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Fine Tuning the Microfinance Sector under Regulatory Control in Bangladesh: Imminent Issues and Challenges[1]

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Abstract *Although microcredit is often seen as a simple solution to poverty reduction, its sustainability for longer-term community development is debated. The emergence of a formal regulatory body under MRA Act 2006 and the relevant rules & regulations for the NGO-MFIs triggers an era that Bangladesh did not experience ever. The post MRA microfinance operation in Bangladesh reveals a very complex as well as challenging scenario. The paper sheds some light over how a small sample of key MFIs with varied typologies have been adjusting and getting concerned in the changed environment due to the regulatory control and highlights having its own intent and objectives, each single MFI has leverage, limitations and challenges that MRA and other concerned are to take into account. Interplays of various factors in the microfinance sector of the country are narrowed down in this document to understand the sectoral dynamics mainly through the eyes of the operators and regulator. The paper reveals that MFIs with varied types have their respective concerns and challenges that are to be taken into consideration for future adjustments. The issues and challenges covered in this paper reveal that there are many hurdles yet to be crossed to reach the poor and to uplift them from poverty. An exploration of this sort deserves importance in shaping up the sector better.*

Key Words: *Regulation, Microfinance, Bangladesh, Poverty*

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1. Introduction

Keeping the poor at the center, the mammoth endeavor for accomplishing microfinance interventions is existent elsewhere of the world, which is a real complex. The microfinance (MF) sector itself is not static; rather it has been evolving through an evolutionary as well as complex process. Notably, an increasing range of players in the development field have been attracted by the (successful) experiences of different private institutions in providing small-scale financial services to the poor. These include donors, social investors, as well as for-profit foundations/banks, which have all shown an ever-growing interest in the development and promotion of these organizations. (Bateman, 2010; Ausburg and Cyril, 2010).

The microfinance sector in Bangladesh has been being dominated by the non-government organizations known as NGO-MFIs. Grameen Bank (GB), which is not an NGO-MFI but a microfinance (MF) Bank formed under a special Ordinance, has quite a big stake in the overall microcredit market of the country. The top twenty MFIs including three very large MFIs (ASA, BRAC and Grameen Bank) mainly capture the market. The cooperatives, mainly Bangladesh Rural Development Board (BRDB), have been another important platform working long in the rural Bangladesh.

The emergence of a formal regulatory body called Microcredit Regulatory Authority (MRA) in 2006 triggers a new era of the microfinance system in Bangladesh, where all the sector actors have been working under a new system. In other words, the sector is crossing a transitional phase. Newly formulated rules and regulations for streamlining the microcredit deliverers, particularly the NGO-MFIs in Bangladesh, are being taken place. Under this new era, the same MFIs have been adjusting their interventions to reach the poor side by side with fine-tuning their financial viability aspect.

This paper focuses on upcoming issues and challenges flagged by the different sector actors including a small sample of microcredit operators, MRA and other concerned for making microfinance interventions in Bangladesh more effective for the poor/poorest, particularly within regulatory control. Also this paper captures a quick list of probable recommendations that may help shape up the sector better in the days to come.

2. Methodology

The findings of this paper are the partial outcomes of a recently done PhD research, which was by design an exploratory as well as descriptive study. A body of relevant data and information both at primary and secondary level were collected. This paper is developed based on the data and information collected mainly from eight microfinance institutions (MFIs) in Bangladesh, representing different typologies.

Both quantitative and qualitative methods were followed to cover opinions of the poor borrowers, practitioners, experts, academicians and policy makers. The changes in the sector centering financial viability and targeting aspects due to the emergence of MRA were the central area to capture during these investigations.

The paper is organised as follows. It talks about the select MFIs in the next two sections (Section 3 and Section 4). Section 5 deals with the rationale behind regulation and supervision of microfinance. Giving a quick view over the global context in Section 6, the next two sections (Section 7 and Section 8) discuss about the explosion of MFIs and emergence of MRA in Bangladesh, respectively. Section 9 narrates the sectoral reality through the lens of MRA guidelines. Section 10 lists out the responses and reactions/challenges made by the select NGO-MFIs over the most concerned provisions of MRA. Issues and challenges of two key actors (GB and BRDB) are discussed in the following section (Section 11). MRA perspectives on different issues and few upcoming challenges that MRA is to confront are summarized in Section 12. Few other issues that are to be considered to understand the sectoral reality are talked about in Section 13. A set of probable recommendations suggested by the NGO-MFIs on the most concerned provisions of MRA are discussed briefly in Section 14, followed by concluding remarks in the next section (Section 15).

3. Microfinance Systems under Consideration

A sample of eight microfinance institutions (MFIs) – one microfinance (MF) bank, one cooperative and six NGO-MFIs – that are selected for this study. The MFIs include ASA, Grameen Bank (GB), BRAC, Shakti Foundation for Disadvantaged Women (Shakti), Caritas Bangladesh (CB), Resource Integration Centre (RIC), Coast Trust Bangladesh (Coast) and Bangladesh Rural Development Board (BRDB).

Table 1 takes a stock of the legal environment in which the select MFIs operate. The basic characteristics of all sample MFIs organizations are summarized in Appendix Table 1. GB is registered under the special Ordinance known as Grameen Bank Ordinance 1983. BRDB is registered under Cooperative Societies Act, 1984. NGOs that finally turned to microcredit program or added microcredit as one of the components of the overall service package are called NGO-MFIs. In general, NGOs derive their legal basis from the country's constitutional guarantee of freedom of association of citizens within legal boundaries. NGOs may be registered under specific laws, but informally – they simply exercise their members' right to freedom of association for mutual well-being. NGOs that prefer to register have several options (mentioned in the Table below) under which they can be registered.

Table 1 Sample MFIs by legal condition

Institution	*MFI*	*Registration*
MF Bank	GB	Grameen Bank Ordinance 1983
Cooperative	BRDB	Cooperative Societies Act, 1984
NGO-MFIs	ASA, BRAC, Shakti, CB, RIC, Coast	Must be registered under MRA; in addition to that to be registered under any one or more than one Act(s): *1. Societies Registration Act, 1860* *2. Companies Act, 1913* *3. Charitable and Religious Trust Act, 1920* *4. Trust Act, 1882*

Since 2006, it is a must for all NGO-MFIs to get a license from MRA. NGOs that wish to receive foreign donations must be registered with NGO Affairs Bureau (NGOAB) under the Foreign Donations (Voluntary Activities) Regulation Ordinance, 1978. Most NGOs are registered with Social Welfare Department under the Societies Registration Act, 1860. Appendix Table 1 summarizes the basic characteristics of the sample MFIs in terms of year of establishment, working area, approach and dominant fund sources.

BRAC is the eldest in terms of year of inception among the MFIs selected for this study. It was established in 1974. Though the other two big organizations - GB and ASA – were also established in 1970s (GB in 1976 and ASA in 1978) but GB has been formally started its work as an NGO-Bank since 1983 and ASA has been working as a credit-focused MFI since 1992. CB and RIC are two microfinance institutions of 1980s: CB started providing its services in early 1980s (from 1982) whereas RIC started its operations in late 1980s (1989). On the other hand, *Shakti* and *Coast* are the organizations of 1990s: *Shakti* has been established in early 1990s (in 1992) and *COAST* in late 1990s (in 1997). Considering the programme specialization phase, ASA is also to be recognized as an organization that initiated its microcredit focused services from early 1990s. Finally, BRDB, a semi-autonomous government agency under the Ministry of Local Government, Rural Development and Cooperatives, was established in 1982. Its predecessor was the Integrated Rural Development Programme (IRDP), which was based on the

Comilla Model of two-tier cooperatives. BRDB's rural development projects were financed by the government and by various donor agencies and executed through cooperative societies.

There are variations among the select MFIs in terms of working areas. The four (i.e. ASA, BRAC, CB and RIC) out of these 8 organizations extend their services both in rural and urban areas. *Shakti* works only in the urban settlements whereas *Coast*, GB, and BRDB provide services exclusively in the rural areas.

By approach, ASA concentrates mainly on credit services (i.e. following a credit-only approach) whereas BRAC follows a credit plus approach that include some components (such as training, awareness building, etc.) with same importance along with its credit services. GB is considered as a non-governmental Bank – so it operates like a Bank (though there are number differences with commercial banking approach) at the grass-roots level having provision of collecting deposits from both members and non-members.

Shakti extends its microfinance services to particular underprivileged groups – disadvantaged women residing in the urban areas. CB follows a missionary approach that is in-between ASA and BRAC in terms of overall design. RIC and *Coast* follows rights based approach with special focus on elderly people and coastal area, respectively. BRDB is the governmental initiative that provides microfinance services through cooperatives.

The dominant sources of fund vary among these MF systems. ASA mostly collects its fund through deposits of the members, followed by the local banks but just the reverse is true for BRAC. Members' deposit is the core source of fund for CB as well. It also receives some funds from International Donors. GB has the privilege to collect deposits from both members and non-members. The main funds for RIC come from PKSF, followed by members' savings whereas the reverse is true for both *Shakti* and *Coast* (i.e. members' savings, followed by PKSF). The allocation under Revenue Set Up of the Government is the vital source of fund for BRDB, followed by the grants/donations made by different international agencies.

4. MFIs intent

All the promised missions and visions of the select MFIs are summarized in Appendix Table 2. The table suggests that ASA envisions establishing a '*poverty free society*' through supporting and strengthening the economy for the people who belong to the lower tier of the society by facilitating financial services particularly for the 'poor, marginalized and disadvantaged' people. Therefore, ASA has chosen the 'minimalist' or 'credit only' approach to provide its bundle of financial services to its target population.

Contrarily, BRAC holds a very vast revelation as it dreams for a '*world*' that would be free from all forms of *exploitation and discrimination* and where everyone has the *opportunity to realize their potential*. For achieving this '*world*', BRAC has chosen 'credit plus' approach with a mission that covers a diverse area. Unlike ASA, it is concentrating not only on financial services; rather BRAC is committed to serve for the 'people' and 'community' for their 'empowerment' in multi-dimensional areas including poverty, illiteracy (i.e. education), disease (i.e. health) and social injustice (i.e. legal rights).

The main agenda of the Nobel Peace Prize (2006) winning organization GB is to *extend banking facilities to poor men and women* [residing in rural areas] so that it helps *eliminate the exploitation of the poor by money lenders*; at the same time, it promises to create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh. In addition to these, GB puts over to empower the disadvantaged people, particularly the women from the poorest households, by bringing them under an organizational format so that they can understand and manage by themselves.

Shakti works for underprivileged women in urban areas who want to break away from their conventional lifestyles and establish a strong socio-economic base for themselves. Though *Shakti* does not contour its territory, but it announces its clear cut vision stating to see women in a *poverty-free world* of *equal opportunities*. Therefore, the mission of *Shakti* is to bring women out of the cycle of poverty and provide conducive support to their development as entrepreneurs, leaders, and agents of social change.

Based on the philosophy of Christianity, CB envisions a society which embraces the *values of freedom* and *justice, peace and forgiveness*, to live as a communion and community of *mutual love and respect*. As an organization CB extends its cooperation in the development field of the country. Hence, in order to attain integral development, CB works with a mission to become a partner of people – especially the poor and marginalized, with equal respect for all so that they can live a truly human life in dignity and to serve others responsibly.

RIC has a much focused vision centering Bangladesh. It envisages establishing a *happy and prosperous Bangladesh* based on *equal rights and strong democratic values*. RIC provides services to its target population with a mission to alleviate poverty by means of human resource mobilization and socio-economic development in its broader sense. RIC has made an extensive promise to accomplish its mission that include *a) standardizing the quality of life of people at the grassroots, b) ensure the rise of human development index (HDI), c) increase human rights (HR) and political empowerment including gender equity and conservation of congenial environment*.

Coast has set its mission as to facilitate the sustainable and equitable improvement of life, particularly for women, children and disadvantaged population of the *Coast*al areas in Bangladesh through their increased participation in the socio-economic, cultural and civic life of the country.

Going one step further, BRDB - the prime government agency engaged in rural development and poverty alleviation - envisions not only for a *poverty free* [society] but also for a *self-reliant rural Bangladesh*. In order to ensure optimum utilization of human as well as material resources available to development, BRDB sets its multi-faceted mission that is to a) organize *Comilla* type of cooperatives, b) organize rural masses into cohesive & disciplined group for planned sustained development, c) ensure proper utilization of institutional credits, and d) integrate supply and services for effective utilization.

The set of visions and missions just discussed above generates a general impression that all the select MFIs have been serving, though more or less in varied manner, to support and strengthen their target population. Among them, three MFIs (*Shakti*, RIC and *Coast*) can generate funds at wholesale rate from PKSF. In order to understand the issues and challenges due to emergence of MRA in the sector more deeply, this study consulted with 2 more small MFIs that are partner organizations (POs) of PKSF. Being housed at the periphery levels, these two small MFIs mainly work in the rural areas. Members' savings and PKSF are the sole sources of funds for these two small MFIs.

Considering overall characteristics of the sample MFIs (including small MFIs that are POs of PKSF, and excluding GB and BRDB[2]), the organizations are categorized into eight categories including *very large NGO-MFIs: with credit only approach* (ASA), *very large NGO-MFIs: with credit plus approach* (BRAC), *medium and large NGO-MFIs with cheaper fund source* (*Shakti*, RIC and *Coast*), *small NGO-MFIs with cheaper fund source*[3] (say, PO1 and PO2), *NGO-MFIs with*

2 GB and BRDB are not included in these categories as these two MFIs (though important players in the sector) are not under control of MRA; several issues for GB and BRDB are covered in a separate section.

