

Achievement and Problems of Microfinance of Two Leading MFIs in Bangladesh: A Case Study of GB and ASA

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Abstract

Bangladesh micro-finance sector is regarded as the largest and most efficient in the world. It still leads the global micro-finance industry both in terms of its sheer size and productivity. Several efficiency indicators are quite in favor of Bangladesh Microfinance Institutions (MFIs). Initially microfinance activities were focus on social welfare and mostly done by NGOs. From being development partner-supported entities, increasingly the Bangladesh MFIs are moving towards self-sufficiency through commercialization of financing sources and improving internal control mechanism.

Many researchers have shown interest on mostly the social impact of micro financing and most of them concluded putting a positive remark on microfinance. But other side of the coin is rarely disclosed. The focus of the study was mainly on financial achievements and problems of MFIs. Institutionally micro financing is provided at two stages: Direct providers and apex lenders. Again Direct Providers are divided into major two parts: MFI-NGOs and Specialized Banking Institutions. Two leading players ASA (MFI-NGO) and Grameen Bank (Specialized Banking Institution) were chosen to represent the industry's activity. To determine the major problems of the microfinance industry, data are collected through management survey.

From the survey it was evident that the major problems that the MFIs are facing and the problems they are aware of are: Overlapping in multiple borrowing, lack of reliable database, lack of trained and skilled workforce, less concentration on ultra poor, etc. It is often argued that MFIs charge high lending interest rates. Study revealed that most of the responders denied that the higher rate of interest does create a problem for the MFIs activities because they have a plenty of justification of this higher rate.

According to Bangladesh Microfinance Statistics, 2010 (published in 2011) the year 2010 has particularly been remarkable as a large number of MFIs have decreased their lending interest rates. Many organizations like InM, PKSF, JICA, CGAP etc have dedicated training division. They provide training to other NGO or MFI stuffs in various matters of development issues, management, finance and accounting. To provide accurate databank, MRA is gaining strength day by day. It is trying hard to make a reliable database for operating MFIs in Bangladesh.

Key Words: InM (Institute of Microfinance), MFIs (Microfinance Institutions), MF- NGOs (Non Government Organizations that provide Microfinance), MRA (Micro Credit Regulatory Authority).

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Introduction

Microfinance has been working for about three decades to give poor and resourceless people of the rural Bangladesh, easy access to financing facilities and hence in the long run eradicate poverty. They are thought of having an enormous contribution to the lives and the livelihood of common people of our country.

Bangladesh microfinance sector is regarded as the largest and most efficient in the world. It still leads the global microfinance industry in terms of both its total size and its productivity. Several efficiency indicators are quite in favor of Bangladesh Microfinance Institutions (MFIs).

Initially microfinance activities were focused on social welfare and mostly done by NGOs. From being development partner-supported entities, increasingly the Bangladeshi MFIs are moving towards self-sufficiency through commercialization of financing sources and improving internal control mechanism.

In today's world data and information about microfinance or microcredit draw great attention of knowledge seekers, academics, development practitioners and policy makers and as a result there are several organized institutions which are dedicated for the impact and activities assessment of microfinance. Institute of microfinance (InM) is one of them. InM is a non-profit organization dedicated to create a knowledge base about microfinance through research and training activities. Microfinance is the only available solution that facilitates credit access to common people of Bangladesh. There is doubt why microfinance is regarded as one the most viable tools in alleviating poverty and attaining economic sustainability. So without showing the achievements of this sector a study on microfinance cannot be concluded. Most of the researchers have shown interest on mostly the social impact of micro financing and most of them concluded putting a positive remark on microfinance. But other sides of the coin are rarely disclosed. The focus of the study is mainly on financial achievements and problems of MFIs. So the research "**Achievement and Problems of MicroFinance of Two Leading MFIs in Bangladesh: A Case Study of GB and ASA.**" was selected by the researcher.

Microfinance: Bangladesh Perspective

During the late 1970s, when the 'Jobra' experiment was underway under Professor M. Yunus, the Dheki Rin Prokolpa was initiated by Bangladesh Bank in collaboration with the Swanirvar Bangladesh (Self-reliant Bangladesh), and several other pilot schemes were initiated by a handful of the NGOs which were active then. At that time, it was difficult to conceive that these initiatives would lead to a major microcredit movement, which would make Bangladesh known to the rest of the world.

