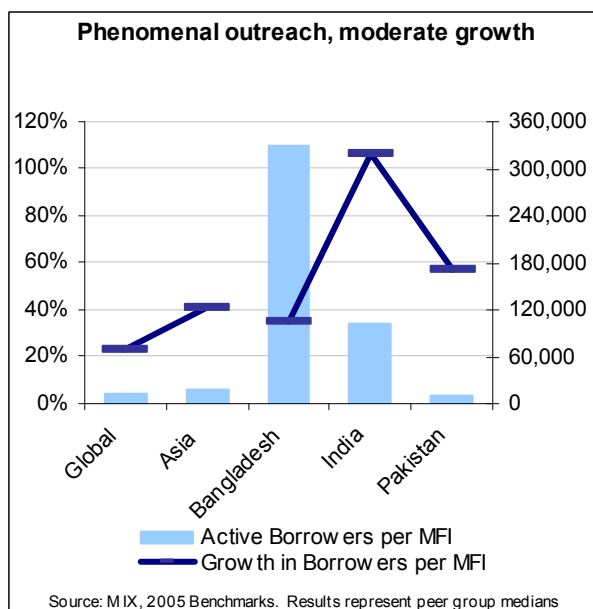


## Performance in Bangladeshi Microfinance 2005

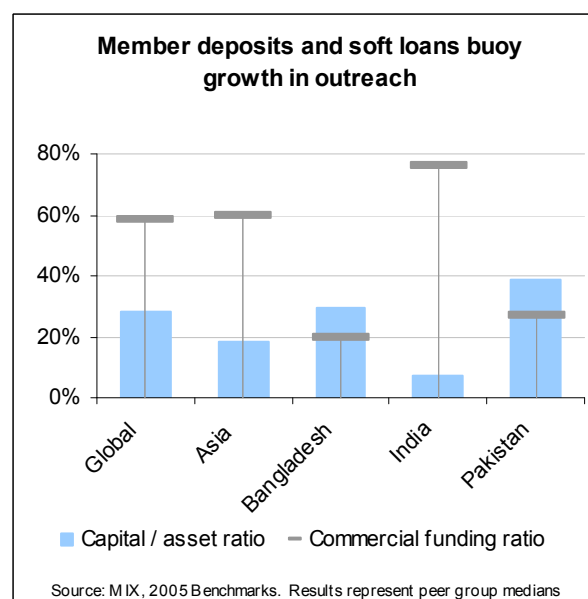
*Known for the behemoth scale of its leading microfinance providers, Bangladeshi microfinance still leads the global industry in outreach in 2005. Boosted by strong returns and fueled by some of the lowest transactions costs anywhere in microfinance, Bangladeshi MFIs stand at the leading edge of many aspects of global microfinance performance. Yet one clear 2005 trend has left local service providers behind: commercialization.*

For the first time since the first microfinance performance benchmarks were published ten years ago, the median MFI sourced more than half its loan capital from commercial funds in 2005, often tapping local markets for needed cash. Bangladeshi MFIs reached one third of the global average, as their non profit legal status and soft loans from Palli Karma Sahayak Foundation, a large government and donor-backed wholesale microfinance agency, put local microfinance behind the curve of financial sector integration and access to commercial funds.

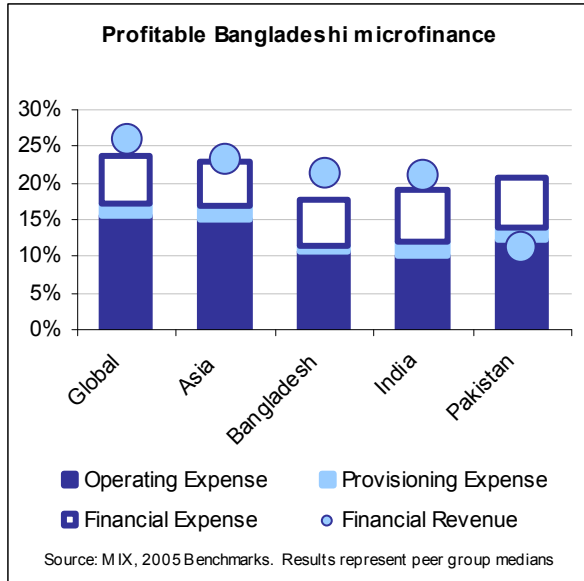


A 2005-survey of eight leading Bangladeshi MFIs shows the industry's strength in phenomenal client coverage. Even outside the million-client giants of [Grameen Bank](#), [ASA](#) and [BRAC](#), leading Bangladeshi institutions serve over three times as many