3 Names of these two organizations remained anonymous here

special focus on urban setting (*Shakti*)*, NGO-MFIs working with „missionary5 objective* (CB), *NGO-MFIs working in hard to reach areas* (*Coast*), and *NGO-MFIs with special focus on elderly People* (RIC).

5. Why regulation and supervision?

Currently MFIs are solemn about double bottom-line[4] concept and consider operational and financial sustainability as important an objective as client outreach. In many developing countries, MFIs are dependent on donor subsidies and grants. These MFIs and their clients are likely to fail, once the donor funding is withdrawn. To achieve sustainability in the long run, MFIs eventually require funds from commercial sources (such as member deposits or commercial banks). But without proper regulation is in place, it is difficult to attract such funding. It is also risky for MFIs that do not develop these alternatives. As the MFIs clients are from the poorest households of a community, any loss of their savings due to MFI insolvency or fraud would be ruinous for them. Here comes the issue of regulation and supervision. "Regulation" refers to the set of government rules that apply to microfinance and "Supervision" is the process of enforcing compliance with those rules (CGAP, 2003a[5]). Microfinance providers that take deposits need "prudential" regulation. The prudential regulation for any financial institution rests on the need to protect the depositors from the loss of their savings, preserve the confidence and strengthen the financial system (Huq M *et al.*). Furthermore, prudential regulation plays a supportive role in building confidence between MFIs and their clients through appropriate capital management, earnings and strong internal control mechanisms. On the other hand, "non-prudential" rules—e.g., screening out unsuitable owners/managers or requiring transparent reporting and disclosure—tend to be easier to administer because government authorities do not have to take responsibility for the financial soundness of the organization.

But due to factors like information and data collection problems, weak accounting standards, lack of professionalism and political interference, the prudential regulation has often proved ineffective in developing countries. Gallardo (2002) suggests that many countries now a days are strengthening their prudential

4 Meeting both social and financial objectives (WWB Focus Note at: http://www.swwb.org/sites/ default/files/pubs/en/stemming_the_tide_of_mission_drift_microfinance_transformations_and_the_double_bottom_line.pdf)

5 For further information, please see: Robert Christen and Richard Rosenberg, *The Rush to Regulate: Legal Frameworks for Microfinance*, CGAP Occasional Paper No. 4 (Washington, D.C.: CGAP, April 2000).

standards and extending them to cover other institutions such as MFIs. It is expected that a standard legal framework for the MFIs should be in place that will identify the role of the regulatory authority, the rules for MFI entry and exit and the boundaries and benchmarks for sustainable operations. An appropriate regulatory setting can create due environment and provide encouragement to these MFIs to raise sufficient cash flow so as to reduce their donor dependency. Hence, the justification of regulating MFIs should be: to protect the interest of the small depositors[6], enhance liquidity management, develop operational as well as financial sustainability, and to protect against moral hazards. Ideally, regulation should encourage MFIs to avoid excessive risk in microfinance as it helps strengthening MFI reputation and preventing fraudulent activities through increasing transparency in financial accounting, transaction reporting and increasing operational and financial sustainability (Meagher 2002, Rhyne 2002).

CGAP (2003b) emphasized that microfinance needs different treatment than normal banking primarily because microfinance assets consist of many small, uncollateralized (that is, unguaranteed) loans. Areas of regulation that typically require adjustment include unsecured lending limits, capital-adequacy ratios, rules for provisioning loan-losses, and minimum capital requirements.

6. Global context: a quick review

Microcredit has been a popular instrument used by a range of development and financial agencies in many parts of the world for serving un-bankable poor. It has been becoming more so after the Nobel Peace Prize Award in 2006. The Nobel Committee considered the model of 'Micro-credit has proved to be an important liberating force' meaning instrumental in poverty alleviation.

In terms of scale, the track record of microfinance is encouraging. The recent Microcredit Summit Campaign Report (2012) suggests as of December 31, 2010, 3,652 microfinance institutions reported reaching 205.3 million clients, 137.1 million of whom were among the poorest when they took their first loan. Of these poorest clients, 82.3 percent (113.1 million) are women. Institutional Action Plans (IAPs) were submitted by 609 MFIs in 2011[7]. But still there are on-going controversies regarding the effectiveness of micro-credit for poverty alleviation as

6 Non prudential regulation can address other operational issues like lenders charging high usurious interest rate, improper way of collecting debt etc. (Huq, M, 2008)

7 At the time of collecting the data in early 2011 (covering the year ending December 31, 2010), the clients in Andhra Pradesh of India were still on the MFIs' books and treated as active borrowers.

"how this instrument work" [for the poor] is still a burning issue as it "depends on the setting, in which it is applied, and the manner of applying it"[8].

The microfinance field experienced two major paradigm shifts in course of time (Hamada, 2010). Initially, it focused on agricultural credit or microcredit subsidized by government and/or donors to small farmers during the 1960s to 1980s. The first paradigm shift commenced in the second half of the 1980s and the target shifted to the poor. It recognized the problem of high transaction costs and risks due to information asymmetries (Zeller and Meyer 2002). The emphasis of this paradigm shift was to build cost-efficient MFIs adopting product-centered approach[9] (Robinson 2002). The second paradigm shift began in the middle of the 2000s. In this paradigm shift, the focus was changed from microfinance to inclusive finance, from supporting discrete MFIs and initiatives to building inclusive financial sectors adopting client-focused approach[10] (United Nations 2006). The second paradigm shift can be described as a shift from a product-centered to a client-centered approach. The microfinance agenda is now increasingly client or market driven. Therefore, new attention is being given to client products: focusing on how to attract and keep clients (Cohen 2002). Under increasingly competitive conditions, obtaining information on clients becomes crucial for MFIs (Dunn 2002).

From early 1990s a thoroughly "neo-liberalized" for-profit model of microfinance – commonly known as "new wave" model – was being emerged as the "best practice". In the beginning of this millennium, the "new wave" microfinance model became so dominant that it even led GB finally to agree in converting over into "new wave" respectability, which it executed in 2002 under a new label called the "Grameen II" project. This spread quickly all over the globe. Apart from Bangladesh, other mentionable countries include Bolivia, Bosnia, Mongolia, Cambodia, Nicaragua, Sri Lanka, Peru, Colombia, Mexico and India (Bateman 2011).

8 Foreword on Ahmad (2007) by Dr Anisur Rahman, Member of First Planning Commission of Bangladesh

9 The product-centered approach is one where microcredit organizations offer a standardized product targeted to the "average client" during "normal times". (Dunn, 2002).

10 A client-centered approach focuses on identifying and meeting the effective demand from both current and future clients. A client-centered MFI may offer a variety of financial products and services aimed at a variety of customers (*ibid*).

In 2004, the Consultative Group to Assist the Poor (CGAP[11]) endorsed “the key principles of microfinance” that were explained within a framework for an inclusive financial system. For ensuring access of the massive number of excluded people to the financial system, the framework emphasized on integration of financial services for the poor at micro, meso, and macro levels[12] (Helms 2006). Traditional microfinance focused on the micro level of financial providers, but current microfinance focuses on a more comprehensive financial system. Within this framework, poor and low-income people are the clients at the center of the financial system.

The years 2005 and 2006 are considered globally as the very optimistic epoch for microfinance. All around the globe, the sector actors of microfinance observed 2005 as the United Nations announced this year as the ‘International Year of Microcredit”. The following year was the “D Day” for microfinance as the Norwegian Nobel Committee announced the Nobel Peace Prize, divided into two equal parts, to Muhammad Yunus and Grameen Bank for their efforts ‘*to create economic and social development from below*”.

At the outset of worldly recognition of Yunus and Grameen Bank, there was an exuberance-type of aura centering microfinance – but it has been faded away over time. The sector was taken aback by the first spark that occurred in 2007, right after a year of Nobel Peace Prize winning, when Compartamos, the Mexican MFI, got involved in the process of Initial Public Offering (IPO). It was thought that due to this offering, commendable levels of poverty reduction would occur among the poor Mexicans but the IPO process basically ensured the Wall Street-type “private enrichment|” of the senior managers of Compartamos (Bateman and Chang, 2011). These vast rewards were effectively made possible by quietly charging 195% interest rates on the microloans taken out by their poor – mainly female – clients[13].

11 Recognizing the powerful role of microfinance as a development tool, CGAP was set up at the World Bank as a three-year initiative (1995–1998) to increase the quality and quantity of sustainable microfinance institutions (MFIs) serving the poor and it is still continuing. CGAP serves three primary stakeholders, namely MFIs, donors, and the microfinance industry. Although CGAP is housed at and financially supported by the World Bank, it operates as an independent entity with its own governance structure (Bhatnagar, D *et al.* __ __)

12 The micro level of inclusive financial systems consists of financial service providers that offer services to poor and low-income clients; the meso level includes the financial system‘s basic financial infrastructure and its range of services; and the macro level consists of an appropriate government legislative and policy framework.

13 Please see http://blogs.cgdev.org/open_book/2011/01/compartamos-and-the-meaning-of-interest-rates.php

The issue of IPO led to much public outrage against Compartamos and its senior staff, and then a tidal wave of criticism of the commercialized microfinance model in general. Soon after, a range of narrow to comprehensive criticisms came into being on IPO and commercialized microfinance (Dichter and Harper 2007; Bateman and Chang 2009; Bateman 2010a, 2011a). Other researchers using new and supposedly more accurate Randomized Control Trial (RCT) methodologies found little to no impact arising from individual microfinance programs (Banerjee et al 2009: Karlan and Zinman 2009). But the time covered (~15 months) in these studies (i.e. Banerjee et al 2009; Karlan and Zinman 2009) for assessing impact, has been questioned by experts (like Murdoch[14]) whether the researcher should expect to see impact after 15 months. Emphasizing the importance of this research method to obtain more credible data, Murdoch pointed out that the benefits coming from access to such financial services are unlikely to show up in the results of a randomized control trial. Roodman and Morduch (2009) threw a serious challenge to the mostly cited World Bank supported study by Pitt and Khandker (1998) that claims that microfinance programs in Bangladesh have strong poverty reduction impact. Re-examining the original dataset used by Pitt and Khandker, both sets of authors located serious mistakes in the original analysis and, as a result, declared that Pitt and Khandker‘s work did not confirm a positive impact from the microfinance programs studied. A further quite devastating blow to the microfinance industry came in 2011 when Duvendack *et al* (2011), through their systematic review, found that the previous impact studies[15] were almost all seriously biased, incomplete or else very poorly designed to the point of being quite unusable.

Notably, in the microfinance arena, success of a microfinance institution (MFI) has long been associated with financial performance outcomes[16] measured by loan portfolio quality, cost recovery and profitability etc. (SEEP, 2006). Given that microfinance was introduced mainly with development organizations (NGOs and societies), which are now being encouraged to be more ‗business like‘ so they could access investment funds rather than continue being dependent upon donor grants. This brought in new dimension of accountings, management, and

14 Jonathan Morduch, Professor of Public Policy and Economics at New York University; shared in a panel discussion entitled Taking stock of microfinance: Does it really help the poor? organized by Microfinance Working Group at Columbia University; 19 November 2009 (MIX website); Also see: Rosenberg (2010).

15 Virtually all of the impact evaluation evidence long said to confirm that microfinance has had a positive impact on the well-being of the poor.

16 Standard ratios of Financial Performance Analyses as discussed in the methodology section

reporting which, over several years, led to the establishment of standard definitions and terms for reporting on financial performance. These are now almost routinely included in the annual reports of MFIs; nearly 700 MFIs [all over the world] report them to the Microfinance Information eXchange (MIX)[17] (Sinha, 2008). Yet, these indicators tell part of the performance story in microfinance. Most microfinance institutions strive to meet both financial and social goals, managing a double bottom line by which financial performance facilitates the fulfillment of a social mission (SEEP, 2006).

7. Bang of MFIs in Bangladesh

A gripping expansion of microcredit operations has occurred over the past two decades as billions of dollars were injected in this sector through bi-lateral and multi-lateral donors as well as private foundations and philanthropists. The governments, politicians, social workers and many observers showered praise to these supports on the sector. Basically, microcredit (MC) began its organized journey in Bangladesh three decades ago with the advent of Grameen Bank (GB) in 1983 (Ahmad, 2011). Of course, GB was not the only experiment in microcredit getting under way in Bangladesh in the early 1980s (Bateman, 2010). Simultaneously with ongoing experiments with microcredit promoted by Khan[18], two other important institutions were also in place alongside the GB, both of which soon followed Grameen by offering microcredit to the poor. The first of these organizations was Bangladesh Rural Advancement Committee (BRAC), founded in 1972 by Sir Fazle Hassan Abed, followed in by Association for Social Assistance (ASA), which was founded by Shafiqual Haque Choudhury. Elsewhere in Asia, similar microcredit operations were also underway[19]. Simultaneously with Asia, the microcredit operations were also being established rapidity and enormously with enthusiasm in Latin America. By the late 1980s, microcredit and microenterprise development had become the international development community‘s anti-poverty intervention of choice (Levitsky, 1989).

17 The MIX market is the global microfinance information marketplace, providing financial data and profiles on MFIs and microfinance sector on the internet.

