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   INTRODUCTION

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   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

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   APPENDIX/ANNEXURE

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CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

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- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

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- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

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- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

A STUDY ON FINANCIAL PERFORMANCE OF MFIS IN BANGLADESH

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ABSTRACT

Microfinance initially has been a form of voluntary help to most deprived population. However, today it represents a market solution to mitigation of poverty and acts as a development and economic tool in bringing about financial inclusion. Microfinance has emerged as a viable alternative to reach the hitherto unreached for their social and economic empowerment through social and financial intermediation. The institutions that are providing microfinance services such as savings, credit, insurance and remittance services to poor are called Microfinance Institutions (MFIs). The study aims at analyzing the financial performance of MFIs in Bangladesh. The data have been collected from Microfinance Information Exchange from the fiscal year 2007 to 2011. The statistical tools namely, Ratio analysis, descriptive statistics and growth rates have been used for analyzing the data. In terms of overall financial performance, Bangladeshi MFIs has shown better ROA and OSS, but still it couldn't cover the total expense and financial expenses. Although the microfinance sector has reported an impressive growth, sufficient regulatory and governance would help achieve the goal of poverty alleviation and financial inclusion; this could be achieved with combined cooperation of banks, donors' government, NGO and other players in the country.

KEYWORDS
financial performance, microfinance, MFIs.

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INTRODUCTION

Finance is an extra ordinary effective tool in spreading economic opportunity and fighting against poverty. Access to finance allows the poor to use their rich talents or open avenues for greater opportunities. Providing sustained credit services is one of the means to increase income and productivity of poor. Starting with the Grameen bank founded by Mohammed Yunus in 1970s microfinance represented a method of lending that is to be tailored specifically to the world's poorest population. Microfinance initially has been a form of voluntary help to most deprived population. However, today it represents a market solution to mitigation of poverty and acts as a development and economic tool in bringing about financial inclusion. Microfinance has emerged as a viable alternative to reach the hitherto unreached for their social and economic empowerment through social and financial intermediation. The institutions that are providing microfinance services such as savings, credit, insurance and remittance services to poor are called Microfinance Institutions (MFIs). MFIs have come up as a bridge between banks and poor, whose only source of credit has so far been the money lender. The last 25 years have witnessed a rapid expansion in number and size of MFIs in many parts of the world. MFIs are commonly known as "Bank for the poor". In some countries, MFIs are already numerous and in aggregate serve a large number of clients, manage a significant loan portfolio, and hold an important share of financial assets of poor people. MFIs play a significant role in financial sector development, and thereby, overall development. MFIs are not equally dispersed world-wide; they appear to be well developed in Bangladesh, Bolivia and Indonesia.

STATEMENT OF THE PROBLEM

Bangladesh is a developing economy in the world and poverty is a common problem in this country. It becomes imperative to formulate specific situational poverty alleviation policies and programmes for generation of minimum level of income for rural poor which forms substantial percentage of national population in developing societies. Microfinance is an option to resolve this problem of poor people. A decade ago, the expectation for microfinance as decisive tool in combating poverty was high. Bangladesh has been the birth place of microfinance and also pioneer in the world for applying microfinance. Bangladesh boasts a large number of well-known MFIs including Grameen Bank, BRAC and Association of Social Advancement (ASA). Going forward, MFIs are likely to expand their client base and reach out to more underserved areas of the country. To provide microfinance and other support services MFIs should be able to sustain for long period. In order to sustain operations, MFIs must generate enough revenues from financial services to cover their financial and operating cost and in many cases, build institutional capital through profit. Financial performance becomes a watchword in the governance of MFIs. The present study is an attempt to assess the financial performance of Microfinance Institutions operating in Bangladesh during fiscal year period 2007 to 2011 (2007-08 to 2011-12).

OBJECTIVES OF THE STUDY

The study focuses on the following objective:
1. To understand the scenario of MFIs in Bangladesh
2. To analyse the financial performance of Microfinance Institutions in Bangladesh

SCOPE OF THE STUDY

The study is pertaining to microfinance institutions in Bangladesh. The comprehensive financial performance indicators model used by Microfinance Information Exchange (MIX) has been chosen for the study. The variables, such as institutional characteristics, financing structure, outreach indicators, overall financial performance indicators, revenue and expenses, efficiency and risk and liquidity have been considered to analyse the financial performance.

SIGNIFICANCE OF THE STUDY

The study will be useful to:
- The MFIs, for knowing their performance and taking appropriate decisions; to motivate MFIs towards performance improvement, and compare with their peers,
- The donor, to decide the extent of support to be given to its partner and to know the level of sustainability of its partners,
- Investors, to identify potential investment,
- The researchers and academicians and
- The policy makers for their national development decisions.

RESEARCH METHODOLOGY

SOURCE OF DATA

The study is primarily based on secondary data. The data have been collected from Microfinance Information Exchange (MIX) i.e., www.mixmarket.org.

