

Promoting Microfinance for Economic Development in IORA Region

From Disbursement Based Financing to Integrated Development Financing: Bangladesh Case

By

Dewan A.H. Alamgir

Issues for Discussion

- State of microfinance in Bangladesh
- Evolution from microcredit to microfinance services for major market segments
- Value chain financing and non-financial services microfinance beneficiaries
- Financial services combined with other social services
- Opportunities and challenges

State of Bangladesh Microfinance Sector

Financial products offered

- Savings of different types
- Several loan products
- Pilot 'insurance' schemes
- Domestic and international remittance

Market segments served

- Ultra poor: Destitute; families without agricultural land and sometimes homestead; day laborer; agricultural labor; families with little and irregular income; sometimes live in economically depressed and inaccessible areas; suffer from food insecurity; normally bottom 10-15% of the population
- Poor: Moderately poor families who own some land (less than 0.5 acre of land); low income but may not face food shortage.
- Agricultural loan: Mainly small and marginal farmers; sometimes medium size farmers are also included in this category
- Microenterprise loan: Non-poor; own agricultural and non agricultural businesses

State of Microfinance (contd.)

Structure of the sector

- About 700 MFIs licensed by Microcredit Regulatory Authority (MRA) and Grameen Bank
- Three very large MFIs (Grameen, BRAC and ASA) own about 65% of portfolio with about 16.56 million borrowers (Dec 2011)
- In 2011, 23 large MFIs with more than 100,000 borrowers excluding three very MFIs
- About 50 medium size MFIs between 10-99,000 borrowers
- Others are small MFIs

Note

- New MFIs are rare!
- Many NGO-MFIs offer many different development services in addition to financial services
- Types of loans are similar from all MFIs except the loan size, which often depends on availability of funds

State of Microfinance (contd.)

Key
Indicators:
Outreach and
Portfolio
(Dec. 2011)

Description	Grameen	BRAC	ASA	Others	Total
Members (m)	8.37	6.77	4.94	12.93	33.06
Borrowers (m)	7.24	4.96	4.36	10.61	27.17
Portfolio (BDT m)	75,325	52,837	53,563	98,090	279,815
Savings (BDT m)	116,875	22,364	13,377	33,536	186,152
Recovery rate (%)	97.17	97.55	99.12	>97	>97

m = million; Data source: CDF, PKSF and respective MFIs; USD1 =BDT 80

Evolution from Microcredit to Microfinance Services for Major Market Segments

- **Stage 1:** Innovation by Grameen Bank (emphasis on credit disbursement and extending outreach)
- **Stage 2:** Large scale replication of Grameen Model by NGOs and establishment of PKSF to fuel replication and expansion; emphasis on outreach and sustainability
- **Stage 3:** Distinctive market segmentation and emphasis on inclusive finance (inclusion of all poor groups including the very poor, geographical inclusion)
- **Stage 4:** Broadening of financial services: savings; credit; insurance (human and livestock); remittance services
- **Stage 5:** Value chain financing and inclusion of non-financial services for microentrepreneurs (farm and non-farm)
- **Stage 6:** Financial services plus other social services: Attempts to offer multiple services such as primary health care, non-formal education etc. (some NGOs attempted this approach beginning mid-1980s)

Evolution from Microcredit to Financial Services (cont.)

Market segments and financial services

Ultra poor: Emphasis on savings; smaller loan size; flexible repayment; and non-financial services such as free technical training; a few projects distribute physical assets as well.

Mainstream microcredit: Main loan product; loan up to Taka 50,000 commonly for small trade, livestock/fisheries, indirectly agriculture etc.

Agricultural loan: Seasonal loans targeting small/marginal farmers; up to Taka 50,000 according land size and type of crop; expanding segment as MFIs are reaching out to the farmers and offering seasonal loan

Microenterprise loan: finance businesses; loan up to Taka 1.2 m; expanding segment as MFIs are offering larger loans and accepting non-poor clients in rural growth centers and sub-urban areas.

Evolution from Microcredit to Financial Services (cont.)

Microcredit for Agriculture

- Earlier projects by PKSF focusing on agriculture:
 - ✓ PLDP I and II; MFTSP; MFSMF
 - ✓ Regular microcredit targeting livestock sector, poultry and vegetable and field crops (rice);
 - ✓ Loans are specifically provided for agricultural production; most of the cases weekly repayment system practiced;
 - ✓ Men (farmers) have been accepted as borrowers;
 - ✓ Simple technologies promoted such as livestock management, local level poultry and duck hatcheries, AWD, sex pheromone traps to reduce chemical pesticides etc
 - ✓ About 1 million borrowers reached under these four projects.
 - ✓ PKSF has mainstreamed loans for agriculture sector through MFIs

Microcredit for agriculture (cont.)

