

**Country Studies**

**The Role of  
Central Banks in  
Microfinance in Asia  
and the Pacific**

**Volume 2  
Country Studies**



**Asian Development Bank**

First published 2000

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ISBN 971-561-310-1  
Library of Congress  
Cataloging-in-Publication Data available

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## Foreword

## Country Studies

During the last two decades, microfinance has evolved from almost exclusively credit-focused operations into increasingly diversified services. Many microfinance institutions (MFIs) in the Asian and Pacific Region are now offering limited deposit services and a few are exploring the possibilities for adding microinsurance to their operations. In the 1990s, the outreach of the industry also expanded in many of the developing member countries of the Asian Development Bank (ADB). Currently, the industry serves close to 22 million poor and low-income households in the region.

Despite the industry's growth in scope and scale, a large majority of Asia's poor and low-income households still have little access to formal financial services. MFI expansion has been concentrated in two countries: Indonesia and Bangladesh. In most countries, the industry is still at an infant stage. The limited outreach in comparison to the region's large potential market of over 180 million poor households is a major cause for concern for policy makers and development practitioners. There is a consensus among all stakeholders that if microfinance is to make a significant contribution to poverty reduction, the industry must reach larger numbers of poor households with quality services.

In this context, central banks have a potentially important role to play in the development of sustainable microfinance and the integration of microfinance into the broader financial sector. However, this role has not been studied systematically, despite the fact that central bank policies often have a vital influence on the speed with which the microfinance industry can grow and on the directions and quality of the growth. Therefore, ADB decided to undertake a study to examine central bank operations in microfinance with a view to improving the understanding of how central banks can support development of sustainable microfinance.

The study covered twelve developing member countries of ADB: Bangladesh, People's Republic of China, India, Indonesia, Kyrgyz Republic, Nepal, Pakistan, Papua New Guinea, Philippines, Sri Lanka, Vanuatu and Viet Nam. The Foundation for Development Cooperation in Brisbane, Australia carried out the study using a team of reputed microfinance specialists from the region. The results of the studies are presented in two volumes. Volume I, to be released in October 2000, will present an overview of the study. This Volume presents the country studies.

The country studies suggest that operations of central banks for microfinance development have varied significantly among DMCs and over time. What central banks should and should not do in the future depends largely on the current stage of microfinance development, the structure of the industry and the directions in which it is moving, and the institutional capacity of the central banks. In countries where formal MFIs are playing an increasing role in the industry, central banks need to pay more attention than in the past to regulation and supervision.

The analysis, results and recommendations of the study are expected to be useful to all those concerned with development of sustainable microfinance. We hope that the study will generate further interest on this subject among policy makers, development practitioners, and researchers.

Akira Seki  
*Director*  
Agriculture and Social Sectors  
Department (West)

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## Introduction

## Country Studies

The study of the role of central banks in microfinance, of which this set of Asia-Pacific country studies is the second part, reflects the commitment of the Asian Development Bank (ADB) to assisting the development of sustainable microfinance in its developing member countries (DMCs). It demonstrates a concern for good policy as the prerequisite for good practice, and a commitment to the “financial systems development” approach to microfinance.

An earlier study<sup>1</sup> prepared by The Foundation for Development Cooperation (FDC), with the collaboration of members of the Banking with the Poor Network, considered the need for an appropriate policy and regulatory environment for microfinance. This was based on case studies of nine Asian countries, all DMCs of ADB. We are grateful to ADB for the opportunity to take this work further by focusing specifically on central banks. We share ADB’s conviction that the findings can be generalized (as they are in the first volume of the study) to develop principles applicable to the operations of central banks, insofar as they have implications for microfinance. We are particularly grateful for the guidance and patience of Dr. Nimal Fernando, Senior Project Economist-Microfinance, Agriculture and Rural Development Division West, in the completion of the work.

The analytical framework developed for this study, described in Volume 1, has generated some generally applicable principles. But the diversity of institutions and economic conditions in the DMCs of ADB also require country-specific recommendations to enable a supportive policy and regulatory framework to be fashioned. Specific recommendations are needed to enable each particular central bank to shape an appropriate response to the needs of microfinance development, in the context of the demands posed by broader financial sector development and macroeconomic concerns. Such recommendations have been provided in each country study.

In bringing this material to publication we have appreciated the professionalism of the other contributing authors, Ms. Ruth Goodwin-Groen, Dr. Gilberto Llanto, and Mr. Sanjay Sinha. Mr. Paul McGuire, consulting associate of FDC, has contributed both to this volume and as senior author of the Overview in Volume 1. We also appreciate the high standards brought to the work by manuscript editor Dr. Barbara Henson, as well as the contribution in book design and layout of Peter Evans. We have benefited from the comments of a number of ADB staff and are grateful for the professional support and guidance of Ms. Lynette Mallery in the Office of External Relations, as well as for assistance from Ms. Stella Lorenzo.

