Bangladesh Microfinance Country Profile

By

Credit and Development Forum (CDF), Bangladesh

Shamima Khatun, a winner of Global Micro entrepreneurship Awards in Bangladesh, attends the UN gala in New York. A wholesaler of vegetables, Shamima has been judged the winner of the "Most Innovative Business of the Year" organized by Citigroup Foundation, and UN Capital Development Fund.

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List of Acronyms

ASA=Association for Social Development
BKB= Bangladesh Krishi Bank (BKB)
BRAC=Bangladesh Rural Advancement Committee
BRDB=Bangladesh Rural Development Board (BRDB)
CDF=Credit and Development Forum
EDP=Economic Development programme
ESSPS=Economic and Social Security Policy Scheme
GB=Grameen Bank
GDP= Gross Domestic Product
GOB=Government of Bangladesh
HDI=Human Development Index
IGVGD= Income Generation for Vulnerable Group Development
LCF= Livestock Compensation Fund
LLPRCP=Life and Property Risk Coverage Policy
MFI= microfinance institutions (MFIs).
MIS=management information system
NCB=nationalized commercial banks (NCBs),
NGO= Non-government Organization
PCB= Privatized Commercial Bank
PKSF= Palli-Karma Sahayak Foundation
PO= partner organizations
RAKUM= Rajshahi Krishi Unnayan Bank
RDRS= Rangpur Dinajpur Rural Service
RLF=Revolving Loan Funds
SEL=small entrepreneur lending
SSS=Society for Social Service
TMSS=Thengamara Mohila Sabuj Sangha (TMSS)
UNDP= United Nations Human Development Program
VDP=Village Development Program
VO=Village Organisation
Figure-1

Percentage Coverage of Poor Households in Microcredit Programmes

Source: PKSF 2003
The Need for Microfinance

Bangladesh, with a population of more than 140 million, is one of the most densely populated countries (1061 persons per square kilometer) in the world. Poverty is pervasive. Almost half of the total population is still living below the poverty line - earning less than $1 a day. Per capita Gross Domestic Product (GDP) in 2004 was estimated at just $470. The various dimensions of the country’s poverty are manifested in terms of inequality in income distribution (in favor of urban areas), wage differentials between the formal and informal sectors, dramatic increases in the cost of living, less than adequate calorie intake by the vast majority of the population, unemployment and internal migration. The United Nations Human Development Program’s (UNDP) Human Development Index for Bangladesh was just 0.52 in its 2005 report, resulting in an extremely low international ranking of 139th out of 177 countries. Life expectancy at birth is just 63 years and adult literacy rate for women is only 31.4 percent. However, progress on a range of social indicators in Bangladesh over the last fifteen years has been striking in certain areas, and these have been accredited substantially to the mix of public and private service provision, including the pioneering approach of microfinance institutions (MFIs).

The government of Bangladesh faces an enormous challenge in reducing poverty. However, the government can not act alone as it can not command all the resources, personnel, administrative outreach or expertise necessary to maintain progress in poverty alleviation. The MFIs have taken a key role in poverty alleviation efforts and they have been providing credit to these poor people who lack savings and capital but want jobs in the farm and non-farm sectors.

The banking sector in Bangladesh is dominated by the four state-owned commercial banks, known as nationalized commercial banks (NCBs), which control approximately half of the assets within the banking system. In addition, there are five government-owned specialized banks, 30 domestic private banks, and 12 foreign banks (2004)\(^1\). The specialized agricultural banks and NCBs have been lending extensively to the rural area but most of their lending is not targeted to the poor. The foreign banks and the private commercial banks have simply stayed away from rural lending, though there are a few cases of token involvement in microfinance in recent years. The poor people do not get access to formal financial institutions because of lack of physical collateral. The informal moneylenders, on the other hand, charge an exorbitant rate of interest, thereby inhibiting rural poor households from investing in productive income increasing activities\(^2\). Unlike other countries in the region, Bangladesh does not have a proper substructure of small banks operating at local level (McGuire et al. 1998). Against the backdrop of a relatively undeveloped formal financial system, a strong NGO microfinance system has developed in Bangladesh. These MFIs have been able to reach the poor with collateral-free loans at affordable costs and can thus help the poor become self-employed.

\(^1\)The financial system also includes insurance companies, stock exchanges and co-operative banks.

\(^2\)These informal lenders, however, can only meet the occasional financial services and they are not reliable sources of financial service provision.
The micro-finance sector in Bangladesh is one of the world’s largest. Bangladeshi MFIs are best known for their pioneering, large-scale provision of microfinance services, principally tiny collateral-free loans to poor women. The four largest MFIs, Grameen Bank, BRAC, ASA, Proshika account for 86 percent of the 14.3 million active borrowers\(^3\). In the macro context, micro-credit loans constitute around 5.3 percent of total private sector credit in the economy in 2004 (Bangladesh Bank, 2005). At present a total of 9.6 million (out of 14.3 million households) or 37 percent of all households in the country are accessing microcredit (World Bank 2005)\(^4\).