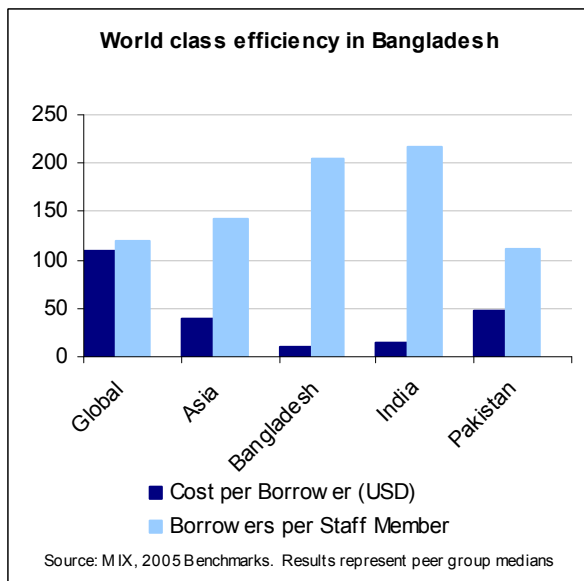
clients as their leading Indian peers, the market with the next highest concentration of large scale MFIs. While no Bangladeshi MFI ranked in the top 20 fastest growing institutions globally, market leaders like Grameen Bank and ASA continue leading in absolute gains, each adding 1.3 million new borrowers in 2005. The market on the whole, however, grew on par with other Asian markets, adding roughly 40% in new borrowers. Compared to global growth, trends in Asia and Bangladesh remain strong.



For all its phenomenal scale, microfinance in Bangladesh remains the dominion of soft loans and compulsory savings, while commercial funding made up just 20% of its loan portfolio in 2005. As NGOs, most Bangladeshi institutions are prohibited from offering full deposit-taking services. As a result, these large scale institutions rely primarily on forced savings – deposits collected as a condition for membership or for access to loans – to fund their loan portfolios. Soft loans from the country's wholesale microfinance lender round out remaining loan capital. But the picture in 2005 signals change, as commercial funding grew by 45% over 2004, with local commercial banks playing a larger role in financing Bangladeshi microfinance.



The ranks of commercial lenders may swell at the sight of the financial performance of the sector's MFIs. Leading Bangladeshi institutions posted median 2005 returns on assets of 2.6% and on equity of 10.6%, even after results were adjusted to remove subsidy and reflect minimum provisioning for risk. Margins are certainly greater than in neighboring India, where MFIs pay commercial borrowing rates for over 80% of their loan capital, or in Pakistan where provisioning for loss still absorbs significant capital. With rising costs of funds in Bangladesh, as the industry begins to tap commercial markets, margins may decline to global levels.



It is difficult to imagine that Bangladeshi institutions could further increase margins through efficiency gains. In 2005, leading Bangladeshi MFIs posted record efficiency levels, with a median cost per borrower of just 9 USD. The two Bangladeshi MFIs in the global top 10 most efficient institutions spent just over 5 USD per borrower. Strong productivity further leverages these low costs. The group lending approach, universal to Bangladeshi microfinance, has netted staff productivity levels 75% higher than global norms, and 50% higher than Asian norms, with each staff member serving over 200 borrowers.

For all its strong results, much about the performance of Bangladeshi microfinance still remains in the shadows. Few institutions practice international standard reporting. Many MFIs, for example, only begin to account for client loan delinquency after the full maturity of the loan has passed, creating distorting effects on risk analysis. Critical information infrastructure also lacks. Without nationally recognized client identification or credit bureaus centralizing client data, censuses double count clients in hotly contested markets taking credit from more than one service provider. In an industry purported to reach 25 million Bangladeshis with small scale credit, some analysts posit that current outreach estimates exaggerate real coverage by 15 to 33%.

Clearly, extending coverage to millions more poor people provides the greatest challenge to Bangladeshi microfinance. Improved transparency within the sector and its institutions would bolster the enabling environment for MFIs to grow and innovate in order to extend access to financial services to those currently lacking it. Whether lauding the accomplishments of the industry or holding it to task for its practices, future analysis relies on accurate, timely and comparable information on the industry, its practices and its performance.

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*This report has been produced by the Microfinance Information Exchange, Inc. (MIX) based on its global 2005 sample of 446 leading microfinance service providers, as well as two of its publications: Blaine Stephens and Hind Tazi, "Regional Overview" in [Performance and Transparency: A survey of microfinance in South Asia](#), January 2006; and Scott Gaul, Blaine Stephens and Hind Tazi, "Benchmarking Asian Microfinance 2005", November 2006.*