the gap between the urban and the rural areas.

There are two aspects in financing renewable energy: one is lending for the purchase of equipment and construction and development of renewable energy, and second, lending for normal agricultural activities that takes into consideration ecological responsibility.

The FinPower Programme took a closer look into the processes involved in renewable energy development and the financing arrangements that are needed to be in place. Thus, APRACA FinPower in collaboration with IFAD, Nepal Rastra Bank and the Alternative Energy Promotion Center of Nepal highlighted in a Green Financing Forum in Nepal the development and financing of renewable energy projects at the grass roots level.

Improving access to clean and affordable energy is one of the Millennium Development Goals (MDGs) and 2012 is declared as International Year for Sustainable Energy to make energy available and affordable for all by 2030 (Nagarajan, 2011). Asia, similar to many developing countries, is experiencing the last mile challenge in bringing affordable, reliable and clean energy to rural and remote areas. About 92 percent of the people in South Asian countries who live without electricity are based in the rural areas. Even if available, flow of grid-based electricity has been erratic, very costly and of lower strength in several Asian countries.

Households spend a substantial portion of their incomes on inefficient energy sources. Grid electricity is expensive to provide in rural and remote areas. But, many pilot projects are showing that developing stand-alone off-grid solutions using renewable energy sources is feasible for rural areas. However, the use of renewable and clean energy is limited primarily due to factors such as lack of funds to develop, distribute and install energy saving and clean energy devices, lack of supportive government policies and incentives, poor distribution, uneven service and after-sales support, lack of awareness among rural residents and funds for initial investment, and the small capacity of firms that produce and market these products. Most of the renewable energy initiatives involve high initial costs and access to external finance is required at all levels including end users, distributors and manufacturers to develop, distribute, install and buy such devices.

Several financial mechanisms are now being tested to finance rural energy needs, especially through solar power, in Asia. They include special loans to finance installation of solar home systems in partnership with solar kit manufacturers and in combination with dedicated savings account to capture household savings that occur due to switching to solar from inefficient energy sources. Similar to the model of airtime purchases, pay-as-you go models for buying solar power are also being tested. Online microfinance intermediaries are also emerging to facilitate peer to peer lending for installation of solar systems. Value chain finance is also promoted to ensure steady supply of solar energy devices.

1. Financing renewable energy in Nepal

In the rural areas, financial intermediary-NGOs (FINGOs) and cooperatives play a significant role in providing financial services (Chaulagain, 2011). Still in the rural areas, 55 percent of the population has no accounts compared to only 23 percent in the urban regions. MFIs have offered some institution-based protection schemes related to livestock death and life insurance.

The policies in the renewable energy (RE) sector are scattered in various documents and executive orders. They include the policy statement of the Government made in the periodic plans (mainly five-year development plans), government orders (policies during the annual budget announcement and policies approved by cabinet, laws enacted by Parliament) and notices. Although there is no RE Act in Nepal, there exist the Water Resource Act 1992, Electricity Act 1992 and the Hydropower Policy 2000, which are mostly related to hydropower including microhydro as well as the Renewable Energy Policy 2006 and RE Subsidy Policy 2008.

The Government of Nepal promulgated its Rural Energy Policy in 2006. This is its first national policy on RE sector with focus on decentralization to some extent. The overall goal of this policy is to contribute to rural poverty reduction and environmental conservation by ensuring access to clean, reliable and appropriate energy in the rural areas. Some of the major aspects of this policy are capacity of the local bodies for planning, implementation, monitoring and evaluation, increase involvement of private sector, community management, diversification of productive end-uses and research and development.

The Government revised the subsidy policy for RE in 2009 with the objective of increasing development impact in terms of service delivery efficiency and increased access to rural poor and disadvantaged people. The policy has provisions of providing subsidy to hydropower up to 500 kW, solar energy, bio-mass (bio-gas, Metallic ICS), improved water mill and wind energy. This subsidy policy is more inclusive as it focuses on remoteness, poor and disadvantaged people and low caste. There is a financial subsidy in solar photo-voltaic (PV) system and the amount of which depends on the size of the PV and the geographical location of the recipients. The average size of the system sold is around 20 kWp. Due to transport costs, the subsidy is higher in more remote areas. The subsidy for SHS contributed is on an average around 40 percent of the total investment costs. For the PV systems of 5-10 Wp, the subsidy amount is NPR2,000; for the PV systems of 10-18 Wp, it varies from NPR5,000 to NPR7,000; and for the systems more than 18 Wp, it varies from NPR6,000 to NPR10,000.

Generally, the subsidy is being provided to micro/minihydro plants below 500 kW installed capacity for installation and for rehabilitation. The subsidy for microhydro is calculated at two ceilings – one ceiling is per kW and the other ceiling is per household electrified. The lower ceiling is applied for the subsidy approval. There is also a transportation subsidy that is approved based on the remoteness – the distance in km to the next road ahead. Sometimes the nearest road can only be reached with a few days' foot-march, which results in increased investment costs significantly – as all the construction materials have to be carried by porters to the site. For microhydro, the subsidy contributes up to 50 percent of the total investment.

The subsidy for bio-gas also distinguishes between remoteness and size – equal to the mechanism for solar home systems. The subsidy is around 30 percent of the total investment costs. The subsidy is given by the Rural Energy Fund (REF), a cash fund that is supported by different donor agencies (Danida, Norad, KfW) and administered by AEPC and one of its programmes Energy Sector Assistance Program (ESAP). In the case of the Rural Energy Development Program (a programme for community-managed microhydro jointly supported by the World Bank and the United Nations Development Program), the subsidy to the communities for the microhydro installation has been provided through the District Energy Fund (DEF).

The subsidy is given through a transparent and clear mechanism that is soon qualified for ISO-Certification. To ensure quality of the technologies, AEPC has its own test station. The qualified technologies and manufacturers are shortlisted. This ensures that only proven quality is supported and installed at the household level.

Summarizing, renewable energies have a huge market potential in Nepal. As the technology is already proven and its quality monitored there is hardly any technical risk. Additional manufacturers offer a guarantee mechanism up to 2 years. To make the technology affordable to everyone, subsidy is contributing significantly to the total investment costs – between 30-50 percent depending on the technology.

Commercial banks are potential partners for placing funds at local financial institutions for investment into rural renewable energy technologies. According to existing rules and directives by the Nepal Rastra Bank they are obliged to lend a certain amount of their portfolio to the deprived sector. Rastriya Banijya Bank has a programme for fund for renewable energy loans (www.rbb.com.np – Rastiya Banijya Bank website).

From AEPC's perspective, further promotion of renewable energies needs the involvement of the financial sector. For a solid financial structure, investments on household level as well as on project level need access to credit. Only then can the outreach and widespread use of renewable energies in the whole country continue. Therefore high efforts have been undertaken to solve the current situation and motivate banks taking their role in the rural renewable energy finance.

The general model concentrates on financing solar home systems and microhydro plants. These two technologies offer access to electricity – which is considered to be the motor for further development and is also part of the millennium development goals to which Nepal has committed itself. The major challenge lies in creating linkages between the urban banks and the rural areas. The general idea behind these linkages is to channel funds from commercial banks to microfinance institutions. These institutions act as local financial partners for the banks. The local partner will be responsible for the further lending to each household, collecting the repayment, monitoring etc. This model has several advantages. Banks can reduce their administration costs as they will only do the wholesale lending to the local partner. This is efficient and costs only small administration costs. The local partner will do all the lending and documentation as it is required for proper bank practices. For each individual household, there can be different sorts of securities. This will satisfy the requirements of the banks and ensure the commitment of the household to repay its loan. The collateral can be in form of cattle, landowner certificate, personal guarantee or others. The repayment rate can be arranged per the need of each household. In general the repayment rate is close to the amount of money that has so far been spent on kerosene. The local partner is responsible for the collection, monitoring and controlling of each loan agreement.

AEPC is undertaking great efforts to promote and realize partnerships between urban banks and rural financial partners through its programmes such as the Energy Sector Assistance Program (ESAP). As a facilitator, funds have also been earmarked to cover the costs for technical insurance and debt insurance. Including Nepal's existing debt insurance company, the Deposit and Credit Guarantee Corporation (DCGC) is part of the strategy to involve all relevant partners. Instead of setting up a guarantee fund, DCGC is the matching partner for reducing the investment risks.

AEPC/ESAP will keep up the support for the local partners until all loans of the households are repaid. Urban banks are receiving capacity building in renewable energy technology, project finance and risk analysis. This will make them more comfortable with the concept of project lending and will help them consider and reduce inherent risks. To reduce the administration costs, AEPC/ESAP is also willing to share the costs of the required field trips up to a certain level.

Overall AEPC/ESAP is using its broad network to bring banks, local financial partners and user committees of microhydro projects together. Particularly, AEPC/ESAP is providing the relevant information for banks as to which microhydro projects require loan. These documents cover cash flow analysis, technical analysis and feasibility study, among others. At the same time AEPC is looking for suitable local partner institutions. Bringing all partners together around one table is already considered a first-step success and the basis for entering into loan agreements.

In the case of solar home systems (SHS), a pilot project has successfully been carried out. In three districts, an assessment of the demand for solar home systems has been undertaken. On the basis of the demand, 20 microfinance institutions have been trained on technical and financial issues. To strengthen the institutions, accounting, bookkeeping, management and business plan training are also conducted. Finally these institutions are introduced to urban banks as potential partners for renewable energy finance with sufficient potential for solar home systems – as the pre-assessment showed. So far two commercial banks have entered into agreement with local partners and have already transferred the first part of the agreed sum. This successful model will now also continue in three other districts. For the future it will be expanded to other technologies as well.

Recently AEPC has been successful in creating partnerships in the field of solar technology. Capacity training of local financial institutions that face a high demand of solar home systems has been fruitful.

A few banks finally lent money to those institutions that act now as their local partners. This successful programme is to be replicated in other districts.

Regarding microhydro projects, many banks are willing to invest in the rural areas. AEPC/ESAP is currently training these banks in project and risk analysis. At the same time AEPC/ESAP is training local potential partners for entering into agreement with the urban banks.

2. RBB bio-gas loans

Rastriya Banijya Bank's (RBB) main objectives are to provide banking services throughout Nepal and contribute in the socio economic development of the country. The bank's major activities include accepting deposits, lending to productive sectors and SMEs, investment in government securities, dealing with foreign currencies, processing domestic/foreign remittances, merchant banking, correspondent banking services, etc. (www.rbb.com).

The bank has a deposit base of more than 1.2 million depositors. The depositors are individuals, institutions, private organizations, business houses, non-profit organizations, social organizations, industries, finance companies, co-operatives, etc. The bank has more than 300,000 clients who have used the bank's resources for their business and development activities. They vary from big business houses to public sector enterprise, medium and small-scale industries to farmers and individuals. RBB has a bio-gas credit programme in the rural areas.

3. Financing solar home system and solar irrigation in Bangladesh

Around 70 percent of people in Bangladesh are outside the electricity facility while around 90 percent are outside the natural gas network (Moniruzzaman, 2011). Renewable energy, especially solar energy and biogas can provide a sustainable and environment friendly solution to reduce the above crisis. In order to encourage the use of bio-gas, solar energy in households and business institutions in rural areas and solar energy driven irrigation pumps in off-grid areas of the country and to encourage investment by the banks/financial institutions in the said sectors, a refinance scheme of Tk2 billion has been introduced by Bangladesh Bank in 2009.

4. Financing the Household Solar Project in the Philippines

In 2006, CARD BDSF partnered with SHELL SOLAR PHILIPPINES in making available the household solar power (Navarro 2010). CARD joined the project for two major reasons: 1) Like its housing microfinance project, rural electrification connects to CARD's social mission; and 2) The clients of microfinance in the rural areas where there is no electric power were also the target clients of the rural power project. CARD took charge of the financing while Shell Solar Philippines handled the technical and marketing aspect. A total of 197 CARD members from the province of Oriental Mindoro availed of the household solar power loan.

The borrower can choose from two models: SM 160 at a cost of about USD480 and AC 300 at about USD1,280. Below are the terms and conditions of the loan:

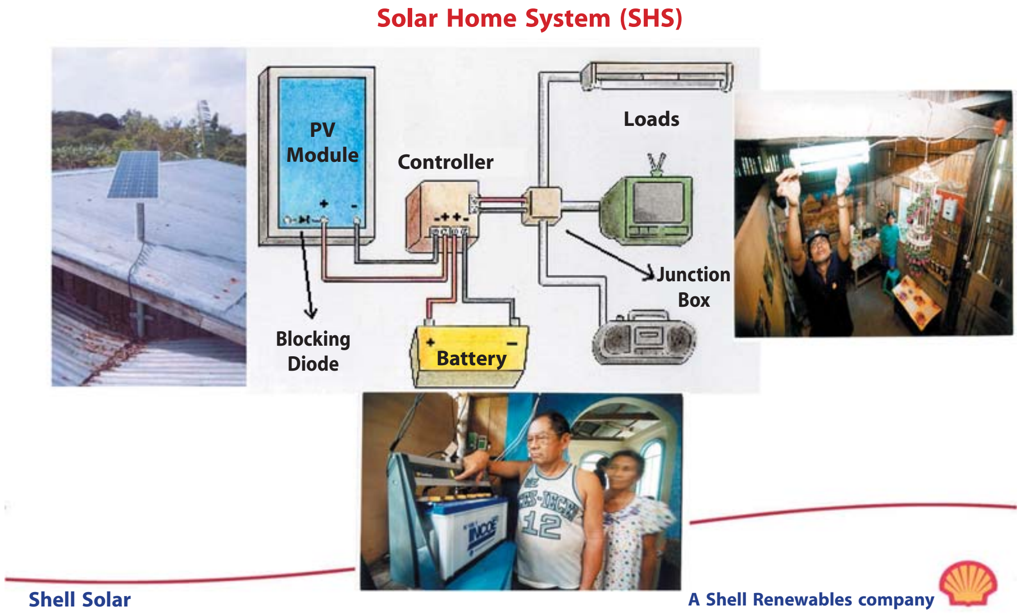
Table 7. SHS Model SM 160

SM 160	
Product specifications	Includes 1 solar panel, 1 control box with battery, 4 lights and 20 meter cable
Loan amount	PhP24,000
Interest per annum	24 percent (based on yearly outstanding balance)
Loan term	3 years (advance payment is accepted/but rebates are given upon full payment of the loan)
Loan redemption fund (LRF)	1.5 percent of the outstanding balance
Down payment CARD member	(None) for stock holder + PhP360 LRF PhP1,000 for non stock holder + PhP360 LRF 25 percent of the cash price inclusive of the PhP1,000 service fee + LRF
Non-CARD member	(PhP6,360) Note: D.P. is applied to loan
Penalty on late payment	PhP20 per day
Other conditions:	
– Security/contract	Unit is supported by affidavit of voluntary surrender
– De-installation	1 missed paymet or 1 month and 2 weeks (after 1 missed payment the borrower is given 2 weeks to settle his obligations)

Table 8. SHS Model AC 300

AC 300	
Product specifications	2 50WP Panel, 2 Batteries, 1 Control box, 1 Inverter, Cable wire
Loan amount	PhP64,000
Interest per annum	24 percent (based on yearly outstanding balance)
Loan term	3 years (advance payment is accepted/but rebates are given upon full payment of the loan)
Loan redemption fund (LRF)	1.5 percent of the outstanding balance
Down payment	(None) for stock holder + PhP960 LRF PhP6400.00 for non stock holder + PhP960 LRF
CARD member	25 percent of the cash price inclusive of the PhP1,000 service fee + LRF
Non-CARD member	(PhP16,960) Note: D.P. is applied to loan
Penalty on late payment	PhP20 per day
Other conditions:	
– Security/contract	Unit is supported by affidavit of voluntary surrender
– De-installation	1 mission payment of 1 month and 2 weeks (after 1 missed payment the borrower is given 2 weeks to settle his obligations)

Figure 5. Diagram of a Solar Home System



Project Outcome

The CARD MRI Research Unit undertook a focused group discussion on the outcome of the project and the perceptions of the clients on the various aspects of the project for an informed decision on its continuation. Volunteers from among the solar power buyers, both CARD and non-CARD clients served as respondents in the FGD on February 11-13, 2008.

Many of the respondents were engaged in crop production/rice farming and livestock. Some managed very small convenience stores while the rest were into petty trading. Most of the respondents had acquired their solar units for 1.5 years. Almost all of the respondents signed for a 2-year loan term. Many of the CARD member respondents who availed of the solar loan had been CARD members for more than 5 years.

Reasons for Availing Solar Loan: Majority of the respondents who availed of the solar loan live in communities with no electricity. They decided to get the loan to: (a) meet their desire of experiencing the comforts of having a lighted house; (b) supplement other sources of power; (c) cut the costs incurred in electric power generation; and (d) minimize the hazards and inconvenience of using generators and traditional lamps. Only a few respondents with electric connections availed of the item. A few clients wanted to be free from worrying about their monthly electric bills.

Product Features: Majority were dissatisfied with some features such as the limit in the charging capacity of the battery and types of appliances that can be plugged in to the unit.

Loan Procedures: Majority of the CARD member respondents said that processing of loan was quick and easy, the introductory price was reasonable, and the payment was easy. They did not have complaints on the loan interest and insurance. Similarly, the non-CARD respondents expressed satisfaction on the terms given to them.

Most respondents complained about the imposition of the PhP20 per day penalty on late payments. Moreover, they found the increase in price of the regular and upgraded units a bit high. They suggested waiving the penalty on late payment. For upgrading of units, they suggested lower monthly amortization if the price cannot be lowered and/or make the term longer.

Payment Collection/Remittance: CARD member respondents did not have a problem in remittance of payment. The opposite was true for the non-CARD respondents who complained of there being no information of the place where they could remit their payment (not even of the addresses of the branch offices), instances when the staff did not have printed receipts available for their payment which led to non-acceptance of the payment, penalty charges being levied for late payment and diverted use of the payment by some CARD members who have been asked to pay on the former's behalf. A few respondents cited that they had no information that the unit will be pulled out if they were unable to pay after 2 months. They suggested allowing loan re-structuring to clients who faced crisis.

Despite concerns on maintenance, the respondents preferred to keep the solar units and complete their payment. They proposed assigning one technician for each town, setting up of a repair center in the middle of the distribution area, and teaching them basic repair procedures. Some of them were willing to pay for the maintenance services.

Promotion and Marketing Strategies: Majority of the respondents felt that the promotion was a bit exaggerated especially on the durability and life span of the battery. They demanded truthful advertising. The non-CARD respondents from one city suggested more intensive promotions such as posting banners with locations of distributors. The CARD members requested for incentives such as calendars.

Effects on the households: Lighting their houses was the most commonly cited effect of the project. Clients claimed to be more productive because they could do other chores even at night. Most of them also appreciated lighting their children's studies at night besides avoiding the hazards of using kerosene lamps. Economically, clients mentioned the reduction in their electric bills and expenses on fuel for generators and traditional lamps. They also expressed their lack of worry during typhoons and calamities due to availability of the solar power.

Effects on business: Although only a few respondents had used the solar units for income-generating activities, those who had home-based businesses claimed to have benefited and cited that the solar power did not cause hazards to their business.

Effect on the community: Even if the respondents did not have much to share about the effects of the solar project in their community, they were happy to note that somehow the solar power provided light to people passing by their houses, perhaps discouraged robbers, demonstrated an alternative source of electricity, and enhanced social relationship.

5. Financing rural water

Nagarajan (2011) noted that "Rural water comprises water for drinking and cooking purposes, human hygiene and sanitation services, farming, livestock production, irrigation and agro-processing. While Asia is on track to achieve the MDG target of halving the proportion of people without access to water by 2015, it still lags behind the target for the poorest quintile of households in rural areas. It is estimated that up to US$30 billion a year is required to finance development of water and sanitation facilities in order to achieve the MDG target in developing countries. The financial needs in the agriculture sector alone are estimated at US$9 billion a year. The number of potential clients in rural areas for investments in water supply is estimated to be about 5.0 million in East/Southeast Asia, 10.3 million in South Asia, and 3.1 million in sub-Saharan Africa. Initial investment and maintenance needs for rural water facilities are large, especially for irrigation purposes, and require external financing. The potential demand for water related micro-loans in Asia and Sub-Saharan Africa is estimated at US$1.5 billion for improving rural water supply.

