

# **BANGLADESH MICROFINANCE STATISTICS 2009**

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## **DEVELOPMENT OF MICROFINANCE SECTOR IN BANGLADESH**

## DEVELOPMENT OF MICROFINANCE SECTOR IN BANGLADESH

Bangladesh, the pioneering country of microcredit, has passed one another year of success. The data and information about microfinance of the country have been drawing great attentions of knowledge seekers, academics, development practitioners and policy makers at home and abroad. The series of CDF Microfinance Statistics proved a useful source of information to all having interest in microfinance. In order to broaden scope and enhance quality the Institute of Microfinance (InM) has joined the Credit Development Forum (CDF) in bringing out the statistical volume renaming it as Bangladesh Microfinance Statistics since 2007. This part of analysis of the volume will give a clear picture of the changes on different aspects of MFI-NGOs by and over years.

This time the analysis has been more focused on data consistency and enabling its ability to follow-up the information in the coming years. It gives an overall picture of the sector, an overview of the pattern and trend in various aspects, and analysis of the trend through available panel data of MFI-NGOs.

### 1.1. Major Service Providers

Institutionally microcredit is provided through two stages: direct providers and apex lenders. At present, the main direct providers are microfinance institutions (MFIs), which are basically non-government organizations (NGOs) labeled here as 'MFI-NGOs', Grameen Bank (GB), Palli Daridra Bimochon Foundation (PDBF), Rural Development Scheme (RDS) of Islami Bank Bangladesh Ltd (IBBL), among others. For the wholesale funding, the main two players are Palli Karma-Shahayak Foundation (PKSF) and the banks – public and private.

**1.1.1. Loan Disbursement:** Overall, the sector achieved a commendable increase in cumulative loans disbursement to the individual household borrowers in 2009. As per the survey 2009 (Table-1.1), cumulative disbursement of loans to the individual borrowers stood at Tk. 1,790.034 billion up to December 2009 against Tk. 1,408.99 billion up to December 2008 and Tk. 1,126.01 billion up to December 2007. This shows that annual loan disbursement was Tk. 381.05 billion in 2009 over 2008 with an increasing rate of around 27 percent compared to Tk. 282.97 billion with an increase in loan disbursement by around 25.13 percent in 2008 over 2007. This growth is overestimated here as we received information from some 744 MFI-NGOs in 2009 compared to 612 MFIs in 2008.

Among the direct providing agencies, MFI-NGOs as a group was dominating in cumulative disbursement of loans with Tk. 732.32 billion up to December 2007, which was 65.04 percent of the total sector and Tk. 941.77 billion up to December 2008, which was 66.84 percent of the sector. Up to 2009, the cumulative disbursement of loans was Tk. 1,233.15 billion, which was 68.89 percent of the total disbursement of the sector. The annual disbursement was Tk. 291.39 billion of some 744 MFI-NGOs in 2009 against Tk 209.44 billion of the reporting 612 MFI-NGOs in 2008. The growth rate was 30.94 percent in 2009 compared to 28.60 percent in 2008. The rate of increase was 2.34 percentage point higher than the previous year's growth, reflecting tremendous expansion of market outreach of the MFI-NGOs' program. But as a single institution, GB remains at the top.

Table 1.1: Development of Microfinance Sector in Bangladesh

(Taka in Million)

Items	Up to December 2009 (N=744)		Up to December 2008 (N=612)		Up to December 2007 (N=535)		Annual Change in Disbursement		Growth in Disbursement	
	Cumulative Loan Disbursement	Recovery Rate	Cumulative Loan Disbursement	Recovery Rate	Cumulative Loan Disbursement	Recovery Rate	2009	2008	2009	2008
							over 2008	over 2007	over 2008	over 2007
<b>Disbursement to Borrowers by</b>	<b>1,790,034.56</b>		<b>1,408,987.02</b>		<b>1,126,014.85</b>		<b>381,047.54</b>	<b>282,972.17</b>	<b>27.04</b>	<b>25.13</b>
(1) MFI-NGOs	1,233,153.96	96.22	941,766.25	96.16	732,323.56	99.24	291,387.71	209,442.69	30.94	28.60
(2) Grameen Bank	498,311.50	99.46	418,903.07	98.32	356,798.20	98.02	79,408.43	62,104.87	18.96	17.41
(3) PDBF	34,330.10	98	29,276.70	98	22,924.08	98	5,053.40	6,352.62	17.26	27.71
(4) RDS (IBBL)	24,239.00	99	19,041.00	99	13,969.01	100	5,198.00	5,071.99	27.30	36.31
<b>Wholesale Lending by PKSF</b>	<b>83,107.80</b>	<b>99.51</b>	<b>65,746.81</b>	<b>97.09</b>	<b>49,725.72</b>	<b>96.87</b>	<b>17,360.99</b>	<b>16,021.09</b>	<b>26.41</b>	<b>32.22</b>

Note: N refers to MFI-NGOs

Source: Survey 2009

Up to 2009, cumulative loans disbursement of GB was Tk. 498.31 billion, occupying 27.84 percent of the market share. The share declined from 29.73 percent in 2008 and 31.69 percent from 2007. The annual loan disbursement of GB was Tk. 79.41 billion in 2009 compared to 62.10 billion in 2008. The growth in 2009 was around 19 percent which was around 2 percent higher than the previous year's growth.