**Development of Microfinance Sector in Bangladesh**

The development of MFIs took place in several distinct phases over the last two decades. The origins of the current microcredit model can be traced back to action-research in the late 1970s to deal with the relief and rehabilitation needs of post-independence Bangladesh. At that time, many NGOs started as relief organizations but, over time, they turned into development organizations and gradually many of them have become MFIs by focusing on savings and microcredit programs. Microcredit was first initiated by Grameen Bank and was developed by a team led by Professor Mohammad Yunus. The Grameen-model, named as the 'Jobra' experiment was tested first centering on group-based credit delivery with peer monitoring. During the late 1970s, when the 'Jobra' experiment was underway, the Dheki Rin Prokolpa was initiated by the Bangladesh Bank in collaboration with the Swanirvar Bangladesh, and several other pilot schemes were initiated by a handful of the NGOs which were active then.

The 1980s witnessed a growing number of MFIs which experimented with different modalities of delivering credit to the poor. In the early 1980s several NGOs experimented with different ways of delivering credit. One important model tested was the efficacy of providing loans for groups compared to offering loans to individuals with peer monitoring. The broad lesson was that the latter was more effective due to incentives and ‘free-rider’ problems compared with lending to a group. Hence by the late 1980s the predominant model became one of providing individual loans to a target group of poor households, with peer monitoring and strong MFI staff follow-up.

Even during the 1980s, in spite of Grameen Bank’s success, the main discourse amongst development practitioners in Bangladesh centered on the desirability of microcredit programs as opposed to commercialization. However, during this period and early 1990s, NGOs developed management capacity and program design that helped them to expand their microcredit programs. The early 1990s was a period of rapid expansion of the Grameen-style microcredit approach. The growth was picked up largely by a ‘franchising approach’ whereby new branches replicated the procedures and norms that prevailed in

\(^3\) There are a total of 19.3 million members, of which the big four MFIs counts 13.7 million (71 percent) members. But the total number of active members is only 14.3 million (See World Bank 2005).

\(^4\) This figure is estimated by a recent World Bank survey, which takes into account the fact that there are households who borrow from multiple sources and the number of households with more than one individual who borrow from MFIs.
existing branches. In the early 1990, unhindered experimentation in the fields led to a quiet resolution of the debate and the country experienced a massive expansion of microfinance activities during the 1990s. Donors contributed to the expansion of revolving loan funds, and PKSF was established around the same time to provide wholesale financial and technical support in the sector.

The expansion of mainstream credit services continued rapidly through the mid-1990, while research and experience were contributing to the diversification of the sector to meet the needs of different client groups. In recent years MFIs have moved from the margins of the financial system towards the mainstream.

**Competition**

There is now greater competition in the microcredit market. It is now far easier for borrowers to switch from one MFI to another and waiting times for accessing credit are far shorter than it was in the early 1990s. There are now more than 1200 MF NGOs in the country (CDF, 2004) among which approximately 200 NGOs have large microcredit programs being dominated by four large MFIs namely Grameen bank, BRAC, ASA and Proshika. As of December 2004, 721 of these NGOs reported loans to 16.62 million borrowers and micro entrepreneurs. These 721 NGOs are classified as MFIs. The rest can be termed as maximalist organizations (CDF, 2004).

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 Khandaker 2003).

**Challenges**

Despite certain success in reaching the poorer groups of households, it has been estimated that certain groups of extreme poor households do not take part in microcredit program. Geographical coverage of microcredit operation varies, with coverage thinnest in the poorer, more remote and less populous districts of the country’s north and southwest. A recent detailed microcredit program mapping exercise by PKSF found that a significant number of highly poor districts, particularly in the northwest have relatively few MFIs operating and consequently a lower number of poor borrowers compared to better-off parts of Bangladesh (See Figure-1). Similarly the relatively prosperous districts have a larger share of their population accessing micro-credit.

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5 Association for Social Advancement (ASA) is another classic example of shifting from social activities to microcredit activities.
6 A maximalist organization is one, which is engaged in both microcredit and other activities contrasting with the minimalist organization, which is, engaged solely in micro credit activities.
Considering the geographical coverage of the MFIs in Bangladesh, more than 80 percent of the MF-NGOs have less than 5 branch offices and about half of them do not have any branch office at all. Moreover, it is no surprise that only a few MF-NGOs will have a healthy district wise coverage. Only two MF-NGOs had operations in more than 50 districts (CDF, 2004). This trend also follows in case of Upazila 7 wide coverage of microcredit operation with only three MF-NGOs covering more than 200 Upazilas (CDF, 2004).

In recent years, there have been some efforts in reaching these households by offering more flexible repayment schedules with a smaller loan sizes. Several studies also show that 15-30 percent of microcredit members are from ‘non-target’ groups as also measured by householder’s land size.

The success of microcredit programs depends on the following challenges:

- **Enhancing the Resources Versus Reaching the Poor Clients**: MFIs have lack of adequate resources to finance the growing number of borrowers. In order to increase the size of operations, the MFIs may require interest rates to rise and thus discourage the poorest clients and thereby encouraging the borderline poor.
- **Smaller versus Larger loan sizes**: It has been found that MFIs prefer larger loan sizes to increase the degree of financial sustainability. This may lead to worsening repayment performance and exclusion of the poorest.
- **Increase in client-base versus Sustainability of MFIs**: Achievement of financial sustainability of an MFI branch requires an increase in the number of clients within that branch, implying investment in less profitable activities and thus reducing the impact on poverty alleviation and reducing the demand for loans.