PERIOD OF STUDY

The period undertaken for the study is from fiscal year 2007 to 2011 (2007-08 to 2011-2012).

SAMPLE AND SAMPLING DESIGN

The MFIs which have fulfilled the disclosure guidelines laid down by Consultative Group to Assist the Poor (CGAP), the global body of dominant donors of MFI space, providing details on all indicators of financial reporting are considered in this study. There are 37 MFIs in Bangladesh which have reported their financial information to CGAP through MIX in the fiscal year 2011. The MFIs for which the financial details have been reported atleast for 5 years continuously have been identified. It is noted that only 25 MFIs from Bangladesh have fulfilled the requirement and all these MFIs are taken for the study. The list of MFIs selected for the study along with their groupings is appended.

TOOLS FOR ANALYSIS

The following statistical tools have been used for analyzing the data:

Ratio analysis has been used in this study to analyse the performance of MFIs. Descriptive statistics, namely, Mean and Standard deviation, Coefficient of Variation (CV per cent), has been used in this study to understand the distribution and characteristics of the variables studied. The growth measures such as, Annual Growth Rate (AGR), Linear Annual Growth Rate (LAGR) and Compounded Annual Growth Rate have been computed to study the trend of ratios and overall growth of ratios during the study period.

LIMITATIONS OF THE STUDY

The study is subject to the following limitations:

- The limitations inherent in statistical tools apply to this study also.
- Non availability of continuous data from MIX for more than five years has restricted the period and number of MFIs in this study.

REVIEW OF LITERATURE

It is seen that without sound financial performance the sustainability of these MFIs is not possible. The literature concerning the financial performance of MFIs has been discussed below.

Robert Cull, Asli Demiguc Kunt, Jonathan Morduch (2003)[1] has conducted a study on "Financial Performance and outreach: A global analysis of leading microfinance institutions". The study has aimed to explore patterns of profitability, loan repayment and cost reduction. The data have been collected from micro banking bulletin. The data on 124 microfinance institutions in 49 developing countries have been chosen for the study. The study has been conducted during the period 1999 to 2002 and 70 per cent observations have been taken for the period 2002. The key dependent variable for analysis of profitability has been the financial self-sufficiency ratio. They have found that individual-based lenders with higher labour costs as a fraction of total assets have been more profitable. It has been found that larger loan sizes are associated with lower average costs for both individual-based lenders and solidarity group lenders. The evidence has shown the possibility of earning profits while serving the poor, but a trade-off has emerged between profitability and serving the poorest. The result has suggested that the institutional design and orientation matters are important in considering trade-offs in microfinance.

Abdul Qayyum and Ahmad M (2006)[2], in their study on "Efficiency and sustainability of microfinance institution in South Asian" has aimed to identify the most efficient MFIs in south Asian region. The study has evaluated the efficiency of 85 MFI from south Asia shared as follows: 15 Pakistanis, 25 Indians, and 45 Bangladeshi MFIs. Data envelope analysis has been used to analyse the efficiency of microfinance institution in these selected South Asian countries. The performance indicators taken for the study are outreach, institutional characteristics, financing structure, overall financial performance, efficiency and productivity and risk and liquidity. The correlation coefficient and regression analysis has been applied. They found from the DEA analysis using single country data that 8 MFIs from Pakistan, 6 MFIs from Bangladesh and 5 MFIs from India are at efficient frontier under variable return to scale. They have also found that 10 MFIs from Pakistan, 9 from Bangladesh and 9 MFIs from India are not sustainable. They also found from sustainability indicator that Indian MFIs are better than Bangladeshi MFIs. The study has revealed that the majority of inefficiency of MFIs in Pakistan, India, and Bangladesh is mainly of technical nature and to improve their efficiencies, these MFIs have been invited to heighten the managerial expertise and to improve the technology.

Ganesh Thapa (2007)[3] has conducted a study on "Sustainability and governance of microfinance institutions: Recent experience and lessons from South Asia". He has reviewed the experience of MFIs in different parts of the world based on the factors sustainability and governance and has drawn lessons for South East Asian countries. The study has taken a sample of 101 South Asian MFIs consisting of India, Pakistan, Bangladesh, Cambodia and Philippines which reported to mix market website during the year 2005. The performance indicators namely, profitability, revenue, expense, productivity and portfolio quality have been analysed on the basis of institution type viz., Bank, NBFC, NGO and Rural bank. It has been found that South East Asian MFIs performs well in terms of financial sustainability as they earn positive returns on assets and equity, covering much higher cost level by earning more from their portfolio, but in contrast, he found that South Asian MFIs have negative returns on assets and equity, despite having one of the lowest expense structures in world. It has been found that Cambodia and Philippines have shown of high yield strategy, while Bangladesh and India adopt low cost, low yield strategy. He also found that economies of scale are higher for NGOs. The researcher has shown sustainability of an MFI requires not only financial viability but also a clear strategic vision and an organization that is transparent, efficient and accepted by all stakeholders.

