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Microfinance Institutions and Legal Status: An Overview of the Microfinance Sector in Bangladesh

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Abstract

Although the microfinance sector in Bangladesh is mainly driven by Non-Governmental-Organizations (NGOs), there are other types of Microfinance Institutions (MFIs) that also provide financial services to the poor. Despite the criticism of microfinance programs, the current poverty situation in Bangladesh still requires such programs for consistently battling poverty. Hence, the aim of this paper is to profile the microfinance sector based on their legal status and investigate any possible differences (if any) between them in various aspects. After a thorough investigation of the sector, it was found that around 33 million of the clients are being served by the mainstream MFIs (NGO and Grameen Bank) while another 10-15 million clients are served by other types of MFIs (financial cooperatives, credit unions, various ministries etc.), accounting for the one-third of the total population in Bangladesh. While the mainstream MFIs basically works with poor, other categories of MFIs are concerned with relatively wealthy clients. Looking into the financial performance and social intermediation of the MFIs, the NGO-MFIs performed better than other types of MFIs in the sector.

Keywords: Microfinance, Microfinance Institutions, Non-Governmental Organization, Poverty, Bangladesh.

JEL Classification Codes: D60, G21, I38, O17.

1. Introduction

After observing devastated and struggling life of rural poor in the southern part (Chittagong)[1] of Bangladesh, Professor Muhammad Yunus in 1976 established ‘Grameen Bank’, a modern microfinance provider (Yunus, 2003, 2007)[2]. The fundamental social goal of this institution is to provide financial services[3] to the poor, particularly to the disadvantaged women who have no access to formal financing. With the success of such credit movement, the sector has expanded globally, particularly in the developing countries as a potential development tool to battle poverty. Due to the significant contribution in poverty alleviation, community development and women empowerment through microcredit initiative, Professor Muhammad Yunus received the world most prestigious ‘Nobel Peace Prize’ in 2006 along with his Grameen Bank.

Despite the lack of resources and large numbers of people being under the poverty line, Bangladesh has shown remarkable success in achieving ‘The Millenium Development Goals(MDGs)’ and continued to be a role model for other developing countries. Although the per capita income has not increased much, Bangladesh has managed to achieve 5 out of 8 MDGs status by 2012, three years before the deadline (United Nations Development Program, 2014). The substantial improvement has been done in the areas of poverty alleviation; women’s empowerment, school enrollment, child mortality rate, maternity health improvement and immunization.

Historically, microfinance programs have placed significant impact on such MDGs progress as they have diversified their operations to better outreach to the society (Pronyk, Hargreaves, & Morduch, 2007). There are a vast amount of research that shows the positive correlation between microfinance and women empowerment (Aruna & Jyothirmayi, 2011; Leach & Sitaram, 2002; Swain & Wallentin, 2009), education (Dunford, 2001; Holvoet, 2004) and health (DeLoach & Lamanna, 2011; Geissler & Leatherman, 2015; Leatherman & Dunford, 2010; Moseson, Hamad, & Fernald, 2014). These achievements have further

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1) Chittagong is the commercial capital of Bangladesh and second largest city after Dhaka(capital city of Bangladesh). Due to the geographical location, Chittagong faces severe natural disasters almost every year. The comprehensive discussion of Chittagong can be found in Mia, Nasrin, Zhang, and Rasiah (2015).

2) The situation was exacerbated due to severe unemployment, natural disasters (famine, flood, storm and etc.) discrimination against women in the society of patriarchal and most importantly the usurious interest rates practice by the village money lenders,

3) Initially, the MFIs were only providing credits while the gradual development of the sector incorporated other financial services such as savings, micro- insurance, remittance etc. in their operations.

promoted through non-financial services provided by the MFIs. Thus, it is very important to have a clear idea of the sector for further development and related policy reforms in the industry. This paper is further aimed to help the countries with low levels of socio-economic development for possible replication of microfinance.

This paper aims to provide a basic overview of the microfinance sector in Bangladesh based on their legal status. Considering the different legal statuses of Microfinance Institutions (MFIs), the microfinance services may vary, at least potentially between various types of MFIs. Thus, it is interesting to learn about the MFIs and their differences (if there is any) due to the inherent importance of microfinance in alleviating poverty and their impact on socio-economic development. This study will assist policy makers and concerned authorities to have a glimpse about the sector. A brief overview of poverty situation in Bangladesh from 2000 to 2010 is also discussed to show the importance of this policy intervention continuation. Since microfinance is greatly criticized nowadays as a potential development tool, this profile could reiterate the importance of microfinance as a development tool. While documenting the microfinance sector, it is learned that most of the studies have mainly focused on NGO-MFIs in their analyses. However, this study explores other types of MFIs along with the mainstream MFIs in Bangladesh. Their outreach, financial performance and basic statistics are also comprehensively discussed. Furthermore, we also investigate some financial performance of these different types of MFIs. This may help the donors and financiers to identify their potential recipient of funds.

The rest of the study is organised as follows: Section 2 briefly discusses about the overview of poverty in Bangladesh. Section 3 briefly explains the concept of microcredit and microfinance. Section 4 discusses the existing regulatory framework of microfinance sector in Bangladesh. Section 5 comprehensively discusses the types of MFIs based on their legal status and provide some financial and outreach information. Section 6 concludes the study with some policy implications, limitations and recommendations for future studies.

