

The NGO-MFI in Bangladesh: The Issue of Ownership and Governance.

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ABSTRACT

Micro Credit is not a new thing in Bangladesh. Originally it was practiced in the rural sector by informal money lenders, various self help groups and community based cooperative credit societies. At that time the major critique of informal money lending business was aimed against the pauperization effects of its high rate of interest. In 1970's decade Professor Yunus through his action research came up with a new alternative model of collateral free, group based, peer monitored system of micro lending. Later he established a new type of social bank owned by the poor borrower shareholders themselves. In Bangladesh this "Grameen Bank Model of Micro Credit" was replicated in various forms by many NGO-MFIs, initially with the help of donor money. In course of time the more successful NGO-MFIs in Bangladesh as well as Grameen Bank have become as rich as international large corporations with a diversified portfolio of activities e.g. Micro Credit to poor borrowers, Social Services to so called target groups and sister business concerns. From their business activities they sometimes can also earn huge surpluses. There are of course also a few miserable failure cases among the NGO-MFIs involving huge loss and misuse of soft money (i.e. public savings, subsidized credit and foreign grants for poverty alleviation). Given the huge number and variety of the NGO-MFIs in Bangladesh, the existing registration authorities actually could not have the capacity to monitor and regulate them. Recently people from all corners including the majority of the NGO-MFIs themselves have demanded to set up a proper system of transparency and accountability of these organizations in order to protect the public interest. Bangladesh Government has already passed a law on Micro Credit Regulation and has set up a Micro Credit Regulatory Authority. This paper is based on a research sponsored by the micro credit regulatory authority of Bangladesh. The paper tries to critically examine the outreach, impact and sustainability of the different types of NGO-MFIs working in Bangladesh. It also develops a set of optimum criteria of ownership and governance for this sector at both macro and micro levels in order to ensure maximum public benefits from the activities of these NGO-MFIs.

Chapter1: Introduction

Why Microcredit?

Originally, micro credit was not a formal standardized process in rural areas. The poor and illiterate would borrow money on trust, either from the moneylender, or their friends and relatives in the same village. The usurious exploitation of money lenders ultimately led to further pauperization of the rural poor and sometimes, even pauperization of the aristocratic decaying feudal families. So, on the part of borrowers, there was a felt necessity to replace the exploitative money lending practices with a more moderate, standard, formal source of rural finance.

The rural economy consists of two sectors: the agricultural and the off-farm sector. The agricultural sector by nature requires long term loans for buying agricultural inputs. But the off-farm sector needs loans for various kinds of activities ranging from petty trade and self employment based activities, to micro enterprises.

The formal banking sector was unable to meet these latter demands. Specialized agricultural banks could meet the agricultural loan demand, but even that involved such a high transaction cost that none of the commercial banks, especially the privately owned banks, were ready to take up the job. So, in many countries, specialized formal agricultural banks were created, mostly owned by the state. But the rural poor could not have access, even to these state owned formal institutional loans, because they did not possess any land or tangible wealth which they could offer as collateral. So there was a need to devise a new lending agency that would be able to offer collateral free loans to the rural poor at an affordable rate of interest, with a secured system of recovery.

To meet loan demands of the rural poor, various models of cooperatives emerged spontaneously in rural areas with a mixed performance record. In some states, the government also piloted experiments with cooperative credit unions and self help groups. The experience of these experiments was mixed. In Bangladesh, experience has shown cooperatives with unhomogeneous memberships are more likely to be captured by the elite and serve elite interests.

At a concrete level there is always a problem of determining who should get credit and when repayment time comes, the borrower always applies for rescheduling the loan. In addition to these problems, bureaucratic interventions come from authorities at the top.

In spite of these problems some cooperative credit unions were able to scale up and succeed. As the green revolution strategy was followed in most of the rural economies without complementary land reform and rural industrialization, the twin process of demographic pauperization and economic polarization created a huge army of the landless rural poor crowding into various off-farm self employment based activities in rural areas. So the demand for collateral free short term micro loans to finance seed capital or working capital needs of numerous, small, non agricultural ventures kept rising continuously. The demand for such loans could no longer be met by the informal financial system tailored to an exploitative loan system largely based on individual trust. Nor was it met by the formal financial sector.

This rapidly expanding unmet demand of the rural poor for micro credit was studied and taken up seriously by many contemporary researchers in Bangladesh.¹ Among them, Professor Yunus and his colleagues devised an ingenious micro credit system to fill this gap, based on their trial and error experience in the field. This model later became known as the Grammen Model of Micro credit. It is actually a system of collateral free micro loans to a homogeneous target group with an installment repayment plan where peer pressure is used to ensure repayment. Thus group formation and group membership is a precondition for having access to this type of micro credit. The borrower must also be prepared to repay the installments at short intervals. This inevitably puts a constraint on the turnover rate of a borrower's business cycle. That is, all these initiatives have to generate enough income on a weekly basis so that loan installments can be paid back. Alternatively, the borrower must have ready cash available in the form of saved surpluses over his weekly income to pay back. Practice showed that they successfully did that! [*Md. Yunus, 2006*]

¹ Here we can mention the initial workshop arranged by FAO as early as 1972 at BARD, where the theme for discussion was "Asian Survey on Agrarian Reform and Rural Development". Dr. Mathur, Dr. Moazzem Hossain and Dr. Yunus were present at this workshop.

This model has been spreading rapidly since 1980 in both pure and mixed forms. It has been sponsored and replicated all over the world by various national and international agencies, e.g., Client Owned Banks, NGOs, Privately Owned Commercial Banks, Community Based Organizations, Cooperatives, Self Help Groups and Social Entrepreneurs. Dr. Yunus ultimately received the Nobel Peace Prize for this achievement. An infinite number of varieties and innovative examples can now be found in this field of micro finance.

The numerous beneficial consequences of this system of micro credit claimed by its various practitioners are:

1. It has made credit available to the rural poor especially poor women.
2. This has helped to smoothen the income and consumption of their households throughout the year by generating additional income.
3. At least some of them were able to take successively larger loans and use those loans to graduate themselves above the poverty line. A few have even become micro entrepreneurs.
4. By forming homogeneous groups it has also raised their social capital and social power.
5. In some cases when the credit program was also accompanied by other livelihood programs like income generation training, health services, education,

human rights awareness and advocacy programs, marketing support, higher education scholarships for their children, and the establishment of social enterprises, it had a synergistic effect on the overall wellbeing of the rural/urban poor.

*The Critique of Micro Credit*²

The most harsh and radical critique of micro credit points out that micro credit survives only because of the failure of mainstream agricultural and industrial sectors in absorbing micro credit borrowers into the mainstream growth process, either as shareholder owners of their corporate wealth, and/or as employees in the modern sector. But without that, they say, poverty can never be eradicated. The rural and urban micro borrowers are forced to go for micro loan based

² This chapter uses the insights from the paper, "Micro Finance: Poverty Reduction Breakthrough or neo liberal dead-end?" jointly written by Milford Bateman and David Ellerman.

activities that produce products and services mainly for the domestic local market and this, according to them, can be sustained only if mainstream sectors can create demand for them. Micro activities themselves can not create a self articulated self sustained process of growth and thus will be an inevitable failure in poverty eradication at the macro level. Micro activities will be there not to eradicate poverty, but manage it.

In the worst case the main stream sectors are not only unable to create new jobs for the new entrants, they actually throw away some of their already employed people and add them to the reserve army of the unemployed. This actually results in overcrowding and income in the micro sector typically ends up simply being redistributed and fought over within the poorer sections of society (*So called 'ghettoisation effect'*). Sometimes, like the metropolitan capitalists, their junior partners in the periphery relocate the labour intensive parts of their manufacturing process into this informal sector in order to enjoy the advantage of cheap labor, especially that of womenfolk.

Naturally, micro borrowers enter into labor intensive, quick yielding, less risky ventures and therefore have both a low rate of return for their micro capital, and also very low productivity of labor. But due to high transaction costs and the increasing cost of lending funds, micro credit interest rates are usually higher than what prevails in the mainstream sector. As a result, most micro borrowers are left with very little surplus to reinvest for upgrading and modernizing their ventures. Most of them fail to experience a sustainable upward mobility and suffer from a persistent syndrome of over work and under consumption. It is true that in spite of their poverty they are able to amass a huge amount of savings. However, micro borrowers are generally not able to use such funds for collective investment in the mainstream economy. This is often due to lack of a suitable investment agency owned by them and also ready to manage their mutual funds for profitable investments.

Socialist radicals also argue that in practice micro credit does not increase social capital or empower the poor. They believe that micro credit is inherently a commercially driven activity where an individual has to compete with other poor people for profit, and at the same time there

is a strong social imperative for credit repayment. Sometimes these mechanisms of credit repayment are no less harsh than that of the old exploiting moneylenders [Catherine Duggan, 2009.] At the loan recovery stage, one who defaults has to fight against the social pressure of all the other members of the group. Thus the whole system helps to create a differentiation among the poor. Only a few can graduate and the inequality among the poor increases. Finally, at the end, the poorest of the poor are ultimately thrown outside the orbit of micro credit! Everywhere, the bottom 10-20 percent, or the so called extreme poor/chronic poor group can't be reached by mainstream micro credit business schemes.

In response to the above, rather harsh, critique of micro credit, the new generation of micro credit practitioners have tried to defend themselves by developing two types of arguments. The first is the "Opportunity Cost" argument, pointing out the worse alternative of leaving the poor in the hands of rural moneylenders. The second is to show and build more sustainable, effective, diversified, and comprehensive programmes around micro credit.

These new programmes could be generally brought under the umbrella category of "CREDIT PLUS" programs. Under these we can now find an amazing variety of innovative forms of Micro Finance Institutes, some of which are completely social and altruistic, some are maximizing a mixed combination of both social and private interests and a few are possibly fraudulent. The more successful among them have now become very important powerful players in the mainstream economy with a diverse portfolio of corporate investments. Alongside commercial enterprises under the broad umbrella of their organization, they also have two other major divisions in their organization: managing social service delivery programs and micro credit programs respectively.

