National Convention on

Towards Poverty Alleviation and Social Development: The Role of MFIs

October 18-19, 2014

Palli Karma-Sahayak Foundation (PKSF)

Microcredit Regulatory Authority

Institute of Microfinance (InM)

National Convention on

Towards Poverty Alleviation and Social Development: The Role of MFIs

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Message

Dr. Qazi Kholiquzzaman Ahmad

Chairman

InM and PKSF

Poverty is multidimensional. It cannot be eradicated or sustainably reduced towards its eradication by focusing on growth of income alone, and certainly not through any one dimensional approach such as microcredit. Poverty affects life in all its facets; poor asset base, lack of access to capital, poor level of consumption, poor health, dismal sanitation, lack of education and skill training, lack of basic infrastructural facilities, powerlessness, lack of opportunities for cultural advancement, and an overall shortage of social capital are among the multiple manifestations of poverty.

Hence, the measurement and understanding of poverty, of necessity, has to be based on its multidimensionality. This basic reality is now gradually dawning upon scholars and organizations dealing with poverty; and they are, therefore, gradually seeing the critical need for measuring poverty not only by income or consumption alone but by taking into account a much larger set of dimensions and indicators. In this approach, it is possible to consider the deprivation relating to each indicator under each dimension as well as the overall poverty computed as an index by combining the deprivations in respect of the dimensions and indicators included, by using appropriate weights. This index is called the multidimensional poverty index (MPI).

The UNDP with the help of Poverty and Human Development Initiative at Oxford University (OPH1) first published MPIs for 104 countries in its Human Development Report of 2010, and has since been doing so and also increasing the coverage of countries. In this measurement, three dimensions, namely, health, education and living standard and 10 dimensions, two each under health and education and six under living standard are used. Under living standard, such basic aspects as access to clean water, toilet, and electricity; and the kind of floor a house is built on are included along with income. The figures published in 2010 show that MPI poverty in the countries included in the measurement is 21% higher than the (PPP) $ poverty.

In the case of Bangladesh, the level of poverty when measured by basic needs, which is essentially an income-based measure, is down to an encouraging 26%. However, it is 43% when measured on the basis of PPP$1.25 the per capita per day income. Moreover, when multidimensionality (using 14 indicators) is taken into account, the number of people below the poverty line has been found to be a staggering 57% in northern part of the country. The Bangladesh Bureau of Statistics (BBS) has initiated a project for multidimensional poverty measurement for the country. It is a welcome initiative.

The Micro Finance Institutions (MFIs) in the country, particularly those that are Partner Organizations (POs) of the PKSF, are generally expanding the action programmes to addressing different dimensions of poverty (education, training, health services, insurance of livestock being the most common) directly in addition to providing microcredit.

It is now widely known that microcredit, even microfinance (credit, insurance, savings) alone cannot help reduce poverty much. Many MFIs in the country have by now woken up to the reality of multifaceted nature of poverty. Decades back, offering small credit of a few hundred or one or two thousand Taka to the poor families was considered to be the panacea. The mindset continued until some years ago, although some MFIs have also provided some other services including education and health related assistance. But now, more and more MFIs, mostly PKSF POs, are, at the instance of the PKSF, getting out of that mindset and targeting various aspects of the life experiences of the poor towards finding effective exit routes out of poverty.

Thus, PKSF's ENRICH programme, being implemented in 43 unions in different parts of the country, is a holistic, integrated approach to poverty reduction/eradication and human development.[1] Out of a list of key aspects, four crucial ones, namely, Health, education, nutrition, and social awareness raising programmes are being introduced in another 100 unions. All PKSF POs are required to spend 10% of their annual surpluses on social development activities. Many have reached the target; some even do more. Others are working towards fulfilling the target.

The amount of money disbursed by all the MFIs of the country has increased very substantially over the years. At the same time, an individual entrepreneur can now access up to one million Taka in terms of one loan from a PKSF PO, if they have viable projects of high potential.

As the sector grew without proper oversight by any agency, commercialization began to creep in and, then, to flourish as the sector expended fast from the mid-1990s. High interest rates of between 35% and 50% were common and there were other ways of squeezing money out of the micro borrowers, while it was the stated purpose of the sector to help them address their poverty-constrained situation.

In order to bring an order into the sector and oversee the sector's activities, the Microcredit Regulatory Authority (MRA) was established in 2006. It took a few years before the MRA could be fully functional. In 2001, the MRA took some important decisions including capping the rate of interest at 27% on a declining balance method. However, PKSF POs were charging 25% even before the capping, which has since

remained in force. It appears that most MFIs, particularly the major ones, comply with the MRA's regulatory actions, particularly relating to the rate of interest. However, reportedly, there are new issues arising among some MFIs, which smack of commercialization and profiteering. These need to be properly studied for guidance relating to necessary regulatory steps to be taken if need be. It is necessary to strengthen the MRA so that it can monitor all MFI activities properly.

The Institute of Microfinance (InM) over the past few months has moved from one administrative division of the country to another and engaged with both the MFIs working in particular divisions and the borrowers and other service receivers there to gauge the level of success and/or the causes of failure to deliver the promised services. The MRA and the PKSF have also joined in this learning process, the culmination of which is this National Convention. Here, over two days, the borrowers and both the field level functionaries and the managers of the MFIs will freely discuss their experiences in the presence of scholars and experts in the field, representatives of development partners, politicians and the national policy makers. The results of the deliberations will be converted into policy recommendations that may be useful in the context of proper future development of the sector.

I appreciate the efforts of the InM, the PKSF, and the MRA in putting together this Convention as well as their hard background work undertaken over the past several months, and wish the Convention a grand success.

[1]For details on PKSF's ENRICH programme see ENRICH: A Holistic Approach to Household-focused Poverty Eradication, Palli Karma-Sahayak Foundation (PKSF), Dhaka, September 2014.

Message

Professor M. A. Baqui Khalily

Executive Director

Institute of Microfinance (InM)

Bangladesh has experienced a remarkable transformation from ''bottomless basket'' to the 37th largest economy of the world. It is aspiring to be middle-income country in next few decades. Both incidence and the depth of poverty have decreased. The achievements in food security are incredible. Starvation is now considered as a stigma of the past. Literacy rate and life expectancy have increased significantly over the past decades. There has been improvement in gender equalities and women empowerment. Most importantly, Bangladesh has made remarkable advancement in

deepening financial inclusion. Poor households have access to financial services and non-financial services because of expanded network of services of the micro finance institutions (MFIs).

Over the past 30 years, micro finance has been an extraordinary policy success for poverty alleviation in Bangladesh. In this long journey of three decades, we have witnessed significant changes in its nature, outreach, scope and scale. Around 700 licensed MFIs with network of 20,000 branches and 200,000 staffs offer services to some 25 million clients with loans outstanding of Tk. 348 billion and net savings of Tk.152 billion. It now disburses around Tk. 560 billion. The journey that started with financing survival-based income generating activities now finances 'growth based' economic activities. The journey that started with credit only now extends over to insurance and non-financial services including health, education, nutrition and training. The journey that started in rural areas now extended to urban areas. The journey that relatively started with moderate poor now extended to extreme poor households. More than 50 per cent of the extreme poor households have been brought under the network of MFIs. The journey that started with voluntary approach now operates with 'sustainability' approach. These institutions have contributed to social development and women empowerment.

Despite the outstanding achievements of microfinance sector, there has been information-gap among the policy makers, development practitioners and researchers. Consequently, different stakeholders have different perspectives. In most cases, misperception exists about the role of MFIs in Bangladesh in poverty alleviation and inclusive finance. We need to remove these misperceptions. In a dynamic world, the role and behaviour of MFIs will change. But changes should come in light of future challenges. It needs to be discussed. The National Conference, organised by InM, PKSF and MRA, has been designed to bring together policymakers, bureaucrats, researchers, social elites and politicians to clearly understand the role of MFIs in social development and poverty alleviation. By improving the level of communication and identifying future challenges of the microfinance sector, both government, politicians, non-government MFIs can work together or at least compliment the efforts of each other to contribute to the process of developing a poverty-free Bangladesh. Let us all work together with this mission.

I express my gratitude to PKSF and MRA for jointly organising the convention. Thanks to the colleagues in InM, PKSF and MRA for their support, hard work and cooperation. I deeply acknowledge the contribution of the Chairman and members of the Governing Body of InM in organising this great event.

I wish the National Convention a grand success.

Message

Khandakar Muzharul Haque

Executive Vice Chairman

Microcredit Regulatory Authority (MRA)

Regulatory Environment, Funding and Capacity Building these are the three crucial issues of the microfinance sector in Bangladesh. For these issues three organizations are responsible; they are Microcredit Regulatory Authority (MRA), Palli Karma-Sahayak Foundation (PKSF) and Institute of Microfinance (InM). It is heartening to see that for the first time these three organizations are jointly organizing a National Convention on microfinance on 18 and 19 October, 2014 styled "Towards Poverty Alleviation and Social Development: The role of MFIs".

Poverty is a word very much acquainted with at least 26% of the population of the country. The absolute number is still horrifying. Government, NGOs, NGO-MFIs, regulators, funding agencies, banks and financial institutions all are frantically trying to reduce the poverty to a minimal. Our vision primarily is to 'see poverty free society' or poverty in 'some pockets only' when nation celebrate its 50th independence in 2021. The three major organizations of the microfinance sector viz., MRA, PKSF & InM in line with those organizations are complementing each other in order to achieving a transparent, accountable and thus a compliant microfinance sector aiming to integrate itself to the mainstream financial sector.

MRA and PKSF have been bilaterallyworking together since establishment of MRA. Even prior to commencing operations of MRA, PKSF extended full supports to the cause of regulatory environment towards creating the regulatory body, MRA. On the otherhand MRA and InM were created at an identical time. Since creation of these two organizations they have been working together on many issues. Their working relationship has been strengthened in recent years through signing of a MoU by these two organizations.

Now the present Convention is an outcome of the tripartite arrangement, which is one of our committed joint actions towards understanding the multiplicity of microfinance sector, sharing our experience and envisioning our future direction. The Convention will create a joint platform for regulators, funders, researchers, MFIs, partners and other stakeholders at large to disseminate their ideas, experience, expertise and discuss problems & potential which will facilitate joint actions where necessary for the development of the sector.

It is our pleasure of being one of the organizers of this event and I express my gratitude to PKSF and InM for their cooperation and support. I am also thankful to the honorable guests, chairs, speakers, presenters, panelists and participants of the Convention. Their invaluable suggestions and insightful contributions will certainly provide us future direction for the sector.

I wish the two-Day National Convention all success.

Message

Md. Abdul Karim

Managing Director

Palli Karma-Sahayak Foundation (PKSF)

It is a matter of great pleasure that Palli Karma-Sahayak Foundation (PKSF), Institute of Microfinance (InM) and Microcredit Regulatory Authority (MRA) are jointly organizing a National Convention on "Towards Poverty Alleviation and Social Development: The Role of MFIs". The contribution of MFIs in social development and poverty alleviation is enormous. This national conference will help to understand and analyze the role of Microfinance Institutions (MFIs) in socioeconomic development of Bangladesh and design appropriate strategies for the MFIs to broaden their scope of operations.

Bangladesh is a country of vibrant MFIs which have been working since 1970s. Traditional development approach of the MFIs was to provide small amount of loan (microcredit) to the targeted poor people for undertaking any income generating activities. Microcredit has been accepted in the developing countries as an effective tool for poverty alleviation. However, microcredit alone is not enough to ensure the expected pace of overall development of any country. Considering the importance and relevance of social issues in the development process, MFIs have encompassed social aspects in their development endeavors. With the supports of MFIs, poor people in the rural and urban areas have become more aware in the economic activities and in the social issues as well. PKSF, over the years, has gained in-depth understanding and valuable experiences on multi-dimensional aspects of poverty. Adding new dimension in its mission in 2010, PKSF reshaped its core goal as "instituting human dignity" instead of limiting its efforts towards achieving economic freedom only and started undertaking new programs and projects for attaining this goal. Core programs of PKSF include- Inclusive Financial Services (financing the moderate poor, ultra poor, micro-entrepreneur, small and marginal farmer), People-centered Holistic Development Program, Enterprise Development Programs (Business Development Services, Value Chain Development and Technology Transfer), Social Protection Programs (Disaster Management, Micro-insurance and Climate Change Adaptation) and Capacity Building Programs of MFIs.

PKSF, InM and MRA have been playing a crucial role to broaden the horizon of development activities of the MFIs. These three organizations have been providing many resources and capacity-building supports to the MFIs to improve their capacity for implementing programs with new ideas and concepts. PKSF and its Partner Organizations (POs) have come out of the traditional approach of microcredit by expanding their focus to need based financing and combining financial services with other non-financial technical services, which in turn has expedited the development process.

Bangladesh has made remarkable headway in poverty reduction and socio-economic development in recent years. Success of the country has been recognized by the international community. MFIs of the country have an immense contribution in this success. The contribution of MFIs in social development and poverty reduction needs to be evaluated properly and it is the right time to do this. I hope the national conference will help the concerned people take necessary measures in this regard.

Convention BACKGROUND

Poverty alleviation is no longer limited to providing funds for implementing microcredit programs only. For sustainable poverty alleviation both financial and non-financial services are needed. The microfinance sector has, hence, graduated from its conventional nature of providing credits and become more mature and diversified. It is now in a position to play a vital role as one of the elements in an integrated development process that gradually incorporates other development sectors such as education, health services, sanitation, food security and nutrition, women empowerment, enterprise development, and access to information programs in its activities. All of these are equally important for a unified and equitable development framework of a country where the ultimate goal is to ensure poverty alleviation and sustainable growth. While on the other hand, the microfinance sector has expanded fast in Bangladesh and over the last thirty years, the scope of the sector has shifted from being supply driven towards a more demand driven activity. The scopes of these transformations are unlimited and need to be evaluated thoroughly for effective policy formulations.

More to the point, over the last few decades, the activities of the microfinance institutions (MFIs) have changed significantly. The increasing recognition of microfinance as an instrument of poverty alleviation has created numerous MFIs in Bangladesh. More than 750 MFIs are currently operating with a network of over 20 thousand branches in the country. Even the small MFIs, working in the remote areas of the country are also spreading their activities through a number of branches as well.

The legal entity and the regulatory body of these institutions have also changed in the course of time. Governance has become an important issue for the activities of the MFIs. From the society registration act it has gradually moved towards acquiring license from the Microcredit Regulatory Authority (MRA) to operate their programs. The MRA was established in 2006 specifically to enact a formal regulatory framework to monitor these MFIs in the country. The MRA has enacted many rules and regulations over these years and as of February 20, 2014, the number of MRA licensed MFIs has increased to 698.

While on the other hand, the demand for microfinance has also increased vastly but the supply of fund has remained limited. This affects the smaller MFIs more than the larger ones and has become a major stumbling block for the future growth of these smaller MFIs, who are increasingly losing out to the larger MFIs. The Palli Karma-Sahayak Foundation (PKSF), the apex funding organization for the sector, has been supporting the MFIs, its partner organizations (POs), for their microfinance and other developmental activities. The principal objective of PKSF is to provide funds to the POs for their development programs with a view to help the poor to enhance their livelihood. It assists

the POs in their institutional development also. There are now 205 POs of PKSF (as of June 30, 2013) but many more need to be covered.

