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Challenges and opportunities in financial inclusion for combating poverty

(This article has been abridged from a Key Note Address given by Dr. Atiur Rahman, Governor of Bangladesh Bank at the Joseph Mubiro Memorial Lecture, organised by the Central Bank of Uganda).

Basic financial services including deposit, payments and credit services are recognized as entitlements of all citizens. Despite substantial bank branch expansion and emergence of Microfinance Institutions (MFIs), scant access to basic financial services still remains a deprivation suffered by large segments of the poorer rural and urban population in Bangladesh.

Financial inclusion of the poorest, particularly their access to small-size credit for income generating self-employment activities is a major tool in Bangladesh for combating poverty. The coverage of financial services is still incomplete however, with gaps both at the lowest end and at some patches up the income ladder. Financial inclusion is therefore viewed as a high policy priority in Bangladesh for more inclusive and more equitable economic growth.

With no widely adopted uniform definition, financial inclusion is reckoned in Bangladesh as access to financial services from: a) officially regulated and supervised entities (banks and financial institutions licensed by Bangladesh Bank, MFIs licensed by the Micro-credit Regulatory Authority, registered co-operatives), and b) official entities themselves (post offices offering savings, money transfer and insurance services, national savings bureaus). Deposit services for safekeeping of savings is the stepping stone in accessing credit and other financial services on a continuing basis from banks, financial institutions, including MFIs and cooperatives.

The coverage of credit services across income, occupational and gender groups of the population and across economic activity sectors is another yardstick of financial inclusion from the viewpoint of combating deprivation and poverty. This measure is more qualitative, expressed in terms of gaps, exclusions and barriers in access to financial services. Early post-liberation financial inclusion initiatives in Bangladesh included expansion of rural branches of banks and promotion of mutually-owned co-operative societies offering financial and other specified services to members. The better off rural elite benefited from these initiatives, but success in financial inclusion of the broad masses of illiterate, innumerate rural poor remained limited. Rural branches of banks focused mainly on crop loans to farmers. Lending models were not geared towards reaching out to the poorer landless unable to handle the paperwork involved in bank borrowing.

(see page 2)

Editorial

Dear Readers,

On behalf of the PROSPER Coordination Unit (PCU) team, I wish you a very happy New Year. 2010 will mean a year of many endeavours by the partners after a period of planning and aligning their targets and strategies to suit the goals of the programme. The theme of this edition of the Newsletter is 'Access to Financial Services', as this aspect reflects a large part of what PROSPER does.

While ongoing researches are yet to establish if financial services to the poor actually *eliminate* poverty, it is well accepted that access to financial services does indeed *alleviate* poverty. Current efforts to at least contain poverty are thus crucial alongside specific poverty eliminating strategies. The challenge is to make financial services accessible to different categories of poor in Bangladesh. Studies have established that different groups of the poor need different types of financial services. Therefore, there is a need to develop a system that will offer diversified and flexible financial services to different groups.

PROSPER's ongoing activities, including the legislation and regulatory frameworks, are all geared towards ensuring that the poor have proper access to financial services

We would welcome, as usual, suggestions regarding our Newsletter and articles on topics that are of interest to PROSPER. Again, greetings from the PROSPER team!

Dr. Amanullah (Mak) Khan

Editor, and International Team Leader, PROSPER - PCU

Financial inclusion

(continued from page 1)

While the number of deposit accounts in banks and memberships in MFIs and co-operatives are growing steadily, the rate of increase has slowed in the recent years, and about 25 percent of the adult population is still to be covered by deposit and other financial services from regulated institutions. In access to credit, a 'missing middle' has emerged in the recent years between the poorest served by MFIs, and the relatively better off served by banks. Small businesses outgrowing eligibility for micro-credit from MFIs often find themselves too small by banks for their lending. Landless sharecroppers considered 'not so poor' as to be eligible for micro-credit from MFIs are considered ineligible for crop loans by banks, with no collateral for banks to fall back on in events of default. In terms of sectors of economic activity, major areas like agriculture, off-farm rural output activities and environment friendly renewable energy remain underserved by banks and other institutional lenders.

Bangladesh Bank (BB) and the Government of Bangladesh (GOB) have adopted several remedial measures to bridge these gaps in financial inclusion. BB has kept open refinance lines for banks against their loans to Small and Medium Enterprises (SMEs); multilateral development partners such as the IDA and ADB are supplementing BB's refinance programmes with their co-financing lines. The agricultural credit programme announced by BB for FY 10 enjoins all banks to engage in lending for a comprehensive range of on and off-farm rural economic activities, with refinance lines available to them from BB in case of need. A Taka 2 billion refinance line has been introduced in FY 10 against bank loans for environment friendly investments in solar energy, biogas plants and effluent treatment plants. BB has also introduced a first ever Taka 5 billion refinancing line against loans to landless sharecroppers in a group-based special programme designed by a major MFI. Further, BB has been urging banks and financial institutions to embrace specific commitment to financial inclusion as a Corporate Social Responsibility (CSR) obligation.