18 Akhter Hameed Khan, renowned economist and proponent of Comilla Model. In Khan‘s Comilla Model, MC was disbursed to poor rural communities during 1950s in East Pakistan through village and sector based cooperatives.

19 Such as the State-owned Bank Rakayet Indonesia (BRI) was somewhat in advance of the GB (Bateman, 2010); established as early as 1972, BRI provided microloans to rural families for non-farm productive activities. In the early 1990s in India, an important variant of Grameen Bank model emerged, the self help group (SHG) movement (Harper, 2002).

Over time, new types of micro-services such as micro-savings, micro-insurance etc. were being added to the simple microcredit offer provided to the poor by most microfinance institutions (hereafter MFIs). Among other things, the term microcredit has been coined to new generic term *microfinance* (MF)[20] (Seibel, 2005). This term *microfinance* describes better the evolving complex reality of very small-scale finance.

The microcredit sector of Bangladesh is characterized by a small number of medium to large and a large number of small to tiny MFIs. Besides, there are many individuals and groups engaged in MC operations. Reportedly they make their own rules. Ahmed and Hakim (2004) suggest about the explosion of NGO-MFIs in Bangladesh during 1990 – 2000. According to them, although most of the MFIs in Bangladesh established in the immediate wake of the GB experiment were basically structured to operate as NGOs with non-profit status but the number of microcredit providers rose to 8000 by 2000 from around 4500 in 1995 and around 1500 in 1990. Vast majority of the MFIs were initially capitalized by government and/or international donor funding.

Notably, the emergence of Palli Karma Sahayak Foundation (PKSF), an apex body of government, in 1990 has been a major boost behind the accelerated expansion of microcredit in Bangladesh since the mid-1990s. Even though the mandate of PKSF is poverty reduction through employment generation but this platform concentrated solely on MC (not on employment generation) until it initiated a comprehensive household-focused integrated approach (on a pilot basis) in 21 Unions in different parts of Bangladesh recently.

CDF (2006) reports the existence of greater competition in the microcredit market in Bangladesh that had been far easier for borrowers to switch from one MFI to another and waiting times for accessing credit were far shorter than it was in the early 1990s. According to CDF, the Microfinance NGOs in Bangladesh have generally overlooked the necessity to develop a progressive financial sector. However, the scale and performance of the microfinance sector is slowly approaching the banking system. Profits of MFIs are now recycled, thereby fueling growth and providing NGOs with a cushion against risks entailed in growth. As a result of expansion of MFIs, a large proportion of extremely poor households, measured by initial landholder size, join microcredit program (See Khandker 2003).

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20 In practice, the terms *microfinance, microcredit, microloans* are all pretty interchangeably used

But the study carried out in Bangladesh by Ahmad (2007) reveals serious shortcomings in the operation of this instrument given the general structure of the terms of its operation and the socio-economic context in which this instrument is being applied. The study gives the strong warning that in majority of cases the operation of microcredit in Bangladesh is not yielding desired improvements in the lives of its clients. On the other hand, it is working as a rather lucrative profit yielding business to external agencies engaged in such operation.

During euphoric 1990s for MF, very few people raised questions as to whether MF operations were really focusing on helping the poor. MF was just expanding very fast and widely regarded as the most effective intervention for poverty eradication (Ahmad, 2011). But still in 1995, the then myth of "*microcredit alone*" being the panacea that enables the poor to shake off poverty and moves on to a process of sustained progress was questioned (Ahmad, 1998). In the context of the stated mission, the questions were asked if all were okay in MC as claimed. Given the minimalist "credit only" intervention and the regular, virtually full recovery of credit, the borrowers have generally remained caught at a low level poverty trap under the burden of high actual interest rates and stringent weekly repayment schedules, starting just after a week. The borrowers are getting more and more into debt, without viable exit options (Ahmad, 2011).

As opposed to social service to and socio-economic uplift of the poor, commercial instincts – focused on expansion and profit making – seems to be increasingly driving force behind MC operations among the many MFIs (MRA, 2011; Alamgir and Wright, 2004; BEA Lecture 1995). Loan repayment is being strictly enforced, regardless of what happens to the economic conditions of the borrowers.

Yunus (2011) acknowledges the degeneration of MC in a recent article stating, "In the 1970s, when I began working here on what would eventually be called 'microcredit' – one of my goals was to eliminate the presence of loan sharks who grew rich by preying on the poor. …At that time, I never imagined that one day microcredit would give rise to its own breed of loan sharks. But, it has." He further adds, "Microcredit has been widely commercialized, focusing on reaping ever-increasing profits and, as a result, the people whom microcredit was supposed to help are instead being harmed."

Citing controversies on microfinance in recent past being surfaced in Mexico, lately also in India, Yunus (2011a) talked in favor of special legal framework that is needed to support microfinance. The controversy stems from the fact that the original goal of microfinance from the 1970s was abandoned when microfinance institutions turned to profit-making rather than supporting self-employment and job creation. Microfinance led some people to strive for profit rather than social goals. But Yunus expects the regulatory authority needs to be separate from the central bank because ‘regulating microfinance is different from regulating conventional banks’. Furthermore, Yunus supports ‘stricter government regulation’ as it may ‘reaffirm the original definition of microcredit, abandon commercialization and turn back to serving the poor’.

In his speech[21], the Governor of Bangladesh Bank shared his expectations to MRA. According to the Governor, MRA should maintain six key issues including a) NGO-MFIs should not be over-regulated; b) clients‘ protections are to be ensured; c) MRA should be favorable for the overall sectoral efforts; d) over all financial system to be regulated; e) the Board Members to meet ‘fit and proper test’ i.e. they must be knowledgeable about accounts; f) should give importance to corporate governance.

8. Emergence of MRA

A quick look towards source-wise shares in generating RLF over the time period 1996 to 2009 suggests the microfinance sector in Bangladesh has become exclusively dependent on internal sources.

Diagram 1 below exhibits the share of external[22] and internal[23] sources in generating RLF for the NGO-MFIs of Bangladesh over 1996 to 2009. The figure suggests that over this said time period the NGO-MFIs concentrated more and more towards the internal sources for developing its revolving loan funds. Until mid 1990s (in 1996), the external sources also played significant role in generating RLF (nearly 50%) for the NGO-MFIs of Bangladesh but over time it diminishes down to only 2.2% in 2009. It is clear from Diagram 2 that other than in 1997, the channels for revolving funds through external sources have been gradually narrowed down over time. In 1997, the sector experienced relatively a sharp drop (~18%) in revolving loan funds through external sources. It implies

21 Speech delivered by the Governor of Bangladesh Bank in a Seminar on MRA and Regulation. held in PKSF Auditorium. 2011.

22 The ***external sources*** consist of *international donors* and *international NGOs*.

23 The ***internal sources*** broadly consist of *own sources of NGO-MFIs* and *other sources*. NGO-MFIs can generate RLF mainly through *members" savings, service charges* and *own fund.* Recently from 2008, two more sub-sources are included as own sources of NGO-MFIs: these are *personal loans and security funds*. *Other sources* under ***internal sources*** include *Palli Karma Sahayak Foundation (PKSF), Credit Development Forum (CDF), lacal banks, local NGOs and others.*

that for continuing their services, the NGO-MFIs of Bangladesh became solely dependent on the funds generated through internal sources. In Bangladesh, members' savings, service charge and own funds are mainly responsible for internal fund generation.

Though not for all NGO-MFIs but since inception in 1990, PKSF played the role of a quasi regulator for NGO-MFIs that used to receive its funds (Rahman and Rashid, 2011). Basically, PKSF does not have any regulatory power. It can only exert some degree of desirable influence on the MFIs as it offered them subsidized funds. With the growth of the microfinance sector, several issues such as sustainability of MFIs without donor funds, the legal basis of deposit collection, draining financial services to the rural financial market through NGO networks came to the forefront that triggered the process of 'formal' regulation of the sector.

In December 1997, Bangladesh Bank commissioned out a study to examine 'the regulatory aspects of microfinance institutions and linking them with the formal financial sector'. In June 2000, Government formed a National Steering Committee of eleven members with the Chairmanship of the Governor of Bangladesh Bank to a) recommend an effective credit and savings policy for MF sector, b) prescribe the best practices for the NGO-MFIs engaged in offering microcredit and financial services with a view to enriching their quality of services; c) ensure transparency and accountability in NGO-MFIs activities; d) formulate a uniform accounting guideline for the sector, and e) recommend a regulatory framework for an efficient, effective and forward-looking regulatory body with a view to widening microcredit operations and financial services as well as upholding the confidence of the people[24].

Finally in July 2006, National Parliament passed the law "Microcredit Regulatory Authority (MRA) Act 2006" following the recommendations given by the Steering Committee and MRA was established under this Act. Accordingly, the MRA has been working since 27 August 2006 as the regulatory and supervisory body of non-governmental microfinance institutions in Bangladesh.

This study reveals that MRA Act was not only an outcome of Government's initiative; rather NGO-MFIs also expressed their demand in favor of a regulatory authority. This willingness from MFIs' end had some genuine reasons. Due to sharp contraction in donor contributions, the NGO-MFIs had to look around new sources of funds. Many MFIs stumbled on Commercial banks and foreign

24 As reported in the Official website of MRA at http://www.mra.gov.bd/index.php?option=com_content&view=article&id=40&Itemid=114

investors as fund giving sources. For lending funds, the banks were asking the MFIs if they were legal entity. At the same time, as collecting money from the borrowers as savings is one of the cheapest fund sources, so to carry on this smoothly the MFIs were seeking some legal basis. These two reasons worked behind the willingness of the NGO-MFIs for a regulatory authority, which will help creating favorable market environment for them. So it was a demand from both government and practitioners.

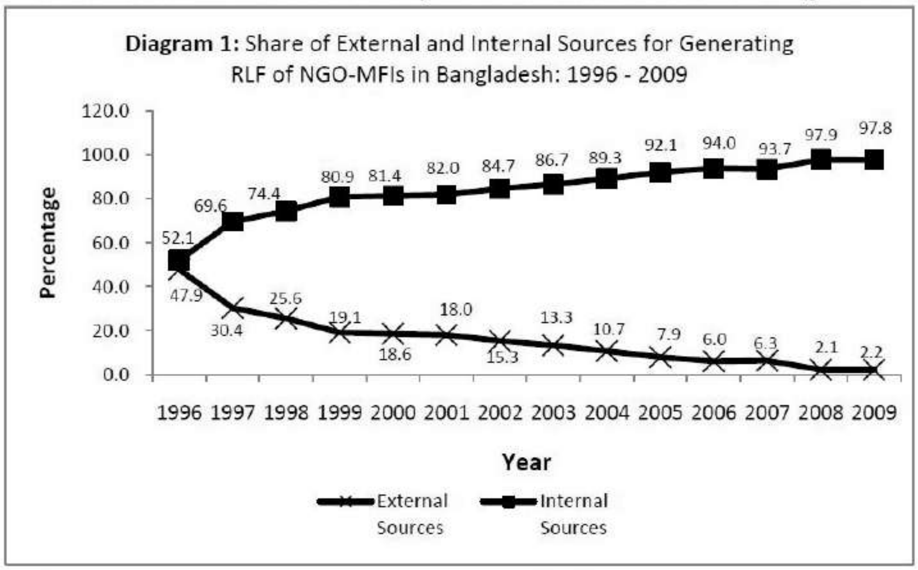
Interestingly the demand from small MFIs for a regulatory authority was stronger. It was very hard for the small MFIs to compete with the dominating MFIs. On the contrary, due to reputation and socio-political influence the large MFIs, for example – BRAC, have an access to the commercial banks or international donors even before receiving the license from MRA. Given this scenario, the small MFIs were facing more difficulties in collecting required funds due to their lack of any legal identity. So they were more supportive for a regulatory authority in the sector.

Diagram 2 below summarizes the setting of the microfinance sector in Bangladesh. Keeping the poor borrowers at the center, different other actors are engaged in the sector.

The diagram shows the main actors that directly serve the poor borrowers in Bangladesh include all licensed NGO-MFIs, Grameen Bank, BRDB & other cooperatives, to some cases Commercial Banks. Besides, there are other unregulated small actors engaged in providing microloans to the poor people. Credit Development Forum (CDF) has been generating microfinance statistics since its inception in early 1990s. Institute of Microfinance (InM) – an organization solely devoted for carrying out research work on microfinance issues. For the last few years, both CDF and InM have been jointly generating microfinance statistics and contributing to the sector indirectly. On the other hand, PKSF has been supporting NGO-MFIs with funds at cheaper rate. Presence of MRA in the system is very crucial.

9. Sectoral Reality: Under the Light of MRA Guidelines

In fact, the on-going phase (that the microfinance sector of Bangladesh has been passing through) itself is a big challenge – not only for the microcredit operators and borrowers, but also challenging for the regulator as well as other sector actors. This is basically a transitional phase for the Bangladeshi microfinance sector. Right after a formal regulatory body known as Microcredit Regulatory Authority (MRA) came into being in 2006 under an Act formulated and passed in this



Source: Microfinance Statistics (different issues) . CDF; CDF & InM (done by Author)

regard, the whole sector actors gradually have been getting familiarized and conscientized with the new system.

In order to clarify its working territory, MRA as a part of its foremost task started certifying those NGO-MFIs that qualified the set criteria for obtaining a license, and allowed some extended time period for the others that did not qualify. In October 2010, very successfully MRA came up with a set of guiding as well as mandatory rules and regulations for the licensed NGO-MFIs, and time to time instructed those licensed microcredit operators through official circulars. At this outset of sectoral setting, the licensed NGO-MFIs have been adjusting their model/approaches under the light of MRA Act 2006 and MRA Rules 2010. Keeping this scenario in mind, the following sections elucidate further the sectoral dynamics, upcoming issues and challenges due to MRA control.