### Regulation and Government Initiatives

#### Government Regulation of Microfinance

The MFI sector in Bangladesh is comparatively unregulated despite its scale and prominence in the country’s economic development. However, the government, NGOs, donors are increasingly focused on the need to develop a supportive regulatory framework. In April 2004, the steering committee of the Bangladesh Bank’s (BB’s) Microfinance Research and Reference Unit was appointed as interim regulator of NGO-MFIs. Moreover, most large and medium size NGO-MFIs receive funding from Palli-Karma Sahayak Foundation (PKSF), which provides regular monitoring of standard financial and performance indicators. Some NGO-MFIs have begun borrowing from commercial banks, which also provide some performance monitoring.

No NGOs offering microfinance in Bangladesh are regulated or supervised either by the central bank, the Bangladesh Bank (BB) or any regulatory agency, except in the case of Grameen Bank 8. The legal framework of MFIs has not gone through any substantive

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7 A district consists of some Upazilas (sub-districts).
8 The GB is a specialized bank and was established in 1983 by an ordinance.
reform. There are a plethora of laws and government agencies dealing with MFIs in Bangladesh. Under the administration of the Department of Social Welfare, most MFIs are registered as societies under the Societies Registration Act, 1860 (the same as in India). The rest are registered either as nonprofit companies under the companies Act 1913, or as trusts under the Trusts Act, 1882, or the Charitable and Religious Trust Act, 1920, or as cooperatives under the Cooperative Societies Ordinance, 1984. Since most of the MFIs rely on the funds coming from foreign grants, the government has to be accountable for those grants for receipts and utilization. To undertake this task NGO Affairs Bureau (NGOAB) was established in 1991. NGOAB is regarded as the primary regulator as most development NGOs were supported by foreign funds in the 1990s. NGOAB undertakes functions such as NGO registration, approval of project proposals, releasing funds and monitoring NGO projects.

In Bangladesh, without the express permission of the Bangladesh Bank savings mobilization from the general public is prohibited. Under the Cooperative Societies’ Ordinance, on the other hand, cooperative societies are permitted to mobilize savings from the general public. But in practice, it is compulsory for MFIs in Bangladesh to mobilize savings from members before disbursing loans, and the law does not prohibit this. For Grameen Bank, the Grameen Bank Ordinance, 1983, permits the acceptance of deposits from the general public as well as from members, and to sell bonds and debentures guaranteed by the government.

Relative to the size of the sector and in spite of the regulatory weaknesses there have been few incidents of scandal or debacle in the NGO MFI sector. However, there is now a growing focus on NGO financial accountability and the regulatory framework. As MFIs move further into extending the range of savings services, there is an increasing need for an appropriate regulatory framework, ensuring both transparency and safety of deposits. The very poor particularly, can ill-afford any such loss and in any case the MFIs generally are not providing the type of savings mechanisms the poor really need (Hulme 2000). The government is considering designing an appropriate regulatory framework in view of the financial condition and structure of local MFIs, the roles of MFIs within the financial services industry, and the capacity of the regulating entities to administer external regulation and supervision effectively. Recently the country’s finance and planning minister informed that a draft law on micro finance has been finalized and will be placed before the parliament very soon. The new law would help monitor the sources of funds of the MFI NGOs and ensure transparency in their operations.

Practices

Credit Products

Credit is given for both individual and group activities and there is no collateral requirement. The types of loans include general loans, program loans, housing loans, etc. General Loans are made for any profitable and socially acceptable income generating activity, such as: rural trading; rural transport; paddy husking; food processing; small shops and restaurants and so on. Loans are usually between $15 to $160. However, members may take larger loans after repaying their first loan. Group members can obtain sector programme loans in areas such as poultry, livestock, agriculture, sericulture,
fisheries and social forestry. In these areas they are also provided with training, technical assistance and inputs. Members can also take one loan to construct or upgrade their homes. Besides, there are various forms of credit such as: flexible credit services, supplementary credit services, micro enterprise credit services, hand/emergency credit, disaster credit, sanitary latrine credit, tube-well credit etc.

A report published by the Bangladesh Bank (2005) reveals that up to December 31, 2004, the cumulative disbursement of loan of the 352 major NGO- MFIs is $5198.93 million and the outstanding amount of loan of the sector on the same date is $667.79 million of which $46.45 million is overdue. Average recovery rate on the reporting date is 93%. According to CDF (2005) statistics, up to December 2004, the 721 major MFIs have made a cumulative loan disbursement of about $5209.78 million. A significant number of organizations have not yet been able to bring a large portion of their members under the credit program. Overall borrower to member ratio for the industry is 77%. But this percentage varies from organization to organization. Some institutions are found to have borrower to member ratio below 40%. This picture helps us to assume that such types of institutions either concentrates on big borrowers or they transfer their funds to somewhere else instead of micro credit operations.