PDBF is a transformed public sector MFI in Bangladesh. This is the only public sector MFI in Bangladesh. Cumulative disbursement of PDBF increased to Tk. 34.33 billion up to 2009 from Tk. 29.28 billion up to 2008 and Tk. 22.92 billion up to 2007. The amount disbursed by PDBF was Tk. 5.05 billion with a growth rate of around 17 percent in 2009 compared to Tk. 6.35 billion with around 28 percent growth rate in 2008. The rate of increase was positive but lower compared to that of previous year. The IBBL replicates Grameen model and directly implements Rural Development Scheme (RDS) at the field level. The IBBL is, perhaps, the only commercial bank that implements group-based microfinance program directly. The cumulative loan disbursement of RDS of IBBL, still a small niche of the market, was Tk. 24.24 billion in

2009 compared to Tk. 19.04 billion in 2008 and Tk 13.97 billion in 2007. It was a remarkable annual increase of loans disbursement by Tk. 5.20 billion effecting 27.30 percent growth rate in 2009 compared to Tk. 5.07 billion in 2008 which produces more than 36 percent growth in the annual disbursement of loan. This reveals an enabling financial environment in the market for new entities.

PKSF, the single largest apex body of microfinance in the country established in 1990 to finance MFI-NGOs in order to broaden credit supply to poor households, provided Tk. 83.11 billion through its partner MFI-NGOs up to December 2009, while the figure were Tk. 65.75 billion up to 2008 and Tk. 49.72 billion up to 2007. The annual change was Tk. 17.36 billion in 2009 compared to Tk. 16.02 billion in 2008, yielding an increasing rate.

## 1.2. Deepening of Microcredit

Microcredit outreach has been expanded tremendously over times in terms of loans disbursement, and its share in the country's credit regime i.e. as percentage of domestic credit, rural credit, agriculture gross domestic product (GDP) and savings mobilization.

**1.2.1. Microcredit as Percentage of Domestic Credit:** The deepening of microcredit is expressed in terms of domestic credit. In 2009 the volume of total domestic credit was Tk. 2,586.76 billion and annual loan disbursement in microfinance was Tk. 381.05 billion (Table 1.2.1). Thus, the share of microcredit as share of domestic credit rose to 14.73 percent in 2009. The shares of microcredit on total domestic credit were 12.98 percent in 2008 and 12.93 percent in 2007, inferring faster growth of the microfinance sector.

**Table 1.2.1: Deepening of Microcredit in Relation to Domestic Credit**

(Taka in million)

Sources of Microcredit	Loan Disbursement			Total Domestic Credit			As % of Domestic Credit		
	Dec. 2009 (N=744)	Dec. 2008 (N=612)	Dec. 2007 (N=535)	Dec. 2009	Dec. 2008	Dec. 2007	Dec. 2009	Dec. 2008	Dec. 2007
(1) MFI-NGOs	291,387.71	209,442.69	176,646.88				11.26	9.60	9.72
(2) Grameen Bank	79,408.43	62,104.87	50,429.60				3.07	2.85	2.77
(3) PDBF	5,053.40	6,352.62	3,231.38	2,586,756	2,180,840	1,817,482	0.20	0.29	0.18
(4) RDS (IBBL)	5,198.00	5,071.99	4,665.89				0.20	0.23	0.26
<b>Total</b>	<b>381,047.54</b>	<b>282,972.17</b>	<b>234,973.75</b>				<b>14.73</b>	<b>12.98</b>	<b>12.93</b>

Note: N refers to MFI-NGOs

Source: Survey 2009 and Quarterly Scheduled Banks Statistics, Statistics Department, Bangladesh Bank.

Overall, the growth of domestic credit in 2009 was 18.61 percent and that of microcredit was 34.66 percent, showed around 16 percentage point higher growth of microcredit to the domestic credit. In the previous year, the growth of microcredit was around 20 percent which was parallel to around 20 percent that of the country's overall domestic credit.

**1.2.2. Microcredit as Percentage of Rural Credit:** Total rural credit extended by banks was Tk. 184.42 billion and the disbursement in microfinance was 381.05 billion in 2009 (Table 1.2.2). Thus, the volume of microfinance was 2.07 times of the formal rural credit in the year.

**Table 1.2.2: Deepening of Microcredit in Relation to Rural Credit**

(Taka in million)

Sources of Microcredit	Loan Disbursement			Rural Credit by Banks			As % of Rural Credit		
	Dec. 2009 (N=744)	Dec. 2008 (N=612)	Dec. 2007 (N=535)	Dec. 2009	Dec. 2008	Dec. 2007	Dec. 2009	Dec. 2008	Dec. 2007
(1) MFI-NGOs	291,387.71	209,442.69	176,646.88				158.00	134.54	131.58
(2) Grameen Bank	79,408.43	62,104.87	50,429.60				43.06	39.90	37.56
(3) PDBF	5,053.40	6,352.62	3,231.38	184,419.40	155,668.00	134,253.3	2.74	4.08	2.41
(4) RDS (IBBL)	5,198.00	5,071.99	4,665.89				2.82	3.26	3.48
<b>Total</b>	<b>381,047.54</b>	<b>282,972.17</b>	<b>234,973.75</b>				<b>206.62</b>	<b>181.78</b>	<b>175.02</b>

Note: N refers to MFI-NGOs

Source: Survey 2009 and Quarterly Scheduled Banks Statistics, Statistics Department, Bangladesh Bank.

The rural credit provided by banks grew by around 18 percent in 2009 over 2008, while microfinance grew by around 35 percent. Thus, the growth of microcredit was significantly higher than the growth of total rural credit market. In another dimension, the share of microcredit was 158 percent of the rural credit that made by banks in 2009. It increased from the share of 134.54 percent in 2008 and 131.58 percent in 2007. GB as a single MFI disbursed around 43 percent of the total rural credit by banks in 2009 and the percentage was increasing by year. The percentages were around 3 percent for both PDBF and RDS (IBBL).

