

### Executive Summary

#### **A “mature” industry whose role as global leader has been diluted**

Bangladesh's microfinance industry is perhaps the oldest and, therefore, most mature microfinance sector in the world. On account of its pioneering role in developing a low cost model of microcredit delivery – known worldwide as the Grameen model – and in demonstrating its sustainability, Bangladesh has been referred to as “the birthplace (and sometimes as the 'mecca') of microfinance”. In recent years, however, the pre-eminence of the country in the microfinance world has been diluted by the phenomenal growth of the Indian microfinance sector and by Bangladeshi MFIs' relatively slow adaptation of innovative microcredit products to serve the needs of clients more effectively. It has been slow to diversify product offerings away from credit, especially relative to markets such as Kenya and the Philippines in the case of payments and to South Africa and India in the case of microinsurance.

#### **...while the domestic financial system has a dual structure with relatively few banks but over a thousand MFIs**

With a population of 165 million and a density of 1,127 persons per square kilometre, Bangladesh is one of the most densely populated countries in the world. While it is one of the poorest countries in the world, Bangladesh has made significant progress in recent decades; achieving an 81% increase in its Human Development Index since 1980. The financial system of Bangladesh, summarized in the **figure** on the next page, has a dual structure with relatively few banks but over a thousand MFIs. Microfinance is provided overwhelmingly by NGO-MFIs with the Grameen Bank being the only exception in terms of institutional type. The NGOs not only offer microfinance services but also implement a wide range of other development programs aimed at poverty reduction.

#### **...and the scope for further expansion is limited by the estimated 1.20 borrower accounts for each potential borrowing household in the country**

For the purpose of determining microfinance coverage, the total number of households in Bangladesh has been calculated using an estimated household size of 5 persons resulting in 33 million households. Bangladesh Microfinance Statistics, 2009 indicates 27.05 million microfinance borrower accounts in the country at the end of 2009. Assuming every household below the poverty line is a potential microfinance borrower, the extent of microfinance coverage in Bangladesh would be 220% of all households below the upper national poverty line.

In practice, since it is the \$1.75 per day criterion that is most likely to represent the threshold for financial exclusion (while the bottom 10% of the population in Bangladesh is excluded by most MFIs), the size of the microfinance market is defined. Thus, for each potential microfinance borrowing household in the country, there is an average of around 1.45 loans outstanding. Feedback from some MFI managers, however, indicates an overstating of borrower accounts by around 15-20%, suggesting that loans per eligible client household are better estimated at 1.20 and the number of borrowers at around 18.5 million.

#### **Yet, despite the many MFIs, the provision of microfinance services is very concentrated**

The largest 3 organisations service ~62% of all microfinance borrower accounts and ~69% of the sector's gross loan portfolio. After the largest 15 MFIs, the remaining 730 MFIs reporting their data service just ~19% of borrower accounts and 18% of the sector's portfolio.

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**Note:** All MFI financial data is for the year 2009. This was the latest data available at the time the study was conducted. Audited financial statements for 2010 for most MFIs had not yet been prepared. All financial data used in this report is from Credit Development Forum (CDF) and the Institute of Microfinance (InM).