M.Kabir Hassan and Benito Sanchez (2009)[4], in their study on "Efficiency analysis of Microfinance Institutions in developing countries" has investigated technical and scale efficiencies of MFIs in the three region: Latin America, Middle East and North African countries and South Asian countries and to compare the efficiency across regions, across type of MFIs. The period of the study has been 2001 -2005 and data for the study has been taken from mix market website. The sample consist of 141 MFIs from Latin American, 26 MFIs from MENA countries and 47 MFIs from south Asian countries. They have noted that the majority of MFIs are non – profit (NGO), followed by NBFC. DEA has been used to perform analyse with small samples, which is case for Latin America countries and also allows them to calculate Malmquist indexes to characterise productivity changes. It has been found that technical efficiency has been higher for formal MFIs namely, Banks and credit union than non-formal MFIs namely Non-profit organization and non-financial institution. South Asian MFIs have higher technical efficiency than Latin American and MENA MFIs. It has been found that the source of inefficiency has been pure technical rather than scale, suggesting that MFIs are either wasting resources or are not producing enough output there by making enough loans, raising fund and getting more borrowers.

Venkata Vijay Kumar P. and V.K.Gupta (2011)[5] have conducted a study on "Analysis of performance indicators on sustenance of microfinance institutes: A comparative study of East Asian and Pacific, and South Asian countries". The paper has attempted to identify the various variables and capture the significance of the influence upon the financial self-sufficiency and operational self-sufficiency of an organization in the context of East Asia and Pacific region and South Asia. The data has been obtained from mix market website. The data for the year 2008 has been considered for analysis of both regions. A total of 298 MFIs analyzed, 153 MFIs from East Asian and Pacific region and 145 MFIs belong to South Asian region. The data has been analyzed using ANOVA, factor analysis, operational self-sufficiency analysis and financial self-sufficiency analysis. They have found that average loan per borrower, return on assets, portfolio at risk has been major influence of the operational self-sufficiency and yield, return on assets, portfolio at risk and capital utilization has been main components influencing financial self-sufficiency in both regions. It has found that MFIs have been in increment mode in the sustenance characteristic and there by performance of MFIs of both regions are in same state. It has concluded that the presence of deposit scheme has not benefited the operational self-sufficiency or financial self-sufficiency value of MFIs.

Anuradha Tiwari (2012)[6] has conducted a study on "Is microfinance working for what it is meant to be? A comparative study on Bangladesh and India." The author has examined whether MFIs are servicing their purpose of existence or are these MFIs becoming commercial centers. This paper has conducted a comparative study between India and Bangladesh, in terms of loan lent by institutes to the customers, clientele, and financial sustainability of MFIs. The author has taken the three institutions of India (SKS microfinance, Share, Spandana) and Bangladesh (Grameen bank, BRAC and ASA) for comparing the performance.

The MFIs have been selected on the basis of gross loan portfolio. The period of the study has been 2006 to 2009. It has been found that MFIs in India have been shifting from the status of social institutions to more profitable venture when compared to Bangladesh but at the same time it has been revealed that Indian MFIs are earning good returns to maintain a sustainable business model.
The review of literature has established the framework for the study and has highlighted the results of previous studies, which in turn, has helped to clearly identify the gap. The present study has aimed to fill this research gap, substantiating with more information. The literature review has revealed that the sustainability of MFIs is not possible without sound financial performance.