The average loan per borrower is $60 and the typical size of loan per borrower ranges from $46 to $80. Nine institutions out of 352 have loans per borrower below $8, which seems to be too meager to be invested in revenue generating activities. The report by Bangladesh Bank observed that 13 major NGO-MFIs cover 88% of total sectoral outstanding loan and only 3 very large organizations have 77% of the sectoral outstanding loan.

**Savings**

For almost every MFI, there are now savings opportunities for their borrowers. A large share (30 percent) of the sources of funds for micro-credit now comes from member savings. In BRAC, for instance, a member can save in three ways: own savings, compulsory savings and current account savings. The GB has many savings products that include personal savings, special savings, Grameen Pension Scheme, time deposits, a savings scheme in which the amount deposited doubles in seven years, and fixed deposits with monthly income. The GB’s total net savings now constitute 56% of total microfinance NGO net savings deposits (with 23% of GB’s net savings coming from nonmembers).

Currently, the savings products available in the microfinance NGO sector (for members only) include mandatory savings, special savings, contractual savings, time deposits, and daily savings. There has been conscious effort by Bangladeshi MFIs to mobilize additional local resources through new savings products. ASA and BURO Tangail, in particular have now moved to a regime of more flexible savings products which enable members to withdraw savings.

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9 BB now offers house-building loans to MFIs at the rate of 1 percent per annum to lend to the member of MFIs. The loan size is typically $310 per member.
According to a report by Bangladesh Bank (2005), the total savings of the 352 major NGO-MFIs is $266 million. The average savings per member of NGO-MFIs is $18.5. Out of 352 institutions, only two are found to have savings per member exceeding $154, and one institution has savings per member of $1125. On the other hand, 8 institutions are running with savings per member below $1.6. According to CDF (2005) the net savings of the 721 MFI-NGOs have increased by 13.6 percent in 2004.

The report observed that 20 major players of the MFI sector mobilize 89% of total sectoral savings. Only three very large organizations, which represent 1% of the total sector in number, cover 73% of the sectoral savings whereas 322 small & very small organizations, representing 94% of the total organizations in number, mobilize only 11% of total sectoral savings.

On average NGO-MFIs offer mostly 5-6% interest on deposits from members; a few of them offer more than 7%. Some institutions have already started different term deposit schemes with higher interest rates, which is encouraging saving mobilization in rural areas. GB offers attractive interest rates for deposits; minimum interest rate offered is 8.5 percent and the maximum rate is 12 percent.

**Insurance and Social Services**

Microfinance NGOs in Bangladesh are gradually becoming interested in offering insurance products, particularly life insurance, to their existing credit and savings clients. Interest has been generated following the successful micro insurance experiences of a private sector provider, Delta Insurance. There are various kinds of products offered under life insurance and social services programmes by MFIs. They are health insurance, life insurance, credit insurance, property insurance, crop insurance, etc. For instance, all BRAC members are entitled to life insurance facilities that offer $77 to the family if a member dies. Proshika has Life and Property Risk Coverage Policy (LPRCP) for group members, Economic and Social Security Policy Scheme (ESSPS) which covers housing, education, health and some other facilities for the group members who are the regular savers and Livestock Compensation Fund (LCF) to pay for the loss caused by the sudden death of farm animals and poultry.

**Training/Counseling/ Marketing/ Institution Building:** Some MFIs offer services for business planning & management, entrepreneurship development, basic accounting & cash management, product diversification, innovation, research. Some others offer services in the area of marketing outlay, production center, promotional activities, infrastructure support, while there are some MFIs who work in the areas of group formation, awareness raising, leadership development, linking/networking, information sharing.

**Innovations**

Even with the huge expansion of microcredit in Bangladesh the poor households were struggling to benefit from the standard microcredit model despite joining the programs. To cater for the constraints hindering poor households, some programmes have introduced innovations. These are:

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10 It should be mentioned that members do not have to pay a regular premium for the life insurance facility.
a) introduction of more flexible repayment schedules such as ASA’s Flexible Loan Program.
b) lowering first loan levels so that amounts as small as $8 can be borrowed,
c) a Grameen program that offers zero interest loans to beggars
d) the Resource Integration Center’s program that specializes in offering loans to a specific vulnerable group – elderly poor.
e) various programs that combine food aid with microcredit and training e.g.; BRAC’s IGVD program, and
f) targeting remote areas through for instance ASA’s cost-effective mini branch system and integrated development foundations work in the Chittagong Hill Tracts.

Furthermore, there are several other innovated programs such as: flexible savings and credit, shift towards ‘enterprise loans’, micro-insurance, linking MFIs with formal financial markets\(^\text{11}\), private sector involvement in the microfinance distribution, individual financial products.