9.1 Where does the sector stand?

Conceptually, the clients of MF are the poor. In Bangladesh – the poor are numerous and they are relatively voiceless as well. Any interventions that deal with the lives and livelihoods of the poor must have space for the targeted clients to hear their voices. Making the poor clients aware of any changes and having consent from them, the intervention should go further. The poor clients have rights to know about any issue they are not satisfied with. But as the poor are basically

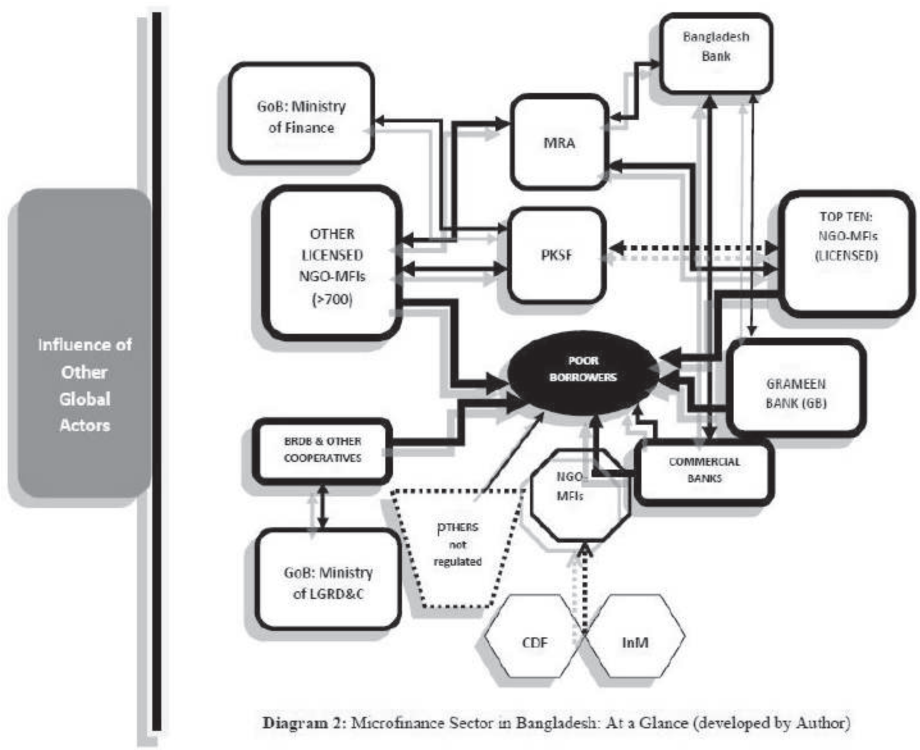


Diagram 2: Microfinance Sector in Bangladesh: At a Glance (developed by Author)

weak, voiceless, and obliged – so it is expected that a regulatory body like MRA would uphold the public interest.

As said earlier, basically in broad head four organizations are active in the sector: a) Grameen bank; b) NGO-MFIs; c) Banking Sector; and d) Cooperatives (mainly BRDB). Earlier these organizations used to operate in separate markets but now the market is not that separated. Banking sector is also operating few microfinance programs (as *retailers*) such as Pubali Bank, Islami Bank Limited, etc.

It was mandatory for all NGO-MFIs in Bangladesh to apply to the Authority (MRA) for a license within six months of the MRA Act 2006 was formally passed. Otherwise, the delayed MFIs would be considered as illegal entities and would not be allowed to serve the people with financial products. During the given timeframe, MRA received application from more than 4 thousand MFIs. So MRA considers these organizations as valid and has been in a process of issuing license to them, if qualify, phase by phase.

MRA found that other than very few MFIs, all of the organizations that applied for formal license were relatively smaller in size. It was very difficult for MRA to verify the organizational status of each and every MFI at field level. That is why MRA had to set qualifying criteria for the MFIs. For a one-branch MFI to be sustainable, either the MFI needs to have minimum 1000 borrowers or minimum 40 lacs (4 millions) taka outstanding loans. The MFIs that fulfilled either of these criteria were given licenses. And the non-qualifying MFIs were asked to keep on trying to meet the criteria. MRA even suggested the small MFIs to merge together so that the criteria are fulfilled for a license. But as in Bangladesh context, the MFIs are more interested to provide services independently, so MRA hardly got any response from the MFIs in this respect. For issuing a license, MRA paid attention to the following key issues: a) whether the MFI really operational in the field; b) status of the existing financial system; c) level of operation; and d) type of management.

According to the MRA, the sector has been divided into five categories on the basis of its borrower outreach, such as *very large*, *large*, *medium, small* and *very small*. The definition of each category in terms of number of borrowers is given in Table 2 below.

Table 2: Categories of NGO-MFIs

Category of NGO-MFI	Number of Borrowers
Very small	<10,000
Small	≥ 10,000 but <50,000
Medium	≥ 50,000 but <100,000
Large	≥ 100,000 but <1,000,000
Very large	≥ 1,000,000

On the basis of the MRA suggested classification, an attempt has been made to obtain the distribution of the NGO-MFIs by its categories in Bangladesh at three

Table 3: Distribution Patterns of NGO-MFI Categories in Bangladesh(1996, 2001 and 20

Classification	1996		2001		2009	
	Number	%	Number	%	Number	%
Very small	337	96.01	557	88.55	625	83.91
Small	10	2.85	55	8.74	83	11.14
Medium	0	0.00	10	1.59	17	2.28
Large	3	0.85	4	0.64	17	2.28
Very large	1	0.28	3	0.48	3	0.40
Total NGO-MFIs	**351**	**100.00**	**629**	**100.00**	**745**	**100.00**

Source: *Bangladesh Microfinance Statistics* (1996, 2001, 2009), CDF; CDF & InM
(Calculated by Author)

points of time: mid-1990s (1996), early 2000s (2001) and late 2000s (2009). For getting data for this long time period, this study used the database developed by CDF (for 1996 and 2001), and CDF & InM (for 2009). The distribution is summarized in Table 3.

The table suggests that the number of NGO-MFIs that reported to the database of CDF (or CDF & InM) has been increased over time: 351 in 1996, 629 in 2001 and 745 in 2009. As per the classification suggested by MRA, in mid 1990s, the microfinance sector was completely dominated with (96%) very small NGO-MFIs, which has been decreased over time (84% at the end of 2000s) - allowing more medium (2.3%) and large (2.3%) NGO-MFIs to enter into the sector. In Bangladesh, there were only one (BRAC) *very large* NGO-MFIs (in terms of number of borrowers) during mid 1990s and over the time of 1.5 decades only two more NGO-MFIs (ASA and Proshika) were added in this category.

Now this study explores the overall patterns of RLF captured by the *very large* NGO-MFIs in Bangladesh in the aforesaid three points of time that are summarized in Table 4 below. The table suggests that the market share of the *very large* NGO-MFIs was two fifths of the total RLFs in 1996, which has been increased to nearly two thirds in 2001. But over the decade, it has been reduced down to one third of the total RLFs in 2009, implying the distribution of RLF has been more spread all over the sector. Perhaps the role of MRA contributed to this change.

***Table 4**: Revolving Loan Funds captured by the very large NGO-MFIs in Bangladesl (1996, 2001 and 2009)*

Year	# of very large NGO-MFI	Total RLF (in million Taka) Whole Sector	RLF captured by VL NGO-MFI
1996	1	8116.98	39.68
2001	3	33960.68	64.05
2009	3	268525.04	33.72

Source: Bangladesh Microfinance Statistics (1996, 2001, 2009)
CDF; CDF & InM; Calculated by Author

9.2 Deposit as a source of fund

Let us have a quick look to the sector. Previously donor driven NGOs are now increasingly trying to become more dependent on local sources of fund with the decline of foreign fund, which stood only at 3.82 percent in June 2011 (Table 5). In Bangladesh, the law (MRA Act 2006) allows all MFIs to collect deposit money from the members[25]. So deposit operation has been becoming a common activity

25 No micro credit institution can receive any deposit from anybody other than its members (Clause 32, MRA Act, 2006).

for all MFIs in Bangladesh as it generates funds at a cheaper rate for further credit operations. It is evident that over the period 2008 – 2011, savings from the clients and surplus income from microcredit operations appeared to be the main strength of NGO-MFIs for their future growth as the Table suggests increasing contributions of these two major sources for generating revolving loan funds. The clients' savings has increased from 31.11 percent in 2010 to 34.46 percent in 2011- an indicator suggesting that MRA Rules have a positive impact on savings collections. Similarly, contribution from cumulative surplus has been increased over the same time period: 25.4 percent in 2008 versus 27.4 percent in 2011.

Table 5 Source-wise revolving loan funds in Bangladesh (2008 - 2011)

Source of Fund	**June 2008**		**June 2009**		**June 2010**		**June 2011**	
	(Million Tk.)	**(%)**	**(Million Tk.)**	**(%)**	**(Million Tk.)**	**(%)**	**(Million Tk.)**	**(%)**
Clients' Savings	36,397.32	29.66	40,526.91	29.73	47,436.3 5	31.15	63,295.88	34.46
PKSF	22,708.58	18.50	22,666.20	16.63	24,484.12	16.08	31,767.84	17.30
Banks	23,487.03	19.13	23,896.37	17.53	23,006.41	15.11	23,577.85	12.84
Donors' Fund	4,549.07	3.71	4,110.29	3.02	4,109.29	2.70	7,008.37	3.82
Cum. Surplus	31,170.02	25.39	36,261.74	26.60	42,339.27	27.80	50,298.66	27.38
Other Funds	4,435.49	3.61	8,847.97	6.49	10,907.4 0	7.16	7,727.32	4.20
Total	**122,747.51**	**100.00**	**136,309.48**	**100.00**	**152,282.84**	**100.00**	**1,83,675.92**	**100.00**

Source: MRA (2011)

PKSF, the micro finance wholesale funding agency, provides a large portion of loan fund at a subsidized rate [5.5% to 8.0%, depending on the size of the POs]. Loan from PKSF increased in absolute term, from Tk. 22,708 million to Tk. 31,768 million, but it has lost its share in the total fund until 2010 but it shows a slight increase in 2011 (16% in 2010 versus 17.3% in 2011).

It is observed that although the commercial banks are recently considered a potential source of fund of microfinance, their share of the total source of fund did not increase over the last four years. Though MRA has been creating an environment for increased loans from commercial banks to the sector through introducing the banks to the NGO-MFIs, but a diminishing contribution of the local banks is found over this period. Perhaps, the very high borrowing cost from commercial banks due to high interest rate charged and inflation discourages NGO-MFIs to avail this as a source of fund.

Table 2 suggests that the owner of almost one third of the total funds (as of June 2011) is the common people, particularly poor population. As this fund is being used in the business, so it is to be remained secured. If the MFIs fail to get back revolving loan fund, then it would be uncertain that the poor clients would get their deposited money back. So MRA deems there must be some rules or provisions for securing this money and these rules are to be enforced, while needed.

For any MFIs in Bangladesh, the interest rate offered on the deposited money is well below the interest rates charged over the 'deposited money' that is rented out by the MFIs as credit. Usually any formal financial institutions offer interest over the savings deposit on a quarterly basis but MFIs in Bangladesh chiefly calculate it on annual basis. For calculating the interest amount of savings deposits, in most of the cases the minimum savings balance for each month is considered. As a result, the actual value of interest received mismatches with the amount promised

Table 6 Most concerned provisions of MRA

Topic	Description
Interest rate cap	*„Interest should be calculated on a Declining Balance Method; initially the maximum interest rate to be charged from the clients has been set at 27.00 (twenty seven) percent per annum. ‟* [MRA Circular No. 5]
Provision of reserve fund and usage of deposit funds	Reserve Fund: *Every Microcredit Organization will create a reserve fund using 10% (ten percent) of its total income surplus.* [Clause 20(1), MRA Rule, 2010/. Usage of deposit fund: *Every Microcredit Organization must maintain 15% liquidity fund of its entire compulsory, voluntary and term deposit, or whatever name assigned to the deposit funds, in the savings account of a scheduled bank of the branch offices.* [Sub-clause 34(1), MRA Rules, 2010]
Write off provision	*The loan loss provision for bad loan should be 100% and to be written off* [MRA Circular Letter 14]

in the announced guideline. In other words, the poor borrowers receive less interest on their deposited money (with the MFIs) than was promised (Review Committee Report on GB, 2011).

The interest calculation methods are also different, except for only a negligible number of MFIs, for these two situations. As a result, the discrepancy in the method of computation of interest rates of the two makes the difference wider. At the same time, a discrepancy between pronouncements and acts weaken a creditor's standing.

So in practice any MFI or the branch office of any MFI in Bangladesh can lend savings money collected at the branch to the same set of clients or new clients at its lending rate, which is usually quite higher than the interest rate offered to the seed money (i.e. deposited money) implying a wide 'spread'. Spread refers to '*difference between the* "*cost of funds*" *and the "effective yield" to an MFI on those funds*' (Ledgerwood, 1998). For example, if the effective yield earned on loans disbursed (with seed money collected through clients as deposits) by the branch is approximately 30% and the branch pays 5% per annum on clients' deposits, the resulting "spread" is 25%.