2. An Overview of Poverty in Bangladesh

It is unequivocally important to take a glimpse of the idea about the poverty situation in Bangladesh to better understand the prospects and importance of MFIs in combating poverty. In view of the multidimensional characteristic of poverty, to consider based on a single measurement or aspect is neither reliable nor unanimously accepted. To better capture the essence of poverty, there are several available poverty measurements; and each method has its own advantages and disadvantages within its context. To simplify our understanding of poverty, we have to rely on the secondary sources of poverty estimates. The poverty status has been adapted from the Bangladesh Economic Review (2014), prepared by the Ministry of Finance, along with the Bangladesh Bureau of Statistics. They have reported three measurements of poverty, namely Head Count Index (HCI), Poverty Gap, and Squared Poverty Gap, which are similar to the World Bank estimates of poverty that are most commonly used in the literature.

The HCI[4] or incidence of poverty is one of the simplest measurement of poverty that shows the proportion of the population that is poor (World Bank, 2015a). The measurement is easy to construct and understand. It is possible to use various poverty lines to estimate incidence of poverty and extreme poverty levels. However, it does not account for or reveal the intensity of the poor, how poor is the poor, and it refers to individuals rather than families or households.

The poverty gap[5] is a moderate measurement of poverty that shows the extent to which an individual falls below the poverty line (poverty gap) as a proportion of the poverty line (World Bank, 2015a). This basically shows how far the people are from the below poverty line to the level above poverty line.[6] This provided information of the distances is so meaningful that we can learn what resources are required to bring the poor to the level above the poverty line. This method is preferable when targeting cash transfer services to eliminate poverty, assuming the transfers are perfectly targeted and implemented. However, it does not represent the changes in inequality among the poor.

The squared poverty gap[7] averages the square of the poverty gaps relative to the poverty line. This measure not only takes into consideration of the distance separating the poor from the poverty line but also indicates the inequality among the poor. This measure lacks intuitive meaning and is not easily interpretable resulting in poor acceptance and usage among the development economists.

Overall, Bangladesh has shown remarkable success in combating poverty, and poverty rate has decreased over the last decade. Based on the HCI, the poverty rate is about 31.5% of the national level in 2010. The poverty rate is high in the rural

4) Following are the mathematical form of measuring HCI:

$$P_0 = \frac{N_p}{N} \quad (1)$$

Where, P_0 is denoted by the HCI, N_p is the number of poor people and N is the number of total population.

5) To measure poverty gap (P1), following is the mathematical formula.

$$P_1 = \frac{1}{N}\Sigma_{i=1}^{N}\frac{G_i}{Z} \quad (2)$$

Where G_i is the poverty gap, z is the poverty line, and N is the total population.

6) The poverty line is estimated based on the cost of basic needs approach. This tells the minimum expenditure required to fulfil the basic needs or threshold consumption needed for a household to escape poverty. A person or households that live below this consumption is known as poor. It can be estimated based on the cost of acquiring enough food for adequate nutrition, particularly 2100 calories per person per day associated with cost of other essential goods (e.g. clothes, shelter).

7) $$P_2 = \frac{1}{N}\Sigma_{i=1}^{N}\left(\frac{G_i}{Z}\right) \quad (3)$$

This is basically shows that the poverty gap is divided by the poverty line, then squared and averaged to get P_2

areas compared to urban areas when all three measurements of poverty are taken into consideration. Subsequently, the national poverty gap has reduced at an annual average rate of 6.3% between the periods of 2005 to 2010 and shows gradual improvement in income inequality among the poor based on the squared poverty gap estimates (Table 1).

<Table 1> Trend of Income Poverty (2000-2010)

	2010	2005	Annual Change(%) 2005 to 2010	2000	Annual Change(%) 2000 to 2005
Head Count Index					
National	31.5	40.0	-4.6	48.9	-3.9
Urban	21.3	28.4	-4.2	35.2	-4.2
Rural	35.2	43.8	-5.5	52.3	-3.5
Poverty Gap					
National	6.5	9.0	-6.3	12.8	-6.8
Urban	4.3	6.5	-7.9	9.1	-6.5
Rural	7.4	9.8	-5.4	13.7	-6.4
Squared Poverty Gap					
National	2.0	2.9	-7.1	4.6	-8.8
Urban	1.3	2.1	-9.1	3.3	-8.6
Rural	2.2	3.1	-6.6	4.9	-8.7

Source: Bangladesh Economic Review (2014).

<Table 2> Division-wise Incidence of Poverty by Head Count Index [8)]

