Internship Report on:

Pricing and Financial Sustainability of selected micro financial institutions (MFIs) in Bangladesh

Course Title: Internship

Course Code: Bus 400

Submitted To:

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17th December, 2018

Letter of Transmittal

17th December, 2018

Mr. Saif Hossain
Assistant Professor
BRAC Business School
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Subject: <u>Submission of Internship Report</u>

Dear Sir,

It is my pleasure to present the internship report based on "***Pricing and Financial Sustainability of selected micro financial institutions (MFIs) in Bangladesh***". This has been given to me as a requirement for the completion of Bachelors of Business Administration Degree.

Working in an organization like Palli Karma Sahayak Foundation (PKSF) has been a great experience. I have got the opportunity to work in PKSF under Finance and Accounts department and gain in depth knowledge on how microcredit industry operates and how accounts related information are dealt with. Furthermore, the project has allowed both academic and practical exposures. Firstly, I have learned about the organizational culture of PKSF which was established by the Government of Bangladesh. Secondly, through this project I got the opportunity to create network within development sector.

I am grateful for your guidance and kind cooperation in polishing this report. I shall be highly obliged if you receive this report and provide your advice on the effort.

Sincerely Yours,

____

Nahida Islam Purni

ID: 15104068

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ACKNOWLEDGEMENT

Firstly, I would like to express my gratitude to Almighty ALLAH for giving me patience and capability to perform my responsibilities as an intern and complete the report within the given time period.

I am truly indebted to my faculty advisor Mr. Saif Hossain, Assistant Professor, BRAC Business School for his supervision throughout my internship period.

I am thankful to Office of Career Services & Alumni Relations (OCSAR), BRAC University for arranging Professional Skills Development Program (PSDP) and Internship Program that enhances combination of theoretical knowledge with real life practices.

I take the opportunity to express my gratitude and deep regards to my organizational supervisor Dr. AKM Nuruzzaman for his guidance and continual encouragement throughout my internship period. This would have been impossible without his instruction on how to proceed with the findings and how to work on the analysis.

Furthermore, I express my deep sense of gratitude to Mr. KM Rashedur Rahman, Deputy Manager (Operations) in furnishing the report in various stages and also providing me with all the necessary details that were inaccessible for me at various stages.

Abbreviations

1. Palli Karma Sahayak Foundation- PKSF
2. Financial Self Sufficiency- FSS
3. Operating Self Sufficiency- OSS
4. Micro financial institutions – MFIs
5. Non-Government Organizations –NGOs
6. Portfolio Yield – PY
7. Portfolio at Risk- PaR
8. Return on Asset- ROA
9. Return on Equity- ROE
10. Manabik Sahajya Sangstha –MSS
11. Partner Organization- PO

Table of Content

Executive Summary

The study is based on the pricing and financial sustainability of selected micro financial institutions (MFIs) in Bangladesh. The report starts with an outline of microcredit in Bangladesh. Moreover, it also includes overview of Palli Karma Sahayak Foundation (PKSF).Then comes next part is related to my job responsibilities as an intern at PKSF. Quantitative information has been taken from respective annual reports to find out the pricing and sustainability of the institutions. This report is illustrated based on selected micro financial institutions (MFIs) of Bangladesh and analyze in reference to their profitability, average breakeven interest rate. Selected MFIs are taken out of 500 non-government organizations operating in Bangladesh. The study is based on average breakeven interest rate, sustainability, profitability, portfolio quality and efficiency. Further, this report also shows the comparison of all categories among the selected MFIs. Then it come the analysis of their performance backed up by relevant source on the mentioned categories.

Outlook of Palli-Karma Sahayak Foundation (PKSF)

Introduction

Palli Karma-Sahayak Foundation (PKSF), known as an apex organization, was built up by the Government of Bangladesh in May 1990, with a view to reduce poverty through employment generation. Legally, PKSF is an "organization not for profit" and is enrolled under the Companies Act of 1994 with the enlistment center of Joint Stock Companies. The legitimate structure of PKSF enables adaptability and expert to attempt programs in a dynamic situation, actualizing them all through the nation and deal with its issues as an autonomous association.

It has taken up disaster management and micro insurance programme along with other social activities. PKSF has also started implementing a project aiming to enhance the capacities of the poor to increase their resilience to the adverse impacts of climate change. In addition, mapping of various rural business clusters has been completed to commence programmes for the development of rural industries.

History

During 1990, PKSF set the objective of generating employment in rural area and received the procedure of advancing a credit program for accomplishing this objective. This credit program, propelled for the rustic moderate poor, has been differentiated after some time as per the changing needs of poverty sections of society and has developed gradually into a "comprehensive financing program". PKSF's present financing program incorporates the moderate poor of both urban and rural zones, ultra-poor, miniaturized scale business, peripheral and little agriculturists.

Service

PKSF puts emphasis on achievement of both monetary and institutional supportability of these associations. These include, among others:

1. Arrangement of microcredit assets to Partner Organizations (POs)
2. Prescribe procedures for the microcredit sector

3. Establishment or capacity building to POs
4. Support for suitable strategies and controls valuable for the microcredit sector

Organogram

The organizational top position is given to Chairman. PKSF is currently operating with following Departments having its head office in Dhaka.

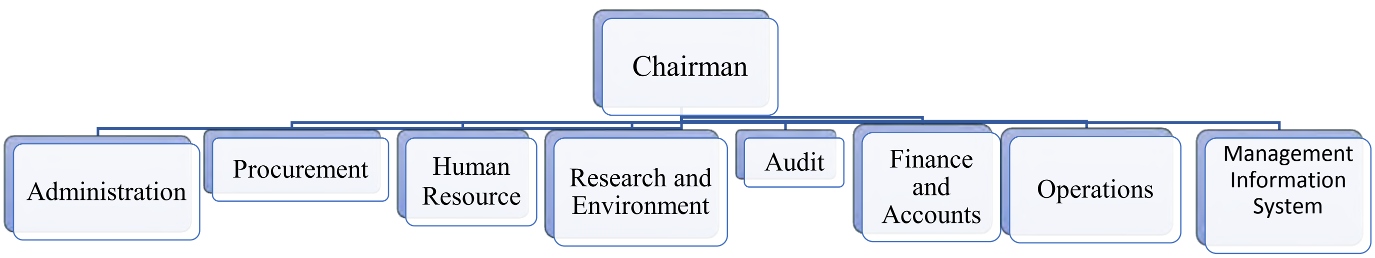

Figure: 1 Organizational Structure of PKSF

Vision

To reduce poverty through employment generation.