**1.2.3. Microcredit as Percentage of Agriculture GDP:** In 2009, total agricultural GDP in Bangladesh was Tk. 1,156.27 billion compared to Tk. 1,052.04 billion in 2008 and 939.34 billion in 2007 (Table 1.2.3). The growth in the agricultural GDP was around 10 percent in 2009 and 12

percent in 2008. On the other hand, the loan disbursement in the microfinance sector in 2009 was Tk. 381.05 billion followed by Tk 282.97 billion in 2008 and Tk. 234.97 billion in 2007.

**Table 1.2.3: Deepening of Microcredit in Relation to Agricultural GDP**

(Taka in million)

Sources of Microcredit	Loan Disbursement			Agricultural GDP			As % of Agricultural GDP		
	Dec. 2009 (N=744)	Dec. 2008 (N=612)	Dec. 2007 (N=535)	Dec. 2009	Dec. 2008	Dec. 2007	Dec. 2009	Dec. 2008	Dec. 2007
(1) MFI-NGOs	291,387.71	209,442.69	176,646.88				25.20	19.91	18.81
(2) Grameen Bank	79,408.43	62,104.87	50,429.60				6.87	5.90	5.37
(3) PDBF	5,053.40	6,352.62	3,231.38	1,156,272	1,052,035	939,340	0.44	0.60	0.34
(4) RDS (IBBL)	5,198.00	5,071.99	4,665.89				0.45	0.48	0.50
<b>Total</b>	<b>381,047.54</b>	<b>282,972.17</b>	<b>234,973.75</b>				<b>32.95</b>	<b>26.90</b>	<b>25.01</b>

Note: N refers to MFI-NGOs

Source: Survey 2009 and Quarterly Scheduled Banks Statistics, Statistics Department, Bangladesh Bank.

The growth in the loans disbursement of microfinance sector was 34.66 percent in 2009 which was around 25 percentage point higher than that of agricultural GDP. It was around 8 percentage point higher in 2008. The country's microfinance was 32.95 percent of the agricultural GDP in 2009 which was significantly higher than the percentages in 2008 at 26.90 and in 2007 at 25.01. This statistics of microfinance-share in agricultural GDP also revealed the expansion of microfinance market and contribution to the different sector nationally.

**1.2.4. Employment Generation:** Employment generation in microfinance is of two types: (i) direct, which refers to the staff recruitment for rendering services to the target people, and (ii) indirect, referring to the self-employment generation of the borrowing household members through utilizing microcredit. But, here, only the direct employment creation would be considered as outcome of the program intervention, although total employment generation by lenders and borrowers would be higher than the employment being created directly.

Up to December 2009, the total number of staff was 361,764 and it was 225,766 in 2008 and 200,974 in 2007. The annual increase of staff in 2009 over 2008 was 135,998 compared to 24,792 in 2008 over 2007 (Table 1.3). The growth of direct employment creation was 60.24 percent in 2009 which was 5 times of the previous year's growth, keeping the significant overall increase.

Direct employment creation in microfinance sector is better understood if compared to the finance and business sector. But it is a great limitation that compatible data were not found for business and finance after 2006. The data of microfinance are as of December of the year, while the data of finance and business are as of June. Despite this, some implications may be drawn from those data presented in Table 1.3.

**Table 1.3: Share of Microcredit Employment in Labor Force**

Items	Total Staff in Microfinance			Labor Forces in 2006	Share of Microfinance in Finance and Business Labor Forces		
	As of Dec. 2009 (N=744)	As of Dec. 2008 (N=612)	As of Dec. 2007 (N=535)		As of Dec 2009	As of Dec 2008	As of Dec 2007
(1) MFI-NGOs	334,529	197,732	171,599		41.82	24.72	21.45
(2) Grameen Bank	23,283	24,240	25,283		2.91	3.03	3.16
(3) PDBF	2,215	2,139	2,273	800,000	0.28	0.27	0.28
(4) RDS (IBBL)	1,737	1,655	1,819		0.22	0.21	0.23
<b>Grand Total</b>	<b>361,764</b>	<b>225,766</b>	<b>200,974</b>		<b>45.22</b>	<b>28.22</b>	<b>25.12</b>

Note: N refers to MFI-NGOs

Source: Survey 2009, BBS. The figure of employed labor forces in finance and business was mentioned as 0.8 million in BBS statistics.

MFI-NGOs have created a large number of employment opportunities. In 2007, it was a little over 25 percent of labor force in finance and business. The share increased to around 28 percent in 2008 and 45 percent in 2009 compared to available data of labor force of the finance and business sector. This indicates a profound increase in direct employment creation by the MFIs. As expected, MFI-NGOs contributed most to the employment creation. The single highest employment creator in the microfinance sector GB's share stood at around 3 percent of finance and business labor forces in all the years under review.

**1.2.5. Deepening through Member's Savings:** The deepening of the microcredit program outreach can also be seen through its saving mobilization and by comparing it to savings or deposits with other comparable areas such as the rural deposits of banks together.

The total amount of micro-savings of MFIs and rural deposit with the banks in 2009 was Tk. 498.14 billion compared to Tk. 417.00 billion in 2008 and Tk. 342.45 billion in 2007 (Table 1.4). The share of MFIs in the total savings in 2009 was 19.31 percent against 18.50 percent in 2008 and 18.24 percent in 2007. The contribution of the MFIs in savings mobilization was slightly increasing over the years. Although newer in the market, the MFIs have been far advanced in mobilizing savings from their members. A remarkable 24.74 percent growth of savings was observed in 2009 over 2008 by the MFIs, whereas the growth by banks was 18.26 percent. The growth of savings with MFIs was also

commendable compared to previous year's growth. In 2009, it was around 1 percentage point higher than that of 2008 compared to 3 percentage points lower with the banks.