SCENARIO OF MICROFINANCE INSTITUTIONS IN BANGLADESH

Historically Bangladesh has been a part of Bengal, an eastern province of undivided India. When India became independent in 1947, the independent nation of Pakistan came into existence, comprising of western part of India and the eastern half of Bengal province.
In 1971, this eastern part of province of Bengal became independent nation, known as People's Republic of Bangladesh. Bangladesh is one of the world's ten most populated countries and has one of the highest population densities, more than half of the population lives in agrarian rural villages. But urbanization is proceeding rapidly and the capital Dhaka is one of the fastest growing cities in the world.
Bangladesh has made significant strides in its economic sector since independence in 1971. The government of Bangladesh faces an enormous challenge in reducing poverty. However, the government cannot act alone as it cannot command all the resources, personnel, administrative outreach or expertise necessary to maintain progress in poverty alleviation. The MFIs have taken a key role in poverty alleviation efforts and they have been providing credit to these poor people who lack savings and capital but want jobs in the farm and non-farm sectors.
The banking sector in Bangladesh has been dominated by the four state-owned commercial banks, known as Nationalized Commercial Banks (NCBs), which control approximately half of the assets within the banking system. In addition, there are five government-owned specialized banks, 30 domestic private banks, and 12 foreign banks. The specialized agricultural banks and NCBs have been lending extensively to the rural area but most of their lending is not targeted to the poor. The foreign banks and the private commercial banks have simply stayed away from rural lending, though there are a few cases of token involvement in microfinance in recent years. The poor people do not get access to formal financial institutions because of lack of physical collateral. The informal moneylenders, on the other hand, charge an exorbitant rate of interest, thereby inhibiting rural poor households from investing in productive income increasing activities. Unlike other south Asian countries in the region, Bangladesh does not have a proper substructure of small banks operating at local level. Against the backdrop of a relatively undeveloped formal financial system, a strong NGO microfinance system has developed in Bangladesh. These MFIs have been able to reach the poor with collateral-free loans at affordable costs and can thus help the poor become self-employed.
The origin of the microcredit model dealt with the relief and rehabilitation needs of post-independence Bangladesh. At that time, many NGOs started as relief organizations but, over time, they turned into development organizations and gradually many of them have become MFIs by focusing on savings and microcredit programs. Microcredit has been first initiated by Grameen Bank and has been developed by a team led by Professor Mohammad Yunus. The Grameen-model, named as the 'Jobra' experiment has been tested first centering on group-based credit delivery with peer monitoring. During the late 1970s, when the 'Jobra' experiment was underway, the Dheki Rin Prokolpa has initiated by the Bangladesh Bank in collaboration with the Swanirvar Bangladesh, and several other pilot schemes have been initiated by a handful of the NGOs which have been active then. The 1980s witnessed a growing number of MFIs which experimented with different modalities of delivering credit to the poor. In the early 1980s several NGOs experimented with different ways of delivering credit. One important model tested has been the efficacy of providing loans for groups compared to offering loans to individuals with peer monitoring became successful with strong MFI staff follow up.
The early 1990s has been a period of rapid expansion of the Grameen-style microcredit approach. The growth has been picked up largely by a 'franchising approach' whereby new branches replicated the procedures and norms that prevailed in existing branches. In the early 1990, unhindered experimentation in the fields led to a quiet resolution of the debate and the country experienced a massive expansion of microfinance activities during the 1990s. Donors contributed to the expansion of revolving loan funds, and PKSF was established around the same time to provide wholesale financial and technical support in the sector. The microfinance sector in Bangladesh is one of the worlds largest. Bangladeshi MFIs are best known for their pioneering, large-scale provision of microfinance services, principally tiny collateral-free loans to poor women. The four largest MFIs, Grameen Bank, BRAC, ASA, Proshika account for 86 percent of the 14.3 million active borrowers.

TYPES OF MFIs IN BANGLADESH

The main direct providers of microfinance services are microfinance institutions (MFIs), which are basically non-governmental organizations (NGOs) labeled here as 'MFI-NGOs', Grameen Bank (GB), Palli Daridra Bimochon Foundation (PDBF), Rural Development Scheme (RDS) of Islami Bank Bangladesh Ltd (IBBL).
The NGO MFIs are mostly registered as NGOs; Societies; Not-for-profit Companies; Cooperative Societies; Trusts. They are supervised by NGO Affairs Bureau, Prime Minister's Officer (PMO); Ministry of Social Welfare; Ministry of Finance; Department of Cooperatives and Registrar of the Joint Stock Companies depending on their registration type. Grameen Bank is an exception case who is registered as a Specialized Bank.
The legal framework of MFIs has not gone through any substantive reform. There are a plethora of laws and government agencies dealing with MFIs in Bangladesh. Under the administration of the Department of Social Welfare, most MFIs are registered as societies under the Societies Registration Act, 1860 (the same as in India). The rest are registered either as nonprofit companies under the companies Act 1913, or as trusts under the Trusts Act, 1882, or the Charitable and Religious Trust Act, 1920, or as cooperatives under the Cooperative Societies Ordinance, 1984. Since most of the MFIs rely on the funds coming from foreign grants, the government has to be accountable for those grants for receipts and utilization. To undertake this task NGO Affairs Bureau (NGOAB) was established in 1991. NGOAB is regarded as the primary regulator as most development NGOs were supported by foreign funds in the 1990s. NGOAB undertakes functions such as NGO registration, approval of project proposals, releasing funds and monitoring NGO projects.
The government, with the close cooperation of the Bangladesh Bank, undertook efforts to establish a regulatory framework which culminated in the enactment of the Microcredit Regulatory Authority Act, 2006 with a view to ensuring transparency and accountability of microcredit activities of the MFIs in the country. The Microcredit Regulatory Authority (MRA) has been established under the act, which is now empowered and responsible to implement the said act and to bring the microcredit sector of the country under a full-fledged regulatory framework. The main responsibilities of the authority include issuance and cancellation of the license for microcredit, overseeing, supervising and facilitating the entire activities of MFIs.

FINANCIAL PERFORMANCE OF MFIs IN BANGLADESH

Bangladesh has been the pioneer in the field of microfinance movement and a significant contribution to the development of the country has been made by several MFIs in Bangladesh. Hence, the second objective of the study is to analyze the financial performance of MFIs in Bangladesh.