The filed officials of the MFIs act as intermediaries in the whole process by creating the bridge between the borrowers and the lending agencies to operate their programs smoothly. They play a crucial part in the sustainable microfinance programs and the development process for both the poor borrowers and the MFIs. But unfortunately they are the most neglected component of the whole process. No major research has been done focusing on them or their experiences and needs. Similarly, few have honestly listened to the poor borrowers either. Much of their experiences, struggles and/or success stories have, therefore, remained untold.

The Institute of Microfinance (InM), established with the avowed purpose of engaging in evaluating the microfinance sector and also to build its capacity through the institute's research and training and knowledge management programs, has already taken the crucial initiative to understand this acquired knowledge, experiences from the field and the needs of the borrowers, as well as of the field level officials by organizing regional dialogues with the borrowers and MFI practitioners all over the country. InM has also involved the policy making bodies like MRA and PKSF in the process so that they can also learn and understand the needs and requirements of different stakeholders and along with them has since planned to organize a National Convention.

It is believed that a National Convention will give significant opportunities of cross learning between InM, MRA and PKSF on the one hand and the borrowers and practitioners on the other in many of the issues that are not normally spelt out. There is much to be learned from the voices in the field – what they need for their sustainable development and how to enhance their living conditions. The Convention will also explore the other determinants of their lives such as training and technical support provided to the borrowers as well as to the field level officials. It is held that the scope of the Convention is boundless and will provide a platform to offer effective policy suggestions and contribute to the developmental process of the country. It will provide a national stage to share experiences from the grassroots level on how to integrate POs/Non POs, and the stakeholders with the process of poverty alleviation and sustainable development.

DETAILS OF THE NATIONAL CONVENTION

The National Convention will be conducted over two days during October 18 and 19, 2014 at two different venues. On day one, October 18, 2014 two separate sessions have been arranged at the PKSF Bhaban only for microcredit recipients, small MFIs and microcredit field workers/field coordinators. On day two, October 19, 2014, ten sessions, based on various MFI related issues, for the MFIs will be held at the Bangabandhu International Convention Center (BICC).

The National Convention will be an important platform to gather a vast audience including the MFI borrowers, non-borrowers, field level officials of NGO-MFIs, the wholesale lending agencies, the regulatory body – MRA, MFI leaders, government bodies, development thinkers, researchers, policymakers, donors, Bangladesh Bank and international agencies, etc.

With participation of all, the National Convention aims at suggesting effective policy recommendation on microfinance, development interventions, sustainable poverty alleviation, climate change issues, women empowerment, micro-entrepreneurship activities, and on other development issues.

METHODOLOGY

The National Convention will follow a "bottom up approach" so that ideas and thoughts can be gathered directly from the field/ grassroots levels – from a large number of people, resulting in policy decisions arising from the active involvement of the concerned bodies. Ideas and suggestion collected from the members and the field level practitioners will identify critical issues for research and training needs in the fields of microfinance and human development to support both the field level workers and MFI borrowers.

Nearly 200 borrowers and non-borrowers and around 200 grassroots/ field level officials of from seven divisions of the country will participate in the first day of the event while the second day will have around 700 NGO-MFIs leaders as core participants.

The first day of the National Convention will have technical sessions with the core participants like members/ borrowers of the MFIs, non-borrowers, non-poor households, field level workers and MFI representatives. The session will discuss sustainable and effective development approaches that both the borrowers and the field level officials believe can enhance their livelihoods. The success and failure stories, ideas and suggestion gathered from the session will help the policymakers in formulating development policies for the grassroots level.

Based on the feedback from the InM regional dialogues, which were conducted between April and August 2014, the following issues have been identified as discussion themes for the National Convention:

Theme 1: Governance and Regulation of MFIs
Theme 2: Role of Micro-Enterprise in Economic Growth
Theme 3: Agriculture and Livestock Development: Unfolding the Role of MFIs
Theme 4: Are MFIs Drifting Away from Social Mission of Poverty Alleviation?
Theme 5: Sustainable Development and Poverty: Unfolding the Constraints/Gaps
Theme 6: Capacity Development of MFIs
Theme 7: Structure of Microfinance Market and Financing of MFIs
Theme 8: Poverty Reduction, Climate Change and Micro Finance

Theme 9: Competition in Microfinance Market
Theme 10: (Closing Session) Microfinance Sector: Risks, Stability and Challenges

On the second day, October 19, 2014, there will be day long parallel discussion sessions in three separate auditoriums at the BICC on these themes. The discussions will engage the NGO-MFI leaders as its core participants. At the end of the day a summary of the discussions will be presented in the Closing Session. As the recommendations from the Convention will require the actions of policy makers to make them effective, politicians and senior level decision makers, including Cabinet Ministers and Secretaries, have been invited to be present in these discussions. It is hoped that these discussion sessions will help the policymakers in formulating policies for the development of both the poor borrowers and the MFIs and help in alleviating poverty while creating conditions for the sustainable growth of the country.

Program SCHEDULE • DAY 1

October 18, 2014, Venue: PKSF Auditorium, PKSF Bhaban, Dhaka

Inaugural Session
Time: 10:00 – 11:00 A.M.

Chair:
Dr. Qazi Kholiquzzaman Ahmad
Chairman, InM and PKSF

Chief Guest:
Mr. M A Mannan, MP
Honorable State Minister
Ministry of Finance & Ministry of Planning
Government of People's Republic of Bangladesh

Special Guest:
Mr. Shitangshu Kumar Sur Chowdhury
Deputy Governor, Bangladesh Bank

Welcome by:
- **Mr. Md. Abdul Karim**
  Managing Director, PKSF
- **Mr. Khandakar Muzharul Haque**
  Executive Vice Chairman, MRA
- **Professor. M. A. Baqui Khalily**
  Executive Director, InM
- **Ms. Shahnila Tazreen Azher**
  Team Leader, Growth and PSD, DFID

Session with MFI Borrowers
Time: 11:15 A.M.-1:00 P.M.

Chair:
Dr. Pratima Paul Mazumder
Member, Governing Body, InM

Guest of Honor:
Ms. Meher Afroze, MP
Honorable State Minister
Ministry of Women and Children Affairs
Government of People's Republic of Bangladesh

Moderator:
Dr. Mohammad Jashim Uddin
Deputy Managing Director, PKSF

Comments by:
- **Mr. Shazzad Hossoin**
  Director, MRA
- **Mr. Golam Touhid Deputy**
  Managing Director, PKSF

Session with Field Level Officers
Time: 2:00 – 4:00 P.M.

Chair and Moderator:
Professor M. A. Baqui Khalily
Executive Director, InM

Chief Guest:
Dr. Muhammad Abdur Razzaque
Chairman, Standing Committee on Ministry of Finance, Bangladesh Parliament and
Honorable Former Minister
Ministry of Food & Disaster Management, GoB

Guest of Honor:
Mr. Khondkar Ibrahim Khaled
Former Deputy Governor, Bangladesh Bank

Comments by:
- **Mr. Md. Abdul Karim**
  Managing Director, PKSF
- **Mr. Khandakar Muzharul Haque**
  Executive Vice Chairman, MRA

Program SCHEDULE • DAY 2

October 19, 2014, Venue: Bangabandhu International Conference Center (BICC), Dhaka

Time: 10:00 – 11:00 A.M.
Inaugural Session
Venue: Hall of Fame, BICC

Chair:
Dr. Qazi Kholiquzzaman Ahmad
Chairman, InM and PKSF

Chief Guest:
Mr. Abul Maal A Muhith
Honorable Finance Minister
Ministry of Finance
Government of People's Republic of Bangladesh

Special Guest:
Ms. Sarah Cooke
Country Representative, DFID Bangladesh

Welcome by:
- **Mr. Md. Abdul Karim**
  Managing Director, PKSF
- **Mr. Khandakar Muzharul Haque**
  Executive Vice Chairman, MRA
- **Professor. M. A. Baqui Khalily**
  Executive Director, InM

Time: 11:30-12:45 P.M.
Venue: Windy Town, BICC
Theme 1: Governance and Regulation of MFIs.

Chair:
Mr. Khandakar Muzharul Haque
Executive Vice Chairman, MRA

Guest of Honor:
Dr. Quazi Mesbahuddin Ahmed
Former Managing Director, PKSF

Lead Speaker:
Mr. Md. Fazlul Kader
Deputy Managing Director, PKSF

Discussants:
- **Professor M. A. Akash**
  Department of Economics
  University of Dhaka
- **Mr. Emranul Hoque Chowdhury**
  Executive Director, UDDIPAN
- **Mr. Md. Nurun Nabi Talukder**
  Director General, NGO Bureau

Time: 11:30-12:45 P.M.
Venue: Media Bazar, BICC
Theme 2: Role of Micro-Enterprise in Economic Growth.

Chair and Moderator:
Professor. M. A. Baqui Khalily
Executive Director, InM

Guest of Honor:
Dr. Salehuddin Ahmed
Former Governor, Bangladesh Bank

Lead Speaker:
Dr. Mohammad Jashim Uddin
Deputy Managing Director, PKSF

Discussants:
- **Dr. Reaz Islam**
  International Team Leader
  PROSPER-PCU, DFID
- **Md. Wahiduzzaman**
  Director (Microfinance)
  Jagorani Chakra Foundation (JCF)
- **Dr. Humaira Islam**
  Executive Director, Shakti Foundation for Disadvantaged Women (SFDW)

Time: 11:30-12:45 P.M.
Venue: Carnival, BICC
Theme 3: Agriculture and Livestock Development: Unfolding the Role of MFIs

Chair:
Dr. Qazi Kholiquzzaman Ahmad
Chairman, InM and PKSF

Chief Guest:
Matia Chowdhury, MP
Honorable Minister
Ministry of Agriculture
Government of People's Republic of Bangladesh

Lead Speaker:
Mr. Md. Golam Touhid
Deputy Managing Director, PKSF

Discussants:
- **Mohammed Yakub Hossain**
  Deputy Director, MRA
- **Mr. S. M. Moniruzzaman**
  Executive Director, Bangladesh Bank
- **Professor Lokman Hakim**
  Executive Director, PAGE Development Centre

Time: 2:00-3:00 P.M.
Venue: Carnival, BICC
Theme 4: Are MFIs Drifting Away from Social Mission of Poverty Alleviation.

Chair:
Dr. Qazi Kholiquzzaman Ahmad
Chairman, InM and PKSF

Chief Guest:
Mr. Md. Fazle Rabbi Miah, MP
Honorable Deputy Speaker
Bangladesh Parliament
Government of People's Republic of Bangladesh

Lead Speaker:
Professor M. A. Baqui Khalily
Executive Director, InM

Discussants:
- **Dr. Sajjad Zohir**
  Research Director, ERG
- **Mr. Mohsin Ali**
  Executive Director, WAVE Foundation

Time: 2:00-3:00 P.M.
Venue: Media Bazar, BICC
Theme 5: Sustainable Development and Poverty: Unfolding the Constraints/Gaps

Chair:
Prof Dr. M A Sattar Mandal
Former Member, Planning Commission, GoB

Guest of Honor:
Ms. Rasheda K. Chowdhury
Former Advisor
Caretaker Government of People's Republic of Bangladesh and Member, InM Governing Body

Lead Speaker:
- **Mr. Golam Mowla**
  General Manager, PKSF

Discussants:
- **Ms. Zahida Fizza Kabir**
  Executive Director, Sajida Foundation
- **Dr. Syed Abdul Hamid**
  Associate Professor
  Institute of Health Economics
  University of Dhaka

Time: 2:00-3:00 P.M.
Venue: Windy Town, BICC
Theme 6: Capacity Development of MFIs

Chair:
Dr. Toufique Ahmed Chowdhury
Director General, Bangladesh Institute of Bank Management (BIBM) and
Member, InM Governing Body

Lead Speaker:
Dr. Md. Mosleh Uddin Sadeque
Director (Training & Operations), InM

Discussants:
- **Mr. M. Hasan Khaled**
  General Manager, PKSF
- **Mr. Shazzad Hossoin**
  Director, MRA
- **Mr. Md. Arifur Rahman**
  Executive Director
  Young Power in Social Action (YPSA)

Time: 3:15-4:15 P.M.
Venue: Windy Town, BICC
Theme 7: Structure of Microfinance Market and Financing of MFIs

Chair:
Professor A. K. M. Nurun Nabi
Vice Chancellor, Begum Rokeya University and
Member, InM Governing Body

Guest of Honor:
Mr. Mahbub Ahmed
Senior Secretary, Finance Division
Ministry of Finance
Government of People's Republic of Bangladesh

Lead Speaker:
Mr. Dewan H. Alamgir
Microfinance Specialist

Discussants:
- **Mr. Anis A. Khan**
  Managing Director& CEO, Mutual Trust Bank
- **Mr. Abdul Awal**
  Executive Director, Credit Development Forum (CDF)
- **Dr. Md. Akhtaruzzaman**
  Economic Advisor, Bangladesh Bank

Time: 3:15-4:15 P.M.
Venue: Media Bazar, BICC
Theme 8: Poverty Reduction, Climate Change and Micro Finance

Chair:
Dr. M. A. Quassem
Member, PKSF Governing Body

Special Guest
Dr. Hasan Mahmud, MP
Chairman, Standing Committee on Ministry of Environment and Forests, and
Former Minister for Environment and Forests
Government of the People's Republic of Bangladesh

Guest of Honor:
Mr. Md. Nojibur Rahman
Secretary
Ministry of Environment and Forests
Government of the People's Republic of Bangladesh

Lead Speaker:
Dr. Fazle Rabbi Sadeque Ahmed
Project Coordinator, Community Climate Change Project, PKSF

Discussants:
- **Dr. Mansoorul Alam**
  Director,Department of Environment
- **Dr. Khursid Alam**
  Executive Director
  Community Development Centre (CODEC)
- **Mr. Murshed Alam Sarker**
  Executive Director, Peoples Oriented Program Implementation (POPI)

Time: 3:15-4:15 P.M.
Venue: Carnival, BICC
Theme 9: Competition in Microfinance Market

Chair:
Mr. Md. Abdul Karim
Managing Director, PKSF

Guest of Honor:
Dr. Mohammad Farashuddin
Former Governor, Bangladesh Bank

Lead Speaker:
Dr. M A Hakim
Chairman Department of Economics, Southeast University

Discussants:
- **Mr. Zakir Hossain**
  Executive Director, BURO Bangladesh
- **Mr. Zahin Ahmed**
  Executive Director, Friends in Village Development Bangladesh (FIVDB)
- **Razia Hossain**
  Chief Executive, Mohila Bohumukhi Sikkha Kendra (MBSK)

Time: 4:30-6:00 P.M.
Venue: Hall of Fame, BICC
Session on Theme 10
Title: Microfinance Sector-Risks, Stability, Challenges and Closing Session

Chair:
Dr. Qazi Kholiquzzaman Ahmad
Chairman, InM and PKSF

Chief Guest:
Mr. Amir Hossain Amu, MP
Honorable Minister
Ministry of Industries, Government of People's Republic of Bangladesh

Special Guests:
Mr. Hasanul Haq Inu, MP
Honorable Information Minister
Ministry of Information, Government of People's Republic of Bangladesh

Mr. Rashed Khan Menon, MP
Honorable Minister
Ministry of Civil Aviation and Tourism, Government of People's Republic of Bangladesh

Mr. Anisul Islam Mahmud, MP
Honorable Minister
Ministry of Water Resources, Government of People's Republic of Bangladesh

Presentation by:
Professor. M. A. Baqui Khalily
Executive Director, InM

Welcome Speech by:
Mr. Md. Abdul Karim
Managing Director, PKSF

Mr. Khandakar Muzharul Haque
Executive Vice Chairman, MRA

THEME-1

Governance and Regulation in Microfinance Market in Bangladesh

The simple economics that access to financial resources creates opportunities for income enhancement, and for the poor leads to reducing poverty, dominated the design of today's micro finance. Therefore, the experiment of Grameen concept in the late seventies and early 80s and subsequent impact assessment by Hossain et. al. on the outcome of micro credit for the participating borrowers led to the emergence of many self-regulated non-government orgnizations registered under either Societies Act or Companies Act. Some organizations were home grown with different objectives. While most organizations succeeded in mobilizing poor households, providing financial services to them and improving their basic awareness, there were some unscrupulous organizations that took advantage of the simplicity of the poor and left the areas with the member savings. Savings were unprotected. External resources were mobilized but were left to the simple monitoring of the suppliers of fund. Actual use of resources was left to the decision of the Governing Body of these institutions. In many cases, the body was full of own and extended family members, friends, relatives and close allies. But the authority remained with the Chiefs of the organizations. But finance has multi-facet implications. Therefore, to protect member savings, develop sustainable organizations with appropriate governance structure, maximize appropriate use of financial resources in order to ensure financial stability and contribute to sound micro finance market development, Micro Credit Regulatory Authority (MRA) has been established. Now around 700 MFIs are licensed. But there are other institutions like cooperatives that operate under the Cooperative Act.