The GOB has been providing from the national annual budgets lending resources to MFIs (through PKSf) for rural on and off-farm self-employment micro and SME credit; with some gender bias towards empowerment of women. Financing lines from government budget are available also against loans to rural poor for construction of their basic shelter housing, in a number of schemes titled Grihayan, Ashrayan, Returning Home, and One home -One farm.

Although fair progress has been achieved in financial inclusion, much remains to be done to deepen inclusion in several patches where it is still shallow, and in bridging the remaining more recalcitrant gap; needing a new major breakthrough. High costs in management of portfolios of small sized loans to borrowers, rendering many of their possible lower return but lower risk output activities unviable. Advances in information technology now offer a window of opportunity for a breakthrough in reducing the costs of managing small loans to borrowers in remote locations. Over the near term BB's policies will focus on leveraging the potential synergies in partnerships between banks, MFIs, and telecom/mobile phone service providers in bridging the remaining gaps in financial inclusion; with due attention to the risk management, consumer protection and systemic stability issues that may arise in these new arrangements.

News & Events

MRA MIS and Office Automation Launched

Microcredit Regulatory Authority (MRA) launched its MIS and Office Management System in December 2009 in Dhaka.

Dr. Atiur Rahman, Governor, Bangladesh Bank and Chairman of MRA inaugurated the ceremony as chief guest. Dr. Quazi Mesbahuddin Ahmed, Managing Director, PKSf was present as guest of honour. With this automation, information such as working areas, group/borrowers' profiles, license processing procedures, and regulatory reports of NGOs and Microfinance Institutions (MFIs) of Bangladesh will be more easily available to stakeholders. Under this system, NGOs and MFIs will now be able to submit their reports and documents digitally on to the central server. MRA expects that this will act as a bridge between MRA and NGO - MFIs in Bangladesh.



As part of the state of the art office automation system, the MIS will provide MRA with regular updated information on payroll, provident fund, fixed asset, inventory, fund accumulation and distribution, budget allocation and distribution, and accounts and audit related information of NGO-MFIs.

MRA is the central body authorized to monitor and supervise microfinance operations of non-government organizations in Bangladesh. License from the Authority is mandatory for NGOs to conduct microfinance operations in Bangladesh.

Unity makes them confident and self-reliant

A case of Phulkali Mohila Samity

Halima is in a hurry today. She is trying to finish her household work as early as she can to attend the weekly meeting of her Samity. Like Halima, all female members of Phulkali Mohila Samity are trying to finish their work to attend the meeting.

Only a few years ago, women like Halima could not even think of going outside their homes to meet with others. They lived in poverty and insecurity. In July 2006 Halima was visited by two field workers from Samaj Kalyan Shangstha (SKS), a partner NGO of PKSF. They informed Halima and other residents of Daulatpur village that their village had been selected for Cash for Work (CFW) activities under the PRIME programme. They began with 11 households in Daulatpur village. Getting enrolled in CFW activities was a whole new experience for Halima.

During the CFW activities, they came to know that women's groups would be formed under the PRIME project to improve their socio-economic condition. Interested CFW participants as well as other ultra poor households could join the Samity. Halima discussed the issue with her husband and neighbours and then joined Phulkali Mohila Samity. Beginning with 12 initial members, the Samity gradually grew to a 36 members group with a common objective of pulling themselves out of poverty. It was a difficult time for Halima and other female members of the Samity. The community treated them as outcasts and never invited them to rituals and ceremonies. But within a short time their attitude changed as they saw the Samity members changing their lives for the better.

Until November 2009, 77% of the members of the Phulkali Mohila Samity had received loans from SKS. Out of these members, 28% of women used the loan solely for implementing different Income Generating Activities (IGAs). 53% of the members gave money to their husbands for IGAs and 3% shared the loan amount with their husbands. The average sizes of the first and second loans were Tk. 2,964 and Tk. 5,416 respectively. Poor women like Halima never believed that they could get a loan. Probably for the first time in her life, Halima felt she was no more a burden on her family.

Members of Phulkali Mohila Samity received skills development training on different IGAs. This has been reflected in their income, which has allowed the member to pay back their installments on a regular basis and build up modest savings – bit by bit. The members said that they were now more confident. They are now increasingly getting involved in product and service related IGAs that contribute to market development. SKS is also serving as information provider for technology transfer, market access and several other related services.

Halima and her fellow members of the Samity feel confident, relaxed and find a reason to look forward as their incomes have increased. They can send their children to school and they do not have to live in fear of monga.



