Microfinance Institutions Inclusions Alleviate Poverty and Create Job Market in Bangladesh.

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***Abstract-* The member-based Microfinance Institutions (MFIs) constitute a rapidly growing segment of the Rural Financial Market (RFM) in Bangladesh. Microcredit programs (MCP) in Bangladesh are implemented by various formal financial institutions (nationalized commercial banks and specialized banks), specialized government organizations and Non- Government Organizations (NGOs). The growth in the MFI sector, in terms of the number of MFI as well as total membership, was phenomenal during the 1990s and continues till today.**

Despite the fact that more than a thousand of institutions are operating microcredit programs, but only 10 large Microcredit Institutions (MFIs) and Grameen Bank represent 87% of total savings of the sector and 81% of total outstanding loan of the sector. Through the financial services of microcredit, the poor people are engaging themselves in various income generating activities and around 30 million poor people are directly benefited from microcredit programs.

Credit services of this sector can be categorized into six broad groups: i) general microcredit for small-scale self-employment-based activities, ii) microenterprise loans, iii) loans for ultra- poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management. Currently, 599 institutions (as of October 10 2011) have been licensed by MRA to operate Micro Credit Programs. But, Grameen Bank is out of the jurisdiction of MRA as it is operated under a distinct legislation- Grameen Bank Ordinance, 1983.

This paper gives an overview (evolution and present status of the market, supply and demand side stories, opportunities for further researches and innovations, and policy recommendations) on the micro-finance market in Bangladesh, often called as the hub of microfinance institutions (MFIs) in the globe. The development of microfinance was based on the principle of financial inclusion of the poor on one hand and the sustainability of the institute on the other hand. The outreach-sustainability trade off could successfully be achieved by proper targeting and better designing of the microfinance products. Earlier several lending methodologies were applied and later on the group-based approach was mostly successful- it is mainly due to the risk reduction from the adverse selection of the households and the moral hazard problem of the incumbent borrowers. Despite the impressive progress in providing financial services, the real impact of microfinance is somewhat questionable mainly due to methodological reason. Some randomized control trial (RCT) experiment could find no impact or little impact on poverty in the short run but inconclusive results in the long run. However, the positive impact of microcredit was widely accepted and it produced a momentum in the rural economy which could have been lost if there were no microcredit operations. Microfinance sector should address some key concerns for its expansion, such as high interest rates, multiple borrowing and indebtedness. More specifically, the following issues should be given more emphasis, namely, creating socio- political environment, easing loan repayment using ICT, flexibility in loan recovery, ensuring sustainability of MFIs, scaling up microfinance, adding-on remittance services and micro insurance, linking with formal financial system and strengthening the regulation and supervision.

Overview of Financial system of Bangladesh
The financial system of Bangladesh is comprised of three broad fragmented sectors:

- ***Formal Sector,***
- ***Semi-Formal Sector,***
- ***Informal Sector.***

The sectors have been categorized in accordance with their degree of regulation. The formal sector

includes all regulated institutions like Banks, Non-Bank Financial Institutions (FIs), Insurance Companies, Capital Market Intermediaries like Brokerage Houses, Merchant Banks etc.; Micro Finance Institutions (MFIs).

The semi-formal sector includes those institutions which are regulated otherwise but do not fall under the jurisdiction of Central Bank, Insurance Authority, Securities and Exchange Commission or any other enacted financial regulator. This sector is mainly represented by Specialized Financial Institutions like House Building Finance Corporation (HBFC), Palli Karma-Sahayak Foundation (PKSF), Samabay Bank, Grameen Bank etc., Non-Governmental Organizations (NGOs and discrete government programs. The informal sector includes private intermediaries which are completely unregulated.

Indexed Terms- Microfinance Institutions inclusions alleviate poverty

I. INTRODUCTION

Bangladesh is called hub of microfinance institutions (MFIs) and many countries across the globe have replicated the model to extend financial inclusion in their respective countries (Hossain and Bayes, 2015). The microfinance market in Bangladesh has gain tremendous exposure in last three decades and it has proved that poor people are credit worthy and they repay loan regularly. The market which was basically credit service only to the poor has added other financial services such as savings, insurance, financial transfers etc. and established itself a dominant institution which works as alternative to the costly informal credits and fill up gaps in the formal credit sector. The development of micro finance was based on the principle of financial inclusion of the poor on one hand and the sustainability of the institute on the other hand. These dual objectives of reaching credit operations to the hard-to-reach households and making the microfinance institution financially viable put the market in a challenging position such as lower operational self-sufficiency (Wahid, Hasan, & Rabbani, 2015). However, the outreach- sustainability trade off could successfully be achieved by proper targeting and better designing of the microfinance products. Banking with the poor requires proper targeting and risk mitigating strategies. In the beginning of the microcredit program in Bangladesh, many lending methodologies were tried and later on the group-based approach was mostly successful. The main reasons of the success of the group-based approach were the risk reduction from the adverse selection of the households and the moral hazard problem of the incumbent borrowers (Armendáriz de Aghion & Morduch, 2005). Apart from proper targeting by the MFIs, the peer effect from the group members and weekly group meeting of members prevents them to become loan defaulters. Additionally, the members also could follow the practice of others and could successfully repay the instalment of the loans. The economics of microfinance remains in the nexus of consumption smoothening and improving the individual and household opportunities in employment, income, assets, health and capacity development. Despite of its positive impact microfinance has been criticized recently almost all over the world mainly by the policy makers because of its higher interest rate than formal banking which contributing to higher indebtedness of borrowers and facing peer pressure of loan collection (Duvendack etal 2011). So, it is worth elaborating to get an overview of the microfinance sector in Bangladesh.

II. RURAL CREDIT MARKET: EMERGENCE AND REVOLUTION OF NGO-MFIS

Rural credit market comprises of formal, quasi-formal and informal credit market. Formal credit market is credit from the commercial banks both public and privately owned and informal credit market is credit from friends, families, local businessman or traders, and traditional moneylenders. Quasi-formal credit market is operated by the microfinance institutions, which works as formal credit in a different outfit than the formal credit.

III. INFORMAL RURAL CREDIT MARKET

The operation of microfinance is not a new term in the rural credit market. It evolved in the form of informal credit to mitigate the needs of the rural inhabitants such as consumption smoothening, medical treatment, festival, education, serving small and medium enterprises, agricultural activities etc. The informal source of credit comprises of relatives, friends, neighbors, shopkeepers and traditional moneylenders (Hollis et al., 1997; Spooner, 1846). Because of the absence of formal credit market or lack of access to formal credit, these money lenders charge very high interest rates which adversely impact the welfare of the borrowers. The popularity of informal credit still prevails because of the easy loan from relatives (form of social networking) and unmet demand for credit from formal credit market. The excess demand for credit and the rigidity of repayment of the formal credit fuelled the sustainability of the informal credit in the economy with high very interest rate ranges from 100% to 120% per annum(Berg, Emran, & Shilpi, 2014).