There are two aspects of the behavior of MRA – influence internal governance structure and regulate external activities (savings, lending, borrowing) of the licensed MFIs. MRA regulates the behavior of the licensed MFIs under the MRA Act and Rules formulated by the Board. The very well known policy steps that MRA has taken during the past five years are capping interest rate, restricting deductions from loans, fixing minimum interest rate on member savings and deposits, and introducing fixed term for the Chairman and members of the Board. Although these steps introduced new rules of the game for the MFIs, the steps have also built confidence among the stakeholders including members. MRA has also been contributing to capacity building of the institutions through providing training of the employees and governing body members of the licensed MFIs.

In addition, PKSF being the major supplier of funds has been playing the role of a quasi-regulator in the sense that it, through its policies, contributes to bring-in changes in internal governance, improvement in accounting and financial management system, improve quality of the staff of the organizations. Not only do they improve efficiency of the organizations, PKSF also contributes to the process of ensuring transparency.

Impact of regulation has both positive and negative factors. The capping of lending interest rate to be charged under declining balance method makes it relatively cheaper; setting minimum interest of six percent on deposits will encourage members to save. But it will certainly make it costly for the MFIs. Nonetheless, regulation creates confidence among the MFIs and its members. Khalily et. al. 2013 showed that regulation improves cost efficiency and thereby its sustainability. However, they indicated that there was a tendency for the MFIs to move from micro loans to relatively higher loans in order to reduce cost.

Although there has been good beginning towards development of micro finance sector through regulation, more needs to be done in the context of the future role of MFIs. More questions need to be answered in order to strengthen and magnify the role of MFIs. Should MFIs be treated as financial institutions? Should MFIs be recognized as social institutions? What should be the role of the government and MRA in the context of effectiveness of governance? If there is any issue of poor performance of any institution, what role can MRA play? Is cancelling license the best option in case of non-compliance or poor performance? How should social equity of the MFIs be different from individual held equity? Answer to these questions, among others, will put micro finance on a desired path.

THEME-2

Role of Micro-Enterprise in Economic Growth

In recent decades investment in micro and small enterprises (MSEs) has drawn much attention of the policymakers and development thinkers because of its prospects in creating low cost employments and potential backward and forward linkages to industrial development (Green et al. 2006; Mazumdar 2002; Hallberg 2000; SEAF 2006; SEDF; WBCSD). These enterprises adopt labor intensive technology, and contribute to poverty reduction through their effects on income generation, and thus accelerate economic growth. In Japan, the MSEs constitute almost 90 percent of total industrial enterprises and are major drivers of employment creation and output.

Development of small and medium enterprises occupies major position in industrial development policy as well as financing strategies of Bangladesh Bank. Although it is well documented that small enterprises have little share in total SME loans extended by different banks, micro enterprises are left out of formal banking system because of high transaction cost and lack of inappropriate monitoring mechanism of the lenders. Micro-enterprises are generally household level activities with or without physical structure.

In a recent survey, Bangladesh Bureau of Statistics identified some 8.07 million economic units in 2013. Around 37 percent of these units are household level economic units. Based on the average employment per unit, they estimated the total number of employment at 28 million in these economic units. The estimate may have been a little under-estimated when we find that average employment per unit is less than one. One would expect a minimum employment of at least one per unit.

It can perhaps be argued that micro finance institutions (MFIs) have contributed to the expansion of economic units particularly at the household level through financing income generating activities (IGAs) and micro enterprises (MEs) in Bangladesh. Initially, MFIs started its activities with financing IGAs for consumption smoothing and poverty reduction of the targeted households. Over time, the loan portfolio has diversified. MFIs now finance MEs and also provide large amounts of loan. Loan amount is as high as Taka one million for financing MEs. Based on the latest statistics, in 2013, a total amount of Tk. 592 billion was disbursed; of which Tk.157 billion was disbursed only to 2.3 million micro enterprise borrowers. Average loan amount was around Tk. 67,000. What is the impact of this investment in micro-enterprise?

The crucial question is, does this investment generate positive returns. Do micro enterprises generate positive return? How much employment is created due to micro enterprise financing?

Many studies have shown microenterprises make significantly positive returns. McKenzie et al. (2008) found large returns to small entrepreneurs (almost 65 percent per year). Khalily and Khaleque (2013) showed that return on investment is high for microenterprises compared to small and large enterprises. Their result showed that the return on investment for micro, small and large enterprises are 83 percent, 45 percent and 27 percent respectively. Khandker et al. (2013) calculated sector wise return on asset and profit margin for microenterprises using pooled data for the tears 2000, 2005 and 2010. They found that on an average the return on asset is 52 percent and return on sales (profit margin) is 46 percent in 2010 (Table-1).

Table-1: Returns to Microenterprise by Activity (2000-2010)

Indicators	Manufacture	Transport	Trading	Service	Others	Aggregate
2000 (N= 1427)						
Profit Margin	35.5	61.6	44.3	26.6	41.3	32.7
Return on Asset	0.665	0.758	0.599	0.613	0.662	0.638
2005 (N= 1425)						
Profit Margin	39.0	61.6	20.0	20.9	33.1	25.7
Return on Asset	0.641	0.757	0.542	0.625	0.540	0.628
2010 (N= 1909)						
Profit Margin	31.8	62.3	37.9	31.5	46.6	36.7
Return on Asset	0.477	0.683	0.526	0.500	0.466	0.519

Source: Khandker et al. (2013)

The above table shows that return to microenterprise is considerably high irrespective of activity for all the years. But the profit margin and return on assets are higher for transport and trading, followed by manufacturing. Khalily et. al. (2014), in a recent study, derived the similar results. Although profit margin or return on assets varied across micro enterprises, none of the enterprises generated negative return.

As mentioned earlier, micro enterprise has an important contribution in creating new employment opportunity. Non-farm activities together employ more than 31 million people, equivalent to about 40 per cent of the population of Bangladesh, aged 15 years and above. More than three quarters of the household income in both urban and rural areas are provided by the micro and small enterprises (Rahman, 2009). In a recent study, Khalily et. al. (2014) estimated that, based on average full time employment of 1.64 persons per micro enterprise, some 3.7 million persons are employed full time in 2.3 million micro enterprises. It definitely will have a huge impact on economic growth. Contribution of microenterprise is also measured by its share in GDP. According to World Development Report 2011, in 2000, SMEs contributed 15.23 per cent to the total GDP of Bangladesh and tended to increase its share. In 2009, it contributed 17.92 per cent to the total GDP of the country.

However, the above figures do not show any kind of relationship between enterprise growth and poverty reduction. Khandker et al. (2013) also show in their paper that microenterprise growth matters because it is expected to reduce poverty when it is combined with farm income growth. Using HIES data, they showed a relationship between households having microenterprise and their income-expenditure trend. They showed that households with micro enterprises have higher income during the period 2000-2010 (Table-2).

Table-2: Household Income/Expenditure by Microenterprise Adoption

	2000		2005		2010	
Indicators	Household having enterprise	Household without having enterprise	Household having enterprise	Household without having enterprise	Household having enterprise	Household without having enterprise
Per capita income (Tk./ month)	1168.7	778.9	1210.4	851.4	1612.6	1184.9
Per capita expenditure (Tk./ month)	788.7	701.5	1050.6	878.9	1318.2	1179.9

Source: HIES 2000, 2005 and 2010 in Khandker et al. (2013)

Given such substantial scope of this sector in terms of employment, income and expenditure, growth of microenterprises can play a significant role in accelerating the overall welfare of Bangladesh. Although microenterprise has a noticeable impact on total welfare of the economy, surprisingly there is not much study on microenterprise growth or return on investment of microenterprise activities. Notably, there are very few studies on microenterprise development and its relation to economic growth focusing on Bangladesh. Therefore it is important to analyze the factors affecting microenterprise profit and its growth and the channels through which it can contribute to economic growth.

THEME-3

Agriculture and Livestock- Unfolding the Role of MFIs

Developing the agriculture sector has always been a prime concern of Bangladesh government. Despite decreasing share of agriculture in GDP and declining farm land, agricultural production has increased many folds during the past decades, and been contributing to food security of the growing population of Bangladesh. Several factors may have contributed to it: (i) use of high yield varieties; (ii) use of modern technology including irrigation; (iii) access of the farmers to credit and (iv) technical assistance. The government agricultural development policies and the Bangladesh Bank agricultural finance policy have contributed to modernization of agriculture and increase in production. In this session, we tend to unfold the role of MFIs in agricultural sector.

To ensure food security of the country and strengthening the rural economy, agricultural credit program is being implemented by the specialized and commercial banks. New policies like 3-year revolving crop loan, and credit for sharecroppers have been formulated. From 2008, Bangladesh Bank requires all scheduled banks (national and foreign) to provide agricultural credit. Along with these efforts taken by the government and Bangladesh Bank, microfinance institutions (MFIs) have been providing financial supports to the small and marginal farmers. The Agricultural and Rural Finance Policy recognizes potential role of MFIs in agricultural and rural credit without specific allocation of targeted credit for disbursement through these institutions. It recognizes partnership between banks and MFIs in financing agriculture. MFIs are more likely to be effective in financing agricultural sector, providing technical assistance to the borrowers because of its village level services and closeness to rural households. Banks have limited ability to provide financial services to the farmers in remote villages because of its 'branch-based' lending activities; potential borrowers will always find it costly.

MFIs occupy a special position in agriculture finance. It provides more finance to agriculture than do the banks. Table-1 provides a few statistics for the financial year 2013-14.

TABLE-1
AGRICULTURAL FINANCING BY BANKS AND MFIs, 2013-14

	Taka in Billion
Total GDP	11888.0
Agriculture GDP	1726.6
Total bank credit	6065.7
Bank credit in agriculture	145.95
% of agriculture credit	2.41
Total MFI credit	563.06
MFI credit in Agriculture	265.09
% of Agriculture credit (MFI)	47.08

In 2013-14, Bangladesh Bank set a target of around Tk.146 billion for agriculture finance, to be disbursed by all national and foreign banks, which is roughly 2.41 percent of total bank credit. MFIs provided credit

amounting to Tk.265 billion in 2013, which is 47 percent of the total micro credit disbursement. The contribution of MFIs in financing agriculture has been increasing over time (Table-2). A little of over one-third of the total micro credit is targeted to be used for crops. Loans for crop cultivation have an increasing trend, while the share of livestock has declined, although actual amount has an increasing trend. But loans for fisheries have increased over the past decade.

TABLE-2
TREND IN SHARE OF AGRICULTURAL CREDIT IN TOTAL MICRO CREDIT, 2003-2013 (PERCENT)

	2005	2006	2007	2008	2009	2010	2011*	2012*	2013*
Sectors	(n=283)	(n=370)	(n=475)	(n=534)	(n=679)	(n=751)	(n=620)	(n=535)	(n=520)
Total credit disbursed (Tk. in billion)	241.7	349.1	473.6	1,326.5	1,689.4	1,474.8	312.6	379.1	563.1
Total agricultural credit disbursed (Tk. in billion)	59.5	91.7	117.7	304.7	413.3	476.2	150.4	174.5	265.1
Agricultural Sector (%)	24.63%	26.3%	24.9%	22.9%	24.5%	32.29%	48.1%	46.04%	47.08%
a) Crops (%)	7.6%	9.8%	9.9%	10.8%	12.1%	16.99%	37.13%	34.32%	34.13%
b) Livestock (%)	13.8%	13.1%	11.8%	9.4%	9.3%	11.43%	6.09%	5.69%	9.37%
c) Fisheries (%)	3.3%	3.3%	3.1%	2.8%	3.1%	3.86%	4.88%	6.03%	3.57%

Source: Bangladesh Microfinance Statistics; Credit and Development Forum (CDF) and Institute of Microfinance (InM). *Excluding GB

The common perception that microfinance institutions provide micro credit only for poor borrowers for their survival-based income generating activities does not hold anymore. It has diversified its loan portfolio; it responses to the needs of their borrowers. There are several channels through which MFIs are contributing in the agricultural sector of Bangladesh.

First, MFIs have implemented various agricultural financing and development programs. For example, Palli Karma-Sahayak Foundation (PKSF) started the Micro Finance for Marginal and Small Farmer Project (MFMSFP) in 2005 and Agriculture Sector Microcredit (ASM) Program in 2008. Those credits are flexible in nature (single installment instead of traditional weekly installment) with low interest rate. In the field of livestock development, PKSF implemented Participatory Livestock projects during the period 1998-2010. In addition to PKSF, there are other leading microfinance organizations that do have agricultural and livestock credit programs. For example, BRAC has been implementing North-West Crop Diversification Project since 2002 and Borga Chashi Unnayan Project (BCUP) since 2009. Similarly, ASA has agri-business financing loan scheme, which it has been implementing since 2007.

Second, many microcredit borrowers are either landless or own very marginal amount of land. Access to credit enables these peasants to finance cultivation in of leasing-in or share-in land.