National/Division	2010			2005		
	Using the Lower Poverty Line					
	National	Rural	Urban	National	Rural	Urban
National	17.6	21.1	7.7	25.1	28.6	14.6
Barisal	26.7	27.3	24.2	35.6	37.2	26.4
Chittagong	13.1	16.2	4.0	16.1	18.7	8.1
Dhaka	15.6	23.5	3.8	19.9	26.1	9.6
Khulna	15.4	15.2	16.4	31.6	32.7	27.8
Rajshahi	21.6	22.7	15.6	34.5	35.6	28.4
Rajshahi (new)	16.0	16.4	14.4	N/A	N/A	N/A
Rangpur[9)]	27.7	29.4	17.2	N/A	N/A	N/A
Sylhet	20.7	23.5	5.5	20.8	22.3	11.0
	Using the Upper Poverty Line					
National	31.5	35.2	21.3	40.0	43.8	28.4
Barisal	39.4	39.2	39.9	52.0	54.1	40.4
Chittagong	26.2	31.0	11.8	34.0	36.0	27.8
Dhaka	30.5	38.8	18.0	32.0	39.0	
Khulna	32.1	31.0	35.8	45.7	46.5	
Rajshahi	35.7	36.6	30.7	51.2	52.3	45.2
Rajshahi (new)	29.7	29.0	32.6	N/A	N/A	N/A
Rangpur	42.3	44.5	27.9	N/A	N/A	N/A
Sylhet	28.1	30.5	15.0	33.8	36.1	18.6

Source: Bangladesh Economic Review (2014).

In Bangladesh, there are two types of poverty line measurements, upper poverty line and lower poverty line. The upper poverty line is roughly about 20% higher than the lower poverty line. An understanding the division-wise incidence of poverty is useful in prioritizing policy intervention and resource allocation for the gradual development of the region, particularly the spatial distribution of MFIs to combat poverty. While the division-wise incidence of poverty shows that the affluent areas, particularly Dhaka, Chittagong and Khulna, observed lower level of poverty incidence, the highest incidence of poverty were observed in the northern (Rangpur) and Southern (Barishal) divisions of Bangladesh (Table 2). Hence, prioritizing the policies towards targeting these divisions requires the special attention of policy makers, and microfinance program could be an inevitable choice in this circumstances. Since the poverty level in Bangladesh is still quite high, providing financial services to the poor will add an advantage to create self-employment cum combat poverty in a greater extent.

3. What is Microcredit/Microfinance?

There are subtle differences between microcredit and microfinance. In general, microfinance refers to the financial services, including credit, savings, insurance and remittances tailored to include financially excluded people to meet individual and household's demands (Abdelkader, Hathroubi, & Jemaa, 2014), while the microcredit simply means providing credit to the poor of the society. The initial aim is to cater the poorer by providing loans for new business creation or expansion to promote self-employment and women's empowerment in the rural areas. The microfinance sector puts special emphasize on targeting women as they are mostly neglected in the society of patriarchal. Institutions that provide microfinance services; they are known as MFIs. Despite the original aim of providing financial related services, the MFIs itself can be classified into four different types or categories based on their activities (Viswanath, 2015). The first type of MFI provides credit while the second type of MFI provides financial related services such as credit, savings, micro-insurance, remittance, and etc. The third type of MFI works to enable capacity building in the society, and the fourth type provides social and other development services to the wider clients. Table 3 shows the services offered by MFIs in Bangladesh.

<Table 3> Summary of Financial Products Offered by MFIs.

Credit	Savings	Insurance	Others
Term Loan	Regular/ Compulsory Saving	Health	Mobile Subscription[10)]
Entrepreneurs Loan	Flexible Savings	Life	Mobile Financial Services
Housing Loan	Daily Savings	Property	Inward Remittance Services
Health And Sanitation	Voluntary Savings	Credit	Micro Leasing
Seasonal	Time Deposit	Crop	
Education	Fixed Deposit	Others	
Disaster	Risk Fund		
Consumption			
Loan Top Up			
Mid-Term Loan			
Emergency Loan			
Others			
Islamic Microfinance			

Source: Author's compilation from various sources.

8) Cost of Basic Need (CBN) method has been used to estimate incidence of poverty.

9) Before the formation of Rangpur division in 2010, it was part of Rajshahi Division.

10) Grameen Bank first initiated such mobile services with partnership of Grameen phone, a Telenor company from Norway.

4. Regulatory Framework of Microfinance Sector in Bangladesh

The microfinance sector in Bangladesh has undergone regulatory enforcement, particularly after the establishment of the Microcredit Regulatory Authority (MRA) in 2006. This act is the full-fledged act intended to monitor, control and supervise the microfinance sector in Bangladesh. The setup of MRA came with the global success of microfinance when the microcredit program was declared 'The International Year of Microcredit' in 2005 by the United Nations and Professor Muhammad Yunus and his Grameen Bank claimed the 'Nobel Peace Prize'in 2006. Although the authority was set up in 2006, there are successive historic stories behind the establishment. Initially, in 1997, the Bangladesh bank commissioned a study to examine the viability of regulatory aspects of MFIs and based on the recommendation, a committee was formed in 2000. The committee was in charge of supervising microfinance activities under the direction of Bangladesh Bank. When the government enacted 'Microcredit Regulatory Authority Act 2006', the authority is responsible to bring the microcredit sector under a full-fledged regulatory framework. The original aim behind such an establishment was to create a conducive and healthy environment for microfinance practices across the country. Additionally, the Microcredit Act further provides detailed directions for MFIs to enhance governance practices through prudential policy guidance and to promote competition and stimulate productivity and efficiency for long-term sustainability of the sector (Micro-Credit Regulatory Authority, 2015).

Prior to the formation of the MRA, the microfinance sector was regulated by various acts. Table 4 shows the types of MFIs and the related Acts to regulate and supervise the sector. The microfinance activities of the commercial and state-owned banks are supervised under the Bank Company Act'1991 (with several amendments) while the cooperatives follow the 'Cooperatives Societies Act' established in 2001. The first MFI in Bangladesh, Grameen Bank, follows the 'Grameen Bank Ordinance 1983', which solely prepared for it.