There is a proper market form of the microfinance industry in Bangladesh, which consists of the non- government organizations, microcredit lenders, programs for the public sector cooperatives and perhaps the most important name in South East Asian micro finance, Grameen Bank. Islami Bank Bangladesh Limited (IBBL), Bank Asia Limited, Social investment Bank Limited, Basic Bank Limited and few other commercial banks are now involved in Group lending microfinance

model and IBBL directly implements rural development Schemes at the field level. Palli Daridra Bimochon Foundation (PDBF) is the only transformed public sector MFI in Bangladesh. Palli Karma Shahayak Foundation (PKSF) is the single largest apex body of microfinance in the country.

A research reveals that NGOs started credit program in mid eighties and their activities increased noticeably higher after 1990 (CDF, 2000). Currently there are almost 3800 big-small, Local-National NGOs active in our country. Bangladesh Microfinance Statistics, 2007 (2009) shows, as of December 2007, cumulative loan disbursement to individual borrowers stood at BDT 891.04 billion.

With the increasing number of collateral free micro credit disbursement by MFIs, some Nationalized Commercial Banks (NCBs), and Specialized Banks like BKB and RAKUB have been encouraged to provide a considerable amount of their rural credit to the poor without security. However, the amount is much less compared to the deposit mobilization from the rural sector of the country. Today, some of the Private Commercial Banks (PCBs) have also started direct and linkage programs with NGOs.

Microfinance and MRA

To bring microfinance sector under regulatory framework, the Government of Bangladesh enacted “Microfinance Regulatory Authority Act, 2006” on July 16, 2006, giving effect from August 27, 2006. Microfinance Regulatory Authority (MRA) has been established under this Act which is empowered and responsible to monitor and supervise the microfinance activities of the MFIs. According to the Act, no MFI can operate microfinance program without obtaining license from MRA. Within the stipulated period, 4,236 Microfinance Institutions applied for license. Among them, 335 Microfinance Institutions had been granted license till September 2008. Applications of 438 institutions could not be considered. 2,599 small institutions are advised to fulfill minimum criteria of obtaining license (either minimum balance of outstanding loan at field level BD taka four million or minimum borrower 1,000) within June 2009. Evaluation of these small NGOs under observation has not been done yet. The rests of the applications are being processed.

Sample Profile

A brief description of ASA and GB is given below.

Profile	Grameen Bank	ASA
Address	Grameen Bank Bhaban, Mirpur-2, Dhaka-1216	ASA Tower, 23/3, Block B, Khilji Road, Shamoli, Mohammadpur, Dhaka-1207
Year of establishment	1983	1979
Inception year of MF program	1976	1992
Source of fund	Savings	Member savings, service charge
Coverage		
District covered by MF program	64	64
No. of branches	2,567	3,194
No. of group members	8403515	4935685
No. of borrowers	8.34 million	4.36 million
No. of MF staff	22128	21422
Performance		
Loan disbursement	Taka 684.13 million	Taka 68486 million
Cumulative loan disbursement	Taka 622260.03 million	.....
Loans outstanding	Taka 75294 million	Taka 47414 million
Overdue	Taka 1807.98 million	.....
Service charge	.....
Bad debt	Nil	Nil
Recovery rate	97.08%	99.84%

Source: Annual Report of GB and ASA, 2011.

Objective of the Study

Broad objective

To assess the present performance of microfinance programs in Bangladesh.

Specific objectives

The study was under taken with the following specific objectives:

- To give an overview of Microfinance sector of Bangladesh.
- To study and compare the financial performance of two leading microfinance institutions in Bangladesh.
- To examine the major achievements of the Microfinance Institutions.
- To identify major problems faced by Microfinance Institutions (MFIs).

Literature Review

Microcredit is a phenomenon that needs little introduction. According to David Roodman and Jonathan Morduch (2009) from its beginnings in the late 1970s, the idea that access to small loans can help poor families build business, increase incomes, and alleviate or eradicate poverty has turned into a global movement. The movement has captured the public imagination, draw billions of dollars in financing, reached millions of customers, and earned a Nobel Peace Prize. Microfinance is manifold in its appeal. It is suggested that the poor are creditworthy and conservative in its instance on individual responsibility.