Third, agricultural activities entail higher risk than other traditional economic activities. Because of the lack of effective monitoring mechanism, Banks find it difficult to finance risky venture like agricultural activities. However, MFIs find it convenient to finance any kind of economic activities, even the risky crops, because of its convenience of working with borrowers at the field level.

Fourth, livestock is gradually becoming popular. It is one of the important micro enterprises financed by MFIs. Since many rural poor are landless, so MFIs are rather focusing more on rearing livestock, poultry and fisheries.

Currently the role of MFIs in agricultural development is not limited to financing only. They are focusing more on providing technical assistances, skill development training and awareness building. Table-3 provides information on the number of MFIs involved in different kinds of training.

Table-3
Number of MFIs providing training services by type of training program in 2013

Types of Training program	Number of MFIs have training
Livestock and poultry rearing	225
Agriculture (crops and fisheries)	184
Tailoring	141
Entrepreneur Development	110
Handicrafts	91
Nursery	90
Driving	16
Others	73

As evident from Table-3, agriculture-related training dominated the training activities of the MFIs. Largest number of MFIs provided training on livestock and poultry rearing, followed by crops and fisheries. For agricultural technology to be affective in agricultural development, its diffusion needs to be lucid to the ordinary rural people. Employees of MFIs are more able to disseminate the knowledge to the common people in a more communicable way because of their intimate relation and prior experience in dealing with them.

Financing agriculture by MFIs has been successful because of their informal credit risk insurance. But in the event of covariate shocks, farmers will find it difficult to cope with the consequences. Crop insurance will make it beneficial for the farmers. The need for such insurance is increasingly recognized in the context of climate change. PKSF has been in phases implementing a livestock insurance scheme covering risks of the borrowers. Although preliminary results are encouraging, a more institutionalization with the provision for reinsurance will make livestock insurance very effective. Government of Bangladesh needs to extend their hands of cooperation to the MFIs to bolster their role in agriculture sector.

THEME-4

Are the MFIs Drifting Away From Social Mission of Poverty Reduction?

After thirty years of micro finance experience in Bangladesh, the question of 'Are the MFIs drifting away from social mission of poverty alleviation?' is being raised. The question is raised not with the conclusion that the non-government micro finance institutions (MFIs) are drifting away from their social mission of poverty alleviation. The question is relevant when we presuppose that MFIs in Bangladesh are directed towards poverty alleviation.

ACCESS TO CREDIT IS A NECESSARY CONDITION BUT NOT A SUFFICIENT CONDITION:

Microfinance started in Bangladesh with the basic notion that simple access to credit will reduce poverty. By the end of 1990s, hundreds of non-government micro finance institutions sprung as social institutions to alleviate poverty through making provision for access to credit and savings. The MFIs were constrained by high transaction cost and financial resources. The drivers of expansion in the 90s were donor funds and cheap funds from PKSF. Sustainability was never a forgotten issue to the promoters of these institutions, and it is still not.

In removing poverty through providing financial services, it was assumed that households remain poor for lack of financial resources. Therefore, the micro finance design focused on creating financial wealth through both forced and voluntary savings in addition to the process of enhancing income through financing economic activities. But access to credit and savings can take poor households forward but not on sustainable basis.

SUSTAINABLE POVERTY ALLEVIATION REQUIRES MULTI-DIMENSIONAL INTERVENTIONS

Sustainable poverty alleviation will refer to the ability of the households to access different economic, financial and social services under any known and unknown circumstances. In other words, poor households will not be deprived of these services. A recent study of InM shows that some 53 percent of the participants with credit, training and technical assistances were above the threshold point compared to 68 percent for the participants with credit only, and 78 percent for the non-participants. Tackling multi-dimensional poverty requires access to social institutions, quality of life, social protection measures, income and education that can be done only through a well-netted and institutionalized coordination between government and non-government institutions as well as comprehensive set of social and economic interventions.

WHAT ROLE ARE THE MFIs PLAYING?

The role of MFIs in Bangladesh is enormous – from social mobilization and awareness building to provision for financial and economic services for the poor households on the demand side, and developing from non-government voluntary and self-regulated organizations to MFIs as a special type of financial institutions as a part of financial system on the supply side.

On the supply side, MFIs have expanded its services to almost all villages (excluding inaccessible char and hilly areas) of Bangladesh through its network of around 20,000 branches and around 200,000 employees. Moreover, they have responded to the needs of the poor households – from financing survival-based income generating activities to growth-based micro enterprises; from financing trading activities to farm and off-farm activities; from pure financial services to finance, health, education and training; from credit to insurance; from micro individual households to macro area-development; from single product to multiple products; from self-regulation to formal regulation. Expected end outcomes are poverty reduction and improvement in living conditions. Empirical evidences in Bangladesh do lend support to these end outcomes.

MFIs are now licensed and regulated to ensure solvency, liquidity and sustainability on the one hand, and to protect members' deposits on the other hand. MFIs are now a special kind of financial institutions to provide financial services to a group of clients who were screened out of the bank credit market.

MFIs have provided financial services, with subsidized funding, to both moderate and extreme poor households. More than fifty percent of these households are under the financial network of the MFIs (Khalily et. al. 2012).

HOW DO WE EVALUATE ROLE OF MFIs?

There are two approaches to evaluate MFIs – Impact approach and System approach. Although sustainability is implicit, MFIs have been evaluated in terms of 'impact' of its activities on poverty alleviation. But sustainable impact-driven activities require sustainable funding and organization. The 'system' approach recognizes MFIs as a part of financial system. Under this approach, MFIs are evaluated in terms of financial services extended to the poor households originally screened out by banks. In Bangladesh, MFIs are now licensed. That MFIs have provided its services to some 31 million clients and provided over Tk.550 billion as loans are indicators of success under the financial system approach. Inability to provide services to bottom half of the extreme poor households is an indicator of failure of the MFIs in Bangladesh under the system approach.

In order to evaluate the role of MFIs, we need to identify critical outputs (e.g., financial services), which these institutions can produce. For example, banks are identified as financial institutions that mobilize deposits from public and lend (out of these deposits) to those who need funds. Therefore, expansion of bank lending activities depends on their

ability to mobilize public deposits. Similarly, we need to brand MFIs either as a special kind of financial institutions that can lend out of mobilized members' savings or deposits, or as social institutions that will continue to carry out activities as long as finances are available and operating costs are covered. In such case, management will provide services at least cost. There is little or no scope for profit margin or creating perpetual large number of organizations. The behavior should be to generate 'satisficing profit'.

ARE THE MFIs MOVING TOWARDS COMMERCIALIZATION?

The word 'commercialization' should not be used from the perspective 'equity'. From the finance perspective, commercialization will be linked to private equity and maximization of value of firms. In our case, commercialization refers to gradually moving away from 'poverty' focused lending to 'commercially driven' lending for reducing risk and maximizing profit or surplus.

Over the past decade substantial changes have taken place in the behavior of licensed MFIs in Bangladesh. The behavior is more pronounced for medium, large and very large MFIs. These institutions have higher tendency to provide micro enterprise loans and provide loans to the lateral-entrant borrowers. Average loan size is quite high. Until requires to lend to extreme poor, these institutions have a tendency to provide financial services to moderate poor or the households marginally above the poor. The rule of the MRA that fifty percent of the fund can be utilized for micro enterprise lending has also encouraged the medium to large MFIs to lend to the micro entrepreneurs. During the past six months, our field visit clearly showed that branch managers have a tendency, as directed, to lend large loans, what they call for higher cost of fund and declining-method based capped lending interest rate in regulatory regime.

In recent years, the demand for making MFIs as rural banks or micro finance banks is probably an evidence of their desire to operate under the 'Financial system' approach, like any other banks. Can the social banks that can operate with commercial objective and cross subsidize social activities for poor households? The experience of MFIs to operate with commercial objective has failed in Bolivia, India and even as lately in Nepal. The 'commercialization' approach has been too costly for the poor households, and driven the lenders away from the ultimate goal of poverty alleviation.

In brief, social mission of 'poverty alleviation' should remain the driving force for the MFIs in Bangladesh. Poverty alleviation requires multi-dimensional interventions including finance and non-finance. A 'commercially' motivated MFI will always stay away from providing non-financial services until required. MFIs in Bangladesh should have identity – that identity should be social institutions through creating social capital can operate with 'satisficing level' of profit on the one hand and reduce poverty on the other hand. An identity than can make the MFIs more focused on social mission of 'poverty alleviation'.

THEME-5

Sustainable Development and Poverty: Unfolding the Constraints/Gaps

Economic development generally refers to the sustained, concerted actions of policy makers and communities that promote the standard of living and economic health of a specific area. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavor with aims of economic and social well-being of the people, economic growth is a phenomenon of market productivity and rise in GDP. Amartya Sen points out: "Economic growth is one aspect of the process of economic development." For a long time development referred primarily to industrialization, reduction of poverty, access to basic needs and economic growth. These days, however, the notion of development is no longer confined to these few factors. Today development does not only refer to economic growth but also involves factors such as improved quality of life, socio-economic equality, access to scientific knowledge and technology, access to infrastructures, accountable and transparent government etc.

These are also contained in the notion of "Sustainable Development". According to the World Commission on Environment and Development, Sustainable Development refers to the development that meets the needs of the present without compromising the ability of future generations to meet their own needs, (United Nations Commission of Sustainable Development 2007). Therefore, sustainable development emphasizes on ensuring environmental sustainability as well as meeting people's basic needs, such as food, health, education etc. while improving their life style.

Millennium Development Goals (MDGs) have set the milestones in the efforts of global and national development in the fields of poverty eradication, health and education. By 2014, which is almost the end of the era of Millennium Development Goals (MDGs), Bangladesh has made remarkable progress in attaining these goals (BBS, 2014).Household Income and Expenditure Survey (HIES) 2010 shows that, since 1991-92, the incidence of poverty is declining at the annual rate of 2.47 percent (The World Bank, 2010). Several targets like reducing poverty gap ratio, attaining gender parity at primary and secondary education, under-five mortality rate reduction etc. have already been met and significant development has been made in the areas of child and maternal health, primary schools enrolment, immunization coverage etc. However to achieve the goal 7: "Ensure Environmental Sustainability" is not encouraging. Our forestry, biodiversity, wetland and waste management are not up to the mark. Access to arsenic free sweet water supply is still a big challenge for us due to environmental pollution and climate change impacts. Water pollution in and around big cities particularly in Dhaka and Chittagong cities are the big concern, to ensure pollution free surface water availability. The world is now moving towards the Post MDGs agenda that will emphasize on the integration of social, economic

and environmental dimensions of development. Therefore, the focus will more likely be moved away from the basic needs of the developing world to the integrated policy of governance and accountability mechanism at all levels to promote social equity, environmental sustainability and economic growth both for developed and developing worlds. Innovative form of financing and partnership between financing and technology, health, empowerment, education, environment etc. and other cross cutting issues are expected to receive greater attention than ever before.

Bangladesh has become a role model in the sector of Microcredit and Micro-financing to the rest of the world for the sector's role in helping with the eradication of poverty and empowerment of the poor people. Social mobilization and economic security are the two major factors of empowerment. Micro credit program is helping in gaining economic prosperity, meeting up short time needs, and asset creation for the rural poor in Bangladesh. However, the indicators for measuring the performance of the micro credit schemes should not be based on economic variables, such as loan repayment rates, only. In case of lessening the gap of gender relations that prevails in the decision making processes in the rural households of Bangladesh, it is noted that micro-credit program could have emphasized more on the factors of women empowerment when it comes to the use of microcredit. But since financial viability is important for sustainability, households often have to prioritize needs which may focus more on households' subsistence, reducing vulnerability to risks and enhancing social capital than merely on empowering women, which may have left the gap.

Knowledge and empowerment come through market access. Evidence shows that, even if the farmers and small entrepreneurs receive loans from the financial or microcredit institutions, due to their lack of access to markets, they fail to make much progress with their investments. In such cases, providing facilities to enhance rural poor's access to the market will be an effective way of enhancing their control over loans as well as self-confidence. Quite a large amount of loan is directed towards fixed assets creation, health and medical treatment purposes, education of the borrowers' children, emergency necessity etc. (Credit Development Forum (CDF) and Institute of Microfinance 2011). As a result, due to not using the loan in various capacity building and income generating products and activities, the borrowers remain trapped in the cycle of poverty. The negative impacts of environmental degradation such as natural calamities and its impacts on agriculture and livelihoods further perpetuate these conditions.

Hence, rather than emphasizing on the short term survival, constraints and opportunities faced by the poor, the relationship between the socio-economic and the environmental factors such as bio diversity and ecosystem conservation, pollution free surface water as well as waste management with poverty is needed to be understood with greater urgency. Rather than meeting immediate needs alone, maintaining and gradually enhancing poor people's optimum access to various socio-economic services should be emphasized by the Microfinance programs. Inclusive financing for environmental sustainability is needed as much as those for education and health services. Policies should be designed in such way so that development programs can help the poor not

only to combat short term constraints but also to cope with various socio-economic contexts, unfolding environmental conditions and their future trends as well.

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THEME-6
Capacity Building of MFIs: A Strategic Necessity

STRIVE FOR BUILDING CAPACITY

The greatest asset of any organization is human capital. The staff of the Microfinance Institutions(MFIs)are the most important resource of these institutions. MFIs often lack the capacity to evaluate their own effectiveness or outcomes. An organizational capacity assessment tool is vital to provide snapshot of the organizational strengths and areas for improvement; where to start by targeting, where specific capacity building efforts could be most beneficial for MFIs to learn and improve. So, building the capacity of microfinance institutions are directly correlated with how well the standard is maintained and implemented but also typically with greater productivity, borrowers' satisfaction and retention, happy and contented staff, lesser staff turnover, complaints andgreater returns. So, it is essentialfor an MFIto identify its capacity, strength and challenge and thereby establish capacity building goals.

STATE OF CAPACITY BUILDING STRATEGY IN BANGLADESH

Capacity building refers to activities that improve and enhance an MFI's ability to achieve its mission and sustain itself over time.In Bangladesh, the state of capacity building mainly encompasses four areas : i) In-house Capacity building ii) Activity based capacity building iii) Learning by doing and iv) Separate Training Division for staff development. Except for a few MFIs (less than 2%), these are somehow meant to fulfill the immediate need, as instant surefire solution. As a result, holistic approaches of staff development are largely missing.

CAPACITY BUILDING MOTTO: GOLD STANDARD PROFESSIONALS FOR MFIs

It is vital to take a holistic approach to build the capacity of MFIs based on the context in which they are or will be operating. Too many selection decisions are made on the basis of 'looking narrowly through the rear view mirror' rather than taking a broad view of the capabilities needed to manage in the present and the future. In doing so, MFIs need to

- Build a unified competency model with core professional competencies(e.g.internaldiscussion, facilitation, training etc.)
- Build "gold standardprofessional qualification route" – without compromise
- Cut the fads – focus on educating organizations about the proven link between good people management practice and business success and then model it – "Be the change you want to see in the world" (Mahatma Gandhi).