InM undertakes a study on 'Access to Financial Services'

The Institute of Microfinance (InM) has initiated a study on 'Access to financial services' to assess the extent and depth of access to financial services by the households in Bangladesh. The study covers both poor and nonpoor households.

The study will include 90,000 households from 300 randomly selected villages in 63 districts. The study will focus on who have access to deposit services and credit services; how do households save and invest; to what extent they have access to formal financial services; to what extent informal and quasiformal financial markets prevail and how do the households cope with different shocks; and to what extent insurance services are available to the households. The household level information will be of importance to the banks, microfinance institutions and insurance companies.

The results of the study are expected to benefit a range of stakeholders, policymakers, bankers, professionals, and planners. The first results are expected in the second half of 2010.

The study is financed through the PROSPER programme.

PROSPER Updates

- PRIME group membership reached to 272,981
- Emergency loan disbursed among 18,595 members
- Flexible loan disbursed among 198,876 members
- Skills development training provided to 60,000 members
- MRA issued 499 licenses to MFIs

(Upto December, 2009)

India: Microfinance lenders to stop multiple loans

Microfinance firms, institutions that give small loans to poor people, have agreed on a voluntary credit code to ensure that the boom in lending to the unbanked does not lead to loan losses.

The decision was taken at a meeting in Mumbai in December, 2009. All participants agreed not to offer more than Rs.50,000 (GBP 686 app.) to any single borrower and that no more than three lenders are to lend money to any one individual. It will be enforced by the Microfinance India Network (MFIN)—an association of microfinance lenders.

The current size of a micro loan in India is capped at Rs. 25,000 (GBP 343 app.), but borrowers often take three or four times this amount from multiple lenders, setting themselves up for loan defaults and bankruptcy. While delinquency is low in large microfinance firms, there are fears that they may be hit by loan losses.

Between 2005 and 2009, the microfinance industry grew 13-fold, from Rs.900 crore (GBP124 million app.) to Rs.11,700 crore (GBP1,605 million app.). In 2009 alone, some 230 microfinance institutions added 8.5 million borrowers, taking the total to 22.6 million. Loan assets rose 97%, from Rs. 5,950 crore (GBP 816 million app.) to Rs. 11,734 crore (GBP 1,610 million app.), amid the credit crunch.

Small loan borrowers are able to take loans from multiple lenders because credit histories cannot be tracked effectively at the moment. In this regard, credit information will help lenders avoid exposure to such multiple borrowers.

According to a study of some 230 - odd players by ACCESS Development Services, a not-for-profit organization that offers consulting services to such firms most of those institutions that made losses were small lenders or start-ups with a portfolio of under Rs. 5 crore. The report says "unbridled expansion tactics" resulted in people being offered more money than they could repay. It cites defaults in the Kolar district of Karnataka, which accounts for almost half the NPAs of microfinance lenders.

Till now, microfinance lenders were appraising credit risk on their own, and this is the first attempt to start institutional assessment of borrowers' creditworthiness. (Source: *livemint*)

Upcoming Event

International Conference

'Microfinance Regulations: Who Benefits?'

March 15-17, 2010

Countdown starts towards the Micro Credit Regulatory Authority (MRA) hosted International Conference on Microcredit Regulations in March 2010.

Areas of discussion:

- Global Practices in Microcredit Regulations
- Resource Mobilisation and Legal Issues
- Rating and Supervision Issues of Microfinance Institutions
- Ownership and Governance of Microfinance Institutions
- Regulatory Impact Assessment

Venue : Pan Pacific Sonargaon Hotel,
Dhaka, Bangladesh

For details visit:

www.mra.gov.bd or
email to : conference@mra.gov.bd

Sponsor:

The UK's Department for International Development (DFID)
through PROSPER Programme

About PROSPER:

PROSPER is funded by UK's Department for International Development (DFID), with around two thirds of fund going to beneficiaries through financial assistance and around one third for enabling work on regulation and capacity building. The programme has three components: first, delivery of innovative and sustainable financial services, especially for the extreme poor, micro, and small enterprises. The Palli Karma-Sahayak Foundation (PKSF) is contributing to this goal through its two key interventions called 'Programmed Initiatives for Monga Eradication (PRIME)' and 'Learning and Innovation Fund to Test New Ideas (LIFT)'; secondly, capacity development for an effective Microcredit Regulatory Authority (MRA); and thirdly, support to knowledge management area through improvement in the supply, demand and outcomes of training, consultancy, research and development services. The Institute of Microfinance (InM) is PROSPER's knowledge management partner. Besides, PROSPER also assists in the upgrading and capacity development of the Credit Information Bureau (CIB), Bangladesh Bank.