

# Resource Mobilization by the MFIs in Bangladesh

1. The socioeconomic development goals of the country to become a developing country could not be materialized mostly because of little improvement made in the fate of large portions of the population living below poverty level. One of the major obstacles identified over the years was availability of finance in the hand of the poor. One of the root causes of the problems stems from lack of accessibility to formal sources of credit and compounded such difficulties with poverty alleviation initiatives through employment generation for the masses. Micro finance, a quasi formal lending arrangement has played an important role in improving the livelihood of the rural and urban populace in many developing countries including Bangladesh. Microfinance makes a significant contribution to the fight against poverty.
2. Since independence of Bangladesh, the government created a number of institutional set up to reach millions of rural population with financial support in the form of subsidized credit facilities, specially targeted for the agricultural sector. Such success of outreach was however plagued with massive failure in terms of huge non-performing loan and alleged corruption and inefficiency in disbursement. The formal banking sector despite all forced penetration efforts proved their inability to reach the vast majority of rural poor population, in Bangladesh over the years since independence. In the backdrop failure of the banking system to penetrate successfully in the rural financial market, the NGO-MFIs have proved their abilities to expand their activities with continuous growth.
3. Besides credit operations, the savings mobilizations, micro insurance facilities, human resources development through different training and awareness program, health and hygiene program etc are also part of MFI operations. Among the financial services, savings mobilizing opportunity through some organized institutional setup ensures safety and convenience to rural people, who due to remote location of banks, very smallness of savings and hesitations due to poor academic background cannot approach the formal banks to open account and deposit their scanty savings. In this regard also, the contribution of the MFIs must be recognized with due admiration.

4. As per CDF Bangladesh Microfinance Statistics 2007, these MFIs have extended loan facilities of Tk. 1.13 trillion (cumulative) to 39 million borrowers up to December 2007 (Tk. 234.9 million alone in 2007). These MFIs have also accumulated more than Tk. 93 billion worth of savings from the target group. From macro perspective, it can be understood that such growth of micro credit sector must be continued in Bangladesh as it has definite positive socioeconomic impact to the rural poor especially rural women of Bangladesh.
5. With the outstanding success of Grameen Bank model, almost all major NGOs started offering microfinance to the target beneficiaries as additional demand driven operation. As mentioned, most of these organizations used to receive funds from external sources in the form of grants and concessional credit facilities. In 1990, the government established Palli Karma Sahayak Foundation (PKSF) as an autonomous wholesale lending agency for the MFIs which eventually became an important source of funds for a large number of NGOs including big ones to very small ones. more than four thousands NGOs which are now involved in microcredit operations<sup>1</sup> PKSF's support goes to around 90% of recipients<sup>2</sup> except the few big NGO-MFIS who are now not accessing credit facilities of PKSF.
6. The MFIs in Bangladesh including that of Grameen Bank started microfinance operations with support from Bangladesh bank and donors' grants during its early stage. The microfinance industry in Bangladesh has evolved from its initial focus on credit, disbursing standardized loan products and collecting obligatory savings to the development of flexible savings products. The industry gradually moved away from compulsory savings and introduced flexible savings.
7. Resource mobilization towards microfinance institutions is facing challenges not only in the domestic front but the global scenario is also not very different. CGAP studies indicate that, there is growth in microfinance funds flow over the years but such growth is not in line with the growing demand for microfinance worldwide. At present foreign funds including foreign guarantees, equity participations etc. altogether are meeting only US\$ 4 billion out of total globally available funds of 17 billion used by the 1030 surveyed MFIs worldwide.

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<sup>1</sup> According to web data, MRA has received applications from 4324 NGOs for registration under the MRA.

<sup>2</sup> Grameen Bank is not an NGO and always remained outside PKSF coverage.