In this line of action, InM is striving towards building capacity of MFIs to cope with the challenges of the microfinance industry as a whole rather than pursuing prototype training practiced for decades in the sector. PKSF, MRA and DFID are also generously supporting todevelop cutting edge microfinance professionals for the sector. In recent years, InM has provided training to more than 14,000 microfinance practitioners at the Head Quarters and field level created a pool of around 200 InM Certified Trainers and developed 10 quality training modules to cater to the needs of the sector.Recently, for the first time in Bangladesh InM has launched Certificate Courses/ Diploma Program in Microfinance. The participants will dive into an in-depth understanding of

- Theory and practice of poverty, microfinance and development
- Efficient microfinance operations and management
- ICT based financial services
- Human resource development of MFIs
- Management Information System (MIS) of microfinance program
- Governance and regulation of MFIs

Thisdiploma program will no doubt help to build "gold standard" professionals for the industry. It will also give opportunity for the fresh graduates to build their career in this sector. Existing human resources of the organization should also be developed in phases so that they can contribute at their best.

Beside long coursesInMis also continuing with its regular program of short courses to improve the performance of the organizations through improving the performance of their staff specially involved in microfinance activities. InM has diversified its regular courses to cater to the present need of the sector like Product Development, Interpersonal Communication and Risk Management; Talent Management- Recruiting, Developing & Retaining Your Best People; Early Warning System in Financial Management; SMART Business Plan for MFIs etc.All these initiatives of training, knowledge-sharing and institutional capacity building programs are especially designed to encompass microfinance professionals, regulatory bodies, NGO/ MFIs, government, development partners and concerned stakeholders toacquaint with the latest innovations and best practices in microfinance and development.

CONCLUSION

Capacity building for competencies is a dire need of the time. MFIs should come forward to cope with the second generation challenges of the microfinance industry which is heading towards rural banking. To cope with these,skilled manpower is of prime importance. InM is facilitating to build gold standard core professionals to cope with the upcoming challenges of appropriate financing and growing demand of the microfinance sector for the years to come.

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THEME-7
Financial Structure and Financing of MFIs

Financial structure provides information on sources and extent of financing of assets including loans outstanding by micro finance institutions (MFIs). Sources may be equity and reserves, savings or deposits, short term and long-term borrowing etc. There are twin objectives of understanding financial structure – understanding risks and constraints in financing assets. It is risky when short-term borrowing and deposits is used to finance long-term assets (e.g., fixed assets or long term loans). But for any MFI, the desirable goal is scaling up of lending and/or social activities over time with the ultimate goal of contributing to the process of poverty reduction. In general, risks associated with financing lending and social activities are low in Bangladesh because short term (one year at best) borrowing fund is used for short term (one year at best) loans, and social activities are financed by grants. The major issue of this session is to understand sources of financing and identify constraints to financing micro finance activities.

Bangladesh micro finance sector has come a long way. Some 700 plus MFIs (including Grameen Bank) with a network of over 20,000 branches have been providing financial and social services to some 31 million members (with multiple memberships). The market is skewedly distributed with Grameen Bank, BRAC and ASA together have a share a little over 60 percent of loans disbursement, loans outstanding and active borrowers in 2013 (Table-1). The share of all MFIs (including small and medium) was over 38 percent.

Table-1
Loans disbursement, Loans Outstanding and Active Borrowers by major institutions in 2013

	Loans Disbursement		Loans Outstanding		Active Borrowers	
	Taka in billion	Percent	Taka in billion	Percent	Number in Million	Percent
Aggregate	566.84	100	348.05	100	25.67	100
Grameen Bank	126.02	22.23	84.39	24.25	6.74	26.25
BRAC	121.15	21.37	71.89	20.65	4.52	17.61
ASA	99.96	17.63	59.21	17.01	4.34	16.91
Other MFIs	219.71	38.76	132.56	38.09	10.07	39.23

Source: Bangladesh Microfinance Statistics 2013

Financial structure has changed during the past twenty-five years. In the initial years of development, the major driver was donor funds. With the establishment of PKSF in 1990s, borrowing from PKSF became another major driver of expansion particularly for the institutions having no access to donor funds. Borrowing from banks was very minimal. But now with the advancement and maturity of the market, donor funds have a limited contribution; major sources of financing are member savings, borrowing from PKSF and commercial banks. Equity and reserve funds are becoming more important sources of fund. Entry of commercial banks into micro credit market is more driven by almost zero default cost. The aggregate financial structure of NGO-MFIs and Grameen Bank together in 2013 is presented in Table-2.

Table-2
Financial Structure of the market and major institutions as of December 2013

	(Per cent)					
	Net savings	Bank loans	PKSF loans	Other loans	Donor fund	Own fund and reserves
Aggregate	44.01	9.37	7.48	0.97	1.10	37.07
GB	82.95	0	0	1.27	0	15.78
BRAC	40.38	27.5	0	0	2.77	29.35
ASA	31.78	19.92	0	0.01	0.98	47.31
Other MFIs	26.14	2.78	19.07	1.65	1.17	49.29

Source: Bangladesh Microfinance Statistics 2013

The above table shows that financial structures of the market and of major institutions are different to some extent. Dependency on net savings and deposits account for over 44 percent at the market level but it is more than 82 percent for Grameen Bank, as expected. In addition to net savings, both BRAC and ASA have more dependency on commercial bank borrowing with no borrowing from PKSF (they used to be major borrowers of PKSF fund earlier). Largely small and medium MFIs have little access to commercial bank borrowing but quite important presence in PKSF loans. The findings are no different when distribution is observed among the licensed MFIs (MRA-MFI Database 2013).

Important financing issue emerges when we find that the share of accumulated funds and reserves for the small and medium MFIs is almost fifty percent of their funds. The share is highest because of the relatively lower access to commercial and PKSF loans. Their size perhaps restricts them to borrow from commercial banks at higher interest rate. PKSF fund is quite attractive as it is subsidized but they have their set of rules.

In such a situation, several important issues emerge. How do small MFIs scale up their activities? What policy changes can be brought on the supply side to ensure appropriate level of financing for the small and medium MFIs? Can PKSF meet demand for fund of

the sector? Does it operate at optimum level? Can commercial banks provide funds to small MFIs? Should small MFIs in particular remain small? Should MRA have any policy for sound micro credit market development? All these questions become more relevant when we find that majority of the MRA licensed MFIs are small and very small, defined by MRA in terms of number of members (Table-3).

Table -3
Size-Wise Loan Outstanding and Savings Compositions (As of 30 June, 2013)

MFI Type	Percent of Total Number of licensed MFIs	Percent of loans outstanding of licensed MFIs	Percent of Net Savings of licensed MFIs
Very small	77.04	4.48	5.21
Small	16.18	10.43	10.42
Medium	3.39	8.85	7.69
Large	3.08	27.78	28.16
Very large	0.31	48.46	48.52

Source: MRA-MFI Database 2013

THEME-8

Poverty Reduction, Climate Change and Microfinance

POVERTY, ENVIRONMENT AND DEVELOPMENT

For a long time, speaking of development, we have been referring to mainly industrialization, reduction of poverty, access to basic needs and economic growth. Nature has always been seen predominantly as a resource over which we have a right of domination. There was a belief that economic growth is a valid measure of progress and there is an inverse co-relationship between environmental quality and socio-economic disparities. It is widely recognized that, environmental changes has both positive and negative impact on development and poverty. However, now a days environmental degradation and its link with sustainable development is becoming a major issue in both developed and developing countries.

CLIMATE CHANGE IN BANGLADESH

Climate change is becoming an important global issue particularly for a vulnerable country like Bangladesh. Bangladesh is one of the most vulnerable countries due to climate change (Maple croft, 2013, German watch, 2014). Climate change in various forms such as natural calamities like flood, flash flood, drought, salinity intrusion, cyclone and storm surge, erratic behavior of rainfall, temperature rise affect directly and indirectly agriculture, fisheries and livestock, water resources and hydrology and has immense effect on coastal areas including migration. These factors ultimately influence income generating activities, shelter availability, water and food supply and ultimately upset the livelihoods of the poor people.

RISKS AND SHOCKS: THE CONSEQUENCES OF CLIMATE CHANGE IN BANGLADESH

Risks and shocks are two important factors determining poverty and vulnerability (Institute of Microfinance 2013). Climate change and agriculture are deeply related with each other, especially in the vulnerable developing countries like Bangladesh. While rural poor people are mostly dependent on farming, agriculture, fisheries and livestock activities, crop failure, inadequate rainfall, loss of livestock are the most pervasive and inflict longer term consequence on their household consumption fluctuations (Ahsan, 2010). These consequences include reduction of income, loss of employment, reduction of crop yield, increase of food price and increase of family expenses etc. (Parvin, 2012). Seasonal microcredit loan has been made available by a lot of microfinance institution; however, the risk of inability to repay the loan by the borrowers is involved with it due to erratic behavior of weather (rainfall, flood/flash flood, drought, salinity, pest and disease infestation etc.

Moreover, climate change consequences are both directly and indirectly linked with poor people's migration from one area to another within or outside the country which is resulted from various factors such as loan indebtedness, asset loss etc. The women being in the reproductive role of the households, children, older and disabled people are more vulnerable to these risks and shocks in Bangladesh.

STRATEGIES TO COPE WITH CLIMATE CHANGE IMPACTS

There are two kinds of responses to cope with climate change impacts on different sectors. They are adaptation or adjustment with the changing scenario and the reduction of greenhouse gas emission (mitigation). However, as very low green house gas emitting country Bangladesh doesn't have enough opportunity to reduce the green house gas emission. It is not our priority either. However, as a vulnerable and natural resource based economy and for livelihood support we should be prepared enough to make adjustment with the changing climatic scenario to continue our development as well as to ensure the food security and livelihood support to the marginalized people of the country.

THE ROLE OF MICROFINANCE FOR THE CONSEQUENCES OF CLIMATE CHANGE

Microfinance lending in Bangladesh contributes to adaptation both by providing the poor with means of accumulating and managing assets and thereby reducing their overall vulnerability, and as well by financing activities that are more specifically targeted at lessening vulnerability to weather and climate risks, especially in the areas of water management, agriculture and fishery, forestry, health, and housing.

There are now a small set of examples where microfinance is taking the longer term perspective and helping to reduce vulnerability to evolving risks posed by climate change. Microfinance institutions are also contributing to enhancing longer term resilience to the impacts of climate change through loans to support the building of housing that is more resistant to storm surges and floods. Following the devastating floods in 1987, the Grameen Bank developed its own design which its borrowers could use to build houses that are resilient to floods and strong monsoon winds. Another initiative that may go towards facilitating longer term adaptation is the promotion of hybrid crop varieties that are tolerant to salt and water related stresses. BRAC has been a pioneer in this area as it views varieties such as hybrid rice and saline resilient crops as critical to boosting crop production and incomes. Such varieties can also enhance resilience to the impacts of climate change such as saline intrusion, as well as enhanced drought and flooding risks.

Microfinance is also supporting a number of crop and income diversification projects that protect yields and incomes under variable weather and climatic conditions. MFIs such RDRS and TMSS have crop and income diversification initiatives that offer training and credit in new cropping patterns, innovative practices such as joint rice and fish cultivation, and satellite activities such as poultry farming and garment making.

Climate change may also require changes in microfinance lending practices. Due to the additional stresses caused by climate change on the livelihoods of the poor, especially natural disasters such as floods and droughts, the clients may not be able to always repay the loans on time. Also, in areas where income activities mostly rely on highly seasonal occupations such as agriculture, regular repayments are more difficult to impose. Taking into account the difficulties that borrowers may encounter, and the long-term effect of climate change, products could be structured in a more flexible manner. For instance, microfinance institutions could program more flexible repayment installments for the loans in the most vulnerable seasons, instead of asking weekly repayments, and set lower interest rates like they do for some housing programs that do not provide any revenue. Most disaster relief projects are already providing loans for shelters or water tanks at zero interests. Although microfinance practitioners argue that the fiscal discipline imposed by frequent repayment is critical to preventing loan default, several studies suggest that among microfinance clients who are willing to borrow at either weekly or monthly repayment schedules, a more flexible schedule can significantly lower transaction costs without increasing client default (Field and Pande, 2008).

Finally, there is potential to undertake programs or to scale up existing activities that can help promote adaptation to climate change. For example, education loans and training could be offered to target groups on community level adaptation strategies. Loans for promotion and use of flood, drought, and salt resistant crops may also be scaled-up. There is potential for promoting a number of projects such as cage aquaculture, rice- fish farming, and floating gardens that are more resilient to flooding risks.

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Theme-9
Competition in Microfinance Market

Microfinance in Bangladesh has developed in phases. General acceptability of the concept of micro credit during the 80s constituted first phase of development of micro finance. During this period, policymakers considered micro finance as an instrument for poverty alleviation. Quite a number of NGO-MFIs emerged, and non-government approach to poverty alleviation was globally accepted. In the 90s, we witnessed the large-scale movement for micro finance, more institutional development, establishment of PKSF, and experienced stable growth in memberships and supply of credit. This is the second phase of development. The third phase of development of the sector since the beginning of the present century and partly following the1998 flood demonstrated maturity of the sector, and higher ability of the MFIs to meet different needs of the poor households. Diversification in loan product basket, emergence of micro enterprise, focus on non-financial services, emphasis on micro insurance, regulation of MFIs, overlapping in micro finance sector, expansion of micro finance services into urban areas, and sustainability of MFIs are the critical elements of the third phase of development of microfinance sector in Bangladesh.

While during the past two decades, we have witnessed depth of the micro credit market in terms of scale and scope, we have also witnessed evidence of competition at the field level. The issue of competition surfaced when overlapping emerged in the discussion among the stakeholders and some case studies. PKSF through mapping of MFI branches identified depth and overlapping of services. Khalily et. al. in a national survey estimated intensity of overlapping. Individual overlapping refers to membership with more than one institution.

Table -1 Trend in Intensity of Individual Overlapping, 2000-09

Intensity of Multiple Membership	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Growth Rate
1	91.42	89.19	86.84	85.23	82.6	80.03	77.24	74.93	72.14	68.98	-3.09
2	7.23	9.52	11.37	11.93	13.75	15.09	16.63	18.3	19.82	21.93	13.12
3	1.04	0.96	1.34	2.23	2.59	3.54	4.43	4.62	5.38	5.84	21.13
4	0.31	0.25	0.33	0.45	0.93	1.01	1.17	1.49	1.72	2.09	23.62
5+	0	0.08	0.13	0.15	0.13	0.34	0.53	0.66	0.95	1.17	39.84
Aggregate	8.58	10.89	13.16	14.77	17.40	19.97	22.76	25.07	17.86	31.02	15.35

They estimated individual member-based overlapping rate at the aggregate level to 31 percent in 2009. However, model overlapping of individual memberships was two (Table-1). But there has been an upward movement for higher intensity of individual overlapping. Although the above data is five-year old, it is more likely that during the past five years, overlapping has increased.