The formal supply of finance in the rural economy is limited and credit is only available to the rich portion of rural inhabitants. In rural financial market, the non-institutional structure enables the transfer of fund and financial assets through localized transactions in credit and goods and services among the agent of the rural economy such as household, farms, traders, landlords, money lenders, etc. These financial transactions are mostly without paper and written regulation face numerous problem of repayment, fraudulence, commitments that sometimes drive them into acute poverty (Mudahar & Ahmed, 2010). There is always a demand for formal credit market in the rural economy but commercial banks do not expand their activities in rural areas because of screening and high default problem. The classical economic problem of adverse selection and moral hazard constrained formal lenders to operationalize formal rural finance in Bangladesh. The problem of screening and also the fear of loan default specially when there is no collateral drive such lenders out of rural credit operation and only concentrate in urban credit market (Armendáriz de Aghion & Morduch, 2005).

IV. FORMAL RURAL FINANCE

Formal financing in Bengal was started during the British colonization and first Bengal bank was established in 1784 offering credit in many parts of Bangladesh (Shah, Rao, & Shankar, 2007). However, this chapter will concentrate mostly on the last few decades especially after independence (1971) of Bangladesh to learn more about the recent credit history.

V. EXCLUSION OF POOR FROM FINANCIAL INCLUSION

There were only two financial institutions- Bangladesh Krishi Bank (BKB) and the co- operatives that offered agricultural credit between 1971 and 1976. To increase the outreach of credit to the agricultural sector, the Bangladesh government introduced Nationalized Commercial Banks (NCB) in 1976 to cater seasonal crop loans but the operation was limited in many aspects. NCBs targeted the traders and the businesses who could offer collateral against the loan. Many NCBs projects in agricultural loans to the farmers failed due to institutional flaws. They excluded the poor intentionally under their umbrella (Faruqee & Badruddoza, 2011). Private Banks did not extend their loan policy targeting the poor people. There were 844 branches of Bangladesh Krishi Bank (BKB) and 301 branches of Rajshahi Krishi Unnayan Bank (RAKUB) assisting farmers in the rural areas but credit was only given to farmers who offered land as mortgage (Alamgir, 2010). Apart from these two institutions, other organizations such as Bangladesh Samabaya Bank Limited (BSBL), co-operatives land mortgage banks, central sugarcane growers association and Upazilla-cooperative societies etc. provide rural finance. The financial performance of these banks was poor and mostly excluded the poor and hard-core poor (Ferrari, 2008). Despite the substantial increase in the agricultural credit in the last decades, public banks such as NCB, BKB and RAKUB together serves only 50 percent of the total agricultural credit at present. Before the invent of Grameen Bank’s operation all national and commercial banks operated at some scale in rural finance but mostly targeting the non-poor entrepreneurs who had collateral.

In the rural development initiative in Bangladesh, Akhter Hameed Khan, a development practitioner and social scientist, in 1959 launched a program named “Comilla Model” where he involved grass root cooperative participation by the people to stimulate rural development. Mr. Khan found that for rapid development to take place, the region infrastructure especially roads, drainage and irrigation have to be developed which can be maintained by the people themselves. After the tenure of Mr. Khan, the model failed for many reasons. One of the reason was the inability to continue the movement under the leadership of Mr. Khan (Alamgir, 2010). Ineffective internal and external control and also the lack of donor fund caused it fall down drastically.

Although "Comilla Model" failed, it provided some lessons for the practitioners. Muhammad Yunus of Grameen Bank and Fazle Hasan Abed of BRAC (to be elaborated latter) tested this model and they understood that the cooperative model would not work in rural Bangladesh. Following this, the Grameen Bank targeted the poor directly with collateral free loan. The failure of credit operative in rural Bangladesh was mainly due to the large size of the group with heterogeneous economic groups where more affluent members populate the organization (Dowla & Barua, 2006). By 1990s, Grameen Bank and BRAC along with other microfinance institutions (MFIs) dropped the Comilla model and developed a more centralized control and service delivery structure.

VI. EMERGENCE OF GRAMEEN BANK

The breakthrough of Grameen Bank (GB) involved redesigning the traditional system of credit delivery by the national and commercial organizations which only provide credit. However, Grameen Bank broke away from the existing credit delivery system and developed a new organization, which serve the poor with financial services (Alamgir, 2010). The Grameen Bank (Grameen means village in local language) is a result of an action research project of Professor Muhammad Yunus in 1976 when he was trying to adopt a model where poor people can get credit without collateral. The research successfully tested the credit delivery system which was first implemented in "Jobra village" and adjacent villages during 1976-1979. With the help of the central bank and other nationalized commercial banks, the pilot project was extended to "Tangail district" in 1979 and became successful. Later on the project was extended to other districts. In October 1983, the Grameen Bank project was institutionalized as an Independent Bank by government legislation (Alamgir, 2010). Currently, Grameen Bank is mostly owned by rural poor members. In 2006, Grameen bank and Professor Muhammad Yunus were awarded Nobel Peace Prize for its contribution to economics and social development for the poor.

The GB approach is quite different from the traditional banking in Bangladesh. GB implemented some critical steps such as (Alamgir, 2010):

GB targeted poor women who mostly bear the burden of poverty. They select their members from those who had less than 0.5 acre of land and excluded the rich for getting the financial service from GB. The rationale for targeting women was that women repay their loans regularly, invest borrowed fund on productive projects and spend most part of their income on improving the quality of life of family members. Women become empowered by this kind of economic activity and play a vital role in the society.

Instead of providing loans to individual women, GB formed a group of 5 persons and a center of 6 to 10 groups where they based their loan activity.

GB offered collateral free loans but distributed the liability among the group members. The peer-effect among the group members stimulates members to repay more successfully which was the major success of GB.

GB offered small loans manageable by the women and the repayment of weekly instalment with interest rates.

Members do not need to visit the banks rather the banks take the financial services to the poor. Bank staffs visit the members' house on a weekly basis and conduct the necessary financial services to the poor similar to a commercial bank. They made the banking procedure simple and easy to understand for the illiterate poor women. Transactions are mainly done in public to keep the credibility and possibility of corruption. Strong monitoring system is developed among the bank staff members of the bank.

The Grameen approach in reaching the poor with simple methodology attracted many development practitioners (mostly credit operating NGOs) to replicate the mode l (Alamgir, 2010). The dual objectives of the program such as reaching out to the poor as well as making the institution sustainable attracted many NGOs who were already operating many social programs such as education, health, relief and rehabilitation, capacity development to introduce microcredit operations to make their existing programs sustainable. Instead of copying the Grameen formula, they initiated some variations in the model in terms of interest rate, savings operations, loan ceiling, group size, repayment systems, etc. Rather than being restricted to 5 persons group, some offered larger group such as 20 to 50 persons with some flexibility in the repayment schedules. Savings operations in some cases were tied to the loans and there were some savings threshold before disbarment of the loans, but many NGOs relaxed or tightened those options for their own benefits. Loan policy became diverse with different types of loans, different size of loans, successive loans, instalment time and grace repayment periods of the loans (Faruqee & Badruddoza, 2011). Within two decades the NGO-MFIs followed Grameen model with few changes in the modalities and occupied the nation with their many financial services including differentiated products.