"Currently, the formal rural financial markets meet only a very small portion of the rural water financing needs. In many countries, rural water supply often involves governmental subsidies and donor grants. It is common to find many failed rural water supply schemes after the subsidies and grants ended raising doubts about public investments in rural water. However, some innovative mechanisms are now seen that smartly combine grants, loans, and value chain finance in order to meet the demand for water finance in rural areas. Some new initiatives include performance based aid that could be combined with commercial loans, loan guarantees for commercial loans, soft loans from water companies combined with donor grants in order to install and maintain water facilities for a fixed period, and grants for capacity building of financial institutions to develop appropriate instruments to finance water initiatives."

6. Pilot-testing rural water and irrigation in Lao PDR

The IFAD-APRACA FinPower Programme commissioned the Alternative Energy Promotion Centre of Nepal to conduct a pre-feasibility study of setting up a microhydro system in Attapeu, Lao PDR. The visit on the pilot-testing of MH schemes in selected localities of Attapeu province is quite successful and effective in the sense that the initial assessment shows the Attapeu province to have possessed huge and bright prospects for the development of decentralized micro hydropower systems to boost the local agriculture, support livelihood related activities, generate local employment and preserve local environment to ultimately lead to enhanced rural livelihoods. The visited sites for piloting the micro hydropower demonstration scheme are deemed technically feasible and economically attractive in that the socio-economic situations in the high uplands could be tremendously improved through the installations of the plants. As the proposed MH schemes are supposed to be implemented as pilot projects, due attention need to be paid to all cycles of project development so that the future projects will have strong messages for promotion and success as well as clarity and confidence for way forward. The support and enthusiasm of all the stakeholders for the development of the systems were found to be very high although the capacity of the concerned agencies and beneficiaries needed to be enhanced.

It is recommended to facilitate conduct of a detailed feasibility study immediately by well experienced consultants in the two communities. The support to the community for this endeavour by APRACA-FinPower, IFAD and RLIP, the Government of Lao PDR and private investor/lenders seem quite crucial besides various other anticipated supports from district /provincial bodies. The successful completion of the detail feasibility would bring out a clear picture about the projects viz. the size and design of schemes, implementation aspects, resource needs, capacity assessment and operation and management module besides planning of actions after the advent of electricity. Side by side, it is highly recommended to take proactive actions towards providing the financial resources for the implementation of the project(s) as there is no doubt about the viability of the project in the identified areas. The IFAD support through its existing project – the Rural Livelihood Improvement Project would be extremely effective and instrumental to forge ahead the activities as the implementation of the MH schemes seem to meet the IFAD, RLIP programme objectives. Implementation of some sort of social mobilization package is also highly recommended in the programme communities. Being the first pilot schemes in the province, the implementation activities, especially the technical ones, are recommended to be monitored and supervised by experienced technical personnel, as the success of the schemes would pave the clear and fast ways for the rapid dissemination of the technology in other parts in the latter days.

F. Financially Empowering Rural Women

Since the late 1970s, serving the needs of women especially in rural communities has gained popularity. International aid agencies and donor organizations have provided funds specifying their use for the development and uplift of the status of women.

Lack of appropriate education has rendered women vulnerable in most societies. Thus, women rarely own properties or acquire wealth due to this financial dependence. The International Fund for Agricultural Development (cited by Navarro 2011) published the following facts in June 2011:

- Giving women the same access as men to agricultural resources and inputs could increase production on women's farms by 20-30 percent, reducing the number of hungry people in the world by 100-150 million.
- Women comprise almost 50 percent of the agricultural labour force in Eastern Asia and sub-Saharan Africa and 20 percent in Latin America.
- In developing countries in Asia and Africa, women typically work 12 to13 hours per week more than men.
- The value of men's livestock holdings is twice that of women's.
- Men's landholdings average three times those of women. Women represent fewer than 5 percent of agricultural landholders in North Africa and Western Asia, and an average of 15 percent in sub-Saharan Africa.
- Women receive only 5 percent of the extension resources of men, and are granted fewer and smaller loans.
- Many rural women spend up to four hours a day collecting fuel for household use, sometimes traveling 5 to 10 kilometers a day.
- In households headed by women, members have less education than those headed by men in all countries.

IFAD (2010), for example, noted that "Cambodian women are at a serious disadvantage compared to men, although some progress has recently been made to improve their socio-economic status. They are often overloaded with work, restrained from basic assets and the access of services especially health and education. They are also vulnerable to domestic violence and more vulnerable to poverty especially as heads of households. (cited by Navarro, 2011)". IFAD thus embarked on gender mainstreaming with the ultimate goal of gender equality, to "…have access to appropriate resources and services and to empower them to express their voices and concerns within the community."

In the linkage banking model (Dathathree, 2011), another question that naturally comes to the mind is why the focus of the programme is on maximum coverage of women in SHGs. For various reasons, there is a positive bias in favour of women in SHG-BLP. These are:

- Women have a better repayment rate as they are more susceptible to peer pressures;
- Women are the solution to many problems;
- Women first use money for the family rather than on consumption/leisure;
- Women look to the future with a planned strategy to improve the family situation; and
- Women experience poverty more than men.

The following selected cases of institutions and projects, contained in a FinPower Programme review commissioned to Navarro (2011), highlight the role played in financially empowering rural poor women in Asia:

1. Women's World Banking (WWB)

Established in 1979, Women's World Banking (WWB) started to network financing institutions around the world with the goal of helping women become full participants in the growth of the economies of their respective countries (WWB, December 2011). It has succeeded in elevating itself as the finest international voice for women in microfinance. It looks forward to a day when "all women will be able to build a secure financial future for themselves and their households." Today, its network is serving 80 percent women among a total of 26 million clients through a US$7 billion outstanding loan portfolio. Fourteen of these institutions are in six countries of Asia. (WWB, December 2011).

A WWB affiliate in India known as Friends of WWB was founded as a non-profit organization in 1982 to extend and expand informal credit supports and networks within the country to link them to a global network. It promoted the direct participation of women in the economy through access to financial services.

2. ASA (Bangladesh)

Established in 1978, the Association for Social Advancement, now more commonly referred to as ASA, is one of the largest and most efficient microfinance institutions in the world. Initially engaged in various social development programmes such as social action awareness campaign, training of birth attendants, capacity building of journalists, health and nutrition, education, sanitation and others, it eventually focused solely on microfinance services as a tool in fighting poverty in 1992 (www.asa.org.bd).

Following its home-grown and globally acknowledged "ASA Cost-effective and Sustainable Microfinance Model", it became totally donor-independent in 2001. By following the model, many MFIs around the world gets results in a short time. ASA guarantees that using the model will make a branch operation sustainable within 12 months.

With operations in the entire Bangladesh and other parts of the world, ASA provides various loan and savings products, insurance and health assistance to individuals that are organized in groups. It popularized the individual lending scheme as opposed to the solidarity or group lending model that preceded it in terms of mass appeal. ASA assists small and emerging NGOs in Bangladesh to enable them to participate in poverty alleviation. As of end of 2009, it has about 5.5 M active clients with a loan portfolio of USD457.6 M.

3. CARD Philippines

While building its microfinance programme, CARD saw it as women empowerment more than microcredit because it gradually observes the development of self-worth among its women members. Members of CARD are taught life skills, health and business in weekly center meetings to upgrade their information necessary for their effective participation in household decision making. Miller (2007), in his story of CARD says, "Grameen's group lending model helped the women liberate themselves from their traditional roles of toilers of the fields. It introduced these women to a world where networks and group identity, respect and reputation, skills and knowledge, and ingenuity and entrepreneurship were recognized for their primary cultural and social value."

Microfinance beneficiaries use their productive loans in various micro-business ventures such as street vending, ambulant peddling of a variety of goods, tiny convenience stores, tricycle operations, small eateries, crop and livestock production, and other agricultural ventures. Some use their loans not as start-up or additional capital but for purchase of raw materials and even equipment needed for processing food and non-food products. The loans directly or indirectly benefit them and their families through ensuring that they will have fund for daily survival and basic necessities such as food, clothing and children's education (Navarro, 2011).

Le Thi Lan (2010), as cited by Navarro (2011), noted the socio-economic effects of microfinance in Vietnam and other countries. The effects include contribution to poverty reduction, job creation, diversification of income-generation activities and improvement of living standards. Interestingly, it discussed improvement of women's status in terms of their improved ability to manage their economic activities and family affairs as a result of learning business skills and useful information on health, nutrition, etc during periodic members cluster's meeting.

4. Bank Keshavarzi (Iran)

The only bank in Iran that supports the agricultural sector, Bank Keshavarzi (BK) offers both macro and microfinancing of farming, horticulture, aquaculture, animal husbandry and related agricultural ventures including handicrafts. It has microfinance programmes designed especially for women as follows (Motamed, 2011):

- Hazrat Zainab Plan for rural women who serve as household heads was launched in 2003 with some 206,274 loans, to the value of Rls1,321,922 million. In 2008-2009, the loans disbursed amounted to Rls10,996 million.
- Kowsar (Hazrat Fatima) Plan is designed for creating jobs for rural girls, orienting them with banking operations, preventing their migration to cities, and promoting their social positions. The plan is currently implemented in Yazd and Zanjan provinces.
- Iran Plan was developed exclusively to provide Iranian women access to banking services with exemption from payment of some fees and service charges.

All plans offer small, short-term and unsecured loans to women microfinance clients that include those in the urban areas also. BK encourages women clients to organize clients club with incentives to those who can refer new customers to the bank. Studies show that BK has succeeded in its objectives of making women, especially in the rural areas, use the financial services to start a new business venture (Motamed, 2011).

5. Kashf Foundation

Starting as an action research programme to determine key factors of the demand for microfinance services by poor women, Kashf Foundation in 1995 became the first microfinance institution in Pakistan targeting women clients only. Kashf's mission is to alleviate poverty by providing quality and cost-effective microfinance services to enhance economic and decision making capacity of women in low-income households. It provides general loan for micro-business ventures, business *surmaya* loan for fast moving enterprises, emergency loan and housing improvement loan as well as insurance protection. Through its *Dastkaari* programme started in 1998, it improves the artisan skills of rural women and connects them to markets for their products.

As contained in their impact assessment reports of 2005 and 2010, Kashf takes pride that their women clients are "leading more financially prosperous, empowered and healthy lives relative to their communities and are actively saving money and achieving financial self-sufficiency" (Kashf, December 2011). The foundation has a nationwide network of 152 branches serving 305,938 families with a USD202 M loans disbursed.

6. Negros Women for Tomorrow Foundation, Inc. (Philippines)

Aiming at helping women achieve self-sufficiency and self-reliance, particularly in low-income and depressed urban and rural communities in Negros Province, Philippines, NWTF began as a NGO in 1984. NWTF also sought to raise women's awareness of their economic potential, improve their skills and productivity thereby elevating their quality of life (BWTP, December 2011).

NWTF is one of the early adopters of the modified Grameen solidarity lending model in the Philippines that it started under the name Project *Dungganon* (Honorable) in 1989. In 2009, it piloted the individual lending scheme known as Project *Kasanag* (Light Offering Hope). These are the two methods that NWTF has refined to continuously use until today. *Dungganon* loans range from PhP1,000 to PhP30,000 to finance start-up or business expansion capital. *Kasanag* loans are for higher capital requirements ranging from PhP30,000 to PhP100,000. Other loan products are education loans, utility loans and family loans.

Operating in seven provinces, NWTF mandates deposits for personal savings, group tax on loans, group training fund as well as any penalties levied on a member (WWB, December 2009). NWTF has 85,808 active borrowers with a gross loan portfolio of USD11.1 M and assets of USD16.6 M in 2010.

7. Sathapana Limited (Cambodia)

The first MFI to obtain license from the National Bank of Cambodia to take deposits from its members, Sathapana Ltd. was the original Cambodia Community Building NGO established in 1995 (Navarro *et al.,* ed. 2011). Bearing the name Community Enterprise Building, it obtained a license to operate as MFI in 2003. Initially providing credit and loan services, it now includes money transfer in its services.

It targets the entrepreneurial poor and medium poor for its micro, small and medium loans. Sathapana defines entrepreneurial poor as having one or more income-generating activities or an infant micro enterprise while medium poor as a sole proprietor of micro or small enterprise with a good track record for at least a year. In 2007, it launched its agriculture loan that can be paid in lump sum at the end of the loan term or in parts before the term ends. For quite a time as a registered provider of financial and health education services, it used the village banking approach that gave way to its current mix of solidarity and individual lending schemes.

As of end of 2009, it has 36,228 clients with a loan outstanding of USD39.6 M and total assets valued at USD43.4 M.

8. SEWA Bank (India)

The word "Sewa", in Hindi, means "service". Poor, illiterate and vulnerable are the so-called self-employed workers of India who survive through running small enterprises or selling labour. Unorganized self-employed women comprise 96 percent of all women workers in India. In 1972, a group of such self-employed women registered the Self-Employed Women's Association (SEWA) in Gujarat State with the main goal of "strengthening its members' bargaining power to improve income, employment and access to social security (*www.sewabank.com*)."

To address the problem of lack of working capital, non-ownership of assets, exploitative loan terms from money-lenders and lack of appropriate banking services for the informal sector, the SEWA members established the SEWA Bank, a cooperative bank registered in 1974 under the dual control of The Reserve Bank of India and the State Government.

SEWA Bank has activities in both urban and rural areas providing various products and services such as savings, loans, housing for slum dwellers (Parivartan), pension, insurance and ATM. It also provides non-financial services in the form of financial and business counseling, financial literacy and education (using its Amrut Zaranu communication and marketing tool) and energy services.

"SEWA Bank is a pioneer in gender-sensitive micro-insurance" says Benthia et al (2009). The insurance programme is tied to the fixed savings deposit account, "giving clients the option to pay insurance premiums with the interest accrued from the savings account (Banthia et al, 2009). There are three package of insurance priced differently considering affordability and covering death, health and assets of women (including espouses and children at the option of the women members). The women like to attend meetings organized by SEWA to provide a forum for discussion of issues and concerns related to their insurance and micro-insurance in general.

SEWA Bank focuses its rural banking activities in Gujarat, a highly industrialized state of India but characterized by erratic rainfall, skewed land distribution and people sacrificing their assets for mortgage just to meet their daily needs. It organizes self-help groups who save money collected from the members in the bank until the group becomes eligible for loans.

9. TYM Fund (Vietnam)

The TYM Fund was organized by the Vietnam Women's Union in 1992 to provide its members with credits, savings, mutual assistance fund and integrated community services. With the goal of lending a hand to the government in its fight against poverty, it initially followed the Grameen banking model with financial and technical support from ACT, CARD, Grameen Trust, OXFAM America, German Savings Bank Foundation, CORDAID, Ford Foundation, Rabobank and others.

The TYM Fund's 2009 Annual Report cited 41 branches that operate in 10 provinces and cities with 211 of a total 233 staff working in its areas of operations. Its total loan disbursement amounted to USD13 M.

Over the years, "TYM has helped more than 55,000 women to escape poverty and participate in managerial work and community activities" (TYM Fund Annual Report, 2009).

10. Women Development Federation (Sri Lanka)

An NGO owned by women, the Women Development Federation (WDF) emerged in 1989 after Janasaviya, the National Poverty Alleviation Program of Sri Lanka. These women wanted to guarantee the continuation of the programme through the establishment of women societies. WDF "*was made to be that the owners are women, managed by women for the betterment of women*." The founding of WDF anchored on the goal of reaching poor women who need help to get them out of poverty and set them free of various harassments and discriminations. Its initial operations were in the remotest and poorest districts of Hambatota and Monaragala. Today, it has 40,000 active members. Mix Market (December 2011) reported 15,840 active borrowers with a gross loan portfolio of USD3.3 M and asset of USD7.9 M in 2010.

WDF provides a variety of products and services such as loans, savings, insurance, business training, "barefoot" library, nutrition and health care, care for the elderly and environmental conservation. Loans are offered for production-related activities predominantly in agriculture (including livestock) though loans for housing, consumption and emergencies are available. Savings products include ordinary savings, children's savings, fixed deposits, group fund deposits and elderly savings. "Life-support insurance," designed to provide social security, covers life-cycle events, e.g., death, marriage, birth, serious hospitalization/surgery and natural disaster-related expenses (WWB, December 2011). Socio-economic indicators such as poverty incidence demonstrate the impact of WDF interventions. Statistical data shows higher literacy rate and employability rate among rural women, lower rate of women abuse and higher women life expectancy rate in Hambatota relative to other districts.

11. XacBank (Mongolia)

With over 50 percent women clients as reported in 2009, Xacbank operates in each of the *aimags* (province) of Mongolia. It provides a full range of financial products and services that include a variety of loan and savings products and money transfer, payment settlement and leasing services in remote rural areas. It serves even nomadic shepherds.

XacBank came to fore as a result of the merger of the two largest non-bank financial institutions (NBFIs) in Mongolia – Goviin Ekhlel and X.A.C – in 2001. The NBFIs operated in different geographic regions and were serving different markets, i.e. micro-enterprises and SMEs. Both aspired to become commercial bank and the merger just did that.

Based on WWB (2011) report, it had 219,640 clients in 2009. The number of borrowers in the same year was 84.304 with an average loan portfolio of USD1,253.00 and an outstanding portfolio of USD136,098.00.

In 2008, XacBank embarked on a unique savings programme for girls in collaboration with the Women's World Banking. The savings programme aimed to "economically empower the girls and enable them to accumulate assets, manage risks, and set their own courses for leading independent and productive lives (www.microfinanceinsights.com)."

Table 9. Profile of the institutions/organizations serving women (as described in the Navarro, 2011)

Name of MFI	Year Founded	Number of Active Clients (Year)	Percent of Women Clients	Products and Services	Loans Outstanding/ Loan Portfolio (Year)	Total Assets (Year)
Association for Social Advancement (Bangladesh)	1978	5,498,293 (2009)	96	Loans, savings, insurance and health assistance	USD 457.6 M (2009)	No data
Bank Keshavarzi (Iran)	1933	No data	No data	Macro and micro loans	No data	No data
CARD Bank (Philippines)	1997	267,282 (2010)	99	Loans, savings, insurance, remittance, business development services, training, scholarship and other non-financial services	USD44.7 M (2010)	USD63.4 M (2010)
CARD Inc. (Philippines)	1986	606,488 (2010)	99	Loans, savings, insurance, remittance, business development services, training, scholarship and other non-financial services	USD66.8 (2010)	USD87.9 M (2010)
KASHF Foundation (Pakistan)	1995	305,398 (2011)	100	Loans, insurance, training and marketing assistance	No data	No data
Negros Women for Tomorrow Foundation (Philippines)	1984	85,808 (2010)	99	Loans, savings and training	USD11.1 M (2010)	USD16.6 M (2010)
Sathapana Ltd. (Cambodia)	1995	36,228 (2009)	Not specified	Loans, savings and money transfer	USD39.6 M (2009)	USD43.4 M (2009)
SEWA Bank (India)	1974	No data	100	Loans, savings, pension, insurance, ATM, financial and business counseling, financial literacy and education and energy services	No data	No data
TYM Fund (Vietnam)	1992	No data	100	Loans, savings, insurance and integrated community services	USD13 M (2009)	USD12.3 M (2009)
Women Development Federation (Sri Lanka)	1989	40,000 (2010)	100	Loans, savings, insurance, business training, "barefoot" library, nutrition and health care, care for the elderly and environmental conservation	USD3.3 M (2010)	USD7.9 M (2010)
XacBank (Mongolia)	2001	219,640 (2009)	59	Loans, savings, money transfer, payment and leasing services	USD136 M	USD 332,328

Note: Data were taken from each organization's website, www.swwb.org, and www.mixmarket.org.

Preceded by a year of research and pilot-testing, the programme currently serves the 14-18-age group. Integrated with the savings component is financial education in partnership with Microfinance Opportunities, Mongolian Education Alliance and Equal Step Center. This partnership is one of the first local public-partnerships in Mongolian education history.

The education module consists of eight sessions that teaches new skills and behavior on savings using banks and personal budgeting. The sessions that are facilitated by female university students are done weekly to girls group of partner schools as an extra-curricular activity. On the other hand, working girls are gathered in training venues near large markets with professional trainers from Equal Step Center facilitating the learning sessions.

G. Financing the Agricultural Value Chain[8]

Value chain is defined as a series of activities that add value to a final product, beginning with the production, continuing with the processing or elaborating of the final product, and ending with the marketing and sale to the consumer or end user (FAO). Each step or activity in the chain is composed of processes undertaken by consecutive enterprises, adding value to the product (Agricultural Productivity Organization <APO> definition).