Micro finance institutions call overlapping as a signal of competition. The reason they call overlapping as an outcome of competition is, overlapping arises when more than one institution operate in an area and provide services to some of the clients of the incumbent MFIs. They do it for low cost of mobilization, availability of more information about the existing members, and quick attainment of target set for the branch. The new entrant MFIs offer large loans to take away clients from the incumbent MFIs. This behavior does create the environment of competition but the behavior is driven by some inherent weaknesses like loan ceiling and higher lending interest rate and lower deposit interest rate.

The evidence of competition is also found in the diversification of loan products. In the event of competition, every MFI will try to increase its share in the market. As noted above, in addition to offering higher loan size, MFIs will diversify loans and saving products as well as non-financial products. Over the past thirty years, we have witnessed transformation of the MFIs. MFIs have moved from financing 'survival based' income generating activities to 'growth based' micro enterprises; widened services of MFIs from 'single' approach finance only to 'multiple' approach of both financial and non-financial services. But not all MFIs are capable of diversifying financial and non-financial product basket. MFIs with more resources and institutional development have higher ability.

This brings the issue of competition between small MFIs and large MFIs that is commonly cited or argued. The behavior may be somewhat oligopolistic in nature. Large MFIs, because of higher ability to mobilize more resources or access more financial resources, have a tendency to overtake market of very small or small MFIs. Very small or small MFIs are generally localized institutions. They have little access to external financial resources like subsidized PKSF-fund, and are mostly dependent on mobilized small savings from its members. Consequently, small MFIs are constrained to scale up its activities. When relatively large MFIs over-take the clients of small MFIs in a market, it is costly for the later groups of institutions.

Competition is observed more in accessible and economically better off regions where more MFIs are concentrated. In a study, InM showed that concentration of the institutions is observed in the areas within 3-4 kilometers from the nearby pucca road. They do it for convenience.

Competition can be price and non-price competition. Capping on lending interest rate has created little room for price competition. Although most MFIs offer loans at lending interest rate of 27 percent, some forty percent of the institutions offer loans at lower interest rate. For example, PKSF partner organizations offer loans at an interest rate of 25 percent under declining balance method. There are some organizations, which offer loans

at further lower interest rate. Who will have higher ability to offer loans at lower interest rate? Indeed the large MFIs will be able to influence market behavior by offering loans at lower interest and thereby can increase its market share.

In the world of interest rate capping, it is more expected that competition will be non-price competition. In non-price competition, MFIs will be able to compete in several ways. They can offer higher loans, vary terms and conditions like moving from single or weekly installment system to monthly installment system. They even can link non-financial services like training, health services to financial services. In Bangladesh, non-price competition is observed. Medium and large MFIs have higher ability to vary terms and conditions of loan contract and offer diversified services, as noted above. Expectedly, small MFIs are the worst victim of the so-called 'oligopolistic behavior' of the medium and large MFIs.

Now this phenomenon of competition has some crucial implications. The small or localized MFIs carry the burden of unhealthy competition. It is because the medium and large MFIs are largely financially independent, and have access to loans from PKSF and commercial banks. These institutions also get priority in providing non-financial services because of its institutional strength. It is important to note that 75 percent of licensed MFIs in Bangladesh are small. As they cannot offer large loans or cannot offer diversified products to the borrowers, the medium and large MFIs may invade into the territory of small ones and small MFIs may find it very difficult to operate sustainably in their areas. Small MFIs sometimes may lose their long-term reliable clients due to competition. Because of limited resources, small MFIs are not in a position to change terms and conditions of loan contract.

It is quite apparent that competition does exist in Bangladesh micro credit market. As competition leads to cost and price efficiency, healthy competition is always desirable. In the event of oligopolistic credit market, such healthy competition may not be expected. As unhealthy competition may lead to high default rate and collapse of small MFIs, it is important that the issue of competition needs to be examined seriously.

The agency that can closely look into the issue or can change the rule of the games at the field level is MRA. The other agency that can also partly influence the rules is PKSF. There are several ways both MRA and PKSF can contribute to developing healthy competition in the market. First, financial opportunities for the small MFIs need to be created. Second, MRA needs to seriously think about formulating branching policy at the union level. PKSF in expanding its activities may have to take the factor of 'competition' in their decision-making process. Third, MRA and policymakers need to seriously debate about the future structure of the micro credit market, and then formulate a set of policies for sound development of the market. Fourth, innovation should be strongly encouraged. Fifth, MRA should fasten the process of establishing an efficient and effective Credit Information Bureau. Whatever policy set is ought to be taken, it must be backed by research findings. Institute of Microfinance through its research on the nature of competition and the behavior of MFIs can contribute to the process of policy formulation and sound development of micro credit market.

PROFILE

পল্লী
কর্ম-সহায়ক
ফাউন্ডেশন

Palli Karma-Sahayak Foundation (PKSF)

PKSF: WORKING FOR HUMAN DIGNITY AND SUSTAINABLE DEVELOPMENT

Introduction

Palli Karma-Sahayak Foundation (PKSF), an apex development organisation, was established by the Government of Bangladesh in May 1990 for sustainable poverty reduction through employment generation. In the beginning of its operations in 1990, with a view to generating employment for the rural poor, PKSF set the goal of creating self-employment o pportunities in the rural off-farm sector and adopted the strategy of promoting loan programme for attaining this goal. This loan programme, launched for rural moderate poor, has been diversified over time in accordance with the changing needs of heterogeneous poverty-stricken segments of the society and has gradually evolved into "inclusive financing programme". PKSF's present financing programme includes moderate poor of both urban and rural areas, ultra-poor, micro entrepreneurs, marginal and small farmers. Members of aforesaid poverty groups are offered customised services. With a view to enabling the poor to come out from low productivity trap, PKSF has integrated capacity building, technology transfer, value chain development and other technical services in its development programme.

PKSF, over the years, has gained in-depth understanding and valuable experiences on multi-dimensional aspects of poverty. Adding new dimension in its mission in 2010, PKSF reshaped its core goal as "instituting human dignity" instead of limiting its efforts towards achieving economic freedom only and started undertaking new programmes and projects for attaining this goal.

The major objectives of PKSF are to provide financial assistance and institutional development support to appropriate organisations for implementing sustainable inclusive financial programmes for reduction of poverty through creating productive employment opportunities for the poor, marginal farmers and micro-entrepreneurs and to provide them assistance including education, health, training and risk reduction services as may be necessary for enhancing their capacity with a view to enabling them in leading a dignified life.

Governance

PKSF, legally, is a "company not for profit" and is registered under the Companies Act of 1913/1994 with the Registrar of Joint Stock Companies. The legal structure of PKSF allows flexibility and authority to undertake programmes in a dynamic environment, implement them throughout the country and manage its affairs as an independent organisation. It strictly adheres to all best practices with regard to ensuring accountability and transparency at all levels of its activities. It puts utmost importance on proper utilization of the resources both from policy and implementation perspectives. PKSF comprises of two policy-making bodies as per its Articles of Association: the General Body and the Governing Body. These two bodies are responsible for providing overall policy guidance and strategic directions for implementation of all activities of PKSF. Members of these bodies are highly distinguished professionals of national and international repute having demonstrated track record in the development sector.

The General Body of PKSF, consisting of 22 members, is its supreme authority which convenes twice a year in the Annual General Meeting (AGM) to provide general policy and strategic guidance. Among them 12 were nominated by the Government of Bangladesh. The Governing Body of PKSF is, composed of 7 members, responsible for pursuing and carrying out the objectives of PKSF under the general policy environment endorsed by the General Body to achieve its goals. 4 out of 7 members were nominated by the Government of Bangladesh. Dr. QaziKholiquzzaman Ahmad, an eminent economist & development thinker and a reputed specialist on Climate Change, is the Chairman of PKSF.

PKSF management consists of several divisions, namely Credit Operations, Programme Development, Capacity Development, Administration, Finance, Integrated Development, Audit and Research. A committed workforce is involved with implementation of PKSF's activities. The Managing Director is the Chief Executive Officer (CEO) of PKSF. Mr. Md. Abdul Karim, a former Principal Secretary to the Government of Bangladesh, is the Managing Director of PKSF. PKSF always strives to attain its objective using available resources effectively and efficiently within the policies and guidelines set by the Board.

Operational Strategy

The basic operational strategies of PKSF is to act as a second-tier organisation. It does not directly provide services to the programme participating households, rather reaches them through its Partner Organisations (POs). Instead of following a particular model of development, it encourages practical and effective approaches to poverty reduction and development interventions keeping adequate flexibility to adapt with dynamic environments.

Funding of PKSF

PKSF is mandated to raise funds and accept donations, grants, loans or other financial assistance from any Government, private or any other sources and agencies, institutions in Bangladesh and abroad for use in activities consistent with the purposes and objects of PKSF. It has received funds from the GOB, the IDA/World Bank, the USAID, the Asian Development Bank (ADB), Department for International Development (DFID), European Union (EU), International Fund for Agricultural Development (IFAD) and the Kuwait Goodwill Fund (KGF).

Core Programmes

PKSF works towards expanding livelihood opportunities as well as enhancing human capacities for various heterogenous poverty-stricken segments of the society. To attain its stated objectives, PKSF provides demand-driven financial and non-financial services to the poor thorough its POs. In addition, PKSF supports building and strengthening the institutional capacities of the POs in order to provide necessary resources to the poor in a sustainable manner. The major functions include:

• Inclusive Financial Service

Considering the heterogeneity of different poverty groups living in different agro-ecological regions of the country, PKSF strives to address their diverse financial needs.

- Financing the moderate poor: PKSF started its activities by launching credit programmes for rural moderate poor with a view to creating employment opportunities in rural off-farm sector. The objective was twofold: one was to create new employment opportunities and the other was reducing pressure on crop sector for employment and thereby improving productivity in farm sector. Later on, PKSF extended its services to the urban moderate poor.

- Financing the ultra-poor: The ultra-poor have always been left out from traditional financial services due to self-exclusion, social exclusion and institutional exclusion. Considering all these constraints, PKSF devised a flexible financial service to include the excluded. PKSF is running the country's biggest financial programmes for the ultra-poor and initiated a specially designed project entitled 'Progranmmed Initiatives for Monga Eradication (PRIME)' in 2006.

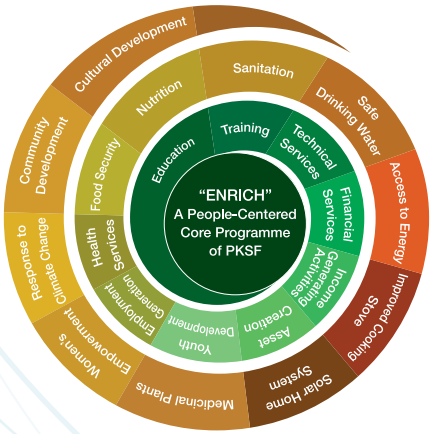
- Financing the micro-entrepreneur: Micro-enterprises are considered engines of economic growth that create both gainful self-employment for micro-entrepreneurs and wage employment opportunities for the ultra-poor. Recognising the potential of this sector, PKSF launched its microenterprise programme in 2001. Now, an entrepreneur can access to a credit facility up to BDT 1 million.

- Financing the small and marginal farmer: The lack of access to finance has always been one of the major constraints of the farming communities, in particular small and marginal farmers. PKSF has been implementing a specially

designed agricultural lending programme since 2005. The salient features of this service include provision of flexible repayment mode consistent with the seasonal agricultural activities.

• People-centered Holistic Development Programme

Poverty is not only about low income; it is also about choices, well-being and the human dignity of people. Hence, sustainable poverty reduction requires adopting an integrated development approach. Against this backdrop, PKSF undertook a people-centered programme titled Enhancing Resources and Increasing Capacities of Poor Households towards Elimination of their Poverty (ENRICH) in 2010. The overarching objective of ENRICH is to help the poor to enhance their human dignity by extending to them necessary services and creating an enabling environment so that they can increase their income, protect themselves from income erosion, improve their human capabilities, raise their social standing, and expand their choices. To that end, ENRICH provides wide-ranging support services and facilities in the areas of health, education, training; facilitates to widen the choices and opportunities of the participants of the programme, and offers services for enterprise development and demand-driven microfinance. A special savings scheme has also been designed under ENRICH. This programme provides integrated support to each family to ensure the best possible utilization and enhancement of their existing resources and capacities. Community-based development activities are also implemented in consultation with local government representatives. All concerned are committed to extend long-term support until these households become free from poverty and are set on a course of sustained socio-economic progress.



• Enterprise Development Programme

Business Development Services and Value Chain Development: A Business Development Service (BDS) aims to improve the existing efficiency of an enterprise through a wide range of services on skill development, access to market, technology transfer, product development and management. PKSF makes continuous interventions to deliver those services to micro-entrepreneurs and has been implementing various value chain projects through its POs for various potential sub-sectors in different areas of the country.

Technology Transfer: Transfer of appropriate technologies plays a vital role in increasing productivity of farmers and micro-entrepreneurs. PKSF extends improved farm technologies that are tested, proven and also require relatively small amounts of investment. These technologies include, among others, Pheromone Traps, Porous Pipes, USG Replicators, Seed Preservation (Maria Model), Perch System of Black Bengal Goat Rearing and Vermi-Compost (organic fertilizer).

• Social Protection Programme

The poor suffer from losses of income from time to time due to natural hazards, personal situations, adverse market behaviour, and various other reasons. Keeping the foregoing in mind, PKSF has so far, made a number of initiatives in order to reduce the poor's vulnerability. They are as follows.

Disaster management: Most often natural disasters cause colossal losses to marginalised people. PKSF has created a Disaster Management Fund (DMF) to provide the poor families with quick financial assistance to cope with and recover from both man-made and natural disasters.

Micro-insurance: To cushion various shocks, low-income households borrow from informal sources, withdraw their savings, or sell assets. However the coverage of such mechanisms is insufficient and unreliable. Moreover, the vulnerability of the poor is exacerbated each time they incur a loss, creating a vicious cycle that precludes lasting improvements in human and economic welfare. To safeguard these perils, PKSF has undertaken a project to design viable micro-insurance services for the poor.

Climate change adaptation: Bangladesh is one of the most vulnerable countries to climate change. The poor are the most vulnerable to the impacts of climate change. The cumulative effect of these disasters creates a vicious cycle, pushing the affected non-poor to the ranks of the poor, the poor to the ranks of the extreme poor, and the extreme poor to the ranks of destitute.

Realizing the nature and magnitude of the adverse impacts of climate change and the required efforts to enhance resilience, The Governing Council of Bangladesh Climate Change Resilience Fund (BCCRF) designated PKSF for implementing community-level climate change adaptation activities through Community Climate Change Project (CCCP) to enhance capacity of the poor to increase their resilience to the adverse impacts of climate change.

• Capacity Building Programmes

Partnership development :PKSF is a unique platform for GO and NGO-MFIs collaboration in the field of poverty reduction through the provision of various development programmes. This partnership creates an extensive network that enables the forming strong social capital, disseminating knowledge, sharing ideas and exchanging views among the partners and development actors all over the country.