Under their micro credit wing, many of these second generation social entrepreneurs have devised various types of new credit instruments serving a more diversified client base (*e. g. Dabi, Unnoty and Progoty of BRAC*) with one or other interest rates attached to them. They have diversified their savings products too (*e.g. compulsory general savings, contractual savings, fixed long term deposit, etc.*) Some of them have introduced various insurance instruments too, and almost every system has been forced to diversify its sources of loanable funds, the conditions

of which have become increasingly and successively more stringent. To mention a few, *e.g.*, Official Foreign Grant or Loan at a subsidized rate of interest, grant or subsidized loan from International NGOs, own equity and retained income from the profits of micro credit itself, cross subsidies from their own profitable sister enterprises, savings from their clients, subsidized loanable funds from local wholesale credit agencies, loans taken from commercial banks, etc. The NGO-MFIs have now become differentiated. The few large and corporate NGO-MFIs have already achieved a monopoly control in the rural micro credit market. On the other hand, there are numerous small young NGOs which are facing the tragedy of extinction due to lack of cheap donor funds.

The spokesmen of the old generation of big NGO-MFIs now generally agree that micro credit is not a panacea to poverty eradication. It is only one of the tools in the tool box! So they think that they should also undertake other social service delivery programs in the fields of education, training, and health services, in order to supplement their micro credit programs. Generally, the state financed these social programs as a matter of universal citizen rights. After the advent of the neo-liberal paradigm and the dismantling of the state, everywhere they went under the management of either the private sector or the NGO sector. Now as donor funds are fast drying up, the NGOs are forced to seek alternative sources of funds and have become engaged in corporate investments to earn profit and cross subsidize these social services. Side by side, they are running micro credit programs more as non subsidized businesses, if not profitable ones.

Chapter2: Ownership

Different Ownership Models Of MFIs in Bangladesh

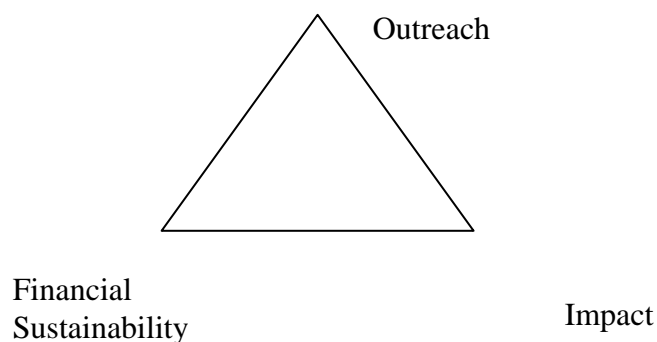
There is no single or simple answer to the question “Who owns the MFIs?” The answer would probably be something like this, “It all depends on the laws, regulations, customs, and etc. of the concerned country and the historical evolutionary stage of the concerned MFI”. Let me further explain this answer.

Historically, we know the micro finance model was neither a public sector baby nor a private sector child. Community is deeply involved in this model but it was not invented by the community. It is a baby of highly educated social entrepreneurs and/or altruistic members of the

upper classes of civil society. They started working in a small local community following the framework of so called action research. That meant piloting a procedure with predetermined social goals, collecting practical feedback from the community about its effectiveness, fine tuning the procedure on the basis of that feedback, and finally replicating it on a large scale at a macro level.

The specialty of this credit model was its novel attempt to ensure three things simultaneously which was not possible for other existing modes of rural credit. These three things are commonly known as “The Golden Triangle” which will be used here as the criteria for judging a successful MFI. [J. D. Von Pischke, US Aid]

Figure-1: The Golden Triangle



Using these criteria we propose that an ideal MFI is any institution that can give credit to reach out to poor members of the rural community, ensure effective use of it by them with some immediate positive impact on their lives, and at the same time also ensure long run financial sustainability of the program. Obviously, real MFIs will never completely match up to such an ideal model of an MFI. But they will, in general, be either moving away or moving nearer to the ideal model over time, and to that extent either slip away or come back to the position of a successful MFI.

A cursory glance at the financial sector of Bangladesh immediately shows us that publicly owned commercial and specialized banks, as well as privately owned commercial banks in Bangladesh, have failed to meet all three of 'the golden triangle' criteria. Until the law/custom of collateral requirement, complex procedure of application for credit, the natural unwritten preference for larger size of credit/deposit, etc. are not changed, these banks themselves will not be able to become an ideal MFI. However, they can still supply the loanable fund to an ideal MFI and act as a wholesale credit agency like PKSF, and thus become partial owners and guardians.³

Cooperatives, credit unions, community based organizations, self help groups, and all such membership based voluntary organizations, by definition have a limited outreach and do not necessarily cover the poor alone. Until they become homogeneous federal organizations of the poor through horizontal and/or vertical integration of the poor themselves, their size and reach is bound to remain small, geographically limited, and mixed. The nature of their progress along the two other dimensions of 'impact' and 'sustainability' will naturally be full of tension due to their unhomogeneous nature and will be limited due to their lack in economies of scale. The rate of progress along the other two dimensions will also depend largely on the historical context and the nature of the constraints imposed by the prevailing cooperative laws and regulations of the country.

Cooperatives are the most ancient form of organization in this subcontinent and are directed by the cooperative society's ordinance of 1984. The law is already outdated and has scope for manipulation from above by government law enforcing officers. The highest authority of the present government has already expressed her wishes to use the cooperative institution effectively for building a happy and prosperous Bangladesh and the cooperative department is now engaged in revising some of the outdated clauses of the old law.

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1. ³ The concept of ownership implies various kinds of rights over a property. There are four such important rights covering a full fledged concept of ownership. According to this concept, ownership gives the owner a right to use the property, a right to exchange it, a right to the residual income from its use and a right to transfer it to the chosen inheritor. In this sense the single original owner can at any time share or lease out some of these rights to others. In this way there may evolve various kinds of property right combinations.[Harold Demsetz, (1967)]

The Grameen Bank in Bangladesh is another very unique model of the poor man's corporate ownership that has actually succeeded in terms of all the three criteria of an ideal MFI. Over time, it has also expanded its outreach to various other sections of the society through various kinds of corporate activities and social enterprises. But those ventures are not directly owned by them. They are known as various kinds of social enterprises which try to serve social purposes through its business and earnings. In practice, people generally treat them as closely related sister organizations of Grameen Bank. However, they also ultimately indirectly benefit the poor owners and members of Grameen Bank, since in most cases their activities are run and guided by former Grameen bank employees and the chairman of these enterprises, Dr. Yunus himself, the chief of Grameen Bank. This picture does not fit with other NGO-MFIS.

The main strength of the GB model was the support of a unique favorable legal ordinance since its formal institutional birth, by virtue of which it continues to enjoy all the facilities of a rural bank owned mainly by its poor shareholders. Unlike NGO-MFIs, even the largest of them, it has the advantage of collecting savings from anybody living in rural areas. This has enabled it to collect huge savings and after adding its accumulated equity to it, Grameen Bank has been able to free itself from any kind of donor dependence.

In the case of private or state owned commercial banks we find the tendency to collect savings from rural areas all over the country and then transferring their use to a few urban centers. But in the case of Grameen Bank, savings are collected from rural areas and used for rural savers themselves! Because of its unique right as a bank to collect savings from both members and non members, Grameen Bank is now not only self sufficient but also profitable. Recently it has also started to distribute a part of that profit as direct cash dividend to its poor owners too.

In its board there are representatives of both the government and its poor borrower shareholders. Although the government's share in Grameen Bank has virtually come down to only 5 percent, the government retains the right to nominate three board members including the chairman. Ten other board members are elected representatives of the poor shareholders. So it is a joint

ownership model where the government has till now willingly played a very insignificant minor partner's role.

Like any other shareholding company, Grameen Bank is also susceptible to the general agency problem. The problem seems to be more acute here because of the very poor capacity of its poor principals/owners. Thus the strategic guidance of the organization largely depends on the benevolent character of its other educated and powerful board members. The question has been raised as to what will happen when the charismatic and benevolent leadership of the organization ceases to exist. Will the poor owners of a rich bank really be able to protect their own interests then?

Finally, there are the other various kinds of NGOs who are trying hard to acquire the ideal features of an MFI. Legally speaking, the property rights of an NGO are actually defined and controlled partly by the designated registration and licensing authority, and partly by the top board of directors of these organizations. But due to the lack of law enforcement capacity of these various registration authorities, they have virtually become fully controlled by the board of directors of the concerned NGO-MFIs. Generally, an NGO in Bangladesh can simultaneously be registered with several different authorities, e.g. the Social Welfare Ministry (Voluntary Social Welfare Agencies Act, 1961), the Registrar of the joint stock company (The Society Registration Act, 1860,) and the Cooperative Department (Cooperative Societies Act 1984 and Cooperative society rules 1987). An NGO can also initiate or become a not for profit company, usually known as a "company limited by guarantee". This permission is given under section 28 of the Company Act of 1994, enabling them to embark on commercial ventures as well as earn profit for the company. However, they are not allowed to distribute that profit as dividend to individual owners. An NGO also always needs a prior permission from the NGO Bureau to use foreign donations/grants for social purposes consistent with its original charter submitted at the time of registration. In addition to these formal registrations, the NGO-MFIs now require a license from the MRA to continue their micro credit operations.

These different registration laws and regulations define certain rights for the NGOs and enable them to diversify their activities and sources of funds. Although there are certain formal rules or

provisions of reporting, inspecting, and monitoring of the NGOs by these regulatory agencies, in effect they are rarely enforced, mainly due to capacity constraints of these registration authorities. When exercised, it sometimes degenerates into rent seeking by one or another corrupt officer from the regulatory authority.

Under current laws, none of the members of the board of directors of the NGO can have any personal claim over any residual surplus or any other income and/or asset of an NGO. The organization itself is treated as a perpetual legal personality and therefore everything is supposed to be owned by the organization itself. An individual member, however powerful, cannot inherit a single penny from organizational funds, income, or wealth. Even after the demise of the organization, all its remaining properties are to be given back to the government authority who then may transfer it to a similar type of organizational entity.

In this NGO model of MFIs, we find a mixed record of performance. Some are highly successful with respect to all three dimensions, some are miserable failure cases and some have performed in between. In the case of private ownership the cost and risk of any failure is borne by the private owner in the form of loss of his capital. He can also take punitive actions and fire those executives who were responsible for that loss. In the case of nationalized state ownership the loss is legally borne by the whole nation and generally nobody is very largely and really affected since it is everybody's property! In the case of an NGO, the bearer of loss is the organization itself. Ultimately the top executives and the board of directors decide how this loss is to be compensated.