- Emergence of BRAC

BRAC (originally established in 1972 based in Bangladesh as Bangladesh Rehabilitation Assistance Committee, latter termed as Bangladesh Rural Advancement Committee), founded by Sir Fazle Hasasn Abed, has developed into one of the world's largest non- governmental development organization (BRAC, 2016b). BRAC vision is a world free from all forms of exploitation and discrimination where everyone has the opportunity to realize their potential with the mission of empowering people and communities with regards to poverty, illiteracy, disease and social injustice. BRAC interventions aim to achieve large scale, positive changes through economic and social programs that enable men and women to realize their potential. BRAC believes that the underlying causes of poverty are manifold and interlinked. BRAC developed support services in the areas of human rights and social empowerment, education and health, economic empowerment and enterprise development, livelihood training, environmental sustainability and disaster preparedness. It operates social enterprises that are strategically connected to development programs, and form crucial value chain linkages, which increase the productivity of members' assets and labour, and reduce risks of their enterprises. To ensure that BRAC continue to be innovative and that its work remains relevant, BRAC has put in place training, research and monitoring systems across all activities and financial checks and balances in the form of audits (BRAC 2016b).BRAC has extended its development activities in 12 different countries in Asia and Africa including one (Haiti) in South America.

- The emergence of Association for Social Advancement

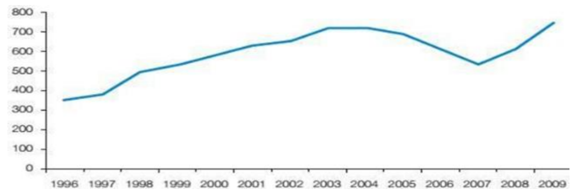
Association for Social Advancement (ASA) founded by Md. Shafiqual Haque Choudhury in 1978 initially serves poor people to organize and empower themselves for their political and social rights (Alamgir, 2010). ASA undertook numerous programs including awareness development for social actions, legal aid program, training program, communication support program, training of rural journalists, etc. ASA conducted operations in health, nutrition, education, sanitation and financial service to the poor people. ASA offered a complete package of microfinance comprising of credit, savings, and mini-life insurance for securing the income of the poor people. ASA has international operation in few countries in Asia and Africa.

- Growth of NGO-MFIs in Bangladesh -Microcredit Regulatory Authority in Operation several hundred of NGO-MFIs are currently operating in Bangladesh (see Table 2 and 4). However, the exact figures are unknown. Many small NGOs operate social activities; disburse loans and deposit saving from their clients. There are many NGO-MFIs without formal licensees. MFIs collect savings and invest the money elsewhere and sometimes may disappear without notice and trace. They also charge high interest rates. This because of monitoring. The Bangladesh Government enacted the Microcredit Regulatory Authority Act in 2006 and the Microcredit Regulatory Authority (MRA) was established in the same year to monitor the microfinance sector in Bangladesh.

The numbers of NGO-MFIs were growing fast from 1996 to 2003 and then remained constant for a year and then declined to some extent (see Error! Reference source not found.). According to the 2009 Bangladesh

Microfinance Statistics, the number of NGO- MFIs in Bangladesh was 745. MRA adopts some cut off point to provide licensees to NGO- MFIs with a minimum of 1000 members and minimum of 4 million taka in loan outstanding. Many NGOs do not meet this criterion and may face extinction in the near future (Faruqee & Badruddoza, 2011).

Figure 1. Number of NGO-MFIs in Bangladesh from 1996 to 2009



Source: Bangladesh Microfinance Statistics, adopted from (Faruqee & Badruddoza, 2011)

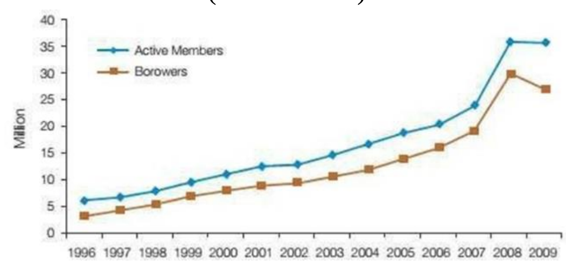
- Role of Palli Karma-Sahayak Foundation

The Palli Karma-Sahayak Foundation (PKSF), an apex organization for wholesale selling of microfinance established by the government, started its operation in Bangladesh in 1990 with the aim to alleviate poverty with employment creation by providing subsidized funds to MFIs (http://pksf-bd.org/portal/). PKSF disburses funds to MFIs whom they call Partner Organizations (PO). At present there are257 POs in PKSF, which offer subsidized wholesale credit to conduct financial services among the poor in the rural areas as well as in the urban areas. Among many other specialized program of PKSF, Rural Microcredit (RMC), Urban Microcredit (UMC), Microcredit for Entrepreneurship (ME), Microcredit for Ultra-poor (UPP), Agriculture Sector Microcredit (ASM), Seasonal Loans (SL) etc. are the prominent operations.

- Size of the Market and Operations

The microfinance movement in last three decades gained most vibrant and effective strength for financial inclusion of the excluded poor. Microfinance worked as a primary agent of financial inclusion of the bottom group in the country and also has been leading other nations to follow. MRA regulates the sector to establish transparency and accountability of the NGO-MFIs in the country and ensuring required infrastructure to foster the growth of the sector (MRA, 2014). The success stories of the many MFIs inspired other MFIs to flourish and expand the outreach. They have increased their average loan size and steady growth of borrowers, which helped them to achieve financial viability in the market (see Error! Reference source not found. The growth of active members and borrowers move together in the same pattern. Active members are those who have savings and other financial services from the MFIs and the borrowers have both savings and loans from the MFIs. After 2001, there is a sharp increase in both memberships and borrowings. Steep increase in the number of active members and borrowers has been observed in 2007 and 2008 (see Error! Reference source not found.). From 1999 to 2009, microcredit member increases from 11.79 million to 35.71 million. In the same period, borrowers increased from 9.25 million to 27.05 million which implies a healthy growth rate (MRA, 2011).

Figure 2. Number of NGO-MFIs in Bangladesh (1996 to 2009)



Source: Bangladesh Microfinance Statistics, adopted from (Faruqee & Badruddoza, 2011)

The 20 MFIs constitute 90% of the microfinance sector (MRA, 2014). Table 1 shows thee characteristics of the microfinance sector in Bangladesh. Until 2013, a total of 650 NGO- MFIs were registered with MRA. There are 14,674 branches of NGO-MFIs in operation as of 2013 and almost 110,734 employees work directly in the sector (see Table 1), which serves a total of 24.6 million clients throughout the country. The growth of loan disbursement is quite impressive until 2012 although it declined in 2013. Previous microcredit loan disbursement was limited mainly to small scale non-farm business activities and thus there was no evidence of providing agriculture loan by NGO-MFIs which has increase in recent years. The members' savings play a vital role in mobilizing rural credit, which contributes almost 37% of the loan outstanding in 2013(MRA, 2014). The loan recovery rate is very impressive over the years which close to 98% in 2013 (see Table 1).