Institutional development: PKSF puts great emphasis on institutional development for itself as well as for its POs. Institutional development has implications on a number of areas, such as programme outreach, absorption capacity of the POs, supervision and monitoring, financial management and control, personnel policy including human resource development (HRD) and sustainability of microcredit programme. The institutional development component includes training, on-site technical assistance, study visit at PKSF, loan for institutional development of POs, workshops/seminars, research programme, and internship.

Skill Development of Programme Participants: Skill-enhancement facilitates increasing the productivity of programme participants, which in turn scales up existing enterprises; opens up new opportunities for investment, and diversifies and raises their income. It also helps them move out from the low productivity trap. Gauging the needs, PKSF offers need-based farm and off-farm skill development trainings.

• Advocacy and Knowledge Management

Policy advocacy: PKSF always advocates for policies and regulations that aim to serve the greater interest of the disadvantaged segment of the society. PKSF was an important member of the Microfinance Research and Reference Unit (MRRU) set up by the government for preparing a microfinance regulatory framework. In addition, PKSF established Institute of Microfinance (InM) to contribute to the capacity building of the microfinance as well as development sector of the country.

Social advocacy and Knowledge Dissemination: With the objectives of building awareness of various important social issues, as well as to disseminate knowledge and ideas in relation to sustainable poverty reduction, PKSF has set up a new

unit named 'Social Advocacy and Knowledge Dissemination'. It is to be noted that promoting learning, sharing and converting experiences into knowledge of high value require organized efforts. The above mentioned unit involves collecting, preserving and sharing knowledge in different forms, to be used for social and human welfare.

RESEARCH AND DEVELOPMENT (R&D)

Research activities of PKSF aim at providing the needed inputs and impulsion for efficient designing and implementation of its diverse activities. PKSF's research division operates in a three-fold way to conduct its research activities: in-house action research, collaboration with other institutions/individuals, and external consultancy. Apart from regular monitoring and research, PKSF has adopted a Results-based Monitoring (RBM) System to track the desired results of its different interventions.

SPECIAL ACTIVITIES

Scholarships: In order to break the inter-generational poverty trap, PKSF has started a new move of awarding education scholarships to the meritorious children of the ultra-poor families (students at SSC/ HSC or equivalent and Honours/Masters or equivalent levels) from 2012.

Special Fund: PKSF's current operational system is often found to be unhelpful as per the demands of the immediate situation. In the absence of such a provision within the on-going mainstream programmes, PKSF has formed a 'Special Fund' from its own resources with a set of principle in which community services are to be prioritised over the individual cases.

Programmes-Support Fund (PSF): Initiated in 2011, Programmes-Support Fund (PSF) aims to establish the human dignity of the poor by undertaking education, health and other social development programmes. This fund is available to operate any poor-friendly programmes, e.g., education, health, technology, marketing and training that are in consistent with attaining the objective of this fund. A fund administrative committee and a fund executive committee have been formed for policy making and execution of different activities at the field level.

RESENT ACTIVITIES AND STATUS

Most of the districts in the country are covered by the POs of PKSF reaching 273 in numbers in FY 2013-14. As of June 30, 2014, the total number of members is 10.64 million and total number of borrowers is 8.13 million. Among the borrowers, the number of women borrower is quite significant (91%) i.e. 7.42 million. As of 30th June of 2014, cumulative loan disbursement is BDT 1746.48 billion and outstanding is BDT 104.95 billion 2014 at PO-Borrower level. The outstanding amount of savings is BDT 40.69 billion. As of 30th June of 2014, the cumulative loan disbursement at PKSF-PO level is BDT 188.33 billion and outstanding is 104.95 billion.

PROFILE

Microcredit
Regulatory
Authority

MRA: AN OVERVIEW OF MICROCREDIT REGULATORY AUTHORITY

Historical overview of Microfinance in Bangladesh: Microfinance, an effective means of poverty alleviation, played a pivotal role for poverty reduction and development of Bangladesh. Though Bangladesh is pioneer in microcredit as poverty alleviating tool, its operation does not carry a long history. Along with donor supported social and rehabilitation programs, BRAC and some other NGOs initiated microfinance in early 70's, just after the Liberation. Due to the higher interest rate for the credit from informal moneylenders and constraints of the formal financial sector to reach the poor and ultra poor mainly in rural areas, a huge demand for microcredit existed among this group of people. The NGOs availed that opportunity suitably and started to extend loans to this group who lacked access to the formal banking services. Initially, the expansion of this newly started microcredit movement was very slow because of high risk in recovery and shortage of required funds. But dramatic changes took place with the emergence of Grameen model in mid seventies and changed the whole scenario of microcredit in Bangladesh.

In 1979 Bangladesh Bank (Central Bank) sponsored the GrameenPrakalpa (Grameen Action Research Project) in order to help consolidate Professor Yunus' Model and replication of the model to other parts of the country. Under the aegis of Bangladesh Bank, some nationalized and specialized government banks also provided fund to the project. In 1983, through a special enactment by the Government GrameenPrakalpa was converted in to a specialized bank as Grameen Bank. Its success encouraged NGOs to get involved in microfinance operations. Moreover, the Government encouraged expanding microfinance activities, especially through establishing Palli Karma Sahayak Foundation (PKSF) as a wholesale funding agency to meet the demand for fund of the Microfinance Institutions (MFIs). Largely due to these reasons 1990s saw a huge increase of this type of non-government organizations. Other reasons behind this success were strong self monitoring and supervision of the credit program by the respective MFIs, group and joint liability based lending, high recovery rate, lending mainly to the women etc.

Regulatory attempts: The microfinance sector in Bangladesh grew rapidly in the late 1980s and the 1990s. The sector was unregulated and highly skewed; most MFIs were unregistered and some had multiple registrations, the interest rates charged by them were high and varied widely, and many MFIs engaged in parallel social and commercial activities. These organizations registered under different laws with different government agencies as voluntary organizations or societies or non-profit companies. Their microcredit activities were not supervised by any of those authorities/agencies.

Creation of NGO Affairs Bureau in 1990 was the first attempt to monitor and supervise the NGOs operating with foreign donation. In the same year Palli Karma Sahayak Foundation was created by the government as an apex organization for wholesale funding to the NGO-MFIs and building capacity to its partner Organizations (POs). PKSF has been playing the role of a quasi regulator for its POs. Though it has no regulatory power, it could

exert some desirable influences on the partner MFIs as it has disbursed low-cost funds and there was competition for the fund. However, those non-prudential norms were not sufficient to address the emerging issues of the sector. Therefore, with the emergence of this new

financial sector several issues like sustainability of NGOs' programs in absence of donor funds, channeling financial services in rural unorganized financial market through NGOs network, legality for savings collection by NGOs etc. have come to forefront over the time. All these factors triggered the demand for some kind of regulatory environment.

In this context, Bangladesh Bank commissioned a study in December 1997 to examine "the regulatory aspect of MFIs and linking it with the formal financial sector". The study was completed in 1998 and the following two important findings and recommendations were found:

1. The regulation available in the form of statutory requirement under the existing banking and financial laws will not cater to the special needs of this sector;
2. Legal recognition of MFIs through enactment of law is required to access formal sources of funds, so that they can operate under an agreed "Code of norms/Conducts" under the form of special licensing arrangements.

Subsequently in light of above recommendations Bangladesh Bank and other related stakeholders raised the issue of regulation for this sector to the government. In this backdrop Government formed a Committee of seven members with the chairmanship of the Governor of Bangladesh Bank in October 1999 to (a) recommend an effective credit and savings policy for the sector, (b) ensure transparency and accountability into their activities and (c) make some recommendations regarding a regulatory framework and if necessary to propose a body to regulate and supervise these NGO-MFIs.

This Committee prepared its report after discussing the issue with policy makers, stakeholders, academicians and other civil society members at national level and finally submitted the report to the government in March 2000. On the basis of the recommendations of the above Committee, Government set up a special unit named "Microfinance Research and Reference Unit (MRRU)" at Bangladesh Bank under the supervision of a National Steering Committee in June 2000 to formulate policy guidelines as well as uniform accounting guidelines to ensure transparency and accountability of this sector. The Governor of the Central Bank led this Committee consisting of 10 other members selected from both government and private sectors. The Committee completed its task in 2005 and prepared a draft of legal framework after identifying the needs through consulting the issue with the sector representatives. The draft law suggested for an independent regulatory authority that would be responsible for providing licenses to the MFIs and monitoring their activities.

Establishment of Microcredit Regulatory Authority (MRA): Following passing the Act "Microcredit Regulatory Authority Act, 2006" by the parliament on 16 July

2006 based on the draft submitted by the National Steering Committee to the government Microcredit Regulatory Authority (MRA) was established by the Govt. upon enactment of the said Act from 27 August 2006 as the regulatory and supervisory body of Microfinance Institutions. According to the provision of the Act, license from the MRA is mandatory for operating microfinance in Bangladesh. In order to ensure the wellbeing of the clients and sustainability of the MFIs and for bringing transparency and accountability in the operations of MFIs, Govt. promulgated Microcredit Regulatory Authority Rules, 2010 under section 51(1) of the Act.

Legal Status and Governance of the MRA: MRA is a statutory body governed by a Board of Directors constituted by the Government. Under section 6 of the Microcredit Regulatory Authority Act, 2006 the Governor, Bangladesh Bank, by virtue of his/her position, is the chairperson of the Board and among other members, 6(six) shall be government officials or persons to be nominated by the Govt. and the Executive Vice Chairman, appointed by the Govt. under section 10 of the said Act, by virtue of his/her position, shall be member secretary of the Board.

Duties of the Microcredit Regulatory Authority (MRA): The primary duty of MRA is to alleviate poverty through ensuring transparency and accountability in MFIs activities and to facilitate sustainable growth of the sector by implementing MRA Act and Rules. For ensuring the above objective MRA needs to perform following specific duties:

a) Issuing license for undertaking microcredit operations.
b) Supervision and monitoring of MFIs to ensure compliance with rules and regulations. Imposing penalty for non-compliance which may even result in cancellation of license;
c) Preservation, examination and analysis of data related to the sector;
d) Take necessary steps for auditing of the accounts of the MFIs;
e) Policy formulation;
f) Research etc.

The role of MRA is not only to monitor and regulate the NGO-MFIs but also to facilitate them and work for the development of the sector as a whole. For this MRA also undertakes the following activities:

1) Capacity building of the MFIs through training to develop their financial literacy as well as ensuring good governance;
2) Provide guidance and advice to the NGO-MFIs on various critical issues;
3) Organizing workshops, seminars and meeting for knowledge dissemination as well as facilitating linkage with the formal financial sector for funding to the microfinance sector;
4) Participate in various national and international seminars related to microfinance to achieve multidimensional and updated knowledge related to the sector;
5) Provide information related to the sector to the stakeholders including policy makers, researchers etc;

6) Conduct research and analysis on critical issues relating to microfinance and provide policy inputs to the Government.

Rights and responsibilities of MFIs: MFIs shall have the following rights and responsibilities:-

A) To provide credit facility to the poor people to make them solvent and self reliant;
B) To provide assistance to the poor people for conducting various economic activities;
C) To take savings from their members;
D) To open accounts with the bank relating to extending credit facilities;
E) To take loan or grant from bank or any other source to create fund;
F) To invest surplus fund to activities approved by MRA;
G) To receive service charge for extending credit facility at the rate prescribed by the Authority;
H) To provide various insurance service and other loans for social welfare purpose to the creditors and their family members.

MFIs are required to take prior approval from MRA in case of operating activities other than the above mentioned activities.

SOME IMPORTANT REGULATORY REQUIREMENTS:

a) Maintaining reserve fund: It is mandatory for MFIs to form a reserve fund by 10% of their accumulated surplus, which would be kept in the head office related bank account.
b) Deposit collection and its use: MFIs can collect deposit from their members up to 80% of their outstanding loan and minimum 70% of their members must be provided with loans. There are options to collect mandatory, voluntary and term deposit under some stipulations and in case of term deposit MFIs must take prior approval from MRA and fulfill some preconditions as prescribed in Rule(29) of MRA Rules, 2010.
c) Profit distribution and use of surplus: Since MFIs are enjoying tax rebate facility and they don't have shareholders, they can't distribute their profit. Their profit will be accumulated, 10% of which will be kept as reserve and remaining will be used in revolving fund or can be spent for the welfare of their members with the permission from MRA.

Illegal activities and punishment: According to the provision of MRA Act, 2006 conducting microfinance operation without MRA license is illegal and punishable.

Monitoring tools: MRA uses two types of monitoring tools.

1. Offsite Supervision: MFIs are required to submit half yearly reports related to their operations, and audited financial statements. These reports and financial statements are checked, verified and evaluated for compliance with MRA rules and regulations, and to assess the overall strength and weaknesses of the organization.

2. Onsite Supervision: The offices and branches of the MFIs are physically inspected and the performance of the organization is checked and validated to ensure that operations are being carried out in a satisfactory manner.

Other policy initiatives: From its inception, MRA has been able to operate under a comprehensive IT platform. Recently MRA has introduced e-Regulatory system under which MFIs can send their MIS report through online that helps reduce cost as well as save time and labour of the MFIs. MRA is in the process of compiling a national database for the entire sector including both the government and non-government organizations. Besides, a Depositors Safety Fund scheme and CIB are also going to be introduced soon.

Impact of regulation: From the result of researches conducted by InM & an independent international consultant of DFID it has been revealed that under regulatory environment MFIs have become more efficient and sustainable from both financial and management aspects. The key impacts of MRA regulations are summarised below:

1. There is a good progress in terms of record keeping, auditing and communication of audited report to MRA in time; there is also an increase in the transparency in interest rate calculation through use of declining balance method;

2. MRA has been successful in enforcing compliance with certain covenants of ownership, governance and succession;
3. MRA has been largely successful in bringing discipline and order to the sector through its licensing operations;
4. MRA has started to set in sight on facilitating the development of innovative products to capture new market opportunities (such as mobile banking, remittance incomes);
5. Fraudulent practices among licensed MFIs are said to be absent;
6. The overall impact is positive in so far there has been increases in efficiency, reduction in the cost of loans and lowering and standardization of fees;
7. The efficiency impacts vary across size groups of MFIs; more positive impact is noted for small and very small MFIs, although the overall efficiency levels of small MFIs are still below the larger ones.

Licensed MFIs Information: As of June 2013 MRA received information from 649 licensed NGO-. Basic Statistics of these MFIs are as follows:-

Particulars	No/Value
No. of Licensed NGO-MFIs	690
No. of Branch Network	14,674
No. of Employees	1,10,734
No. of Clients	24.60 million
No. of Borrowers	19.27million
Amount of Loan Outstanding	TK 257.01 billion
Amount of Agri Loan Outstanding	TK 89.05 billion
Balance of Savings	TK 93.99 billion
Recovery Rate (%)	Above 97.69%

PROFILE

Institute of Microfinance (InM)

InM: A CENTER STRIVING FOR EXCELLENCE IN RESEARCH, KNOWLEDGE MANAGEMENT AND TRAINING

Institute of Microfinance (InM) is an independent organization established to perform research, knowledge management and training in the field of microfinance, poverty and development. The Institute started its journey officially from 1 November 2006. It is registered as a 'non-profit institution' under the Societies Registration Act 1860. At the initiation, InM was provided with seed money by PKSF. Presently, UKaid, DFID finance the Institute under PROSPER program.