<Table 4> Conventional Laws Related to Microfinance Sector.

Institutions	Conventional Laws
Co-operatives	• Cooperative Societies Act' 2001(Amendment in 2002 and 2013)
State-Owned Commercial and Agricultural Banks.	• Bank Company Act' 1991 (Amendment in 2013) • Directions/instructions from governments. • Circular/instructions/guidance issued by central bank.
Private Commercial Banks	• Bank Company Act' 1991 (Amendment in 2013). • Circular/instructions/guidance issued by central bank.
Grameen Bank	• Grameen Bank Ordinance'1983.
NGO-MFIs	• The Societies Registration Act'1860. • The Trust Act'1882. • The Company Act'1994 • Charitable and Religious Trust Act'1920. • The Voluntary Social Welfare Agencies Ordinance' 1961. • Foreign Donations Regulation Ordinance' 1978. • The Cooperatives Societies Act'2001. • The Microcredit Regulatory Authority Act'2006.

Source: Adapted and modified from Ahmed (2013).

After the Microcredit Regulatory Act' 2006 was enacted, all the NGO-MFIs are supervised based on this act, while other categories of MFIs are based on the respective acts. By the constitutional supremacy, MRA is the only legal entity in the country to monitor and supervise microfinance operational activities. To operate microcredit activities in Bangladesh, each MFI is required to obtain a license from MRA. The authority has the ultimate right to issue/reject or withdraw license if an MFI fails to comply with the requirements set by the authority. Moreover, to ensure the transparency and accountability of microfinance operations and activities, the authority also applies 'carrot and stick'approaches in supervising MFIs. As part of the requirement of the license, individual MFIs are also obliged to report prescribed data twice a year and financial data once a year to the authority, which is later published by the MRA.

5. Types of MFIs Based on Legal Status in Bangladesh.

To understand the nature of MFIs, the following section provides an overview of MFIs in Bangladesh based on their legal status.

5.1. Non-Governmental Organization (NGO)

The microfinance sector in Bangladesh is predominantly controlled by the NGO type of MFIs. Generally, NGO means a non-profit voluntary group of citizens performing several activities with a common interest to better serve the people and society at national and international levels. According to the definition of United Nation (UN), a NGO can be defined as any kind of organization that is not directly under the control of the government given that it is nonprofit, non-criminal and not an opposition political party (United Nations Rule of Law, 2015). The activities of NGO MFIs are funded by individuals, businesses, government and international donor communities. For example, to support the operational activities of worldwide MFIs, almost 1 billion US dollars per year is channeled to subsidize MFIs (Hudon & Traca, 2011). While most of the NGOs were donor driven in the late 1990s, the foreign funded credit programs stood roughly at 3% of total loan outstanding in 2013, a gradual decline since the beginning of the 21st century (Micro-Credit Regulatory Authority, 2015). The common NGO-type MFIs in Bangladesh are Bangladesh Rural Advancement Committee (BRAC), *Proshika,* Association of Social Advancement (ASA), BURO-*Tangail,* Bangladesh Extension Education Services (BEES), Community Development Center (CODEC), Satkhira Unnayan Sangstha (SUS), Thengamara Mohila Sabuj Sangha (TMSS) and Action- Aid. BRAC is the world largest and fastest growing NGO that received numerous global awards and recognitions for their significant contributions to society (The Economist, 2010). Table 5 shows the basic statistics of NGO-type MFIs in Bangladesh.

<Table 5> Basic Statistics of Registered NGO- MFIs in Bangladesh, 2005-2013 [11)]

Indicator	2005	2006	2007	2008	2009	2010	2011	2012	2013
MFI	469	641	344	453	420	516	576	590	649
Branches	7,733	12,156	11,112	13,636	16,851	17,252	18,066	17,977	14674
Number of clients (million)	18.82	22.89	20.83	25.13	24.77	25.28	26.08	24.64	24.60
Loan Outstanding (Billion)[a]	56.06	75.2	85.87	134.54	143.13	145.02	173.8	211.2	257.01
	(0.72)	(0.96)	(1.1)	(1.72)	(1.84)	(1.86)	(2.2)	(2.7)	(3.29)
Savings	21.01	27.64	37.76	47.39	50.61	51.36	63.27	75.21	93.99
(Billion)a	(0.27)	(0.35)	(0.48)	(0.61)	(0.65)	(0.66)	(0.8)	(0.9)	(1.20)

Source: Adapted and modified from Mia and Chandran (2015).
Note: [a]Values in the parenthesis are in US$ at an average rate of US$ 1=Taka 78.10 in 2013 as per (World Bank (2015b)).

5.2. Credit Unions

Credit Unions are sometimes known as savings and credit cooperatives, usually owned and controlled by the members of the credit unions. Domestically, the members are the ones who decide the operational and functional rules unless the lion share is owned and redistributed by the local government or members'cronies. Although the concept of micro financing is not for profit, this type of MFI usually goes for profit in their operation. However, their profit motives are not similar to the formal banking sector as they charge as much as possible for their products to maximize the shareholder wealth. The marginal profit is later either shared or reinvested in the operation to grow the business. Their operation is basically 'community oriented and serve the people than piling up profit.'These credit unions also have regional and national networks for sharing liquidity in case of necessity and other organizational co-movements (Zeller & Johannsen, 2006).There are several institutional advantages of this type of MFI, particularly their ability to serve a large number of clients. Despite the urban oriented depositor and non-poor type of members, surplus units of the member's savings are loaned to the rural poor in a diversified loan schemes that substantially enhances the social outreach program. Furthermore, many of the credit unions also provide non-financial extension services to their clients and non-clients as part of their community development program.