Job

Description of the job

For a period of three months, I was an intern at PKSF in the Finance and Accounts Department. The main activity of the Finance Division is managing fund and having accounts-related information. As an intern, I was given the opportunity to assist three officers in this department who were involved looking after salary, travel allowance and tax section. The job nature was full time, five days a week. The organization had a flexible working hour and provided a calm working environment with the encouragement to learn how the department works.

Specific responsibilities

I started with reconciling the tour bills of PKSF. PKSF has a lot of projects undergoing mostly in rural and coastal areas. So employees who work under these projects have to travel outside city on a regular basis. Therefore, these tour bills are checked in order to see whether these are in compliance with the organizational policies. Initially, it was difficult since everything needs to be checked starting from air fare, accommodation, travel time period to travel allowance. After I am done with checking, these were sent to internal auditor. Later on, these data were entered manually for the head of the department to approve. Then these were entered on software. Entries were done both manually and on software which was time consuming to do in the initial stage. Moreover, I was also assisting one of the officers with deducting tax and VAT from bills.

Description of the project

Outlook of Microcredit in Bangladesh

Starting from 1970, there has been strong critical judgment against pricing of microcredit in Bangladesh. Several times, MFIs have given justification of why high interest rate is charged to cover all costs and they testify that this is an essential element of sustainability (Akhter et Alam, 2011). Financial sustainability means that the MFI is able to cover all its present costs and the costs incurred in growth, if it expands operations. It would mean that the MFI is able to meet its operating costs, its financial costs adjusted for inflation and costs incurred in growth. Financial sustainability is a tangible parameter and can be measured and monitored continually through a set of indicators.

Microcredit is known as arrangement of financial services, for instance, credit, savings and insurance to individuals with low income, who are beneath the line of poverty, in order to create social value. Creating social value consists of providing credit to mitigate risk, improve livelihood, reduce poverty and enhance consumption. For any community, microcredit is one of the means of growth enhancement (MRA, 2016).

In Bangladesh and in other developing nations, MFIs give monetary administrations for women, small scale business visionaries, and farmers. In Bangladesh, microcredit was presented in 1976 as an exploratory program dispensing little advances to gatherings of women to put resources into indigenous locally situated organizations. From that point forward, microfinance activity and the quantity of MFIs have quickly extended, particularly after the mid-eighties as per stated by Quayes and Khalily (2014). Since its beginning, microfinance has advanced as a financial improvement way to deal with advantage low-salary individuals in country and urban territories. Bangladesh has one of the longest accounts with microfinance. Since different test cases projects and investigations were led by Grameen Bank and BRAC, microfinance has experienced ceaseless enhancement in the nation (Yuge, 2011).

According to Yuge (2011), Bangladesh has an expansive number of microfinancial institutions (MFIs) including Grameen Bank, BRAC, and the Association of Social Advancement (ASA). At the same time, numerous small MFIs have begun tasks all through Bangladesh. MRA (2010) classifies MFIs into four parts: very large, large, medium and small. BRAC and ASA, being the two largest microfinancial institutions (MFIs) are each serving more than four million borrowers.

Starting from 1970, interest rate of micro credit in Bangladesh has always been under criticism and recently, it has been aggravated (Faruqee and Khalily, 2010). According to Beg (2016), there are substantial number of Microfinance programs all over the world who are yet relying upon donors and grants which imply that MFIs are not fiscally supportable. Considering Bangladesh as the market for micro credit, there are approximately 500 Non-government Organizations-MFIs.

Scope of the Study

This report intends to give an insight about the factors working behind the pricing and financial sustainability of the selected MFIs working in Bangladesh. The data set used in this reports includes only those three MFIs that are partners of PKSF. The data stated and analyzed in this study is for the period 2013 to 2017 as it was the latest available information about micro credit industry in Bangladesh. Any data beyond this period is out of the scope of the study.

Literature Review

Financial Sustainability refers to the extent to which the MFIs are able to function without depending on any kind of external support. FSS is a better indicator of financial performance than Return on Asset or Equity as it readjusts and provide a complete summary of inputs and outputs (Beg K, 2016).In the current years, many MFIs who are not the partner organizations of Palli-Karma Sahayak Foundation (PKSF) do not get any fund from PKSF that are subsidized operationally. There are many organizations who have come up with their own strategy so that they remain financially sustainable even if the fund is unavailable (Faruqee and Khalily, 2011).

Operating Self Sufficiency (OSS) is a measure of financial efficiency. When the ratio is higher than 100% the MFI is said to be operationally self-sufficient. This means that the institution is able to cover administrative expenses with client revenues from interest and fees. The Operating Cost (OC) ratio also acts an indicator for the efficiency of the institution, as it measures the cost of providing a loan. The lower the OC ratio, the higher the efficiency of the MFI. Portfolio Yield (PY) is a measure how much cash from interest the MFI received from its members.

There are numerous associations who have thought of their own technique with the goal that they remain fiscally practical regardless of whether the fund is inaccessible (Faruqee and Khalily, 2011).

The interest rate in Bangladesh for microcredit is between 23-25%. There are associations like ASA whose breakeven loan fee has dependably been inside 15%. For example, in 2017 its breakeven rate was 12.5%. As per Forbes (2009), ASA has gone for automation process which has, fundamentally, diminished its working expenses for the years. Breakeven interest rate is defined as the floor interest rate for microcredit in Bangladesh. It is calculated using the components operating costs, loan loss provision expense and cost of fund. Based on that we would analyze whether the rate charged by them is actually higher or the cost is passed on to the buyers. Cost of fund in MFIs is less than that of other financial institutions. It is owing to the fact that they get fund from donors and government grants and PKSF has been providing that fund with much lower interest rate (Faruqee and Khalily, 2011).

