

DEPOSIT ASSESSMENT IN BANGLADESH



MAY 2011

Commissioned by
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MicroSave
Market-led solutions for financial services



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MicroSave has over a decade of experience in providing practical, client-responsive, market-led solutions to assist financial service providers and institutions working with low income clients succeed and achieve their mission and business objectives. It has a history of working alongside financial institutions, telecom operators and FMCG companies, livelihood institutions and development agencies of varied institutional forms and sizes throughout Africa and Asia. It has undertaken assignments in Afghanistan, Bangladesh, Cambodia, Cameroon, China, Colombia, Egypt, Ethiopia, Ghana, India, Indonesia, Kenya, Malawi, Nepal, Nigeria, the Philippines, Sierra Leone, South Africa, Sri Lanka, Sudan, Tanzania, Uganda and Vietnam.

Table of Contents

List of Tables	ii
List of Figures	ii
Acknowledgments	iii
Abbreviations	iv
Executive Summary	1
1. Contextual Background	2
2. Macroeconomic and Demographic Trends in Bangladesh	2
2.1 Macroeconomic Trends	3
2.1.1 Inflation	5
2.2 Demographic Data	6
2.2.1 Population	6
2.2.2 Poverty Levels	7
2.2.3 Occupations	8
2.2.4 Migration	9
2.2.4.1 Internal Migration	9
2.2.4.2 International Migration	10
3. Legal and Regulatory Framework	11
3.1 Regulation of NGO-MFIs	13
3.1.1 Microcredit Act and Microcredit Regulatory Authority (MRA)	14
3.1.2 MRA's Current Licensing Status	15
3.2 The Banking System	15
3.3 Grameen Bank	16
3.4 Postal Savings	16
3.5 Microinsurance of NGO-MFIs	17
3.6 Issues in Regulations	17
3.6.1 Microsavings Interest Rates	17
3.6.2 Caps on Lending Rates	17
3.6.3 Prevalence of Dual Regulation	18
3.6.4 Limitations to Mobilising Savings by NGO-MFIs	18
3.6.5 Reduction of Lending Rate by Commercial Banks	21
3.7 Impact of Regulation	21
4. (Micro) Deposit Service Providers, Products, Methodologies	22
4.1 Performance of MF-NGOs in Deposit Mobilisation	22
4.2 Performance of Grameen Bank in Deposit Mobilisation	24
4.3 Performance of Banks in Deposit Mobilisation	26
4.4 Performance of the Postal Department of Bangladesh in Deposit Mobilisation	28
4.4.1 Postal Insurance	30
4.4.2 Electronic Money Orders	30
4.5 Performance of the Directorate of National Savings in Deposit Mobilisation	31
4.6 Performance of Co-operatives Societies in Deposit Mobilisation	31
4.7 Performance of Insurance Companies in Deposit Mobilisation	33
4.8 Performance of Informal Service Providers	35
5. Savings Practices in Bangladesh	36
5.1 Reasons Why People Save	40
5.2 Preference of Service Provider to Meet Savings Need	42
6. Conclusion	44

LIST OF TABLES

Table 1: Magnitude of Internal Migration in Bangladesh	10
Table 2: List of Financial Institutions	12
Table 3: Outreach Details of Grameen Bank	24
Table 4: Outreach of the Banking Sector	25
Table 5: Performance of Banks	27
Table 6: Performance of Postal Saving Schemes	30
Table 7: Performance of Postal Life Insurance	30
Table 8: Total Borrowings under NSD Instruments	31
Table 9: Product of Sunlife Insurance	34
Table 10: Market Segmentation	39
Table 11: Needs and Suppliers	42

LIST OF FIGURES

Figure 1: Location of Bangladesh on the World Map	2
Figure 2: GDP Growth of Different Economies	3
Figure 3: Sectoral Contributions to GDP Growth	4
Figure 4: Trend in National and Domestic Savings	4
Figure 5: Trends in Inflation (Annual Percent Change)	5
Figure 6: Relation Between Inflation and Gross Domestic Savings	5
Figure 7: Age and Sex Distribution of Household Population, Bangladesh 2008	6
Figure 8: Trend in Incidence of Poverty	7
Figure 9: Poverty Map	8
Figure 10: Poverty Distribution in the Six Divisions of Bangladesh	8
Figure 11: Employment Distribution of Bangladesh	8
Figure 12: Sectorwise Distribution of Employment	9
Figure 13: Proportion of Rural and Urban Population	9
Figure 14: Key Countries to Which People Migrate	10
Figure 15: Contribution of International Migration	10
Figure 16: Net Savings of NGO-MFIs	14
Figure 17: Trend in Lending and Deposit Interest Rate	17
Figure 18: Top Ten NGO-MFIs by RLF and Share of Net Savings	19
Figure 19: Changes in Product Performance in a Branch of BURO, from January - June 2010	20
Figure 20: Savings Trend of Top 4 MFIs	23
Figure 21: Savings Mobilisation by MF-NGOs	23
Figure 22: Deposit and Loan Balance of Grameen Bank	25
Figure 23: Product Distribution of Banks	26
Figure 24: Premium Income and Premium Growth of the General Insurance Scheme	33
Figure 25: Savings Frequency	37
Figure 26: Purpose of Savings	41
Figure 27: Simple Perceptual Map	45

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This report is the result of the ideas and hard work of many people in many organisations, especially the microfinance institutions, co-operatives, non-bank financial corporations, banks and insurance companies that were part of this study. *MicroSave* is also grateful to the sector experts who gave their time and support to the study. Above all, we thank the clients who patiently gave us their time during the extensive market research for the report. Their contributions regarding savings products and services, and the way in which they manage their finances without many options provided invaluable insight.

We hope and believe that the future for financial inclusion in Bangladesh is bright, and that this report will play a vital role in forming the overall direction, products, and the delivery channels for broadening and deepening the outreach of formal financial systems.

MicroSave Team

ABBREVIATIONS USED	
ADB	Asian Development Bank
ALI CO	American Life Insurance Company
ASA	Action for Social Advancement
ATM	Automated Teller Machine
BDT	Bangladesh Taka
BURO	Bangladesh Unemployed Rehabilitation Organisation
CDF	Credit and Development Foundation
InM	Institute of Microfinance
CNG	Compressed Natural Gas (Auto Rickshaws in Bangladesh are referred to as CNG)
CSR	Corporate Social Responsibility
DFI	Development Financial Institutions
DNS	Directorate of National Savings
DOC	Department of Co-operatives
DPS	Deposit Pension Scheme
ETP	Effluent Treatment Plant
FCB	Foreign Commercial Bank
GDP	Gross Domestic Product
GK	Grameen Kalyan
GPS	Grameen Pension Scheme
IFC	International Finance Corporation
IGA	Income Generating Activities
IRD	Internal Resources Division
JBC	Jiban Bima Corporation
JCF	Jagorani Chakra Foundation
MCP	Microcredit Programme
MFI	Microfinance Institutions
MoF	Ministry of Finance
MRA	Microcredit Regulatory Authority
MRRU	Microfinance Research and Reference Unit
MSS	Monthly Savings Scheme
NBFIs	Non-Banking Financial Institutions
NBR	National Board of Revenue
NEER	Nominal Effective Exchange Rate
NGO-MFI	Non-Governmental Organisation - Microfinance Institution
NIPORT	National Institute of Population Research and Training
NSD	National Savings Directorate
PCB	Private Commercial Banks

PKSF	Palli-Karma Sahayak Foundation
PO	Partner Organisations
RDCD	Rural Development and Co-operative Division
RDRS	Rangpur Dinajpur Rural Service
REER	Real Effective Exchange Rate
RVS	Regular Voluntary Savings
SBC	Shadharan Bima Corporation
SCB	State Owned Commercial Banks
SME	Small and Medium Enterprises
SSS	Society for Social Service
TMSS	Thengamara Mohila Sabuj Sangha
UDDIPAN	United Development Initiatives for Programmed Actions
UHS	Urban Health Survey
USD	United States Dollar

EXECUTIVE SUMMARY

Microfinance initiatives in Bangladesh are largely synonymous with the work of microfinance institutions (MFIs) as they focus solely on the low-income population and provide products and services developed exclusively for them. Banks, government projects and the Postal Department also provide microfinance services, but the reach and impact of the work done by these formal institutions has been limited. Semi-formal and informal mechanisms thrive in the country and there are a significant number of operators in each category. In recent years, co-operative societies and insurance companies have expanded considerably by offering products and services which meet the same financial needs as the products offered by MFIs.