The credit unions in Bangladesh are gradually developing and expanding. The apex organization of credit unions is known as 'The Cooperative-Credit Union League of Bangladesh (CCULB) established in 1979 with only 11 primary credit unions and most of them are from greater Dhaka (CCULB, 2015). Until June 2012, there were a total of 628 credit unions affiliated with CCULB with a membership of 335,312, and accumulated assets over Taka 10.7 billion. Among the top ten credit unions, most of them are Christian dominated, namely The Christian Co-operative Credit Union Ltd., *Nagori* Christian Co-operative Credit Union Ltd., and *Hasnabad* Christian Co-operative Credit Union Ltd are the top three. The initial objective of creating such credit unions was to help the poor by providing them with access to credit, particularly the Christian community in Dhaka during that time. The basic statistics of the top ten credit unions are provided in the Appendix A including their share, deposit, reserve and other funds. Interestingly, the recent example of shifting from MFI to credit union is Caritas Bangladesh.[12)] They started providing microfinance services since 1979 but they finally terminated their loan activities in 2012 due to the piling up of a considerable amount of loans outstanding and portfolio risk (Ashraf, 2014). In general, the credit unions are supervised and monitored by the cooperatives department, Ministry of Local Government, Rural Development and Cooperatives, and the Government of the People's Republic of Bangladesh.

5.3. Financial Cooperatives

Although credit union is a special form of financial cooperatives, there are subtle differences between these two types of financial institutions. Financial cooperatives are given due recognition for their significant contributions to the provision of financial services to the unbanked community of the society. The cooperatives are wholly owned by its members and adhere to the cooperative principle of one person one vote. Usually, they are regulated under the supervision of both banking and cooperative legislation in Bangladesh. Cooperative financial institutions are highly integrated and their management system are locally managed, although the crucial decision must be sought from the central office. The statistics in Table 6 show that the cooperatives in Bangladesh are quite large in number and the majority of them are under the Department of Cooperatives, Peoples Republic of Bangladesh.

<Table 6> Basic Statistics of Cooperatives in Bangladesh (Up to March, 2015).

Description	National Level Cooperatives (cum.)	Central Cooperatives (cum.)	Primary Cooperatives (cum.)	Total
Number	22.00	1160.00	189181	190363
Number of Clients			10333310	10333310
Participatory Capital	420.40 (5.38)	941.60 (12.06)	30948.70 (396.27)	32310.80 (413.71)
Deposit Savings	122.60 (1.57)	2265.40 (29.01)	55886.50 (715.58)	58274.60 (746.15)
Effective Capital	7878.00 (100.87)	11576.30 (148.22)	99547.20 (1274.61)	119001.70 (1523.71)

Source: Department of Cooperatives (2015). Values in the parentheses are in USD and without parentheses are in Taka, million.

11) The table values are excluding Grameen Bank. Although, the figures are only included for registered MFIs, there are several thousand non-registered MFIs are currently operating in Bangladesh which are not included in this table.

12) Caritas is a Latin word. Literally it means "charity" or universal love. This organization was working with Adivasi or Indigenous people in Bangladesh for their socio-economic development.

5.4. State-Owned Commercial Banks

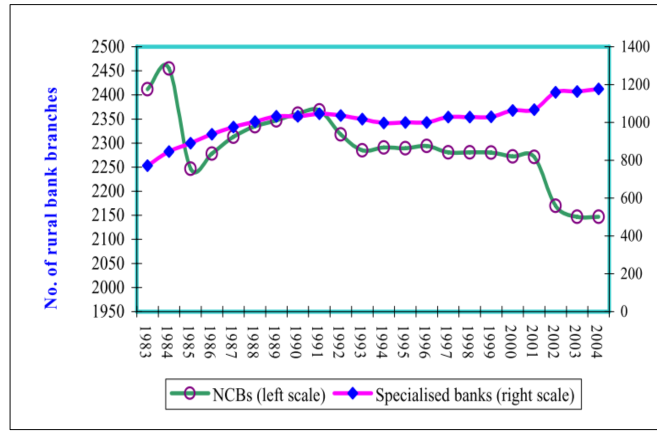
The state owned or National Credit Bank (NCB) and specialized banks were not involved in financing the agricultural credits to rural areas till 1977. Due to the importance of agriculture in Bangladesh GDP and to provide financial services to the marginal and small farmers, these banks started to expand their branches in the rural areas since the early 80s. As a result, notable changes were observed in rural financial market during this time. Entry of new banks, change in legal status and re-orientation of the objectives, and change in banks ownership structure were most prominent (Ahmed, 2013). As part of the financial reform, two banks (Pubali and Uttara) were privatized in 1985 in order to involve the private sector credit in rural development and to revive the agrarian economy of Bangladesh. These state-owned commercial banks played a significant role in providing rural credits, and their performance was satisfactory in terms of financial sustainability as the average recovery rate stood at close to 98% in June, 2014 (Table 7).