- Seasonal loan (PKSF)
 - ✓ Started as pilot initiative by PKSF and its partner MFIs
 - ✓ Loans are disbursed before agricultural seasons, especially in Robi season.
 - ✓ Disbursed in December-January and collected in May-June as 'balloon' payment
 - ✓ Rice (boro) and winter vegetables are the main beneficiaries of this loan
 - ✓ Loan amount is linked with land size and type of products
 - ✓ Genuine farmers and farming families are selected to ensure proper utilization of loan and good repayment.
 - ✓ Seasonal loan has become an important product of PKSF and 154 MFIs.
 - ✓ Cumulative beneficiaries: 2 million; cumulative disbursement: Taka 3366 crores; Current borrowers (May 2013): 0.3 million and loan outstanding: Taka 577 crores
 - ✓ MFI workers trained in agriculture
- Agricultural loan (PKSF): 97 MFIs; cumulative borrowers 1.3 million and disbursement Taka 2488 crores; current borrowers 0.363 million with Taka 498 crores outstanding.

Microcredit for agriculture (cont.)

- Agricultural credit (ADB through Eastern Bank Ltd and BASIC Bank)
 - ✓ Project period: 2007-2011; BRAC, ASA and TMSS are partner MFIs; during project period total clients 32,000.
 - ✓ ASA: 18,126 borrowers; monthly recovery; 27% interest rate; 6-24 months loans; Agricultural producers, agri-processors and input sellers; loan range Taka 35,000 to 350,000; disbursement Taka 146 crores
 - ✓ BRAC: 13,000 clients and similar terms and conditions
 - ✓ TMSS: Loan range Taka 40-350,000; similar terms and conditions; borrowers 15,164.

Microcredit for agriculture (cont.)

Key performance and Impacts

- Recovery rate is nearly 100% that debunks the myth that farming/farmers are risky for microfinance
- Regular access to agricultural right before main agricultural season
- Mainstream loan product for both PKSF and its partner 157 MFIs
- Access to finance for farming has eased
- A combination of technology and credit enhanced income

Evolution from Microcredit to Financial Services (cont.)

Insurance services

- Life insurance (pilot life insurance)
- Human health insurance accompanied by clinical services
- Livestock insurance coupled with animal health services

Remittance services

- Domestic remittance by commercial banks (mobile banking)
- International remittance by commercial banks in collaboration with microfinance institutions (MFIs)

Value chain financing and non-financial services through value chain development approach

Finance is critical but alone can not solve all development needs of farmers and microentrepreneurs (MEs)!

Farmers and MEs face problems related to:

- Access to market: Quality of product, packaging, price, physical access to market, competition with imported products.
- Production technology: Up to date technologies and farm practices are not always practiced
- Inputs: Agricultural inputs such as seed, fertilizer, safe pesticides are not of good quality; similar problems for non-farm MEs
- Extension services: Not appropriate not available on time
- Knowledge base: Often low and incorrect
- Policy regime: Not always supports farmers and other producers

Value chain development (Cont)

Value chain: Activities that take products from producers to final consumers

Approach:

- Identify opportunities and constraints in each sector or product or product class through market research
- Determine interventions needed to avail the opportunities and remove constraints
- Design and implement activities in each area such as product and market, production, human resources, policies etc

Value chain development (Cont)

Value chain projects

- Many such value chain development projects for agriculture and off-farm sectors are on-going
- IFAD through PKSF, ADB, World Bank, DFID, USAID are active in this area
- Such projects in small scale are active in different of parts of the country
- Examples of projects: FEDEC, NATP, PRICE etc
- Examples of sectors: livestock, pond fisheries, fruits, high-value vegetables, flowers, floodplain fisheries, medicinal plants etc.
- Typical interventions: Introduce new products (seed, new species) and technology, assistance for marketing, production related training, ensuring quality of inputs etc.

Value chain development (Cont)

Impacts

- Productivity increased
- Sales, profit and land coverage increased
- Additional employment created
- New products, technology introduced
- Contact growing system developed for some commodities
- Combination of microcredit and non-financial services produced better results than either 'only-finance' or 'only non-finance' interventions

Opportunities

- Numerous small value chains can be assisted throughout the country

Financial services combined with social services

‘Financial services plus’ approach to development

Many NGOs in Bangladesh offer following services in addition with microfinance:

- Primary health care for the poor
- Non-formal education and livelihoods skill development
- Agricultural development
- Renewable energy

Opportunities for financial services

- Expansion of microcredit program (seasonal loans) for farmers (producers, traders, input suppliers) making MFIs as the main source of finance for agriculture and related product/services
- Financing of full value chains of various sector by MFIs
- More customized financial products (loan and insurance) development for specific subsectors etc.
- Expansion of micro-insurance products for livestock sector

Challenges

- Development of financial products to match demand
- Poverty remains pervasive. Pro-poor development policies from government, non-government and private sectors