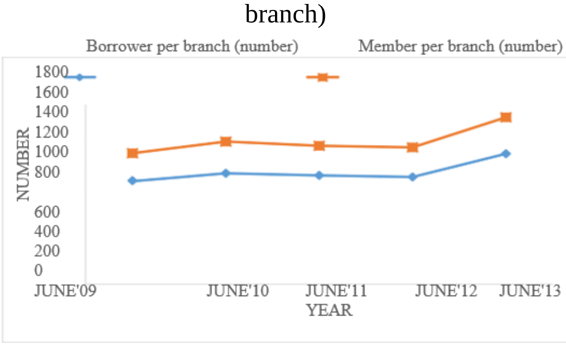
Table 1. Microfinance Sector in Bangladesh (Licensed NGO-MFIs)

Particulars	June' 09	June'10	June'11	June'12	June'13
No. of Licensed NGO-MFIs (provided valid data)	419	516	576	590	650
No. of branches	16,851	17,252	18,066	17,977	14,674
No. of employees	107,175	109,597	111,828	108,654	110,734
No. of clients (million)	24.85	25.28	26.08	24.64	24.6
Total borrowers (million)	18.89	19.21	20.65	19.31	19.27
Loan disbursement (Tk. Billion)	261.18	306.72	303.18	456.02	432.28
Agricultural loan disbursement (Tk. Billion)	-	-	93.63	110.84	131.98
Amount of loan outstanding (Tk. Billion)	143.13	145.02	173.79	211.32	257.01
Agricultural loan outstanding (Tk. Billion)	-	-	59.36	66.71	89.05
Amount of savings (Tk. Billion)	50.61	51.36	63.3	75.25	93.99
Loan recovery (Tk. Billion)	-	280.78	271.83	314.11	375.07
Recovery rate (%)	97.93	97.35	95.52	97.74	97.69

Source: MRA-MIS database 2013, adopted from (MRA, 2014).

Figure 3 shows a declining trend in members and borrowers from 2010 to 2012. After 2012, there is a sharp increase in both members and borrowers. The number of borrowers in 2012- 2013 boosted the loan outstanding by almost 50%, which is an excellent growth (see Error! Reference source not found.). The savings rate also increased which also fuelled the loans to grow further (MRA, 2014).

Figure 3. Growth of Members and Borrowers (per branch)

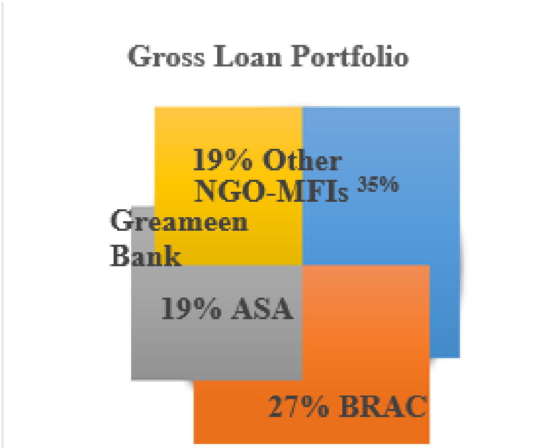


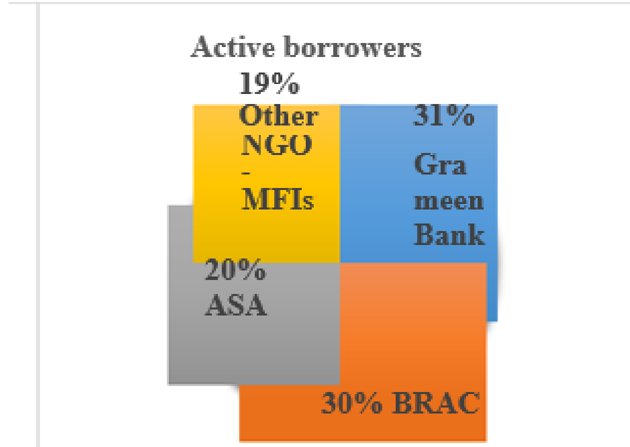
Source: MRA-MIS database 2013, adopted from (MRA, 2014).

Bangladesh microfinance market share. These institutes started their operation pretty early and still dominate the microfinance market (Alamgir, 2010). They have both the most loan portfolios and borrowers. Error! Reference source not found. Shows the percentage of market share the large MFIs hold in Bangladesh in terms of gross loan portfolios and number of active borrowers. Grameen Bank assumes 35% of the share in terms of gross loan portfolio and 31% in active borrowers. This is followed by BRAC whichassumes27% of the share in terms of gross loan portfolio and 30% in active borrowers. ASA secured the third position in market share assuming almost 20% in both categories. Other NGO-MFIs assume 19% of the market in both categories in 2009 (see Error! Reference source not found.).

Figure 4. Market Share of MFIs in Bangladesh in 2009

Gross Loan Portfolio		Active borrowers	
19% other NGO/MFIs'		19% other NGO/MFIs'	
	35% Grameen Bank		31% Grameen Bank
19% ASA		20% ASA	
	27% BRAC		27% BRAC





Note: Figures based on the data mixed market of 28 largest MFIs that covers more than 90% of the microfinance market.

Adopted from (Faruqee & Badruddoza, 2011).

The Microcredit Regulatory Authority classified the NGO-MFIs in Bangladesh based on the number of borrowers. The classification of NGO-MFIs is shown in Table 2. The very small NGOs are those with borrowers up to 10,000. On the contrary, the very large MFIs are those with borrowers more than one million. The large NGO-MFIs constitute almost 76% of total loan outstanding of the market in 2013 (see Table 2).

Table 2. MFIs Loan Outstanding Based on Borrower Size (as of 30 June 2013)

Categories	Range Borrowers	ofNo. of MFIs	No. of borrower	Total loan outstanding (BDT million)	% of total outstanding
Very small	Up to 1000	171	135130	1,831.37	0.71
	1001-2000	165	232729	1,955.97	0.76
	2001-6000	123	436916	3,962.65	1.54
	6001-10000	42	322254	3,765.44	1.47
Small	10001-50000	105	2374418	26,809.01	10.43
Medium	50001-100000	22	1588952	22,735.43	8.85
Large	100001-1000000	20	5722781	71,403.24	27.78
Very large	1000001-Above	2	8452815	124,546.89	48.46
Total		650	19265995	257,010.00	100

Source: MRA-MIS database 2013, adopted from (MRA, 2014).

Apart from the Grameen Bank, the top 20 MFIs play the lead role in microfinance market in Bangladesh. BRAC has the highest cumulative loan disbursement followed by ASA (see Table *3*). Buro Bangladesh, TMSS, JCF and SSS are also large MFIs with major cumulative loan disbursement.

Table 3. Cumulative Loan Disbursement of Top 20 MFIs in Bangladesh (in Billion Taka)

Name of MFIs	2009	2010	2011	2012	2013
BRAC	394.35	469.46	544.39	642.12	754.77
ASA	305.08	377.49	454.96	549.58	645.76
Buro Bangladesh	23.6	33.38	44.87	58.14	80.25
TMSS	31.11	38.71	48.45	60.3	74.94
JCF	12.77	17.29	25.29	34.65	45.73
SSS	19.23	24.78	32.01	41.48	53.88
Shakti Foundation	13.2	18.33	26.93	29.24	34.27
Uddipan	9.27	13.15	17.76	23.5	30.36
Padakhep	8.34	11.1	14.62	20.04	24.71
RDRS	8.82	10.79	13.48	16.65	20.06
PMK	7.67	9.77	12.31	15.27	18.83
Caritas	10.38	11.72	13.91	16.42	19.16
CDIP	3.72	5.44	7.97	11.22	15.11
Sajida Foundation	4.9	6.85	9.11	12.34	16.1
CSS	2.92	4.18	6.99	8.58	11.4
RRF	7.05	8.59	10.82	13.17	15.76
RIC	4.25	5.66	8.26	11.01	14.1
POPI	5.89	8.28	9.21	11.32	13.76
DSK	5.26	6.31	8.24	10.56	14.46
Total	918.86	1124.35	1354.64	1632.93	1953.03

Source: MRA-MIS database 2013, adopted from (MRA, 2014).