Pit and Khandker (1998) estimated the impact of participation, by gender, in the Grameen Bank and two other group-based micro credit programs in Bangladesh on labor supply, schooling, household expenditure, and assets. The empirical method used a quasi-experimental survey design to correct for the bias from unobserved individual and village-level heterogeneity. The study found that program credit had a larger effect on the behavior of poor households in Bangladesh when women were the program participants. For example, annual household consumption expenditure increased to 18 taka for every 100 additional taka borrowed by women from these credit programs, compared with 11 taka for men. Morduch (1998) disseminated the idea that microcredit helps families smooth their expenditures, lessening the pinch of hunger and the need in lean times.

On a seminar paper, Shahidur R. Khandker (2005) identified several positive impacts like MF benefits borrowers in terms of income, employment and hence poverty reduction. MF has helped increase women's assets and household net worth. It contributes to social development by increasing contraceptive use and increasing higher school enrollment and better nutrition for children, help empower women. He also concluded with some of the major challenges that are faced by MFIs. These are mostly - hard-core poor are hardly reached, overlapping membership growth, managing rising credit risk etc.

Suborno Borua (2009) disseminated those problem mentioned and further added some problematic issues like dependency on a single revenue generation model, multiple borrowing or overlapping, severe lack of training and education, lack of innovation, misuse of credit by borrowers, lack of central database, sectoral disbursement without technical expertise, lack of intention to serve in the apparently inaccessible location, etc.

Mamun (2010) examined the factors that led to the success of microfinance, in particular, Grameen Bank in Bangladesh. The study investigated the innovation, design and implementation of GB. The research also examined the adaptation and learning practice of GB and the motivation and contribution of GB and some environmental factors that supported GB especially in Bangladesh. The study revealed that some innovational design and implementation of GB such as group based lending, collateral free lending system, peer group monitoring system, designed training staff of GB were other major factors that contributed to the success of microfinance. The researcher recommended that GB should necessitate the expansion of the organizational capability to recognize the appropriate innovation, creating cultural innovation, and undertake

sustainable development programs .The initiative is for an appropriate macroeconomic policy and financial design in order to alleviate the poverty from the rural economy.

Zohra and Pandey (2011) studied the performance and efficiency of microfinance. A sample of micro finance institutions in India had been selected best on their ratings given by microfinance information exchange (MIX) for the study. The performance of these sample MFIs as well as their performance with respect to commercial banks in India had been studied using statistical tools. The financial parameters of these MFIs were studied and compared with the financial parameters of commercial banks and their financial performance was analyzed. It was revealed that the performance of microfinance institutions has improved significantly over the past years.

Sarder and Golzare (2012) examined that microfinance had evolved as a potent driver of financial inclusion in Bangladesh with much positive impact on poverty alleviation and other social development indicators. Despite massive success in terms of outreach, employment generation and employment of millions of poor a large number of low-income poor people had remained excluded from the network of the financial services. The study also examined the achievements of microfinance industry in Bangladesh; its present challenges and prescribes policy measures to bring more unbanked poor people in the fold of financial services.

Methodology

Both primary and secondary data were used to conduct the study. To determine the major problems of microfinance industry, primary data was collected through field survey. The data was collected through questionnaire and was used to identify the pitfall and challenges that are faced by MFIs. Secondary data were collected through Annual Reports and Audited Financial Reports of ASA (2008-2011), Annual Reports of GB (2008-2011), internal database and websites.

As the number of employees working in those two organizations was large, it was difficult to determine a representative sample size. So, a convenient sample method was used for the management survey. Total 30 respondents, that is, 15 respondents from each of the two organizations, were selected for survey.

Both qualitative and quantitative statistical techniques were used for this research. The questionnaire itself provided the framework for data analysis. In the questionnaire eleven issues were introduced. All these issues were placed in a semantic differential five point numeric scale. The responses were coded with weights as follows:

Weights	1	2	3	4	5
Coded Response	Less Important	Modest	Medium	High	Most Important

The data were analyzed in terms of frequency distribution, weighted mean and standard deviation. The following formula was used (Levin and Rubin, 2005, pp. 84)

Weighted Mean

$$\bar{X}_w = \frac{\sum(W \times X)}{\sum W}$$

Where, \bar{X}_w = Symbol for the weighted mean

W = Weight assigned to each observation

$\sum(W \times X)$ = Sum of weight of each element times that element

$\sum W$ = Sum of all of the weights.