Over time, the Grameen model has been copied, modified and attempts made to improve the approach by the major MFIs. The variations to this model, introduced by latter day entrants, have incorporated the introduction of new savings and loan products. The variations in loan products include (1) collection by Proshika and Rangpur Dinajpur Rural Service (RDRS) of monthly instead of weekly installments of GB model. (ii) variations in Association for Social Advancement (ASA)’s loan conditions with the number of weekly installments reduced to 45 spread over the year, and abolition of the group guarantee as well as of the requirement to be presented in weekly meetings at the same time;\(^\text{12}\) (iii) introduction of seasonal loans of three month’s duration by most MFIs, and (iv) provisions for larger micro enterprise loans for specific activities by some organizations such as BRAC, ASA, and the urban, Dhaka-based MFI, the Shakti Foundation

**Providers**

The principal microfinance service providers are usually categorized into four major groups viz. MF-NGOs, specialized institutions, banks and administrative ministries or divisions. MF-NGOs hold the largest share of the market, while GB accounts for about 29 percent (till December 2004) of total disbursement.

The large majority of borrowers (86%) are clients of the handful of large organizations: BRAC, the Grameen Bank, ASA and Proshika (see Table-1). The four institutions combined have over $800 million in outstanding loans and around $380 million in savings. After the “big four”, the next largest NGO (Swarnivar Bangladesh) has 0.7 million clients and there are only ten NGOs who have more than 100,000 borrowers.

\(^{11}\) CDF takes initiatives linking MFIs with the banking sector.
\(^{12}\) ASA’s members are only required to come to a designated place at a specified time each week to conduct their financial transactions.
Table-1: Microfinance Providers and their coverage in Bangladesh

<table>
<thead>
<tr>
<th>Members</th>
<th>No. of borrowers (m.)</th>
<th>No. of active borrowers (m.)</th>
<th>Outstanding loan portfolio (US$ m.)</th>
<th>Member savings (US$ m.)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Big Four:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grameen Bank</td>
<td>3.6</td>
<td>3.95</td>
<td>803.63</td>
<td>212.87</td>
</tr>
<tr>
<td>BRAC</td>
<td>4.5</td>
<td>4.03</td>
<td>237.62</td>
<td>118.87</td>
</tr>
<tr>
<td>ASA</td>
<td>2.7</td>
<td>2.77</td>
<td>196.37</td>
<td>46.2</td>
</tr>
<tr>
<td>Proshika</td>
<td>2.8</td>
<td>1.54</td>
<td>11.55</td>
<td>24.75</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>13.7</td>
<td>12.29</td>
<td>1,249.18</td>
<td>402.64</td>
</tr>
<tr>
<td>PKSF’s other partners</td>
<td>1.7</td>
<td>1.25</td>
<td>46.36</td>
<td>39.24</td>
</tr>
<tr>
<td>Other NGO MFIs</td>
<td>3.9</td>
<td>0.8</td>
<td>54.64</td>
<td>22.19</td>
</tr>
<tr>
<td><strong>Subtotal</strong></td>
<td>5.6</td>
<td>2.05</td>
<td>100.99</td>
<td>61.42</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>19.3</td>
<td>14.34</td>
<td>1,350.17</td>
<td>466.66</td>
</tr>
<tr>
<td>Big Four as % of total</td>
<td>71%</td>
<td>86%</td>
<td>93%</td>
<td>87%</td>
</tr>
</tbody>
</table>


The bottom line is that the majority of the MFIs are small (less than five thousand borrowers) and that the bulk of the access to microcredit is supplied by the four large MFIs. According to data gathered by the Microcredit Summit Campaign, by the end of 2003, Bangladeshi MFIs (including government bodies and commercial banks that offer some form of microfinance) had 21.2 million active clients, some 13.7 million of whom are undoubtedly poor women (Hume 2005).

**Formal Financial Sector**

Formal financial institutions in microcredit delivery in Bangladesh are commercial banks. Among them are the four NCBs – Sonali Bank, Rupali Bank, Janata Bank and Agrani Bank – and two others mainly specialize in agriculture. These agricultural development banks are Bangladesh Krishi Bank (BKB) and Rajshahi Krishi Unnayan Bank (RAKUB). With the pressure from government these banks spread all over the country to expand economic activity targeting poverty alleviation. Some private commercial banks (PCBs) are also involved into microfinance provision. As of June 2005, NCBs and PCBs have provided credit to 2.25 million beneficiaries through direct programs. The cumulative disbursement of loans by these banks by December 2003 was about $150 million.

**Specialized Institutions:**

**Grameen Bank (GB)**

GB was established in 1983 by an ordinance; however, it started its activities in 1976 as an experimental project. Later it expanded the operation by organizing people without assets and providing them credit support for income generation and capital and asset building. It is a specialized microfinance institution giving micro loans especially to
women. At present GB works in 57000 villages with its countrywide 1658 branches and reaching 5.3 million poor, 95 percent of whom are women. From foundation till June 2005, GB has disbursed $3.62 billion, $3.26 billion of which has been repaid and its members have saved $260 million in their savings accounts. The borrowers are to pay, from income generating loans, at a flat rate of 10 percent interest, which would be equivalent to 20 percent in the declining method. To provide financial services to the beggars, GB introduced in July 2002 a special program for them. The Grameen model has been replicated in several countries around the globe.