Microfinance initiatives in Bangladesh started in the 1970s. The initial decade saw a lot of efforts put into research and development as emerging players tried different products and methods of delivery. The passing of the Grameen Ordinance in 1983 and the establishment of Palli-Karma Sahayak Foundation (PKSF), an apex institution set up by the Government to fund NGO-MFIs in 1990, was a turning point in the expansion of the sector. While the Ordinance showed the way for growth, the PKSF became the funding source and helped many nascent NGO-MFIs establish themselves. The programmes were all credit-led with savings being largely compulsory, i.e. a mere prerequisite to apply for a loan. By the 1990s, savings services started emerging as independent initiatives and new products, such as voluntary savings and time deposits were rolled out. In 2006, the Microfinance Act was passed and the Microcredit Regulatory Authority was set up, which gave the sector the needed legal backing. The key objective was to safeguard customers' savings by giving licenses only to select institutions, introducing a ceiling on lending rates and on the amount of savings that can be mobilised.

The demographic features of Bangladesh, a country with high population density, support the growth of the microfinance sector as most of its population is young and thus, economically active. Domestic savings and national savings have therefore grown over the past three years. Internal and international migration is high, and providing remittance services has become a core service. High poverty rate still necessitates the support of the informal and semi-formal sectors as access to the formal sector is limited. Yet, the mandate of the Bangladesh Bank, the central bank of the country, is quality growth while ensuring financial inclusion, and technology is expected to play a key role in the delivery of services in the coming years.

Clients have a significant range of service providers and services to choose from and are often associated with many providers at one time. The choice of provider is largely determined by the purpose of savings and how it will be serviced by the client. Different client segments have expressed their wish and need for specific attributes in different kinds of products, emphasising the need for flexible savings products which allow them to access their money easily. The Grameen II initiative, which was rolled out in 2004 is a good example of how well-designed products can attract millions of customers.

A key challenge, which lies before the sector today, is the need for savings friendly policies that can allow organisations to mobilise inexpensive funds. Both the market and the providers are much too diverse to be addressed by one rule. Currently, the demand is for a separate microfinance bank, to accommodate the needs of very large organisations that cater to majority of the microfinance sector. This is expected to help institutionalise the sector and align it with the national financial system, helping both to grow.

1. CONTEXTUAL BACKGROUND

Across the world, a large number of microfinance institutions (MFIs)¹ mobilise deposits as a core pillar of their financial services strategies. Successful deposit mobilisation strategies that are well-designed and implemented can help MFIs grow and become profitable. Cumulative disbursement of microcredit among members was USD 12.77 billion with a recovering rate of 96.56%. In the face of growing competition, deposit mobilisation can help an institution garner cheaper funds as well as attract and retain a broader range of clients.

To address the above, the International Finance Corporation (IFC), a member of the World Bank Group, commissioned a project called ‘Industry Mapping of Small-Balance Deposits in South Asia’. The objective of the project is to devise appropriate market-led solutions to expand access to microdeposit and microinsurance services for the low-income population. The project is designed to help understand the supply and demand of the market for microsavings in four countries: Bangladesh, India, Nepal and Sri Lanka. This country report is a summary of the analysis of the secondary and primary data collected during the study for Bangladesh.

2. MACROECONOMIC AND DEMOGRAPHIC TRENDS IN BANGLADESH

Microfinance initiatives started in Bangladesh in the 1970s, and have since proliferated into a critical sector for the entire country. Over the years, the sector has undergone phases of development, consolidation and expansion and has made a significant contribution to the social and economic growth of the nation. According to Credit and Development Foundation (CDF) statistics, in June 2009, the total number of active microfinance clients was 25.8 million, of which 21.7 million were women. During this period, the total savings mobilised by organisations was USD 534.65 million. Cumulative disbursement of microcredit among members was USD 12.77 billion with a recovery rate of 96.56%.²

Figure 1

Situated in South East Asia, Bangladesh has the Bay of Bengal to its south, shares a border with India on the north, east and west and a small border with Myanmar in the southeast. It has a total area of 147,570 sq km³ (94th in size in the world). The country is divided into 6 administrative divisions (Dhaka, Chittagong, Khulna, Barisal, Rajshahi and Sylhet) and four major municipal corporations (Dhaka, Chittagong, Khulna and Rajshahi). The country is divided into 64 districts (zilas) which are further sub-divided into upazilas.



Bangladesh has one of the largest deltas of the world, formed by the two largest rivers in the Indian subcontinent – the Ganges and the Jamuna (Brahmaputra).

¹ The term microfinance institution (MFI) includes NGOs, public and private banks, financial co-operatives, non-bank financial institutions, postal and/or savings banks, and other relevant institutions that provide financial services to low-income people and others excluded from mainstream commercial banks.

² Bangladesh Economic review, 2009

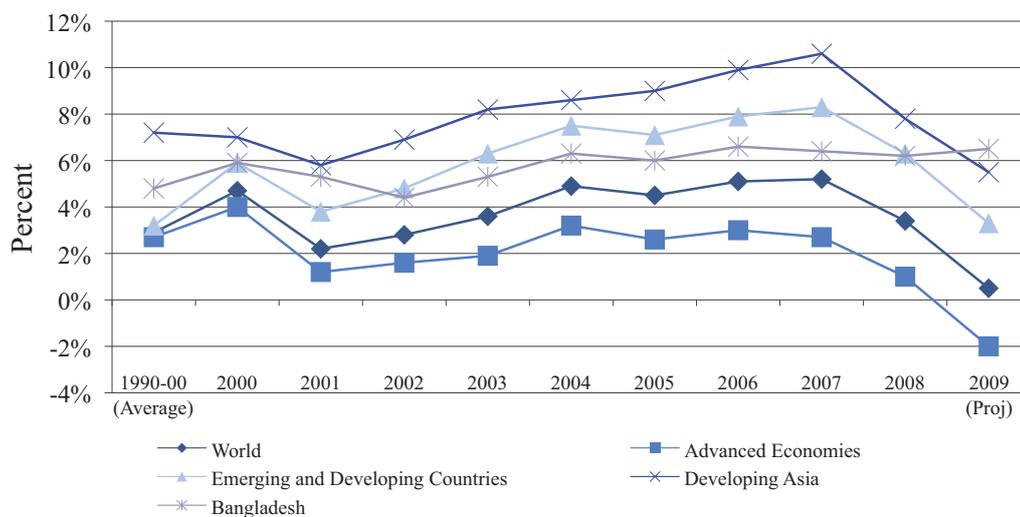
³ Bangladesh Bureau of statistic <http://www.bbs.gov.bd/>

It is also one of the wettest regions of the world, marked by a tropical monsoon climate, and thus often affected by tropical cyclones, storms and flooding, which cause widespread damage.