The worst case is the case of the callous and corrupt chief executive and board of directors who do not care about the efficiency and/or profitability of the organization. The corrupt and/or inefficient executives can also either misappropriate or misuse the fund of a profitable programme and turn it into a loosing concern. They can also undertake new risky and bad ventures without prior necessary research and study. If the board of directors can not make them accountable for all these misdeeds and/or mistakes then there is a necessity of intervention from a third impartial higher regulatory authority otherwise the organization is bound to fail.

In the better case the executives generally recognize their mistakes at a pretty early phase and risk being unpopular by deciding to close the losing programme which implies loss of jobs and services of all those engaged in that particular failed program. Alternatively they can also think it worth trying to salvage the losing programme by cross subsidizing it with organization's profit earned elsewhere. That again will imply a loss equivalent to the opportunity cost of using that profit as subsidy for the programme in crisis. In all these cases a balanced decision satisfying the interest of all the stakeholders often becomes impossible for the organization. In these cases it is generally better not to go to the court and instead hand over the decision making power to an impartial prudent regulatory authority who must be there and be capable to balance properly the interest of all the contending interest groups within the organization: the group of beneficiaries/borrowers, the group of employees of the organization and lastly but not the least the group of directors. The regulatory authority must also have living communication with all these three groups in order to collect necessary information from them.

The above brief synopsis of the ownership mapping of MFIs in Bangladesh is neither complete nor exhaustive. We have mentioned only the major types here. One must also be careful to distinguish between formal rules of ownership (De-Jure) and actual exercise of them i.e. the De-facto ownership rights. But that needs concrete case studies about how the ownership rights were specified in the laws and how they were really enforced by the responsible agencies? Some relevant concrete questions will be: Are there ex-ante agreements among the concerned partners and are they respected in practice? Is the Government a reliable and impartial enforcer of such rights or do the rights ultimately rest on kinship, personal network or some kind of informal personal arrangements?

Need For Regulation

The existing complex regulatory framework has created multiple laws and multiple authorities with non uniform capacities and rights to monitor and enforce these laws and regulations. This creates confusion and prevents standardization in the fields of micro credit.

Whatever be the mode of ownership and financing of these various MFIs, under whatever laws they may be registered, everywhere the issue of accountability and transparency appears to be a

cutting across common limitation of them. In a recent survey of all the different types of NGOs undertaken by the World Bank in Bangladesh it was mentioned that Bangladesh needs if not anything at least a certification process to distinguish between “Fly by Night” type entities and proper NGOs that are really oriented towards delivering financial services to the poor. [*Hassan Zaman et.al., 2007*]

This need for screening and regulation has become important particularly because a considerable part of the fund of these NGOs is either public money or it comes from the foreign donors as soft funds meant for poverty alleviation. Thus the Government will be ultimately held responsible if there is any misuse, bankruptcy or sudden flight by night problem in these organizations.

In the absence of any certification and/or credit rating by a recognized central authority the market alone will be unable to screen them on the basis of their complex performance mix covering both economic and social fields.

The NGOs themselves especially the good ones will also be facing a problem of recognition in the credit market at large and will not be able to procure or borrow large commercial fund to finance their programmes. So there is now a mutual demand to have a regulatory authority regulating or governing and credit rating the NGO-MFIs.

In addition to this mutual demand there were also some negative complains from the borrowers/beneficiaries side about the coercive behaviour of some field officers while collecting the loan installments from the poor borrowers. Complains about misuse of the savings of the members were also raised by the depositors. There was also the age old complain about too low an interest for saving and a too high interest charge for borrowing. Large scale confusion is prevailing about the calculation process of the truly effective rate of interest. Obviously this effective interest is higher than the declared interest rate in the market and even that also is not uniform across all NGO-MFIs. Market signals could not resolve all these vital informational issues unambiguously. Some people tried to argue that micro finance has actually become a commercially viable lucrative investment and big money local as well as foreign will be pouring down soon into this sector. So it should no longer be seen as only a poverty alleviating social

project but also as a profitable business venture. Others still wanted to view it mainly or exclusively as a soft safety net social project for the poor. The private sector business men who were already facing competition from the big corporate NGOs were also demanding to bring them under the net of corporate tax in order to ensure a level plain field for competition in the market. The big corporate NGOs on the other hand were demanding tax exemption from the government! Thus in Bangladesh it seemed to be a high time to develop a proper regulatory system in the micro finance sector in order to not only regulate the MFIs but also to facilitate their development towards a proper direction and resolve all these issues.

The aim of this paper is to find what exactly we may mean concretely by the term “proper direction” and suggest some concrete measures to be taken from the sides of both Micro Credit Regulatory Authority and the NGO MFIs to reach the position of a happy golden triangle.

Chapter 3: Review of literature (shortened version)

literature on selected NGO-MFIs of Bangladesh

The second type of literature review consists of studies specifically on MFIs (GB, BRAC and BRDB) of Bangladesh focusing on their ownership and governance. Although there exists very few studies focusing on the issue of ownership and governance of the MFIs in the context of Bangladesh, we have found out several relevant literatures from which we can gain insights for our work.

Ownership Structure:

Akash (2008), while examining the possibilities of ownership of corporate wealth by the poor, have particularly discussed the ownership structure as well as the operational features of the Grameen Bank (GB) and BRAC. In terms of ownership, as for the GB, initially 60% of it was owned by the state with the remaining 40% ownership was with the poor rural women, where the ownership pattern in recent years has shifted in favour of the latter group who presently owns

95% of the GB. The ownership of BRAC as explained by Akash (2008) is quite different from that of Grammen Bank as the latter started their operation as a donor-funded organization but later transformed into an independent self-financed organization. BRDB, on the other hand has quite a different ownership pattern as it a semi-government two-tier cooperative.

Service Provision & Operation:

In case of BRAC, microfinance has been combined with its programme of health, education and other social activities. The crucial linking factor of these programmes is that, all of these are targeted to reduce poverty through livelihood generation and protection (Akash, 2008). The operation of BRAC incorporates 4 key components: economic development programme, social development, education programme, health programme, and BRAC social development, human rights and legal education services programme. Under its economic development programme, in addition to microfinance, BRAC covers activities in relation to institution building, programme support enterprises, and several activities for generating income. As discussed by Akash (2008), in addition to its original operation of micro lending, to date GB has extended its network to more than two dozens of organizations but the difference is that not all of them are owned/operated by the GB and are mostly registered under the company law of Bangladesh with separate management and operational structure. They are, however consistent with the broader aim of poverty alleviation of GB and the management is closely integrated with the employees and clients of the GB. In this regard, in most of the cases, the top management (e.g. managers and board of directors) is appointed from the ex-officials of the GB and Professor Yunus, the founder MD of the GB the generally holds the post of the Chairman of these organizations. The main programme of BRDB, which is funded by the Government targets to work for improving the condition of the small and marginal farmers as well as women and rural poor. It links village cooperatives with Upazila central cooperatives and provides short and medium term credit to its members. In addition it is also involved in activities like training in modern agriculture, supplying high-yield seeds, fertilizers, helping in marketing activities etc. Except one of its projects, all of the BRDB projects are involved in micro credit operations and such credit is given mainly for agriculture and small entrepreneurship. As argued by BIDS (2009), the differences in the structure of micro credit programmes are resulting in various management and

organizational problems and in this context the authors proposed for a unique micro credit system supervised by a Director and with certain key features.

As for BRAC, it is engaged in a wide range of commercial programmes, ranging from university education to cold storage plan, all of which are aimed at providing fund for BRAC's operation. As discussed by Akash (2008), these programmes are argued to have a social dimension as well and could be termed as 'socially oriented commercial ventures'. Finally, BRAC has extended its operation to several commercial profit oriented programmes. The ownership structure of these organizations is such that many of those has more than 90% equity share. In case of Grameen Bank, as discussed by Akash and Sobhan (2008), there are a large number of sister organizations of GB, which although owns the name of Grameen with them, are not supposed to receive any form of subsidies and therefore are expected to be financially self sufficient. GB, however supports these organizations during crisis period while providing loans in case of short-term crisis and by collecting private equity investment from other investors for cushioning long-term losses. The Grameen Fund generally accumulates the cash dividend of these companies and eventually this is reinvested in new equity projects (Akash ,2008). In this connection, one important strategy of the Grameen Fund for diversifying and minimizing risks is to invest one-third of their funds in risk free deposits.

Outreach:

As of July, 2004, GB has 1267 branches in 46,000 villages of Bangladesh with 3.7 million borrowers, almost all of whom are poor rural women (Akash, 2008). This implies coverage of 68% villages of Bangladesh. As discussed by BIDS (2009), BRDB has involved 4.9 million people into their two-tier cooperative structure. Under the organizational structure of BRDB there are 60,555 cooperatives with 21, 04,911 farmers and 83,132 cooperatives/informal groups involving 22, 09,809 people (Mondol et al., 2009). An important percentage of BRDB's credit is micro lending and it constitutes 3662 crore as of 2006, where the total loan amount is around 4855 crore taka. It operates a two-tier cooperative programme as well as 7 projects.

As discussed before, BRAC has 4 major programmes. The project on economic development operates through village organizations (VOs), where each of the VOs has 30-40 poor women as

members and the project as a whole comprising of 170000 VOs. As of 2006, this programme provides microcredit to 4.5 million borrowers and disbursed 3.7 billion USD and has successfully recovered loan in 99% cases. The health programme of BRAC also targets the women and this programme involves women health volunteers who provide door-to-door visit and basic health care facilities. Till 2006, there were 68,000 volunteers involved in such activities. In addition, BRAC also offers services involving pregnant and lactating mothers, immunisation programmes, treatment for the tuberculosis patients, water-sanitation and hygiene programme etc. Similar emphasis on females has also been found in the education programme of BRAC which operates 20168 primary and 32000 non-formal primary schools with 65% girl students. Around 1 million children are enrolled in these schools which also emphasises education for the disabled and ethnic minorities. In addition to this,

Organizational Structure and Internal Governance:

As discussed by Akash (2008), GB has one Board of Directors and one Managing Director (MD) where a Deputy Director (DD) is assigned under the MD with 6 deputy General Managers working with the DD and 3 General Managers reporting directly under the MD. As discussed by BIDS (2009), being a semi-government organization, Bangladesh Rural Development Board's (BRDB) governance pattern is quite different from that of GB and is managed by a 21 members board, which is headed by the Minister of Local Government, Rural Development, and Cooperatives of the Government of Bangladesh and the Director General of BRDB as the Member Secretary. The remaining organizational structure is however; quite similar to any other NGOs as BRDB's each of the 6 management units is headed by a Director. The difference again comes from the fact that Director Administration and Director Finance are deputed from the Government for 3 years time period (BIDS, 2009). As a whole, it has 2735 regular posts classified in 52 categories with around 2189 in payroll (BIDS, 2009). In addition, BRDB has employed around 5700 project based staff on an irregular basis.