Transaction costs for microcredit, which are more than 66% of the aggregate expenses, are in fundamentally higher than those of the formal financing foundations. MFIs like Grameen Bank, PKSF can get fund at 8 percent rate of premium. Given these actualities, the successful financing costs charged by MFI appear to be too much high and differ among advance items. While associations of PKSF charge a successful yearly interest rate of 24-32 percent on average, the non-POs charge as high as from 22 to 110 percent. In spite of presenting the financing cost top at 27 percent on declining balance by the Government, which is identical to 14.5 percent level strategy, the viable intrigue charged by some MFIs is still higher than the top (Faruqee and Badruddoza, 2011).

According to Faruqee and Khalily (2011), Mohammad Yunus has regulated a new way of evaluating interest rate of micro financial institutions. The method focuses on interest rate premium that is the variation between interest rate charged and cost of fund. The three zones are displayed in this methodology below.

- Green Zone: (Interest Rate – Cost of fund) ≤ 10 %

  This states that these are need based microcredit programmes focusing on poverty.

- Yellow Zone: (Interest Rate – Cost of fund) ≤ 15 %
  Mohammad Yunus acknowledge them as microcredit programme but certain part of cost structure needs to be reviewed.

- Red Zone: (Interest Rate – Cost of fund) > 15 %
  Mohammad Yunus recognizes them as institutions whose aim is to maximize profit. In other words, he stated that them as loan sharks.

Table 1: Financial Sustainability Indicator

Indicators	Calculation
Financial Self Sufficiency	Financial Revenue / (Fin. Expense + Loan Loss + Op. Expense)
Operational Self-Sufficiency	Total Operating Expense / Average Gross Loan Portfolio

Table 2: Breakeven Interest Rate

Indicators	Calculation
% of Operating Expenses	(General+ Administrative+Miscellaneous)/Average Annual Loan Outstanding
% of Cost of Fund	(Interest Fee+Bank Charge+Financial Cost)/Average Annual Loan Outstanding
% of Loan Loss Provision Expense	Loan Loss Provision Expense/Average Annual Loan Outstanding

Table 3: Profitability Indicator

Indicators	Calculation
Return On Asset (ROA)	Net Surplus/Total Asset
Return on Equity (ROE)	Net Surplus/Total Equity
Portfolio Yield (PY)	Interest fee and Income/ Average Gross Portfolio
Profit Margin	Net Surplus/ Income

Table 4: Portfolio Quality

Indicators	Calculation
Portfolio at Risk (PaR)	Outstanding Balance in Arrears over 30 Days plus Restructured Loans/Total Outstanding Gross Portfolio

Table 5: Productivity Indicator

Indicators	Calculation
Borrower Per Staff	Number of Borrower/Number of Staff
Operating Expense Ratio	Operating Expense/Period Average Gross Portfolio

Objectives

- To access the trend of financial sustainability of selected MFIs in Bangladesh.
- To analyze whether interest rate charged by the selected MFIs is high and evaluate them.
- To analyze profitability and portfolio quality of the selected MFIs over the past few years
- To analyze efficiency of the selected MFIs.

Methodology

Finding Elements

Most of the information used for the report are taken from the annual reports of the selected micro financial institutions from the year 2013 to 2017. This is a quantitative research for which necessary figures are taken with feasible findings. For financial sustainability, ratios like Operating and Financial Self Sufficiency (OSS and FSS) and for profitability, Return on Assets (ROA), Return on Equity (ROE), Portfolio Yield (PY) and Profit Margin are already given in the annual reports. To find out hidden interest rate of the selected institutions, break even interest rate of the selected MFIs are calculated for which the components are taken from annual report. Portfolio at Risk (PaR), indicating the quality of portfolio, is taken from respective annual report over the past few years.

Sample

In order to find out the pricing of the microcredit, three micro financial institutions (MFIs) are taken as sample for the research to carry out which would represent the microcredit industry of Bangladesh.

Serial No.	Name of the Organization
1)	SAJIDA Foundation
2)	Manabik Shahajya Sangstha (MSS)
3)	COAST Trust

SAJIDA Foundation was established in 1993 as a social venture having some expertise in incorporated urban improvement and connecting with underestimated and burdened networks with extensive advancement programs including microfinance, wellbeing, water, sanitation and cleanliness and others. Its functions cover 20 districts that is mostly semi-urban and rural areas. With 51% shareholding of Renata Pharmaceuticals Ltd. (Earlier Pfizer Bangladesh), SAJIDA developed as a phenomenal signal of corporate altruism and stands today as a remarkable case of social endeavor. Its core service is to provide financial service, development program and social enterprise.

Manabik Shahajya Sangstha (MSS) is a non-political, non-benefit and one of the most seasoned non-government associations in Bangladesh working for neediness lightening through giving assets as well as advancing human rights, instruction, wellbeing administrations, working and supporting for good administration and vote based system in the general public. It has worked to reduce poverty since 1974 by enhancing the personal satisfaction of the burdened portion of the general public through multifaceted projects. These incorporate engaging women in activities like providing microcredit, releasing general wellbeing administrations to family, expanding access to sanitation and safe drinking water and giving compassionate guide to the affected people caused by natural disaster. It covers 15 districts as of in 2017 and operates in urban and rural areas.

COAST Trust has established as an NGO from a year old international project at the start of 1998. It was arranged in the southern part of Bhola. It is known for its operation in coastal areas that cover Noakhali, Chittagong, Cox's Bazar, Barisal and Bhola region.

Selection of Time Period

Most of the information are taken from the annual report of the selected micro financial institutions. For analyzing the data we have taken the time period of 2013-2017.

Limitations

There are several limitations of this study report. These are stated below:

- The data set used in this report include only those three MFIs that are partners of PKSF.
- The analysis of the report is based on the data provided by the MFIs in their website.
- This report analyzes only pricing and financial sustainability of the MFIs along with efficiency and portfolio quality.
- The study is completely based on some calculations by using formulas which might vary within micro financial institutions.