2.1 MACROECONOMIC TRENDS

The global financial crisis severely affected the world economy, forcing many into a recession; however, the developing Asian countries have fared much better than advanced and emerging economies, with declining but still strong GDP growth of over 5% (see *Figure 2*). The major impact on Bangladesh largely came from the decline in remittance inflows and export earnings but never fell below 6% during the crisis. The Bangladesh economy is expected to continue to grow at rates similar to those experienced over the last decade.⁴

Figure 2: GDP Growth of Different Economies

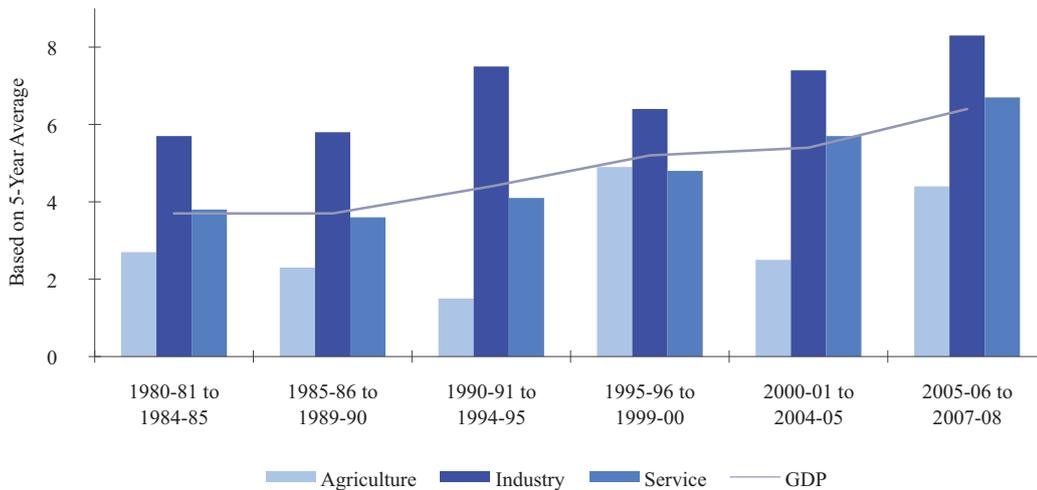


According to Dr Atiur Rahman, Governor, Bangladesh Bank, “*Bangladesh has weathered the financial crisis due to credible monetary policy, extended budgetary assistance to agriculture and SMEs to strengthen domestic demand and production, and timely stimulus packages for recession-hit export sector; coverage of social safety net has been widened as well. This could also be attributed mainly to the structure of the economy, prudent regulation and effective supervision of the financial sector. As a consequence, Bangladesh is walking on the path of six percent GDP growth rate with a modest inflation rate.*”

During the first decade after independence, average GDP growth was just below 4%, which started increasing in the late 1980s. By the 1990s, GDP grew at an average rate of 5% or more; by 2006-08, GDP grew at an even higher average rate of 6.4%, most of which was being driven by the emergence of the manufacturing and services sectors (*Figure 3*).

⁴ State of Bangladesh Economy and Global Financial Crisis: Policy Response, Ministry of Finance, Bangladesh (http://mof.gov.bd/en/index.php?option=com_content&view=article&id=76&Itemid=1)

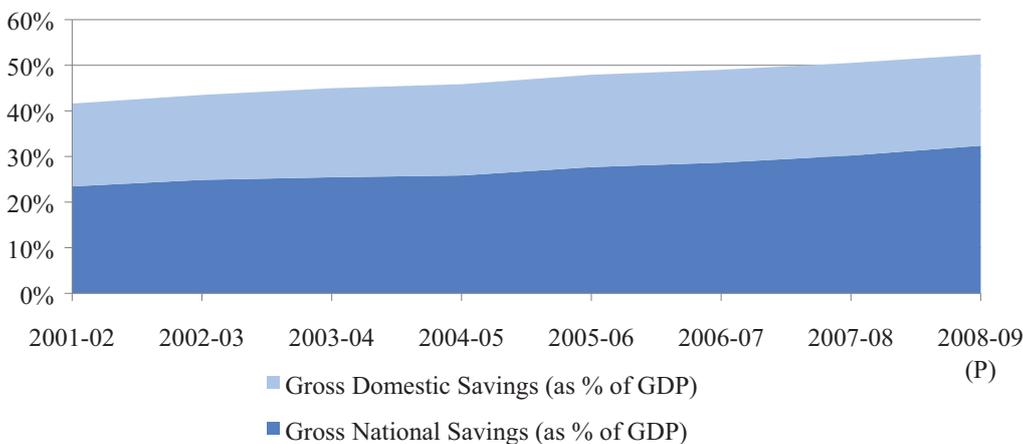
Figure 3: Sectoral Contributions to GDP Growth



The nominal exchange rate during 2008 to 2009 mostly remained stable against the US Dollar, depreciating only by 0.3%, but appreciating against other currencies, such as the UK Pound Sterling (23.7%), Euro (6.4%) and Indian Rupee (15.2%). It is widely accepted that the economy has the potential to grow, but is held back due to poor governance, rampant corruption, infrastructure bottlenecks, underdeveloped financial markets and a failure to attract foreign direct investment.

The mobilisation of domestic resources and the transformation of national savings into investible surpluses are critical for the continued growth of the economy. From an average domestic savings and national savings of 13.3% and 18.9%, respectively, domestic savings grew to 20.2% and national savings to 28.6% on an average during the last three years up until 2009.

Figure 4: Trends in National and Domestic Savings



2.1.1 INFLATION

- Inflation fell significantly in the late 1980s and has remained in single digits thereafter. The peaks in *Figure 5* (inflation above 8%) are the years when Bangladesh was hit by natural calamities. However, in 2007-08 inflation rose to 10% largely because of the rising prices of fertilisers, fuel and food articles.
- Despite the growth of inflation in recent years, the savings rate in Bangladesh has not been affected much and has only slowed (see *Figure 6*). A probable explanation for this trend might be that savings is often fuelled by inward remittances, whereas the rise in inflation is governed by rising commodity (food and fuel) prices internationally, slow growth of agriculture and the devaluation of Bangladeshi Taka against Indian Rupee.⁵ Inflation eased slightly and stood at 8.54% in April 2010 versus 10.47% in 2009 due to food inflation. Food inflation in rural areas more than doubled from 4.32% in 2009 to 10.36% in 2010. Non-food inflation in rural areas declined to 5.79% in 2010 versus 6.92% in 2009. Urban food inflation remained high at 10.72% and non-food inflation at 4.56% in 2010, according to official data.⁶

Figure 5: Trends in Inflation (% Per Annum)

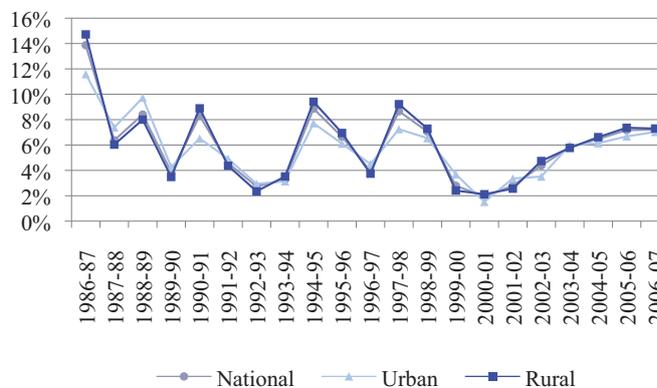
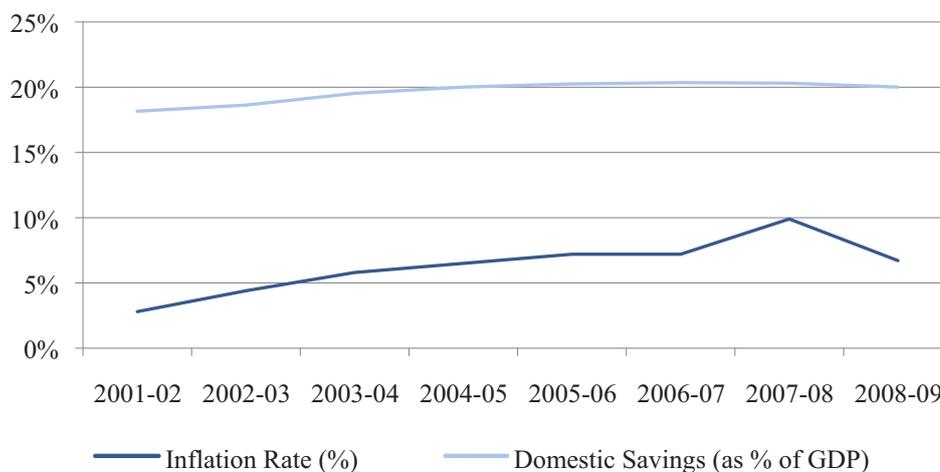


Figure 6: Relationship between Inflation and Gross Domestic Savings



⁵ A Review of The Current Hypothesis on Inflation in Bangladesh, Selim Rahman & Kaniz Fatema, Working Paper no 02/2007, Shamunay (<http://www.shamunaybd.org>)

⁶ The Financial Express, Dhaka, July, 14, 2010 (http://www.thefinancialexpress-bd.com/more.php?news_id=106078&date=2010-07-14).