Table-2: Selected Microfinance Statistics at the National Level

<table>
<thead>
<tr>
<th>Items</th>
<th>Up to December 2004</th>
<th>Up to December 2003</th>
<th>Growth in Disbursement in 2004 over 2003 (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Cumulative Loan Disbursement</td>
<td>% Of Total</td>
<td>Recovery Rate (%)</td>
</tr>
<tr>
<td>1. MF-NGOs (n=721 for 2004, 720 for 2003)*</td>
<td>5209.78</td>
<td>44.42</td>
<td>98.79</td>
</tr>
<tr>
<td>2. Specialized Institutions</td>
<td>3647.67</td>
<td>31.10</td>
<td>99.05</td>
</tr>
<tr>
<td>i) Grameen Bank</td>
<td>3343.29</td>
<td>28.50</td>
<td>97.50</td>
</tr>
<tr>
<td>ii) PKSF</td>
<td>304.38</td>
<td>2.59</td>
<td>97.50</td>
</tr>
<tr>
<td>3. Banks</td>
<td>1938.86</td>
<td>16.53</td>
<td>96.81</td>
</tr>
<tr>
<td>3.1 State-owned/Controlled Banks</td>
<td>1834.03</td>
<td>15.64</td>
<td>96.10</td>
</tr>
<tr>
<td>i) NCBs</td>
<td>1406.81</td>
<td>11.99</td>
<td>94.97</td>
</tr>
<tr>
<td>ii) Agricultural Banks (BKS &amp; RKUS)</td>
<td>354.97</td>
<td>3.03</td>
<td>95.97</td>
</tr>
<tr>
<td>iii) Others (Ansar-VDP Bank &amp; Basic Bank)</td>
<td>72.26</td>
<td>0.62</td>
<td>97.70</td>
</tr>
<tr>
<td>3.2 Private Commercial Banks</td>
<td>104.83</td>
<td>0.89</td>
<td>96.34</td>
</tr>
<tr>
<td>4. Administrative Ministries/Division</td>
<td>933.39</td>
<td>7.96</td>
<td>82.87</td>
</tr>
<tr>
<td>i) Rural Development &amp; Cooperative Division (BRDB, BARD &amp; RDA)</td>
<td>545.19</td>
<td>4.65</td>
<td>91.15</td>
</tr>
<tr>
<td>ii) Ministry of Social Welfare</td>
<td>92.62</td>
<td>0.79</td>
<td>90.95</td>
</tr>
<tr>
<td>iii) Ministry of Youth &amp; Sports</td>
<td>87.68</td>
<td>0.75</td>
<td>84.49</td>
</tr>
<tr>
<td>iv) Others</td>
<td>207.90</td>
<td>1.77</td>
<td>64.89</td>
</tr>
<tr>
<td>Total</td>
<td>11729.71</td>
<td>100.00</td>
<td>9676.20</td>
</tr>
</tbody>
</table>

Source: CDF for item number 1, 2 and Bangladesh Economic Review 2003, 2004 and 2005 (Bangla version), Finance Division, Ministry of Finance for items number 3 and 4.
Note: a. Cumulative disbursement figures reported in the table must be higher because of the existence of many unreported MF-NGOs in the micro finance sector. B. Up to January 2004. c. Up to March 2005.

BRDB

Bangladesh Rural Development Board (BRDB), the largest microcredit provider of the government, has been working in the field of rural development, especially, towards poverty alleviation through cooperatives and non-formal group network throughout the country with the financial and technical support of the Government of Bangladesh and development partners. The target groups of the program include small farmers (holding up to 0.50 acre of land), and women and men without assets. Family planning, health and education programs are also included in the credit and training activities. By 2004 BRDB
has completed 65 microcredit projects targeting groups of small farmers and women and men without assets. Charging interest rates on loans at the rate 15-20 percent on the declining balance method, BRDB has disbursed $520 million to 102,342 cooperative societies/groups and about 3.6 million members up to the FY2003-04.

Table-3: Share of Microcredit in Total Domestic Credit on Bangladesh

<table>
<thead>
<tr>
<th>Sources of Micro credit</th>
<th>Cumulative Disbursement</th>
<th>Annual Disbursement</th>
<th>Share in Total Domestic Credit (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dec-04</td>
<td>Dec-03</td>
<td>Dec-02</td>
</tr>
<tr>
<td>1. MF-NGOs</td>
<td>5209.78</td>
<td>4145.72</td>
<td>3209.52</td>
</tr>
<tr>
<td>2. Specializes Institutions (GB+PKSF)</td>
<td>3647.67</td>
<td>3188.48</td>
<td>2820.20</td>
</tr>
<tr>
<td>3. Banks</td>
<td>1938.86</td>
<td>1528.50</td>
<td>1338.43</td>
</tr>
<tr>
<td>4. Administrative Ministries/Divisions</td>
<td>933.40</td>
<td>813.50</td>
<td>656.85</td>
</tr>
<tr>
<td>Total</td>
<td>11729.71</td>
<td>9676.20</td>
<td>8025.00</td>
</tr>
</tbody>
</table>

Note: Total Domestic credit stood at $17617.25 million and $20765.14 million at Dec 2003 and 2004 respectively.