Findings and Analysis

Sustainability Ratios

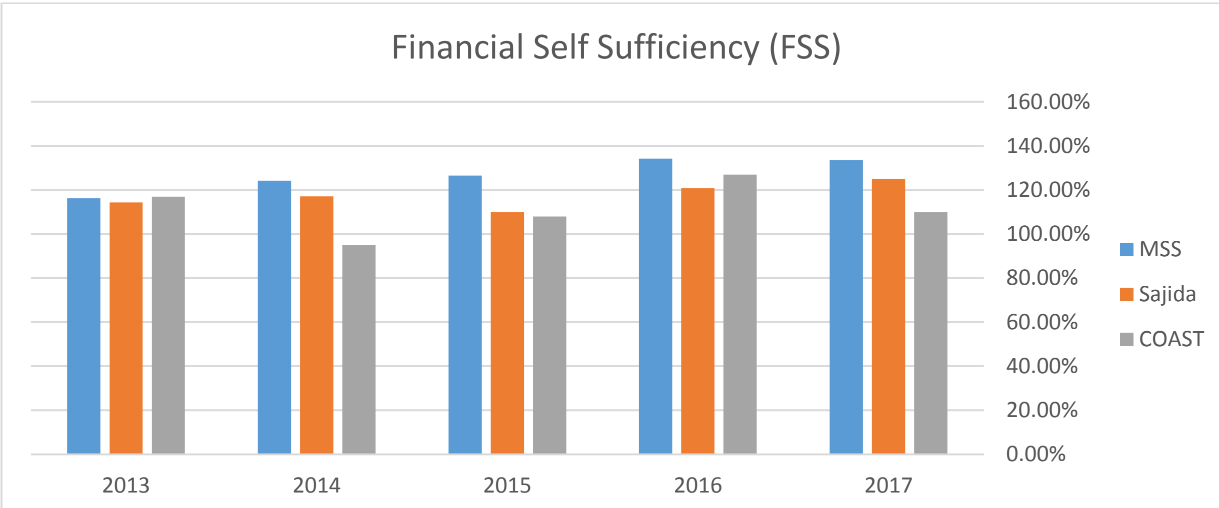

Figure 1: % of Financial Self Sufficiency (FSS) (2013-2017)

The graph above shows the trend of financial self - sufficiency (FSS) from the year 2013 to 2017 of the selected MFIs. MSS has an increasing trend for FSS and has reached to 133.58% in 2017. FSS for Sajida Foundation has been steady throughout the time period with a fall in the year 2015 at 109.94%. However, FSS ratio for COAST has been fluctuating throughout the time period and has reached to 110% in 2017 and this has been because of support head office costs as well as financing programs like education, health disaster and social justice from their income as per mentioned in its annual report (2017). Among all, FSS ratio of MSS is better, though it had a downfall from 134.24% to 133.58%, and the value has been above 100% and quite higher than the other two. In 1999, MSS has undertaken self-sustainable projects. In 1984, it has worked for urban poor in savings and credit program and has also been under limelight for promoting good governance.

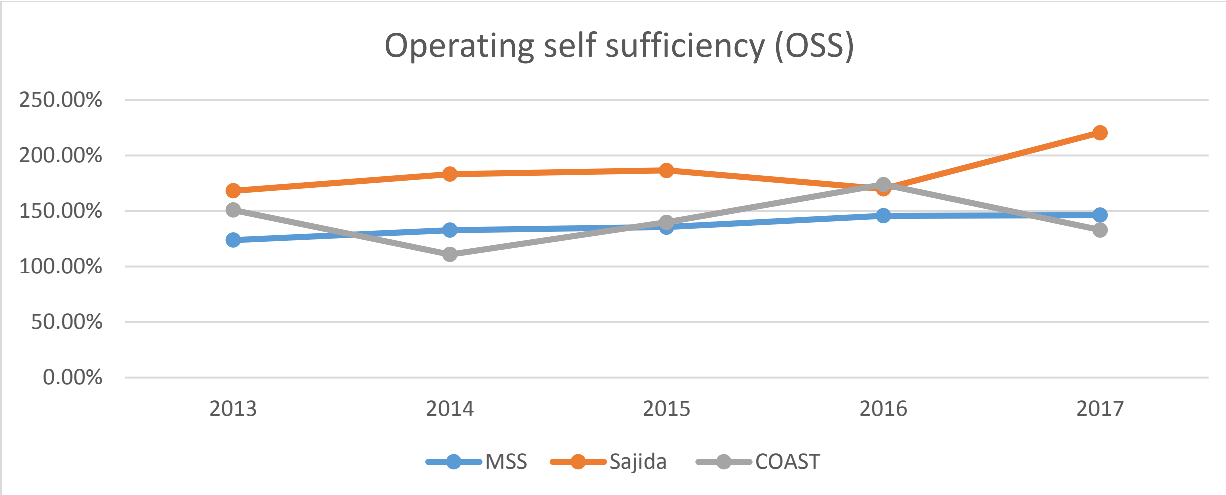

Figure 2: Operating Self Sufficiency (OSS) (2013-2017)

The graph above shows the line trend for the selected MFIs over the time period 2013-2017.COAST faced two downfalls, one in 2014, another in 2017.OSS ratio for MSS has been increasing at a steady rate while Sajida faced a huge uptrend in 2017. All three organizations have OSS ratio above 100% which has been due to reduced dependency on aid money and also because of integration of right based approach along with advocacy. Therefore, it can be stated that OSS for these institutions are at a steady rate indicating that they are sustainable.

Breakeven Interest Rate of the selected MFIs (2013-2017)

Manabik Shahajya Sangstha (MSS)

	2013	2014	2015	2016	2017
Operating Cost	18.2%	17.4%	17.8%	17.6%	14.8%
Loan Loss Provision	2.2%	0.5%	0.2%	0.4%	1.0%
Cost Of Fund	6.0%	6.3%	6.25%	6.0%	5.4%
Breakeven Interest Rate	**26.4%**	**24.2%**	**24.25%**	**24%**	**21.2%**

If we look at the figures above, the breakeven interest rate in 2013 was 26.4% and it has reached to 21.2% in the year 2017. Operating cost has decreased from 18.2% to 14.8% since MSS has taken cost control measures and this has affected breakeven interest rate since operating cost affects interest rate significantly. According to annual report 2017, lower interest rate has been charged for which financial cost has been reduced borrowing money which also affected the break even rate.