2.2 DEMOGRAPHIC DATA

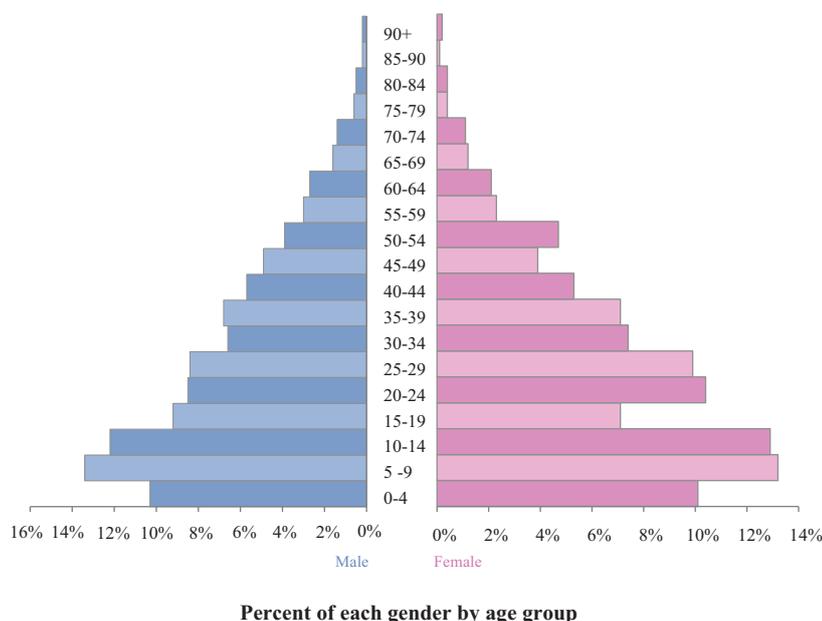
2.2.1 POPULATION

According to the Bangladesh Bureau of Statistics (BBS), the population of Bangladesh was estimated to be 144.2 million in 2008-09 with an approximate annual population growth rate of 1.26%, making Bangladesh the 7th most populous country in the world.^{7,8}

According to the 2005 Household Income and Expenditure Survey, the number of households in Bangladesh was about 28.64 million⁹ with an average household size of 4.85 persons.¹⁰

- The country's population is almost evenly distributed throughout its 64 districts, except for three hilly districts which are sparsely inhabited. The average density per square kilometre in 2009 was estimated at 1,146 inhabitants versus a world average of 51.7 in 2008.^{11,12}
- The country has a young and thus economically active population, 61.4% of which is in the 15-64 age bracket.¹³ Based on the sample of the Multiple Indicator Cluster Survey of 2009, there are more men than women in every age category, except in the groups aged 20-39 and 90 and above, as given in *Figure 7*.¹⁴ The overall gender ratio of male to female population was estimated to be 102.3.¹⁵
- Twenty-six percent of the population lives in urban areas.¹⁶ Bangladesh has witnessed significant urbanisation in the last 50 years, with an annual urbanisation rate of 3.5% from 2005-10. The changing proportion of the urban-rural population can be seen in *Figure 13*.

Figure 7: Age and Sex Distribution of Household Population, Bangladesh 2008



7 Bangladesh Economic Review, 2009, p. xix, Bangladesh Bureau of Statistics, (<http://www.mof.gov.bd/en/budget/er/2009/ksei.pdf>, accessed on September 19, 2010).

8 However according to the World Bank, Bangladesh's population was 160 million in mid 2008 (World Bank Data: Bangladesh at Glance http://devdata.worldbank.org/AAG/bgd_aag.pdf) and the CIA Fact Book projected it to be 156.05 million by July 2010 (<https://www.cia.gov/library/publications/the-world-factbook/geos/bg.html>, accessed 19th Sept, 2010).

9 http://www.bbs.gov.bd/dataindex/hies_2005.pdf

10 Household Income and Expenditure Survey 2005

11 <http://www.infoplease.com/ipa/A0107317.html>

12 <http://search.worldbank.org/data?qterm=population%20density%20average>

13 CIA, The World Factbook: <https://www.cia.gov/library/publications/the-world-factbook/geos/bg.html>

14 Multiple Indicator Cluster Survey, Bangladesh, 2009, p27, BBS and UNICEF, June 2010. (http://www.bbs.gov.bd/dataindex/pby/MICS_PP.pdf, accessed Sept 18, 2010)

15 <http://data.un.org/CountryProfile.aspx?crName=Bangladesh>

16 Ibid.

- The literacy rate is 53% for the population over 15 of age. However, the gross enrolment percent of boys and girls in school is 89% and 94%, respectively.¹⁷

The high density of population provides a significant operational advantage to service providers, helping them serve more efficiently at lower costs. Increasing literacy levels and urbanisation also create an increased demand for financial services and the promise of technology, it is hoped, will be effectively used to multiply outreach and efficiency.

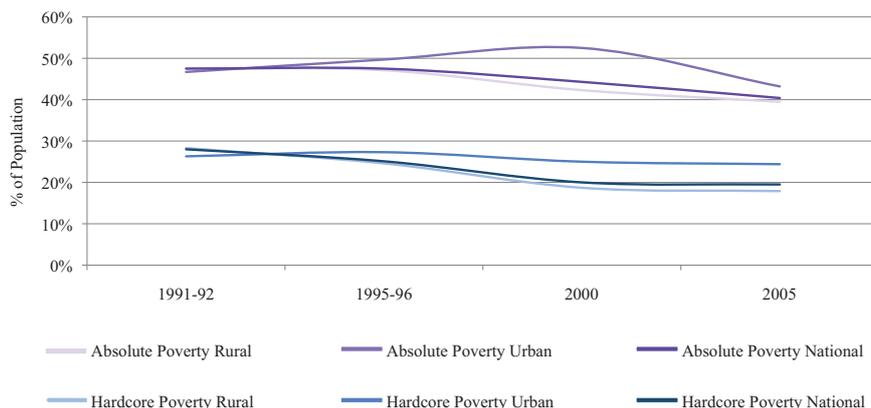
Increasing literacy

levels and urbanisation also create an increased demand for financial services.

2.2.2 POVERTY LEVELS

- If the Daily Calorie Intake method is used, 40.4 % of the population lives on less than 2,122 kcal per person per day. If the Cost of Basic Needs method is used, 25.1% of the population lives below the lower poverty line and 40% under the upper poverty line.¹⁸ However, as seen in *Figure 3*, there has been a declining trend in the incidence of poverty over the last two decades.
- The incidence of poverty is not uniform across Bangladesh. The division-wise distribution of poverty can be seen in the *Figure 10*.¹⁹ Rajshahi is the poorest division of Bangladesh with a poverty incidence of 51.2%. Rural poverty, however, is higher in Barisal (54.2%), resulting in major rural to urban migration from Barisal to all the big cities. The national incidence of poverty is shown in *Figure 8*.

Figure 8: Trend in Incidence of Poverty



¹⁷ Ibid.

¹⁸ Ibid

¹⁹ *Updating Poverty Maps of Bangladesh*, World Bank, 2009; BBS, WFP, WB (http://home.wfp.org/stellent/groups/public/documents/liaison_offices/wfp201528.pdf), Accessed 19th Sept, 2010.