When credit or other financial services flows through actors along these chains, it is called value chain finance, and may or may not include support from formal financial institutions (RAFI, 2005). The value chain reduces commercial risk by providing an assured market for the produce, thus making it easier for chain actors to obtain financing from banks and other formal sources. Efficient value chain financing is critical in agriculture since it enables small- to medium-scale farmers, traders, and processors along the chain to optimize financial investment, resource allocation, and capacity expansion.

Through the value chain approach, producers have now become aware of and are much more responsive to market demand. It is the consumer who now dictates what will be produced and how many or how much. Consumers, particularly those from industrialized countries, have also become more demanding in terms of quality, availability, differentiation among similar products, product safety, environmental safety and, last but not the least, affordability.

Farmers will definitely not be able to produce such standards if they are operating independently and most probably lack financing, technical assistance, risk management, access to low cost equipment and facilities (e.g. processing, storage), market information, among others. Only when they become part of an organized value chain will they be granted access to such services. Ultimately, the value chain makes it possible for the farmer to get his fair share of the final price of the product as it adds value along the different links of the chain.

Meeting the current high standard of consumer demands requires value chains to operate as integrated systems with differentiated production in which every actor in the chain – farmers, processors, marketers and others – work interdependently. The efficient relationship among inter-dependent linkages of the chain and the security provided by a market-driven demand, assures producers and processors with a ready market for their products. This, in turn, reduces risk, making it easier to obtain financing at possibly lower cost from banks and other financial institutions. Hence, small producers can become and remain competitive if they are part of dynamic and well-organized chains with access to sustained financial services.

[8] The first part of this section are excerpts from the following APRACA FinPower-commissioned study: Casuga, Magdalena *et al.* (2008). *Financial Access and Inclusion in the Agricultural Value Chain*, IFAD-APRACA FinPower Publications: Bangkok.

1. Financing the Value Chain

In most developing or third-world countries in Asia, poor farmers still have very limited access to formal financial services. This is because many banks purposely stay clear of agricultural financing, especially for small, individual producers, due to the risks involved – both commercial and systemic (or covariant, due to natural calamities, pests, diseases) that could possibly result in large-scale losses. In some cases, the products or services offered by financial institutions do not seem to match or address the financial demands of the poor rural populace. Demand-side constraints (e.g. repayment capacity, poor credit track record, inability to present viable project proposals, etc.) and supply-side constraints (e.g. lack of information on the borrower, high transaction costs, etc.) serve to further widen agricultural financing gap.

Left with no other option, farmers have resorted to borrowing from informal sources (e.g. private moneylenders, friends and relatives) to finance production inputs (e.g. seeds, fertilizers, pesticide). Unfortunately, informal lenders have been known to charge exorbitant interest rates in order to cover the risks that many banks dare not take. The real problem, however, lies in the fact that informal lenders such as private moneylenders are not part of the chain and whose only motivation is to make a profit out of lending. They do not concern themselves, for instance, if there is a guaranteed market for the farmers' produce. If the farmer happens to default on his loan, whether due to valid or invalid reasons, private moneylenders will continue to collect, no matter how long it takes, until the farmer is able to repay the entire loan (principal plus accumulated interest). In some cases, the farmer may be granted another loan, even with the previous loan as yet to be fully paid, resulting in bigger loans to be repaid (past-due and outstanding). This leaves the farmer mired in a virtually endless cycle of debt, with little or no room at all for financial improvement.

Hence, a much better option for the farmer to have access to sustained financial services is to become part of an organized agricultural value chain where he can get financing directly from other actors in the chain or indirectly from external sources such as banks and other formal financial institutions.

2. Financing from *within* the chain

Once a farmer is permitted entry into the chain, he is almost certainly guaranteed financing by other actors in the chain. These actors have a stake in the output or in the produce and it is to their interest that they provide financing to producers for required expenses such as production inputs. Essentially, these actors which may be traders, large processors or institutional buyers, depending on the financing model (as will be discussed later) play dual roles as they also become financiers in the chain. Unlike informal lenders, however, they are less interested in what they will earn as credit providers, *per se*, than what they will earn from producing quality output that will satisfy the high standards of consumer demands.

Many experts are also of the opinion that these chain actors *cum* financiers would just as soon leave the financing responsibility to banks or other financial institutions as this would free up some of their capital which could be spent on potential investments. Financing occurs from within the chain due to the absence of banks or microfinance organizations offering appropriate products to meet farmer needs (Chalmers, 2006). Given the lack of external financing for the chain, participating links find creative and interesting forms of finance from within.

The downside to financing from within the chain is limited potential for growth and expansion of the value chain and all its participants due to constrained access to larger pool of financial resources from outside the chain. Once the chain "leaders" (actors cum financiers) are able to access financing from formal intermediaries outside the chain, the capital that they use to finance production inputs may now be used instead to expand their investments. In turn, the additional benefits generated by an expanded chain are shared by farmers and every other actor in the chain. Once capital is freed up, farmers may start investing in irrigation or greenhouses – with the expectation of a guaranteed market – while institutional buyers, on the other hand, may invest in storage facilities located near the producers – with the expectation of a guaranteed supply (Gonzalez-Vega, C., 2006].

Value chain financing offers banks a less costly, less risky and more efficient alternative; one that does not require costly and exhaustive credit investigations, access to credit bureaus, field surveys, and interviews. In fact, through this set-up, the only thing banks would probably require is a contract between buyers (traders, large processors, agribusinesses) and sellers (small producers) within the chain. Every transaction in the chain is defined in terms of a contract, whether explicit or implicit, stating the terms and conditions governing the loans provided by actors in the chain to producers, sale of the produce, and how much of the proceeds will go to each party.

Why would banks lend on the strength of nothing more than a contract? First, the contract *explicitly* guarantees sale of the produce. Second, the contract *implicitly* defines a stable, profitable relationship between the buyer and the seller. The very existence of contractual relationships improves producer creditworthiness; in some cases, no written contract is actually required (Shwedel, 2006). This implies that banks may not actually be interested in the contract *per se* but rather at the nature of the relationship between buyers and producers that may be derived from the contract. Besides, the validity of a contract depends on the existing legal environment and may not be easily enforced. Hence, institutional buyers instead spend time and money building a stable relationship with its producers that will last over the long term in order to develop a reliable set of producers who will guarantee a steady flow of products that are expected to meet stringent consumer demands.

Once banks are convinced of the stable and profitable relationship between institutional buyers and producers, they would be more willing to provide financing to institutional buyers, for re-lending to their producers. In fact, if farmers constantly receive technical assistance as well, they become even more creditworthy so that banks may even decide to finance them directly. This frees up resources on the part of the buyer which could be used to shore up investment in the form of machineries, equipment, storage facilities, etc. for increased and sustainable production in the long term.

As a bonus, the value chain approach produces positive externalities to other farmer-producers outside of the chain because as banks begin to take an interest in a market segment they had never served before, the perception of agriculture as a risky undertaking will eventually be erased. It just takes the right approach. Banks would be more willing to expand financial services to more farmers.

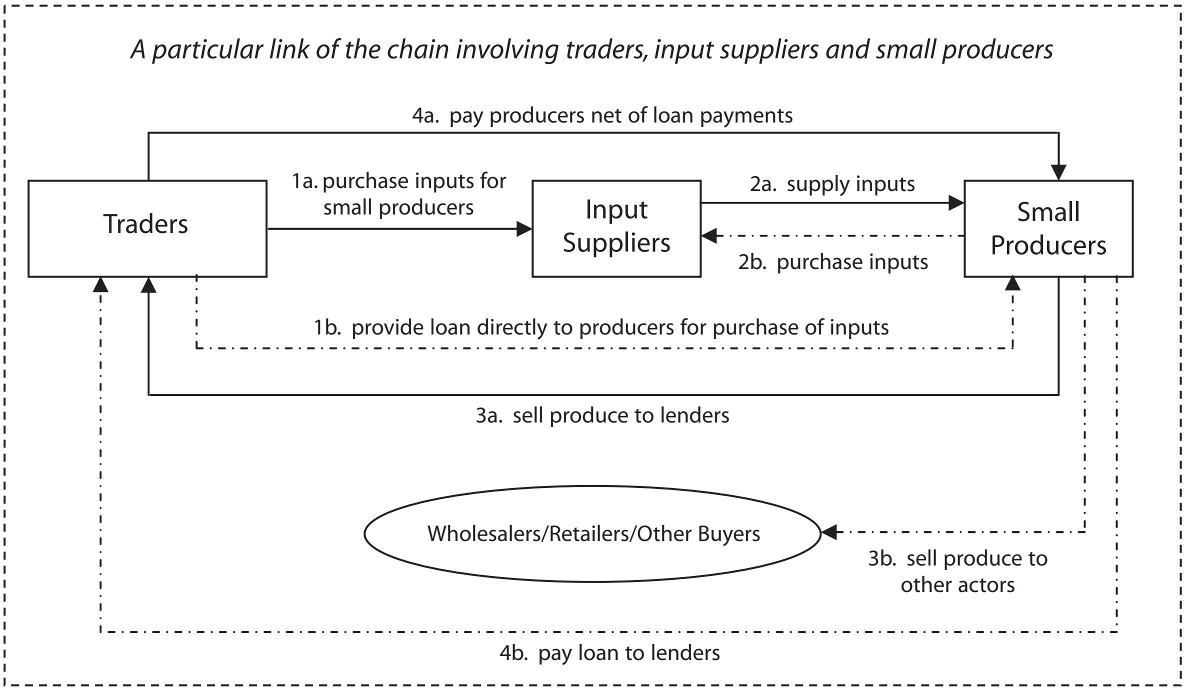
3. Some Models of Agricultural Value Chain Financing

This section highlights some of the basic financing models that are usually practiced by actors cum financiers within the value chain and by banks and other sources of external financing for the chain. This section discusses three (3) basic financing models within the chain, namely: 1) trader credit; 2) contract farming or outgrower schemes; and 3) warehouse receipts. These models have come to be known as "interlinked transactions" because one transaction (e.g. loans for the purchase of inputs) is usually linked with another (sale of inputs), as a condition for the loan. A number of variations of these models have been developed to suit the financing needs and environment of a particular sector and clientele. They will be explained and illustrated more specifically in the section on case studies of selected countries.

a. Trader Credit

How it Works. Among the three models mentioned above, trader credit is perhaps the more commonly practiced, especially among small crop farmers. Traders either purchase farm inputs for small producers or provide cash to farmers for the purchase of inputs, although the former is preferred by traders to avoid loan diversion. Producers may or may not be bound by a purchase agreement, in which case, they could either sell their produce to traders upon harvest – with payment for the loan deducted from the sales proceeds – or sell it to other buyers such as wholesalers or retailers (see Figure 6). Payment – whether in cash or in kind – is usually due upon harvest. This type of set-up typifies a relationship between traders and producers that is largely price-driven.

Figure 6. Actors and Transactions in the Trader Credit Model



Note: Broken arrows represent alternative transactions among actors in the chain.

Risk Mitigation and Cost Recovery. Because of the risk inherent in the agriculture sector, traders (who may themselves be borrowing from other large actors such as processors or wholesalers) have to come up with ways of mitigating risks that many banks will not ordinarily take and covering the costs of lending to small producers. Since the model is based on an informal and unsupervised lending scheme, interest rates and prices are – to a large extent – flexible, making it possible for trader- lenders to impose either of the following: a) raise interest rates on loans; b) raise selling price of inputs; and c) reduce buying price for produce. Nonetheless, traders may have enough reason not to deviate too much from market-based rates and prices because of the following: a) familiarity with the borrowers; b) small and limited areas of operation make it easier and less costly to do background checks, monitoring of loans, and collection of payments; c) greater understanding of the risks involved and therefore better risk management; and d) awareness of business environment and market conditions.

Pros and Cons. This model provides producer-borrowers easy and timely access to credit; minimal and simple loan requirements; and fast processing and release of loans. Trader-lenders, on the other hand, have several means at their disposal for recovering costs, screening borrowers, and enforcing contracts. While this certainly benefits traders, it can become a disadvantage to producer-borrowers when traders use their superior negotiating position to exploit the relationship by charging exorbitant interest rates and selling price of inputs or drastically reducing buying price for the produce. This can be aggravated further by the very limited financing sources available to the borrower, making it hard for them to choose other lenders. Fortunately, this likelihood is tempered by the fact that traders have very limited scope of operations and clients as well. Therefore, it is in their interest to take care of their relationship with their clients especially since they also invest time and effort in building a stable and productive relationship with them.

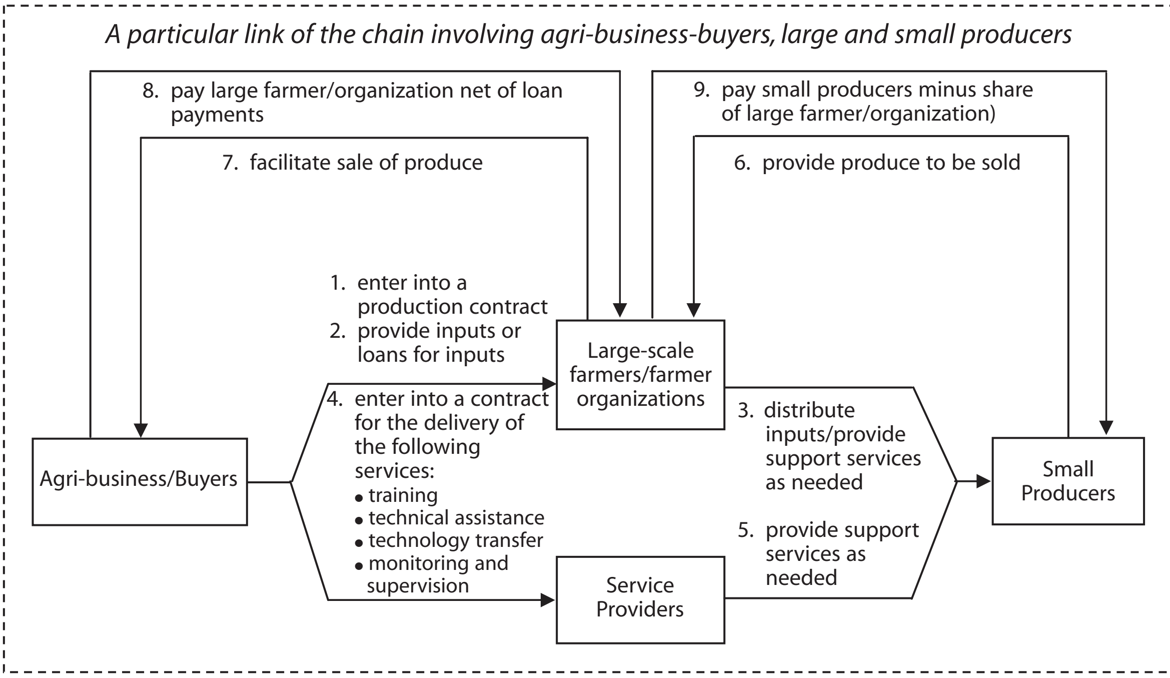
At the same time, the short-term or seasonal nature of this model limits its potential for investments. Market segmentation is also evident as traders' reliance on personal knowledge in the screening process constrains them from taking on new customers and expanding to new locations (Fries and Akin, 2004].

b. Contract Farming or Outgrower Schemes

How it Works. In the previous model, the relationship between traders and producers is almost strictly price-driven. In contract farming or outgrower schemes, producers are in a "captive relationship[9]" with large agribusinesses (e.g. exporters, processors and wholesalers) who tend to play a central role as ultimate buyers of the produce. The term "captive" might have a negative connotation *per se*, but in this model, it actually denotes a positive and mutually beneficial relationship between producers and the ultimate buyers.

Under this model, a large agribusiness (from here on referred to as the "buyer") enters into a contract with producers for the large-scale production of a certain commodity with specified standards of quality and quantity that producers must meet. The buyer itself facilitates the financing and distribution of inputs to farmers on the condition that the produce will be sold to them upon harvest (i.e. loans are tied to a purchase agreement). Unlike trader credit, however, financing for input supply is not the only service provided by the buyer. Producers also receive technical assistance, training, technology transfer, and monitoring and supervision. Despite incurring additional costs, the buyer must provide such services to keep up with the high standards of quality and quantity demanded by consumers. The buyer also prefers to deal with large scale farmers or farmer organizations that, in turn, are responsible for organizing smaller farmer groups (see Figure 7).

Figure 7. Actors and Transactions in the Contract Farming Model



9 A term used by Fries and Akin [2004] wherein production loans are tied to purchase agreements and services beyond input supply are provided (e.g. training, technical assistance, monitoring and supervision).

Risk Mitigation and Cost Recovery. Provision by the buyer of other services in addition to financing significantly reduces commercial or production risk. These services help ensure that producers will deliver the required quantity and quality of produce. Also, since the loan is tied to a purchase agreement, the risk of loan default is greatly reduced since buyers have a ready market for the produce. In terms of costs, buyers would not have dared venture in such a risky business to begin with – and endure additional costs the business requires – had they not known the great potential for returns the business brings. Besides, what they spend on technical assistance, training, technology transfer and monitoring could be thought of as investment costs on human capital. Such costs will eventually be reduced once buyers start to develop an efficient and reliable pool of producers.

Pros and Cons. Like trader credit, producers get ready access to financing for inputs and a guaranteed market for their produce. As value added, they get cheaper inputs because purchase is made in bulk and better prices for their produce. Producers also get the benefit of receiving training and technical assistance, particularly on the latest production technologies, resulting in the sustainable and efficient production of high quality products. Buyers, on the other hand, can have access to a steady supply of products demanded by consumers as well as a reliable, efficient pool of producers that can sustain required production levels.

Unfortunately, like trader credit, loans are generally limited for production purposes only, leaving little room for investment and potential growth of the business. Unfair pricing of inputs, outputs and interest on loans is also possible. Lastly, since the required production is much larger in scale compared to trader credit, buyers are more likely to contract a few large producers rather than numerous small, individual producers. It would be less costly and more organized to do so. Nevertheless, small farmers still get to benefit from this model since large producers often have small producers in their employ. Small, individual farmers not working for any large producers have a better chance of getting access to the value chain if they are organized into well organized groups or cooperatives. This way, they can be easily tapped should consumer demand reach quantities beyond the capacity of even large producers to supply.

Because of the higher costs entailed by contract farming, it is more suited for the production of higher value commercial or export crops, especially those with a huge demand in the global market. This is because high value crops have much higher returns than other commodities (e.g. basic grains) which more than covers the costs incurred and still leaves a wide margin of profit.

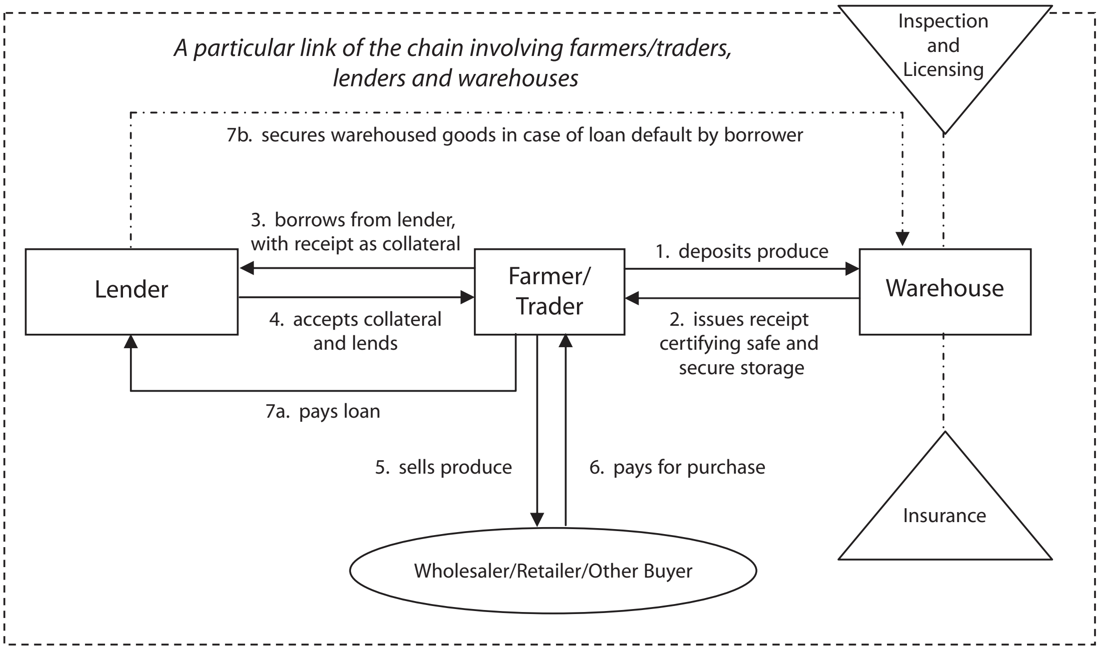
c. Warehouse Receipts

How it Works. Under this model, another major actor in the chain is introduced – the warehouse. Producers and/or traders deposit their produce at the warehouse which, in turn, issues a receipt certifying secure and safe storage of the goods for a specified period of time. Ideally, the receipts should serve as collateral or pledge for securing loans from banks or other lenders with the condition that proceeds from the sale of the produce should first be used to repay the loan (Onumah, 2003) (see Figure 8 on page 79).