8. The preconditions for MFIs to mobilize savings from public are twofold such as, outside MFI control and within MFI control. The outside MFI control aspects includes (i) enabling macro economy and some degree of political stability e.g., no hyperinflation or continuing severe warfare (ii) appropriate regulatory environment (iii) and public supervision. The internal control issues are (i) good track record of accountable ownership, effective governance, and consistently good management of funds (ii) financially sound with a high rate of loan recovery and consistently good returns (iii) allocation of full-time high level committed management.
9. Therefore, the issues that were examined through the present study are to identify the possible sources of resources that can be mobilized to MFIs in Bangladesh with special emphasis on to safe and objective oriented utilization of the funds given our institutional challenges and constraints. The ability to mobilize appropriate type and quantity of resources by the micro finance institutes (MFIs) is very much important for their survival and growth in future and the economic development of the country. Ability refers to the access of MFIs to the funds and the use funds for their purposes. And when MFIs survive and grow the multiplier effect will be on the financial performance of the institution and the economy as well.
10. The major issues addressed in the study are: Are the MFIs in Bangladesh exploring all potential sources of funds given the present resource mobilization scenario? Can PKSF be a more effective wholesale lending agency for the MFIs of Bangladesh? Are all the MFIs equipped with appropriate managerial and organizational abilities to attract appropriate nature and volume of resources to meet the potential demand? Are there threats or possible risk factors in the microfinance sector given the pace at which these institutions are accumulating deposits and lending the same to a widely distributed client groups? What can be the appropriate policy guidelines to address the threats along with any form of early warning system? Can there be any form of transformation in the microfinance market, which will enable more efficient delivery of services to the target group? Will there be multiplicity of regulatory regime causing resource mobilization drive by the MFIs difficult?
11. This study covered the resource mobilization issues of the NGO-MFIs which are already being licensed by MRA. The key issues for the study are modalities of mobilizations of

funds, risks associated with such approaches of mobilizing resources and the sources and comparative importance of funding with their advantages disadvantages and prospects. It also includes what are the risks involved and the desirability, necessity and prospect of local and external aid/donations.

12. Based on the analysis of Balance sheets of selected sample MFIs for the Years 2006 and 2007, it appears that these institutions have been utilizing a number of avenues to finance their lending operations. Similar information is available in MRA Microcredit review upto 2008. The leading MFIs for obvious reason of their organizational abilities are in better positions over their smaller counterparts in utilizing different sources of funds. Grameen Bank and BRAC with their global presence (having international operations) have the ability to attract more capital from diverse sources, while some other bigger MFIs are exploring local financial markets to extract structured funds and bank loans with the help of local and international banks.
13. Overall average of the sample MFIs (60) have significant volume 'Quasi Equity' accumulated from retained income, capital funds from the past, and other designated reserves; as 38.73% of the loanable funds of these MFIs came from the 'Quasi Equity Capital. The quasi equity for these MFIs stands as one of the significant source of loanable funds for all the MFIs irrespective of sizes. Other than internal funds, the MFIs are also dependent on external sources of funds. Presently the funds are coming from three domestic sources namely mandatory deposits accumulated from members, wholesale loans from PKSF and Commercial Bank. Recently some commercial banks have also made arrangements for some structured funds for the MFIs. Loans from commercial banks have already become the lead source for the MFIs in Bangladesh. However, domestic capital market instruments like any funds (MIV or Microfinance Investment Vehicle) are not yet created in Bangladesh. It is not yet reported by any local asset management companies that they have any private equity or other forms of trust funds available and earmarked for MFIs. Therefore this issues need to be addressed in the study.
14. Besides 'Quasi Equity', members' savings have also emerged as one of the prominent source of resources for the MFIs. Irrespective of size, all the balance sheets of sample

MFIs show that almost one fourth of their funds are contributed by the members in terms of savings. However, the role of members' savings is higher for smaller MFIs in comparison to relatively smaller NGO MFIs. It was observed that for the larger 4 MFIs, contribution of savings was 22% of total resources utilized. In case of the smaller 56 MFIs, it was found to be more than 30% of total resources. However, such relative contribution of savings does not suggest absolute position.