Figure 9: Poverty Map

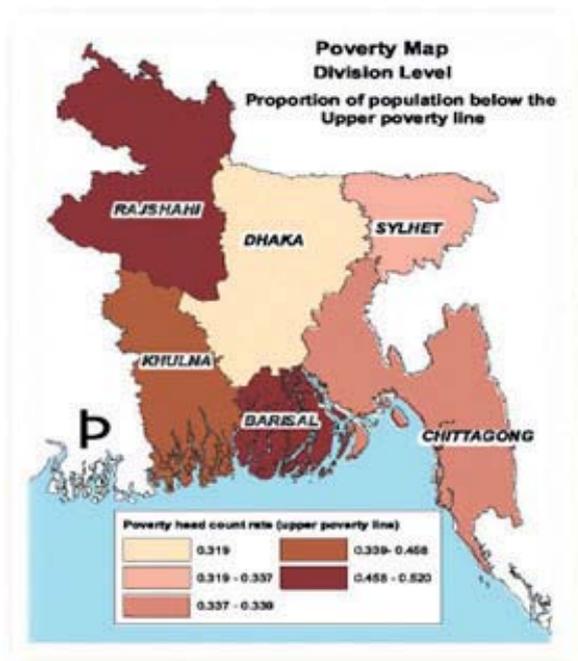
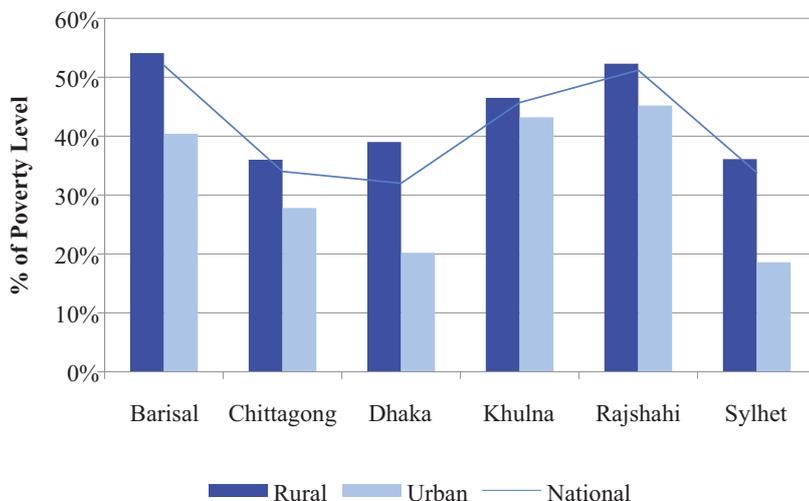


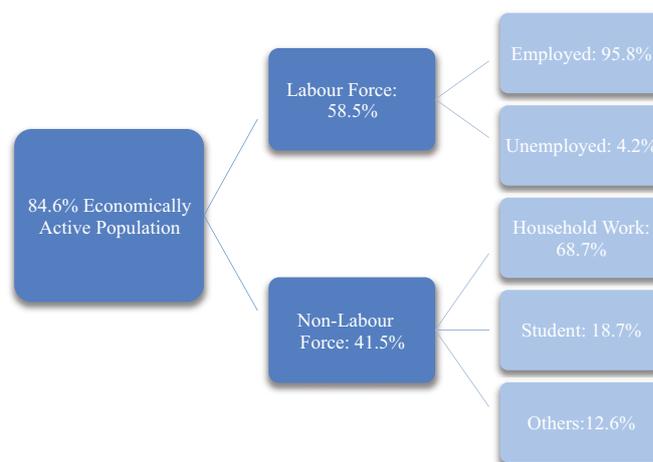
Figure 10: Poverty Distribution in the Six Divisions of Bangladesh



2.2.3 OCCUPATIONS

- The employment distribution of Bangladesh is illustrated in *Figure 11*, with 58.5% of the economically active population constituting the labour force, and a relatively low unemployment rate of 4.2%. The labour force largely constitutes the society’s male members (86.8%).²⁰
- As Bangladesh is predominantly an agrarian economy, the labour force participation rate is higher in rural areas (59.4%) than urban areas (55.7%). This is also seen in the sector-wise distribution of employment, again influenced by the employed workforce being primarily engaged in agriculture, as shown in *Figure 12*. However, the share of agriculture as a percent of the total employment generated by different sectors has been declining in the recent years as manufacturing and service sectors have begun to command a more prominent place in the economy of Bangladesh.

Figure 11: Employment Distribution



²⁰ Labour Force Survey '2006 (http://www.bbs.gov.bd/dataindex/l_force_05.pdf)

Figure 12: Sector-wise Distribution of Employment

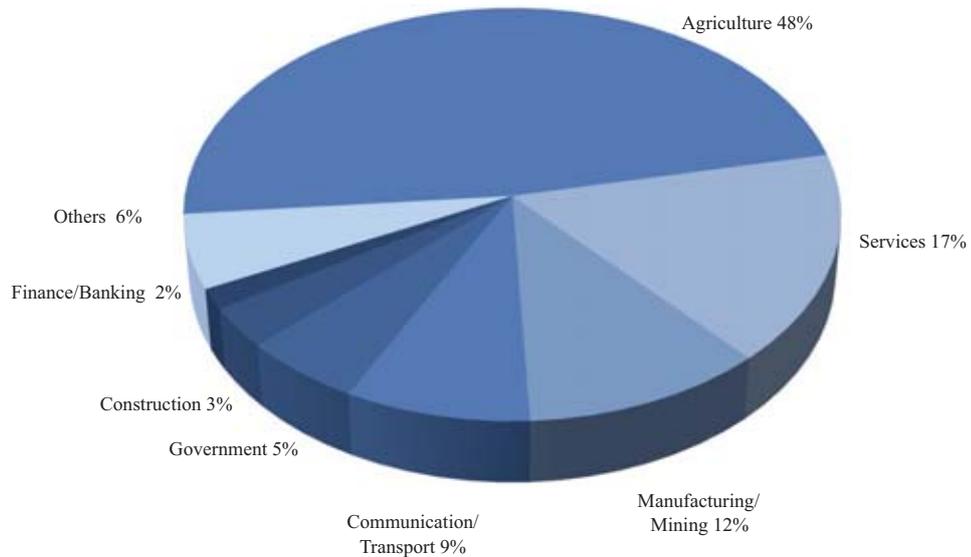
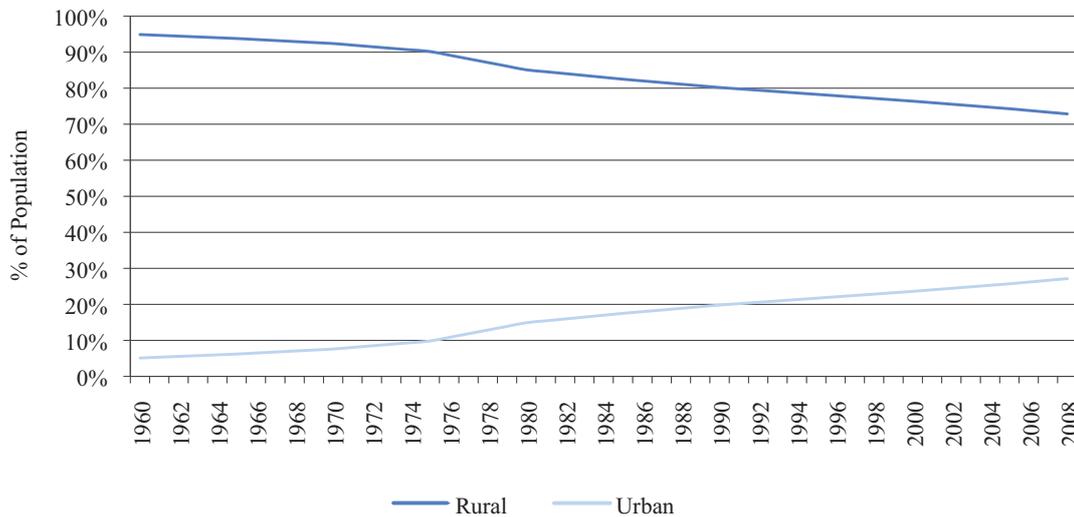


Figure 13: Proportion of Rural and Urban Population



2.2.4 MIGRATION

2.2.4.1 Internal Migration

- The 2006 UN Population and Urban Health Survey (UHS) estimates that there will be a 93% increase in Bangladesh's urban population between 2000 and 2020, primarily because of migration from rural to urban areas.