Unlike trader credit and contract farming, financing under the warehouse receipts model is intended for post-production purposes (i.e. to finance processing or marketing activities). As such, financing may or may not be necessarily "interlinked" with other transactions in the chain. Relatedly, the loan is not tied to any purchase agreement and, hence, the relationship is not strictly captive. It only becomes captive if the borrower defaults on his or her loan. In which case, the lender reserves the right to secure and dispose of the stored goods which have been offered as collateral.

Apart from the warehouse, this model also introduces other players that are not directly involved in the production and disposal of goods but otherwise play equally important roles, namely: 1) inspection and licensing services; and 2) insurance services. These services help mitigate risk by providing both depositors and lenders alike with the assurance that certified warehouses meet the necessary standards for safe and secure storage. Insurance services, on the other hand, protect depositors and lenders against losses due to disaster and/or criminal activity (Onumah, 2003).

Figure 8. Actors and Transactions in the Warehouse Receipt Model



Risk Mitigation and Cost Recovery. The presence and imposition of "standards" is key to the effectiveness of this model in terms of risk mitigation and cost recovery. Standards are, in fact, imposed on two levels. First, depositors are required to meet warehouse standards for products to be deposited. Hence, not anyone – even those who can afford to pay – may avail of services offered by warehouses without first passing such standards. Second, warehouses are also required to meet operating standards set by licensure and inspection services. The additional security provided by insurance serves to further lower risks to both depositors and lenders. Banks, in particular, may also choose to forego screening and credit investigations by accessing the records maintained by warehouses on their depositors. Warehouses, in effect, also functions as a sort of credit bureau to a limited extent by building a third-party history of the performance of its depositors.

Pros and Cons. A number of potential benefits of this model are identified, two of which includes the ability to increase both yields and average prices for the produce. Access to reliable, quality storage allows producers or traders to: 1) reduce post-harvest losses (e.g. due to spoilage and pest infestation), thereby increasing yield; and 2) sell their produce some time after the harvesting season (during which prices are lower due to abundant supply) and get a higher price (Onumah, 2003).

Perhaps the single most important limitation of this model has to do with the fact that it can only be as effective as the legal and regulatory environment it is operating in allows it to be. Some legal and regulatory issues are identified that could hamper the success of this model such as issues on ownership of warehoused goods, acceptability of receipts as valid collateral, and transferability of such receipts.

4. Comments

a. Value Chain Financing in Selected Asian Countries

This section presents summaries of the state of value chain financing in six (6) countries in Asia, namely: India, Indonesia, Lao PDR, the Philippines, Thailand and Vietnam. In particular agriculture financing models for the value chain of selected commodities such as tubers, cut flowers and seaweeds in India, cocoa for Indonesia, rice and coffee for Lao PDR, rice and vegetables for the Philippines and rice for both Thailand and Vietnam, are discussed by the respective authors of the case studies. More detailed presentations of the value chain financing models for each country are in separate chapters of this APRACA FinPower publication by Casuga *et al.* (2008).

b. Value Chain Financing of Tubers, Cut flowers and Seaweeds in India

India is one of the largest agricultural producers in the world. Its integration to the global economy has opened up new opportunities for the small producers and marginal farmers to increase their incomes and improve their lives. The value chain financing approach as practiced in India has benefited the small holders. It has led to access to better technology, better prices for their produce, better access to loans from formal institutions like banks and lower transaction costs. It has paved the way for smallholders' active participation in the community projects through organization of self-help groups. Meanwhile, risk sharing arrangements of value chain financing has reduced the burden on small growers in mitigating losses due to the vagaries of weather or other damages to their crops.

The State Bank of India (SBI), considered the agricultural finance leader in the country, caters to the needs of agriculturists and landless agricultural labourers and covers a whole gamut of agricultural activities. As one of the formal financial institutions actively supporting the value chain approach, the SBI believes this approach creates better marketing channels and therefore better incomes and profits for the small producers, processors, agents, lending institutions and other actors along the chain.

The financing models developed and implemented by the SBI have common features. One such feature is the provision of credit to a self-help group (SHG) in order to reduce lending costs rather than administering numerous small loans to individual borrowers. In most commodities that SBI finances, it partners with a private company in implementing contract growing arrangement with small growers. Loans extended to growers are based on the cultivation requirements of the crop while operational expenses as regards activities along the chain may also be financed by the bank through provision of working capital.

There are three value chain financing models presented in this case study for commodities namely, coleus tubers, cut flowers and seaweeds. The financing scheme implemented by SBI for Coleus tubers starts at the farmer level where loans extended are based on the input costs. SBI can also extend credit to aggregators or collecting agents and primary processors of the tubers in the form of term loans and working capital loans. Final processors and exporters may also borrow money (in the form of export credit) from SBI for its operational costs. The importer may also obtain credit from SBI branches abroad to purchase the processed commodity. Likewise, growers of cut flowers for export obtain loans from SBI under contract growing arrangements. The SBI has also organized a marketing tie up for seaweed growers organized into SHGs that will facilitate sale of their produce to a processor on a pre-agreed price. Farmers are paid by the SBI – through their savings account in the bank – after deducting the monthly percentage of the loan amount. Loans are extended for planting materials, making of bamboo rafts where the seaweeds are grown and other working capital requirements.

c. Cocoa Value Chain Financing in Indonesia

Currently, Indonesia is the world's third largest producer and exporter of unfermented cocoa beans[10]. In 2007, the Indonesian foreign income derived from cocoa export was valued at nearly US$1 billion, which makes cocoa the third main source of foreign income among plantation crops. Among the factors that make Indonesian cocoa beans competitive in the world market are low production costs, high production capacity, efficient infrastructure, open trading/marketing system, and limited government intervention.

Cocoa is the primary cash crop for approximately 400,000 smallholder farmers in Sulawesi who cultivate an average of less than 1.5 hectares and produces the bulk of unfermented cocoa beans for export. Farmers sell their produce to local collectors or directly to traders since there are few cooperatives and marketing

[10] The processing of cocoa beans entails the transformation of dried cocoa beans into a variety of processed products including cocoa paste or liquor, cake, powder and butter. Only 10 percent of Sulawesi cocoa beans is processed locally, the rest is exported as raw beans.

groups among smallholder farmers. Local collectors then sell the produce to larger traders or directly to exporters and processors. Many local exporters have difficulty competing with large-scale international exporters, prompting them to sell the beans to the latter instead of exporting the beans themselves. Once the cocoa beans are exported from Indonesia they become part of the global trade in cocoa which includes multinational traders, processors and manufacturers.

Cocoa farmers rely mostly on advances from their regular collectors/traders for their farm production needs (especially fertilizer) and even expenses for daily home consumption and emergency medical expenses. However, advances or pre-financing arrangements often result in lower returns on cocoa production because farmers are paid at a price lower than the prevailing market price. It also limits farmers' opportunity to sell to a broader range of buyers in the market place where they can bargain for a better selling price. On the other hand, traders rely on advances from exporters to purchase the produce while exporters and processors rely mainly on their own resources to finance their working capital needs. Traders and other intermediaries who likewise depend on this financing arrangement often become captive suppliers and have few marketing options.

Difficulty in accessing loans from formal financial institutions remains a major concern particularly for smallholder farmers. Many banks such as Bank Rakyat Indonesia (BRI), Bank Niaga and Bank Mandiri have innovative programmes for production and working capital loans. However, collateral is required. While land certificate is accepted as collateral, farmers often find it difficult to secure land certification due to high costs associated with land registration and long period of processing. Since most banks require land certificate as a collateral substitute, the government should address issues on securing land certificate. The formation and empowerment of farmers' organizations through training and extension is another means of improving market linkage and access to formal finance.

For exporters, traders, and processors, access to bank financing may be improved by exploring and developing alternative forms of collateral like the Warehouse Receipt System being piloted by *Bank Niaga* and *Bank Mandiri* wherein farmers, traders and exporters could deposit their produce and be issued a receipt certifying secure storage for a specified period of time. The receipts can be used as collateral or pledge for securing loans from banks.

d. Value Chain Financing of Rice and Coffee in Lao PDR

In a series of events during the last century, the participation and acceptance of the Lao People's Democratic Republic to mainstream markets not only in the region but also worldwide, resulted in increased incomes of otherwise poor farmers and export earnings. Foremost of these events was the enactment of the New Economic Mechanism (NEM) which paved the way for the crafting of a new programme aimed towards increased production and exports. The NEM is an economic system anchored on market principles – wherein prices are determined by market forces – and policy reforms geared towards increased reliance on international trade and foreign investment. The NEM has had a significant impact on agriculture, particularly in the production of glutinous rice and coffee.

Prior to NEM, there was really no functional value chain for rice since the prevailing condition was subsistence farming. The farmer merely brought the produce to mills after which the rice was either consumed by the family or a portion was sold through a trader. The advent of NEM gave birth to contract growing arrangements for rice which involves the provision of in-kind credit, particularly seeds and organic fertilizers, by a private corporation to participating rice farmers. The corporation buys the produce – to be processed and/or exported later on – and pays a premium price after deducting the loans. It is perceived that this commercialization strategy increases incomes of farmers and contributes to export earnings by Lao PDR. The Agricultural Promotion Bank (APB), a state-owned bank, provides credit especially to smallholder farmers. However, some believe that the dual function of the APB as a development agency and as a bank is a hindrance to its overall effectiveness. The provision of agricultural credit has been supply-driven rather than demand-driven since these services directly support government projects and hence are characterized by heavy subsidies and fixed interest rates.

The value chain financing of coffee has apparently been more effective than that of rice. In the 1980's, the government opened new areas for coffee production which encouraged the entry of private investors. Two large companies, in particular, involved themselves in the management and supervision of all areas of operation, e.g. from production to processing to marketing. This set-up minimizes the need for intermediation by traders, brokers and other middlemen and thus translates into a potential increase in income for the coffee farmer.

If the coffee is for export to Europe, the exporter deals with the wholesaler who does the paper work for the export. There are three main export flows for Lao coffee with distinct financial transactions/ schemes, namely: 1) direct contact with foreign buyers with Letter of Credit as the main payment scheme; 2) through a Thai trader where payment is made within 2-3 days; and 3) through a Lao broker who acts as an agent of the exporter and receives a commission of 2-3 percent. In the second scheme, transport providers are necessary in order to deliver the coffee from Lao PDR to Thailand.

More export firms were established as an offshoot of the opening of new areas intended for coffee production and hence, more export earnings for the country. Trading quotas and customs access to the European market also heightened the competitive advantage of Lao coffee. Nonetheless, direct export from Laos, that is, without the involvement of the middleman or exporter from Thailand, is a possibility that the Laotian government can look into in order to further minimize transaction costs and increase income of small coffee farmers.

e. Value Chain Financing of Rice and Vegetables in the Philippines

The agricultural value chain in the Philippines follows the traditional supply chain, though it focuses more on how value is being added to the product as well as product innovation, development and marketing. In order to have a competitive advantage, the chain actors developed vertical and horizontal linkages in such a manner that the final product would be delivered to the market efficiently with a higher quality and at a lower cost to penetrate not only the local market but the global market as well. Hence, financing is important in every aspect of the value chain. Without agricultural financing, producers would not have access to better farm inputs and technology, resulting in low quantity and quality of produce.

The rice and vegetable value chain in the country showed that the vertical and horizontal linkages of chain participants improved their competitiveness in the market and access to finance. The linkages also helped the farmers eliminate a layer of intermediaries, giving them an opportunity to reduce transaction costs, and hence, increase their chance to earn higher income. In addition, the linkages enabled the farmers to develop a financial arrangement that includes, among others, the consignment of goods and provision of inputs through credit in kind or in cash. Since lending to agricultural and agri-related activities is perceived to be of high risk, most of the formal lenders are reluctant to provide credit to these sectors. As such, majority of the small-scale farmers still borrow from informal sources to finance their farm expenses. However, due to the limited fund base of informal lenders, majority of the small-scale rice and vegetable farmers remained credit-constrained. In order to adjust, these farmers usually resort to suboptimal production techniques, resulting in low productivity and quality, making them less competitive in the market.

The greatest challenge now in agricultural finance is to link the formal financial institutions in the value chain. The new paradigm is that credit should be based on the performance of the farmer's position in the value chain rather than the borrower's risk on credit. In addition, integrating credit with other services such as technical and marketing within the value chain is perceived to be an effective way of financing the value chain. Linking the farmers to the market is just a part of the process of establishing an effective value chain, while continuous process and product innovation are also important in a dynamic market. For this reason, farmers need financing and other support services in order to respond to consumers' demand.

The innovative approach of One Network Bank in financing rice farmers under the One Rice Programme illustrates how a functional and efficient value chain can attract formal lenders to provide credit to non-bankable and collateral-deficient small farmers as long as other services in the value chain are in place. Meanwhile, the cluster farming strategy of the Northern Mindanao Vegetable Producers Association or NorMin Veggies improved the vegetable growers' productivity and profitability, thereby, strengthening their position in the value chain and increasing their ability to respond to the changes in market requirements. On the other hand, the tomato paste financing project of Quedancor with the Northern Food Corporation shows how interdependency among chain participants leads to a dynamic and efficient value chain. The strong and stable relationship between tomato farmers and the NFC (processor) makes financing in the value chain easier and more accessible.

Farmers' relationship with other chain participants is essential in attaining an effective and efficient value chain. Linkages can facilitate collective learning that can drive product innovation and upgrading. However, lack of capital can be a hindrance in process upgrading and the farmer's ability to respond to a dynamic market. Hence, financial intervention is critical in a successful value chain but it should be complemented with other services such as technical and marketing assistance. A good business enabling environment is also essential in a successful value chain.

f. Rice Value Chain Financing in Thailand

The Thai government has been actively supporting the concept of value chain financing through programmes being implemented by both government and private financing institutions. In particular, the government's paddy mortgage scheme and packing credit are two programmes that benefit farm producers and exporters and millers, respectively. The Bank for Agriculture and Agricultural Cooperatives (BAAC) implements the paddy mortgage scheme while the Export-Import Bank of Thailand implements an enhanced packing credit programme that also includes an insurance package to protect its clients from non-payment of foreign customers. Meanwhile, the Bank of Thailand (BOT), in partnership with commercial banks, provides loans to target beneficiaries at reasonable rates. In addition to loans obtained from formal institutions, farmers have also availed themselves of fast and timely credit and other services from traders/millers (traders' credit) such as loans to buy fertilizers, seeds, other farm inputs and transport services.

The Fair Trade Rice Value Chain is a successful project implemented more than a decade ago by multinational organizations whose goal is to contribute more value from trade in rice by Thai small-scale farmers. It is a collaborative undertaking among local farmer organizations; Green Net – a local Fair Trade NGO which exports Thai rice to foreign Fair Trade organizations; Claro of Switzerland, the official importer of Fair Trade rice; and Fair Trade organizations in Europe which place their orders for Thai rice from Green Net through Claro. Green Net thus enters into a contractual arrangement with local organizations for the production of either organic or conventional rice. The Progressive Farmers Association, one of the participating farmer organizations, could access low-interest loans from a local bank for the bulk purchase of fertilizers for its members, which may also avail of the loans for purchase of buffaloes from banks under their specific lending scheme (since most farmers prepare their farms for planting by using buffaloes).

The following are some of the lessons that can be learned from the Fair Trade rice value chain in Thailand, covering issues both financial and non-financial in nature such as environment, social, and health among others:

- Most of the value-adding activities in the rice value chain are done by millers, fair trade organizations and traders, thereby receiving the larger financial benefits. Farmer producers get meager income from the sale of their crops;
- Privately owned rice mills set the price of paddy rice. They manipulate the price using weight and quality as an excuse to purchase the farmers' produce at a lower price;
- The Fair Trade Rice value chain scheme, implemented by multinational organizations in Thailand, has been profitable. Small farmers benefited from the higher market price of Fair Trade rice but it is not sufficient to elevate them from poverty;
- Production of organic rice is more profitable than conventional rice since it demands a higher price both locally and internationally;
- Organic rice farming is more environment friendly than conventional farming. Health of the farmers will not be put at risk due to the effects of exposure to various pesticides; and
- Cooperatives can increase the farmers' income by setting up rice and buffalo banks or other similar income generating activities.

Income from rice farming alone is not sufficient to support household needs of the farmers. Farmers should be provided more training/information on small farm or non-farm projects such as vegetable production, fish production, vending or simple rice value adding project for them to start activities that would generate additional income. Sufficient and affordable credit support must be provided to the farmers who are qualified to undertake a new project.

Rice mills are an essential factor in controlling the chain in favor of the farmers. Support should be provided to farmer organizations with capability of putting up their own mills. The success of the mill means more benefits to its members.

g. Rice Value Chain Financing in Vietnam

Rice as a basic agricultural commodity in Vietnam contributes to almost a quarter of the economy's output in 2006 and continues to be one of the leading export champion commodities in the world. Rice production is prevalent throughout Vietnam, with the largest proportion of harvested palay/rice coming from the Mekong River Delta and Red River Delta regions (Agrifood Consulting International 2002). The positive growth of rice production is in response to the country's objective of production for surplus and food security within Vietnam.

Agricultural value chain financing is considered an integral part of the chain because participants in the chain need money to carry out their activities to move products to its final consumers. Credit for rice in Vietnam comes from two sources: formal and informal. Formal credit for rice is sourced from state agricultural banks and private commercial banks. Major actors of the rice value chain such as assemblers, wholesalers, and millers obtain credit from agricultural banks/state commercial banks (Hai, 2003). State-owned enterprises, considered as big traders in the rice market, also source credit from these banks to finance trading of palay/rice and provide working capital loans to procurement stores.

Rice value chain financing in Vietnam has utilized the contract farming model to finance production and marketing of rice. Under this scheme, an enterprise or a company provides inputs on credit which is tied to a product purchase agreement. Other non-credit services like technical and marketing assistance for the product are also assured. Farmers, upon signing contracts with enterprises, have the option to apply for credit from banks.

Rice farmers with limited access to formal sources like banks borrow from informal sources such as input suppliers, private money lenders, friends and relatives. Assemblers usually borrow from friends/relatives, money lenders, and traders. Rice retailers, on the other hand, borrow from friends/relatives and from rice wholesalers while rice millers borrow from agricultural banks.

In spite of the availability of credit from both sources, however, several studies revealed that there have been credit constraints in the rice value chain which limited the expansion of markets due to limited access to working capital among assemblers, wholesalers and millers of rice (Hai, 2003 and Arupalgasam, 2003.

Contract farming, a linkage between farmers and enterprises, emerged in Vietnam since the enactment of Decision 80 which supported production of agricultural commodities tied up to ready markets. This contractual arrangement scheme has benefited farmer-members of farmer organizations or cooperatives. However, sustainability of this arrangement poses a constraint because of failure of contract enforcement, either on one or both parties (e.g. weak culture on enforcement and farmers' failure to pay their input credit). Some experiences show that contract enforcement failure was attributed to coordination failures among parties due to limited organization of producers and imbalances in market relationships. Cooperatives must therefore be organized and coordinated to become an effective linkage channel between farmers and enterprise.

In Vietnam, credit delivery from informal sources like input suppliers, traders, private moneylenders and friends/relatives has been a lifeline among small farmers who have limited or have no access to formal sources like banks or to those without verbal or signed engagements with an enterprise. Lack of capital among the major players like assemblers, wholesalers and millers also limit their capabilities to expand their markets.

The present trend of linking production to markets through contract farming schemes should be further developed. In this set-up, financial institutions will play a critical role in strengthening the linkage between enterprises and farms. Financial institutions can look into the experiences learned by enterprises with farmers with contractual ties as inputs to development of financial innovations that will involve smallholders. This is necessary because the demand for financial services will continue to increase in response to the country's agricultural commercialization efforts.