- Supply Side: Innovations in the Sector over Time

Since the last three decades, the microfinance sector in Bangladesh continuously innovates new products for the members. The MFIs compete with each other to capture more shares in the market and attempt to achieve sustainability in the long run (PKSF'2014). The competition is in three areas-location, product and price. Almost all MFIs have several products in the market, which are almost homogenous. The modalities and model is very close to each other but differs in terms of target group, repayment schedule, repayment grace period (flexibility), loan size, loan purpose, interest rate and savings products (Faruqee & Badruddoza, 2011). The MFIs segment the market in terms of poverty and occupational groups and designed the loan and savings products to reasonably meet the demand of different groups. The segmentation of the market is based on demand driven financial products, for example, loans, savings, insurances, etc. keeping the demand of the target group in mind. For instance, in designing a product for the hard core poor or ultra-poor the MFI keeps in mind that the money is required for personal consumption first and then they use parts of the loan amount to income generating activities. They do not save regularly and they withdraw their savings at any time. Thus, an MFI should design the product such as 1) no minimum savings amount; Savings can be deposited and withdrawn at any point of time; 3) loan is not tied to savings; and 4) loan repayment should start after few weeks later than the regular loan repayment dates (Alamgir, 2010). Thus, MFIs segment the market based on the need of the needs of the target group. Besides the variations in the credit products, MFIs also offer credit plus services to the members such as health services, capacity development training, technical services, total development projects, etc.

The variation in the MFIs products also differs in terms of selecting target groups, loan modalities, loan ceilings, purpose of loan, loan repayment schedules, flexibility in repayment grace period, innovations in the saving products, etc. In addition, many specialized programs (such as PRIME) which are offered by the multinational donors or international research institutions are also carried out by the NGO-MFIs in Bangladesh (PKSF, 2014). As a result, the microfinance market in Bangladesh is diverse and consistently comes up with new innovations. Table 4 shows the basic products are offered by most NGO-MFIs. For example, Table 4 shows PKSF's partner organizations (POs) implemented the entire core products over the years. Most MFIs target hard core poor or moderate poor in selling their loans. POs get wholesale loan from PKSF with subsidized price and then distribute those loans to their members/clients with higher interest rate between10% to 15% annually (effectively almost 30% per annum) (Rashid, 2011). The effective interest rate is 30% because MFIs use a flat rate calculation, not declining balance method. Following MRA regulated policies, the MFIs calculate their loans based on the declining balance method because this method produces effective lower interest which helps the borrowers in regards to their repayment capacity (MRA, 2014). Programd Initiatives for Monga Eradication (PRIME) and Learning and Innovation Fund to Test New Ideas (LIFT) are the two kinds of specialized program mainly funded by donors designed for ultra-poor households.

Table 4. Mainstream Programs Conducted by Various MFIs of PKSF in Bangladesh

Name of product	modalitie s	target group	loan amount (BDT)	Year of inception by PKSF
Ultra-poor program	group	hard core poor	500-5,000	2004-05
Regular Microcredit	group	Moderate poor	5,000-30,000	1990-91
Urban Microcredit	group	Moderate poor	5,000-30,000	1998-99
Microenterprise program	group/ individual	moderate poor	25,000-500,000	2004-05
Agricultural seasonal loan	group	marginal farmers	10,000-50,000	2006-07
Programd Initiatives for Monga Eradication (PRIME)	group	hard core poor	2,000-10,000	2006-07
Learning and Innovation Fund to Test New Ideas (LIFT)	group	hard core poor and Moderate poor	2,000-50,000	2006-07

Source: PKSF Annual Report, 2014. (PKSF, 2014).

Besides the regular program of PKSF by the POs, Table ***4***also shows other specialized programs such as:

- SUFOLON-Agriculture Sector Microcredit (ASM) started in 2008-2009
- Finance for Enterprise Development and Employment Creation (FEDEC) Project started in 2008-2009
- Enhancing Resources and Increasing Capacities of the Poor Households towards Elimination of their Poverty (ENRICH) started in 2009-2010
- Developing Inclusive Insurance Sector Project (DIISP) started in 2010-2011
- Bangladesh Climate Change Trust Fund (MCCTF), started in 2012-13
- Livestock Unit and Agriculture Unit started in 2013-2014
- Social Advocacy & Knowledge Dissemination Unit started in 2013-2014
- Results-Based Monitoring (RBM) Unit started in 2013-2014

Compared to other microfinance providers in Bangladesh, BRAC seeks to understand the heterogeneous needs of the poor and design microfinance services accordingly. BRAC's microfinance program offers diversified financial services to poor people who are unable to access mainstream banking services. It uses its wealth of expertise in other areas of rural development, for example, agriculture, education and health to innovate financial services that meet the specific needs of different groups. These include products tailored for rural poor and urban women, landless and land-holding farmers, migrant workers, and small entrepreneurs (BRAC 2016c). One such loan product is microcredit for tenant farmers with customized credit program aimed to develop lives and livelihoods of the tenant farmers, who were neglected by formal banking and mainstream NGO-MFIs for many years and to contribute to the country's agricultural farm productivity and food security status (Malek et al. 2015).

With BRAC, clients are able to access savings products and loans from between USD 100 – 10,000. BRAC seeks to ensure that clients can get the most out of its products. To support borrowers, BRAC has invested in supply chains and marketing infrastructure so that supply of products from microenterprises can reach the market (BRAC 2016c). In addition, each microfinance product integrates a set of financial education and client protection measures into its services to help safeguard against risks for the clients. BRAC is committed to a stringent monitoring and evaluation process. All BRAC microfinance projects are piloted, evaluated and revised before being presented to more than 2,000 branches in all 64 districts in Bangladesh. Since BRAC is a social impact-driven organization, the success of its microfinance program is measured according to the effectiveness of its projects in delivering social goods. Financial sustainability of BRAC microfinance products enables it to deliver more effective products and services, and offer more benefits to the clients. BRAC believes that financial services are not enough to achieve sustainable poverty reduction. BRAC's microfinance program represents one component of BRAC's holistic approach to development. It is designed to complement other interventions such as education, healthcare and legal aid, and all microfinance clients are encouraged to make use of these services. BRAC also successfully innovates microfinance products are not suitable for everyone especially for the ultra-poor. Therefore, it operates a separate program 'Targeting the Ultra Poor program (TUP)' for the most vulnerable which comprises of asset transfer, training and follow-up, known as BRAC graduation approach, which is now a globally accepted model for the up-liftment of ultra-poor (Banerjee etal., 2015).