INSTITUTIONAL CHARACTERISTICS

TABLE 1 - INSTITUTIONAL CHARACTERISTICS OF MFIS IN BANGLADESH

Year	Offices (no.s)	Personnel (no.s)	Assets (US $)
2007	475	4467	93299862.84
2008	471	4004	109705149.80
2009	498	3821	130498199.70
2010	493	3913	149349983.10
2011	474	3770	150412168.60
Mean	482	3995	126653072.80
S.D	12.54	278.63	24970472.97
C.V	2.6	6.97	19.72
AGR	0.02	-4.05	12.92
LAGR	2	-149	15386944.49
CAGR	0.43	-3.56	13.47

Source: Computed

It has been found that there is no significant increase in the number of offices but a decline in the number of personnel; this reveals the fact that the MFIs in Bangladesh are concentrating on cost management techniques as they are the originators earlier and all MFIs in Bangladesh selected for the study are mature. So also the assets of MFIs in Bangladesh are found to be increasing during the study period.

FINANCING STRUCTURE

The financing structure is a mixture that directly affects the risk and value of the business.

TABLE 2 - FINANCING STRUCTURE OF MFIS IN BANGLADESH

Year	Capital/Asset Ratio (%)	Debt/Equity Ratio (%)	Gross Loan Portfolio to Total Assets (%)
2007	19.05	9.11	76.29
2008	17.56	3.1	77.26
2009	15.9	6.94	77.6
2010	18	5.92	81.11
2011	18	5.99	83.39
Mean	17.7	6.21	79.13
S.D	1.15	2.16	3
C.V	6.48	34.85	3.79
AGR	-1.02	11.1	2.26
LAGR	-0.17	-0.34	1.81
CAGR	-0.88	-1.9	2.29

Source: Computed

The MFIs in Bangladesh are efficient in using its capital to cover its expenses and debt obligations, as clear from the capital asset ratio of less than 20 per cent. It has also been clear from their debt to equity ratio that Bangladeshi MFIs are socially oriented MFIs depending on grants and donations. It has been evident from the GLP to total assets that the MFIs in Bangladesh have been allocating the assets to its lending activity at appropriate level. The results have concluded that the financing structure of MFIs in Bangladesh has been satisfactory during the study period.

OUTREACH INDICATORS

Outreach is an effort to extend microfinance services to the people who are underserved by financial institutions.

TABLE 3 - OUTREACH INDICATORS OF MFIS IN BANGLADESH

Year	Number of active borrowers	Per cent of female borrowers	Number of loans outstanding	Gross Loan Portfolio	Average loan balance per borrower (US $)	Average loan balance per borrower/ GNI per capita (%)	Average outstanding balance	Average outstanding balance/ GNI per capita (%)
2007	843426	87.53	849009	67405830.92	87.37	18.17	86.05	18.12
2008	881061	91.12	892257	83857213.92	97.93	18.82	95.6	18.14
2009	817354	90.87	833735	93625852.96	117.12	20.36	110.76	19.25
2010	829051	90.36	843912	104797276.8	129.96	20.51	124.72	19.68
2011	808929	90.71	837384	109347326.2	142.90	18.44	133.97	17.2
Mean	835964	90.12	851259	91806700.15	115.06	19.26	110.22	18.48
S.D	28347.8	1.47	23661.77	16869608.1	22.70	1.1	19.83	0.99
C.V	3.39	1.63	2.78	18.38	19.73	5.7	17.99	5.36
AGR	-0.94	0.91	-0.25	13.08	13.15	0.6	11.74	-1.03
LAGR	-12100	0.56	-7160	10482305.34	14.31	0.22	12.5	-0.03
CAGR	-1.43	0.63	-0.83	12.64	13.51	1.16	12.2	-0.23

Source: Computed

The result has revealed that the Bangladeshi MFIs have not been able to reach more clients during the study period. In fact the number of active borrowers has reduced substantially. But out of the active borrowers, the women access to credit has increased during the study period; this has shown the commitment of Bangladeshi MFIs towards women empowerment, social welfare and poverty alleviation. It has been clear that number of loans outstanding of MFIs in Bangladesh has reduced during the study period, which means that the Bangladeshi MFIs have taken effective measures to reduce the unpaid principal balance of loan disbursed, by effective follow ups, with a good repayment schedule and by checking credit worthiness of the borrowers. The gross loan portfolio has indicated that the Bangladeshi MFIs have granted various types of loans to customers during the study period. The average loans available for clients and average outstanding balance have increased during the study period. The average loan balance per borrower/GNI per capita and average outstanding balance/GNI per capita have increased during the study period; nevertheless it has been maintained at appropriate level of less than 20 per cent.

OVERALL FINANCIAL PERFORMANCE

Financial performance has been a general measure to check MFIs overall financial health over a given period of time.