- According to UHS - 2006, 80% of the slum dwellers in Bangladesh are migrants from rural areas or other urban areas, as seen in *Table 1*. The study ‘Slums of Urban Bangladesh: Mapping and Census 2005’, conducted by the Centre for Urban Studies, National Institute of Population Research and Training (NIPORT), highlights that 37% of Dhaka’s population lives in slums, majority of whom are migrants.

TABLE 1: MAGNITUDE OF INTERNAL MIGRATION IN BANGLADESH (PER 1,000, POPULATION)

In migration	30.62
Rural in migration	16.64
Rural to rural	12.51
Urban to rural	4.13
Urban in migration	51.69
Rural to urban	17.29
Urban to urban	34.40

2.2.4.2 International Migration

- From the inception of manpower export in 1976 till July 2009, 6.8 million Bangladeshis have migrated to different countries. Most people migrate to countries in the Middle East (see *Figure 14*), and a majority of these migrants are unskilled/semi-skilled labourers and are employed in the construction sector.²¹
- Income from overseas employment contributes significantly to the economic development of the country. In the period 2004-07, nearly USD 20 billion²² entered Bangladesh as international remittances. *Figure 15*²³ details the contribution of international remittances to Gross Domestic Product (GDP) – almost 10% in 2008 – and exports of Bangladesh. Many microfinance loans and savings are serviced by remittances from urban areas or from abroad. The provision of remittance services itself has been a profitable venture for many service providers because of the volume and amount of transactions involved.

Figure 14: Key Countries to Which People Migrate

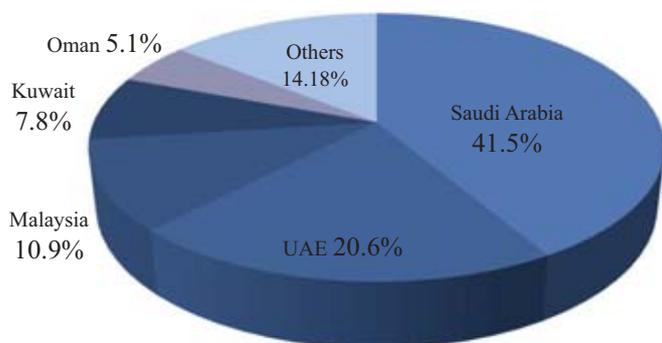
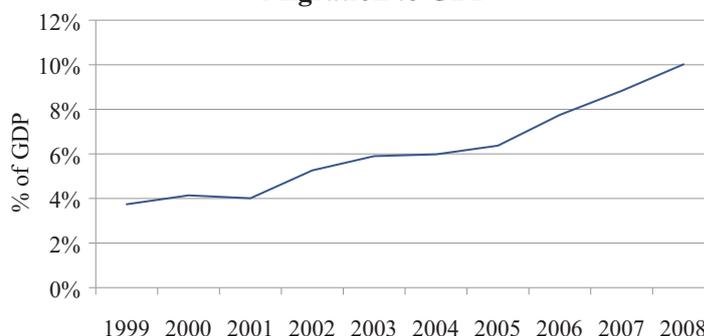


Figure 15: Contribution of International Migration to GDP



²¹ BMET' 2009

²² Ibid.

²³ Bangladesh Economic review 2008

3. LEGAL AND REGULATORY FRAMEWORK

There are many categories of financial institutions mobilising deposits in Bangladesh, both formal and informal. They have been created or have evolved with different objectives; they are guided by different regulations and report to different regulators. However, a focus on reaching out specifically to low-income people only emerged with the proliferation of NGO-MFIs. They only cater to the low-income populations and have driven initiatives in Bangladesh to scale up to a point where people in all 64 districts of the country are reached. NGO-MFIs have carved a niche for themselves and hold a very unique and strong position in Bangladesh. Grameen Bank, which pioneered microfinance, has a unique legal status as a microfinance bank, which is critical to its role in mobilising microsavings. Co-operative societies and insurance companies are becoming increasingly popular among the low-income people as their products and delivery mechanisms are being designed along the lines of the NGO-MFIs.

The Bangladesh Bank's stance on monetary policy for the second half of the fiscal year 2010 restated its firm stand on quality of growth being measured in terms of inclusiveness and environmental sustainability. While focusing on broadening financial inclusion, the Bangladesh Bank has also launched several refinance support lines for lending to sectors such as agriculture, small and medium enterprises (SMEs), renewable energy (solar, biogas etc.) and effluent treatment plants (ETP). These actions are motivating banks to expand lending to these under-served sectors, both as business opportunities and corporate social responsibility (CSR) obligations. This is to be done through bank branches as well as by 'branchless banking' in innovative partnerships with MFIs, mobile phone companies and other IT-based networks for cost-effective delivery of financial services to remote areas.²⁴

Microfinance initiatives in Bangladesh have a key role to play in the accomplishment of the Bangladesh Bank's financial inclusion goals. The following section provides details on how the microfinance sector has evolved in its role and the potential it holds, with a focus on the regulatory changes that guide it.

With a proliferation of financial service providers, the onus of protecting the consumer also increased for regulators. This section details the existing legal forms and the evolution of new regulations and regulating bodies and their impact on deposit mobilisation. The role of NGO-MFIs has been emphasised as they have a large role to play in the future.

“Financial inclusion is a necessary condition for sustaining equitable growth...Financial inclusion - financially strengthen a majority of population by providing financial services at a fair cost based on transparency and equality. Financial and social inclusion is the notion of inclusive growth, a growth process participated by and benefitting all population segments. Financial inclusion does not restrict itself to credit. It involves financial awareness, knowledge about banking facilities and channels, in other words financial literacy. Greater financial inclusion presents opportunities for everyone to contribute [to] broad-based economic growth, financial stability and social cohesion. Access to affordable financial services, especially credit and insurance, enlarges livelihood opportunities and empowers the poor. Such empowerment aids social and political stability. Importantly, access to financial services helps the poor insure themselves against income shocks”.

-Dr Atiur Rahman

Governor, Bangladesh Bank

²⁴ *Financial Services at People's Doorstep*, Dr. Atiur Rahman, Governor, Bangladesh Bank

²⁵ <http://www.allheadlinenews.com/articles/7018962406>

TABLE 2: LIST OF FINANCIAL INSTITUTIONS

Type of Institution	Prevalence	Regulated by	Basic Services Provided / Scope of Activities Allowed
Banks	<ul style="list-style-type: none"> • 4 state-owned commercial banks (SCB) • 5 development financial institutions (DFI) or specialised banks • 30 private commercial banks (PCB), and • 9 foreign commercial banks (FCB) 	Bangladesh Bank (http://www.bangladesh-bank.org)	<ul style="list-style-type: none"> • Time deposits • General savings account • Recurring deposit • Remittance – domestic and international • Utility bill payments • Internet banking • Core banking
Non-Banking Financial Institutions (NBFIs)	<ul style="list-style-type: none"> • 29 non-banking financial institutions (NBFIs /FIs), regulated by the Bangladesh Bank. 	Bangladesh Bank (http://www.bangladesh-bank.org)	<ul style="list-style-type: none"> • Lease financing • Home loan and real estate • Short-term loans • Corporate finance • Merchant banking • Securities services
Postal Department	<ul style="list-style-type: none"> • 10,000 post offices 	Bangladesh Post Office (http://www.bangladeshpost.gov.bd)	<ul style="list-style-type: none"> • Ordinary savings accounts • Fixed deposit account • Electronic money order • Insurance
Insurance Agencies	<ul style="list-style-type: none"> • 62 insurance companies • 18 provide life insurance <ul style="list-style-type: none"> o 1 state-owned (Jiban Bima Corporation - JBC) o 1 foreign owned (American Life Insurance Company -ALICO) o 16 private • 44 provide general insurance <ul style="list-style-type: none"> o 1-state-owned (Shadharan Bima Corporation -SBC) 	Controller of Insurance on authority under the Ministry of Commerce. A separate insurance regulatory authority is being established. ²⁵	<ul style="list-style-type: none"> • General and life insurance • Limited offers on health, crop, cattle insurance • Private insurance companies offer policies through MFI-NGOs
Co-operative Bank	<ul style="list-style-type: none"> • 64 central co-operative banks • 48 are land mortgage • 7 are other co-operative banks 	Ministry of Local Government, Rural Development & Co-operatives	<ul style="list-style-type: none"> • Rural and agriculture related products – loans and deposits