Like BRAC, ASA and other NGO-MFIs in Bangladesh exhibit almost the similar kind of products in the market but with different names. These products differ in terms of target groups, loan amount, credit plus financial services. There are competitions among the NGO- MFIs in terms of differentiated products so that each MFI can obtain maximum share from its operation. These differentiated products can be classified into main four domains where MFIs operate. These are financial services, non-financial services, capacity building and management, and product quality improvement and marketing (PKSF, 2014). Table 5 shows the classified products under these four domains.

Table 5. Innovations in Microfinance Sector in Bangladesh

Financial Service	Non-financial service	Capacity building & management	Product quality improvement & marketing
Emergency loan	Group formation	Skill and vocational training of members for both farm and non-farming activities	Promotion of their own products

Flexible microcredit	Primary healthcare services	Workshop for income generating activities	Promotion of new agricultural technology
Disaster management credit	Technical assistance program for IGA	Disaster management	Value chain development service
Savings products	Technical assistance program for IGA	Advocacy for women empowerment	Management training programs
Micro-insurance product	Scholarship for education	Cash for work	Promotion of solar energy

Source: (PKSF, 2014)

- Funding of MFIs

Source of funding is a critical issue for MFIs because it involves financial sustainability of the institutions. Heavily dependence on donor funds for a lengthy period affects the sustainability of MFIs. Although most MFIs depended on donor funds with a subsidized rate, the dependence is reduced greatly. Today donors' fund contribute only 2.64 percent of the total funding on average. Error! Reference source not found. Shows that donor funds has been on a decline every year. This include loans from PKSF. The sector is now becoming more financially sustainable because the main source of fund comes from their cumulative surplus and from clients' savings. Funding from commercial banks and other sources of funds now play a constant role for financing MFIs in Bangladesh in last five years (MRA, 2014).

- Operational Self-Sufficiency

Financial sustainability is an important for MFIs to operate in a competitive market. To ensure the sustainability of MFIs, most MFIs try to remain viable in their operations in terms of operational self-sufficiency (OSS) and financial self-sufficiency (FSS). OSS measures the MFIs ability to cover the operation and financial cost from their operating incomes. On the contrary FSS is the measure of MFIs' ability to cover operating cost from their income after adjusting for all types of subsidy, loan loss provision and inflation (Wahid et al., 2015). As MFIs in Bangladesh become more self-financed and the dependency of subsidy is reduced to a great extent, we concentrate our analysis only on OSS. OSS is the ratio of operating income and cost where operating income is the sum of loans and investments. Costs comprise of operating cost, loan loss provisions and financial costs. OSS is measured with a reference value of 100% where cost equals income and the MFIs are operationally self-sufficient. But if the values are less than 100% then it is not operationally self-sufficient meaning the operating cost is higher than income (Wahid et al., 2015). Error! Reference source not found. Shows the OSS of major MFIs in Bangladesh and the average top ten MFIs. Some major MFIs in Bangladesh such as Buro Bangladesh, Padakhep and RDRS exhibit OSS with less than 100%. The sectorial average (based on 576 MFIs) is 102.88%, which implies that the MFIs in Bangladesh are operationally self-sufficient. This is also true for the top ten MFIs showing OSS at 113.89%.

Figure 6. Operational Self-Sufficiency of Major Microfinance Institutions in Bangladesh (in percentage)

SL	Particular	Amount
01.	Average of 576 MFIs	102.88
02.	Average of top ten MFIs	113.89
	RDRS	99.07
	Padakhep	92.67
	Uddipan	103.12
	Shakti Foundation	118.07
	SSS	118.25

	JCF	135.87
	TMSS	105.58
	Buro Bangladesh	95.93
	ASA	159.26
	BRAC	111.09

Source: MRA-MIS Database 2011, Adopted from (MRA, 2011).

- Effective Interest Rates of Microfinance Institutions

Interest rates of microfinance sector are being criticized since the start of the sector. NGO- MFIs started their operations to fill the gaps between the commercial banks and the traditional money lenders who serve the poor with higher interest rates based on a flat rate method (Faruqee & Khalily, 2011). A flat rate method is the sum of loan amount and the interest amount divided by the number of instalment. A major problem of the flat rate system is that the nominal interest rate could be a higher effective interest rate. This happened due to factors such as frequency of loan repayment instalment, grace period (flexibility of deferring the instalment date), various fees, and other charges (insurance, forced savings, etc.). For example, a nominal interest rate of 10% for a principal of BDT 1000, generates an effective interest rate (EIR) of 25.1% conditional on no grace period and 44 instalments. But if a grace period of 4 weeks is allowed, then the EIR becomes 22.3% (Faruqee & Khalily, 2011). A commission consisting of members from Institute of Microfinance (InM), MRA and PKSF proposed some regulations for setting EIR which were recently approved by the monitoring agency, MRA. The regulations include (Faruqee & Khalily, 2011):

- Maximum effective interest rate set at 27% annually and the calculation of interest rate should be based on a declining balance method.
- The minimum number of instalment week for loan repayment must be 46 weeks for general loans.
- A minimum grace period of 15 days to be applied between loan disbursement and the first instalment.

Higher effective interest rate (EIR) is not only a problem in for MFIs in Bangladesh but also globally. Most MFIs claim that they have to cover costs to reach areas where the ultra-poor risk is high. Thus, doing business with the poor requires higher returns on their loan assets. However, with competition in the market and regulation from the monitoring agencies MFIs are forced to lower their interest rates to some extent (Islam, 2012). Error! Reference source not found. Shows the annual effective interest rate of 25 POs of PKSF in different products. The urban and rural microcredit program including microenterprise have EIR greater than 30 percent. A major reason is that the number of instalments is changed to monthly rather than weekly. If the number of instalment is 48 or 52 weeks, then the EIR is higher but if 12 then it is lower. When the loan products interest rate is set monthly or semi- annually the EIR declines sharply. The lowest EIR is 23.91% for the ultra-poor program (see Error! Reference source not found.).

Figure 7. Effective Interest Rate (EIR) charged by 25 POs of PKSF in 2011.

Urban Microcredit	32.35%
Rural Microcredit	32.05%
Microenterprise (weekly payment)	31.59%
Agriculture	28.46%
Seasonal	26.68%
Microenterprise (monthly payment)	26.65%
Ultra Poor Program	23.91%

Source: PKSF (2014)

Demand Side: Credit Utilization, Determinant Influencing Accessibility of Microcredit by Rural households in Bangladesh and Impact on Rural Lives and the Economy

- Demand for credit

The demand for credit by people is to smoothen their consumption by borrowing and pay back when there is surplus. Credit demand in the rural households is mainly to support their income generating activities such as farming, non-farm activities, small business, etc. In addition, households need credit to support their consumption during a crisis period, to finance the extra expenditures such as marriage, rituals and health related shocks. Both covariate and idiosyncratic shocks deviate the households from their regular consumption pattern requiring more financial and non-financial assistances (Hasan, 2014). Mostly friends and relatives help in this regard. However, the assistance from kinships is inadequate and hence the demand for credit is an inevitable part of most households. As discussed earlier the commercial banks could not provide loans for many reasons and the advent of microfinance played a vital role for the poor people. The MFIs in the rural economy contribute a significant portion to the national economy. MFIs help to reduce poverty and empower women. MFIs also contribute for children education and capacity building training for the adults. When household members go to MFIs and ask for credit, they ask for higher credit than what would get. Thus, there is a higher demand credit than the supply of credit available (Alamgir, 2010). Despite having an influx of NGO-MFIs in Bangladesh, there is still a large number of credit providers by informal sources, which indicates the higher demand of microcredit from formal sources are inadequate or unmet.