However, despite the rapid growth of the branches of NCB in the 80s and early 90s, the growth was slowed down due to the rapid expansion of NGO-MFIs involvement in financing rural agricultural sector (Figure 1). The sluggish growth was further affected by the central bank financial reform policy in early 90's, and they were suggested to close down or merge the loss making branches due to their inherent focus is more on financial sustainability rather than social objective. In contrast, the branch expansion of specialized private banks gradually increased over the period from 1983 to 2004. The example of state-owned commercial banks that provide credit services are provided in Figure 1.[13)]

<Table 7> Basic Statistics of Microcredit Provided by State-owned Commercial Banks.

	upto-2007/08 (cum.)	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	Up to June, 2014 (cum.)
Disbursement	14412.43 (184.54)	16007.70 (204.96)	20149.10 (257.99)	15350.80 (196.55)	23979.90 (307.04)	23330.00 (298.72)	25533.40 (326.93)	268475.20 (3437.58)
Re covery	14436.30 (184.84)	15694.20 (200.95)	15912.00 (203.74)	14851.00 (190.15)	23743.20 (304.01)	232670.00 (2979.13)	25037.90 (320.59)	262868.30 (3365.79)
Rate of re covery (%)	100.17	98.04	78.97	96.74	99.01	99.73	98.06	97.91

Source: Adapted and modified from Bangladesh Economic Review (2014). Values in the parentheses are in US$, and without parentheses are in Taka, million.



Source: Adapted from Ahmed (2013).

<Figure 1> Total Number of Rural Bank Branches by Types of Banks.

5.5. Private Commercial and Specialized Banks

Although the last two decades of 20th century witnessed the entry of first generation commercial banks, they were not engaged in microcredit activities except Islami Bank Bangladesh Ltd. Until recently, while the Pubali and Uttara banks are specialized commercial banks, Ansar VDP is a non-scheduled bank[14)]that provides credit services to the poor of the society. The purely commercial private banks, such as National Bank, Trust Bank and BASIC Bank, also started similar type of microcredit activities to support small medium enterprises (SMEs) and provide seasonal loans. Additionally, BASIC bank also provides finance to the NGO-MFIs activities at very low interest rates as per their Corporate Social Responsibility (CSR). The Table 8 shows the microcredit activities of private and specialized banks in Bangladesh. Interestingly, one of the specialized banks (Uttara Bank) recorded very low level of cumulative recovery compared to other commercial banks, and the rate was far beyond the state-owned commercial banks and microcredit programs of various ministries in general. Additionally, while the main target of NGO-MFIs are women, the commercial banks mainly target men for their microcredit activities. The total number of men being served by the commercial bank are double than their female counterpart.

13) There are total 6 banks, namely, Sonali Bank, Rupali Bank, Agrani Bank, Janata Bank, Rajshahi Krihsi Unnayan Bank and Bangladesh Krishi Bank.

14) The banks which are established for special and definite objective and operate under the acts that are enacted for meeting up those objectives, are termed as Non-ScheduledBanks. These banks cannot perform all functions of scheduled banks.

<Table 8> Basic Statistics of Microfinance by Commercial and Specialized Banks.

	Number of Beneficiaries			Disbursement up to June, 2014 (Mill)		Rate of Recovery (%)
	Male	Female	Total	in Taka	In USD	
Ansar-VDP	685,658	293,853	979,511	20011.10	256.22	97.94
National Bank Limited	1836	31,017	32,853	87783.10	1123.98	95.32
Islami Bank Limited	733,240	165,997	899,237	87558.80	1121.11	N/A
The Trust Bank	14	5940	5954	1334.50	17.09	98
BASIC Bank Limited	300200	70418	370618	4246.90	54.38	98.14
Pubali Bank Ltd.	103875	9046	112921	8044.30	103.00	100
Uttara Bank Ltd.	6445	125910	132355	61389.20	786.03	71.17
Total	1,831,268	702,181	2,533,449	270390.00	3462.10	

Source: Bangladesh Economic Review (2014)

5.6. Grameen Bank

Grameen Bank or Village Bank or Bank of the Poor is one of the most cited and oldest development microfinance models. The Grameen model can be divided into two types, the Classic Grameen Model and Grameen II. The former one was in existence prior to 2000, and the latter one emerged after 2000. Since 2000, the Grameen II model is being extensively used across the developing countries. There are several differences between these two models. Grameen II is a more comprehensive than the classic one, and it needs based microfinance model that emerged based on many lessons learnt from past experiences (Rutherford, 2005). The three main distinctive features of Grameen II are public deposit services[15], extended member deposit services[16] and improved loan contracts.[17]

The basic component of Grameen model is a form of group consisting of five members, where they have mutual binding guarantee in lieu of collateral and most of them are women borrowers. Until now, the majority of Grameen Bank's customers are women since the conventional banking system are mostly anti-women, anti-illiterate and anti-poor in a patriarchal society.

15) Now MFIs are allowed to mobilize deposits from public (even non-member).

16) Comprehensive individual and group savings products are even more flexible than before.

17) Wider range of loan products, loan 'topped up', rescheduling system, no obligation of borrowing and etc. provided additional synergies to the clients. For more details , please see Rutherford (2005).