15. Besides internal funds or 'Quasi Equity' and members' savings, loan from the domestic banks have also become source of significant volume of funds to the poverty stricken people through these microcredit institutions. The balance sheet data reveals that access to bank loan remain limited to only a few top MFIs, as exclusion of top 4 MFIs of the sample MFIs (the last pie chart or Table 1 in Appendix). The contribution of bank loan as sources of funds is only 1.1% for the smaller 56 MFIs while for the top 4 MFIs, contribution of bank loan is almost 30%.
16. Another source of funds utilized by Brac is securitized credit facilities whereby Brac raised 180 million dollar worth of funds from FMO, Citi NA (who used FMO guarantee) and two Bangladeshi commercial banks. The foreign currency loan from FMO came with foreign exchange risk being absorbed by FMO.
17. In case of deposit mobilization, the field study shows that, most of the the clients (members) of the MFIs include people having low asset base. The survey finds that only 11% are absolutely landless. But the coverage to the ultra poor families is found minimum. Study shows that, the MFI field level worker have tendency to avoid the ultra poor families as these groups may affect the sustainability of the groups covered by them. Only a few MFIs like BRAC ASA etc have some specific ultra poor financing projects.
18. The groups have family monthly income level ranging from as low as 1000 (1 case) to as high as 12000 (2 cases) with an average monthly family income of Tk. 5490. It is also observed that the surveyed families have average family level savings of Tk. 1219 per month. Thus the surveyed respondents do not fall into the ultra poor families of the country.

19. All the clients of the MFIs are required to save. Different types of savings products are offered by the MFIs. All of them are required to save under mandatory savings. Besides mandatory savings almost all the clients surveyed (450) have some form of alternative voluntary deposit provisions are being used indicating ability of the client groups to save and their demand for banking service.
20. Most of the clients demanded enhanced service provisions from their MFIs. The enhanced service requirements include normal deposit accounts system as offered by commercial banks, higher interest rates on deposit products and larger size of loan for meeting their growing demand. Thus the demands for financial services are growing in the country which is being met by the MFIs.
21. The MFIs are also trying to utilize more internal resources. These organizations except a few big ones are extremely dependent on PKSF. The MFIs with early entry in the market and as they had access to donor grants and concessional funds and no restrictions on interest rate accumulated significant volume of capital funds. Consequently, the cost of their funds is lower than the other smaller MFIs competing in the same market.
22. The MFIs are using members' savings and revolving loan funds to finance their credit operations. But as the demand for microfinance is growing fast, without access to other sources of funds may affect their growth pattern. In this regard, the MFIs can utilize the wider use of deposit products in order to enable them to cope with the funds supply and demand gaps.
23. The PKSF since its inception has led the MFIs to come to the present level. Initially almost all the leading MFIs of the country were their partners. However, after gaining some strength, organizations like ASA, BRAC have stopped taking financial facilities from PKSF. However almost all other major MFIs (except BURO) are still using PKSF funds as one important source. PKSF mainly accumulated its funds from government of Bangladesh and from overseas official grants, and loans from multilateral lending or donor agencies.

24. Given the changing pattern of microfinance market and also after the advent of MRA as the regulator of microfinance market, PKSF can now be converted in a specialized development finance institute to widen its financial role in the market. This will also enable PKSF to borrow and lend in commercial term, extend guratees to relatively smaller MFIs so that they can explore alternative sources of funds and thus led the MFIs to more market specific commercial norms over the years.
25. The MRA is the regulator of such a vast segment of financial market of the country. Therefore this organizations overall strength and capacity need to be enhanced significantly in terms of manpower, resource base and rule making authority in order to make it capable of meeting all of its operational targets. All the MFIs under its licensing rangeshould be re incorporated under a single common law (as all MFIs in bangladesh are incorporated under 4 different laws) like the Banking Companies Act 1991. The MRA must also develop necessary regulations and standards taking experience and expertise of PKSF. However, it must also be ensured that formulation and implementation of regulations must be done in accordance with the needs and keeping the impact on financial viabilities of the MFIs in to consideration. Otherwise, any hasty attempt can result in negative implications for the microfinance sector of the country.