And

$$\text{Standard Deviation } S = \sqrt{S^2} = \sqrt{\frac{\sum (X - \bar{X})^2}{n-1}}$$

Where, S^2 = Sample Variance

S = Simple Standard deviation

X = Value of each of the n observations

\bar{X} = Mean of the Sample

n-1 = Number of observations in the sample - 1

Survey Results

This part of the research is divided into two major portions. The first one deals with the social and economic achievements of the overall microfinance industry. The second part deals with the questionnaire analysis and survey findings.

Achievements of Microfinance: Social Aspects

Microfinance and the impact it produces, goes beyond just business loans, The poor use financial services not only for business investment in their microenterprises but also to invest in health and education of family members, to manage household emergencies, and to meet the wide variety of other cash needs that they encounter.

Specifically it assesses impact in the areas of eradicating poverty, promoting children's education, improving health outcomes for women and children, and empowering women. A short description of the specific areas is given below:

Eradicating Poverty

Microfinance allows poor people to protect, diversify, and increase their sources of income, the essential path out of poverty and hunger. The ability to borrow a small amount of money to take advantage of a business opportunity, to pay for school fees or to bridge a cash-flow gap, can be a first step in breaking the cycle of poverty. Similarly poor households will use a safe, convenient savings account to accumulate enough cash to buy assets such as inventory for a small business enterprise, to fix a leaky roof, to pay for health care or to send more children to school.

Promoting Children's Education

One of the first things poor people all over the world do with new income from microenterprise is that they invest in their children's education. Studies show that children of microfinance clients are more likely to go to school and stay in school longer. Student drop-out rates are much lower in microfinance-client households. To support this priority, many microfinance programs are developing new credit and savings products specifically tailored to school expenses. This is also substantiated in the study findings of Khandokar (1998), which found higher levels of schooling for children of all credit program participants and statistically significant higher rates of schooling for girls in Grameen households.

Improving Health Outcomes for Women and Children

Households of microfinance clients appear to have better nutrition, health practices, and health outcomes than comparable non-client households. Larger and more stable incomes generally lead to better nutrition, living conditions, and preventive health care. Increased earnings and financial management options also allow clients to treat health problems promptly rather than waiting for conditions to deteriorate.

Along with financial services, some microfinance institutions also provide health education, usually in the form of short, simple preventive care messages on immunization, safe drinking water, and prenatal and post-natal care. Some programs provide credit products for water, sanitation, and housing. A growing number of microfinance institutions have forged partnerships with insurance providers to offer health insurance to clients.

Empowering Women

Microfinance programs have generally targeted women as clients. Women often prove to be more financially responsible with better repayment performance than men. Also it has been shown that women are more likely than men to invest increased income in the household and family wellbeing.

Appropriate program design can have a strong, positive effect on women's empowerment, resulting in women owning more assets, having a more active role in the family decisions, and increasing investment in family welfare.

A survey of 1300 clients and non-clients in Bangladesh by Hashemi, Schuler & Riley (1996) showed that credit-program participants were significantly more empowered than non-clients on the basis of their physical mobility, ownership and control of productive assets, (including homestead land, involvement in decision making, and political and legal awareness.

Participation in Social Activities

Social linkages among villagers and community leaders and their involvement in different associations or institutions are commonly used as indicators of social impact of Microfinance. The research report shows that there was clear evidence of increased involvement in community activities.

Trends in Growth of Microfinance

The annual reports of Grameen Bank and ASA are analyzed to find out the growth rate of several microfinance indicators, namely a) Growth of Member to Borrower Ratio, b) Growth of ROE (Return on equity) c) Growth of Net Savings d) Growth of Average Loan Size and e) Growth of Yearly Loan Disbursement.

A. Growth of Member to Borrower Ratio

Table 4.2.1 Growth rate of member/borrower ratio (in %)

Organization	2011	2010	2009	2008	Annual Change			Growth Rate (%)		
					2011	2010	2009	2011 over 2010	2010 over 2009	2009 over 2008
GB	1.272	1.262	1.240	1.235	0.01	0.022	0.004	0.792	1.79	0.36
ASA	1.127	1.244	1.375	1.238	-0.117	-0.131	0.137	-9.40	-9.54	11.06

Source: Annual Report, (2008-2011)

Not all members at a given point will be borrowers, not everyone will like to borrow. This is reflected in member-borrower ratio. Table 4.2.1 shows that throughout the four years the ratio increases by Grameen Bank. It implied that the number of members is increasing with a higher growth rate than the borrowers. There is an increasing trend in the growth rate. Annual change is negative for ASA in 2011. That means the number of members has increased much rapidly than the number of borrowers.