Chapter 4: Case Studies of MFIs

Sample and Methodology

From our previous discussion in the first two chapters we could identify three major types of MFIs in Bangladesh. The first is a unique type and the pioneer in the field, a Nobel Prize winner

Grameen Bank. There is no single another MFI like it in our country. It had been established in 1983 under a unique ordinance not applicable for any other player in the field. It is actually a Bank owned jointly by the government and the poor borrowers of the bank. Naturally it is not under the Micro Credit Regulatory authority but still we have included it in our sample of case studies in order to derive lessons from its colourful experiences of success as well as failure and limitations.

From our review of literature it is also clear that two other different major models of MFIs are “Community Based MFIs” and “NGO-MFIs”. Among the community based MFIs there can be various types of which “cooperative” is an important one. In Bangladesh Cooperative based MFI is mainly carried out in a large scale manner by Bangladesh Rural Development Board. This organization is controlled by a semi autonomous board consisting of 12 members seven of which are nominated by the Government and five others to be elected by the members of the cooperatives themselves. BRDB is headed by the Minister of local government and rural development. BRDB succeeded IRDP in 1983 and was the natural inheritor of the two tier farmers’ cooperatives of former IRDP. In late 1980’s it had started its new cooperative micro credit programs by creating various kinds of BSS (Bittohin Shamabay Samity) under the umbrella of various donor financed projects. These initiatives have by now become a large scale programme of poor peoples’ cooperative MFI.⁴ BRDB cooperative MFIs have been kept outside the purview of the MRA because of its enormous outreach and mixed nature. But still we included it in our case study as an important alternative model of MFI.

We wanted to select a sample of few NGO-MFIs too, since not only they were the largest supplier of micro credit in Bangladesh but also because MRA particularly have the aim of regulating and facilitating this particular group of MFIs. However, for maintaining anonymity we will not present the names of the chosen NGO-MFIs here.

⁴ By 30th. June 2008 BRDB established in 169 upazillas 98918 informal cooperatives of the “Bittohin” (Assetless rural poor) households with 2.73 million members of which 67% were female members. Their cumulative credit disbursement till then was 5201 cr. Tk. and the cumulative rate of recovery was 94 percent. Their cumulative savings+share capital was equal to 3561 cr. Tk. [BRDB, Annual Report, 2007-2008]

We first approached the MRA to choose for us six such NGO-MFIs. We suggested them to provide us at least two big NGOs (big in terms of outreach) preferably from the list of top twenties, one of which has failed and the other should be a successful one. Accordingly they gave us two such names. Let us call the successful large one “L.S.” and the failed one “L.F”. Similarly we also choose another such contrasting pair from the medium ranking NGO-MFIs”. Let us call them “M.S.” (i.e. medium successful) and “M.F.” (i.e. medium failure) respectively. Finally we selected another pair of NGO-MFI where both of them have their major focus on “community development” and still carry out micro credit services as an ancillary support programme to that main goal. Let us name these community focused NGO-MFIs as C1 and C2 respectively. So we have for our case studies in all eight MFIs, which are coded in this study GB, BRDB, LS, LF, MS, MF, C1 and C2.

After the selection of our sample MFIs we had long interviews with more than one top bosses of each of these organizations and most of them took us in their confidence and spoke out sincerely and openly. We also tried our best to cross check their statements with their official published documents wherever it was possible. Besides we also collected many historical past documents, policy papers, and statistical records from their offices in order to trace the historical trend of these organizations. MRA also helped us immensely by providing latest statistical information on them from their official data base. Analysis of all these has led to the following preliminary set of findings and observations.

Findings on the pair of Big NGO-MFIs

[A] LS originally had started its journey almost thirty eight years ago just after the independence of Bangladesh catering to the rehabilitation needs of the then refugees from India. Initially a few bright educated young social workers from the middle and upper middle classes joined in the local project led by a visionary youth. During this early phase the social mobilization drive was mainly based on “Conscientization” approach originally developed by the Latin American philosopher Paulo Freire. The economic content like “Micro Credit” was largely absent during the early phase of this organization.

After almost seven years of various “social programmes”, LS decided to shift its attention to income and employment generating programmes through supplying both credit and training to the members of poor people’s groups. In 1979 under the RCTP (Rural Credit and Training Project) a program was designed for giving short term (for one year), medium term (for three years) and long term (for more than three years) loans to a group of poor people. The important preconditions for getting loan were:

- Formation of a group and regular meeting attendance by its members.
- Compulsory participation in the training programme by all group members.
- Compulsory weekly savings deposit.
- Regular Accounts maintaining.
- Opening an account in any bank by the group.
- Preparing a feasible and viable project for using the loan where collective participation of the group members will be emphasized..
- At least 10 percent of the loan must be put in the collective fund after the disbursement of the loan.

From the very beginning the dilemma between “outreach and impact” on the one hand and “economic sustainability” on the other hand played an important role in the development of this LS organization. One way of solving that dilemma would have been to charge a high interest rate on the credit and side by side giving up or cutting short the costly supplementary social programmes in the fields of education and health or charge user fees for them. This was rejected in principle because it compromises the social mission and vision of the organization.⁵ Another possible way out would have been to try to get continuous grants or soft loans from the donors/state to subsidize all these programmes. And the last possible way out was to become slowly self reliant through undertaking various surplus generation programmes and then cross subsidize the social programmes with that surplus.

⁵ In the latest Annual Report of the organization it was stated “People are poor for a number of reasons that compound the disadvantages they face. They also lack access to markets and decent supplies, credit, savings and insurance, safe water and sanitation, and a quality education for their children. “LS” has established a complete set of services for poor disadvantaged families that help them, through small incremental steps to leave poverty behind and look toward a positive future”

This last path was taken up by LS and as donors fund was drying up LS tried hard to become self sufficient by making various strategic income earning investments in various commercially viable sectors like: real estate, dairy business, banking, land buying, etc. At the same time huge savings were accumulated by the poor members which was ploughed back to micro credit again and in this way effort was taken to keep the cost of the loanable fund of micro credit as minimum as possible.

Side by side free grants given by the donors under various kinds of poverty alleviation programmes was also rechannelized to support subsidized micro credit programmes for the ultra poor. Even after all these measures LS could not completely fill the fund gap and had recently begun to take loans from other more costly sources to finance its micro loan funds. The latest picture of the source wise fund composition of LS is shown below:

Table-1
FUND COMPOSITION OF “LS”(As of 30th June 2008)

Sources of Fund	Amount (m. tk.)	%
Own Fund	8892.16	19.46
Client’s savings	14849.64	32.51
Other Loans	377.77	0.83
Loan from PKSF	1043.33	2.28
Loan From Commercial Banks	20515.62	44.91

Source: MRA, June, 2008

From above it is clear that our LS has now become largely dependent on commercial borrowing for running its MC programme. An important question comes up immediately how could it sustain with such a costly capital where the rate of interest is 12%? Is it by charging higher interest rate on her micro borrowers or by economizing the transaction cost of credit delivery or by using the fund with a very high turnover rate? The cost analysis of “LS” done by MRA sheds interesting light on the current weakness of the “LS” in the cost side of its credit. For example naturally its saving cost ratio (interest on savings/Average outstanding loan) is very small only 1.94 %. But due to huge commercial borrowing its lending cost ratio (interest on loan/Average outstanding loan) has become as high as 6.9%. Together its financial cost has become 8.84%.

The general administrative cost per 100 tk. loan outstanding is found to be 13.68 tk.⁶ So in total the operating cost per 100 tk. loan outstanding has been as high as 22.52. To cover this high operating cost ratio our “LS” had to ensure a high portfolio yield rate (Total Interest income/Average loan outstanding * 100). And that means a higher effective service charge on the clients of “LS”.

In the interview with the concerned bosses of LS we learnt that it is now charging 15% flat rate of interest on its clients which becomes effectively almost 30 percent. This rate lies naturally on the upper margin because most of the NGO-MFIs are now charging below 13 percent flat rate of service charges for their typical loan instruments. However the top management of the LS argued that because of the higher service charges they will be able to earn in the current year a surplus of 4% which they are planning to plough back fully to substitute the commercial fund so that the cost of fund can come down in future and subsequently they can curtail their relatively high service charges. This is plausible but we have to wait and see.

The top management also opined that they think the micro credit market currently operating in the lower segment of the society might become saturated in near future and unless new loan products of higher size aiming at the graduated non poor or other relatively richer sections of the society are prepared and supplied the industry will not be able to thrive. With this in view they suggest MRA not to impose any cap on the interest rate and want it to be left in the hands of the market. Larger loan size and more mobilization of savings, they argue, may even curtail the interest rate in future.

A new transition to micro enterprise loan or SME loan can actually enhance the differentiation trend among the poor. But still the top bosses argue that in order to serve their long term graduated micro borrowers they want to differentiate their loan and saving products with differential scope of service and interest charges. “LS” has already introduced various kinds of loan products in her micro credit business. The first category of loan ranges from 2000 tk to 10000tk. The second category ranges from 10000tk. to 20000 tk and the third category loan is

⁶ However since the amount of disbursed loan is always much higher than the amount of outstanding loan because of very high turnover rate of micro credit so the general administrative cost per 100 tk. disbursed loan is of course much less, 6.39tk. only.

above 20000tk. From the data base of MRA we have found that among the current seven million borrowers of “LS” almost 73 percent still belongs to the lowest loan size group (2000 to 10000 tk.). LS argues that this is why its cost of operation is also relatively higher than others with larger average loan size. Moreover side by side its micro credit business with borrowed commercial fund, “LS” has also started a donor fund based subsidized credit programme to build up an asset transfer programme for the individual ultra poor (i.e. the bottom 10 percent) for creating a sustainable source of income for them in the long run. LS also have other extensive social programmes in the health and education sector where the service is mainly provided to the poor rural people free of cost. They are financed by mainly three sources: Donor’s grant, interest on investments and income from support enterprises.