**Table 1.4: Micro-savings as Compared to Rural Deposits of Banks**

*(Taka in million)*

Agencies	Annual Net	Annual Net	Annual Net	Annual Change		Growth Rate	
	Savings Deposits in 2009	Savings Deposits in 2008	Savings Deposits in 2007	2009 over 2008	2008 over 2007	2009 over 2008	2008 over 2007
Micro-savings of MFIs	96,213.72	77,131.91	62,452.96	19,081.81	14,678.95	24.74	23.50
Rural Deposits of Banks	401,932.00	339,864.20	279,994.30	62,067.80	59,869.90	18.26	21.38
<b>Total</b>	<b>498,145.72</b>	<b>416,996.11</b>	<b>342,447.26</b>	<b>81,149.61</b>	<b>74,548.85</b>	<b>19.46</b>	<b>21.77</b>

Note: N refers to MFI-NGOs

Source: Survey 2009 and Quarterly Scheduled Banks Statistics, Statistics Department, Bangladesh Bank

The growth of MFIs' savings was significant, even amidst an instruction of MRA about not mobilizing much savings by them, although the banks have legal mandate to do so. The growth of micro-savings mobilized by the MFIs was greater than that of rural deposits with the banks. It signifies that the poor can also save if appropriate instruments are available. It should be noted here that MFIs cannot mobilize savings from public. Here GB is also an exception. The banks with legal entity can mobilize deposits from the public.

### 1.3. Outreach of MFIs

The outreach of the MFIs can be seen through its institutional and financial strength, such as, number of branches of the agencies, loan coverage, net savings and loans outstanding.

**1.3.1. Number of Branches:** The total number of branches of the agencies as of December 2009 was 17,777 while it was 17,055 in 2008 and 14,937 in 2007. Annual increase of the number of branches in 2009 over 2008 was 694 compared to 2,055 in 2008 over 2007. The annual growth of branches in the sector was 4.23 percent in 2009 which was 14.18 percent in 2008 (Table 1.5). The rate has been increasing at a decreasing rate. The MFI-NGOs together had the highest number of branches with around 84 percent share of the total sector, followed by the single largest agency, GB, with a share of 14 percent in 2009.

**Table 1.5: Distribution of MFI Branches**

Agencies	Total Branch			Annual Change		Growth Rate	
	As of Dec. 2009 (N=744)	As of Dec. 2008 (N=612)	As of Dec. 2007 (N=535)	2009 over 2008	2008 over 2007	2009 over 2008	2008 over 2007
(1) MFI-NGOs	14,845	14,151	12,096	694	2,055	4.90	16.99
(2) Grameen Bank	2,562	2,539	2,481	23	58	0.91	2.34
(3) PDBF	226	226	231	0	-5	0.00	-2.16
(4) RDS (IBBL)	144**	139*	129	5	10	3.60	7.75
<b>Grand Total</b>	<b>17,777</b>	<b>17,055</b>	<b>14,937</b>	<b>722</b>	<b>2,118</b>	<b>4.23</b>	<b>14.18</b>

Note: N refers to MFI-NGOs, \* Up to July 2009, \*\* Up to June 2010

Source: Survey 2009

**1.3.2. Members:** Up to December 2009, the total number of members mobilized by the sector was 38.29 million, while that up to December 2008 was 37.80 million (Table 1.6). It is somehow overestimated as the number of reporting MFIs in 2009 was higher than the number of reporting MFIs in 2008. Despite this, annual increase of members in 2009 was around half a million with around 1.30 percent growth rate in the year over its previous year. The annual increase was around 13 percentage point higher in 2008 compared to 2009 with the increase of number of members around 4.66 million. The number of members mobilized was 27.734 million as reported by 744 MFI-NGOs in 2009 compared to 28.24 million by about 612 MFI-NGOs. The annual decrease of the members of the MFI-NGOs was around 0.50 million in 2009 over 2008 with a negative growth rate of around 2 percent. Still the overall growth was positive as it increased significantly in the other sectors, particularly around 0.62 million members in RDS (IBBL) with a high growth of around 107 percent.

**Table 1.6: Distribution of Members**

Items	Cumulative Member			Annual Change in Member		Growth in Member	
	As of Dec. 2009 (N=744)	As of Dec. 2008 (N=612)	As of Dec. 2007 (N=535)	2009 over 2008	2008 over 2007	2009 over 2008	2008 over 2007
MFI-NGOs	27,734,933	28,235,221	23,955,780	-500,288	4,279,441	-1.77	17.86
Grameen Bank	7,970,616	7,670,203	7,411,229	300,413	258,974	3.92	3.49
PDBF	1,388,695	1,315,586	1,254,230	73,109	61,356	5.56	4.89
RDS (IBBL)	1,194,270	577,740	516,725	616,530	61,015	106.71	11.81

<b>Grand Total</b>	<b>38,288,514</b>	<b>37,798,750</b>	<b>33,137,964</b>	<b>489,764</b>	<b>4,660,786</b>	<b>1.30</b>	<b>14.06</b>
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Note: N refers to MFI-NGOs

Source: Survey 2009.