B. Growth of ROE

Table 4.2.2. Growth rates of ROE (%)

Organization	2011	2010	2009	2008	Annual Change			Growth Rate (%)		
					2011	2010	2009	2011 over 2010	2010 over 2009	2009 over 2008
GB	8.97	10.74	5.64	21.21	-1.77	5.10	-15.57	-16.48	90.43	-73.41
ASA	9.42	5.49	3.57	3.80	2.68	1.92	-0.23	39.77	53.78	-6.05

Source: Annual Reports, (2008-2011)

GB shows an annual decline in their ROE in 2011, but ASA shows an increase in their ROE for 2011 (Table 4.2.2). But there is a positive trend in the growth rate of ASA and negative trend in the growth rate of GB.

C. Growth of Net Savings

Table 4.2.3 Growth Rates of Net Savings

Organization	2011	2010	2009	2008	Annual Change			Growth Rate (%)		
					2011	2010	2009	2011 over 2010	2010 over 2009	2009 over 2008
GB	.....	.....	.....	....	.....	....	....		.....	.....
ASA	11978	10553	8145	6433	1425	2408	1712	13.51	29.56	26.61

Source: Annual Reports, (2008-2011)

In ASA, the annual change shows a positive trend in both the years (table 4.2.3). The growth rate of the net savings of ASA borrowers is showing an increasing trend also.

D. Growth of Average Loan Size

Table 4.2.4 Growth rate of Average Loan size (in BDT)

Organization	2011	2010	2009	2008	Annual Change			Growth Rate (%)		
					2011	2010	2009	2011 over 2010	2010 over 2009	2009 over 2008
GB	11442	10034	8514	7147	1408	1520	1367	14.033	17.85	19.13
ASA	16796	14183	12203	9039	2613	1980	3164	18.423	16.23	35.00

Source: Annual Reports, (2008-2011)

For the year 2010 and 2011 annual change of average loan balance per borrower is positive for the two organizations (Table 4.2.4). So the overall industry is showing a positive trend in average loan size. But the growth rate of GB is lower in 2011 as compared to 2010 than that of ASA. For GB it decreases from 17.85% to 14.03% and for ASA it increases from 16.23% to 18.42% in the same period.

E. Growth of Yearly Loan Disbursement

Table 4.2.5 Growth rate of Yearly Loan Disbursement (BDT in million)

Organization	2011	2010	2009	2008	Annual Change			Growth Rate (%)		
					2011	2010	2009	2011 over 2010	2010 over 2009	2009 over 2008
GB	108539	96149	79408	62105	12390	16741	17303	12.89	21.08	27.86
ASA	86702	68486	61495	61108	18216	6991	387	26.59	11.37	0.63

Source: Annual Reports, (2008-2011)

From table 4.2.5, it is found that both GB and ASA show a positive annual change; in their cumulative loan disbursement. The growth rate of ASA shows an increasing trend. The growth rate of GB loan disbursement declines from 21.08% to 12.89% by 2011 over 2010.

Problems being Faced by Microfinance Programs in Bangladesh

Microfinance is the provision of financial services (Loans, savings, insurance) to people on a small scale, such as businesses with low or moderate incomes. Despite good intentions, microfinance still has several hurdles to cross over:

1. **Multiple borrowing or overlapping:** Overlapping or multiple borrowing by an individual borrower or household is considered as an alarming issue or problem, according to the respondents.
2. **Misuse of credit by borrowers:** As in most of the cases MFIs do not review what is the borrower doing with the money borrowed. Misuse or unproductive use of credit is a usual practice.
3. **Lack of innovation:** From almost the beginning till today almost every MFIs follow Grameen Model of microfinancing.
4. **Severe lack of training and education:** The research and training capability of MRA is poor. MFIs are facing many emerging issues to meet the present and future challenges.
5. **Reaching economically backward region:** MFIs/ NGOs could not effectively reach the people of economically backward regions of the country. As a result, MFIs showed poor performance in economically backward areas. [Source: Sarder & Golzare, 2012]
6. **Targeting women as borrower and its Social Dilemma:** Most of the microfinance borrowers are women. In usual practices rural community does not appreciate women to go in public and participate in financial activities. Inappropriate targeting of poor households is a major problem to the microfinance providers.
7. **Higher interest rate:** High cost involved in small loan transactions for Microcredit providers. Higher interest rate is a financial disadvantage of microfinance. Due to higher interest rate charges, Grameen Bank has been criticized, as the interest rate is roughly 31% (The New Nation, 2010), whilst the interest of conventional banking is 10-15% in Bangladesh.(Hossain, et, al., 2011)
8. **Less attention to ultra poor:** Microfinancing is to deal with poor, so does it. But there are not much significant interventions for the ultra poor segment.
9. **Lack of capital:** Although the microfinance sector has reported an impressive growth, there is a lack of capital for some of the microfinance institution in the country.
10. **Insufficient repayment time by the microfinance institution to the borrower:** Most of the micro-loans are given for the start of micro-enterprises for a short Period and the loan would have to be rapid from the cash flows generated from the business.
11. **Regulation and supervision:** The MRA is now the sole watchdog of vast microfinance market of the country. As a new organization it is growing day by day. The present capacity of this regulatory organization seems to be insufficient in terms of manpower, resource base and geographical concentration (only in Dhaka).[Source; Sarder and Golzare 2012]

Weighted Average & Standard Deviation

Standard deviation of responses among the organizations were calculated to identify, if any, inter-organizational difference in response exists.

Table 4.3.1 Weighted Mean & Standard Deviation of the problem factors

No.	Factor	ASA		GB	
		Weighted Average	Standard Deviation	Weighted Average	Standard Deviation
F1	Targeting Women as Borrowers and Its Social Dilemma	1.4	0.548	1.6	0.548
F2	Lack of Skilled and Well Educated Work Force	3.4	0.548	2.6	0.894
F3	Dependency on a Single Revenue Generation Model	3.6	0,548	3.4	0.894
F4	Higher Interest Rates	2.8	0.837	2.8	0.837
F5	Overlapping in Multiple Borrowing	3.8	0.447	3.8	0.837
F6	No Central Database and synchronized Data Format	2.8	0.707	4.0	0.707
F7	Lack of Innovation	2.6	0.894	2.6	0.894
F8	Lack of Intention Serve in the Apparently Inaccessible Location	3.0	0.577	1.6	0.707
F9	Less Attention to Ultra Poor	3.0	1.000	1.4	0.548
F10	Sectoral Disbursement without Technical Expertise	2.8	0.447	2.4	0.548
F11	Misuse of Credit	3.8	0.837	2.4	0.894

Source: Field Survey, 2012.

Most of the microfinance borrowers are women. Table: 4.3.1 shows that weighted average response from GB and ASA is towards minimal or little importance (GB 1.6, ASA 1.4) over problem factor 1. Factor 2 shows that mean score of GB's response is 3.4 which indicate, they consider it as a medium category of threat. Respondents from ASA comparatively show less importance in this factor. The weighted average response of respondents from GB in factor 4 is 2.8 and ASA 2.8 with the same standard deviation of 0.837; apparently shows a medium important issue. Overlapping or multiple borrowing by an individual borrower or household is considered as an alarming issue or problem according to the respondents. Table 2.5 shows GB and ASA considers it a high threat towards microfinance activities.

Table 4.3.1 depicts respondents from GB and ASA considers this lack of innovation as a little or less severe problem. Microfinancing is to deal with poor, so does it. But there are not much significant interventions for the ultra poor segment. Respondents from GB (Average 1.4) did not consider it as a problem and ASA respondents consider it a moderate level of problem (3). Misuse of non-productive use of credit is a usual practice. Respondents from ASA (Average 3.8) considered it as a serious problem and GB respondents consider it a low level of problem.