Now the extent of "spread" depends on the value of 'cost of fund' and 'effective yield'. In respect to deposited money, an MFI can increase the "spread" further either by increasing the effective yield (i.e. effective interest rate on the microloans) or by decreasing the cost for fund (i.e. the interest rate offered on deposits). The complete burden of "spread" goes on the shoulders of poor borrowers, if an MFI plays with this, and it is the MFIs that get the accumulated net surplus, which is exempted from taxation. As a result, even with series of money circulations like this over the economy through MFIs, the Government of Bangladesh could not generate any revenues.

In order to control this _spread', recently MRA imposes bar[26] on rate of interest over the mandatory weekly savings (minimum 6% per annum) as well as on the loans (maximum 27%, calculated on a declining balance method). The instruction further suggests that the incumbent MFI '*will strive to gradually bring the rate down with operational efficiency*' so that the service could be more easily accessible to the poor borrowers. In addition to that, MRA suggests that 15% of the deposited money can never be used as RLF; rather this money must be deposited in a saving account of a scheduled bank of the branch offices[27]. After setting this fund aside, the remaining portion of the deposit can only be utilized for microcredit portfolio investment[28].

10. Responding to MRA Changes: NGO-MFI Perspectives

As a part of the study, the concerned managements of the selected NGO-MFIs, MRA Officials and other concerned were consulted to know their opinions about emergence of MRA as a whole, and also their reactions over any MRA

26 MRA Circular No. 5, dated 10 November, 2010.

27 Sub-clause (1) of Clause 34, MRA Rules 2010

28 Sub-clause (6) of Clause 34, MRA Rules 2010

rules/guidelines. The study finds that among many other issues/changes suggested by MRA, the NGO-MFIs are more concerned about three provisions of MRA that include *interest rate cap*, *provision of reserve fund and usage of deposit funds,* and *write off provision*. These provisions are summarized in Table 6 below.

The responses on MRA as a whole and three most concerned provisions (mentioned in Table 3) are arranged according to the above-mentioned categories of NGO-MFIs and discussed below.

10.1 Comments on MRA

The opinions of the NGO-MFI managements under consideration in this study on emergence of MRA are summarized in Appendix Table 3.

Management of very large MFIs with minimalist approach appreciates the consultation process for developing MRA rules and regulations where large MFIs (ASA, BRAC, and GB) and other concerned took part. They acknowledged that these stakeholder consultations helped coming up with policies and rules that are benefitting for both clients and MFIs. But for the very large MFIs with credit plus approach, the experience with MRA has been a mixed pack. MFI of this category comprehends that the consumer protection (CP) is the first priority of the regulator, and MRA has made some good progress in this regard but at the same time, this MFI is critical to the provision of interest rate ceiling as it seems MRA is very obsessive in fixing interest rate threshold. MFI belong to this category further emphasized that the interest rate should not be a big issue when the size of each installment is considered. It is not that the borrower cannot pay her installment because the interest rate is high rather due to appropriate use of the borrowed money.

MFI with focus on urban setting is positive about MRA as it has been trying to protect the interest of the poor households by setting several standards for MFIs. It also appreciates MRA for its useful efforts in streamlining as well as standardizing a system for NGO-MFIs. Because of this standardization, the poor will be benefitted. At the same time, this MFI questioned whether the suggestions made by MRA are the felt-need of the poor clients.

Now, the MFI with missionary objective viewed emergence of MRA in the sector as positive but at the same time considered its presence very challenging, particularly for the MFIs with strong social commitments. Initially, management of this MFI found MRA very authoritarian, but now they feel it (MRA) has been getting more NGO-MFI-friendly over time. To them, MRA is suggesting several provisions that are challenging and difficult to comply with for an MFI like CB. The two most challenging provisions of MRA identified by this MFI management are *reserve fund* as well as *write off provisions*.

Management of MFI that works in the hard to reach areas (coastal belts) considers MRA as a very appreciable addition in the sector but they are concerned about the people in the regulation body who are not practitioners. So to their understanding, the proposals that MRA has been imposing to MFIs are not always conducive for proper implementation.

Finally, the MFI with focus on elderly people finds MRA quite supportive for the sector development. Similar feeling expressed by the MFI working in the hard to reach areas as they find it as an appreciable addition in the sector.

For formulating the guidelines, though MRA followed consultations processes through which the voices of the stakeholders including the representatives of the NGO-MFIs were heard but the High Officials of MFIs found concerned about the management body of MRA as it lacks representatives from NGO-MFIs. So they believe that the people (in MRA) who have made all these suggestions are not practitioners; rather *„they are the Doctors without any Degree who wrote these prescriptions*!‘ That is why they feel there are differential issues that MRA misses out while shaping out the sector.

10.2 Reactions and challenges: Specific provisions

The expressed reactions and identified challenges by the management of NGO-MFIs on *interest rate cap, provision of reserve funds* and *provision of write-off* are encapsulated in Appendix Table 4, Appendix Table 5 and Appendix Table 6, respectively. In addition to that, their responses on 'funding' are also discussed briefly (please see Appendix Table 7). Corresponding recommendations to those reactions/challenges are given in the next column of each table.

10.2.1 Interest rate cap

ASA has already introduced interest rate cap in providing microloans and for calculating the EIR (27%) suggested by MRA, ASA brought due changes to its software. At the same time, they think that the expected surplus of the MFIs will be reduced due to the interest rate cap. Even if the income generation of MFIs is affected by the interest rate cap but ASA considers with the active presence of MRA in the sector, the clients will be more protected and the MFIs licensed by MRA will enjoy more legal footing.

On the other hand, though BRAC has already started piloting the newly set service charge but it finds the interest rate cap may create some very practical difficulties in near future. BRAC cautioned that NGO-MFIs should not be considered as commercial banks. In case of any commercial bank, each branch has to be run profitably but for NGO-MFIs, profitability is not the prime motive; rather sustainability is the issue. Usually, with the surplus generated from better off branches of any NGO-MFI - it cross subsidizes its other worse off branches that are not being run sustainably.

BRAC experiences suggest that the loan size remains smaller and the rate of default stays higher for any branch office of an NGO-MFI located in North Bengal, the most poverty prone area of Bangladesh. So branches located in that region are hardly sustainable. Again branches near Dhaka city, (say, Manikgonj or Savar) usually deal with borrowers group who are relatively better off compared to the groups in North Bengal. So naturally the loan size is larger and the repayment rate is better in these areas, which allows these branches to generate surplus. An MFI has to adjust its costs across the branches using this surplus.

So BRAC feels that the interest cap will discourage any NGO-MFIs to intervene in hard to reach areas, which is conflicting with its social mission. Considering sustainability aspect, the MFIs supposedly are more interested to work in the areas convenient in all respect in order to maintain interest rate cap set by MRA. In other words, even if the focus of MFI is not profit generation but interest rate cap will direct it to be more selective in terms of program areas and beneficiary groups that will invite mission drift to step in. BRAC proposes that the interest rate cap should be adjusted with inflation rate over the years so that NGO-MFIs can confront inflation rate and remain at the sustainable level.

Shakti remained more tough on the issue of interest rate cap as to them it was just an imposition from MRA‘s end over the MFIs. Rather it likes to rely more on the capability of its clients who migrated from rural areas to the towns in search of better lives. *Shakti* believes that these poor women are very good fund managers. ‘*They are struggling all the time and side by side they are feeding their children, sending them to schools, clothing them, providing medicines while sick, paying money for the rented sheds, even purchasing electricity and water! So when a poor woman borrows, certainly she also makes a plan to repay the loan.*’ In short, the poor clients of any MFIs always do their calculation to manage their financial lives. It is she who decides if the price of a microloan offered by an MFI is worthy for her or not. If it does not suit her, then obviously she would not take loan from that MFI. So this interest rate cap is just an imposition from MRA‘s end over the MFIs, not a felt-need of the poor borrower.

CB is quite okay with the interest rate cap as from the very beginning it offers its microloans at a rate less than the threshold. CB charges 12% flat rate (i.e. maximum 24% in DBM) and is confident to stick with that, although as per MRA guidelines it could have increased the charge up to 27%. On principle, CB is not inclined to make profit, so it is satisfied with charging below the threshold set by MRA and attaining either the break-even level or slightly more than that.

CB found the time period given by MRA to the NGO-MFIs for introducing declining balance method (DBM) was not sufficient and at the same time, MRA could not organize required orientation sessions for all the licensed NGO-MFIs regarding the automated template for calculating interest rate. According to CB management, it would be relatively easier for the MFIs that follow automated system to take up the suggested changes on time but it is hardly possible for MFIs to bring changes in their system within the given timeframe those execute this task manually. So CB is concerned about the possible errors of a big number of licensed NGO-MFIs while calculating manually. To minimize errors in the MIS, MRA should make a plan for corrective measures in this regard.

Coast management considers the interest rate cap for an MFI like *Coast* should be relaxed as the operational cost is higher; actually it should be more than plain land due to high supervision cost and disaster related cost. As per MRA guideline, no MFI irrespective of approach (minimalist or credit plus etc.), location (rural or urban etc.) can charge more than 27% as service charge calculating in declining balance method. But the operational costs vary approach to approach, or location to location. Operational cost for serving in Saint Martin Island is not as same as it is in a place adjacent to Dhaka city. Risks in the hard to reach areas will be more as well. So the management expects the approach that Coast follows should be given special attention/incentives and MRA should bring NGO-MFIs under differential interest rate cap provisions on the basis of approach, locations/ contexts etc.

RIC found indifferent with interest rate cap but it pronounced the double threshold problem that it has to tackle being PO of PKSF. Basically, the NGO-MFIs that generate funds from PKSF are experiencing double-threshold problem. Though the interest rate ceiling set by MRA is 27% in DBM but as per the agreement with PKSF, the maximum interest rate these MFIs can charge is 25% in DBM (i.e. 12.5% flat rate). As a result, these MFIs are bound to charge 25% in DBM.

10.2.2 Reserve fund and usage of deposit funds

MRA asked every NGO-MFI to create a reserve fund using 10 percent of its total income surplus[29]. MRA also instructed all MFIs to maintain 15 percent liquidity fund for its entire compulsory, voluntary and term deposit, in the savings account of a scheduled bank of the branch offices. Considering these two requirements affect the operational fund of the organization, the NGO-MFIs clubbed these together in case of responding. Henceforth, these two requirements together will be referred as 'reserve funds'.

Both the very large NGO-MFIs, irrespective of approach, agreed with the percentage of the portfolio suggested by MRA to keep aside as reserve funds. But of these two MFIs, the one with credit only approach indicated that it would reduce the extent of surplus. Other than the very large MFIs, microcredit operators of rest of the categories pointed out that this reserve funds provision will invite liquidity shortage for running their respective programs. On the other hand, for medium and large MFIs with cheaper fund source, the suggested provision of reserve funds is challenging as it affects the operation of the MFIs directly, inducing shortage of revolving loan funds. The same is true for the small MFIs with cheaper fund source but the problem here is more acute as the operation of these MFIs come at stake due to the resultant shortage of funds caused by this provision.

To the MFI with special focus at urban setting, this reserve funds provision, even though challenging is expected in the sector. Microcredit operators that are either working with 'missionary' objective or working in hard to reach areas, point out the importance of their social commitments that are supposed to get affected with this provision.

They believe that this provision is not benefitting for the MFIs that have liquidity problem. So keeping aside a portion of the cash as reserve fund has been making the situation worse as this provision will aggravate the problem with liquidity, particularly for the liquidity-scarce MFIs. Confronting with liquidity scarce state, these MFIs find this provision as 'perturbing' or 'inconvenient'. Finally, the MFI with special focus on elderly people expresses the similar feeling with a concern that this provision curbs the freedom of the MFIs to channelize the deposited money into circulation.

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29 Clause 20, MRA Rules 2010

10.2.3 Write off provision

Appendix Table 4 puts across that for the very large NGO-MFIs, the MRA suggested write-off provision is quite acceptable. Even this is not an issue at all, particularly for the very large MFI with minimalist approach. Writing off loans that are overdue for a year is not a big problem for an MFI working with minimalist approach (such as, ASA) as it has very negligible default rate (say, 0.5%) and can write off their overdue loans every year. It hardly affects the liquidity levels of MFIs of this category.

But writing off overdue loans every year is very challenging and does not bring good to the MFIs that are liquidity-scarce but socially committed. MFI with missionary objective experiences 15 – 20% default rates[30], so it is not easy for this MFI to write off the overdue loans every year. According to this MFI, the hardcore poor are the defaulters, and about three quarters of them used to spend their loan money in consumption purposes.

The table below further suggests that the responses of the NGO-MFIs under remaining categories are similar to the reactions/challenges that they expressed regarding provision for reserve funds. In brief, NGO-MFIs under all categories (excluding the very large NGO-MFIs) pointed out that this provision brings about the problem of liquidity shortage for further expansion.

This problem seems more severe for the small MFIs with cheap fund source and the MFIs working in hard to reach areas as it affects their smooth operations.

10.2.4 Funding

The dwindling trends of donor funds suggest the MFIs in the sector to generate funds through borrowing at commercial rate for continuing their services are. But it is very hard for the socially committed MFIs to serve the poorest community scrounging funds at market rate. The responses in respect to funding availability are summarized in Appendix Table 7.

The very large MFIs (irrespective of approach) are not facing fund problems in particular because of their reputations, reliability and strong networks. These MFIs have been generating sufficient surplus funds as well. Converting these entities into microfinance bank is a challenge for these MFIs.