From our interview we also learn that LS now offer 5% rate of interest to the general regular savings of its members. For the long term fixed deposits (5 years term) 12% interest is offered. However, in the Auditor’s report for the year ended 30 June 2009, on page 15, only two basic types of savings deposits were mentioned e.g. own savings and compulsory savings. Each VO member deposits a minimum of 5tk. or a maximum of 20 tk.in the weekly meeting. The actual amount to be deposited weekly is fixed by the VO member at the beginning meeting of the year. This has been termed as “Own Savings Deposit”. Besides this “Own Savings Deposit”, every VO member has to deduct 5% of the loan sanctioned and deposit it under an account known as “Compulsory Savings”. This deducted amount is considered as “deposit against loan disbursed”. In a follow up note on the “Rules for Savings Withdrawals” it is mentioned that:

- The entire amount of savings deposits of a village organization member will be refunded when the member retires or becomes terminated from membership.
- After one year of becoming a VO member 50% savings deposits may be withdrawn to meet special requirement (such as marriage, illness, etc.)
- Loan outstanding balance including service charge on loan is to be fully repaid by a VO member before withdrawal of entire savings including the interest earned.
- If the saving deposit balance is less than 2000 tk. after part withdrawals no interest will be paid on remaining balance. Moreover if a VO member withdraws more than two times in a year from savings deposits no interest will be paid for.

This shows that “LS” is using her “Savings” not only to finance a part of its loanable fund but also using it as a type of security against the loan!

As mentioned before LS has his own commercial enterprises which are generating profit for subsidizing its social activities. Most of these enterprises got their initial seed fund from either donors' fund or bank loan or as an investment made by LS or any other sister organization of LS. Among these commercial for profit enterprises, this year four enterprises (100 percent owned by LS) have generated an aggregate profit of 371 million tk. Part of this profit was reinvested for the development of the same mother enterprises and the remaining part was used for cross subsidizing social programmes of LS. Besides these completely owned enterprises, LS also has shares in various kinds of corporate assets.

The strategic decisions regarding its corporate assets and the use of the surplus is finally determined by the board of governors of LS. LS claims that all accounts of these sister organizations and any inter-organizational inflow or outflow from these accounts can be easily estimated from its published accounts. However it was not possible for us to verify this claim directly from the accounts presented by LS in its present form. because of lack of requisite knowledge and time.

The LS has a very efficient computerized management information system and can remain up to date about all major activities the branches of its micro credit programme. It claims that it has a system of both internal and external audit system. The audit reports are regularly published and are available in the internet. It also claims a transparent bias less recruitment process and a continuous assessment of the field staffs on the basis of their performance. While evaluating the performance of a branch their policy is not only to look at the repayment rate, but also judge whether the borrowers of that branch are experiencing overall improvement in the quality of their lives e.g. availing education, family planning, other social services, etc.

In practice the board of governors is the final decision maker of the NGO-MFI. . It is headed by the chairman who happens to be the founding father of the organization and has a huge goodwill and reputation behind him. Under him there are four directors. One director looks after all commercial enterprises. The executive director is in charge of microfinance and all other social

programmes. Another director looks after international outlets of LS. There is a last fourth director attached to the chairman who is in charge of communications, branding and publications. According to the constitution of BRAC the Chairman of the organization has the right to appoint or dismiss the executive directors at any time and it is his privilege to accept or reject any membership application to the general body too. Thus like all NGO-MFIs here also, right or wrong, we observe an almost absolute authority of the topmost boss. It naturally begs a question, what is going to happen in the case of his/her absence? Family ownership and inheritance of an NGO is not allowed in the current law, but somehow people outside is customized to think the big boss as its owner. Such possibility becomes stronger when the other board members are too much busy elsewhere or lives outside the country or because of old age has already become ornamental and invisible.

[B] LF is the other large NGO-MFI which is a failure case. Like the LS it also started with relief and rehabilitation works in 1972. Officially it was established in 1976. The present CEO of the LF was once a coworker in the LS organization. He left it and along with a few other radical friends had established LF because he thought that the LS was emphasizing credit and income generation more than the social mission of organizing the poor for self empowerment. Major activities of LF at its inception were very similar to that of LS. These common activities were non formal education, training, landless group formation and movement for Khas land, organizing the slum dwellers, self help groups with saving and lending provisions, etc. Initially LF was ready to accept only logistic support from a Canadian foreign agency and not any monetary help. Basic minimum finance for LF used to come from pure local grants, members donations and own equity capital of the organization. But this financial purity could not be sustained for a long time.

At one stage the original 11 member team that established LF had peacefully split the organization into two wings: one head quarter of the organization was established in Comilla and another head quarter was established in Dhaka. Two of the eleven took charge of the two regions. Many spirited members of the original team also took an exit and formed their own model of NGOs! The two leaders who had remained to head the two regional wings had agreed to become chairman of the organization by rotation and the location of the central meetings of

the organization also changed from one place to another place by rotation. The two regional directors and one person in charge of finance department together formed the original executive committee of LF.

The primary policy debates in that early phase among the leaders of the organization centered on:

- Who will be the leader of the landless group? The landless themselves or the animators /employees of LF.
- Should these organizations be federated to become independent national organization of the poor/landless or remain as a small village group? What political affiliation should they have or should they remain aloof from politics?
- Which programme is more important? Social mobilization or Income and Employment generation?

While debates were going on continuously inside the organization, cheap external grant became available in more and more quantity and slowly emphasis of work shifted to micro credit and income-employment generation programmes using the readily available seed capital at hand. The extreme nationalist or radical philosophy of non acceptance of foreign money was also given up. At the same time one of the leaders who were more pragmatic and charismatic outperformed all others and became the single chief of the organization with much better relationship with the donors. But in contrast to the LS case the seed of contention had never been completely resolved within LF. Thus according to the current CEO [whose interview we have taken!] the ideological tension remained unresolved within the organization even after 1990s! In spite of that internal tension according to the last official “Activity Report: 2007-08” of the LF, it has been able to establish 149957 primary groups with a membership strength of 2807497 in 59 districts of Bangladesh.

In 1990 after the fall of bureaucratic centralized socialism, donors decided to channelize their fund to the ex-socialist countries in a large scale. As a result of this the era of easy foreign grant was quickly fading away at that time. Unfortunately at that time LF was also not in the good

book of the then government. Thus shortage of cheap money forced LF to become further market oriented. Previously the recruitment of cadres into LF was done by looking into not only professional qualifications but also by checking ideological orientations of the competing candidates. But from 1990s onward LF had to use traditional process of open advertisement and written examination to recruit new officers on the basis of only technical qualifications. The present CEO thinks that it had caused a fall in the commitment level of the employees since then. Previously when foreign fund financed the total micro credit fund and when it was very cheap i.e. available at zero cost LF could also charge the micro borrowers a very low interest rate for its credit. It was only 5-6 percent, barely enough to cover only the administrative cost of credit. But after some time the interest rate was increased to the level of 10 percent by LF which was still lying in the lower end. According to the current CEO that rate of 10 percent had continued till 1997. In 1997 facing severe shortage of foreign fund LF started various kinds of savings schemes to finance its micro credit programme and also side by side began to search for fund from domestic sources. It applied for PKSF fund in 2001. PKSF provided the necessary fund but had put a cap on the interest charge which was at that time determined as nine percent, even below what LF used to charge in 1997! From then on LF became a loosing concern in its micro credit business.

Imitating the example of LS, the LF tried to make investment in profitable sectors and earn surplus from there to cross subsidize its loosing concerns as well as social initiatives. Here also unfortunately the initial bad investment choice in the difficult transport sector had backfired and that investment failed miserably. According to the current CEO It caused LF an additional net loss of fifteen lac taka. The situation was already quite alarming.⁷ At the same time from 2004 LF was engaged in direct political confrontation with the then political regime in power. At one stage LF was afraid of loosing her assets to the grabbers and creditors supported by the then regime. The old Chairman who was leading that political battle took a new political strategy to support the opposition political party in the next coming election in the hope of getting post

⁷ In June 2004 two external auditors, one foreign and another local were engaged by the donors and programme managers to audit LF. In a confidential report made for donors and programme managers only they wrote, “*The programme incurred a net loss of taka 519 million during the year ended 30th. June 2004 (for the year ended 30th. June ,2003, net loss of tk. 640 million) and no approval has been given by the NGO affairs bureau for the release of funds to the programme to finance these losses and hence continue the programme activities*” [**Source: Confidential**]

election favour from his/her chosen victorious party and then coming out of the crisis by using those favour. Unfortunately election did not take place in the due date and the interim care taker Government after assuming power cancelled the lucrative foreign grant which was in the pipeline for the LF. Thus LF was now really in deep trouble!

In order to save her assets from the creditors and grabbers it quickly leased out all its assets to a group of newly constituted eight Trusts. Till today there are seven such properties of LF leased out to seven associated trusts. These properties have been managed by the trusts and four out of seven have been making profit too! The old LF chief constituted those trusts carefully in such a manner so that he/she could always have a firm control over all these trustee boards. In reality he/she obtained an absolute control over the surplus of the four profitable trusts [the three others were not profitable!]. Another crucial problem with these trusts was their lack of independence. The employees of the trusts were still receiving their salary from LF's own central account and the profit of all the profitable trusts were also to be deposited to a central account of the LF controlled by the old Chairman. This arrangement gave the old Chairman of LF an immense economic power as well as an opportunity to use the surplus of these trusts selectively for leveraging selected loosing concerns. As there was also a constant pressure from every where to pay the salary bills of all the employees irrespective of the area of his/her work and performance, so the old Chairman could also use his/her power to increase or reduce or postpone any body's salary using various pretexts or simply because of lack of fund. When in these processes discrimination was found in the form of special favour to his/her relatives and friends the whole employee group became sharply divided into two groups. Pro Chairman and Anti Chairman. The current new CEO was appointed on May 2009 to fill up the vacant position wherefrom the old CEO had already resigned. The newly appointed CEO has informed us that in the same day and same meeting the old chairman was also removed from his post by the vote of eight members out of nine in the board of directors.