NGO-MFIs:

BRAC

BRAC, established in 1972 as an NGO, started its microcredit program in 1990. Up to June 2005, a total amount of $2.28 billion has been disbursed as a microcredit to its targeted client’s beneficiaries (98 percent women) in 64 districts through 1373 branches, and the recovery rate is 99.63 percent. As of December 2004, total borrowers of BRAC were about 4.5 million, which is 22 percent of total microcredit borrowers. The member savings of BRAC until December 2004 was $118.9 million. BRAC estimates that it contributes more than 1 percent to the GDP of Bangladesh.

ASA

ASA, established in 1978, started its microfinance activity since 1991. As a minimalist MFI, 97 percent of its more than six thousand employees are engaged in MF activity and its recovery rate is 99 percent. ASA provides two types of loans: small loans and small business loans. Small loans are given to women whose monthly income does not exceed $31 and who possess less than 50 decimals of cumulative land. The initial loan size is $62 to $93 and may increase by $16 to $31 per year. Its small business loan is usually given to men but given to women subject to demonstrating competence in business. At the end of the year 2004, the number of members in ASA stood at nearly 3.0 million. ASA disbursed loans of $1692.05 million by the end of 2004. ASA’s own fund comprised about 30 per cent.
Proshika

Proshika, established in 1976, matches member savings with credit and provides technical and marketing assistance where needed. Initially it fulfilled its social intermediation objectives through group formation and consciousness raising, rather than service provision, but it has moved into the provision of a wider range of social programmes.

Proshika is spread in 23,475 villages and 2,101 urban slums in 57 districts, PROSHIKA now works with nearly 2.75 million men and women members, drawn from rural and urban poor households, and has organized them into 146,798 primary groups with an average 19 members each. As there are on average 1.3 members from each household having 5.5 family members, this translates into over 11.64 million program beneficiaries of Proshika.\(^\text{13}\)

BURO, Tangail

BURO (Bangladesh Unemployment Rehabilitation Organization), Tangail has been involved with innovative microfinance programs since 1991. Today it operates in eight districts in north-central Bangladesh. BURO is renowned for the number of loan products specifically designed to serve its clients. It has various products as: loan and credit products, flexible financial services, flexible savings services, general savings, contractual savings, time deposit savings, flexible credit services, general credit, supplementary credit, line of credit, hand/emergency credit, disaster credit, sanitary latrine credit, tube-well credit etc. As of December 2004, BURO, Tangail have disbursed loans of $74.70 million to its 155,819 borrowers whereas the active members are 265,572. During the same period, it has $11.54 million in outstanding loans and $13.50 million in revolving loans.

CARITAS – Bangladesh

CARITAS started its operation in Bangladesh in 1976. It now works 72 thana (sub-districts) in Bangladesh. At present, it is the sixth largest MF-NGO in Bangladesh in terms of cumulative disbursement, net savings, outstanding borrowers, active membership and revolving loan fund and seventh in terms of outstanding loan amount. As of December 2004, its cumulative microcredit disbursement, net savings, outstanding loan amount and revolving loan fund are $68.87 million, 390.14 million, 699.31 million and 919.878 million respectively. Its total outstanding borrowers are 248,947 and active membership is 347,857 during the aforementioned period.

\(^\text{13}\) Proshika has recently scaled back its service delivery programs significantly following a clampdown on donor funding of Proshika by the government accusations against Proshika for its alleged political alignment with the now opposition party. As a result, the number of microcredit borrowers who received loans in 2004-05 is around 40 percent of the 2000-01 numbers (World Bank 2005).
Society for Social Service (SSS)

SSS was established in 1986 and has since been operating for rural microcredit, urban microcredit, credit for rural enterprise development, agriculture, rural house building etc. As of December 2004, SSS is the 10th and 11th, largest MF-NGO in Bangladesh in terms of cumulative disbursement as well as outstanding borrowers, and in terms of outstanding loans as well as active membership respectively. In this period, its cumulative disbursement is $52.39 million with outstanding borrowers of 106,998 and active memberships of 133,404. Its outstanding loan amounts to $7.30 million and net savings of $3.74 million.

Wave Foundation

Wave foundation is one of the top fifty MF-NGOs in Bangladesh. As of December 2004, its cumulative disbursement is $15 million with net savings of $1 million. Its outstanding borrowers are 40,034 and active memberships are 51,761. Its revolving loan fund is $3.2 million and outstanding loan amount is $2.6 million.

SafeSave

SafeSave was initiated as a research experiment in 1997 to explore sustainable methods for providing individual (i.e. not based on peer groups) financial services to poor and very poor slum dwellers in Dhaka. Female slum-dwellers were employed to make daily doorstep visits to clients. In 2002, SafeSave became a permanent, self-sustaining microfinance institution, and in 2004 reached operational sustainability.

SafeSave remains small – at the end of 2004 it was serving fewer than 10,000 clients, with 76 staff and six branches – and geographically limited to urban Dhaka. In mid-2002 SafeSave established a rural experimental project called *Shohoz Shonchoy* (EasySave) in a remote area northeast of Dhaka. By the end of 2004 Shohoz Shonchoy had over 1,000 clients, and was established as a cooperative from 2005 (SafeSave website).