Sajida Foundation

	2013	2014	2015	2016	2017
Operating Cost	16.66%	15.8%	13.6%	14.1%	12.71%
Loan Loss Provision	1.08%	1.4%	1.4%	1.6%	1.54%
Cost Of Fund	8.38%	7.5%	6.1%	6.9%	8.19%
Breakeven Interest Rate	**26.12%**	**24.7%**	**21.1%**	**22.6%**	**22.44%**

Starting with 26.12% in 2013, Sajida has now reached to 22.44% as its breakeven interest rate. It has been successful reducing the rate and has earned some level of profit owing to its control over operating costs. Sajida has gone into digitalization process where it has partnered with Bkash and Rocket where the clients can pay through mobile banking and do not need to visit microfinance offices. This has also increased efficiency and saved time for the field officers for which they can now utilize their time in provision of microfinance services (Annual Report, 2017).

COAST Trust

	2013	2014	2015	2016	2017
Operating Cost	13%	13.6%	14.9%	12.5%	15.4%
Loan Loss Provision	0.3%	2.6%	0.9%	0.9%	0.7%
Cost Of Fund	4.8%	5.4%	4.6%	4.7%	9.2%
Breakeven Interest Rate	**18.1%**	**21.6%**	**20.3%**	**18.1%**	**25.2%**

In 2017, COAST had expanded in areas such as Barisal, Chittagong for operations both vertically and horizontally and thus it has led to an increase in operating costs. Moreover, in 2017 cost of fund has increased at a greater scale because there has been an increase in borrowing from financial institutions (Annual Report, 2017). Up to 2016, breakeven interest rate was somewhat consistent but in 2017, owning to expansion and increase in borrowing, breakeven interest rate has reached to 25.2%.

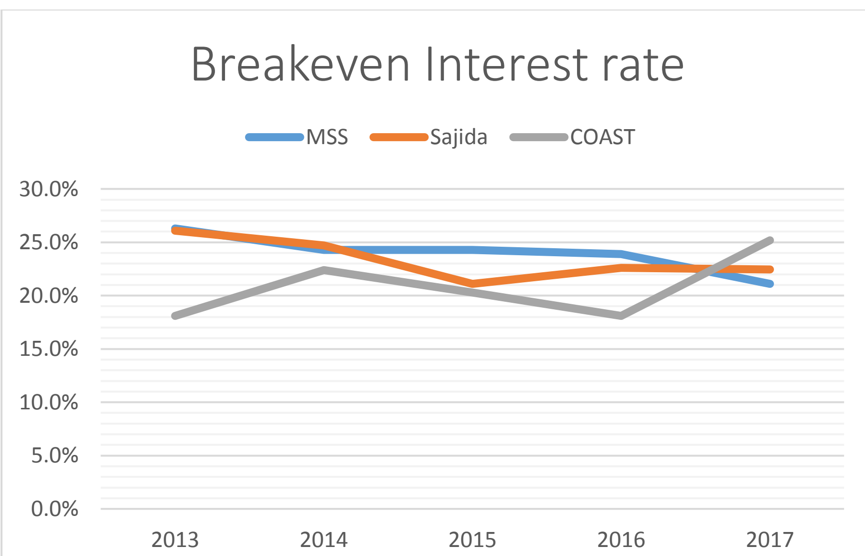

Figure 3: Break Even Interest Rate

Here, is the graph showing all the interest rate of SAJIDA, MSS and COAST Trust over the past five years. Considering all three MFIs, COAST had the most fluctuating interest rate over the years. MSS has been successful in keeping its breakeven interest rate at 21.2% compared to COAST at 25.2% and SAJIDA at 22.44%.

Profitability Ratios

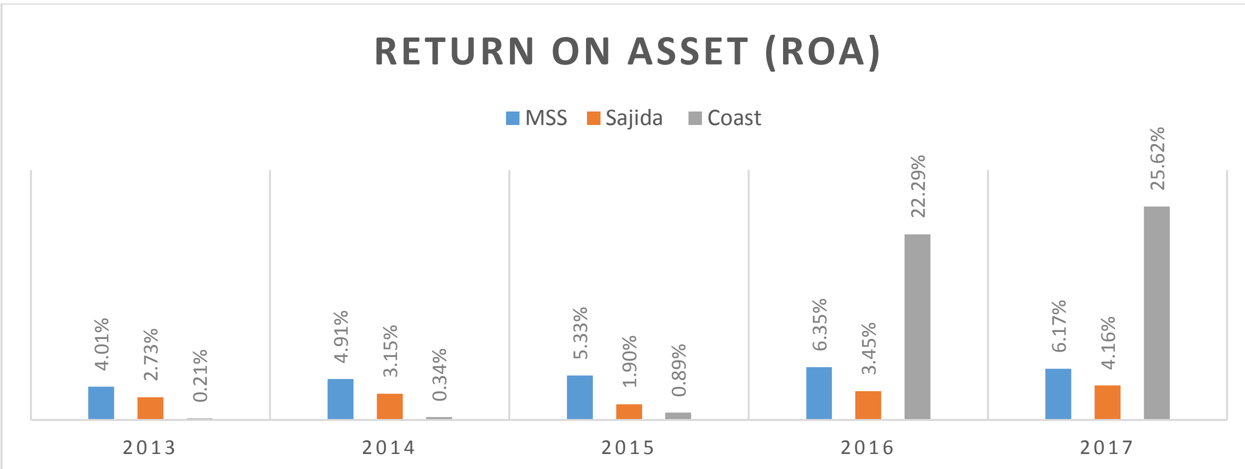

Figure 4: Return on Asset (ROA)

Return on Asset (ROA) for MSS has been increasing at a steady rate for the past five years and has comparatively been higher than Sajida and COAST. The net surplus for MSS in 2016-2017 had increased by 21.76% owing to increased loan disbursement to the beneficiaries which in turn has affected return on asset (Annual Report, 2017). Then comes Sajida Foundation with 4.16% in 2017 since it has come up with cashless and paperless branch offices and has moved on to digitalization process which has reduced their costs to a great extent compared to previous years. Compared to previous years, COAST has 5.60% of return on assets which has been because of expansion in operations both vertically and horizontally, restructure of segments, introduction of new software and increase in fixed asset trend which gives a good sign of being financially sustainable according to annual report (2017).