H. Credit Plus Approach and Client Support/Advice

Beyond the provision of financial services, rural and microfinance institutions have more and more provided non-financial services (social preparation, social intermediation, social services, training and extension, client support and advice) particularly for their grass roots clients. This section provides a glimpse of various options and directions institutions have taken to ensure that clients are provided necessary non-financial services.

The Asian Development Bank identifies beneficiary consultation, participatory planning, community development support, the engagement of non-government organizations, local government involvement, and private sector participation as new participatory approaches to rural development (ADB, 2004 cited by Navarro 2011).

The client support can be direct, i.e. supporting the clients by giving them training, techniques, managerial capabilities and technical skills and knowledge. The clients can be supported indirectly through professionally trained and skilled in-house or partner's personnel.

1. Direct Support to Clients

a. Financing *Rythu Mithra* Groups

Rythu Mithra Groups (RMGs) or Farmers' Friends Clubs, are being promoted by the State of Andhra Pradesh in India to bring about a marked improvement in the lives of small, marginal and landless farmers through collective action. RMGs are expected to serve as a conduit for its members for technology transfer, facilitate access to market information and market, assist in carrying out activities like soil testing, training, health camps, assess input requirements, etc. All commercial banks, RRBs and DCCBs in the State participating in the project and are extending loans to the Clubs (Dholakia, 2010).

b. Structured Learning Experiences

The CARD Management Development Institute (CMDI) is in the forefront of educating CARD members through its Credit with Education (CwE) and Lakbay-Aral (Learning Journey) programmes (Navarro, 2011). CMDI engages the participation of members in interactive lessons on business, health and life skills indirectly through the account officers who are taught to teach in addition to performing core credit tasks. The AO spends 15-minutes of the regular weekly meetings to the learning sessions. CMDI adopted the instructional techniques as well as the modules developed by Freedom from Hunger who introduced the concept of CwE to CARD. CwE has been the major component of a joint project of CARD and Freedom from Hunger.

In her assessment of the effects of the CwE business lessons in 2007, University of the Philippines Los Banos Professor Mimosa Ocampo concluded that the perceived positive effects varied but greatest in the cognitive and psychomotor development of the members and their respective families. The three most remembered topics from the business lessons were 'examine how your business is doing, decide how you can improve your business, and use planning steps to grow your business.' The three most practiced steps were 'develop and test new business ideas, find resources for your business, and decide how you can improve your business.'

On the advice of executives and management, CARD used its experience of working with FFH on CwE to design new lessons for the clients that cover information on CARD products and services such as microinsurance, stocks share and convenience store network. Being the business of many CARD clients, CARD partnered with Microventures, Inc. (a start-up local corporation that supports small business ventures) to organize the convenience stores into a network of stores that benefit from loans for capital and physical upgrade, training and supplies of goods at competitive prices. The stores adopt the '*Hapinoy*' brand name. '*Hapinoy*' is a contraction of happy and *pinoy* (colloquial word for Filipino).

Lakbay-Aral is a motivational programme that was originally intended to reward good performing members with a 2-day sojourn at CMDI or a selected place to review CARD microfinance policies and procedures, learn new livelihood skills and visit local destinations of historical and ecotourism significance. It occasionally also serves to inspire center chiefs who are suffering or have suffered but recovered from repayment problem in their centers through swapping experiences with other programme participants. Out of initial remarks from clients that were supported by empirical data later (CARD Monograph 17, 2008), we have developed three variants of the programme for them – one variant for each group of center chiefs, center chiefs and their respective husbands and progressive entrepreneurs (those that are improving their business projects regardless of the pace). CARD has used the programme to obtain information on the attitude of the participants about CARD policies, processes, products and services. CARD Monograph 17 documents the views of husbands on the membership of their wives with CARD and positive effects of the CARD membership on the members, their families, and their community in general. The husbands appreciated highly the programme especially in widening their understanding of CARD and the roles of their respective espouses.

c. Community approach

Each client of Kabalikat sa Maunlad na Buhay, Inc. (KMBI) (literally Partnership for a Progressive Life) receives a three-pronged intervention of microfinance (capital), enterprise development services (capacity building), and values formation (character). KMBI is also committed in deepening and widening its outreach, thus in 2006, a plan to engage the poorest of the poor and at the same time create its own market through a community development programme was sealed (Duque, 2010).

To help communities help themselves, KMBI has implemented a Community-based Enterprise Development (CBED) Program geared at empowering poor communities especially those in the rural areas to become financially secure through participatory approach. KMBI believes that sustainable development is more feasible when stakeholders, more importantly the beneficiaries, are allowed to participate and involve in creating the structures and in designing policies and programmes that serve the interests of majority in the community. Likewise, participatory approach promotes ownership and equity, as well as empowerment which are essential components in achieving sustainability, and later stability, of the community enterprise. In this case, it is clear to KMBI that its role in the community is to facilitate, guide and assist in arriving to a decision and making things happen, which the stakeholders believe beneficial to the greater populace. Eventually, KMBI expects that the community's participation in shaping their future will increase, while KMBI's participation decreases to the point that it becomes a service provider to the community. Through the CBED Programme employing participatory approach, KMBI is confident that it can respond to the triple challenge of scale, sustainability and impact, by aiming for:

- Increased rate of financial inclusion in the community through access to microfinance services;
- Strengthened capacity of target groups in planning, marketing, financial and marketing systems at the household and community levels;
- Established sustainable community enterprises[11] to generate sustainable income sources for the community;
- Decrease poverty incident in the community;
- Sustained rural growth;
- Developed strategic linkages with local government units and academic institutions; and
- Final Community-Based Enterprise Development model and documented project operating manual including policies and procedures to be replicated in other KMBI operations.

d. Quality and productivity support

Beyond its financial assistance, BAAC also provides knowledge to enhance capability of farmer-borrowers through training, study visits, and knowledge-sharing forum, in order that they can improve crop quality and productivity. To support quality and productivity of its farmers, BAAC has implemented many projects, including organic rice farmers' field school project, model farmer project, fluid manure project (in collaboration with Department of Livestock Development), and BAAC-KU product quality development project (in collaboration with Kasetsart University). In addition, training programmes in various fields of agriculture and related fields such as entrepreneurship, management, accounting, food processing, packaging, and marketing have been conducted (Wajananawat, 2010).

Through the past 44 years, BAAC's operations have expanded from the initial focus on rendering support to individual farmers to community-level assistance, which far exceeds credit services as the focus has changed to farmers' improved quality of life and livelihood. In this regards, the principle of **Sufficiency Economy Philosophy** initiated by His Majesty the King, composed of three elements, namely: **moderation**, **reasonableness** and **self-immunity** against external shocks has been applied as guideline and key driving force in three areas, namely: customer, employee, and organization.

In dealing with farmers, BAAC's development process involves farmers, communities, and their combined network, while targeting development of farmers living in target communities. Farmers are encouraged to change their ways to living through the practice of keeping detailed accounts of household expenses,

[11] KMBI defines "community enterprise" as a type of business established by the members of a community for the purpose of improving the economic life not only of an individual member but of the community as a whole. It is also a community project which aim is to maximize the indigenous or peculiar raw material in the area.

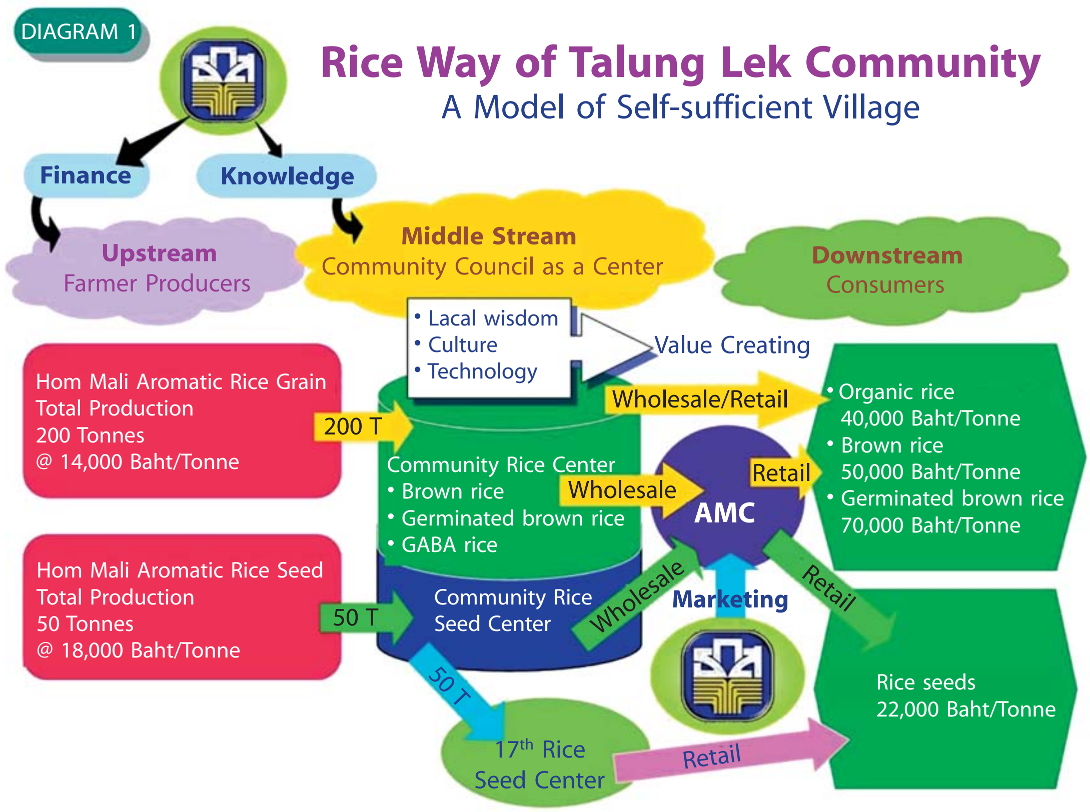
abandoning sinful habits, cutting down unnecessary expenses, and forming a saving habit, as this would provide immunity for the family. A strong community would be encouraged to take part in planning, preparing community data and analyze strengths and weaknesses as the step leading to master and activity plan, conducting joint business ventures buying and selling collectively and acting as group, e.g. occupation, savings, resources conservation and fringe benefits groups. The final step would involve continued development of strong community to create a community business network on a sustainable basis.

Baan Talung Lek, a remote village in the Northeastern region of Thailand, is an example of a community applying the sufficiency economy approach. Most people in this village are poor farmers surviving on rice farming. They usually sell their paddy to earn their main income at relatively low prices due to low quality and productivity. The village was encouraged to take part in formulating a community master plan in order to enhance a quality of life of all people in the community. Analysis of strengths, weaknesses, opportunities and threats helped them better realize their problems and solutions. With the support of BAAC, they have practiced the sufficiency economy. People in community were encouraged to depend on themselves, enhance the mutual help and create economic network.

Various occupation groups such as organic/aromatic rice group, beef cow group, mushroom group, Thai silk group, tree planting group, and savings group were set up based on their interests, skills, and available resources. Community rice centers were set up to capture business opportunity and create added value to their rice, the main crop of the village. New techniques of production coupled with community's local wisdom have been extended to farmers to improve quality and productivity. The center collectively buys paddy from farmers, then processes it into brown rice and germinated brown rice (GABA rice) for sale to consumers within and outside community.

Apart from regular rice, rice seeds have been produced and sold under contract farming with the government's Rice Seed Center. In this case, rice seed price is higher than the regular one (Figure 9).

Figure 9. Rice Way of Talung Lek Community: A Model of Self-sufficient Village



BAAC has worked side by side with the community council, providing them with supervised credits and knowledge as well as consultation through its production value chain, starting from rice production, processing, packaging, marketing as well as quality and productivity development.

2. Skills development for staff of RFIs/Partners

a. Developing a cadre of professionals to work in rural areas in India

A number of programmes and schemes of governments as well as other developmental agencies, including National Bank for Agriculture and Rural Development (NABARD), are under implementation in the rural areas. However, the rural people have not been able to take advantage of these interventions to the desired level due to various reasons such as lack of awareness of on-going programmes, low literacy, lack of extension support, lack of capacity to understand and take benefit and above all an absence of committed workforce with implementing agencies to guide and support them (Chatterjee, 2011).

Many of the on-going programmes are being implemented through the non-governmental organizations (NGOs), voluntary agencies (VAs) and community-based organizations (CBOs). They are attempting to fill the void left by inadequate extension network in terms of non-availability of manpower, low level of commitment or lack of competency of the extension agencies. However, they too are facing a problem of high rate of attrition among its staff due to increasing demand for professionals in rural development sector. The better qualified and experienced staff members of NGOs/VAs/CBOs frequently shift jobs affecting the implementation of on-going projects. This has also been the experience of NGOs implementing NABARD assisted projects.

Many a times, the sudden departure of the experienced staff of the implementing agency results in collapse of the programme as there is no other competent person to continue the implementation. Further, the local people for whom the programme is being implemented are largely unaware of the processes of implementation and often lack both the capabilities and competencies to take over implementation when the staff of the implementing agency leaves mid-way.

In the light of the above, it was felt essential to develop a cadre of professionals from among the local youth to work in rural areas so that the programmes do not suffer on any count. It was also considered essential to develop capacities of the people themselves to be in charge of their own destiny. The objective is to develop a cadre of committed, competent, qualified and skilled personnel to work in rural areas and guide the people in effective implementation of various projects/programmes, including those supported by NABARD in the farm and non-farm sector. The training programme would broadly cover the following:

- understanding of the issues in rural areas, issues in social sector development, gender issues, women development, awareness about rural psychology, etc.;
- process of conducting participatory rural appraisal, plan preparation, social mobilization, participatory approaches to development, documentation, etc.;
- learning details of various developmental projects of Government of India/State Governments (including guidelines); learning detailed inputs on improved agricultural practices, systemic rice intensification, etc;
- learning the concepts, approaches and methodology of implementing NABARD's programmes in rural areas covered under farm sector, non-farm sector and microcredit;
- learning the detailed inputs on various stages of implementing watershed and *wadi* development projects;
- organizing SHGs, farmers' clubs, joint liability groups, etc. and their roles in rural development; creating awareness about financial inclusion measures, need for establishing linkages with banks, BC/BF models, etc.; and
- learning various livelihood approaches and all aspects of working in rural areas.

Methodology: The three-month duration training would comprise of two-month classroom and one month on-field exposure cum training in a village to get familiar with the rural way of life, understanding their problems, issues, cultural practices, rural psychology, etc. The attachment in a village would be for one week after every two weeks of classroom training. The village attachment would enable the participants to get practical inputs on conduct of various field level interventions such as conducting PRA, process of SRI, pre-plantation activities in a *wadi* project, stages in participatory approach to watershed including conduct of net planning, record keeping, conduct of meetings and above all, the process of social mobilization, etc.

b. Distance Education Programme on SHGs

NABARD has associated with the Indira Gandhi National Open University (IGNOU) in a distance learning education programme for building up a group of quality grass roots trainers in the field of SHGs. NABARD reimburses the full course fee of Rs1,000 for the first 1,000 successful participants of the six-month Certificate Program on "Empowering Women's Self-Help Groups" conducted by the IGNOU. Besides, NABARD has partnered with Yashwantrao Chavan Maharashtra Open University (YCMOU), Nasik, Maharashtra State in shaping and offering a six-month Certificate Course for Self-Help Group Facilitators focusing on the promotion and nurturing of SHGs. This comprehensive course on the subject offers coverage of topics like empowerment of women, poverty alleviation and issues on social communication at the pre-formative stage of SHGs and aspects like stabilization of group functions and conflict resolution. NABARD has agreed to support by reimbursing the course fee to the first batch of 500 candidates who successfully pass the certificate course examination in the first attempt (Dholakia, 2011).

c. Project on "Computer *Munshi*" (Computer Accountant)

Quality and regularity of bookkeeping is one aspect of linkage banking which is affected the most because of the widespread illiteracy amongst the poor SHG women. If ignored for a long time, this has the potential to endanger the sustainability of the groups. Another related issue of almost equal importance is the MIS, which means passing on the relevant information about the functioning of the SHGs to the concerned stakeholders like SHPIs and banks. PRADAN, an NGO, has come up with the idea of Computer *Munshies* (CM). The idea involves the identification of skilled rural youth for the task of higher order accounting by providing training as Computer Munshies. The trained individuals would be equipped with a computer and software to serve 100 to 300 SHGs. The SHG level meeting transaction statement will be sent to the CM after every meeting, which will be keyed in by the trained individual using the software which would generate outputs like trial balance, member savings and loan balances.

The SHG promoter and the banker could also access data about SHGs from the CM on payment of a fee. The software captures all the essential data, both financial and non-financial. It also facilitates financial analysis, drawing a trial balance, balance sheet, portfolio analysis, member level impact – by capturing the base line data, etc. The outputs generated could be useful to all related stakeholders including bankers, social intermediaries and the SHG themselves. To test the idea, NABARD has sanctioned a grant assistance of Rs6.10 lakh to the said NGO (Dholakia, 2011).

d. Rural Volunteers as Book Writers

Low literacy levels of SHG members, resulting in heavy dependence of SHGs on SHPIs for record keeping, is one of the constraints in extending the linkage programme in resource-poor areas. Keeping this in view, NABARD, based on interactions with banks and NGOs, has launched a pilot project for associating local rural volunteers as book writers for SHGs to improve the regularity/accuracy in the maintenance of books of accounts, and to explore a possible evolution of MIS between SHGs and banks. A grant assistance of Rs7.50 lakh has been sanctioned to cover honorarium to the book writers, cost of their training and the stationery required for bookkeeping of SHGs (Dholakia, 2011).

e. Capacity Building of Partner Institutions in Microfinance

Comprehensive training of the staff of banks, NGOs and government agencies is the key to collaborative partnership of these agencies. This exercise includes designing of course modules oriented towards a wide range of target audience. Suitable reading material and training aids are developed and updated periodically by NABARD. The programmes are regularly evaluated to help modify their contents (Dholakia, 2010).

f. Capacity Building for Coopeatives

As a major development partner in the countryside, LandBank's development assistance has been extended to support cooperatives. This is essentially aimed at improving the absorptive capacity of these co-operativess. Land Bank Development assistance consists of two key interrelated components, namely, capacity and institution building.

Institution building interventions are meant to enhance the operations and economic viability, while business or enterprise development support aims at increasing productivity and improving market efficiency of cooperatives (Yedra, 2007).

g. Grain Bank community participation

The Grain Bank scheme was conceptualized in 1999-2000 and implemented in three tribal dominated States of India, viz, Orissa, Chhattisgarh and Jharkhand.

Self-Help Groups (SHGs) and Grain Banks can be interdependent on each other. The successful operation of SHGs and their linkage with bank will help in making the Grain Banks financially more viable.

The system of grain bank is intended to provide an alternative sustainable system of food security through community participation. The vulnerable sections of the tribal areas of India adopted the system to their advantage and fall back on the grain bank in the lean season of the year (Chatterjee, 2011).

h. Client participation and Networking

CARD engages the participation of its members in formal and informal ways. The formal processes involve structured activities and instruments such as survey questionnaire and focus group discussion guide for soliciting information. The informal ways are through the weekly or casual meetings where members through the center chief (the elected leader of a group of maximum 30 members) or a fellow member articulate suggestions and feedback on policies, processes, products and services (Navarro, 2011).

KMBI, on the other hand, links with various government agencies and private sector in conducting their projects nationwide. These stakeholders include provincial and local government, Department of Trade and Industry, Cooperative Development Authority, City Veterinary Office, Department of Department of Agrarian Reform among others and various suppliers and contractors from the private sector.

The Department of Trade and Industry (DTI) is the lead implementing agency of the programme in partnership with the Small Business Guarantee and Finance Corporation (SB Corp.), International Fund for Agricultural Development (IFAD), and the United Nations Office for Project Services. Other cooperating agencies and stakeholders are the National Anti-Poverty Commission (NAPC), Local Government Units (LGUs) represented by the League of Municipalities of the Philippines (LMP), non-government organizations (NGOs), microfinance institutions (MFIs), business development services (BDS) providers, and the microenterprises.

I. Microinsurance

Microinsurance has been added to the portfolio of many MFIs in Asia because of the felt need of low- income households for social protection. Too often rural households face a crisis and are pushed deeper into debt and poverty whenever catastrophic events occur, e.g., death of the principal breadwinner, debilitating illnesses, floods and drought, which prevent members of the household to earn adequate income (Llanto, 2011).