The work in the field was facilitated by a great many people, and the authors have acknowledged this assistance so far as possible in their individual country studies. We trust that, in turn, the findings of each country study and the recommendations which flow from them will prove a valuable contribution to both domestic policy making and external technical assistance.

John D Conroy  
*Special Consultant*  
The Foundation for Development Cooperation

Robyn Cornford  
*Program Manager*

1 McGuire, Paul B., John D. Conroy, and Ganesh B. Thapa. 1998. *Getting the Framework Right: Policy and Regulation for Microfinance in Asia*. Brisbane: Foundation for Development Cooperation.

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## Notes on Authors

## Country Studies

**John Conroy** is special consultant to The Foundation for Development Cooperation (FDC) (based in Brisbane, Australia), having previously served as executive director for nine years from 1991. He is co-author of several FDC monographs on microfinance, including those dealing with NGO-commercial bank linkages and the policy and regulatory environment for microfinance in Asia. Dr. Conroy has worked for extended periods in Indonesia and Papua New Guinea, and has published on development issues in a number of sectors, including education, labor and human resources, population and family planning, human settlements and shelter, and development cooperation policy as well as microfinance. He serves as secretary to the Banking with the Poor (BWTP) Network, comprising microfinance institutions, commercial banks, and central banks in nine Asian countries which collaborate in research and advocacy in support of sustainable microfinance for the region.

**Robyn Cornford** edited this volume jointly with Dr. John Conroy. An Australian national, Ms. Cornford is a chartered accountant with more than fifteen years of financial and management experience in the private and nongovernment sectors in Australia, the United Kingdom, and the United States. After undertaking her MBA at Georgetown University in Washington, DC, Ms. Cornford joined FDC in 1999 with the primary objective of developing her professional interest in microfinance. Apart from project managing this study for the Asian Development Bank (ADB), she has managed an FDC project on impact analysis of microfinance, and researched the prospects for microfinance to contribute to reconstruction in post-conflict East Timor. She has also developed training materials and conducted training sessions in microfinance.

**Ruth Goodwin-Groen** is an independent consultant specializing in microfinance. An Australian now resident in New York City, she gained her initial experience of international development issues working with the Australian Agency for International Development (AusAID), before graduating from Harvard Business School. Subsequently, she has spent more than a decade working with and advising retail and wholesale institutions and donor agencies worldwide. This period included several years with Women's World Banking and, more recently, consulting for the World Bank, the United Nations Development Programme (UNDP), the Small Enterprise Education and Promotion (SEEP) Network, the Soros Foundation, AusAID, and FDC, among others. Ms. Goodwin-Groen is currently manager of the Consultative Group to Assist the Poorest (CGAP) program of microfinance capacity-building courses. She is the author of a study of the role of commercial banks in microfinance in the Asia-Pacific region, conducted for FDC.

**Gilberto M. Llanto** is a senior research fellow at the Philippine Institute for Development Studies and, currently, a financial and credit policy consultant to the National Credit Council, Department of Finance. Among other board memberships, he is currently a director of the Center for Agriculture and Rural Development (CARD) Rural Bank, the first Philippine microfinance bank. He has over twenty years of research experience in monetary economics, development finance and banking, public finance, and local government, and has published extensively in these areas. Dr. Llanto has extensive consulting experience in the fields of monetary and fiscal policy, and has worked as a consultant to the World Bank, the Food and Agriculture Organisation (FAO), ADB, and UNDP, among others.

**Paul McGuire** is a consulting associate of FDC, for which he has researched issues relating to microfinance and financial systems policy, as well as the assessment of microfinance institution capacities. He was principal researcher for a major study of the policy and regulatory environment for microfinance in nine Asian countries in 1997, conducted for FDC. Mr. McGuire also prepared an assessment of the status of microfinance in the small island states of the Pacific for UNDP in 1996, and is the author of numerous articles and monographs on microfinance. He has worked as an

economist for the Australian Treasury, the Organisation for Economic Co-operation and Development (OECD), the Government of the Cook Islands, and (currently) the Queensland Treasury.

**Sanjay Sinha** is managing director of EDA Rural Systems, an India-based consulting firm. A graduate (M.Phil.) of Oxford University, he specializes in micro-enterprise development strategies and microfinance program development, as well as financial and socioeconomic appraisal. He has worked in India, Nepal, Bangladesh, Sri Lanka, and Indonesia, and has consulted for the Ford Foundation, the Government of India, ADB, the World Bank, and CGAP. Mr. Sinha has been instrumental in establishing a credit rating mechanism and guarantee fund for microfinance institutions operating in South Asia. He has published extensively in the areas of finance and development, rural financial markets, community development, and related topics.