Governance

InM is governed by a two-tier governing system Governing Body and General Body. The General Body is the Institute's highest authority. It is responsible for the overall policy guidance and direction for efficient functioning of the Institute. Total number of members of the General Body is 14 (forteen), including 7 (seven) members of the Governing Body.

The members of the Governing Body are as follows:

Chairman:

Dr. Qazi Kholiquzzaman Ahmad
Chairman, Palli Karma-Sahayak Foundation (PKSF), and Governing Council of Dhaka School of Economics (DScE)

Ms. Rasheda K. Choudhury
Former Advisor to the Caretaker Government of Bangladesh, and ExecutiveDirector, CAMPE

Mr. Md. Abdul Karim
Managing Director
PKSF (Ex-officio)

Professor A. K. M. NurunNabi
Vice-Chancellor
Begum Rokeya University

Dr. Toufic Ahmad Choudhury
Director General
Bangladesh Institute of Bank Management (BIBM)

Dr. Pratima Paul Majumder
Former Senior Research Fellow
Bangladesh Institute of Development Studies (BIDS)

Professor M. A. Baqui Khalily
Executive Director, InM (Ex-officio)

In addition to the seven members of the Governing Body, the other members of the General Body are:

- Mr. Khondkar Ibrahim Khaled, Former Deputy Governor, Bangladesh Bank
- Ms. Parveen Mahmud, Managing Director, Grameen Telecom Trust
- Dr. Mohammad Jashim Uddin, Deputy Managing Director, PKSF
- Dr. M. A. Hakim, Chairman, Department of Economics, Southeast University
- Dr. Bondana Saha, Supernumerary Professor, BIBM
- Professor Rezai Karim Khondker, Professor, Department of Development Economics, DSoE, Dhaka
- Dr. Md. Mosleh Uddin Sadeque, Director (Training & Operations), InM

Role and Achievement

During the last eight years since its inception, InM has made strong headway in research, knowledge management and training. The purpose of all activities is for the promotion of microfinance sector in Bangladesh as well as in other parts of the world.

A. Research

Goal and Output

Research is the most crucial among the core activities of the Institute. The strategic goal is to take leadership in research on microfinance and the related poverty eradication programs as well as on their effects on the economy, poverty alleviation, inequality and vulnerability. The Institute takes collaborative efforts with national and international organizations and universities in research, action research and other professional activities such as livelihood promotion and environmental issues.

In order to achieve its goal, the Institute addresses the following key output areas:

- Impact assessment
- Product development
- Policy guidelines

Impact Assessment

Assessment of the impact of microfinance and other poverty alleviation programs implemented by different government and non-government organizations are under the purview of InM research.

Product Development

Microfinance has passed a long way with a few products. Innovation and product development are a dire need of the changing circumstances. InM addresses these research issues.

Policy Guidelines

InM research is for deriving lessons and insights to guide policymakers and practitioners of microfinance.

Focus and Issues

At the beginning, the research focus of the Institute was on microfinance. Over time, it has moved towards a broader perspective with diversified dimensions of development and equitable growth. As such, InM takes to address the following broad issues:

- Microcredit Market
- Overlapping of Microcredit
- Poverty Impact of Microcredit
- Access to Finance
- Financial Inclusion
- Dynamics of Poverty
- Poverty Alleviation Programs
- Risk and Mitigating Strategy
- Climate Change Issues and Microcredit

Microcredit Market

In order to understand the whole scenario of microcredit, we need to understand the size and structure of microcredit market in the country. Under the market structure, studies on outreach and institutional development of MFIs are to be done. The supply-side study along with the demand side aspects is important for formulation of microfinance policies.

Overlapping of Microcredit

A current burning issue in the microcredit market is 'overlapping' or 'multiple borrowing'. It is criticized to have contributed to indebtedness of borrowers. Addressing the extent, nature and consequences of overlapping is an importance research agenda for InM.

Impact of Microcrediton Poverty

Addressing this issue is the core of InM research. Almost all previous researches suggest that microcredit has strong positive impact on poverty alleviation. But those studies are on short-term impact evaluation based on cross-section information. In order to have a clear understanding of the role of microcredit on poverty alleviation, a detailed and long-term impact assessment is an utmost necessity, and the Institute endeavors to do that by generating and analyzing panel data.

Access to Finance

Microcredit gives us only a partial picture of the financial sector. In order to understand the importance of microcredit or microfinance in relation to overall financial sector, we need to have a comparative as well as an overall picture of the household's access to informal and formal financial markets along with the quasi-formal microcredit market. Addressing this issue will enable us to understand the broader role of finance in poverty alleviation and development. InM ventures to undertake research on access to finance and its role in development. A longitudinal approach is followed in order to understand the changes over time.

Financial Inclusion

Traditionally, microcredit was meant for the poor who do not have access to formal financial institutions because of collateral to offer as security or they have access to moneylenders who charge exorbitant interest. But the extreme poor or the people living in remote char pockets are often deprived of the opportunity on the plea of risk in realization of loans and high administrative cost or both. InM ventures to determine the extent, causes, nature and the consequence of such financial exclusion through studying financial inclusion per se.

Dynamics of Poverty

Poverty alleviation and economic development are the goals of InM research. Poverty is multi- dimensional. In order to formulate any effective policies for poverty alleviation, it is important to examine the dimensions and underlying causes of poverty. InM strives to address the issue by examining all details of the dynamics of poverty in rural Bangladesh through longitudinal survey approach.

Poverty Alleviation Programs

Government and non-government organizations implement poverty alleviation and development programs at different times. InM undertakes to evaluate the effectiveness of these programs and identifies flaws, if any, in terms of formulation of the programs and implementation process, thereby to guide the policymakers and development practitioners.

Risks and Mitigating Strategy

Risks and shocks are two important factors determining poverty and vulnerability. Households have to face various risks and shocks which need mitigation. They adopt various mechanisms to cope with the shocks. Health shocks are a common phenomenon which every household has to face. Literally, there is no microinsurance mechanism for the poor in the rural areas of Bangladesh to mitigate the health shocks. InM strives to study the nature and extent of health shocks as well as to explore the possibility of introducing micro health insurance scheme in the rural areas. InM also undertakes a pilot health insurance scheme with the product designed under the project.

Climate Change Issues and Microcredit

Climate change is a common phenomenon in the present-day world. It is more common in the tropical country like Bangladesh. It has severe negative impact on poverty. Intermittent cyclones and tidal bores in the south, desertification in the north, and river erosion all over the country are affecting the lives and livelihood of the people, which contribute to poverty. People do not have enough adaptive capacity against these climate change effects. Building resilience and adaptive capacity are a great need now. InM takes up the matter in its research strategy and in collaboration with a foreign organization the Institute looks into the matter how and to what extent microfinance can play a role in building resilience and adaptive capacity of households.

Current Status of Research: (2007-2014)

- 30 completed Research
- 16 ongoing Research

Some Major Research Studies:

- Access to Financial Services
- Dynamics of Poverty in Rural Bangladesh
- Multiple Memberships (Overlapping) in Microcredit
- Microinsurance, Poverty and Vulnerability
- Impact of Prime Program for Monga Mitigation
- Impact of Microcredit on Agricultural Farm Performance and Food Security in Bangladesh
- The Impact of Governance Mechanism on Performance and Outreach of Microfinance Institutions in Bangladesh
- Status of Individual Modernity of Women in Rural Bangladesh: An Exploratory Study on Microfinance and Gender-role Transformation
- Evaluation of PRIME Interventions in the South-western Regions of Bangladesh
- Assessing Financial Inclusion in Char and Haor Areas in Bangladesh
- State of Microfinance Development in Bangladesh – Financial Inclusion and Overlapping

KNOWLEDGE MANAGEMENT

Knowledge management activities involve dissemination of knowledge created through InM's own research or are globally available from different sources, on various aspects of microfinance, poverty and development. This division works as the voice of the Institute by featuring its activities to a wider audience.

The dissemination of knowledge involves the following process:

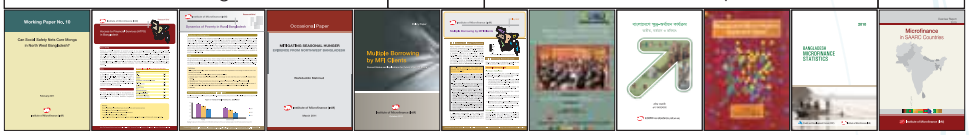
- Publication
- Participatory programs
- Media relations and advocacy

Publication

InM publishes working papers, research reports, research briefs, policy briefs, occasional papers, and books presenting results from InM research studies. It has already published a considerable number of these items. Besides, it regularly publishes annual microfinance statistics. The Institute has a plan to publish a journal of international standard in near future. Further, in order to reach a wider spectrum of people, InM uses the ICT tool (web/mail) of publication.

The Institute has so far published the following materials to its credit:

Category and Number of InM Publications (2007-14)			
Working Paper Series	29	Policy Paper	03
Occasional Paper	02	Policy Brief	04
Bangladesh Microfinance Statistics	05	Research Brief	05
Books	03	Study Report	01
Conference Proceedings	01	State of Microfinance Report	08



Participatory Program

Participatory programs that the Institute undertakes include organizing seminars, workshops, dialogues, and conferences for disseminating and communicating the results of InM research studies to the sector stakeholders and practitioners. The present conference is such a noble attempt. Besides presenting its own research results, the Institute also organizes seminar/ workshop/dialog/conference highlighting the current/burning issues of microfinance, poverty, and development programs.

Category and Number of participatory program (2007-14)			
Seminars / Workshops	40	Dialogues	14
Conferences	02	Press Conference	01

Participatory Program

InM organised a 2-day National Seminar on “Microfinance and Development” to disseminate findings of InM research studies on August 24-25, 2013. Policymakers, professionals and senior executives of MFIs attended the seminar.

Media Relations and Advocacy

To sensitise people in the development sector, the Institute occasionally organizes talk shows on different TV channels on various microfinance and development issues. Renowned academicians and practitioners from various associated organisations and institutions participate in the programs highlighting the microfinance sector as a tool of development.

B. Training

Goal and Output

InM endeavors to take leadership in training and capacity building programs in the field of microfinance and allied area of poverty reduction. Mechanisms are being developed to ensure innovation through need assessment, module development and imparting training and academic programs that will cater to the vibrant need of the sector. In order to achieve these goals, the key output areas of training are:

- Developing a new generation of practitioners in microfinance industry
- Developing mid-term and long term academic programs

Developing a new generation of practitioners

InM ventures to foster the next generation of practitioners to develop a proficient and specialized career in the microfinance industry with a view to complimenting the sector to transform itself in a more professional way. It will adapt high impact programs and launch niche for professional programs to deliver it to learners at home and abroad. InM endeavors to create a strong national and international network, strategic alliances and/or partnership with microcredit specialists and esteemed institutions to create opportunities for future practitioners and give the institute a leading edge.

Developing mid-term and long term academic program

InM will uniquely position itself in designing and offering outcome-oriented and technology– enhanced certificate and/or diploma programs. It will materialize these programs through innovative delivery methods, on-campus, off-campus or distance learning, to the target learners.

Training Mode

InM so far has developed 10 training modules for the practitioners. The quality of the training modules is widely acknowledged by the sector stakeholders at home and abroad. The training encompasses the following activities:

- Direct training by InM
- Targeting implementing partners of PKSF
- Certificatecourses /Diploma
- Web based courses

Direct training by InM

Since the beginning, the Institute used to provide training to the clients through its selected Training Service Providers (TSPs). But on recommendation, InM changed its earlier mode to imparting training directly to the clients from January 2013.

Targeting implementing partners of PKSF

At the outset, two training programs – “Microfinance Operations and Management” and “Book Keeping and Accounting Management for MFIs” were conductedextensively with a view to deepening the basic issues as envisaged in the findings of regional dialogues, need assessment and suggestions of the stakeholders.

	Name of the Module	Language
Developed by InM	01. Microfinance Operations and Management (10 days)	Bangla & English
	02. Microfinance Operations and Management (5 days)	
	03. Book Keeping and Accounting Management for MFIs (5 days)	
	04. Monitoring and Evaluation of Microfinance Programme (5 days)	
	05. Improving Participatory Managerial Skills and Management Style (5 days)	
	06. Legal & Regulatory System and Governance (5 days)	
Developed by InM for Chinese Practitioners	07. Microfinance Credit Delivery Process and Operations (5 days)	Chinese & English
	08. Microfinance Product Design and Business Planning (3 days)	
	09. Effective Management of Microenterprise Loans (5 days)	
Developed with AIT	10. Advanced Generic ToT (10 days)	English

Web-based Courses

InM intends to introduce training and certificate/diploma courses for microfinance practitioners through innovative delivery systems such as distance learning or off-campus programs.

International Training

The Institute has a plan to enter itself into the Chinese microfinance market. Besides, as per cooperation with AIT (Bangkok), ToT courses on the specialized areas may be organized with AIT resource persons for the certified trainers of the sector.

InM Training Center

The six storied InM Training Centre is situated in a prime location in Dhaka city equipped with the following modern facilities:

- Capacity for 100 participants,
- Three individual air conditioned and well-equipped class rooms, Residential accommodation for 50 participants,
- Full time Lift and Generator backup, Cafeteria and dining, and
- Wi-Fi

Training Highlights

- 1 Comprehensive TNA for Microfinance Sector
- 10 Training Courses to cater the need to the sector
- A pool of 211 Certified Trainers developed by InM
- 21 Training Service Providers to organise training across the country
- Training offered to 13,663 microfinance practitioners at field
- 16,000 practitioners to train: Target by June 2015

Certificate/diploma courses

The institute is in a unique position in designing and offering certificate/diploma courses for the microfinance practitioners. To help institutionalize the MFIs and reinforce their capacity building initiatives, for the first time in Bangladesh, InM introduces Certificate Courses and Diploma in Microfinance. Launching ceremony was held on August 28, 2014 with Dr. Qazi Kholiquzzaman Ahmad, Chairman, InM, as the Chief Guest.

The Certificate Courses/ Diploma is based on a long term human resource development approach where the participants will get theoretical understanding and practical experience through: classroom sessions, hands-on training, and field exposure.

The program titled as "Certificate/ Diploma in Microfinance" consist of six separate certificate courses. These courses are:

- Poverty, Development and Microfinance
- Microfinance Operations and Management
- Financial Planning and Analysis for MFIs
- MIS of Microfinance Program
- Governance and Regulation of MFIs
- Human Resource Development of MFIs

An Academic Committee consisting of 15 members including three members from PKSF, one from MRA, five from the MFIs and two Distinguished Persons chaired by the Executive Director of InM is responsible for steering the program.

To start with, certificate courses will be offered on Fridays, Saturdays. During weekdays classes will be held in the evening. However, InM contemplates to introduce evening certificate courses on week days to facilitate regular staff of MFIs to purse these courses.