TABLE 2: LIST OF FINANCIAL INSTITUTIONS

Type of Institution	Prevalence	Regulated by	Basic Services Provided / Scope of Activities Allowed
Co-operative Society	<ul style="list-style-type: none"> • 150,964 Co-operative societies <ul style="list-style-type: none"> o 21 are national societies o 1,086 central societies o 149,857 primary societies 	The Department of Co-operatives (DOC) under the supervision and control of the Rural Development & Co-operative Division (RDCD) of the Ministry of Local Government, Rural Development & Co-operatives (http://www.coop.gov.bd/)	<ul style="list-style-type: none"> • General savings account • Recurring deposits
NGO-MFIs		Microcredit Regulatory Authority (MRA) (www.mra.gov.bd/)	<ul style="list-style-type: none"> • General savings account • Recurring deposits • Time deposits • Insurance • International remittance • Domestic remittance (limited) • Social benefits

3.1 REGULATION OF NGO-MFIs

Microfinance initiatives have been driven largely by NGO-MFIs in Bangladesh. The microfinance industry in Bangladesh began with the central bank’s sponsorship of an action research programme in the district of Tangail to lend money to the poor without collateral. The basic premise of the experiment was that the poor are creditworthy, and that credit can be used to alleviate poverty, the lack of collateral notwithstanding. The industry received formal recognition with the passing of the Grameen Ordinance by the Parliament of Bangladesh in 1983, which led to the establishment of the Grameen Bank.²⁶ Grameen Bank’s experience induced the organisers of many rural and community development initiatives in the country to shift their emphasis from Freirian “conscientisation” to the provision of microcredit to the poor. In 1990, the creation of Palli-Karma Sahayak Foundation (PKSF), an apex microfinance institution, to provide loans at a cheaper rate than the banking sector, greatly helped the NGO-led microcredit sector to expand.²⁷

The first serious step towards establishing microfinance regulations was a study carried out by the Bangladesh Bank in 1998, supported by the World Bank.²⁸ Before the 1998 study, the Asian Development Bank (ADB) also prepared a draft regulation by hiring foreign consultants, but this did not make any headway as the policymakers were not in favour of an abrupt introduction of regulations at that time. The draft was discussed and deliberated with top-level NGO-MFIs, PKSF and the Credit and Development Forum (CDF), among others.²⁹

²⁶ Ashif Dowlah and Dewan Alamgir (2003), *From Micro credit to Microfinance: Evolution of Savings products by MFIs in Bangladesh*; *Journal of International Development*, John Wiley & Sons Ltd.

²⁷ Dewan A H Alamgir, Managing Director, Enterprise Resource Services (ERA), Dhaka

²⁸ *Establishing an Appropriate Regulatory Framework and Institutions for Regulating MFIs Engaged in Deposit/Lending, Draft report, Volume-1, July 1998, Dhaka.*

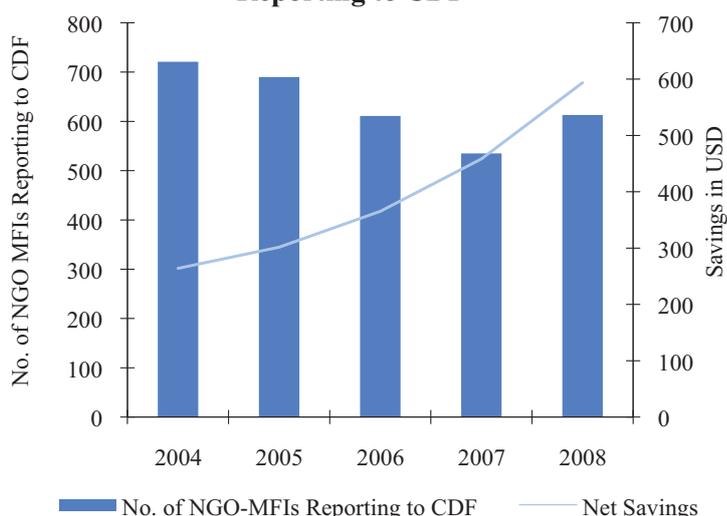
²⁹ . Mosharraf Hossain, Chairman, Credit and Development Forum (CDF), Dhaka.

The NGOs always supported the idea of regulation, but they suggested an independent organisation, other than PKSF or the Bangladesh Bank, should regulate NGO-MFIs.

In September 2000, the Bangladesh Bank issued a circular that no organisation is eligible to take any deposits from the general public without the permission from the central bank. However, it was clarified in a meeting organised by the CDF that the NGO-MFIs can take deposits from their clients or “members”, who are selected from poor households based on specified criteria. Thus, NGO-MFIs continued to be subject to self-regulation; a situation made acceptable to the regulators by the fact that NGO-MFIs’ loans to their customers were always much higher than clients’ savings—thus customers were net borrowers.^{30,31}

The Bangladesh Microfinance Country Profile, published by CDF in January 2006 wrote, “*The MFI sector in Bangladesh is comparatively unregulated despite its scale and prominence in the country’s economic development. ... Relative to the size of the sector and in spite of the regulatory weaknesses there have been few incidents of scandal or debacle in the NGO-MFI sector. However, there is now a growing focus on NGO financial accountability and the regulatory framework ... and an increasing need for an appropriate regulatory framework, ensuring both transparency and safety of deposits. The very poor particularly, can ill-afford any such loss and in any case the MFIs generally are not providing the type of savings mechanisms the poor really need*” (Hulme, 2000). According to the CDF, net savings of just over 600 MFIs had increased to USD 600 million versus only USD 300 million in 2004 (see Figure 16).³²

Figure 16: Net Savings of NGO-MFIs Reporting to CDF



3.1.1 MICROCREDIT ACT AND MICROCREDIT REGULATORY AUTHORITY (MRA)

The increasing savings balances held by NGO-MFIs (Figure 16) resulted in the Government setting up a unit within the Bangladesh Bank called the Microfinance Research and Reference Unit (MRRU). The main task of this unit was to collect information from the NGO-MFIs to help frame policy guidelines for regulation. The Microcredit Act was then passed by the Parliament in 2006. In accordance with the Act, a “microcredit institution” means any institution which has obtained a certificate under this Act to operate microcredit activities and is a registered microcredit institution under either the Societies Registration Act, 1860 (Act XXI of 1860), Trust Act, 1882 (Act II of 1882), Voluntary Social Welfare Agencies (Registration and Control) Ordinance, 1961 (Ordinance No. XLVI of 1961) or the Company Act, 1994 (Act No. 18 of 1994). Microcredit institutions can provide credit, savings and insurance services to the poor in Bangladesh.³³

³⁰ However this type of thinking can raise issues of insolvency and being overleveraged if not properly monitored.

³¹ Md. Fazlul Kader, General Manager, PKSF, Dhaka.

³² This includes Grameen Bank. Please note the number of registered MFIs dropped significantly due to the new MRA regulations and due to the cyclone in 2007 when many MFIs were virtually wiped out.

³³ Microcredit Act 2006, Bangladesh National Parliament, Dhaka.