TABLE 4 - OVERALL FINANCIAL PERFORMANCE OF MFIS IN BANGLADESH

Year	Return on assets (%)	Return on equity (%)	Operational self-sufficiency (%)
2007	-0.23	-16.39	126.48
2008	-0.31	-26.65	101.74
2009	1.67	-25.54	111.4
2010	2.82	-25.96	117.29
2011	4.04	24.35	127.07
Mean	1.6	-14.04	116.8
S.D	1.9	21.87	10.67
C.V	118.91	-155.77	9.14
AGR	-#-	-#-	0.89
LAGR	1.17	8.22	1.67
CAGR	-#-	-#-	1.53

Source: Computed (# - series contain non positive values. AGR and CAGR could not be estimated.)

The result has shown that the Bangladeshi MFIs have been able to generate higher returns by effectively employing their assets but still it is less than the standard proposed by ACCION audit (ROA > 3 per cent). It has been understood from the return on equity that Bangladeshi MFIs ability to reward shareholders' investment build its equity base through retained earnings has not been satisfactory during the study period. It has also been lower than the standard of ROE > 15 per cent. The sustainability of lending operations of MFIs in Bangladesh has been satisfactory, which is more than the standard prescribed by Sa-Dhan i.e., 100 per cent. It has been concluded that the overall performance of MFIs in Bangladesh is satisfactory. The MFIs in Bangladesh are profitable and found to be sustainable in their operations during the study period.

REVENUE AND EXPENSES

Revenue and expenses are the two important factors in determining the success of any business. Revenue can be high, but if the expenses are higher, it will show no profit and has to be out of business when available capital runs out.

TABLE 5 - REVENUE AND EXPENSES OF MFIS IN BANGLADESH

Year	FR/A (%)	PM (%)	YGP (N) (%)	YGP (R) (%)	TE/A (%)	FE/A (%)	PLI/A (%)	OE/A (%)	PE/A (%)	AE/A (%)
2007	18.95	-2.7	22.59	12.58	18.26	4.42	1.82	13.65	9.47	3.98
2008	18.54	-4.35	22.65	12.77	19.37	3.86	1.67	13.84	9.61	4.22
2009	18.69	5.82	22.91	16.25	17.33	4.3	2.01	11.03	8.51	2.58
2010	21.31	10.35	25.56	15.7	19.18	4.39	1.5	13.3	10.06	3.55
2011	20.03	19.11	22.65	12.36	15.6	4.5	1.08	10.01	7.72	2.35
Mean	19.5	5.65	23.27	13.93	17.95	4.29	1.62	12.37	9.07	3.34
S.D	1.17	9.66	1.28	1.88	1.54	0.25	0.35	1.73	0.94	0.83
C.V	5.98	171.04	5.52	13.5	8.6	5.89	21.89	14.02	10.41	25.02
AGR	1.66	-#-	0.4	1.03	-3.11	0.83	-10.31	-5.77	-3.75	-7.26
LAGR	0.49	5.83	0.3	0.25	-0.55	0.07	-0.17	-0.78	-0.3	-0.39
CAGR	2.53	-#-	1.27	1.73	-3.2	1.66	-10.87	-6.39	-3.56	-11.54

Source: Computed (# - series contain non positive values. AGR and CAGR could not be estimated.)

It is found that the revenue of MFIs in Bangladesh has increased during the study period, whereas expense of MFIs in Bangladesh has shown a decreasing trend during the study period. It is clear that the financial revenue by assets of MFIs in Bangladesh has increased during the study period as they are generating revenue from gross loan portfolio and investment. The increase in yield in gross portfolio has revealed that the Bangladeshi MFIs have been charging higher interest rate. It has been evident from the decline in the total expense by assets, financial expense by assets, operating expense by assets, personnel expense by asset and administrative expense by assets that the MFIs in Bangladesh have been concentrating on cost management practices.

EFFICIENCY INDICATORS

The efficiency indicators inform the MFIs how much it must earn from each client to be profitable.

TABLE 6 - EFFICIENCY OF MFIS IN BANGLADESH

Year	OE/LP (%)	PE/LP (%)	AS/GNI per capita (%)	CPB (US$)	CPL (US$)	BPSM (no.s)	LPSM (no.s)	BPLO (no.s)	LPLO (no.s)	PeAR (%)
2007	17.45	11.99	2.78	15.21	13.28	134	136	187	190	52.71
2008	18.46	12.15	2.99	17.27	16.58	149	153	257	265	51.65
2009	13.83	10.42	2.69	14.89	14.44	146	154	280	293	56.53
2010	16.25	12	3.03	18.63	17.67	148	153	303	313	53.64
2011	20.02	14.17	3.11	16.77	15.05	149	158	254	271	54.82
Mean	17.2	12.15	2.92	16.55	15.4	145	151	256	266	53.87
S.D	2.34	1.33	0.18	1.54	1.74	6.27	8.73	43.37	46.89	1.89
C.V	13.59	10.99	6.07	9.28	11.28	4.32	5.78	16.93	17.6	3.51
AGR	5.35	5.09	3.2	3.72	4.87	2.77	4.06	9.63	10.86	1.13
LAGR	0.29	0.42	0.07	0.45	0.46	3	5	18	21	0.62
CAGR	1.48	3.27	2.4	2.75	3.19	2.08	3.13	8.08	9.2	1.17