The two microinsurance products which most MFIs bundle with their microcredit services are: 1*)* ***health insurance*** to help the poor cope with debilitating illnesses, improve health in low-income households and thus, reduce mortality; and 2) ***life insurance*** to help mitigate the financial shock brought by the death of a household's main bread winner. In case of death of a household's main bread winner or the occurrence of debilitating illness, the household faces the problem of repayment of outstanding debts.

In ASA, this loan linkage insurance is considered as the best tool for client protection. This insurance gives the poor a sense of security and allows them to be free from loan burden. A female client has to pay the insurance premium Tk10 against per thousand of the loan amount received while for the male client, it is Tk5 per thousand. Regarding benefit, outstanding loans are waived, in case of the client's or husband's death, but for male client, only his death is covered.

The FinPower Programme commissioned to Jaime Aristotle Alip, Enrique Navarro and Mae Catibog a study of the status of microinsurance in the countries of Cambodia, the Philippines and Vietnam to look into how microinsurance helps reduce the poor's vulnerability to risks.

Microinsurance[12], the provision of insurance protection to low-income households, is relatively new and limited in Cambodia and Vietnam in contrast with Philippines where a conducive policy environment can be observed. Presence of organizations providing technical assistance as well as donors enables further growth in the microinsurance industries, particularly in the three countries involved in this paper.

With the experiences of Cambodia, the Philippines and Vietnam, the role of microinsurance in poverty alleviation becomes more vivid. It is a common observation that MFIs are in a unique position to offer microinsurance inasmuch as they have already built trust and connection with the people in the marginalized sector, not to mention the comprehensive operations scheme they have already established. For many development institutions, the question is no longer as to whether they should venture into microinsurance, but more on "how and in what manner" they are expected to do so.

To begin with, a favorable policy environment and a comprehensive regulatory framework should be in place. In Cambodia and Vietnam, albeit the lack of detailed regulatory framework, their governments have already expressed (and now making moves) their understanding and support to the microinsurance industry. In the Philippines, this issue had already been addressed in the past and development in this regard is being maintained (and pursued). This endeavor is primarily credited to RIMANSI and its MFI affiliates. Their expertise and experiences becomes inspiration to others who wish to diversify their products and eventually channel microinsurance to the poorest in their countries.

Many microfinance institutions (MFIs) across Southeast Asia have already set up their own microinsurance schemes with some technical assistance from the RIMANSI Organization for Asia and the Pacific, a Philippine-based microinsurance resource center composed of professionally-managed Mutual Benefit Associations (MBAs). Experiences and good practices of these MBAs are shared to MFIs who aspire to diversify their services and to further extend its market through microinsurance.

[12] These excerpts covering the three countries of Cambodia, the Philippines and Vietnam are drawn from the FinPower study on risks and insurance commissioned to Jaime Aristotle Alip, Enrique Navarro and Mae Catibog.

In Southeast Asia, various stakeholders in the finance industry, i.e., non-government organizations (NGOs), microfinance institutions (MFIs), and donors are becoming highly interested in microinsurance. Here are excerpts of the review undertaken by Alip, Navarro and Catibog in 2011.

1. Cambodia

In recent years, two other licensed MFIs in Cambodia have started microinsurance scheme in alliance with their mother NGO – MEADA and Vision Insurance. Other Cambodia-based MFIs have articulated an interest in integrating microinsurance with their programmes, but have ben unable to move forward pending government issuance of a regulatory framework for microinsurance.

The Royal Government of Cambodia (RGC) has formulated its Financial Sector Development Strategy (FSDS) 2006-2015, a long-term strategy intended to develop Cambodia's financial sector, which includes an insurance sector that protects businesses and individuals from catastrophic events and a pension system that will support retirement planning.

MEADA

MEADA, an acronym equivalent to "mother" in Khmer, stands for Measure for Economic and Accelerated Development for All, capturing the "programme's objective of nurturing and protecting Cambodian poor families in the event of unexpected losses resulting from death." The pilot phase implementation of the MEADA microinsurance programme started in January 2007. MEADA is a microinsurance project of CHC NGO, which has been subcontracted to CHC Ltd. for implementation. Tables 10 and 11 below encapsulate the MEADA Programme's primary components and product features as well as its implementation scheme.

Table 10. Product Summary, MEADA Programme

	Product Features and Policies
Microinsurance Type	Credit Life Insurance
Group or Individual Product	Group product
Term	Coverage is co-terminus with each loan. It begins on the effective date of the loan and ends when the loan is repaid in full or on the scheduled maturity date, whichever is earlier. Coverage also ends at the time of the borrower's death, or when the borrower reaches the age of 56.
Eligibility Requirements	*Borrowers:* must be aged 18-55 (existing CHC age limits)
	Spouse: must be aged 16-55, the 1st recognized legal spouse and living with the client
	Children: must be aged 5-20 and living with the client (single or widowed parents may cover their children)
Voluntary or Compulsory	Voluntary for CHC Ltd. clients
Coverage/Benefits	Death of client: 100 percent of original loan amount (remaining balance is written off and the amounts paid by the client will be returned to the beneficiaries)
	Death of spouse: 25 percent of the original loan amount
	Death of children: 15 percent of the original loan amount
Limitations	For new clients or those that neither have nor renewed their loans for 6 months or longer, only accidental deaths are covered during the 1st 3 months of the loan. This is to reduce the risk of adverse selection
Key Exclusions	Provoked murder, suicide, participation on a criminal activity, war, natural calamities and epidemics
Pricing/Premium	Single premium rate equivalent to 6 percent of the initial loan amount per annum (half of this is client savings)
Savings	Savings will be returned with accrued interest if the client dies, or after five years if the client survives

Adapted from "Microinsurance in Cambodia" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 50.

Table 11. Implementing Schemes of MEADA Programme

Element	Implementing Schemes
Marketing and Promotion	Marketed together with CHC Ltd.'s loan and savings products, primarily through the Credit Agents; provides pre-enrolment orientation and education on microinsurance
Risk Management and Controls	Only CHC Ltd. clients can participate in the MEADA Programme; the MFI's selection criteria indirectly serve as a form of underwriting
Premium Collection	Single premium; collected upon loan disbursement
Claims Procedure	Death of a borrower's legal dependents is informed through branch offices; forms shall then be filled out/necessary information must be given within 6 mos. after death; benefits are paid upon presentation of death certificate and sworn statement of the beneficiaries establishing their lawful status
Financial Recording and Management	RIMANSI helps CHC Ltd. in setting up a separate accounting system for MEADA
Management Information System	RIMANSI assists MEADA in the installation, use and maintenance of basic MIS software for data management and tracking

Source: "Microinsurance in Cambodia by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 52.

Vision Fund Cambodia

Vision Fund Cambodia (VFC) was originally a small credit programme of the World Vision Cambodia (WVC) – a member of World Vision International – until it was transformed into an independent institution in 2003. With the objective to offer affordable insurance services to low-income clients as protection from specific financial risks in the event of death, the WVC established the Vision Insurance Programme subcontracting to VFC for implementation.

The Table below shows the product summary of Vision Insurance.

Table 12. Product Summary, Vision Insurance

	Product Features and Policies
Microinsurance Type	Micro-Life Insurance
Group or Individual Product	Group product
Term	Coverage is co-terminus with each loan. It begins on the effective date of the loan and ends when the loan is repaid in full, for as long as the monthly premium rate are paid
Eligibility Requirements	*Clients:* must be aged 18-66 (existing VFC age limits)
	Spouse: must be aged 18-66, legally married and living with the client
	Children: only the two eldest children, aged 2-20 and living with the client (single or widowed parents may cover their children)
Voluntary or Compulsory	Compulsory participation for clients aged 18-66
Coverage/Benefits	**Community Bank Loan** *Creditor Life Benefit:* 100 percent of ending balance of portfolio *Client Funeral Benefit:* KR120,000 (US$30) *Spouse Funeral Benefit:* KR72,000 (US$18) *Children Funeral Benefit:* KR48,000 (US$12) **Solidarity Group Loan** *Creditor Life Benefit:* 100 percent of ending balance of portfolio *Client Funeral Benefit:* KR180,000 (US$45) *Spouse Funeral Benefit:* KR120,000 (US$ 30) *Children Funeral Benefit:* KR96,000 (US$24)

Table 12. *(continued)*

	Product Features and Policies
	Individual Loan *Creditor Life Benefit:* 60 percent of ending balance of portfolio *Client Funeral Benefit:* KR300,000 (US$75) *Spouse Funeral Benefit:* KR192,000 (US$48) *Children Funeral Benefit:* KR144,000 (US$ 36)
Limitations	For new clients, only accidental deaths of the client and family are covered during the 1st 3 mos. of the loan. Coverage continues for 30 days beyond the date that a delinquent premium payment was due
Key Exclusions	Murder, suicide, participation on a criminal activity, acts of war or terrorism, natural calamities, pandemics, and epidemics
Monthly Premium	**Community Bank Loan:** 0.2125 percent of the current outstanding loan balance **Solidarity Group Loan:** 0.153 percent of the current outstanding loan balance **Individual Loan:** 0.085 percent of the current outstanding loan balance

Adapted from "Microinsurance in Cambodia" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 60.

Some licensed MFIs, particularly CHC Ltd. and VFC are positive about the potential of their current microinsurance programmes for three major reasons: 1) the clear demand for insurance; 2) RIMANSI's technical guidance and sharing of expertise in the pilot testing of MEADA and Vision Insurance; and 3) RIMANSI and its partner organizations in Cambodia are engaged in policy advocacy and development, enabling them to anticipate and take preparatory steps to comply with the emerging framework for microinsurance.

The following are the key driving factors for MEADA and Vision Insurance:

- Encouraging trends from microinsurance experiments by MFIs worldwide;
- Clients' interest and willingness to participate in the microinsurance programmes;
- Willingness of NGOs/MFIs to diversify and pilot financial innovations;
- Government's tacit approval and the opportunities presented by the emerging legal framework for microinsurance; and
- Strategic partnership with a microinsurance advocate and practitioner.

2. Vietnam

A study by Alip and David-Casis (2008) listed and summarized the most common risks faced by households in Vietnam, as shown in Table 13 below:

Table 13. Summary of the Most Common Risks Faced by Households in Vietnam

Type of Crisis	Forms and Causes	Effect
Human Crisis	Illness or Accident	High indirect and direct treatment costs; Loss of income through reduced labour
	Death of Labourer	High costs of funeral expenses; Loss of income through reduced labour
	Alcoholism, drug Addiction, Gambling	High non-productive expenditure; Loss of income from lost of labour
Material Crisis	Theft	Loss of assets; Reduced income
	Damage to Housing (flood, typhoon, fire)	High unexpected expenditure

Table 13. *(continued)*

Type of Crisis	Forms and Causes	Effect
Non-Crop Economic Shock	Failure of Investment	Reduced income; Inability to repay debts
	Unemployment	Reduced income
	Life Cycle events (wedding, funeral)	Increased expenditure; Reduced labour supply
	Death of Animals (individual or epidemic)	Reduced income; Reduced assets and security
Crop Failure	Rats, Mice or Other Pests	Reduced income
	Landslides	Reduced income
	Weather (floods, drought, typhoon, etc.)	Reduced income

Adapted from "Microinsurance in Vietnam" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 24-25.

The tandem also cited a study by Quynh Ngoc Nguyen (2006) identifying the most susceptible households in Vietnam being as follows:

Table 14. Most vulnerable households vs. less vulnerable households in Vietnam

Less vulnerable	More vulnerable
Male-headed households	Female-headed households
Ethnic-majority	Ethnic-minority
Households owning agricultural lands	Households not owning any land
Households in other wealth deciles	Poor-income decile households
Other households living outside Red River Delta regions	Households in Red River Delta regions (due to frequent floods and high population density)

Source: "Microinsurance in Vietnam" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 25.

In the above-mentioned study, Vietnamese's risk coping strategies were also disclosed. These are primarily self-insurance strategies like "selling of assets and borrowing from relatives and friends." Self-insurance strategies are regarded to be less efficient "against income shocks" since poor families have limited assets and they are likely to fall deeper into "poverty traps". While self-insurance mechanisms protect the families some time, they may become more vulnerable in the future, even the richer ones. It is, therefore, recommended that families have other options to insure against perils.

Credit is identified to be the second coping strategy, suggesting a "good" performance standing of the credit market, albeit there are access difficulties for the low-income families "who have little or no collateral to secure credit".

Table 15 (on page 97) presents the classification of insurance products that are presently available for Vietnam's low income population based on a study conducted by the International Labour Organization (ILO) Office in Hanoi:

Table 15. Insurance products available for the low-income groups in Vietnam

Classification	Inclusions
Long-term life insurance products	Life/savings products, cash value policies, annuities and term life products with more than one year coverage
Shorter-term death benefit insurance products	Personal accident insurance products which cannot be offered by a life insurance company in Vietnam
Health insurance products	Supports preventive health and treatment of illnesses not requiring hospitalization or surgery
Other insurance products	Agricultural insurance, and new products being pilot-tested for rural households

Source: "Microinsurance in Vietnam" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 28.

Certainly, the issuance of Decree 28 and Decree 18 is a big step towards systematic and regulated operations of MFIs and MAIs in Vietnam. Today, most microfinance and microinsurance activities are carried out as "projects or special programmes of mass organizations", and having the legal framework in place allows both MFIs and MAIs an opportunity to establish performance standards that are competitively complementing the entire industry. While access to commercial loaning and donor funds were channeled to the MFIs, generation of capital contributions from members and reinsurance are allowed for MAIs. With credit, savings and mutual assistance programmes being able to mark off into legally mandated institutions increase in outreach, which will eventually augment benefits for their marginalized clients, is expected.

The TYM Mutual Assistance Fund

TYM fund is a modification of Grameen Bank and CARD microfinance project tailored to specifically match the context of Vietnam. TYM's mission is to "improve the quality of life and status of poor women and their families by giving them access to credit and savings services".

Whereas VWU has its successful microfinance operations in partnership with several international NGOs, TYM Fund paved its way to success such that in 1998, it graduated from a project to a separate department inside VWU. It has evolved as a premier MFI in Vietnam over the last 15 years. TYM Fund is financially sustainable, following internationally competent accounting and reporting criteria. Presently, it spans across nine provinces, 18 districts and 126 communes serviced by its 26 branches. It has 184 full-time staff catering to over 30,000 members.

To further strengthen its operations and reach wider clients – transforming into a formal MFI approved by the State Bank of Vietnam – TYM Fund undertakes the process of registering under Decree 28/2005 with the technical assistance from the Philippines-based CARD MRI. Another entity providing technical assistance to TYM is the *Sparkassentiftung fuer Internationale Kooperation* or otherwise known as the Savings Bank Foundation for International Cooperation (SBFIC) of Germany. Through its *"Support to Institutional Development of TYM Fund Project,"* which began in 2005, the SBFIC has "engaged a full-time international Management Consultant as TYM advisor" helping in the "improvement of its microfinance operations".

To address clients need for financial support in times of crisis, TYM Fund launched the Mutual Assistance Fund in 1996. Specifically, the objectives of Mutual Assistance Fund (MAF) are as follows:

- The Mutual Assistance Fund is presented as a solidarity mechanism between the members of TYM.
- The MAF partly supports the expenses of the member's household when it faces critical times.
- The MAF increases the strength of TYM Fund, has a positive impact on the community, particularly by attracting more members to join the Fund.

Table 16. MAF Product Summary

	Product Features and Policies
Microinsurance Type	Mutual assistance fund
Group or Individual Product	Group product
Term	Co-terminus with membership in TYM Fund
Eligibility and Requirements	Must be a member of TYM. Previous members need to renew their membership by availing of TYM's loan or savings services to be eligible to join the MAF
Voluntary or Compulsory	Compulsory for TYM members
Coverage/Benefits	• Death of Client: VND500,000 (US$31.25) • Death of Spouse: VND200,000 (US$12.50) • Death of Children below 18 years of age: VND200,000 (US$12.50) • Serious surgery or illness of client: VND200,000 (US$12.50); payable only once • Outstanding loan written off upon death of client
Limitations	Claims may only be submitted after 4 weeks from starting date of membership (to minimize anti-selection)
Exclusion	Suicide
Pricing/Premium Contributions	VND200 (US$0.01) per week

Adapted from "Microinsurance in Vietnam" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 53.

TYM members have fervently responded to MAF by assisting 31,379 members, excluding the number of espouses and children covered. An upward enrolment for MAF membership was recorded and is attributed to TYM's unceasing area expansion, which, in turn, contributed to increased outreach. This trend is " expected to be retained, as MAF is a financial product vastly welcomed by TYM members resulting from its affordable premium level and appealing benefit package.

MAF was initially intended to assist TYM members in the event of unforeseen shocks alone. When CARD – a Philippine-based MFI instrumental to TYM's microfinance operations start up – had victoriously instituted a member-owned Mutual Benefit Association (MBA) offering microinsurance products to its members and clients generally, TYM geared to the product's replication in Vietnam. The organization plainly looked at CARD MBA's experiences, carefully altering some approaches in line with local context. Through this course, CARD assisted TYM Fund in its technical needs in 2006 and 2007.

Driven by three major objectives, TYM Fund decides to transform MAF into a "sustainable insurance provider for poor women and their families. These objectives were enumerated as follows:

- to upgrade the MAF product (see Table 16 in above) in order to increase coverage and provide more benefits to members;
- to improve management and governance to ensure sustainability by increasing operational and financial efficiency; and
- to build up a professional organizational structure and create a separate business unit that is recognized under Vietnamese law.

TYM's efforts in channeling microinsurance services to Vietnam's poor spans further through close a monitoring of the legal environment as well as "lobbying with the authorities and other stakeholders". The ultimate aim is to ensure "favorable terms for capitalizing and managing on a MAI organization in harmony with performance standards mutually set with the government."

3. Philippines

CARD MBA

Microinsurance in the Philippines is widely supported. As defined in an Insurance Memorandum Circular (see Box 1) released by their Insurance Commission, "microinsurance is referred to as the insurance business activity of providing specific insurance products that meet the needs of the disadvantaged for risk protection and relief against distress or misfortune." Whereas "microinsurance product is an insurance policy whereby the monthly premium does not exceed 1,050 PhP (23.33 US$) and the maximum amount of life insurance coverage is not more than 175,000 PhP (3,888.89 US$).

Box 1. Microinsurance Regulation in the Philippines

In 2006, the Philippine Insurance Commission launched its initiative in promoting microinsurance by officially declaring the month of January of every year as "Microinsurance Month". To kick off the initiative, the Commission issued a ground-breaking circular defining what microinsurance is and its minimum features.

In particular, Memorandum Circular No. 9-2006 characterizes microinsurance as follows:

(a) Microinsurance is "an insurance business activity of providing specific insurance products that meet the needs of the disadvantage for risk protection and relief against distress or misfortune;"

(b) The minimum features of a microinsurance policy are:
- The amount of premium computed on a daily basis does not exceed 10 percent of the current daily minimum wage rate for non-agricultural workers in Metro Manila (PhP35 or US$0.85 daily premium payments); and
- The maximum amount of life insurance coverage is not more than 500 times the daily minimum wage and rate for non-agricultural workers in Metro Manila (PhP165,000 or US$4,024 insurance coverage).

(c) The terms and conditions of microinsurance policies shall have the following features:
- The contact provisions can be easily understood by the insured;
- The documentation requirements are simple; and
- The manner and frequency of premium collection coincides with the cash-flow of, or otherwise not onerous, for the insured.

The move of the Insurance Commission to promote microinsurance through the issuance of the circular is a welcome development. It defines what microinsurance is in so far as the application of the general provisions of the Insurance Code is concerned and delineates those products from the traditional commercial insurance products. Clearly, it sets the parameters on how to design insurance products suited for the poor and disadvantaged sectors by focusing on affordability, accessibility and simplicity.

Adapted from "Microinsurance in Cambodia" by Jaime Aristotle B. Alip, Ph.D. and Ma. Chona O. David-Casis, 2008, pp. 35.

In a Pre-appraisal Mission Report (July 2007) made on behalf of the German Technical Cooperation (GTZ), it was noted that the "existing social insurance schemes failed to cover the informal sector". The study illustrated the landscape of the Philippines' social insurance provision as nearly exclusive to the members of the formal sector and typically regular employees. As recorded, Philippine Health Insurance Corporation (Philhealth), and Government Service Insurance System are primarily accessed by government employees while Social Security System mainly caters to private sector employees.