The MFIs occupied 72.44 percent of the sector's total members in 2009, and they together had 74.70 percent in 2008 and 72.29 percent in 2007. The GB's share as a single agency was still very large at 20.82 percent in 2009 while the share in 2008 was 20.29 percent and in 2007 22.36 percent. The slight decline in its share as total membership was clearly a swap with other emerging players in the market. The share of PDBF was 3.63 percent in 2009 compared to 3.48 percent in 2008 and 3.78 percent in 2007. The share of RDS (IBBL) rose to 3.12 percent in 2009 against around 1.5 percent in 2008 and 2007. Percent divergence of agencies reveals, like the big loan takers from the established formal sectors, now the poor microcredit borrowers also have alternative shops for credit.

**1.3.3. Borrowers:** Cumulative number of borrowers will always be higher because of repeat borrowings as we see in Table 1.7. The ratio of borrowers and members was 1.81:1 in 2009 and which was 1.55:1 in 2008, while in 2007 it was 1.49:1. The number of borrower grew at the rate of 18.01 percent in 2009 over 2008 and 18.86 percent in 2008 over 2007 (Table 1.7). This implies that borrowing has been increasing over the years, though in a decreasing rate.

**Table 1.7: Distribution of Borrowers**

Items	Cumulative Borrower			Annual Change in Borrower		Growth in Borrower	
	As of Dec. 2009 (N=744)	As of Dec. 2008 (N=612)	As of Dec. 2007 (N=535)	2009 over 2008	2008 over 2007	2009 over 2008	2008 over 2007
MFI-NGOs	58,912,630	49,274,987	39,119,807	9,637,643	10,155,180	19.56	25.96
Grameen Bank	7,970,616	7,670,203	7,412,000	300,413	258,203	3.92	3.48
PDBF	1,215,191	1,195,533	2,351,059	19,658	-1,155,526	1.64	-49.15
RDS (IBBL)	1,194,270	577,740	516,725	616,530	61,015	106.71	11.81
<b>Grand Total</b>	<b>69,292,707</b>	<b>58,718,463</b>	<b>49,399,591</b>	<b>10,574,244</b>	<b>9,318,872</b>	<b>18.01</b>	<b>18.86</b>

Note: N refers to MFI-NGOs,

Source: Survey 2009.

Like the members, the MFIs occupied 85.02 percent of the sector's total borrower in 2009 compared to 83.92 percent in 2008 and 79.19 percent in 2007. The other significant share was of GB at around 12 percent in 2009, which was around 13 percent in 2008 and 15 percent in 2007. The share of PDBF was declining to around 2 percent in 2009 from around 5 percent in 2007 of the sector. The share of RDS (IBBL) increased slightly by around 2 percent in 2009 from around 1 percent in 2007.

#### 1.4. Members' Savings and Loans Outstanding

Mobilization of savings from group members is one of the most widely practiced supplementary activities in microfinance. It, on the one hand, is financial wealth for the members and on the other hand, it is a source of finance for the MFIs. Mobilization of savings by the lending agencies is a part of the process of asset creation by the members and as a process of confirming a sort of collateral against the loans advanced to them. However, in recent years savings is seldom tied with loans.

**1.4.1. Members' Savings:** Net savings by the members of different sectors are presented in Table 1.8. Net savings mobilized by the member of MFIs at the end of 2009 was Tk. 96.21 billion, at a rate of growth of 24.16 percent which was approximately similar to that achieved in the previous year. The share of MFIs in the total net savings by the sector was around 50 percent while GB as the single MFI, contributed around 47 percent of the total amount in 2009 and the rest 3 percent were contributed by PDBF and RDS (IBBL). The increasing trend in the members' net savings was observed for both GB and RDS (IBBL) over the years. This growth rate for MFIs was around 9 percentage points lower than that of the previous years and the growth was around 30 percentage point lower for PDBF, though still gives a positive growth over the previous year.

**Table 1.8: Distribution of Members' Savings**

(Taka in million)

Items	Net Savings			Annual Change in Net Savings		Growth in Net Savings	
	As of Dec. 2009 (N=744)	As of Dec. 2008 (N=612)	As of Dec. 2007 (N=535)	2009 over 2008	2008 over 2007	2009 over 2008	2008 over 2007
MFI-NGOs	48,352.83	40,044.11	30,914.70	8,308.72	9,129.41	20.75	29.53
Grameen Bank	44,823.49	34,923.62	29,533.51	9,899.87	5,390.11	28.35	18.25
PDBF	1,408.40	1,310.40	951.19	98.00	359.21	7.48	37.76
RDS (IBBL)	1,629.00**	1,212.99*	1,053.56	416.01	159.43	34.30	15.13
<b>Grand Total</b>	<b>96,213.72</b>	<b>77,491.12</b>	<b>62,452.96</b>	<b>18,722.60</b>	<b>15,038.16</b>	<b>24.16</b>	<b>24.08</b>

Note: N refers to MFI-NGOs, \* Up to July 2009, \*\* Up to June 2010

Source: Survey 2009.

**1.4.2. Loans Outstanding:** Up to 2009, the amount of loans outstanding was Tk. 196.54 billion compared to Tk. 180.27 billion in 2008 and Tk. 138.62 billion in 2007 (Table 1.9). The amount increased in 2009 over 2008 was Tk. 16.27 billion with 9.03 percent growth against 30.04 percent in 2008 over 2007. This decreasing rate of loan outstanding is noticeable although the total loans disbursement still increased. A lower growth rate of around 24 percentage point was observed in the loans outstanding with the members of MFI-NGOs in 2009. The growth of loans outstanding of GB was around 1 percentage point higher than that of previous year. The annual increase in the loans outstanding of PDBF in 2009 was 222.50 million compared to 939.17 million in 2008. The growth was 33 percentage point lower than that of the previous year. Similarly, the annual decrease of RDS (IBBL) in 2009 over 2008 was Tk. 2.14 billion although it increased by Tk. 3.01 billion in 2008 over 2007. In 2009 it recorded a negative growth of 36.37 percent but in 2008 the growth was 104.40 percent. The shares of MFIs, GB and RDS (IBBL) in the total loans outstanding were 68.46 percent, 27.84 percent and 1.91 percent respectively while PDBF had 1.79 percent share.