Apart from demand for credit, another financial product which plays a vital role for both MFIs and the members is savings. Savings is now the major source of MFIs' internal funding. A household can be a member of MFIs with some savings such as micro savings. MFIs collect small savings weekly and sometimes they also offer micro-insurance product tied to loans. Previous studies show that poor households can also save even if they have very limited amount of money for consumption (Islam, 2012).

- Multiple borrowing of microcredit

Households demand for credit not from one MFI but from several MFIs. Although MFIs strive to increase their business most often they fail to assess the loan application of incumbent borrowers (who also take loans from multiple MFIs) which adversely affect the quality of their loan portfolio. This is because the borrowers put themselves in the risk of higher defaulters. Many borrowers borrow from multiple sources where loans are misdirected. Sometimes borrowers do not use the borrowed amount for the stated purpose. Misused of loans together with loans from informal sources put the borrower into a debt trap. Thus multiple borrowing is not encouraged by MFIs because the borrowers cannot pay back some of the loans from multiple sources (Khalily & Faridi, 2011). The main reasons for multiple borrowings are due to loan ceiling for specific loan purpose from MFIs, higher enterprise loan demand from the borrowers, and different interest rates for different loan products. Sometimes MFIs also induced members to take loans in the name of other members of the family just to increase their business. Error! Reference source not found. Shows the rate of multiple borrowing overtime by households as well as the individual member of households in Bangladesh. In recent years the rate varies from some 40% to 50%.

- Credit utilization

Loans should spend on the stated purpose(s) by the households but most often that does not happen. There are many reasons behind this such as higher demand for consumption loan, emergency loan and some extra expenditure such as health, marriage, rituals and bribes, etc. MFI documents the intended purpose of the loan but most often they are unable to trace where the money is spent (Rashid, 2011). As money is fungible in nature it is quite impossible to trace which money is spent on a specific purpose. Critics say that MFIs mainly target functionally landless households (having 50 decimals of land) and thus credit is mostly used for non-farm activities. However, using Mahabub Hossain (MH) 62 village panel dataset, Hossain and Bayes (2015) find that microcredit is also being channeled to pursue agricultural activities. One recent study by Malek etal (2015) find that the customized microcredit program for the tenant farmers' loan has been used mostly for agricultural purpose (about 60%).

Based on the 2009 Bangladesh Microfinance Statistics, it is recorded that a substantial amount of money is under "other category" which comprises of consumption loan and other diversified loan purpose which varies among MFIs. The second large category is the small business and farming loans (see Error! Reference source not found.). The actual use of loans by the households' shows that most loan amount is being spent on lumpy expenditure (21.46%) and farming (16.74%). Small business, livestock, loan repayment, bribes and others exhibit the same amount (almost 10%) in the total use of MFIs loans (see Error! Reference source not found.).

- Determinants of MFIs participations

Microfinance products in Bangladesh are diverse and different microfinance products target different income group ranges from ultra-poor to middle income entrepreneurs. Different products have different eligibility criteria for access to that particular credit. For example, for ultra-poor program the eligibility criteria is household having less than 50 decimal of land or household is a day laborer or household earns less than BDT 3000 (PKSF, 2014). Thus, any household having any of these criteria are eligible to get credit from MFIs. Other products such as regular microcredit and other products also assess the required eligibility criteria for providing loans.

- Impact of microfinance

Microfinance plays an important role in rural economy especially it revolves the fund of rural savings and loans which add values to the rural GDP as well as the national income. Besides, MFIs impacts on many aspects of rural lives such as (1) financial inclusion; (2) poverty alleviation; (3) promotion of savings and investments; (4) women empowerment; and 5) human capital formation (Rashid, 2011).

- Financial inclusion

Microfinance enables the excluded poor to access financial services. Poor are capable of handling financial services from MFIs. In Bangladesh almost 77% of the households have access to some kind of financial services such as credit, savings or insurances and 43.23% of the household have access to MFI services (Khalily & Khaleque, 2011).

- Poverty alleviation

Poverty is a multidimensional facet and microfinance role in poverty alleviation only works through the channels of household and individual characteristics. Employment creation, income generation, asset accumulations, education and capacity development, and production of health are the main contributing factors by microfinance. Hossain (1988) used Grameen Bank microcredit borrowing households and counterfactual households to test the income differences and found that microcredit participants have 28% higher income than the non- participants in the same village. Using the same kind of methodology Khandker (1998) uses 1991-1992 World Bank-BIDS survey data found that households located in the microcredit program villages could increase their average production over 50 percent. Similar result was found by Kerr (2009) which showed that microcredit participation could increase output per unit of labor for non-farm enterprises. The positive effect of microcredit on entrepreneurships and employment among the individuals and households are documented in the literature. For example, credit given to female participants in Grameen Bank raise the household labor supply significantly (Pitt & Khandker, 1998). Women productivity in work has increased because of credit plus services such as training and other technical assistance service provided by the MFIs (McKernan, 2002; Nussbaum, 1999; Zaman, 1998b). Studies have found that microcredit could mitigate the root causes of vulnerability (Zaman, 1998a). It is important to use the loan amount in productive purposes (Khandker, 1998; Roodman & Morduch, 2009). Even taking loans for consumption purpose could help households by reducing the distress sale of assets during crisis time (Osmani, 2011).

- Promotion of Savings and Investment

MFIs collect savings and give loans and the impact of savings is huge for both the MFIs and borrowers. MFIs could reduce the dependency on informal credit market through the accumulation of rural savings and enabling households to borrow from this quasi-formal market. Khandker and Chowdhury (1996) using data from Grameen bank, BRAC and BRDB showed that microfinancecould generate positive impact on savings and assets accumulation. Current savings of participants are significantly higher than the non-participants. Household spend the accumulated savings in investment especially in housing, transportations, and livestocks. Rahman (1996) showed that the higher the number of loans taken from MFIs the higher the capital assets the borrower has.