<Table 9> Key Information of Grameen Bank (in Million USD) (1995-2007).

Particulars	1995	2001	2002	2003	2004	2005	2006	2007
GB's Profit	0.37	1.05	1.03	6.12	7	15.21	20	1.56
GB's Deposit	94.77	127.32	162.77	227.66	343.52	482.92	634.28	758.93
GB's Outstanding	294.77	223.37	218.04	274.04	331.76	427.25	475.74	529.54
Deposit as % of Outstanding Loan	32%	57%	75%	83%	104%	113%	133%	143%
Total Disbursement	333.17	286.96	271.99	369.32	435.1	611.74	726.97	731.49
Cumulative Disbursement	1404.6	3393.45	3667.52	4180.21	4615.31	5227.05	5954.02	6685.51
Members (Million)	2.07	2.38	2.48	3.12	4.06	5.58	6.91	7.41
No. of Villages covered	35,533	40,477	41,636	43,681	48,472	59,912	74462	80678
Employees	12,420	11,841	11,709	11,855	13,049	16,142	20885	25283
No. of Branches	1055	1173	1178	1195	1358	1735	2319	2481

Source: Grameen Bank (2015).

The Table 9 below shows the basic information of Grameen Bank over a decade. It is evident that after establishing Grameen II, its profit has increased almost 6-fold from 2002 to 2003 and the trend continued till 2006. Additionally, the members, coverage of villages, total disbursement and deposit sharply increased even though the employees, number of branches observed a marginal increase after the launching of Grameen II. The most striking findings emerged from Table 9 is that the deposits of Grameen Bank have exceeded its loan outstanding since 2004. This is a very good achievement for Grameen Bank to motivate their clients to save. The innovations of Grameen' s savings services and operational dynamics could be an ideal example for other microfinance service providers in the sector.

5.7. Specialized Credit Programs by Various Ministry of Bangladesh.

The government of Bangladesh has taken special initiatives in fighting poverty across the country. In accordance with this objective, several ministries of Bangladesh, roughly around 17 ministries and departments, run microcredit related programs with the donors driven funds (Alamgir, 2010). Due to the donor driven projects, some of the programs were closed or collapsed when the funding was exhausted. Moreover, the sustainability of such projects were not given due attention because their operations were short term in nature. Also, the consequent portfolio risk, recovery rates and financial viability were very poor compared to the activities of NGO types MFIs. The examples of specialized credit programs funded by the government are *Swanirvar* Bangladesh and RD-12 run by several ministries viz., Ministry of Women & Children Affairs, Ministry of Youth & Sports, Ministry of Social Welfare, Ministry of Land, Ministry of Finance, Ministry of Industry, Ministry of Textile and Jute, Ministry of Liberation War Affairs and etc.

<Table 10> Basic Statistics of Micro-finance Provided by Various Ministry of Bangladesh.

	Upto-2008/09 (cum.)	2009/10	2010/11	2011/12	2012/13	2013/14	Up to June, 2014 (cum.)
Dis bursement	493195.60 (6314.92)	122112.00 (1563.53)	134308.10 (1719.69)	143037.00 (1831.46)	159223.00 (2038.71)	171920.00 (2201.28)	1223800.00 (15669.65)
Recovery	406408.80 (5203.70)	110095.00 (1409.67)	131051.20 (1677.99)	134368.00 (1720.46)	154639.00 (1980.01)	180690.00 (2313.57)	1117259.00 (14305.49)
Rate of recovery (%)	82.4	90.16	97.58	93.94	97.12	105.1	91.29

Source: Adapted and modified from Bangladesh Economic Review (2014). Values in the parentheses are in US$ and without parentheses are in Taka, million.

5.8. What are the Differences between the Types of MFIs?

While almost 33 million of clients are served by the mainstream MFIs (NGO-MFIs and Grameen Bank), roughly around 13 to 15 million of clients are being served by other types of MFIs in Bangladesh. Thus, we could say that almost 50 million of people in Bangladesh are currently being served with various types of MFIs, which accounts almost one-third of the total population. The main distinguishable difference between the mainstream MFIs and other types of MFIs could be the amount of average loans, durations, frequency of payments and financial collateral. While the NGO types and Grameen Banks usually provide small loans with a short term period, most of the commercial, state-owned, financial cooperatives, credit unions and ministries provide larger loans with long term repayment facilities (most of the cases, more than a year). Based on the target groups, it is widely seen that NGO-MFIs and Grameen Bank always try to cater poor group of people in the society, while other types of MFIs basically provide financial services to the wealthy clients.[18] Moreover, some of the MFIs, such as financial cooperatives and credit union, may require substantial amount of collateral against the loan amount while most of the NGO-MFIs and Grameen Bank loans are almost (no physical collateral in most of the cases) collateral free. Since most of the poor people reside in the rural areas, the importance of NGO-MFIs and Grameen Bank are always crucial for providing financial services to them.

Additionally, although the original aim of MFIs is to provide financial services to the poor, there are some MFIs, such as credit unions, also aims to maximize their profit. This may hamper the welfare of the poor as the high interest bearing loans will financially distort their living standards. However, this kind of MFIs is basically target relatively wealthy clients, most of them are basically owner of the formal enterprises. This is one of the main drawbacks of financial institutions whose aim is to earn maximum profits and target wealthy clients rather than the poor with less or not for profit.