The pattern of net savings and loans outstanding above helps to conclude that the smaller agencies, belonging largely to MFI-NGOs, were keener to mobilize savings as they use it as revolving loan funds.

**Table 1.9: Distribution of Outstanding Loan***(Taka in million)*

Items	Loans Outstanding			Annual Change in Outstanding Loan		Growth in Net Savings in	
	As of Dec. 2009 (N=744)	Up to Dec. 2008 (N=612)	Up to Dec. 2007 (N=535)	2009 over 2008	2008 over 2007	2009 over 2008	2008 over 2007
MFI-NGOs	134,552.60	126,675.31	97,039.04	7,877.29	29,636.27	6.22	30.54
Grameen Bank	54,714.60	44,396.63	36,336.30	10,317.97	8,060.33	23.24	22.18
PDBF	3,526.70	3,304.20	2,365.03	222.50	939.17	6.73	39.71
RDS (IBBL)	3,752.00	5,897.00	2,885.00	-2,145.00	3,012.00	-36.37	104.40
<b>Grand Total</b>	<b>196,545.90</b>	<b>180,273.14</b>	<b>138,625.37</b>	<b>16,272.76</b>	<b>41,647.77</b>	<b>9.03</b>	<b>30.04</b>

Note: N refers to MFI-NGOs,

Source: Survey 2009.

### 1.5. Sources of Revolving Loan Fund

There are several sources of revolving loan fund of MFIs. Among them the major contributors are members' savings, PKSF, excess income, local bank and own fund. The other sources are personal loan, international donors, international NGOs, security fund, CDF, local NGOs including BRAC, ASA and PROSHIKA. Table 1.10 presents the revolving loan fund by sources and Figure 1.1 shows the major contributors with percentages for the years 2009 and 2008.

The total amount of revolving loan fund was Tk. 268.52 billion in 2009 compared to Tk. 228.99 billion in 2008. The annual growth was Tk. 39.53 billion in 2009 over 2008, achieving a growth of around 17 percent. The growth may be over estimated as a larger number of MFIs was considered in 2009 compared to 2008.

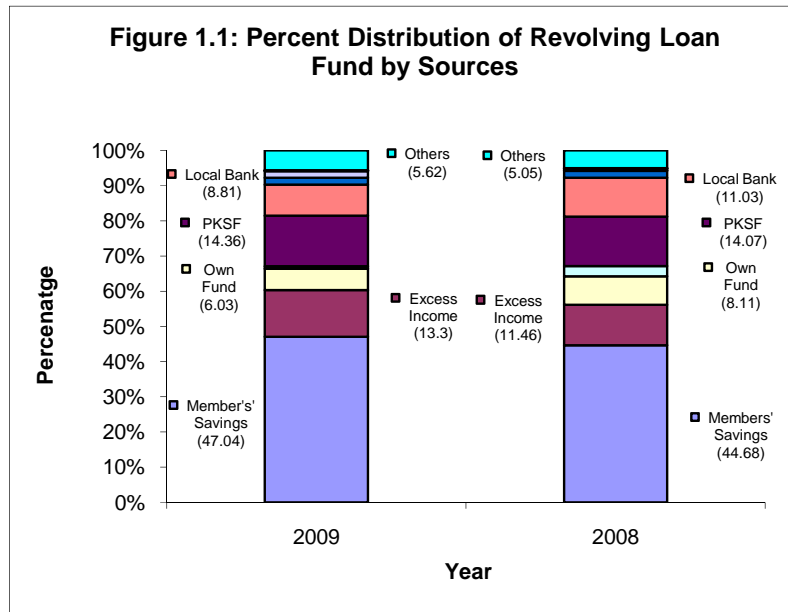
**Table 1.10: Distribution of Cumulative Revolving Loan Fund by Sources***(As of December)**(Tk. In million)*

Sources	Amount*		Percentage		Annual Change	Growth Rate
	Dec. 2009 (N=745)	Dec. 2008 (N=613)	2009	2008	2009 over 2008	2009 over 2008
Member's Savings	126,327.22	102,317.99	47.04	44.68	24,009.23	23.47
Excess Income	35,706.83	26,234.90	13.30	11.46	9,471.93	36.10
Own Fund	16,200.12	18,578.18	6.03	8.11	-2,378.06	-12.80
Personal Loan	1,933.02	6,594.49	0.72	2.88	-4,661.47	-70.69
PKSF	38,561.27	32,226.58	14.36	14.07	6,334.69	19.66
Local Bank	23,654.16	25,260.77	8.81	11.03	-1,606.62	-6.36
International Donor	5,210.48	4,455.24	1.94	1.95	755.25	16.95
International NGOs	4,983.41	409.93	1.86	0.18	4,573.47	1,115.66
Security Fund	602.12	1,101.84	0.22	0.48	-499.72	-45.35
CDF	36.76	20.73	0.01	0.01	16.04	77.37
Local NGOs**	230.74	234.12	0.09	0.10	-3.38	-1.45
Others	15,078.91	11,555.34	5.62	5.05	3,523.57	30.49
<b>Total</b>	<b>268,525.03</b>	<b>228,990.12</b>	<b>100.00</b>	<b>100.00</b>	<b>39,534.92</b>	<b>17.26</b>