Medium and large NGO-MFIs with cheaper fund source are concerned about the robust process maintained by PKSF. Plus fulfilling double bottom line objective

30 This rate is suggested by the CB management

is a big challenge for them. The small NGO-MFIs with cheaper funds expressed similar concerns. But they stated that due to delayed fund release from PKSF their operations get affected directly. Also they experience that the amount of sanctioned fund mismatches with the amount they usually demand for, which lead them to bring gross changes in their plan. Due to their lack of financial strengths, these small MFIs are also not in the good book of the commercial banks as their potential clients.

NGO-MFIs working in hard to reach areas are concerned about their funding as other than members' savings, they are mostly dependent on cheap funds and donations. NGO-MFIs with missionary objective is also worried as currently members' deposits contribute the major portion of their funds. The NGO-MFI working in the urban setting has been generating enough funds from their members. At the same time, it is accessible to cheap funds and donations as well. These MFI has been generating surplus income. So MFI of this category is not very concerned about funding.

NGO-MFI with focus on elderly people feels shaky as PKSF also increased its lending rates, so the cheap fund is extracting added costs. So the challenge is to run a credit plus approach focusing elderly people as the cost of fund has been increased.

11. Issues and challenges: GB and BRDB

GB offers loan at the lowest interest rate (20% calculated in DBM) compared to any other microcredit operators of the country[31], probably due to its entitlement of collecting deposit money from the non-members as well. In GB, there are two sources of funds for any branch office: (a) deposit by members (b) deposit by non-members. GB is authorized to use these funds as RLF. By the Grameen Bank Ordinance 1983, GB is allowed to accept deposit from the non-borrowers and it was exempted from taxes for 25 years starting from 1983 (till 2008) subject to formation of a reserve fund[32] by the profit generated through the operation,

31 In practice, the price charged for a microloan by different microcredit operators in the sector follows: 11% flat (i.e. 22% in DBM) by Government run micro credits such as BRDB, BARD and government banks; maximum 27% (in DBM) by NGO-MFIs; maximum 12.5% flat (25% in DBM) by PKSF supported NGO-MFIs.

32 The reserve fund is known as rehabilitation fund that is used for supporting GB members while affected by natural disasters or so. This is an interest free support. The members who will be given this loan support are supposed to pay back the principal at a time convenient for them. GB does not create any pressure over them to get back these loans.

instead of distributing dividends. Again, this tax exemption has been increased in July 2008 until December 2011. GB is supposed to pay taxes from January 2012.

GB strongly criticizes the injection of subsidies in the sector stating that it is wise not to allow subsidy in the microfinance intervention as the subsidized product hardly reaches to the targeted population due to leakages occurred in the disbursing process.. The elite people or local leaders interferes and make the process contaminated. But this notion was criticized by the resource-scarce NGO-MFIs working in the hard to reach areas. Probably GB says this so confidently because since its birth, GB has been enjoying the advantage of its inherent ‗duality': entitlement of deposit collection from public (both members and non-members) like a commercial bank and tax exemption over the generated positive surplus like an NGO-MFI. At the same time, GB management firmly believes that it is only NGOs or NGO-MFIs that can reach the poor. So they expect the government should remain low profile or abstain from microfinance programs; rather the governmental funds in this regard can be given to the poor people channelized through NGO-MFIs. Otherwise, it would just be a charitable program from government's end.

The cooperative movement of the country was a very popular intervention right after independence, but it could not be succeeded the way it was expected. The mostly said reason behind this failure is mis-targeting and financial misappropriation. The members of the cooperatives usually belonged to different socio-economic groups. As a result, the members from upper socio-economic class dominated the poor members of the same group and appropriated funds.

Through the eyes of the NGO-MFIs and GB, three factors usually make the loan releasing process of BRDB lengthy: (1) the government staff equivalent to Manager Level who is working being very close to the clients does not have loan approval power. So the loan approval takes time as it requires clearance from the higher authority sitting at District level; (2) hardly they use information technology; (3) innate ‗go slow' policy of Government. Contrarily, in case of GB or NGO-MFIs, it is the Area Manager who gives the loan approval and s/he sits in a place located within 30 kms of the program villages. At the same time, the Area Managers remain mobile and visit fields and Branch Offices almost in every working day. Hence, the loan sanctioning procedure of the non-governmental MFIs gets fastened.

For BRDB, the delayed release in funds slows down its microcredit operation. In fact, Government sanctions an allocation from its revenue budget for BRDB every year, and all the cost related to salary and other benefits of the staff are met from this allocation. Other than revenue budget, also some funds come through different ministries (such as Ministry of Women and Children Affairs, Ministry of Liberation War, Ministry of Land and so on) and foreign donors. Services related to informal groups are being carried out under a project set up and in 2003 the government has sanctioned 250 crores taka as a lump-sum allocation to run this project[33]. Further investigation reveals that BRDB used to experience problems as the fund flow does not remain smooth all the time. Besides, it also happens that government does not give allocation as per the demand of BRDB. Every year BRDB provides demand for loan funds to the concerned authority, and government responses differently: sometimes provides funds as demanded and sometimes allocates partially. As a result, BRDB faces fund shortages and cannot render its services smoothly as planned that create negative impact.

Importantly, BRDB official refutes the allegations used to put against the largest public cooperative program in the country saying, it is commonly said that the government is very weak in case of releasing/handling loans and the NGO-MFIs are far smarter than the governmental agencies the way the support goes to the poor. BRDB claimed that it has expedited the process and now it is more systematically reaching the poor.

BRDB further discards the allegation of biased selection saying, “There is no question of biased selection as BRDB has set few straightforward criteria to select its members. The key criterion is the member must belong to the poorer section of the village. Basically, the members are selected by the villagers, not by BRDB and directly it (BRDB) does not have any role to play in this respect. The management committee (President, Manager etc.) is also selected by the *samity* members. BRDB staffs, the Village Leader, the Member or the Chairperson do not have any role to play in selecting management committee for the *samity.*” This implies that the government (i.e. state run microcredit system) has been becoming one of the competitive actors in the sector.

Main challenges: GB perspectives

(1) *Tough attitude of the Government* GB has been under scrutiny of the Government for the last few years that was almost absent since its inception; rather with the promotional attitude of Government, GB grew over the years.

(2) *Lack of microfinance database* The sector lacks a dependable database that will track all the relevant information of the sector.

33 BRDB Annual Report, 2008 - 2009

(3) *Working with government permission* Under being the regulation and supervision of Bangladesh Bank, GB requires approval from BB even in case of opening a new branch office. Bangladesh Bank has its own mechanism to cross check some important information, which claims time. For this reason, GB sometimes experiences lengthy process in getting approval. Besides, for setting interest rate or recruiting/selecting the Managing Director, the GB needs approval from the Central Bank.

(4) *Restricted working areas* There are some villages in the hill tracts areas and few other pocket areas where GB could not intervene due to the government approval or political reasons.

(5) *Subsidized intervention* Subsidized microfinance program in the sector would invite leakages and make the process contaminated.

Main challenges: BRDB perspectives

(1) Domination of the NGO-MFIs in the sector that affects BRDB mandate. BRDB works to fulfill the objective of the government. For credit services, BRDB follows two conditions strictly: (a) other than the first loan is repaid fully, one member is not entitled to apply for the second loan; (b) *samity* has to be functioning. On the hand, usually the NGO-MFIs emphasize to generate 'surplus' out of their services rendered to the poor. So these NGO-MFIs follow *refinancing* strategy i.e. sanction a fresh loan before the first loan is fully repaid. As a result, the BRDB members get attracted with the loan system of the NGO-MFIs and over time, leaving BRDB many of them just walk off for the credits from NGO-MFIs.

(2) Again, BRDB is committed to empower the members under rural *samities*. But the NGO-MFIs used to allure them saying, "It is tough to get credit from BRDB. Why don't you come to us for easy loan?" So many members of BRDB used to get inspired to leave the group. Consequently, compared to BRDB – "more people are moving towards the NGO-MFIs and instead of getting out of poverty - they are just entering into debt-traps". The borrowers were to earn income or become more self-reliant with the loan money from BRDB but unfortunately receiving more loan money from the NGO-MFIs, they "get captivated in the web of poverty. So their poverty level is getting worse, instead of improvement".

(3) The huge shortage of funds at government level restrains BRDB to bring all target population in a Upazilla (sub-district) under governmental service. As a result, a large number of 'potential members of BRDB' join groups supported by NGO-MFIs.

12. Key challenges and responses: MRA perspective

This section captures the MRA perspectives in regards key challenges and responses to some key issues in section 13.1 and Section 13.2, respectively.

12.1 Key challenges for MRA

Squeezing market share

As of June 2011, among the MFIs applied for sanction, MRA gave approval for 650 plus NGO-MFIs[34]. According to a recent official press release, MRA reported that it has given licenses to over 700 NGO-MFIs[35] being operational in Bangladesh. The lion share of the market is captured by big four giant MFIs (ASA, BRAC, Proshika[36] and Grameen Bank). So the four other giant MFIs (including GB) plus the top fifteen NGO-MFIs in the next layer basically capture almost the whole market. But MRA issued licenses for over 700 NGO-MFIs implying MRA is keen to promote small actors in the sector. So it is a big challenge for MRA to create adequate market space for the MFIs beyond Top 20 in the sector.

Ensuring level playing field

In practice, there exist a number of multi-purpose cooperatives in Bangladesh under Cooperative Act who set interest rates against their loans even on daily basis. Not being under MRA, these cooperatives apply skyrocketing charges that are calculated in hundred taka or thousand taka. For an example, weekly they charge 10 taka for every 100 taka loan. This fact reveals that the same market containing actors with differing outlooks and the MFIs committed with their social missions are mainly getting affected due to the existence of these 'loan sharks'. Therefore, to create a level playing field for the all operational sector players is a big challenge for MRA (and other concerned authorities).

Awareness building

For awareness building, Currently MRA has published and distributed a poster through the licensed NGO-MFIs. The borrowers are supposed to keep in mind the core messages given in the poster before taking a loan. These include: a) *to make*

34 NGO-MFIs in Bangladesh, Volume VIII, June 2011, MRA

35 Press Release: Seminar on MRA's Rules and Regulations: Institutional and Users' Perspective, 3 April 2013, MRA

36 After being dormant for the last few years, Proshika has now been active again in the sector

out whether the MFI is licensed; b) *to know in detail the terms and conditions of microloans and savings*; c) *to know clearly about the cost to incur for a loan*; d) *to dial to the given phone number, if any complain*. This poster is mainly visible in the branch offices of any MFI and in few common places like bazaar. As many of the borrowers are uneducated and most of the times they remain within their homesteads with household chores, so the impact of poster may be less until the loan officers or the educated clients do not inform other neighboring potential borrowers in this regard. So it is quite challenging for MRA to make poor as well as mostly uneducated borrowers aware of these new changes and their responsibilities in that respect.

12.2 MRA responses

This sub-section deals with three important areas including interest rate cap[37], consumer protection and focus of MRA has been discussed in sub-section 13.1.1 below. The next sub-section deals with the upcoming key challenges for MRA.

12.2.1 Interest Rate Cap

It is customarily claimed that the MFIs in Bangladesh are charging well below that a local money lender used to charge and that is why introducing interest rate cap is not a good idea. But MRA tends to ask question who to compare with: the money lenders or the commercial banks? For setting price of microloans, MRA considers several advantages that the NGO-MFIs in Bangladesh have been enjoying since long. These include contextual advantage, tax rebate, accumulated capital base and promotional outlook of GoB.

First, *population density* itself is an advantage for the NGO-MFIs being operational in Bangladesh. People are densely populated in most of the places in Bangladesh. So it is possible to serve poor people in Bangladesh with less operational costs compared to any African countries where the households are sparsely distributed. Second, all the NGO-MFIs are under *tax rebate*. The entire surplus of any NGO-MFI generated through microfinance intervention is tax free whereas in case of corporate houses a substantial portion of their profits is to be surrendered as taxes.

Third, at the initial stage of microfinance movement in Bangladesh, almost all the NGO-MFIs received huge grants and foreign donations that helped generating *very strong capital base* of these organizations. Though not for all, but it has been

37 Among the three most concerned provisions, this paper discusses only _interest rate cap‘ as the responses from MRA‘s end has not been captured for the remaining provisions.

a huge advantage for many microcredit operators in Bangladesh. Fourth, the Government of Bangladesh always remained positive and relaxed towards NGO activities. The NGO-MFIs that generated adequate funds in the name of advocacy or poverty alleviation were not questioned or brought under scrutiny by the government. This *promotional outlook of the Government* has been an advantage for NGOs or NGO-MFIs in Bangladesh.

According to MRA[38], in reality, the cost of fund for the microcredit sector is only 7% on average compared to 3-4% for the banking sector. It may be noted that the average amount of savings for the MFIs is 30% of the loans outstanding on which only a maximum of 5% interest is paid. In addition to that, the MFIs have a large amount of retained earnings, which does not bear any cost. Hence taking into consideration the zero cost of retained earnings and the cheaper fund from savings along with the traditional cost of bank borrowing, the cost of fund of the microfinance industry works out, as per MRA, to 7%.