- Women empowerment

Major role of microfinance lies in the empowerment of women through some income generating activities and plays as a vital agent for theory of change. Microfinance recipients are mostly women (above 90%) in Bangladesh who brings both material and non-material changes to households as well as to the society. Previous literature on microcredit criticizes that woman borrow but men control (Goetz and Gupta 1996) however, Malek et al (2015) challenges this proposition by explaining the control of women over how loans are invested, as demonstrated in a number of cases in the evaluation of a targeted credit program for the women tenant farmers in Bangladesh. The impact of microfinance on women empowerment has also been analyzed in numerous studies and found that access to credit could raise women's power inside the households (Hashemi, Schuler, & Riley, 1996; Zaman, 1998b). It is also found that the prevalence of domestic violence against women in the microcredit borrowing households tend to decrease with the length of the women membership with microcredit

- Impacts on human capital formation

MFIs have major roles in human capital formation through enhancing productivity in Bangladesh. Some MFIs provides non-formal primary education to children of the poor households. Many MFIs offer training and workshops in income generating activities besides technical assistance programs. The role of MFIs in formation of human capital is documented revealed in studies such as Rahman (1996), Hossain (1998), Khandker (1998) and, BIDS, (2001). These studies discussed the increased in school enrolment, child immunization, use of sanitary latrines, and contraceptive prevalence. However, Islam and Choe (2013) find that hou*sehold participation in a microcredit program may increase child labour and reduce school enrolment- this may be due to additional pressure on households to earn additional income for paying regular instalment of microcredit.*

CONCLUSION

Microfinance institutions can be found in almost every place in Bangladesh. Besides MFIs, nationalized commercial banks and commercial banks are also providing microcredit. MFIs have additional roles in disseminating microfinance and credit plus services. The new terminology "Financial Inclusion" is popular in recent microfinance literature. Today, MFIs target poor people with not only credit but also credit plus services which could enable them to manage their credit and lift them out of poverty. Although there are innovations in product designs and modalities in microfinance, still many households are not targeted and they depend upon informal lending. Poor households sometime do not like microcredit because of their rigidity in repayment schedules. More innovation is required in this regard. It is necessary to know how much credit can change the fate of poor people and how avoid to become defaulters. Therefore, designing appropriate products with different target groups is the key to further success in this sector. Although microfinance market in Bangladesh and the world has attained impressive progress in providing financial services to rural poor, the real impact of microfinance is somewhat questionable. This is mainly because of methodological issues (Bunting 2011). The rationale behind this logic is that the participants in the microfinance are self-selected and the program is introduced in a specific area based on the needs. Thus the results of most of the empirical studies and quasi-experimental studies suffer from selection bias. However, the recent experimental evidences regarding microcredit programs, such as Banerjee, Karlan, & Zinman (2015), Angelucci, Karlan and Zinman (2015), Crépon et al., (2015), Augsburg et al., (2015), Angelucci, et al., (2015), and Attanasio, et al., (2015) found no impact or little impact on poverty in the short run. The main reason might be the small credit could help the poor to start their business but they need to sustain the business with higher amount of enterprise loans to make a visible changes and therefore, they need longer exposure to microcredit (Islam, 2012). But randomized control trial (RCT) analysis with long exposure is not cost effective and also difficult to implement. Thus the long run impact of microfinance is inconclusive in the microfinance literature.

Nevertheless, the empirical studies show statistically significant result of microcredit on poverty reduction, employment generation, asset accumulations, women empowerment, and mobility of household members, reduced vulnerability and also increase total consumption. But these studies cannot truly measure the extent of the impact that is generated by the microcredit itself. However, the positive impact of microcredit is widely accepted and it produced a momentum in the rural economy which could have been lost if there were no microcredit operations. Osmani (2015) categorically made two strong conclusions: firstly, there is hardly any other intervention that has been able to bring 1 out of 10 beneficiaries out of poverty anywhere in the world. Secondly, the benefit of microcredit goes well beyond the number of people it manages to pull above the poverty line. The discourse on microcredit should move forward. Instead of taking rigid positions on the efficacy of microcredit in general, the protagonists should focus attention on the details of how microcredit can be made more useful for the poor. Apart from that, it is important to see the impact of microfinance in comparison with government assisted programs and the financial components of MFIs themselves. As the product of MFIs are diverse and they also offer credit plus services such as training, technical assistance program, primary health care services, etc. it is a very difficult task to isolate each of these components to identify the impact. It would be also interesting to see some synergies and trade off among the financial services are offered by the MFIs. Besides, cross country analysis of microfinance is also important to test replication of success stories. Research on MFIs sustainability and financial viability is extremely important. As of now in Bangladesh, MFIs are tax exempted but if government introduce tax on MFIs then what impact it has on MFIs performance remains a topic for the policy makers.

POLICY RECOMMENDATIONS

Although the microfinance program in Bangladesh exhibits impressive progress, this sector should address some key concerns and create some favorable socio-political environments for its expansion. Among the key concerns are the high interest rates, multiple borrowing (overlapping loans), and indebtedness of the poor. For the further development of the sector, special emphasis should be place on creating a socio-political environment, easing loan repayment using ICT, flexibility in loan recovery, ensuring sustainability of MFIs, scaling up microfinance, add-on remittance services and micro insurance, linking with formal financial system and strengthening the regulation and supervision of MFIs. (Faruqee & Badruddoza, 2011). Interest rate is an important factor for the microfinance sector as well as the policy makers. It should be legitimately cover operating cost in an efficient way. Transparency and uniformity in the interest rate calculation such as declining balance method is highly desirable. Regulators should also aware of those MFIs who charge very high interest rates and take necessary steps to address this issue. Besides interest rate, multiple borrowing is a critical issue which is caused by several reasons such as inherent terms and condition of the loan, repaying existing loans, excess demand for loan for managing projects, etc. Multiple borrowing of loans sometimes put the households over indebtedness and become loan defaulters. Several innovative steps can reduce the extent of multiple borrowing such as establishing credit bureau/data base, harnessing the credit policies, restructuring the loan amount and repayment methods, and a proper information system to screen the application. With regards to the problem of Indebtedness, MFIs should scrutinize the credit application and the credit records of the incumbent borrower based on his or her ability to repay the loan. Pro-active measure should be taken into account to tackle this issue.

National policies of financial liberalization is important for sustaining the evolution of the microfinance sector. The principles should be such that credit decision must be made without political interferences. Ensuring property rights, legal administrative support for securing the transaction are needed for the benefit of the financial sector. An independent bank regulatory and supervisory authority should strongly monitor the sector.

At present the microfinance sector is practicing inadequate use of information technology. It is important to upgrade the financial accounting system to internet based system and the MIS software should be available at the rural branch level. To efficiently manage and reporting to the regulatory authority it is important to use management software at the local level. Borrowers should also expose to mobile banking and repayment of loan through mobile banking system so as to reduce transaction costs. It will also ensure the proper documentation and credibility between the borrowers and the MFIs. Apart from loan repayment, mobile phone applications could be used for deposit savings, premium for micro-insurances and remittance services.

Ensuring sustainability of MFI is an important for the financial sector of any country. Financial sustainability depends on several issues such as management efficiency, portfolio quality, lower operating cost, etc. MFIs should mobilize their own resources efficiently rather than depend heavily on donor funds. Besides, scaling up microfinance sector could help attain financial sustainability because of economies of scale. Catering to the need of poor should be given the priority. Innovation for designing new products should be the rule of game for the microfinance sector.

The microfinance sector is not recognized as a formal financial system and only target the low income people, particularly the rural poor. It is becomes a complex situation when commercial banks and state owned banks provide micro financing the people. Instead of having two credit system operating separately, it would be better to integrate the two system for proper managing and monitoring of credit allocation. Strengthening the supervisory body such as Microcredit Regulatory Authority (MRA) can facilitate and supervise the sector efficiently.

Financial inclusion is the new era of economic and social development. MFIs should not concentrate only on operating loans and savings but also on other financial services such as differentiated savings accounts, micro-insurance, enterprise development assistance and enabling support services such as training and marketing, welfare support such as basic literacy, health services, gender and social awareness training, and disaster management training. Group platform, for example, village organization, needs to be more functional to coordinate all grass root level activities.

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