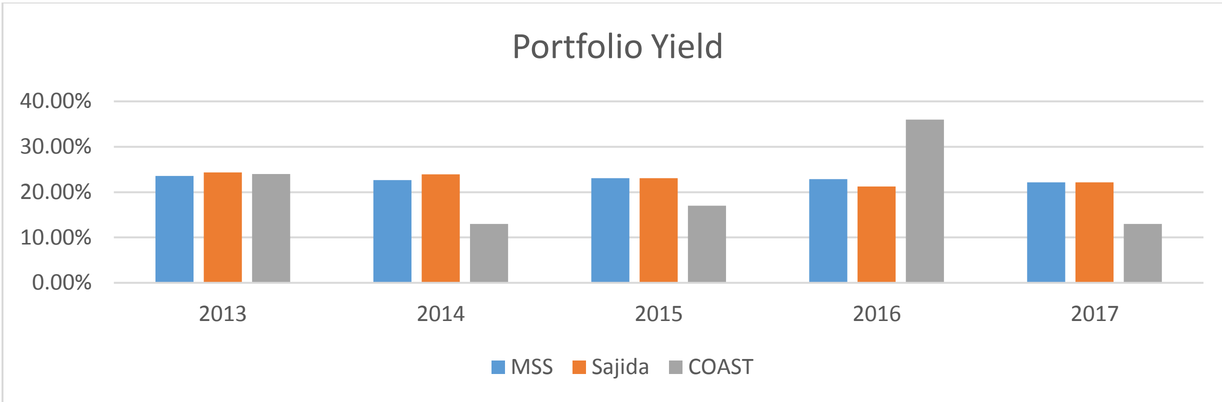

Figure 5: Portfolio Yield

Comparatively, MSS has given a consistent portfolio yield than Sajida and COAST. In 2016, COAST had involved strict monitoring and arresting overdue for which the portfolio yield was significantly greater than other two MFIs. However, in 2017, there has been an increase in fixed asset trend for COAST which has affected its portfolio yield to drop from previous years.

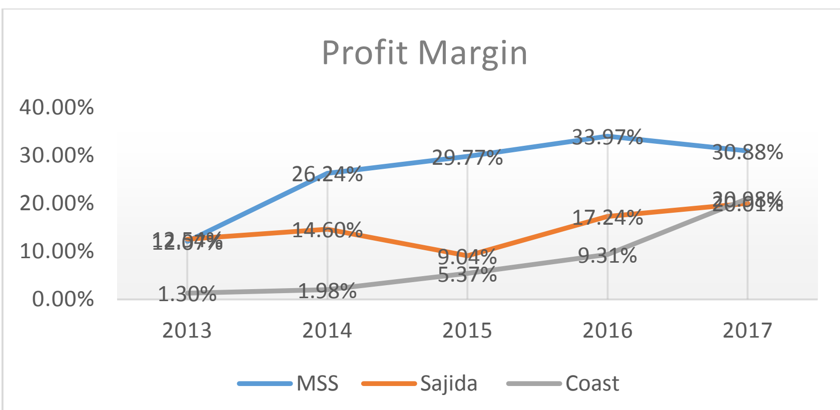

Figure 6: Profit Margin

All three micro financial institutions have been successful in making profit for the past five years. MSS had taken cost control measure for which they have been able to cut down expenses and boost up profit at a greater scale. Sajida has gone into digitalization process for which they become less costly. Since COAST has started its operation over a wide range, it has been able to collect its profit from a greater range from 1.30% to 20.98% as it has been able to control its operating costs over the years.

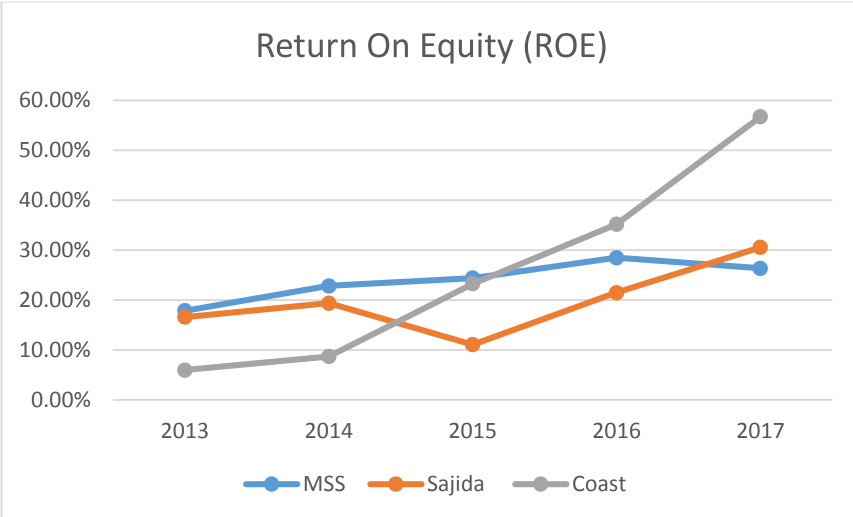

Figure 7: Return on Equity (ROE)

Return on Equity (ROE) in the above graph shows that COAST has faced an uptrend from 6% to 56.7% within 2013-2017. This has been due to expansion in micro financial branches and huge amount of investment. MSS on the other hand has faced a steady trend from 17.88% to 26.36%. As for SAJIDA, there has been a downfall in 2015 since grants have been lessened from where the overhead and administrative costs were moderated. That is the reason Principal Office had to stimulate its overhead cost otherwise, its equity would have expanded more.