Source: Computed

The increase in operating expenses by loan portfolio, cost of maintaining the client and cost incurred per loan to the borrower of MFIs in Bangladesh during the study period has been due to cost incurred in checking the credit worthiness of clients and educating the borrowers, as clear from the reduction in number of loan outstanding. It is also clear that the overall productivity of MFIs personnel is high in managing clients, including borrowers, depositors which have been evident from the increase in borrower per staff member, loans per staff member, borrower per loan officer, loans per loan officer and personnel allocation ratio of Bangladesh. It has been concluded that Bangladesh MFIs are maximizing services with available resources, including staff and fund during the study period.

RISK AND LIQUIDITY

Portfolio quality reflects the risk of loan and determines future revenue and institutions ability to increase outreach and serve existing clients.

TABLE 7 - RISK AND LIQUIDITY OF MFIS IN BANGLADESH

Year	PAR>30 days (%)	PAR>90 days (%)	Write-off ratio (%)	Loan loss rate (%)	Risk coverage (%)	NELA as a per cent of TA (%)
2007	5.54	4.07	0.3	0.31	112.33	14.84
2008	5.83	5.16	0.14	0.09	81.76	17.85
2009	9.92	9.47	0.24	0.21	113.33	18.45
2010	5.66	5.2	0.56	0.5	93.48	14.52
2011	5.7	5.12	1.19	1.15	74.14	10.92
Mean	6.53	5.8	0.49	0.45	95.01	15.32
S.D	1.9	2.1	0.42	0.42	17.67	3.02
C.V	29.06	36.24	87.05	92.5	18.6	19.7
AGR	8.29	15.92	65.98	82.62	-6.7	-5.61
LAGR	0.02	0.21	0.22	0.21	-6.47	-1.12
CAGR	0.27	4.78	51.32	54.29	-6.73	-7.87

Source: Computed

It has been observed from the result that the PAR > 30 days and PAR > 90 days has been less than 10 per cent, as the standard proposed by Sa-Dhan. The PAR represents the proportion of total gross outstanding loan portfolio that has been at risk. The percentage of MFIs loans that has been removed from the balance of the gross loan portfolio because it is unlikely to be repaid has increased during the study period. The unrecovered loans have marginally increased during the study period. The risk coverage has shown how much of PAR is covered by the MFIs impairment loss allowance and this has decreased during the study period. NELA as per cent of total assets of MFIs has also witnessed a decline during the study period which has been due to write off that has been made during period. To conclude the MFIs in Bangladesh has maintained a good portfolio quality.

FINDINGS

Microfinance is a means of the struggle against poverty in developing country like Bangladesh through financing activities that generate income for poor households. MFIs which encompass a wide range of providers that vary in legal structure, mission and methodology – offer these financial services to clients who do not have access to mainstream banks or other formal financial service provider. MFIs face an apparent challenge of achieving financial sustainability while to poverty alleviation. MFIs play a prominent role in the financial sector, and they are well positioned to grow and reach millions of potential clients who currently do not have access to main stream financial services.

- It is found that all MFIs taken for study in Bangladesh are mature MFIs.
- Bangladesh MFIs have wider asset base.
- Bangladeshi MFIs are social oriented and depend on grants and donations.
- Though Bangladeshi MFIs have large asset base, the allocation of assets to lending activity is low.
- The growth rate of number of active borrowers of Bangladeshi MFIs has shown negative trend.
- The percent of women clients justifies the social commitment of MFIs.
- Bangladeshi MFIs have reached the breadth of outreach.
- Profitability in terms of return on assets and operational self sufficiency is satisfactory for Bangladeshi MFIs.
- Financial revenue/assets is lower for Bangladeshi MFIs.
- Profit margin is positive for Bangladeshi MFIs.
- Bangladeshi MFIs are charging higher interest rate from borrowers.
- The decrease in financial and total expense of Bangladeshi MFIs highlights they are concentrating on cost management practices.
- Provision for loan impairment by assets and operating expense by assets are high for Bangladeshi MFIs, may be due to expenses include to educate borrowers.
- Bangladeshi MFIs are proved to be efficient in terms of cost per borrower.
- Bangladeshi MFIs have a good portfolio quality and better liquidity.

SUGGESTIONS

1. The predominant focus of Bangladeshi MFIs should be on the earnings management of Microfinance Institutions to improve the performance.
2. Bangladesh can take effective measures to increase the number of active borrowers by providing fruitful services.
3. MFIs in Bangladesh can concentrate on asset management, cost management and leverage management to attain sustainability.