Finally in the last national election when the politically ambitious old Chairman decided to float a new political party of his own and indiscriminately used all his employees especially those residing in the village constituencies and working in the micro credit net work to support him in

the election, that caused a temporary big halt in all regular micro credit activities.⁸ It also cost him a great loss of social reputation among the NGOs and donors. As a consequence of this alleged political involvement many member borrowers of LF became defaulters and a huge amount of loan became overdue. It became difficult even to pay regular salaries to the micro credit employees.

Especially the numerous employees of the various losing concerns including the micro finance sector had to be cross subsidized by the profitable sector's surplus. But this time it had become not only a case of illegitimate use of the surplus generated elsewhere by one man but also it proved to be too much a burden to bear. The suffering employees of micro credit sector began to complain that bad loans were created not because of them but because of the wrong political ambition of the old Chairman. However, now they are to suffer for that. Hence they demanded that the micro credit programme should not be curtailed and their salary should not be reduced or withheld. On the other hand employees in the few profitable enterprises were saying that it is really very unethical to punish the good performers and reward the bad performers! But the pragmatists argue if the stake is very high such bailing out may be a right option.

Let us now summarize the experiences of LF. We can identify both strength and weaknesses of the LF. The strength of LF is its huge social network and strategic rapport with local level people and leaders, its intimate connection with the civil society organizations. But its main weakness was its politically ambitious Chairman and a rubber stamp board of governors who could neither restrain him nor prevent him from using the organizational resources for realizing his personal political ambitions. Given this fatal weakness, there were certain other factors that possibly precipitated the governance and ownership crisis further. These other factors are: Conflict of leadership in the executive board, Lack of formal and impersonal rules of for using the surpluses from various sources of income, discriminatory reward and punishment structure, Withdrawal of the support of the donors and the political authority, Breaking the laws, litigation and counter litigation.

⁸ However, the old Chairman claims that he has not used any resources of the organization for personal political programmes.

Lately there occurred physical conflict between the group of old Chairman and the group of newly appointed CEO over the issue of who is the legitimate heir of the organization. The court had given a verdict in favour of status quo implying that the newly appointed CEO as the last legitimately appointed CEO should continue. MRA has accepted the court verdict and has requested the new CEO who was appointed by the majority members of the board, to continue. Thus the new CEO is now in an unenviable position to first win the law suit, be the legal heir of a huge sinking boat and then mend it.

Findings on the pair of medium NGOs

From the latest report of MRA we can identify 18 medium NGOs in the set of 453 NGOs which were able to obtain license for carrying out micro credit activities from the MRA till June, 2008. MRA defined the characteristics of a medium NGO in terms of their borrower outreach which lies between 50000 and 100000. On the other hand Large NGO-MFIs are defined by their larger outreach and they have more than 100000 borrowers. As of June, 2008, the large and the medium NGO-MFIs in Bangladesh together constitute a meager 7.72% (3.75% large and 3.97% medium) of all licensed NGO-MFIs in Bangladesh. But these top 35 NGO-MFIs (17 large and 18 medium) i.e. only 7.72% of all the licensed NGO-MFIs actually control about 85% of the micro credit market (78% by the large and only 6% by the medium) in Bangladesh.

From the 18 medium NGOs two were selected, one relatively more successful and called MS.

The other member of the pair relatively less successful will be called MF.

In the case of large NGO pair the distinction between the successful and the failure case was simply made by their licensing status. So the LF was considered as an extreme and obvious case of failure because it could not even satisfy the minimum criteria of getting a license for her micro credit activity.

In the case of medium NGOs we do not have any such extreme example of failure. But some cases were there which were fast becoming financially non viable in the sense that their income was less than their expenditure. So we chose an MF which is medium in terms of outreach and has fulfilled the requirement of licensing but the cost of its operation is relatively higher as well as which is suffering from financial losses. The relevant cost ratios and profit ratios of the MS and MF are presented in the table below. .

Table-2

Cost and Profit Ratios of the Sample Medium NGO-MFIs (2008)

Ratios	NGO-MFI	
	MS	MF
Total Financial Cost	3.59	4.05
Total Operating Cost/ 100 tk. outstanding loan.	12.25	27.63
Operation Self Sufficiency	114.16	59.28
Return On Asset.	1.91	{-}2.85

Note: Financial Cost Ratio = Financial Cost/ Av. Outstanding Loan

Total Operating cost = Financial Cost + General Administrative Cost.

**Operation Self Sufficiency = Financial Income/ (Financial Expenses + Loan Loss
Provision + Operating Expenses) * 100.**

Return on Asset = Net Profit / Av. Total Asset. [Source: MRA, June 2008]

From Table 2 it is clear that MS has relatively lower cost ratios than those of MF and financially MS is sounder and more viable than MF.

In 1989 MS was a part of a bigger NGO situated in the capital city of Bangladesh. But soon there developed a debate within that organization about ideological orientation of the organization. The current CEO and his team were not in favour of exploring or using Islamic Funds for micro credit. So he along with the majority members of the old organization peacefully came out of that organization and established MS. He relocated the organization head office to his native district and from the very beginning had an aspiration to turn it into a full fledged micro finance bank.

MS mission statement is not like that of a typical NGO-MFI. It is more like a mission statement of a pure financial institution wanting to compete in the market on the basis of competitive principles. Let me quote from its mission statement,

“Our mission is an independent sustainable, cost effective microfinance institution that provides diverse, appropriate and market responsive quality financial and business development services at competitive prices along with other social development programmes to very poor, poor and vulnerable non poor customers.”

The following list of events highlights the major points of departure in the long history of MS and also demonstrates its distinct character:

List Of Major Events

- 1990: The genesis of the organization is ingrained in the study conducted by US AID PACT INC. which had initiated five “Model Branches of Sustainable Rural Financial Services” funded by US AID/PACT INC.
- 1992: Bangladesh Bank Research Department evaluated the programme and gave her approval.
- 1996: Intervened in the post disaster activities with donor support.
- 1998 Policy Shift from Donor’s grant to borrowed fund for micro finance.
- 2001: All targets set for 1997-01 was achieved successfully.
- 2003: Micro Finance Model for the very poor was introduced.
- 2006: Massive expansion and automation of the branches started.
- 2007: Introduced agricultural loans for small and marginal farmers. Entered the process of borrowing in large scale through “Bank Syndicate Financing”.
- Foreign Remittance service introduced for the rural poor.

In spite of her commercial orientation MS was able to keep commercial loan as a source of fund to a low level of 36%, eight percent less than that of LS. Almost 66 percent of her loanable fund is financed by its clients’ savings plus own fund. MS consciously refrained from taking loan of PKSF (A wholesale agency of fund provider in Bangladesh). When asked, the CEO of MS replied that loan from PKSF puts a cap on the interest rate as a condition which is not suitable for the flexible market oriented system practiced by MS.

MS gives general loan to the poor and disadvantaged households organized into groups for fulfilling mostly their working capital needs at annual flat rate of 15%. Interest. The loan is to be repaid within one year through 46 installments. It also gives micro enterprise loans (Tk. 50000 to Tk. 300000) to the individual entrepreneur for generating income and wage employment for the poor laborers working in those enterprises. The annual flat rate of interest for this type of loan varies from 15% to 20%. MS also disburses agricultural loans to landless and marginal farmers. Here also the interest rate charged is 15%.

MS has a unique loan system called “Hand Loan” which is used to finance important festivals (Eid, Puja, etc.). The hand loan is a small loan of tk. 3000 repayable within three months at an annual interest rate of 15%. From all these information it is clear that MS has a diversified range of loan products, all charging a relatively high interest rate. It should be noted that MF does not call its borrowers either client or member, instead it uses the name “customer”.

MF has been able to attract large amount of savings through flexible incentives to the savers. It has two types of savings. The general savings account requires a nominal minimum balance of Tk. 10. The customer can deposit any amount between tk.10 to tk.2000 at village level meetings. If the deposit limit crosses tk.2000 then that has to be deposited in the branch office. The customer can withdraw the savings at any time he/she likes! The savers enjoy a compound rate of 4.5% interest. There is another more flexible saving scheme with six to eight percent rate of interest offer. The customer can choose to deposit on a weekly or monthly basis in the range of tk. 10 to tk.250 and tk. 40 to tk. 1000 respectively. Naturally this is targeted towards the non poor. As of 2008, general savings constituted only 38.24% of total savings while the remaining 61.76% has come from regular voluntary saving scheme contributed by the relatively rich..

MS has a small vibrant micro enterprise portfolio. During 2008 an amount of tk. 610 million was disbursed to 5444 micro entrepreneurs. The rate of repayment was 100 percent. The composition of the micro enterprises and the average size of loan for each category of micro enterprise are shown below. From the table below it is visible that MS has already crossed the boundary of micro credit.

Table-3

Sub sectors in micro enterprise and average loan size.

Micro Enterprise	No. of Clients	Total Loan (m. tk.)	Av. Loan(tk.)
Grocery shop	1505	95	63123
Readymade Garments	825	65	78787
Food and Beverage	198	25	126263
Furniture House	194	78	402061
Printing Press	28	36	1285714
Communication	158	58	367088
Carpentry	552	58	105072
Weaving	789	87	110266
Sewing and Tailoring	685	58	84671
House Building	158	15	94936
Transportation	352	35	99431
Total	5444	610	112049

Source: Annual Report 2008 of MS.

The two other innovative products of MS are “*micro insurance*” and “*remittance transfer*”. The poor, marginal farmers and micro entrepreneurs are the chief customers of micro insurance programme. They have to pay the premium of tk 50 to 200, while the other very poor customers are required to pay tk. 30. The premiums are one time payment in a year. The insurance yields three benefits after the death of the customer. First, cash benefit is 100 times of the premium chosen, secondly, the entire outstanding loan of the client is waived and thirdly after the death of the principal guarantor, the family of the guarantor receives half of the cash benefit.

MS has developed partnership relations with Bank Asia ltd. And Western Union and has started remittance transfer operations since January 2008. Until December 2008 a total of 17602

customers were served. The transacted volume of transfer amounted to 7.28 m. dollar. The task has been cost effective for MS, since only four officers in the head office could manage it by keeping regular connection with the banks and the existing net work of offices of MS in 48 districts, 1261 unions and 13888 villages.