Source: Survey 2009

Note: \* Amount including Grameen Bank, \*\* Local NGOs include ASA, BRAC and Proshika

Members' savings was the highest contributor among the sources of revolving loan fund. The share of members' savings was around 47 percent in 2009 while that around 45 percent in 2008. The amount of members' savings as revolving loan fund in 2009 was Tk. 126.33 billion against Tk. 102.32 billion in 2008. The annual increase was Tk. 24.01 billion with a growth of around 23 percent in 2009 over 2008. PKSF an apex lender is the second contributor to the revolving loan fund. In both the years under review, the contribution of PKSF was around 14 percent. Up to 2009, the amount of revolving loan fund of PKSF was Tk. 38.56 billion compared to Tk. 32.23 billion up to 2008. The annual growth was around 20 percent.



Note: The sources with low percentage are not reflected in the above figure.

Excess income was the third highest source of revolving loan fund of MFIs both in 2009 and 2008. The total amount of funding from excess income was Tk. 35.71 billion in 2009 compared to Tk. 26.23 billion in 2008. The percentages in total amount were around 13 in 2009 against around 11 in 2008. The annual change was Tk. 9.47 billion in 2009 producing a positive growth of around 36 percent.

Local bank was the fourth highest contributor to the revolving loan fund with an amount Tk. 23.65 billion in 2009, although it was 25.26 billion in 2008. It reveals an annual decrease of Tk. 1.61 billion at a rate of 6.36 percent in 2009. The share of local bank in 2009 was around 9 percent which was 2 percentage point lower than that of the previous year.

As a source of revolving loan fund, the MFIs also use their own fund. The contribution of own fund was around 6 percent in 2009 compared to around 8 percent in 2008. The amount of own fund as revolving loan fund in 2009 was Tk. 16.20 billion compared to Tk. 18.58 billion in 2008. The annual decrease was Tk. 2.38 billion at a rate of around 13 percent.

International donors and NGOs together have a share of around 4 percent in 2009 compared to around 2 percent in 2008. The funding of international donors in 2009 was Tk. 5.21 billion against 4.46 billion in 2008, leading a positive growth of around 17 percent. On the other hand, the funding of international NGOs was Tk. 4.98 billion in 2009 against only Tk. 0.41 billion in 2008.

The total amount of funding from personal loan, security fund, CDF and local NGOs including ASA, BRAC, PROSHIKA was around Tk. 2.57 billion in 2009 compared to Tk. 7.72 billion in 2008. The total contribution of the mentioned sources was only 1 percent in 2009 compared to around 3 percent in 2008. The amount decreased compared that of the previous year for personal loan by around 71 percent, for security fund by around 45 percent and for local NGOs by around 1 percent. The amount was increasing for CDF by around 77 percent though the amount was not very large.

## 1.6. Interest Rate

**1.6.1. Lending Interest Rate:** Interest rate has been a crucial agenda for discussion. It is often argued that MFIs charge high lending interest rates. On the contrary, lenders argue that interest rate should cover their transaction cost as their programs are not subsidized like the public sector development banks such as BKB and RAKUB. Despite the debate, it is important to know the interest rate structure in microfinance. The MFI-NGOs generally apply two methods in charging interest on loans: flat method and declining balance method. Under the flat method, interest is charged first on the principal amount. On the other hand, under declining balance method interest rate is charged on the loans outstanding at different points of time. It should be noted that out of 744 MFIs 19 follow both flat and declining methods, 18 follow only declining balance method, while the rest follow flat method.

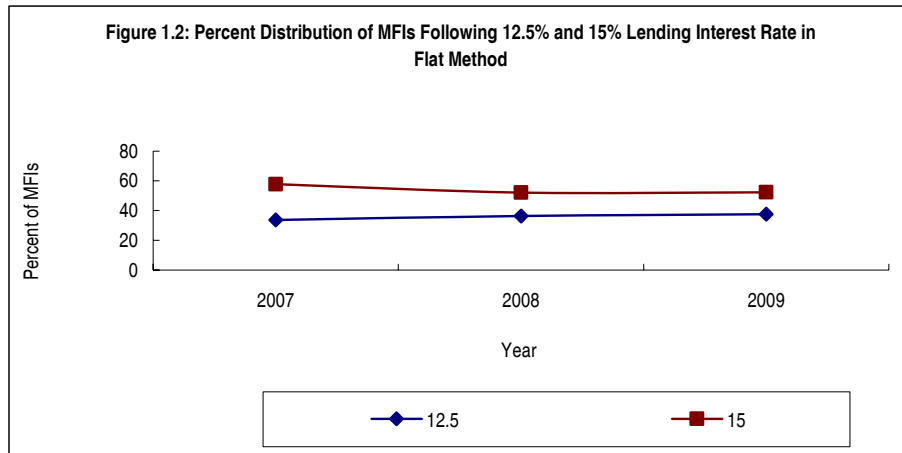
According to survey, 97.72 percent of 744 MFI-NGOs followed the flat method in calculating interest on loans to the borrowers in 2009, while in 2008 out of 612 MFI-NGOs, 97.22 percent calculated interest following this method (Table 1.11). The percentages of MFI-NGOs following flat method in calculating interest are almost the same both in 2009 and 2007. It may be mentioned, if the interest is calculated in this method, other things remaining the same, the effective interest becomes double.