Portfolio Quality

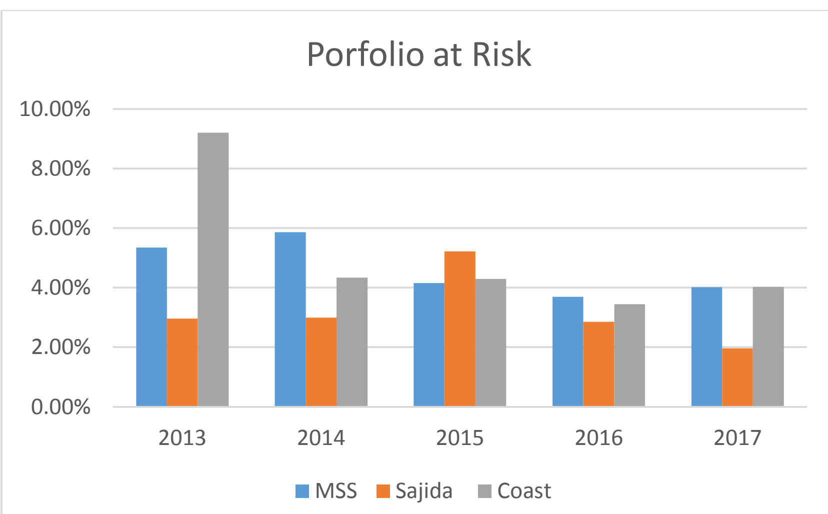

Figure 8: Portfolio at Risk (PaR)

Barres et al (2005) stated that Portfolio at Risk (PAR) is the best measure of portfolio quality. As per the graph above, MSS, SAJIDA and COAST has PAR below 10%. This shows that all three institutions need not have concern about the quality since the value has not exceeded 10% and it is because, portfolio risk is much lower in MFIs than commercial banks. Since, SAJIDA has gone for digitalization and has expanded its operation, its portfolio has become diversified which has reduced PaR gradually.

Productivity

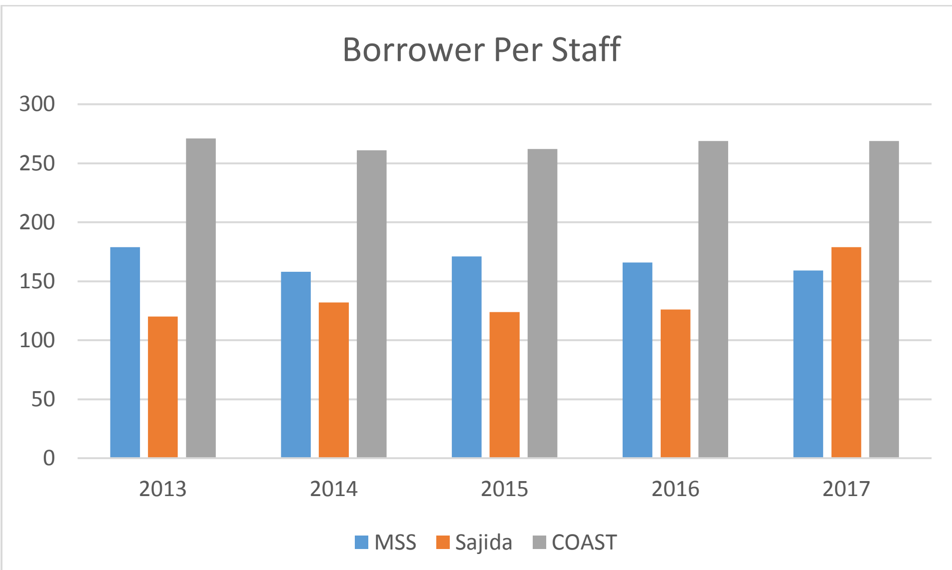

Figure 9: Borrower per staff

Looking at the graph above, COAST has a steady and higher rate of productivity in terms of borrower per staff than SAJIDA and MSS in the past five years. It has been because there are very few NGOs who work in coastal areas and COAST is one of them. Therefore due to geographical location, COAST has to handle more borrowers compared to that of SAJIDA and MSS.

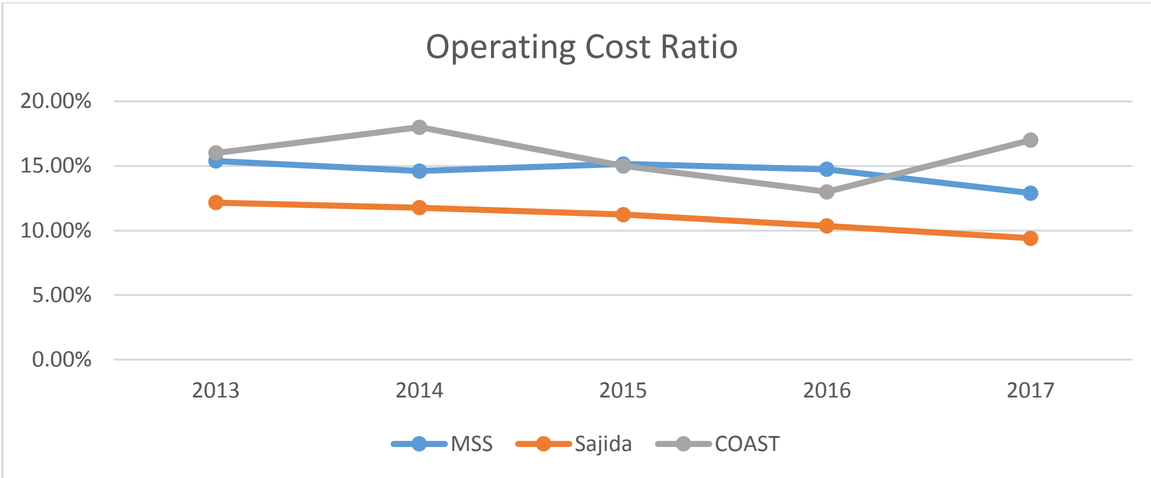

Figure 10: Operating Cost Ratio

Operating cost ratio has been decreasing for both MSS and SAJIDA. MSS had taken cost control measure and SAJIDA has introduced new technology into their operations with paperless and cashless branch offices which have reduced both their costs to a large extent, according to their annual reports for 2017. However, fluctuation is been seen for COAST since it has expanded its operation to Barishal district and has undergone high administrative costs to run the branches.

Evaluation of Interest Rate

Table 6: Interest Rate Evaluation for the year 2017

	Interest Rate	Cost of Fund	Interest Premium	Zone
MSS	21.2%	5.4%	15.8%	Red
SAJIDA	22.44%	8.19%	14.25%	Yellow
COAST	25.2%	9.2%	16%	Red

After evaluating the breakeven interest rate of the selected MFIs, we have come to the following analysis for the year 2017. MSS and COAST are labelled in the red zone and SAJIDA in the yellow zone. Faruqee and Khalily (2011) mentioned that red zone includes MFIs that are maximizing profit. These three are partner organizations of PKSF and thus they receive fund at a lower interest rate when compared to others who are not partnered with PKSF. In this way, the cost of fund reduces at a great extent for them. When comes about interest rate, operating cost is a major component which increases due to operational activities. If we look at MSS, interest rate charged is lower than SAJIDA and COAST because of operating cost control measures. Cost of fund for COAST has been the highest among all three and it is because they need to reach people in coastal areas which are costly and also because there are very few NGOs who operate in coastal areas.