Today, this landscape is being moderated with several institutions venturing into microinsurance. One such advocate is the CARD MBA, with its experiences inspiring others to put up their own microinsurance infrastructure and its continued partnership with RIMANSI – a premiere microinsurance resource center – leading to more microinsurance ventures in the country and abroad.

Microinsurance in the Philippines is in general defined as "insurance for self- and unemployed persons who conventionally do not have access to formal sector insurance or long-term savings." In contrast, commercial insurance company commonly does not cater to low-income groups due to a perceived limited purchasing power and a traditional perception of them being a high-risk market segment.

In the Philippines today, microinsurance finds a conducive environment for further proliferation with its government supporting the institution of microinsurance and integrating policies and frameworks into its national strategy. One such manifestation is the formation of the public-private sector working group which has approved a draft strategic framework, labeled "National Strategy for Microinsurance". It aims to encourage ventures in microinsurance products set to provide a safety net to the country's poorest sectors. In its draft are statements of three key steps which identified stakeholders shall undertake in providing insurance products to the low-income segment. These include providing an appropriate policy and regulatory framework, monitoring informal insurance schemes and institutionalizing financial literacy. This national strategy outlines the government's policy impetus in providing access to insurance to the low-income population.

CARD MBA is a member of CARD Mutually-Reinforcing Institutions (CARD MRI) – a non-stock, non-profit organization advocating social change through microfinance.

In its passion to provide full range of financial services to marginalized communities, CARD has conducted a survey on the potential services that the clients wanted. This survey was done at the early stage of its operations in 1990s. Top on that list was access to life insurance. Members want to protect their families from repaying an outstanding loan if they died and to ensure that funds were available to cover the increasing burial costs.

Another demand was for a system that would allow members to participate in a long-term savings programme until retirement as well as pension to cushion the loss of income when they are no longer working. This stimulated CARD Inc. to develop and introduce a new microfinance product in 1994 – the Members' Mutual Fund (MMF). Its principal goal is to provide loan redemption in case of death of a member-borrower through a weekly contribution of PhP2.00. Depending on the length of membership, they can also be given burial assistance.

In 1997, CARD increased the weekly contribution by PhP2.50 to offer a monthly pension plan of PhP300-PhP600 for members reaching the age of 65. After an assessment, CARD realized that a member would need to contribute for two years just to cover one month of pension benefit, and that the institution was at risk because CARD was responsible for the pension payment. Fulfilling its obligation to members would *decapitalize* CARD and may lead to potential bankruptcy. The experience proved to be a big learning experience for CARD. This was then when CARD decided to pay back the members' contributions and finally turned-over ownership of the Members' Mutual Fund to the members. MMF was then transformed into a Mutual Benefit Association. Hence, the birth of CARD – Mutual Benefit Association (CARD-MBA).

Since CARD-MBA's establishment in 1999, it has continued to offer different microinsurance products and services. From simply offering loan insurance to members, CARD-MBA now offers life insurance programme with accidental death, total and permanent disability, with motor vehicle accidental hospitalization benefits; retirement savings fund with special feature of contribution refund, all-loans insurance package with automatic loan offsetting after disability, mass wedding, disaster relief assistance programme and credit bureau.

CARD MBA provides its products and services with the active complementation efforts both by the CARD Inc. and CARD Bank. A member of CARD Inc. and CARD Bank is automatically a member of CARD MBA. All members are required to pay a mandatory minimum weekly capital build-up/savings of PhP40 per week plus MBA contributions amounting to PhP20. This amount covers PhP15 life insurance coverage and PhP5 for retirement fund.

It is interesting to note that such amount covers not only the members but also their qualified dependents as well. Truly, such premium payment is very affordable for the low-income groups. CARD MBA takes pride in the speedy processing of claims (related to life insurance) which was made possible through 1-3-5 Procedure in Claims Settlement which is widely appreciated by members and non-members alike. 1-3-5 literally represents release of benefits in 1 day, 3 days or 5 days depending upon the situation at hand. CARD always believes that the members deserve the best quality service at all times.

Listed below are the products and services offered by card MBA:

- **Life Insurance**

A CARD member is automatically covered by the life insurance programme beginning her first payment of contribution. As proof of this coverage, an insurance policy is issued to the member. The members' legal dependents are also covered by the life insurance. A member's life insurance coverage begins from the payment of her first contribution and ends at the time she is resigned, terminated, retired, or is totally and permanently disabled, or has passed away.

To protect the MBA's funds from a potential member who may ulterior motives on the life insurance programme, i.e. become a member because she or a member of her family is seriously ill, and would like only to avail of the claims, a contestability clause was instituted to deter such claims.

For easy recall, CARD MBA lightly states the policy as: *"Bawal mamatay …… sa loob ng unang isang taon ng pagiging kasapi ng CARD MBA kung ang dahilan nito ay sakit na tinataglay bago pa sumapi sa samahan."* (Death is 'not honored' within the first year of membership with CARD MBA, if it is caused by an illness acquired before the membership).

CARD-MBA is guided by a Table of Life Insurance Benefits. A member's or his/her legal dependents' claim is based on the length of membership and cause of death.

- **Motor Vehicle Accidental Hospitalization (MVAH) Benefits**

MVAH covers the member and her legal spouse for motor vehicle accidents. The claimant must be hospitalized for at least 24 hours, and amount of benefit is PhP10,000 or depending on the hospital billing. This is the amount that a member or her legal spouse can avail of for the entire period of her membership.

- **Refund of Life Insurance Contributions**

This type of benefit entitles a member who has been with CARD for at least 3 years a 50 percent refund of all contributions she made for life insurance. To illustrate, weekly contributions to life insurance is PhP15/week. For easy computation, assuming there are 150 weeks in a year, a member who resigns after 3 years would be entitled to PhP1,125.

- **Retirement Savings Fund**

As it is, this benefit is for the retirement of CARD members at age 70. A lump sum payment is given depending on the entry age to CARD.

- **All-Loans Insurance Package (ALIP)**

As the name implies, this is a loan insurance programme. This product is benefits both the microfinance institution (the lending institution) and the member and her family.

This product relieves the family of the member's obligation of paying back the balance of the loan in case of death of the borrower; also in case of total and permanent disability. For the lending institution, it eliminates the risk of non-payment in situations mentioned.

Loan insurance is a built-in mechanism for all loan products. Upon release of the loan, a borrowing member is required to pay 1.5 percent of the loan amount in order to be covered by loan insurance. Under this provision are two types of benefits and/or conditions:

- **The amount of indemnity is equal to the loan amount**

The programme pays the lending institution the amount equal to the loan balance; and the family of the member is paid the amount equal to the amount she has already paid. To illustrate, a member-borrower has PhP40,000 loans. At the time of her death, she has paid PhP35,000, hence has a balance of PhP5,000. Upon submission of the required documents, CARD MBA will pay the lending institution equivalent amount of the outstanding loan, which is PhP5,000 and pay the beneficiary an amount equivalent to that of the paid portion of the loan, which is PhP35,000.

- **Automatic Loan Offsetting after loan Disability or AutoLOAD**

Upon total and permanent disability of a member-borrower, she will no longer be obliged to pay the remaining loan balance. In contrast with Benefit 1, the paid amount will no longer be given back to the member or her beneficiary.

CARD MBA's Build, Operate And Transfer (BOAT) Programme

Aside from providing services to its members, CARD MBA also extends assistance to other MFIs who intend to provide microinsurance services to its clients and thereby be transformed from informal microinsurance provider to a licensed MBA. This is through CARD MBA's Build, Operate And Transfer (BOAT) Programme which was initially funded by the Catholic Organization for Relief and Development AID (CORDAID).

This is a partnership scheme wherein the MFIs team-up with CARD MBA as they are called BOAT Partners. Under this programme, the members of a BOAT partner will be members of CARD MBA enjoying the same benefits given to CARD members. At the onset of the partnership, "CARD MBA will build the MBA infrastructure and operate it" through the BOAT Partner's internal personnel. This also serves as their preparation and capacity building that after a period of three (3) years, they would be able enough to manage their own MBA. During the 3-year period, technical assistance and transfer of technology is facilitated. Today, CARD MBA has already fourteen (14) partners all over the country. BOAT Programme is how CARD MBA puts it as "promoting mutuality in the Philippines".

The RIMANSI Organization for Asia and the Pacific

In retrospect, current microfinance developments in the Philippines are credited to the initiatives of the RIMANSI Organization for Asia and the Pacific, Inc. When it was established in 2005, microinsurance was nameless in the Philippines, the term 'microinsurance' is not even a part of the "legal jargon for the insurance industry." RIMANSI's advocacy for microinsurance is extraordinary in that just a span of four (4) years since it kicked-off its operations, "it was able to lobby for the inclusion of microinsurance in official government policy."

RIMANSI Organization for Asia and the Pacific, a non-stock, non-profit organization, driven by its mission of supporting MFIs in their initiatives to channel microinsurance products to socio-economically challenged households in the Philippines and in Southeast Asia as a whole. In its beginnings are eight (8) MFIs responding to the emerging potential of microinsurance being channeled to millions of marginalized constituents in a "very competitive and sustainable manner that takes advantage of the financial and social networks linking microfinance institutions to their clients."

The initiatives of setting up a resource center to help MFIs in developing and managing their own mutual benefit associations (MBAs) were pursued by the Center for Agriculture and Rural Development, Inc. (CARD NGO), CARD Mutual Benefit Association (CARD MBA) and the Canadian Cooperative Association. RIMANSI's founding President and CARD MRI's Founder and Managing Director, Dr. Jaime Aristotle B. Alip related that the organization was the upshot of a series of workshops and consultations among microfinance practitioners since 2003.

A forum tagged as "*National Microinsurance Summit*" – the Philippines' first microinsurance forum held at CARD Training Center in Bay, Laguna – finally gelled the creation of microinsurance resource center. The eight MFIs pioneering RIMANSI include Alalay sa Kaunlaran, Inc., CARD Rural Bank, CARD MBA, CARD NGO, Kasanyangan Foundation, Inc., People's Alternative Livelihood Foundation of Sorsogon, Inc., Rural Bank of Talisayan, Inc., and USWAG Development Foundation, Inc. Subsequently joining the RIMANSI are two MFIs namely, Agricultural and Rural Development for Catanduanes, Inc. and Kasagana-Ka Development Center, Inc.

Today, "RIMANSI is championing the cause of Microinsurance, by operating a resource center that assists MFIs and other development organizations" set up their own "microinsurance programmes or formalize their existing in-house mutual assistance programmes." It is also a member of the International Cooperative and Mutual Insurance Federation (ICMIF), an international association of cooperatives and mutual insurers advancing the progress of microinsurance industry as well as the establishment of a sustainable milieu for the growth of cooperative and mutual insurance globally.

RIMANSI carries out a microinsurance model enhancing the operation efficiency of MFIs in channeling tailored microinsurance products to low-income households. Its business model mirrors the technology that CARD MBA has harnessed through a 'painful learning process'. CARD MBA's successful experience in "setting up a microinsurance programme that provides microinsurance protection to its now 1.2 million members and more then 4.7 beneficiaries, (all members of low-income households and the informal sector)" and its continuous effort in product research and development is cited as best practice in the microinsurance business today. RIMANSI, being a pioneer in advancing microinsurance in the country and in Southeast Asia highly regard this path and wish to share this technology to other MFIs aspiring to take the same path. "RIMANSI hopes to serve as a development catalyst for the organization of mutual benefit associations or the registration of microinsurance organizations not just in the Philippines, but in Southeast Asia." In a wider lens, RIMANSI pictures a "self-regulating industry, from the precedent provided by the microfinance sector".

In the Philippines, "RIMANSI has assisted seven (7) leading MFI partners in mobilizing, organizing and licensing microinsurance MBAs that would customize insurance products for their clients-members." Outside Philippines, RIMANSI is making waves in channeling microinsurance to more poor clients.

In Cambodia, the CHC MFI and VFC received technical assistance in developing and piloting their own microinsurance schemes. RIMANSI was also instrumental in transforming the TYM's or Affectionate Fund's (Vietnam) "in-house mutual assistance fund into a government-licensed mutual assistance insurance organization". It is also assisting Vietnam's National Microfinance Network, called the M& Group – a group of seven (7) MFIs in flight to improve their current credit and savings programmes for the poor by offering microinsurance. Similar engagements are being fulfilled with KBPR Arta Kencana in East Java, Indonesia.

Recognizing that a conducive policy environment is an imperative to advance microinsurance, "RIMANSI sponsored several policy dialogues, forums, workshops and conferences on microinsurance," that takes advantage of a "much-needed venue for networking and information sharing among stakeholders." It has actively pursued engagement with "government policymakers and regulators" leading to "significant policy reforms" that are projected to stimulate further development in the microinsurance sector.

Some lessons learned in advancing microinsurance (David-Casis and Maniebo, 2009) are as follows-policy framework is crucial; advocacy should be anchored on facts and sensitive to emerging developments; know your stakeholders; inform, educate, and advocate at two levels: lobby with regulators and mobilize other stakeholders; keep abreast of developments; work with issues, not personalities; build strong partnerships; and show results.

J. Other Risk-reducing Mechanisms

1. Members' Security Fund

This is another innovation of ASA's insurance service savings product and is quite acceptable for the poor people, as weekly premium is Tk. 10 only. It is a unique microinsurance service for the poor people and duration is eight years. This insurance covers 6 times of deposited amounts in case of saver's death and if the depositor survives this period, the deposited amount with interest is refunded at the end of maturity (Rahman, 2011).

2. Index-based insurance

In addition to microinsurance, there are other tools that aim to directly reduce the risk of lending to agriculture or the rural poor benefiting both banks and farmers or producers and consequently, encouraging investments in the agriculture sector. These are the index-based weather insurance and guarantee systems (Llanto and Badiola, 2011).

Index-based insurance products for agriculture represent an attractive alternative for managing weather risk. Pilot programmes conducted in several developing countries like the Philippines, India, Mongolia and Thailand in Asia and in countries in other regions have proven the feasibility and affordability of such products (UN, 2007). In index-based weather insurance contracts, estimates of financial losses are based on an index, or a proxy, instead of on the actual losses of each policyholder. The index could be based on variables such as regional rainfall, wind speed, temperature, regional area yields, and regional livestock mortality rates. The insurance provider starts compensating policyholders for losses when the index passes a predetermined critical threshold. Payments increase incrementally as the index deteriorates, and policyholders receive the maximum amount possible when a predetermined upper limit is reached. Experiments and pilot studies in this area are still continuing but there had been a number of studies which show that weather index insurance can work and that some programmes have demonstrated real capacity to scale up.

3. Loan guarantee schemes

Loan guarantee schemes, on the other hand, are analogous to insurance instruments that share the risk of lending among the lender, the guarantor and the borrower. Typically, a government corporation or agency guarantees up to about 85 percent of the loans from banks of the intended clients, usually marginal farmers. Proponents of loan guarantee programmes indicate that the following conditions justify the use of this type of intervention when lenders place particular emphasis on the role of collateral in making their lending decisions and that most small agricultural entrepreneurs do not have the traditional collateral to offer; when the high fixed cost of due diligence (relative to loan size) makes it uneconomical for lenders to extend small loans; and it is an excellent opportunity for partnership or collaboration between the public and private sectors. While not entirely new, the loan guarantee system has been re-introduced in some countries by adding new features to make it more attractive to banks and thus, encourage these banks to adopt the scheme. So far, loan guarantee schemes of various designs are said to be in effect in about 85 countries and thus, encourage these banks to adopt the scheme. So far, loan guarantee schemes of various designs are said to be in effect in about 85 countries (Christensen, *et al.*, 2004). Please refer to Box 2.

Box 2. New features of loan guarantee systems

- Guarantee is provided at wholesale from a government corporation or entity to accredited financial institutions;
- In addition to banks, other institutions like cooperatives, small and medium enterprises (SMEs), non-government organizations or farmers' organizations can seek guarantee coverage;
- Guarantee can cover all risks from losses due to non-payment of loans including those caused by natural calamities and pests and diseases as well as market aberrations except fraud on the part of the conduit;
- Covers all types of agricultural production projects, including production of grains (rice and corn) and high value crops; poultry and livestock; as well as fishpond operations;
- As an incentive to participating banks, Central Banks assign relatively lower risk weights on loans covered by guarantee schemes;

Source: Christensen and others 2004

4. Crop Pledging Scheme and Farm Income Guarantee Scheme

Since crop prices are often volatile and subject to marketing mechanisms, farmers are frequently affected by crop price volatility. This leads to income uncertainty, resulting in mounting debt. Realizing this problem, BAAC with support from the government, had launched a crop pledging scheme long time ago as a price stabilization measure to ensure income stability. This scheme had been implemented for almost 30 years until it was superseded by farm income guarantee scheme (Wajananawat, 2011).

The crop pledging scheme in Thailand was first introduced in 1981. The first crop pledged under this project was rice. Other major crops include were maize, cassava, longan, para-rubber and garlic. During the harvest season, rice, the main crop of the country, overwhelmingly poured into the market. Oversupply during that period caused crop prices to fall.

The concept of a pledging scheme is to cut down the flow of supply of farm produce to the market during that period in order to maintain reasonable crop prices. The pledged crops have to be kept and maintained at the farm or government warehouses. When the supply decreases, the prices should rise. Farmers can redeem their crops and sell them. In some situation, if prices don't rise, farmers can decide not to redeem their crops, leaving them with the government.

In this regard, BAAC extends loans with low interest rates under this scheme as well monitors pledged crops. Influenced by the demand of farmers and government policy, the prices of crops pledged under this scheme were set much higher than market prices. This led to distortion of the marketing mechanism. The implementation of this scheme lasted almost 30 years. It was considered an effective measure ensuring reasonable incomes for farmers. However, the scheme had advantages and disadvantages.

Having implemented crop pledging schemes for many years, the government realized crop pledging scheme's disadvantages which can deteriorate both farmers' discipline and the country's competitiveness in the world market. Thus, the farm income guarantee was introduced to replace the pledging schemes in 2009. Both schemes are income support programmes. However, the farm income guarantee scheme is different from the crop pledging scheme in terms of methodology.

The government simply sets guaranteed prices for particular crops (rice, maize, and cassava) based on farmers' production costs plus reasonable profit margin (approximately 25-40 percent). During harvest season, reference crop prices are announced weekly or fortnightly depending on each kind of crop. If the reference price is lower than a guaranteed price, farmers can get the difference from government compensation through BAAC's branches.

Farmers engaging in this scheme have to register with district agricultural extension offices in order to get a certificate of farm size and crop production volume. Sub-district inspection committee conducts a village/community meeting in order to publicly verify and confirm the farm size and crop production volume for each farmer enrolled in the scheme to ensure the correctness of farm size and crop production volume as stated on certificates. Since the government does not hold the crops as in pledging scheme, farmers can market their produce as and when desired.

After being confirmed by the village/community meeting, the farmers can apply for a farm income guarantee contract at BAAC's branch offices. If the reference price is lower than the guaranteed price during the date of execution as stated on the contract, the farmers will be paid the difference (crop quantity multiplied by the different price) through the transfer of money to farmers' accounts.

In 2009, 3.4 million farmers registered for the farm income guarantee scheme (see comparison in Table 17) in which ฿38 billion of compensation had been paid to the registrants. Farmers were reported to be satisfied with the income guarantee scheme based on some recent surveys while the government was urged to conduct scheme with other types of agricultural crops.

Table 17. Comparison between Crop Pledging and Farm Income Guarantee

Schemes	Advantages	Disadvantages
Crop pledging	1. Effective measure in temporary holding the pouring supply of crops to markets 2. Stabilization of farm incomes 3. Farmers have incentive to produce more crops	1. Distortion of market mechanism 2. High scheme operating costs 3. Only medium and large scale farmers benefit from this scheme 4. Farmers have no incentive to concentrate on quality
Farm income guarantee	1. Undistorted market mechanism 2. Farmers are encouraged to improve crop quality 3. More farmers benefit from this scheme 4. Low project operating costs 5. Farmers are financially secured.	1. Fraud may easily happen if the scheme fail to verify farm size and crop volume of each farmer

Part III

Concluding Lessons and Recommendations

Taking into account all the knowledge wealth (K-Wealth) accumulated and shared during the five-year FinPower Programme, APRACA continues to strengthen its role as an acknowledged leader in rural and agricultural finance and gradually as key stakeholder in and supporter of microfinance. IFAD likewise constantly attunes its policies in line with the growing rural/microfinance experiences in the world as well as the emerging needs and requirements of its partners in development. Thus, IFAD as a guiding world policy maker and APRACA as a strategic implementer in Asia continue to engage in mutually enriching endeavours, which include further deepening of rural and agricultural finance and pro-poor policies, creating conducive national regulatory frameworks, disseminating K-wealth to benefiting countries, replicating best practices and building capabilities, efficient systems and client-friendly institutional structures.