Setting the chargeable interest rate by MRA maximum at 27% (calculated in DBM) would mean that the gross margin for the MFIs would be 20%, which is still considerably high. So it implies that the margin is large enough to cater for increased overhead expenses and/or costlier borrowings from banks and still operate profitably. In this ground, MRA finds it is possible to further reduce the rate of interest on loans offered by the MFIs through shrinking overhead costs and/or attaining operational efficiency. With this understanding, MRA declared that it would continue to work to this end in the forthcoming days.

12.2.2 Focus of MRA

Screening the applications in the second phase, MRA found that the most concentrated area for microfinance intervention is Dhaka, followed by Tangail. At this phase, MRA considered that given the microfinance market in Bangladesh, 600 licensed MFIs are sufficient to serve. Now, in the second phase MRA has been keener to give license only to those MFIs who are interested to work in the hard to reach areas of the country including *haor*, *char* (river islands) and hilly contexts, or in those districts where microfinance coverage is relatively lesser[39].

12.2.3 Squeezing market share

Squeezing market share of the very large MFIs, MRA is keen to bring NGO-MFIs belong to the second and sub-sequent tiers to the forefront through policy support.

38 Please see the ‗Clarification on Interest Rate on Microloan and Several Other Issues'; an enclosure for MRA Circular Letter No. 07 dated 13 January 2011.

39 Through Key Informant Interview with the concerned MRA Official

MRA believes that it will take time. It acknowledges[40] that small MFIs at local level have advantages compared to the large MFIs as these (local MFIs) are relatively free from information asymmetry. MRA is aware of some weaknesses of some 'branded' MFIs (such as *absconding staff after stealing borrowers' money, high default rate, high dropout rate* etc.) operational in remote areas. So MRA is confident that the local MFIs can take advantage of the weaknesses of the influential MFIs and with support from MRA, can help breaking the monopolistic nature of the market.

12.2.4 Consumer protection

The microcredit is ideally for the unbankable poor borrowers. In Bangladesh, microfinance interventions has been expanding fast but its *productive use* has faced a serious challenge, given a lack of attention by the MFIs to *skill development training* at borrowers' level. In practice, larger MFIs usually offer much larger first time and more progressive loans compared to smaller players. They can also provide much quicker repeat loans. It attracts borrowers, which in turn limit them exercising freedom of choice.

Client protection is an important as well as an emerging area in microfinance. The regulatory body in Bangladesh gives high priority to protect the clients. For ensuring clients' protection, it is expected that the MFIs do not behave rough with the clients when collect installments. MRA should oversee if any anomalies like these are taking place in the sector.

Before MRA Rules 2010, the MFIs exercised complete freedom in setting service charges of financial products. Usually MFIs do not explain clearly about the amount of money a client has to pay to borrow. Simply they (MFIs) say it is a loan of 15% flat or so. But they do not share with the clients regarding the impact of other fees and obligatory deposits over the effective rate of interest (EIR), which causes effective interest rate quite high for a poor borrower. MRA took a strong stand to stop these practices. It puts emphasis on '*the rate and procedure of determining Service Charge [that] must be set according to the policies formulated on the basis [of] directives, related to the rate of Service Charges and procedure'* that the government and the Authority will provide from time to time. For the benefit of the clients, the service charge set as per the government policy '*must be informed to the Client and the charged rate cannot be higher than the declared rate under any circumstance'*. The policy also suggested a national rate of rebate for a 'relevant client' for prepayment of the entire outstanding loan[41].

40 Interaction with the responsible official of MRA

41 *Please see* Clause 26 in MRA Rules 2010.

Through a circular[42] MRA informed all the licensed NGO-MFIs in the sector to follow the 'Guidelines on Interest Rate and Other Allied Issues of Microcredit'. The guidelines covered several important issues including maximum fees chargeable from clients as fees/passbook etc. [*not more than 15 taka*], grace period [*at least 15 days*], number of installments [*50 in a tenure of 1 year*], embargo on upfront deduction [*no money could be cut at source*], expected rate of interest to be paid on deposit [*minimum 6% per annum*], calculation method for interest rate [*DBM*], maximum interest rate to be charged [*not more than 27%*], and categorization of MFIs [*three categories on the basis on Yunus Benchmark*]. Also it suggests microloan as a collateral free loan – so agreement on non-judicial paper is not deemed necessary. Having feedback from the field, MRA revised the suggested number of installments (*46 instead of 50*[43]) afterwards.

According to MRA, an NGO-MFI is supposed to calculate the EIR in declining balance method, which must not exceed 27% and place that in written form in its office so that it could be visible. The calculation of any specific product with features should be transparently uploaded in the organizational website, if there is any. But this study suggests that the concerned NGO-MFIs are yet to execute this.

MRA gives emphasis on protecting rights of the clients of any Microcredit Organization identifying 8 areas[44] including receiving financial products offered by MFIs, knowing the applicable procedures (*both in writing or verbally*) of availing these products clearly, exercising right to withdraw deposit, in part or full if the client has no outstanding loans, participating in various training and awareness creation programs of MFIs, claiming the benefits of insurance policies, receiving documentary evidence of all transactions from the MFI, earning interest on deposits as the MFI offers, and receiving information related to deposit and loan balance from the relevant branch office on any working day.

Having aware of the above-mentioned rights, the borrowers are expected to play responsible roles so that they do not get cheated over the process. Considering this aspect, MRA also spells out a set of responsibilities[45] that the borrowers should execute.

For awareness building, MRA has published and distributed a poster through the licensed NGO-MFIs. The poster suggests that the borrowers are supposed to keep

42 *Please see* MRA/Circular Letter No – Regu – 05; 10 November 2010.

43 *Please see* MRA /Circular Letter No. Regu – 08; 8 June, 2011.

44 *Please see* Clause 16 of MRA Rules 2010.

45 *Please see* Annex 1.

in mind the core messages given in the poster before taking a loan. These include: a) *to make out whether the MFI is licensed*; b) *to know in detail the terms and conditions of microloans and savings*; c) *to know clearly about the cost to incur for a loan*; d) *to dial to the given phone number, if any complain*. This poster is mainly visible in the branch offices of any licensed NGO-MFI and in few common places like *bazaar*. As many of the borrowers are uneducated and most of the times they remain within their homesteads with household chores, so the impact of poster may be less until the loan officers or the educated clients do not inform other neighboring potential borrowers in this regard.

Again, in the backdrop of failure of an MFI, called *Jubok* - very recently MRA has decided to provide a ‘cushion’ to the depositors of MFIs by forming *depositors’ security fund* (DSF), which will help establish good governance and discipline in the sector. The proposed coverage size would be Tk 3,500 to safeguard the interest of 80 percent depositors, where about 80 per cent of the depositors of MFIs have less than Tk 3,500 deposit on an average. Reportedly, the *Jubok* made a false statement to Bangladesh Bank that it had Tk 380 million deposit from its 0.27 million clients but a probe committee found that it actually owed Tk 21.47 billion to its members[46], which created strong protests from the innocent clients. But sometimes, pressures or protests from borrowers compelled the micro creditors to make changes in or modify the *modus operandi* of the fund and thereby resorting to more intricate calculations (Chowdhury, 2007).

13. Upcoming challenges: General

There are few other important challenges existing in the sector as a whole that are being shared in this section.

13.1 Multiple borrowing

This is a huge sector where numerous human-powers are involved in and that contributes to the national GDP. But the sector still lacks a dependable database that will track all the relevant information of the sector. *Overlapping* is prevalent[47] in the sector but it is not easy to trace that out as the actors are reluctant in sharing their information. To the MFIs, with increased competition, *multiple borrowing* causes an increment in the loan recovery rate and a reduction in the drop-outs rate.

46 Report published on 22 July 2012 in the bdnews24, a popular electronic news media of Bangladesh; it is accessible at http://www.bdnews24.com/details.php?cid=4&id=228664.

47 *Please see* Faruquee and Khalily (2011), and (Yashuiko, 2010)

In a saturated market, borrowers find it easier to take out credit in excess of their repayment capacities (*over-borrowing*). They can do so by going to several MFIs (multiple borrowing), which are not aware of the client's credit record and are willing to lend in order to increase their business volume. In fact, empirical evidence shows that over-borrowing is closely related to multiple borrowing[48]. With multiple borrowing, the borrower can choose to default strategically on one or several of the loans. In the absence of credit bureaus, and if no collateral has been posted, potentially negative consequences for the borrower remain limited. Over-borrowing and strategic default are typical problems of moral hazard in lending relationships caused by MFIs' inability to coordinate their lending decisions[49].

13.2 Refinancing and rescheduling

Delinquency is a part of any microcredit program and it has a serious effect on an institution's costs, income and financial situation. Delays in receiving income in the form of interest make it difficult for the institution to manage its cash flow and when loans are overdue for a long time, managers may lose hope of recovering the interest and concentrate on recovering the principal, thus foregoing some of their income. Delinquency also slows down the rotation of the portfolio and deprives other borrowers of the benefit of getting a loan, as well as reducing the income earning potential of the institution.

In order to reduce the recorded arrears without reducing the portfolio, if not all but many NGO-MFIs in Bangladesh commonly *reschedule* or *refinance* loans of the poor clients. *Rescheduling* a loan involves changing the payment schedule so that the borrower is no longer in arrears (or will be able to avoid going into arrears) and has a new payment schedule. *Refinancing* a loan implies lending more money to a borrower who still has an outstanding balance. The new loan is usually used to pay off the previous loan and to provide some new finance for the client's business.

The MFIs in Bangladesh prefer these tools as the loans are not written off; rather interest charges continue to accrue when loans are refinanced or rescheduled. Although rescheduling and refinancing seem to improve the quality of a portfolio in the short run, they mask a delinquency problem and may contribute to a

18 *Please see* Schicks and Rosenberg (2011) for an overview of empirical findings regarding over-indebtedness.

49 The Bolivian microfinance crisis of 2000 provides a vivid example of this form of moral hazard. See Vogelgesang (2003) and Schreiner (2004) for a more detailed description.

worsening portfolio in the long run by actually encouraging delinquency if the borrower fails to generate due funds and get further indebted.

13.3 Pricing non-transparency

There are many small MFIs in the sector that do not even understand how to calculate. But MRA expects that through the credit deliverers the borrowers will come to know the exact amount they have to pay for their loans.

Usually MFIs do not explain clearly about the amount of money a borrower has to pay to borrow. Simply they (MFIs) say 15% flat or so. But they do not share the impact of other fees and obligatory deposits over the effective rate of interest. MRA took a strong stand to stop these practices. After adhering to the MRA guidelines, an NGO-MFI is supposed to calculate the EIR and place that in written form in its office so that it could be visible. The calculation of any specific product with features should be transparently uploaded in the organizational website, if there is any. Though MRA has already taken some steps, but still it is a big challenge to evaporate the pricing non-transparency from the sector.

14. Recommendations

This section mainly deals with the recommendations suggested by the NGO-MFIs on three mostly concerned provisions including *interest rate cap, reserve funds* and *provision for writing off*. It also lists down few recommendations by the sample operators on *funding*.

Interest rate cap

Considering self-sufficiency aspect, the very large MFIs expect that MRA would carry out a thorough exercise including all sector players before lowering the cap level in future. MFIs with cheap fund source look ahead to the resolution of double threshold problem through joint meeting between MRA and PKSF. The MFI with focus on urban setting recommended that price fixation from the top should be reviewed. Interest cap is not a problem for the MFI with missionary objective as it already offers well below the threshold level and this operator does not find any problem coping with further reduction of MRA interest cap. MFIs working in the hard to reach area suggest MRA to introduce differential interest rate cap that will be compatible with the geographical locations and approaches being followed by NGO-MFIs to reach the poorer section of the country. Considering sustainability aspect, the MFI with focus to the elderly people expect that the current interest rate should be reviewed and relaxed.

Provision of reserve funds

Very large MFIs are satisfied with the suggested provision of reserve funds and they recommend that for the benefit of the borrowers, this reserve funds should be maintained in the sector. Medium and large MFIs with cheap fund source expect that the proportion of reserve funds should not be the same for all NGO-MFIs in the sector; rather it should be reduced on the basis of the size of the MFIs. MFI working in hard to reach area also suggests differential proportion of reserve fund provision. On the other hand, the small MFIs with cheap source and MFI working with missionary objective recommend either provision of this sort is to be waived or the proportion of the reserve funds should be less for this category. MFI with focus on elderly people also expects that the proportion of the reserve fund should be less for MFIs of this category. For the MFI working in urban setting, the proposed reserve fund is expected and it should be maintained all over the sector.

Write off provision

Alike provision for reserve funds, the very large MFIs expect that for the benefit of the borrowers, the MRA suggested write off provision should prevail in the sector. At the same time, the MFI with focus on urban setting also considers that even though challenging but this provision should be operational in the sector. On the other hand, the MFIs under other categories mainly differ with the time period suggested flatly for all performing NGO-MFIs in Bangladesh, irrespective of size, approach and leverage. They mainly propose differential time limit should be thought about for NGO-MFIs in the sector on the basis of size, approach and leverage. Basically, these MFIs expect extended time period for writing off their overdue loans. In favor of their stand, these MFIs pointed out the practice being transpired in the commercial banks of Bangladesh. It is a common practice in the formal banking sector of Bangladesh that the wealthy clients of the commercial banks do not repay their loans on time and these overdue loans are carried forward years after years. So it is verily expected that the loans of the poor clients of MFIs should be allowed to remain overdue for relatively longer (compared to time suggested by MRA) period of time, particularly for the liquidity scarce NGO-MFIs.