Results and Discussion

After reviewing profitability, sustainability, breakeven interest rate and productivity for MSS, SAJIDA and COAST for the past five years, it can be said that MSS performs better than SAJIDA and COAST in a number of ways. Considering profitability of MSS, it has been able to lift up the profit because of cost control measures and increase in loan disbursement as mentioned in annual report (2017). Financially, it is stable because of lower interest rate charged for external borrowings. Moreover, these have also encouraged the breakeven interest rate for MSS to be moderately lower than the other two MFIs. Controlling operating cost through cost control measure stimulated efficiency and all of these have been possible for good governance and strict monitoring policies.

On the other hand, SAJIDA Foundation stands second in terms of performance. There have been a lot of changes that they have brought in the recent year such as reconstructing, moving to digitalization for effectively collecting payment from borrowers and installation of new software for ease of operational activity according to their annual report (2017). These changes have led to a significant decrease in operating expenses which, in turn, affects profitability, interest rate and an upward movement in level of productivity through installation of new software.

COAST had fluctuations in its performance over the past few years. Expanding in new areas has increased its administrative costs. Increase in fixed asset trend has affected operating costs positively which in turn has boosted interest rate and lowered profitability compared to others.

However, geographic locations at which COAST is operating plays a critical role in its performance. It is costly to reach borrowers at coastal areas because operating costs are high in coastal regions. According to its annual report (2017), COAST is working in coastal areas which are prone to disasters and natural calamity and this, to some extent, questions their sustainability in future. However, it is also assumed that working in coastal areas will give them more benefit than MSS and SAJIDA of attracting more foreign fund in future.

These three MFIs were taken as representatives of urban, rural and coastal microcredit. Even though MSS performs better than the other two, it cannot be said the others are not efficient and that they are charging high interest rate. The working areas for COAST makes it difficult to reduce operating costs as borrowers are mostly scattered, therefore reaching them becomes difficult and thus high interest rate, at that case, is justified. SAJIDA mostly operates in rural areas thus comparing based on geographical location, it can be said that these three are performing better than their competitors in urban, rural and coastal microcredit.

Conclusion

Comparative analysis has been done as per the objectives mentioned in the report. Performance of MSS is better than the other two which has been justified in the analysis based on categories like profitability, sustainability, productivity and portfolio quality. However, among the coastal microcredit, COAST is doing well since it operates in different geographic location. Taking these three as representation of the microcredit industry in Bangladesh would give an idea about the outlook that they are relying less on foreign funds and are trying to be more sustainable on their own fund. They are generating enough profit to reinvest. Even though MSS and SAJIDA have floor interest rate of 21.2% and 22.44%, it cannot be said that the interest rate of microcredit should be within this range of 20% to 22%. There are around 500 NGOs operating in Bangladesh and they have varying operating costs, cost of fund for partners and non-partners of PKSF which affect the interest rate as a whole. The range of 23 to 25% of microcredit has been implemented considering the performance of the overall microcredit industry in Bangladesh.

Appendix

Financial Self Sufficiency (FSS)					
	2013	**2014**	**2015**	**2016**	**2017**
MSS	116.15%	124.16%	126.46%	134.24%	133.58%
Sajida	114.33%	117.10%	109.94%	120.84%	125.02%
COAST	117.00%	95.00%	108.00%	127.00%	110.00%

Operating Self Sufficiency(**OSS**)					
	2013	**2014**	**2015**	**2016**	**2017**
MSS	123.97%	132.92%	135.62%	145.85%	146.36%
Sajida	168.34%	183.28%	186.60%	170.04%	220.75%
COAST	151.0%	111.00%	140.0%	174.0%	133.0%

Return on Assets					
	2013	**2014**	**2015**	**2016**	**2017**
MSS	4.01%	4.91%	5.33%	6.35%	6.17%
Sajida	2.73%	3.15%	1.90%	3.45%	4.16%
Coast	0.21%	0.34%	0.89%	22.29%	25.62%

Profit Margin					
	2013	**2014**	**2015**	**2016**	**2017**
MSS	12.07%	26.24%	29.77%	33.97%	30.88%
Sajida	12.54%	14.60%	9.04%	17.24%	20.01%
Coast	1.30%	1.98%	5.37%	9.31%	20.98%

Return on Equity					
	2013	2014	2015	2016	2017
MSS	17.88%	22.84%	24.42%	28.49%	26.36%
Sajida	16.61%	19.38%	11.08%	21.49%	30.58%
Coast	6.0%	8.7%	23.3%	35.2%	56.7%

Portfolio at Risk(PaR)					
	2013	2014	2015	2016	2017
MSS	5.35%	5.86%	4.16%	3.69%	4.01%
Sajida	2.96%	2.99%	5.22%	2.85%	1.96%
Coast	9.21%	4.34%	4.29%	3.45%	4.03%

Cost per borrower					
	2013	2014	2015	2016	2017
MSS	1818	2269	2686	3006	2968
Sajida	2160	2545	2683	2611	3229
Coast	1241	1567	1757	1817	2716

Borrower per Staff					
	2013	2014	2015	2016	2017
MSS	179	158	171	166	159
Sajida	120	132	124	126	179
COAST	271	261	262	269	269

Operating Cost Ratio					
	2013	2014	2015	2016	2017
MSS	15.39%	14.60%	15.15%	14.74%	12.89%
Sajida	12.17%	11.77%	11.24%	10.35%	9.40%
COAST	16.00%	18.00%	15.00%	13.00%	17.00%

Portfolio Yield					
	2013	2014	2015	2016	2017
MSS	23.59%	22.64%	23.05%	22.87%	22.19%
Sajida	24.32%	23.89%	23.04%	21.25%	22.19%
COAST	24.00%	13.00%	17.00%	36.00%	13.00%

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