Conclusion

There is no doubt that the microfinance industry has caused huge money circulation in our economy, create employment and in turn help in poverty alleviation. The study revealed some challenges like overlapping or multiple borrowing, lack of training and education, misuse of credit by borrower, sectoral disbursement without technical expertise, etc. Multiple borrowing has become alarming currently. Recent experience shows that many female borrowers move away forever from their home due to inability to repay their multiple loans. A major and probably the most responsible cause for the incredible misery of the poor people is the misuse of credit by borrowers. In this huge industry NGOs and MFIs disburse loan to many investment sectors but in major cases they do not have suitable technical persons experienced in those investment sectors. It is often argued that MFIs charge high lending interest rates. Study reveals that most of the respondents denied that the higher rate of interest does create a problem for the MFIs activities because they have a plenty of justification for this higher rate. The study also reveals some of the issues, for example, higher cost of funds, low default rates, higher administrative expenses, etc.

Recommendations

Microfinance institutions have been viewed as an important tool in poverty alleviation. It is an important sector which would improve the living conditions of the poor and lead to the development of the country. Some of the issues are hinted below:

1. Higher operational costs is the major reason for the higher interest rates of the MFIs. The operational costs could be reduced by the use of technology.
2. The microfinance institution should ensure that the loans are given for useful purpose which would earn a living for the household and not for uneconomic purpose.
3. To enhance the outreach in remote area and provide fast services to existing customers, MFIs need cost effective mode. In this case, mobile financial services are the best options. MFIs may establish partnerships with mobile phone operators and banks to reach the unbanked low income people (Source; Sardar & Golzare, 2012).
3. Rate of interest should be decreased. The interest rate is high as compared to that of commercial banks. NGOs charge such interest rate to cover operational cost with a view to achieving sustainability and attracting huge commercial funds into microfinance industry by improving the technology model used by microfinance institutions.
4. Central Data Base should be provided. NGOs must have a central data base covering major data, which will ensure accountability and transparency in microfinance operation.
5. Multiple borrowing or overlapping should be restricted by the borrowers. Central data base will remove the overlapping problems.
7. Research and training program should be extended. To meet the present and the future challenges it is necessary to strengthen research and training capability of NGOs.
8. Managers should have adequate knowledge about multiple performance criteria.

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APPENDIX

Achievement and Problems of Micro Finance of Two Leading MFIs in Bangladesh: A Case Study of GB and ASA.

Name of the respondent:.....Name of the organization:.....Designation:.....

1. MFIs face some probable problems that are listed below. Please rank them from 1-11 where 1 represents the most important and 11 as less important issue.

1.	Dependency on a single revenue generation model	
2.	Multiple borrowing or overlapping	
3.	Severe lack of training and education	
4.	Lack of innovation	
5.	Misuse of credit by borrowers	
6.	Lack of central database	
7.	Sectoral disbursement without technical expertise	
8.	Lack of intention to serve in the apparently inaccessible location	
9.	Less attention to the ultra poor segment	
10.	Higher interest rates of MFIs	
11.	Targeting women as borrower and its social dilemma.	

2. Please give points to the following problems from 1-5.

A) Most of the micro finance borrowers are women. Our patriarchal social system does not appreciate women to go in public and participate in financial activities. How problematic these issues seems to you? Please rank.

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

B) Lack of skilled and well educated workforce is a common scenario in our micro finance industry.

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

C) Most of the people have a negative perception regarding microfinance activities. Is this issue seems problematic to you?

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

D) Microfinance charges much higher interest rates than the traditional commercial banking loan providers. Many people think if interest rates can be reduced MFIs could have reached much people. Do you consider it a problem? If yes, then please rank it.

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

E) Overlapping or multiple borrowing is a common phenomenon in microfinance now a day. Do you consider it a problem? If yes, then please rank it:

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

F) There is no central database and **Synchronized Data Format** for microfinance. This is causing unsynchronized data management, Overlapping etc. Do you think not having a central database is causing any problem?

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

G) Where it comes the point of development, it requires innovative and dynamic ideas. **Lack of innovation** is a common complaint about microfinance. How much do you think?

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

H) **Lack of intention to serve in the apparently inaccessible location** is a common complaint about micro financing. Please rank this issue:

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

I) Though there are many interventions for poor people, **the ultra poor are given less attention.**

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

j) **Sectoral disbursements without technical expertise** create problems. Are you convinced about this fact?

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

K) **Misuse of credit** increases suffering of the borrower which in turn creates bad image of micro credit. How will you acknowledge this issue?

1 Less important 2 Modest 3 Medium 4 High 5 Most important.

Please name some of the Achievements of microfinance industry.

- a).....
- b).....
- c).....
- d).....
- e).....

Thank you for your kind co-operation