Funding

Very large MFIs suggest that the concerned authority should explore the possibilities of converting them into microfinance banks. Large and medium MFIs with cheap fund source suggest that fund giving conditions of PKSF at cheap price to be softened.

For the small MFIs expressed that in principle, all the NGOs are supposed to work with the poor people. To keep the NGOs on track, the authority has to make space where the socially committed MFIs can grow. Keeping this in mind, the small MFIs expect the following recommendations may be favorable for them to serve the poor. These include:

the conditions imposed by PKSF over its POs are very tough, which is to be softened PKSF to release its funds on time the gap between the amount applied for and the amount sanctioned to be lessened more subsidized fund sources are to be linked with; commercial banks should open special window for funding MFIs of this category at a cheaper rate.

Alike the small MFIs, the operators that work in the hard to reach areas also demands for further subsidized fund sources which should be accessible. The MFI with missionary objective also support that the funds of PKSF should be accessible but with softened condition. As an alternative cheap fund sources, they proposed 'affluent' people of the country with altruistic minds. The MFI with focus on elderly people emphasized funds that should be made accessible in cheaper cost, especially for the special interventions like it operates.

The MFI with focus in urban setting did not recommend any point in regards to funding.

15. Conclusion

The emergence of a formal regulatory body under MRA Act 2006 and the relevant rules & regulations for the NGO-MFIs instructed by this Authority to follow truly triggers an era that Bangladesh did not experience ever. Post MRA microfinance operation in Bangladesh reveals a very complex as well as challenging scenario. The paper sheds some light over how a small sample of key MFIs with varied typologies have been adjusting and getting concerned in the changed environment due to the regulatory control. The issues and challenges covered in this paper reveal that there are many hurdles yet to be crossed to reach the poor and to uplift them from poverty. It is clear that having its own intent and objectives, each single MFI has leverage, limitations and challenges that MRA and other concerned are to take into account. Most importantly, the rules and guidelines developed later on under the light of MRA Act 2006 are applicable for all NGO-MFIs in Bangladesh irrespective of its typologies, which remind us "one size does not fit all".

Constructive coordination among the regulators of differing sector actors will help make the sector pro-poor. Government (MRA and other concerned bodies of

Government), along with the other sector actors, has very important roles to play in this regard.

The issues and challenges flagged by the concerned microcredit operators and regulators are the partially told story. So to make ‘microfinance’ as one of the tools for ‘poverty alleviation’ – the voices of the poor borrowers, ‘potential borrowers’ and voluntary non-borrowers at post MRA phase are to be listened and internalized carefully, and on the basis of that the program designs are to be adjusted accordingly in future.

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Annex 1. *Duties of the Clients*

The following are the duties of the Clients of the Microcredit Organization:

(a) Deposit the amount stipulated by the relevant organization, ensure entry in the passbook and obtain signature from the designated employee of the Microcredit Organization and also to ensure that loan and Insurance related transactions are recorded properly in the appropriate pass book;

(b) Make timely payments of loan installments and Insurance premium as per specified terms and to encourage other Clients also to do the same;

(c) Abide by law and order of the Samity and spontaneously co-operate with the Microcredit Organization by attending the meetings of the Samity and participating in its operational programs;

(d) Be fully aware of the terms and conditions of the services before availing any service offered by the Microcredit Organization;

(e) Actively participate in the demand based training courses and awareness programs of the Microcredit Organization;

(f) Efficiently invest the granted loan amount into stipulated income generating activities and thereby increase own profit desirably; and

(g) Refrain from taking loans from one or more sources which the Client cannot utilize profitably.

Source: Clause 17, Microcredit Regulatory Authority Rules

Appendices

Appendix Table 1. Basic Characteristics of Select MFIs

MFI	*Year estd.*	*Dominant working area*	*Approach/Focus*	*Dominant fund sources*
ASA	1992	Both rural and urban	Credit only	Deposits by members, followed by local banks
BRAC	1974	Both rural and urban	Credit plus	Local banks, followed by members' savings
GB	1983	Rural areas	MF Bank	Deposits by members and non-members
Shakti	1992	Urban areas	Focus: poor women at urban setting	Deposits by members, followed by PKSF
CB	1982	Both rural and urban	Missionary approach	Deposits by members, followed by international donor
RIC	1989	Both rural and urban	Credit plus (special focus: Elderly people)	PKSF, followed by members' Savings
Coast	1991	Rural areas (esp. *Coast*al areas)	Rights Based Approach	Deposits by members, followed by PKSF
BRDB	1983	Rural areas	Cooperative approach	Funds through Revenue Set up made by the Government, followed by Grants/ Donations from different Agencies

Appendix Table 2 Mission and Vision of Select MFIs

MFI	Mission/Objectives	Vision/Goal
ASA	To support and strengthen the economy at the bottom of the socio-economic pyramid by facilitating access to financial services for the poor, marginalized and disadvantaged	To establish a poverty free society.
BRAC	To empower people and communities in situations of poverty, illiteracy, disease and social injustice	A world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential.
GB	To extend banking facilities to poor men and women; eliminate the exploitation of the poor by money lenders; create opportunities for self-employment for the vast multitude of unemployed people in rural Bangladesh; bring the disadvantaged, mostly the women from the poorest households, within the fold of an organizational format which they can understand and manage by themselves;	-
Shakti	To bring women out of the cycle of poverty and provide conducive support to their development as entrepreneurs, leaders, and agents of social change.	Women in a poverty-free world of equal opportunities
CB	To become a partner of people – especially the poor and marginalized, with equal respect for all – to attain integral development, to live a truly human life in dignity and to serve others responsibly	Envisions a society which embraces the values of freedom and justice, peace and forgiveness, to live as a communion and community of mutual love and respect
RIC	To alleviate poverty through human resource mobilization and socio-economic development in its broader sense	To establish a happy and prosperous Bangladesh based on equal rights and strong democratic values
Coast	To facilitate the sustainable and equitable improvement of life, especially of women, children and disadvantaged population of the *Coast*al areas in Bangladesh through their increased participation in the socio-economic, cultural and civic life of the country.	-
BRDB	To organize Comilla type of cooperative for optimum utilization of human as well as material resources available to development; to organize rural masses into cohesive & disciplined group for planned sustained development; to ensure proper utilization of institutional credits; to integrate supply and services for effective utilization.	Poverty free and self-reliant rural Bangladesh

Appendix Table 3. Responses on MRA by MFI category

Category	MFI	General comment on MRA
Very large NGO-MFI: Credit only approach	ASA	Benefitting for both clients and MFIs
Very large NGO-MFI: Credit plus approach	BRAC	A bit mixed pack even though a positive control for the sector and good for the clients
Medium and large NGO-MFIs with cheaper fund source	SFDW, RIC & Coast	Supportive but challenging
Small NGO-MFIs with cheaper fund source	PO1 & PO2	Appreciable addition but very challenging
NGO-MFIs with special focus 1: Urban Setting	SFDW	Useful effort for client protection and streamlining MFIs in a system; doubtful whether the suggestion made by MRA are the felt-need of the poor clients
NGO-MFIs working with „missionary" objective	CB	Positive but very challenging for the MFIs with strong social commitments;
NGO-MFIs working in hard to reach areas	Coast	Very appreciable addition in the sector
NGO-MFIs with special focus 2: Elderly People	RIC	Quite supportive for sector development

Appendix Table 4. Challenges and Recommendations on interest rate cap

Category	MFI	Reaction/Challenge	Probable Recommendation
Very large NGO-MFI: Credit only approach	ASA	Adhering to the price cap (27%) is not a problem at all but further reduction of cap level may be challenging ; less revenue	Before lowering the cap level, MRA should carry out a thorough exercise including all sector players.
Very large NGO-MFI: Credit plus approach	BRAC	May invite mission drift	Same as above
Medium and large NGO-MFIs with cheaper fund source	SFDW, RIC & Coast	Confronting problem with double interest thresholds: 27% by MRA and 25% by PKSF;	PKSF and MRA should agree with a single threshold level
Small NGO-MFIs with cheaper fund source	PO1 & PO2	Same as above	Same as above.
NGO-MFIs with special focus 1: Urban Setting	SFDW	Just an imposition from MRA's end over the MFIs; poor women are very good fund managers; it will affect the revenue of the MFIs	For making an MFI self sufficient, this price fixation from the top deserves further review
NGO-MFIs working with „missionary" objective	CB	Already offers microloan at a level (24%) lower to MRA suggested cap	Possible to cope with further reduction of MRA interest cap
NGO-MFIs working in hard to reach areas	Coast	Confronting stressing reality as well as double threshold problem	Differential interest cap is expected
NGO-MFIs with special focus 2: Elderly People	RIC	Confronting stressing reality as well as double threshold problem	Interest cap should be relaxed

Appendix Table 5 Challenges and recommendations on Reserve Fund

Category	**MFI**	**Reaction/Challenge**	**Probable Recommendation**
Very large NGO-MFI: Credit only approach	ASA	Less surplus but acceptable	For the benefit of the borrowers, this reserve funds should be maintained.
Very large NGO-MFI: Credit plus approach	BRAC	Acceptable	Reserve funds should be maintained
Medium and large NGO-MFIs with cheaper fund source	SFDW, RIC & Coast	Shortage of revolving loan funds; challenging	Proportion of reserve fund should not be the same flatly for all NGO-MFIs; should be reduced on the basis of the size of the MFIs.
Small NGO-MFIs with cheaper fund source	PO1 & PO2	Shortage of revolving loan funds; difficult to run;	Either fund of this sort is to be waived or the proportion of the reserve fund should be less for this category.
NGO-MFIs with special focus 1: Urban Setting	SFDW	Good but challenging	This reserve fund should be maintained all over the sector.
NGO-MFIs working with „missionary" objective	CB	Perturbing for liquidity-scarce but socially committed MFIs	Either fund of this sort is to be waived or proportion of the reserve fund should be less for MFIs of this category.
NGO-MFIs working in hard to reach areas	Coast	Not convenient for liquidity-scarce but socially committed MFIs	Differential proportion is expected.
NGO-MFIs with special focus 2: Elderly People	RIC	Freedom of the MFI to utilize the deposit money as RLF has been getting narrower	Proportion of the reserve fund should be less for MFIs of this category.

Appendix Table 6 : Challenges and recommendations on Write-off provisions

Category	MFI	Reaction/Challenge	Probable Recommendation
Very large NGO-MFI: Credit only approach	ASA	*Not an issue; less surplus but acceptable;*	*For the benefit of the borrowers, this provision should be maintained.*
Very large NGO-MFI: Credit plus approach	BRAC	*Acceptable*	*This provision should be operational in the sector*
Medium and large NGO-MFIs with cheaper fund source	SFDW, RIC & Coast	*Shortage of revolving loan funds; challenging*	*Differential time limit to be proposed for writing off over due loans*
Small NGO-MFIs with cheaper fund source	PO1 & PO2	*Shortage of revolving loan funds; difficult to run;*	*More time should be allowed for writing off*
NGO-MFIs with special focus 1: Urban Setting	SFDW	*Good but challenging*	*Though challenging but this provision should be operational in the sector*
NGO-MFIs working with „missionary" objective	CB	*Challenging for liquidity-scarce but socially committed MFIs*	*Time for writing off the overdue loans to be expanded*
NGO-MFIs working in hard to reach areas	Coast	*Not convenient for liquidity-scarce but socially committed MFIs; program areas (coastal belts) are at risk as well*	*Differential time limit to be proposed for writing off over due loans*
NGO-MFIs with special focus 2: Elderly People	RIC	*Face further liquidity shortage*	*Time period for writing off over due loans to be increased*

Appendix Table 7: Opinions of NGO-MFI managements on Fund Availability

MFI	CHALLENGE	RECOMMENDATION
Very large: NGO-MFI with minimalist apporach	Not facing fund problems in particular; rather generating sufficient surplus funds; converting these entities into microfinance bank is a challenge.	Concerned authority should explore the possibilities of converting these into microfinance banks.
Medium and large NGO-MFIs with cheaper fund source	Cheaper fund from PKSF is accessible but the robust process maintained by PKSF is stressful; fulfilling double bottom line objective is a big challenge.	Fund giving conditions of PKSF at cheap price to be softened.
Small NGO-MFIs with cheaper *fund source*	Same as above; PLUS delayed fund release from PKSF; the amount of sanctioned fund mismatches with the amount applied for that lead the small MFIs to bring gross changes in the plan; negligence by commercial banks as their potential clients.	Same as above; fund of PKSF to be released on time; the gap between the amount of applied fund by the MFI and sanctioned fund of PKSF should be less; more subsidized fund sources are to be linked with; commercial banks should open special window for funding MFIs of this category at a cheaper rate.
NGO-MFIs working in hard to reach areas	Other than members‘ savings, dependent on cheap funds and donations	Further subsidized fund sources should be accessible
NGO-MFIs working with „missionary" objective	Currently members‘ deposits contribute the major portion of the fund.	Fund of PKSF should be accessible but with softened condition; alternative cheap fund sources are to be promoted, such as ‗affluent‘ people of the country with altruistic minds.
NGO-MFIs with special focus 1: urban setting	Generating enough fund from the members; cheap fund is accessible; donations are available; generating surplus income.	No comment given.
NGO-MFIs with special focus 2: elderly people	PKSF also increased its lending rates, so the cheap fund is extracting added costs; challenge is to run a credit plus approach focusing elderly people as the cost of fund has been increased.	Funds should be made accessible in cheaper cost, especially for the special interventions like this