**Table 1.11: Distribution of Interest Rate on Loan under Flat Method**

Range of Interest Rates	Dec. 2009		Dec. 2008		Dec. 2007	
	No. of MFIs	% of Total MFIs	No. of MFIs	% of Total MFIs	No. of MFIs	% of Total MFIs
Not Follow Flat Method	17	2.28	17	2.78	12	2.24
5-8	1	0.13	2	0.33	3	0.56
8-11	8	1.08	8	1.31	3	0.56
11-12.5	33	4.44	30	4.9	18	3.36
12.5	279	37.5	223	36.44	180	33.64
12.5-15	13	1.75	7	1.14	3	0.56
15	390	52.42	319	52.12	309	57.76
15-20	3	0.4	1	0.16	2	0.37
20	-	-	5	0.82	5	0.93
Above	-	-	-	-	-	-
<b>Total</b>	<b>744</b>	<b>100.00</b>	<b>612</b>	<b>100.00</b>	<b>535</b>	<b>100.00</b>

Source: Survey 2009.

There has been significant change in lending interest in 2009 compared to 2007 but not compared to 2008. In all the years under review, interest rates of 12.5 percent and 15 percent were charged by the MFIs on the borrowers in most cases. But the change was substantial in terms of percentage of MFIs charging different interest rates. The percentage of MFIs charging interest rate at 15 percent declined from 57.76 percent in 2007 to 52.12 percent in 2008, and it slightly rose to 52.42 percent in 2009. MFIs following 12.5 percent interest rate increased to 37.50 percent in 2009 compared to 36.44 percent in 2008 and 33.64 percent in 2007.



One should not be confused by the first figure of column three of Table 1.12 that only 2.28 percent (Table 1.11) of the MFIs charge lending interest rate under declining method, as they do not follow flat method. In fact, as noted earlier, it was around 5 percent of the MFIs that charge lending interest under the declining method. The difference was attributed to 19 MFIs that charge lending interest using both the methods.

**Table 1.12: Distribution of Interest Rate on Loan under Declining Method**

Range of Interest Rates	Dec. 2009		Dec. 2008		Dec. 2007	
	No. of MFIs	% of Total MFIs	No. of MFIs	% of Total MFIs	No. of MFIs	% of Total MFIs
Not Follow Declining Method	708	95.16	575	93.95	508	94.95
2-5	-	-	6	0.98	3	0.56
5-8	2	0.27	8	1.31	4	0.75
8-10	1	0.13	1	0.16	4	0.75
Above 10	33	4.44	22	3.59	16	2.99
<b>Total</b>	<b>744</b>	<b>100</b>	<b>612</b>	<b>100.00</b>	<b>535</b>	<b>100.00</b>

Source: Survey 2009

GB, the only specialized micro finance bank in the country, is charging a declining interest of 20 percent. Under the declining balance method, other things remaining the same, the comparable interest rate under flat method will be around 12 percent.

**1.6.2. Savings Interest Rate:** Interest calculation on members' savings is also another important issue to reckon with. The percentage of the reporting MFIs paid interest on members' savings were 99.07 in 2007 and 99.51 in 2008, but it increased to 99.87 percent in 2009 (Table 1.13).

**Table 1.13: Distribution of Interest Rate on Member's Savings**

Range of Interest Rates	Dec. 2009		Dec. 2008		Dec. 2007	
	No. of MFIs	% of Total MFIs	No. of MFIs	% of Total MFIs	No. of MFIs	% of Total MFIs
No Interest Paid	1	0.13	3	0.49	5	0.93
2-5	96	12.9	89	14.54	63	11.78
5-8	605	81.32	484	79.08	430	80.37
8-10	39	5.24	34	5.56	30	5.61
Above 10	3	0.40	2	0.33	7	1.30
<b>Total</b>	<b>744</b>	<b>100.00</b>	<b>612</b>	<b>100.00</b>	<b>535</b>	<b>100.00</b>

Source: Survey 2009.

In paying interest on savings, interestingly most of the MFIs followed the rates in force in most of the formal banks. More than 81 percent of the reporting MFIs paid interest on savings in the range of 5 to 8 in 2008. The percentages were 79.08 in 2008 and 80.37 in 2007 respectively.

As a gesture of generosity to the poor savers or as a strategy to mobilize more savings to accumulate capital for revolving loan funds only around 5 to 6 percent MFIs provided 8 percent to 10 percent interest. Even 1.30 percent MFIs provided above 10 percent interest to poor savers in 2007, while the percentages went down to 0.33 percent in 2008, though it increased a little to 0.40 percent in 2009. This diversity in interest rates on members' savings with various objectives or motivates call for a well thought policy where the MRA have a great scope to work.

## 1.7. Conclusion

The discussion above revealed a tremendous positive development of microfinance sector in the recent years. During the years microcredit deepened in terms of volume and its improvement was visible compared to important national sectors, such as, domestic credit, rural credit, and agricultural GDP. Its contribution to national employment generation increased, which again helped a larger number of poor in asset creation through savings mobilization. It should be mentioned here most of the MFIs in Bangladesh implement a package programs which includes many other programs alongside mobilizing savings and transecting credit. Some of these interventions are also helpful to the asset creation of the poor. Again, if we come to the point, the outreach of microcredit has increased as usual in terms of institutional strength of the MFIs, mobilizing greater number of member and servicing them with financial services particularly credit. The positive growth of revolving loan fund is expected to smooth funding the poor as per their demand which was missing until the recent times. The year 2009 has particularly been remarkable as lending interest rates during the year has been more pro-poor. Moreover, the MFIs, provided interest on savings in higher rates and on a more regular basis. These all together help to conclude that the sector, despite facing various challenges, improved its own position while it persistently demonstrating a usual pro-poor attitude also in 2009.