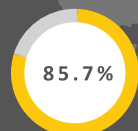


Feasibility study on Transformation of MFIs into Specialised Banks/Finance Companies: Bangladesh Perspective



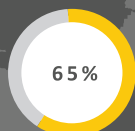
Business Finance for the Poor in Bangladesh

Gaps in Financial Inclusion



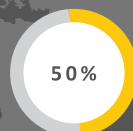
Geographical concentration of loans

85.7% disbursed loans concentrated in 2 Districts in Bangladesh



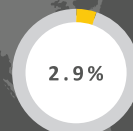
Gender gap in account ownership

65% women adults remain unbanked



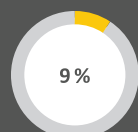
Low Account Penetration

50% adults estimated to be unbanked



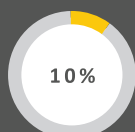
Agricultural credit

Out of total loan disbursed, only 2.9% constituted of agricultural loan



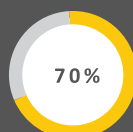
70% population have no bank account

Only 9% adults borrowed from financial institutions



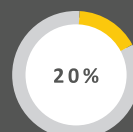
Limited savings at financial institutions

Only 10% adults practice savings at financial institutions



Low banking penetration

70% population have no bank account



MSME finance gap

The MSME finance gap is approximately USD 20% of GDP



Data from the World Bank reveals that there were only 8.6 branches per 100,000 adults in the country in 2017

MFI landscape of Bangladesh

783 licensed MFIs		30 million Total Clients		BDT 1046 billion Loan Disbursement		BDT 217 billion Total Savings	
	17120 Microfinance Branches		25 million Total Borrowers		BDT 409 billion Agricultural loan disbursement		BDT 584 billion Amount of Loan Outstanding

Possibilities of MFIs to transform and benefits of transformation

Rationale for MFIs transformation

- ▶ MFIs have the potential to increase access to loan and savings for financially excluded sections.
 - Amount of savings increased from BDT 94 billion in June 2013 to 217 billion in June 2017
 - Amount of loan disbursed increased from BDT 432 billion in 2013 to BDT 1046 billion in 2017
 - Amount of loan outstanding increased from BDT 257 billion in 2013 to BDT 584 billion in 2017
 - The loan outstanding amount of top 10 MFIs is BDT 417 billion which constitutes 71% of total loan outstanding of all licensed MFIs
- ▶ Microfinance sector is broadly financed by following sources: 35% client saving, 7% loan from PKSF, 22% loan from commercial banks, 0.87% donors' fund, 34% cumulative surplus, 2% other funds.
- ▶ The top 10 MFIs have a deposit of BDT 157 billion in June 2017.

Challenges faced by MFIs

- Inadequate funding from local sources due to regulatory restrictions on mobilizing savings.
- Convenience and better prices for savings from new channels such as MFS and agent banking is hampering low-cost member savings as a source of loanable funds.
- Loans from commercial banks are unreliable – lack of corporate governance arising from lack of ownership and low level of technology adoption seen as issues.
- Getting fund from foreign sources is cumbersome and expensive due to clearance requirements and forex hedging.
- MFIs face regulatory restrictions on MSME lending. As per MRA guidelines, MSME portfolio should not be more than 50% of the total loan outstanding.

Benefits of transformation of MFIs

- ▶ Increase access to funds
 - leverage own funds
 - attract equity investment
 - increased access to deposits
 - diversified sources of funding
- ▶ Improve image of the MFI
 - Improved governance and transparency
 - Reduce interest rate on loans
 - Perception of clients is positive for banks compared to MFIs
- ▶ Increase outreach of the MFI
 - Vertical expansion through sale of expanded suite of products
 - Horizontal expansion through branchless banking
- ▶ Meet growing customer needs
- ▶ Opportunities for better IT integration

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Policy Recommendation Roadmap



Business Finance for the Poor in Bangladesh

Continue as MFI through enactment of existing MRA Rules 2010, amendment of MRA Rules and Acts that allow MFIs to get loans from foreign sources, mobilise funds from the capital market and mobilise deposits from non-members.

- Enactment of existing MRA rules, 2010, section 18 (e) that allows MFIs to get loans from foreign sources subject to permission of relevant government agencies.
- Ease of approval process from Bangladesh Bank and MRA.

For example, top 20 MFIs may bring an investment of USD 100 million within 1-2 years, considering an average investment of USD 5 million per MFI.

Gradual transformation of MFI to a specialised bank for improving customer base and growth through financial deepening.

Possible Impact

- Financial Deepening
- Availability of low cost fund
- Process Digitisation
- Competitive Pricing
- Demand Driven Products

Investment from Foreign Sources

Year 1

Year 2

Access to Capital Market

Reinforcement of MRA Rules, 2010, clause 18(g), and ease of approval process from MRA and BSEC. This allow MFIs to secure funding from the capital market through securitisation.

Large MFIs will concentrate on sourcing fund from capital market instead of focusing on mobilising member savings. While small and medium MFIs tap into the market opportunity of mobilising member savings

Year 3

Savings Mobilisation

Amendment of following sections of MRA Rules, 2010 :

- Section 27 (2) to allow MFIs to increase total deposit balance to more than 80% of the principal loan outstanding at any given time.
- Section 28 (e) to allow MFI to increase their total voluntary deposit to more than 25% of the total capital of the organisation.
- Section 29 (e) to allow MFI to increase the total term deposit to more than 25% of total capital of the organisation.

For each of these relaxations, MRA may decide the maximum limit

Other savings (voluntary and term deposits) of MFIs may increase from BDT 43.12 billion to BDT 86.24 billion if MFIs are allowed to increase the total voluntary and term deposits to 50% of the total capital. MFI can use additional savings to disburse loan to approx. 1 million more clients

Year 4

Deposit Mobilisation from non-members

Amendment of MRA Act, 2006 by allowing MFIs to mobilise deposits from non-members based on some tiered criteria

Deposit mobilisation from nonmembers will allow MFIs to increase existing savings outstanding by 40%.

Year 5

MFI Transformation to Specialised Bank

- Amendment of Bank Company Act, 1991
- Restrict to serving underserved customer segments including current customers.

For example, transforming the top-10 MFIs into specialised banks may result in doubling customers, 3.5 times growth in loans outstanding (CAGR of 34%) and 12 times growth in savings (CAGR of 46%) in 5 years

The study also recommends MFI transformation to

- ▶ An NBFIs complying with the regulations of Bangladesh Bank and
 - ▶ Commercial bank, regulated by Bangladesh Bank.
- These two options are not feasible and favourable for MFIs

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