The top policy making body of MF is composed of a seven member governing body. They regularly sit and discuss strategic guidelines for the organizations. In 2008 they met in seven such governing body meetings. The governing body members are elected in the annual general meeting of the fifteen members of the organization. The members consist of original founders, client representatives and socially recognized elites from the civil society. The tenure of the governing body members is for five years. Governing body appoints the executive director and the three other directors who run the day to day affairs of the organization. The CEO is not a member of the governing body but acts as an ex-officio secretary of the governing body.

MS has been trying hard to develop impersonal rules of business. Till now it has developed the eight official documents containing, i) Rules of Business for microfinance and micro enterprise, ii) Staff service rules, iii) Accounting and financial procedure rules, iv) Internal Audit manual, v) Human resource and Administrative manual, vi) Programme Implementation manual, rules and procedures vii) Gender Policy and viii) New Branch Opening Policy.

In general we can conclude that MS has definitely succeeded in financial terms because of its definite focus on “Financial viability” and its “market oriented” demand driven products and services. However if it wants further up scaling, it will probably need to transform itself into a full fledged bank with a larger potentiality of savings collection and make itself accessible to a more diversified client base.⁹ The traditional pro poor outreach and impact aspects of micro credit may then suffer and become secondary for MS or it may turn into a full fledged rural wing and maintain a large as well as important window of micro finance attached to it.

⁹ In 2008, from a meeting of all center chiefs suggestions came for introducing agricultural loans and increasing both size and time of the installments.

MF is a medium level failure case; failure has been defined in this case as “Financial Failure”. [See Table 2] It was originally established in a remote village of Barisal district by the initiative of a local “ordinary man”. It got its registration from the social welfare department in 1988. In 1993 an influential urban bureaucrat joined the organization and took up the mission of turning it into a large capable national organization. With his connections and help MF obtained permission to use foreign fund from NGO bureau in 1993.¹⁰ It also registered itself under joint stock company as a not for profit company in 1998/99.

MF has a very general and abstract vision. Its vision is “to make a democratic, just, equitable and poverty free Bangladesh”. For this it defines a mission which covers almost everything on the earth. The mission statement aspires, “To create self financed, self employed and self empowered communities with increased capabilities by providing need based services and supports like microfinance, agriculture, health, sanitation, education, HIV/AIDS prevention, gender, environment, social security, marketing, technology,etc.” In the list of specific objectives it also mentions two important radical objectives: “To help in building institution of the target groups for establishing their basic rights in the family, community and society, “and “To transfer ownership of the organization to the beneficiaries”.

The main problem of this organization is its lack of focus. It had gone for too many programmes and too many target groups. While discussing with the CEO we found that his understanding of the role of “Board of Directors” is one sided. He thinks that the main difference between a corporate body and an NGO lies in the different roles to be played by their board of directors. According to him in under corporate ownership, the directors are themselves shareholders or their directly elected representatives but in the NGO the board of directors are merely founder members i.e. initiators or entrepreneurs of a social enterprise. Naturally in the first case the controlling role of the board members are far stronger. In case of an NGO the board members on the other hand are more interested on new initiatives, projects and ideas. According to his theory NGOs will have a natural tendency to over diversify and over extend if the finance comes from a soft source.

¹⁰ Sometimes international fund can be passed on to local NGOs by the international NGOs or Foreign Fund providing wholesale agencies located in Bangladesh directly if they want to sub contract any small specific job to them.

Actually MF now has sixteen different types of target groups and twenty eight different types of social intervention programmes. The sixteen target groups are; rural and urban hardcore poor, disadvantaged and underprivileged men, women and children, landless, marginal, small and large farmers, fisherman, street children, adolescent boys and girls, youths, people with disability, tribal people, Monga affected people, char dwellers, Haor people, Baor People, Coastal people, drug addicts and displaced/uprooted people. Naturally this is a very heterogeneous target group and can be addressed only through a holistic programme of interventions covering almost the whole of the community.

The actual strategy of MF is to identify a cluster of families or a community for implementing all its various activities at a time. They have named this basic unit of action as “MF Village”. Then its various activities are built around the different target groups of this MF village. In order to involve all these different sections in its various developmental programmes they often take the help of the local level elected leaders. They first try to organize different social groups and give them platform for participatory discussion about their problems. From these discussions come out various feasible and desirable set of programmes for social interventions. Naturally, micro credit is only one element in that holistic programme set.

To give an idea about the range of the programmes/interventions of MF we shall mention here the names of a few: microfinance, agriculture, aquaculture and fishery, Poultry and livestock, education, health, water and sanitation, STD/HIV/AIDS prevention, rehabilitation of drug addicts, arsenic mitigation, energy development, biodiversity conservation, technology transfer, enterprise development, awareness raising, advocacy and governance, gender and development, climate change, women and child trafficking, counseling, recreation, etc. From this it is clear that most of these programmes are not generating income or any money to finance them. According to our CEO these interventions are either based on donor’s grant or have to be cross subsidized by the profit earned from its micro credit programme or other for profit commercial ventures owned by itself. MF has a very wide network of donor relationship to support all these programmes. It has links with, WB, WFP, WHO, USAID, UNDP, ADB, ACTION AID, OXFAM, FAO, ILO, IFAD, INAFI, SAVE THE CHILDREN (various chapters of various countries). It also has a wide and deep network of connections with various other local funding

agencies (e.g., PKSF, Grameen Trust, Dhaka Ahsania Mission, etc. It also works as subcontractors to different developmental works carried out by different ministries.

In the latest published Annual Report of MF, it mentions with pride,

“ Unlike many other NGOs in the country which are confined to minimalist approach (only microcredit) MF is promoting or pursuing a maximalist approach (Micro Credit plus Hollistic Development Agenda).”

MF has developed three major products under micro credit programme: microcredit, micro savings (actually there are all three types, voluntary, contractual and compulsory) and micro insurance. Micro insurance is also tied with the credit programme. Before disbursement of the main credit 1 percent of the loan amount is realized cash as premium and deposited in the welfare fund. The rate of interest charged varies widely. For example the major form of loan known as rural micro credit charges 12.5 % flat rate of interest. However there are minor very special loan types that charges 2 to 4 percent interest rate. These are subsidized loan for disaster management. On the other hand 1 percent fund is lent with at 20-25% rate of interest.

The only outside source of loanable fund of MF is PKSF. Almost 70 percent of its micro credit fund comes from PKSF. This puts a major constraint against raising the general interest rate beyond what it is now. But the administrative cost and other financial cost ratios (See Table -2) are unusually high in case of MF which ultimately has turned the organizations Micro Credit business a loosing concern.

The salary structure of MF is not like the government salary structure which is followed in the MS. In MS the highest monthly take home salary has been determined to be tk. 57000 and the lowest is fixed at tk. 5680. Its general and administrative cost per 100 tk. loan outstanding is tk. 8.66. only. On the other hand the highest salary in the MF is tk.80000 and the lowest salary is tk. 6000. Its general and administrative cost per 100 tk. loan outstanding is 25.58 tk!

Like LS, In January 2004, MF opened up a commercial outlet in the capital city for selling its own products and the products made by its beneficiaries (They include the handicrafts, dresses,

bakery products, fruits, vegetables, etc.). This commercial venture unfortunately incurred a net loss of 2.05 million tk. during the last four years (2004—2008).

In general we can conclude that the main three weaknesses of MF were: over expansion of its social activities, losing commercial concerns and excessive administrative cost of micro credit service.

Experiences of community based NGOs

[A] C1 works among the members of a religious community scattered all over the country. It has also international connections and fund support. It is also a part of an international religious network. The name of the organization means “Love”. It was established by a foreign priest in a remote island of Bangladesh in 1967 to serve its target group there. Its main service orientation was disaster management at that time. Even now a larger part of its activities are concerned with relief and rehabilitation in the disaster prone areas. Micro Credit budget is only 30 percent of its total expenditure and it is also used only as a minor support service for the members of the organization. The vision and mission of C1 reads as follows: *“In the light of the social teachings of the church, C1-Bangladesh envisions a society which embraces the values of freedom and justice, peace and forgiveness, to live as a communion and community of mutual love and respect. C1 Bangladesh tries to become a partner of people-especially the poor and marginalized with equal respect for all-to attain integral development, to live a truly human life in dignity and to serve others responsibly”*

Because of availability of completely cost less donation which is deemed as its own equity, the financial cost burden of micro credit is absolutely minimum for C1. It has not taken any loan from PKSF or any other commercial bank loan to expand its outreach. But it has an accumulated saving which is quite large (595.26 million tk.) to which it has added its so called own fund. (529.03 million tk donations and /or retained earnings) to form its current total loanable fund. Most of the savings are generated by the relatively richer members of the community. As of June 2008 the share of those who have savings more than tk. 2000 was 60 percent. But the loans are given mostly to the poorer members of the community. The borrowers receiving less than 4000

tk. constitutes 46% of the total borrowers. Whereas above 10000 tk. borrowers constitute only 11 percent of the total borrowers.

Most of the employees and the chairman of this organization do their job out of a religious sense of duty. Thus here chairmanship or CEO ship is not considered as a matter of privilege. Rather everybody pleads the chairman to stay and not to leave to go elsewhere for serving in a more difficult region in the earth. Initially when it was less contaminated with individualism, it was almost like an ideology driven “Che-Guevara Model”. This year (2008-09) the administrative expenses of C1 was only 3.97 percent of its total budgetary expenses.

C1 gives loans to .30 million borrowers which is almost double the number of the borrowers of MF. The borrower composition is also very much pro poor. Average loan size is also smaller. Yet the general administrative cost per hundred tk. loan outstanding of C1 is only 11.75 tk. which is less than half of that of MF! This outstanding performance comes from ideological commitment for labour of love. The highest salary in C1 is tk. 38600 only. Whereas the lowest pay receiver receives Tk. 6420 only. This is even more egalitarian than the ten grades system of Government salary.

There are three loan products of C1. Weekly, fortnightly and monthly systems of installments paying are available. The rate of interest is uniform 12 percent. There is a disaster loan for which the rate of interest is only 3 percent. With this service charge it has been able to become more than self sufficient in its micro credit operations. Its operation self sufficiency ratio is as reported in the MRA publication is 101.47 percent, which is higher in comparison to even that of LS (Only 97.77 percent)

But the main weakness of C1 is its alarmingly low rate of repayment. The CEO in his interview frankly recognized to us that they are very liberal in recovering the loans since the borrowers are generally very poor and the community actually feels a responsibility to help them to come out of poverty. Its average repayment rate is only 91 percent. Even then it has a positive net return on its assets which is equal to ...