Thengamara Mohila Sabuj Sangha (TMSS)

TMSS was established in 1980 as an NGO. Its microfinance program includes loans, voluntary savings, training and consulting. It is one of top fifty MF-NGOs in Bangladesh. As of December 2004, its cumulative disbursement was $121.69 million to 284,986 outstanding borrowers and with 777,412 active memberships. During the same time its outstanding loan amount was $17.66 million and its revolving loan fund was $239.58 million.

**Banks:**

Commercial banks and specialized banks are now involved in providing microcredit in a limited scale. Commercial banks have the direct program in addition to the linkage programs with the NGO-MFIs. Under the programs of poverty alleviation, credits are
provided mainly to the landless people and marginal farmers. As of March 2005, seven banks have provided credit to 2.3 million beneficiaries through direct programs. Of the seven, Sonali Bank, Agrani Bank and Bangladesh Krishi (Agriculture) Bank are notable in terms of both number of beneficiaries and disbursement of loan. The cumulative disbursement of all banks is 114515 million by the end of March 2005. The loan recovery rate is about 84 percent.

Administrative Units:

At present there are thirteen ministries and fifteen divisions of the government of Bangladesh that have been carrying out microfinance activities. It is estimated that 15 percent of the clients of the microcredit program have benefited through the program of these administrative units of the government. The cumulative disbursement of loan by these units amounts to $933.4 million by December 2004. The recovery rate is about 83 percent. Ministry of Rural Development and Cooperative provides the highest amount of credit- the cumulative disbursement of the ministry was about $540 million by December 200414.

Funding and Supporting Organization

Source of funds for MFIs

The major sources of funds for MFIs in Bangladesh are internal savings of members, (micro saving, sponsor’s equity), interest and service charge, loans from national agencies (mainly PKSF), and external donor grants. Among several sources of loan, the trend in the external sources of fund for MF-NGOs is declining. The external source contribution decreased from 30.4 percent in 1997 to only 10.7 in 2004. Due to falling in the external source of fund, MF-NGOs are funding by themselves, as in the aforementioned period, their share of funding and their revolving loan has increased from 35.7 percent to 56.57 percent. They managed their funds from the savings of their members.

External sources of Revolving Loan Funds (RLF) have reduced by 2.7 percentages in 2004 from 10.7 percent in 2003. This implies that MFIs are now less dependent on donor funds. Of the total RLF, member savings and service charge constitute more than half, while PKSF accounts for about 17 percent. Loans from local banks have increased in recent years from about 8.3 percent in 2003 to about 12.7 percent by the end of 2004.

PKSF

The Palli Karma-Sahayak Foundation (Rural Employment Support Foundation) was established in May 1990, as a company not for profit under the companies Act of 1913 (amended later). It is now known as an ‘apex organization’, a parasitical involved in

14 BRDB, which is a specialized institution, works under the ministry of rural development and cooperative and accounts almost $0.52 billion of cumulative disbursement of loan out of the total $0.54 billion disbursed by the ministry. BRDB’s loan recovery rate is 96 percent.
loaning out donor and other funds to its partner organizations (POs) for on-lending as microcredit\textsuperscript{15}. PKSF mandate authorizes PKSF management to mobilize funds in the form of grants, loans and contributions from a wide variety of sources which include the Government of Bangladesh (GOB), private individuals and organizations, foreign governments, international donors and lending agencies and capital markets. Because PKSF allocates resources to its POs, the micro lending community regards it as a regulatory agency and it exercises it’s authority over the MFIs\textsuperscript{16}.

In financial year 2003-4, PKSF provided over $58 million in loanable funds to 206 POs: three ‘big’ organizations (ASA, BRAC and Proshika); 195 small and medium ones; and, for the first time, eight ‘pre-PKSF’ organizations. PKSF POs operate in each of the 64 districts of Bangladesh.\textsuperscript{17} This is an exceptionally large number of MFIs in the context of apex bodies in other countries, but there are still well over twelve hundred small MFIs in Bangladesh not funded through PKSF. In 2004 PKSF funds made up about 17\% of the total microfinance industry in Bangladesh. At the same time, PKSF funds made up 24\% of the on-loanable funds available to NGO-MFIs, with 25\% from member savings and 17\% from ‘service charge’ (interest), and only 16\% directly from foreign donors.

PKSF charges differential service charges for its two categories of POs: 7\% for the big POs and 4.5\% for the small and medium POs. It also operates a loan program for capacity enhancement of POs at a subsidized rate of 1\% service. As of February 2004, PKSF has disbursed a total amount of about $ 276.87 million among 4.55 million poor borrowers, about 90\% of whom are women. PKSF’s loan recovery rate is over 98\%.

\textsuperscript{15} Along with the financial assistance provision, PKSF also provides advisory services and training to NGOs for enhancing their institutional capacity.

\textsuperscript{16} For instance, by not allowing the big four NGO MFIs (Grammen Bank, BRAC, ASA, Proshika) to wholesale microcredit lending to small MFIs, PKSF has been able to break the formation of a cartel in microfinance industry in Bangladesh.

\textsuperscript{17} Reflecting the industry as a whole, however, MFI activity is still highly concentrated. There are nine districts where only one PKSF PO operates, and 24 districts with 8 or more POs operating. In Dhaka district, 16 POs operate.
Reference:


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