During the course of FinPower's programme life, there are indicative evidence of several Asian countries and their respective key rural/microfinance institutions adopting and replicating various financial innovations and best practices. However, on top of these laudable adoption and replication successes in reaching a large number of rural poor and in providing sustainable financial services, APRACA strives to focus on existing and emerging areas and themes that still need to be further developed, enhanced and strengthened. APRACA likewise continues to promote the reform of institutional structures, the clear enunciation of policies and the deepening of commitments among rural/microfinance institutions. On the other hand, a great number of microfinancial institutions need to be further strengthened, supported and transformed into more professionally managed entities. Rural/microfinance institutions and other key stakeholders need to deepen their collaborative efforts and work together towards harnessing their full resources, expertise and potentials.

The list of tasks to be fulfilled, areas to be explored, issues to be resolved and capacities to be improved is expansive and growing. This compendium, therefore, attempts to highlight several important lessons and to summarize recommendations, drawn from a number of FinPower Programme-commissioned studies, papers and activity reports as well as valuable statements from member CEOs and international experts.

A. On Policy Environment and Regulatory Framework

- A rural financial system is considered strong only insofar as key stakeholders within the system exhibit unfailing commitment and serious action. Thus, governments, rural/microfinance institutions and other stakeholders should maintain continuing and regular for a and avenues for discussing policies such as financial inclusion, outreach and deepening reforms as well as on regulations affecting rural and microfinance markets in order to avoid disruption in the provision of finance services and to ensure the stability of rural financial systems.

- To ensure effective regulation and supervision of rural/microfinance institutions, regulatory authorities need to ensure policies that provide continuing capacity building, particularly for microfinance institutions that are intending to convert and transform into a more complex mainstream institutional structure or to create side-by-side a next-ladder or bigger financial institution.

- As microfinance becomes complex, regulatory authorities need to be proactive in supporting other emerging forms of microfinance institutions and providers. This positive action would definitely introduce variety, flexibility and vibrancy into the rural financial system.

- Regulatory authorities should further develop more appropriate regulatory and supervisory approaches for rural/microfinance institutions such as risk-based supervision, corporate governance and performance standards.

- A free-market policy usually attracts private participation and, thus, to a large extent this policy should be pursued.

- In transition economies, financial policies have now become more client- and institution-friendly and have encouraged the entry of more private commercial banks and other private lending institutions into the rural/microfinance system. Since private banking entities bring to the system such values as professionalism, corporate governance, responsibility and efficiency, regulatory authorities should facilitate their entry by providing incentives, leeway and elbow room to adapt to the new situation.

- While many countries and institutions have already adopted market-friendly policies and appropriate legal and regulatory frameworks, there are still more work to be done. Due to the proliferation and increase in number of microfinance institutions and microfinance providers, lenders now are faced with increased chances of clients with multiple and simultaneous borrowings. This situation is exacerbated by the difficulty of information gathering and verifying credit track records of clients, in view of absence in some countries of credit bureaus and similar mechanisms that can be accessed. Hence, there is a need for building and strengthening necessary credit information systems.

- A local MFI rating system is needed, based upon commercial ratings support and also linked to a credit information exchange. The information exchange should include both positive and negative information. If microfinance clients are to graduate and become clients of the mainstream banking system, they will need to establish an accessible and good credit history.

- There now exist many inexpensive integrated accounting and loan portfolio systems that are meant to improve the management information systems of smaller financial institutions.

- Several central banks and in some instances, apex regulatory authorities, have already issued licenses (to undertake financial services) to MFIs. The formalization of the transformation of NGOs into licensed microfinance institutions is expected to ensure common reporting and minimum quality standards.

- Microfinance markets must be properly identified and defined, through improved statistical analysis and market definitions by location, by sector, by size and by scope. It would be helpful to also identify MFI clients' other sources of funding, particularly if such clients are members of farmers' financial associations, cooperatives or village "banks".

- The shift in policy from mere credit provision to savings first and later to providing broader and sustainable financial services should be fully supported. Rural/microfinance institutions, therefore, need to further promote and mobilize domestic savings and at the same time offer broader services, such as remittance services and payment services. At the same time, non-financial services such as credit plus services and advisory services should be provided to poor but bankable would-be clients.

- Regulatory authorities and rural/microfinance institutions may revisit a comparison between a highly regulated interest rate regime and a more relaxed, market-friendly interest rate policy, taking into account cost concerns and attendant risks in lending as well as correcting disadvantages to both the financial institution and the client saver/borrowers.

- Studies have shown that the autonomous pursuit of sound banking practices within the confines of a prudent regulatory framework is contributory to the dynamism of a rural financial system. Thus, political interference, particularly in capping interest rates, condoning loans, allocating funds and targeting special groups, while acted upon with good and honest intentions, may create adverse consequences to a rural financial system.

- It is noted that concerned governments provide significant subsidies to government banks which are mandated to extend policy loans to meet government-prescribed social, economic and political objectives. Nonetheless, under this mandate, several government-owned banks have adroitly disbursed government subsidies in a transparent and more professional manner and tied these with their own financial resources, in order to provide their target clients with sustainable financial services, painstakingly explaining and seeking clients' awareness and understanding that the funds being lent are not dole-outs, as in the past.

- In cases where governments are not engaged in direct lending and are just tasked to supervise the existing rural financial structure, the market becomes more fluid, more expansive and more sustainable. Thus, when politics keeps its distance from lending, private lenders show willingness to support and are more inclined to enter into rural/microfinance and, in the process, exhibit higher level of success, since they use better financing schemes, employ cost-efficient technologies and provide leakage-proof monitoring systems.

- Collateral offered by small borrowers are in most cases insufficient to cover their prospective loans or in worst cases, they have no collateral to offer at all. Several countries have solved this issue of lack of sufficient collateral through mechanisms such as the joint liability scheme, business development centers, joint ventures, capital retirement scheme (e.g. corporative) and self-help group formation. Lending institutions should, in addition to its traditional collateralized lending, likewise design collateral-free lending or collateral substitute schemes particularly for those rural poor who are financially excluded owing to lack of or insufficient collateral.

- In view of the problems posed by the food, fuel and financial crises, it is important to develop financial policies that take into consideration agricultural intensification/diversification, response to climate change/variability, focus on renewable/alternative energy and value chain improvement.

- For creating a conducive environment, a policy for renewable energy financing should be in place. Setting funds to promote "green" financing following a public-private partnership model can be a step in the right direction. Facilitating carbon trading at the international market is likewise an important aspect that should be pursued or considered.

B. On Institutional Structure and Outreach

- Using government banks to reach target clientele has remained a key component in some countries' strategy for providing financing to the agriculture sector, especially smallholder agriculture. Hence, these banks need to be continuously updated and upgraded in terms of management techniques, corporate governance and banking operations.

- The role of NGOs and microcredit providers in helping the poorest of the poor – marginalized, dis-enfranchised and disadvantaged – should be fully supported. Thus, a rural financial structure should also include these NGOs and microcredit providers as they are the best chance for un-bankable rural poor to become potentially bankable.

- It is generally acknowledged that when NGOs and microcredit providers are transformed into mainstream entities, the bigger are the chances for a stronger rural financial system. Hence, regulatory authorities should develop the system by adapting itself to the needs of the system, rather than the other way around.

- The best rural financial institutions usually expend greater effort in building their institutional capacity. Hence, evidence shows greater success for these institutions when they develop their managerial skills and personnel competence to adapt to the changing financial needs and requirements of their clients.

- Most countries in Asia have learned crucial lessons from their experience with the 1997 Asian financial crisis, which to a large extent prepared them for the assault on their economies brought about by the 2008 global economic and financial crisis. Thus, more institutions and key rural finance stakeholders now put greater premium on financial stability, financial discipline and good governance.

- Most rural/microfinance institutions now have specific units or departments in their structure to cater to various interests of client groups. Such units include those that cater to women lending, micro/small enterprise, individual (retail) lending and group (wholesale) lending. In several cases, these institutions have units to focus on lending to specific agricultural product lines – land-based smallholder agriculture, fisheries, livestock and plantations, among others. Experiences of several APRACA members showed that when a dedicated unit concentrates on a specific client group or an agricultural commodity, there is a fair chance of financial access and more pronounced development outcomes. Hence, financial institutions are encouraged to establish units, particularly for less attended client groups or agricultural commodities.

- On the other hand, several rural financial institutions have established various units in the bank to focus on the requirements of creating a sustainable, viable and progressive financial institution. Such units, in addition to the usual credit, savings mobilization, budget, accounting and research units, include those that work or focus on risk management, savings promotion, product development, marketing support, value chain and green financing.

- Rural and microfinance institutions should raise adequate capital to have a strong buffer against financial stresses and tap more domestic sources of funds. The global financial crisis experience has proven that local equity capital and a strong domestic deposit base can provide the necessary funds for lending and help shield domestic financial institutions from currency volatility and reversal of capital flows.

C. On Design Appropriate Products

- Recognition of financial inclusion as a goal worth pursuing should be enhanced by allowing rural and microfinance institutions to design financial products and services that respond to client preferences and capacities but always within prudential limits allowed by regulators. Thus, rural finance and microfinance institutions in Asia should focus on designing finance services and products that meet clients' needs without sacrificing institutional viability and profitability.

- Studies show that the rural landless poor are taken care of by microfinance institutions and the rural affluent farmers by formal financial institutions. This leaves in between small farmholders, who do not fit into the targeting criteria of MFIs and the lending criteria of formal financial institutions. Governments and rural financial institutions need to take a second look into the financial needs of very small farmholders, who usually till not more than a hectare of land.

- The shift in policy from mere credit provision to providing broader and sustainable financial services observed among rural and microfinance institutions is laudable and should be supported.

- Government-owned banks can provide sustainable loan and deposit-taking services to millions of rural-based clients when they are allowed to define and implement their respective own lending and savings methodologies and strategies.

- There is a need for an organized effort to focus more about the state of women participation in rural finance and development. Hence, the conduct of regular fora on women in rural finance and development should be fully encouraged.

- A few rural/microfinance institutions are now looking at the future of the farming industry as the number of farmers dwindles due to the lack of interest among their children to continue the farming occupation. Governments and key stakeholders should therefore encourage harnessing new opportunities for farmers' children and rural youth in general, by providing better education and appreciation of modern farming, more advanced farming technology, better training and adequate support to agriculture as a viable industry.

- There is a need to develop financial products and non-financial support for rural youth in their future role as hi-tech and modern farmers and farm business holders as a prelude to a more modernized agricultural landscape.

- It is being touted by experts that water will be the single most important commodity that may likely cause local and international conflict in the future. Hence, early and careful planning in selecting the right partners, prioritizing among the various types of demand for water (irrigation, drinking etc.), clarifying ownership of water mass, and effective monitoring and assessment of investments and financing are crucial to lessening the negative impact that scarcity of water will provide.

D. On Financial Inclusion

- There is a need for a strong and clear database of those who are excluded from the formal financial system. Only then can financial inclusion be properly and adequately tackled. Financial exclusion is more pronounced where formal financial institutions shy away from the rural poor and agricultural lending in general and where the rural poor and farmer/fishermen are reluctant to approach formal financial institutions. Organizing farmers and fishermen and facilitating direct and indirect linkages of farmers, fishers, micro-entrepreneurs, and small businesses to banks are helpful strategies for financial access and inclusion.

- As suggested by the World Bank, "designing a financial inclusion strategy integrated with broader strategies for economic development and poverty reduction would provide clear direction for both policymakers and the private sector."

- Regulatory authorities agreeing and confirming the role of microfinance institutions as a significant contributor to their respective country's financial infrastructure is a crucial step towards a successful financial inclusion strategy.

E. On Value Chain

- In general, the prevalent mode of financing in the value chain still seems to be that of the trader credit model where small producers have no direct linkage to the market and apparently lack information regarding market price. The price of produce does not normally benefit the small producers. For this reason, there is need for governments and the private sector to facilitate contractual arrangements that directly link farmers to large buyers for the sale of their produce.

- Farmers also need access to technology and technical assistance which assure that the required quantity and quality of the produce is attained. Farmers also need access to market information, ensuring that they get their fair share of value-addition along the chain. Governments should see to it that the benefits produced by value-adding activities in the chain are fairly distributed among chain actors, more particularly to small producers, who are often prone to price abuse.

- Contract farming seems to be the emerging trend in value chain financing although initial experiences have shown varied results. However, it is clearly evident that a huge gap between credit demand and supply still exists and therefore needs to be addressed. Lack of financing at some links of the chain poses a major constraint to the growth and expansion of the entire chain.

- Heavy subsidies entitlements provided to government-owned agricultural enterprises sometimes directly compete with the private sector (enterprises and financing institutions) and thus putting the latter at a disadvantage. Government interventions should therefore be moderate so as to encourage, rather than compete with, the private sector in providing agricultural finance through market-based lending rates, creation of a policy and regulatory environment conducive for private sector participation, and rural infrastructure to attract investments.

- The warehouse receipts system should be adopted and developed as a post-production financing scheme as it secures a higher price for the produce due to prolonged storage, provides quality standards, and functions as a sort of credit bureau by building a third-party history of the performance of its depositors. The warehouse receipt is also intended to serve as collateral or pledge that will allow traders, exporters and other institutional buyers to access loans that will allow procurement of larger volumes of produce and finance other expenses related to processing and marketing.

- Policy and regulatory reforms that will allow contracts and warehouse receipts to serve as acceptable substitutes for hard collateral should be instituted, if necessary.

- Banks and other formal financing institutions which have had extensive experience and information in financing a particular commodity or industry should be encouraged to provide a structured-type of financing that should take care of financing needs from production to marketing and distribution.

F. On Public-Private Partnership

- Financial policies have somewhat become less repressive than in the past years in Asian transition economies, which have opened pathways for greater participation by private lending institutions such as banks, cooperatives and other types of lending institutions in the vibrant microfinance sector. Governments should therefore level the playing field by not giving too much preferential treatment to government-owned financial institutions and should further provide opportunities for improved and participatory representation of all key rural finance stakeholders.

- Besides the regulatory framework, partnerships between government entities and private financial organizations, local partners, service providers and manufacturers play important roles and should be promoted. This network can be used for risk mitigation, information transfer and knowledge network, among others.

- The collaboration among governments, research institutes and universities are also important in the field of monitoring and research. The assessment of the satisfaction on loan policy and loan procedure, about renewable technology in general, social and environmental issues, technical appropriateness, effectiveness of policies and more is a crucial task that has to be taken care of.

G. On Green Financing

- The linkage between renewable energy and financing is a new phenomenon, specially, in Asia. Given the novelty of the potential linkage between the two, governments will have to play a crucial role as mediator.

- The lack of awareness, lack of funds, access to financial services, high up-front costs and still untested government plans and policies in renewable energy financing make it a difficult task for practitioners.

H. On Risks, Cost Recovery and Insurance

- There should be greater emphasis improving cost recovery and providing efficient and responsive financial services.

- Rural and microfinance institutions should further strengthen their financial and credit policies and processes for credit analysis, loan screening, risk management, monitoring performance and diversifying asset portfolios.

- Climate change and environmental degradation have increased incidence of flooding, drought and other natural calamities. Most rural and microfinance institutions are not well designed nor prepared to cope with large systemic risks, which can lead to loss of client lives, deterioration of income earning, weak loan repayment capacities of clients, and the destruction of local community economies. Governments should put in place some financing arrangements when such disasters occur.

- Dr. Thapa notes that in designing index insurance products, governments and financial institutions must distinguish schemes that aim to help poor people protect their livelihoods and assets which should be subsidized and implemented through special delivery channels aligned with relief (protection insurance and schemes that are designed to promote agricultural development by helping households with viable farm businesses manage their risks which should be channeled through private intermediaries and can be sold on an unsubsidized basis (promotion insurance).

- There is a need for an outside agent that could act as a champion that would push for the implementation of the provision of missing public goods (e.g. weather stations and insurance regulations) and the establishment of reinsurance arrangements as well as facilitate the conduct of training for local brokers and insurers and research to identify viable insurance products.

- In order to be sustainable and effective, players in the insurance market need to be supported with reliable data on risk as well as on index values, through the development of weather data infrastructure.

- Index-based insurance programmes that have as component a training and capacity development programme have greater advantage over those that do not have. Hence, training of all insurance actors is a pre-requisite.

- Making farmers understand the importance of index insurance as an investment in reducing risk would enable them have to have clear and realistic expectations about payments as well as greater familiarity with the product.

- The initiative of microfinance institutions to develop home-grown mutual benefit associations and microinsurance schemes for very small clients should be fully promoted and endorsed.

- Governments and rural/microfinance institutions must include in their pro-poor rural development agenda the improvement of the poor rural people's risk management capacity and stimulating the market to provide risk-reducing technologies.

I. On Providing Support Services

- Governments should focus on providing the necessary support services to the rural areas in order to attract productive investments, e.g. infrastructure such as farm-to-market roads, communications, irrigation, storage and post-harvest facilities; research and development; training and extension; and marketing.

- Governments as well as donors and other stakeholders should increase their support for capacity building among rural/microfinance institutions. Priority areas for capacity building include the following: financial literacy and numeracy, product development, risk management, improved credit analysis, loan delinquency management, strengthening loan portfolio quality, streamlining operational procedures, improving governance structures, strategic planning and capacity to do better external environment scan.

- Governments as well as donors and other stakeholders should likewise support membership-based organizations by providing advice and capacity building support in view of their direct interaction and representation of members' aspirations.

'And Miles to Go'[13]

The IFAD-supported FinPower Programme has helped plant the seeds of rural finance innovations. APRACA member institutions as well as IFAD national and institutional projects have responded by nurturing several replication seedlings in beneficiary countries. But, there remain still many tasks to be done. And for every response to a problem, a new issue arises.

With the variations in APRACA represented countries' level of economic development, the depths of poverty and the size and structure of the agricultural landscape, there can be no common solution to the variegated problems.

Nevertheless, there is commonality in resolve to address the problems and issues.

As agriculture continues to play a major role in the economic development of many APRACA-represented countries, APRACA shall continue to address the challenges of empowering poor rural communities through rural financial innovations and efficient replication mechanisms at grass roots level.

Despite the wealth of experience and innovative practices, the coverage of rural microfinance and rural finance – except for a few countries – is still largely limited. A major challenge that remains is how to widen access to financial services by the poor and low-income rural clients. It is within this context that it is hoped that the compendium of K-wealth innovations and best practices would guide future actions of APRACA, its members and its key international and national development partners, who are keen on facilitating adoption and replication of the innovations and best practices in beneficiary countries and institutions.

It is hoped that this publication would further contribute to the growing wealth of knowledge on rural and agricultural finance as well as microfinance. Readers are therefore requested to send in their valuable comments to APRACA.

[13] The phrase is drawn from Robert Frost's poem, On Stopping by the Woods on an Early Wintry Evening.

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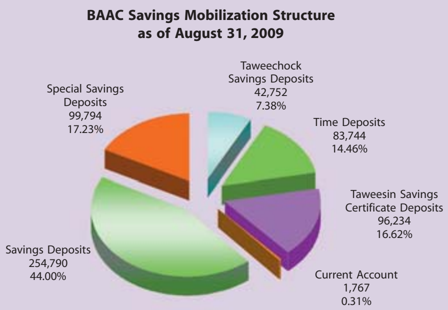

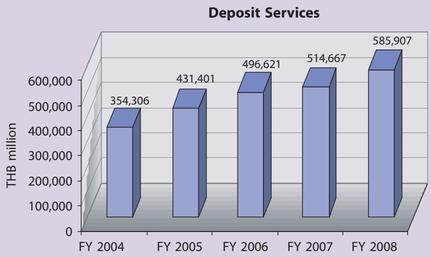

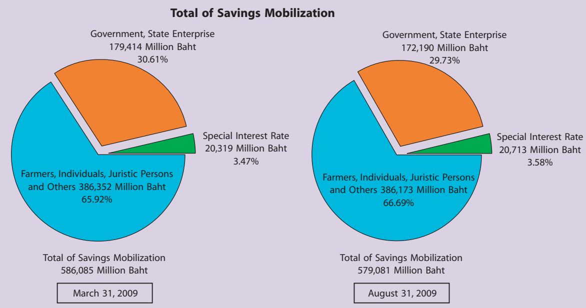

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