There are many other social activities of C1 in the fields of education and health aimed at enhancing human capabilities of the individual members of the community. Among them there are important health projects e.g. eye hospitals where rich patients pay at the market rate and the poor patients get services at a subsidized rate. It runs all its social projects through separate accounts and all donations and grants from both local and foreign sources are earmarked for specific projects and are directly deposited to these accounts. There is only one account kept in the Dhaka head quarter which is for disaster management.

As an attempt to increase its social fund C1 began investing in commercial activities but soon it was clear to them that this diverts their attention from their essential mission to serve the community members out of love for them. So it was decided to form a trust and hand over the commercial management of profit oriented activities to that trust. Several M.O.U.s have been signed between C1 and each of these trusts under which they are obliged to hand over surpluses earned from these commercial business to the social projects of C1. When asked, the CEO gave the example of the distribution of the surplus of one of its trust managing jute business. In 2007-08 the jute business made a profit of 15 lac taka. The trustee board decided to spend half of this fund for financing the salary of some grass root teachers in mymensingh.

The main strength of C1 is its dedication. This has enabled them to maintain viability of an organization which can attract grants and use them for the delivery of social services. It also carries micro credit activities and could keep them profitable even with a low repayment rate (91 percent) because of availability of generous donations, high savings collection and a cost effective administration.

[B] C2 is another community based as well as a local NGO. It was established in 1990 and concentrates its work among the indigenous tribal people living in the Rajshahi Division. The original inspiration was to protect the human rights of the indigenous marginalized people. The human rights of these tribal people living in the plain are violated mainly in three ways: Land grabbing by the elites of the main stream community members, various discriminatory treatments by the administration and creation of general insecurity for the womenfolk. The organizational mandate of C2 is “Welfare of indigenous people of N-W Bangladesh”. Thus

credit is not its main job. Even then it has started micro credit under its umbrella as a supporting and complementary activity for its other social services.

C2 initially targeted the extreme poor people of the tribal community only. The loan size ranged from 500tk. to 2000 tk. only. Later it also brought a few poor Bengali neighbours within their loan network and for them the loan size was slightly higher. (3000 to 3500 tk.). They also gave micro enterprise loans to a few educated and graduated members in the indigenous community. Micro enterprise loan ranges from 20000 tk. to 50000 tk. The primary source of the loanable fund was a foreign grant. Presently they have also taken some loans from the PKSf. The PKSf fund was given at a subsidized rate of one percent interest only. The rate of interest charged differs between borrowers. Indigenous people were given loans at a flat rate of 10 percent interest per year. But the poor Bengali neighbours had to pay 12 % interest rate. At present the ratio of indigenous to Bengali borrowers is roughly one is to one. The general rate of repayment is 98 percent. When bad debt occurs, the managers do not go for any coercion or pressure, rather they send the respective elected chairman or member to persuade them to repay. So they maintain a very good relationship with the local level elected representatives.

As foreign fund is drying up, the managers of C2 have started collecting savings and they think PKSf fund should be substituted by own savings as early as possible. They now give a quite high rate of incentive for deposit i.e. 6%. Initially the micro credit program was a subsidized one, and donor fund was the main source of that subsidy. But it had become self sufficient since June 2009, this is what has been claimed by the current CEO.

From MRA data base we find that C2 has 413 employees working in 60 branches located in 6 districts and 26 upazillas of Rajshahi division. It has collected an aggregate savings of 80.31 million tk. which can finance almost 37 percent of its outstanding loan. Donor's fund finances another 46% of the outstanding. So C2 depends on PKSf and external loans to finance only 17 percent of its micro credit fund. MRA document mentions that the declared service charge of C2 for its regular micro credit is 12.50%.¹¹ MRA data also distinguishes between current recovery rate and the cumulative recovery rate, and from that it seems that current recovery rate is much below the cumulative 98% rate. It is only 89%.

¹¹ This does not match the interview information given to us in 2009.

The salary structure of C2 does not follow the government scales. The highest salary paid is reported to be 70000 tk. per month and the lowest is 5500 tk.. The executive board of C2 consists of 7 members, two of whom comes from the indigenous community and five from non indigenous community.

Chapter 5: Burning Issues and Reccomendations

Ownership

The soft fund based micro credit operations will soon become non viable. In that case micro credit operators must seek for alternative sources of primary fund which is known as seed capital. The seed capital may come from the savings of the poor members/borrowers but that has proven to be inadequate for two reasons: it is a very slow process and it will take many years to accumulate an adequate level of fund. To this we can further add that the almost universal experiences of SHG in various countries including our neighboring country shows that even SHGs also require at one stage of development external large scale fund support from the state sponsored commercial banks or state run wholesale funding agencies to upscale themselves and become viable.

The other novel solution preached by professor Yunus, the originator of the Grameen Model is depicted in the following words: “The paradox of the situation is that many of these NGOs operate within areas where there is plenty of money all around them. They can easily get to it only if they are allowed. Not only are they not allowed to take public deposits, in many countries they are not allowed to take savings of their own borrowers. A legal framework to create enabling environment for the NGOs to convert themselves into micro credit banks will change the whole scenario”. [Md. Yunus, July, 2003]

This suggestion is plausible because by becoming bank the NGO-MFIs will be able to not only solve their fund problem; they will be also coming under a new definite banking regulation act. The micro credit bank will also be able to serve not only the poor borrowers but also the

graduated borrowers as well as the so called “missing middle”.¹² This process of redirecting part of the micro credit fund to the “missing middle” has already been started in an indirect manner by the relatively more successful NGO-MFIs. From our case studies we find that the LS has already invested a part of its surplus earnings in a commercial bank which is supposed to be serving the SME sector particularly. It has also started taking loans from commercial banks to finance its micro-credit fund and has also differentiated its loan products into various types, serving extreme poor, poor, moderate poor and the micro enterprise. Even it prefers commercial bank source to PKSF fund because of the interest ceiling conditions attached to that loan. They argue that different credit portfolios should charge interest differently because of the different levels of cost involved with different types of credit. Similar trend can be observed in case of MS. But the two questions that may immediately come up are:

1. After becoming a bank will not they behave like other commercial profit maximizing banks and give up their social goals?
2. Who are going to own these transformed micro credit banks? Can they operate under the old legal framework of an NGO where the board of directors is the virtual owners of their organization?

On the basis of our review of the experiences of Grameen Bank we can now suggest that if the poor borrowers can become the shareholders of the newly transformed bank then the social nature of the bank could be easily maintained. The new law should institute a capable full fledged regulatory authority who will be naturally attached to the central bank to monitor and control this new generation of micro credit banks. These banks should be given the right to open branches in cities and villages as well and collect deposit from general public too. On the other hand they should fulfill all the standard conditions of paid up capital, reserve ratio, etc. in order to ensure the security of their collected public savings. In addition law should specify that at least more than fifty percent of their loan portfolio must consist of micro credit directed towards rural poor and extreme poor.

These micro credit banks can also take the form of a “Cooperative Bank”. But experiences of cooperatives are not found very good incase of Bangladesh mainly because of their

¹² The present pattern of segmented credit market has largely bypassed the SME sector. The NGO-MFIs had concentrated on the micro borrowers, while the modern commercial banks have directed their credits largely to the big corporate sector and urban rich clients.

unhomogeneous membership and non suitable cooperative laws. But after the reform of the cooperative sector as promised by the present government this can also be a promising mode of ownership. Especially after the experiences of the recent global economic crisis there is an increased international recognition of the potentiality of the Cooperative Banks to sustain such crisis well. [ILO, 2009]

In addition to these two forms of ownership, professor Yunus had a few other suggestions of his own. We have not studied them in this paper in detail so we are not recommending them but we think they are worth mentioning and need to be further discussed. According to him A Micro Credit Bank can be set up as a “not for profit company” and can be owned by a capitalist enterprise or capitalist himself. It can also be jointly owned by the people and the private sector socially minded capitalists. It can simply be owned by any single or more than one “Not for Profit” organizations too. A combined ownership of “Not for Profit Organization” and “For profit organization” is also possible.

Governance

Until and unless the restructuring of ownership is done and the structural difficulties of the NGO-MFI continues to remain as it is, an effective governance of the present NGO-MFIs can be suggested as the second best option. On the basis of our case studies we find the following areas are to be crucial for monitoring by the Micro Credit Regulatory Authority.

For Ownership Aspects

1. The composition of the members who elect the board of directors as well as the composition of the elected board of directors. How far they are ornamental in nature?
2. The power of the CEO and the Chairman and how far they can be controlled by the board of directors.
3. The mode of control of other commercial sister organizations under the NGO. The M.O.U. between the NGO-MFI and those commercial sister organizations must be examined.
4. Especially the mode of use of the surplus of these commercial sister organizations or alternatively the mode of filling up their deficits. In other words we need to know the

pattern of internal flow of money to find out who supports whom or/and who draws money from whom?

For Financial Sustainability

5. The nature of the savings portfolio and the use of those savings.
6. The other sources of fund of micro credit and their actual use.
7. The interest spread of the NGO-MFIs. i.e. the difference between the financial cost and the portfolio yield.
8. The general Administrative cost of micro credit. The crucial information will be on the existing salary structure.
9. The self sufficiency ratio.

For Broader Outreach

10. The Average loan size and what proportion of loanees are coming from the relatively poorer sections of the community.
11. Extent of especial area coverage e.g. rural areas, remote areas, crisis prone areas, etc.
12. Coverage of desirable sectors e.g. “missing middle”, etc.
13. List of indirect social services and/or projects. Who are getting the benefits and the number of beneficiaries?
14. Direct Complains received from the two neglected stakeholders: employees of the NGOs and the client borrowers of the NGOs.

The list is neither final nor exhaustive. The future challenge before MRA will be to build up a capacity to collect and process all these information with an absolute uncontroversial credibility. The next task of MRA should be to make a comprehensive multi dimensional credit rating of all the licensed NGO-MFIs on the basis of all these information and regularly publish them in the market. This is not much to expect from the MRA. But if MRA could really accomplish this job it will certainly bring the much sought out transparency in this field. This transparency may then unleash the social forces to make the NGO-MFIs accountable.

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