CONCLUSION

Microfinance has been an important tool in poverty alleviation, empowerment of women and in bringing about financial inclusion. MFIs in Bangladesh include a broad range of diverse institutions that offer financial services to low – income clients in the form of Non-Government Organizations, Non-Bank Financial Institutions, Credit Union and Banks. Overall, MFIs in Bangladesh are dynamic and growing and, therefore, the journey of MFIs has been encouraging. MFIs in Bangladesh tend to report above 90 per cent as female borrowers. In terms of overall financial performance, Bangladeshi MFIs has shown better ROA and OSS, but still it couldn't cover the total expense and financial expenses. Although the microfinance sector has reported an impressive growth, sufficient regulatory and governance would help achieve the goal of poverty alleviation and financial inclusion; this could be achieved with combined cooperation of banks, donors' government, NGO and other players in the country. Thus, continuous efforts are required to diversify the sources of funding available for the MFIs in order to attract foreign Investment for well-established MFIs in order to serve the rural low income population, alleviate poverty and also, make them profitable. In case of Bangladesh, NBFC MFIs are not operational and therefore, they have limited scope to increase their capital base.

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APPENDIX

LIST OF MFIs IN BANGLADESH

MFI name	Age	Legal Status	Regulated
ASA	Mature	NGO	Yes
BASTOB	Mature	NGO	Yes
BEES	Mature	NGO	Yes
BRAC	Mature	NGO	Yes
BURO Bangladesh	Mature	NGO	Yes
CDIP	Mature	NGO	Yes
COAST Trust	Mature	NGO	Yes
CSS	Mature	NGO	Yes
CTS	Mature	Credit union/cooperative	Yes
DSK	Mature	NGO	Yes
Grameen Bank	Mature	Bank	No
HEED	Mature	NGO	No
IDF	Mature	NGO	Yes
JCF	Mature	NGO	Yes
PMUK	Mature	NGO	Yes
RDRS	Mature	NGO	Yes
RIC	Mature	NGO	Yes
RRF	Mature	NGO	Yes
Sajida	Mature	NGO	Yes
Shakti	Mature	NGO	Yes
SKS Bangladesh	Mature	NGO	Yes
SSS	Mature	NGO	Yes
TMSS	Mature	NGO	Yes
UDDIPAN	Mature	NGO	Yes
Wave	Mature	NGO	Yes

LIST OF PARAMETERS ALONG WITH THE VARIABLES TAKEN FOR THE STUDY

I. INSTITUTIONAL CHARACTERISTICS
- Offices (no.s)
- Personnel (no.s)
- Assets (US $)

II. FINANCING STRUCTURE
- Capital/Asset ratio (per cent)
- Debt to Equity ratio (per cent)
- Gross Loan Portfolio to Total Assets (per cent)

III. OUTREACH INDICATORS
- Number of Active Borrowers (no.s)
- Percent of Female Borrowers (per cent)
- Number of Loan Outstanding (no.s)
- Gross Loan Portfolio (US $)
- Average Loan Balance per Borrower (US $)
- Average Loan Balance per Borrower/GNI per capita (per cent)
- Average Outstanding Balance (US $)
- Average Outstanding Balance/GNI per capita (per cent)

IV. OVERALL FINANCIAL PERFORMANCE
- Return on Assets (per cent) (ROA)
- Return on Equity (per cent) (ROE)
- Operational Self-Sufficiency (per cent) (OSS)

V. REVENUE AND EXPENSE
- Financial Revenue/Assets (per cent)
- Profit Margin (per cent)
- Yield on Gross Portfolio (Nominal) (per cent)
- Yield on Gross Portfolio (Real) (per cent)

- Total Expense/Assets (per cent)
- Financial Expense/Asset (per cent)
- Provision for Loan Impairment/Assets (per cent)
- Operating Expense/Assets (per cent)
- Personnel Expense/Assets (per cent)
- Administrative Expense/Assets (per cent)

VI. EFFICIENCY

- Operating Expense/Loan portfolio (per cent)
- Personnel Expense/Loan Portfolio (per cent)
- Average Salary/GNI per capita
- Cost Per Borrower (US $)
- Cost Per Loan (US $)
- Borrowers Per Staff Member (no.s)
- Loans per Staff Member (no.s)
- Borrowers Per Loan Officer (no.s)
- Loans Per Loan Officer (no.s)
- Personnel Allocation Ratio (per cent)

VII. RISK AND LIQUIDITY

- Portfolio At Risk greater than 30 days (per cent) (PAR > 30 days)
- Portfolio At Risk greater than 90 days (per cent) (PAR > 90 days)
- Write Off Ratio (per cent)
- Loan Loss Rate (per cent)
- Risk Coverage (per cent)
- Non-Earning Liquid Asset as a per cent of Total Asset (per cent) (NELA as a per cent of TA)

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