After looking into the financial performance of all these categories of MFIs, it revealed that MFIs under various ministries showed the lowest performance in terms of loan recovery rates. This is mainly because of the mismanagement of the funds, lack of expertise and human capitals as well as innovative techniques in delivering the financial services to the poor. While most of the NGO-MFIs recovery rate is around 97-98% (Micro-Credit Regulatory Authority, 2015), the state owned commercial banks also showed quite remarkable performance. However, the Uttara Bank (commercial bank) has observed the lowest loan recovery rates among others and stood at an average of 71%, which is the lowest loan recovery rates in the sector. Thus, they should learn from the respective major microfinance players in the industry to combat low recovery rates and gradually improve their financial performance.

Another distinguishable difference between the mainstream MFIs and other types of MFIs is about the social intermediation. While the former types of MFIs are not limited to provide financial services to the poor clients, but they also work as social intermediation. Qudrat-I Elahi and Lutfor Rahman (2006) defined social intermediation as to organize and raise the voice of the poor for their aspirations and concerns over any policies or issues pertaining to the development of these neglected communities. These MFIs are basically the mixture of different categories of MFIs as classified by Viswanath (2015). For example, they provide financial related services such as credit, savings, micro-insurance, remittance, etc. They work to enable capacity building in the society. Moreover, they also provide social and other development services to the wider clients. However, the other types of MFIs (Financial Cooperatives, State-Owned Bank, and Commercial Banks) are mainly concerned with the financial activities with their clients than the social intermediation. Hence, it is quite important for Bangladesh to foster the growth of mainstreaming MFIs for sustainable socio-economic development of the country.

6. Conclusion

Although in most of the cases NGO-MFIs and Grameen Bank are always in the lime light of the discussion, this study unexplored other types of MFIs currently providing microfinance services in Bangladesh. In aggregate, almost 50 million clients are currently being served with various types of MFIs. However, NGO-MFIs and Grameen Bank are always in the leading position, particularly in providing financial services to the clients. Although there are some differences between the types of MFIs based on their legal status, the fundamental aim of such micro financing activities is to combat poverty. The importance of

18) Generally, poor people require small loans and relatively wealthy clients demand larger loans.

NGO-MFIs and Grameen Bank is very crucial to meet the financial demands of the poor while most of the other types of MFIs preferred relatively wealthy groups of people. Additionally, the social intermediation is one of the crucial activities of mainstream MFIs which is very much neglected in other types of MFIs. Hence, those international donors/financiers, who concerned with good financial performance, outreach and better socioeconomic development of the poor, should have focused on NGO-MFIs due to their inherent success in those aspects.

As we have found that most of the microfinance activities provided by the various ministries of Bangladesh have lowest level of loan recovery rates, they should clearly think whether to continue such activities or not. Due to the huge loan losses (as the loan recovery rates is too low), which would have been created more outreach if it had been properly managed. Thus, the respective authority should concern about solving this issue. They may have channeled the funds through other types of MFIs, which has shown good performance in terms of serving the poor and financial sustainability. Similarly, some of the state-owned banks also showed very poor performance in terms of their loan recovery rates. They have a lack of expertise in microfinance activities as it is not their core business, and they are observed severe financial turmoil in their operation. Hence, they could have learned from the best practice of MFIs in Bangladesh about the operational dynamics of the microfinance. Moreover, despite the critical arguments about the microfinance programs, it remains an important channel for the poor to get access to financial services. As the NGO-MFIs and Grameen Bank closely work with the poor of the society, their services should be further extended to the unreached communities of the society.

The study has provided some insights of the microfinance industry in Bangladesh. However, this study has further raised many questions for further investigation. Future studies may be carried out to empirically investigate the financial performance and outreach of various types of MFIs. Moreover, investigating the operational dynamics of NGO-MFIs to explore their excellent financial performance could help other types of MFIs in various ways.

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Appendix A

<Table 11> Basic Statistics of Top-Ten Credit Unions in Bangladesh (in Taka) (up to 2015).

Name of Credit Union	Share	Deposit	Reserve Fund	Total
The Christian Co-operative Credit Union Ltd.	661,066,241	1,152,670,837	16,446,841	1,116,507,225
Nagori Christian Co-operative Credit Union Ltd.	115,018,780	389,022,592	8,461,236	48,078,232
Hasnabad Christian Co-operative Credit Union Ltd.	6,791,714	304,232,106	2,067,529	45,057,345
Tumilia Christian Co-operative Credit Union Ltd.	89,551,745	179,261,682	3,269,515	30,015,856
Mathbari Hindu Co-operative Credit Union Ltd	5,385,729	233,500,105	1,932,610	24,308,932
Barnali Co-operative Credit Union Ltd.	1,653,700	178,316,754	250,273	34,399,934
Solepur Christian Co-operative Credit Union Ltd.	40,589,355	100,276,727	2,210,226	28,631,121
Bonpara Christian Co-operative Credit Union Ltd	55,033,460	105,802,932	2,878,213	4,383,056
The Morning Star Co-Operative Credit Union Ltd.	3,678,014	120,210,758	5,672,444	33,889,197
Mausaid Christian Co-operative Credit Union Ltd.	43,283,896	100,387,142	0	17,215,762

Source: CCULB (2015).