Any institution conducting microcredit activities before the Microcredit Act was passed had to submit an application for certification before the authority within six months from commencement of the Act. An applicant was able to continue its activities until acceptance or rejection of the application. To implement the Microcredit Act, the Microcredit Regulatory Authority (MRA) was established. The MRA is a permanent, statutory organisation whose governance and administration are entrusted to a governing board with the Governor of Bangladesh Bank as the ex-officio chairman. The responsibilities and functions of the MRA include:

- Issuing and cancelling licenses for running microcredit institutions;
- Collecting and analysing information;
- Auditing and performance analysis;
- Field-level supervision of microcredit institutions;
- Taking necessary steps for the audit of accounts when required by any funding organisation, such as commercial banks, donors, etc.;
- Providing information requested by funding organisations, and
- Framing rules to regulate the microcredit institutions.

3.1.2 MRA'S CURRENT LICENSING STATUS

By June 30, 2010, the MRA issued licenses to 523 institutions and rejected 1,788 out of 4,240 initial applications. Fifty-seven small institutions were given time to expand operations to become sustainable, and many other applications are still being processed. Almost all of the major NGO-MFIs received a license, except Proshika, which is still under consideration. The MRA has since cancelled one license.³⁴

The smaller NGO-MFIs that did not obtain licences in the beginning were asked by the MRA to raise their loans outstanding to USD 60,000 or their total borrowers to 1,000 by March 31, 2009. Later, this condition was made slightly more flexible, whereby the NGO-MFIs were asked to raise their loan outstanding to USD 40,000 million and the number of borrowers to 800. Since then, the MRA has been giving closure notices to NGO-MFIs unable to comply with these minimum requirements. The MRA is said to be giving preference to NGO-MFIs serving disabled people and people living in hilly areas and chars (river basin, islands, etc).

3.2 THE BANKING SYSTEM

The formal banking system in Bangladesh has its genesis in 1971 when the country gained independence. At that time there were two branches of the State Bank of Pakistan and 17 commercial banks. After independence, the Dhaka branch of the State Bank of Pakistan was renamed the Bangladesh Bank and was made the apex banking body to control credit, monetary policy and foreign exchange reserves as well as to regulate currency. The

³⁴ From discussions with Lila Rashid, Director, Microcredit Regulatory Authority (MRA), Dhaka.

Bangladesh Government initially nationalised the entire domestic banking system and proceeded to reorganise and rename the various banks. Foreign-owned banks were permitted to continue conducting business in the country. The insurance business was also nationalised and became a potential source of investment funds. Co-operative credit systems and postal savings offices handled services for small, individual and rural accounts. The new banking system succeeded in establishing reasonably efficient procedures for managing credit and foreign exchange.

Currently, to strengthen and enhance the authority of Bangladesh Bank as the regulatory authority for the monetary and financial sector of the country, a project called the Central Bank Strengthening Project is being implemented with support from the International Development Agency (IDA). The project started in late 2003 and is expected to be completed in 2011. The key focus areas of the project are:

- Restructuring and modernising Bangladesh Bank (structural re-organisation, automation and human resource development);
- Capacity building (strengthening the research division, prudential regulation and supervision, and accounting and auditing standards);
- Strengthening the legal structure.

Bangladesh does have a deposit insurance scheme (DIS) but this is only available for bank customers. All commercial banks, including foreign and specialised, must contribute to the scheme as per the Bank Deposit Insurance Act 2000. The DIS will cover up to USD 1,482.58 (BDT 100,000) per depositor per bank.³⁵

3.3 GRAMEEN BANK

The Grameen Bank is the only microfinance institution which is registered as a microfinance bank in Bangladesh. As a regulated bank, it can mobilise savings from both members and the general public; this has had a significant impact on the performance of Grameen Bank in recent years. If the larger, more robust NGO-MFIs could also transform into microfinance banks they would be able to tap this opportunity easily, thus increasing the supply of domestic funds to help fund economic growth. A proposal for microfinance banks was submitted to the Government back in 2006, however, the idea was rejected.

3.4 POSTAL SAVINGS

In Bangladesh, there are about 10,000 post offices providing different services, including letter and document delivery, postal life insurance, savings certificates, fixed deposits and money orders. Postal savings are quite popular as they provide a much higher rate of interest than commercial banks. The Post Office is an independent government agency, but it does not, however, launch any savings products of its own. The National Board of Revenue

“Under the policies

adopted in Grameen II, new branches are financed entirely with deposits mobilised with the locality served by the branch. The response is excellent. A new branch can mobilise more deposits than it needs to finance its loan operations within the first month. The branch becomes profitable within a maximum of six months, Grameen Bank can mobilise deposits because it is a formal bank. NGOs cannot take deposits because the NGO law cannot support it.

Microcredit can be funded locally at the village level, provided [the] legal framework is created to allow micro credit programmes (MCP) to accept public deposits. If this legal framework is created, donor funding can be reserved for only start-ups, shoe-horning NGO-MCPs [microcredit programmes] to graduate into microcredit banks, training, research and development. This will give donor money more leverage that it currently gets.

*--Suggestions on a legal framework for creating microcredit banks
-Muhammad Yunus, Grameen Bank*

³⁵ <http://www.bangladesh-bank.org/regulation/guideline/apr2008ditf.pdf>

dictates what services are provided and the Directorate of National Savings (part of the Internal Resources Division) specifies how the funds are used.^{36,37}

3.5 MICROINSURANCE OF NGO-MFIS

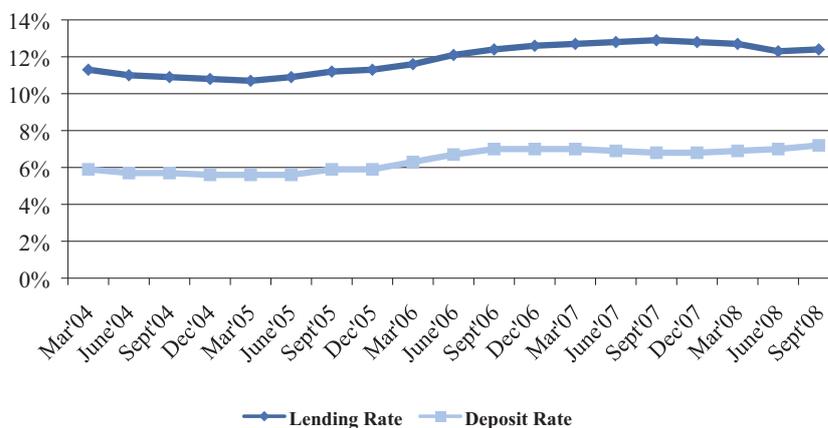
The Microcredit Act allows NGO-MFIs to offer insurance programmes to their clients. After the new insurance law was passed in 2009, it became easier to float insurance companies with a small capital base. However, obtaining permission to set up a new company remains a difficult task. NGO-MFIs and their insurance offerings are virtually unregulated due to their special status. Formal insurance companies are regulated by the Chief Controller of Insurance Companies, which is a very nascent body.

3.6 ISSUES IN REGULATIONS

3.6.1 MICROSAVINGS INTEREST RATES

Most NGO-MFIs offer three savings products: compulsory, voluntary and contractual savings and/or time deposits. Smaller NGO-MFIs typically have only one savings and one loan product. They pay 4-5% interest per annum on mandatory and voluntary savings and 7-9% on contractual savings.³⁸ Only a few NGO-MFIs offer contractual savings or recurring deposit products as the MRA discourages these types of savings as part of the requirements to obtain a license. NGO-MFIs which offered fixed deposits have now closed these accounts.

Figure 17: Trend in Lending and Deposit Interest Rate



At the national level, weighted average lending rates for commercial banks have fallen marginally since September 2007, but the interest rate spread remained high, varying between 5.2% and 6.2% between March 2004 and September 2008 (see *Figure 17*). Though the weighted average of interest rates on deposits rose during the period, the real interest rate remained negative because of inflation.³⁹

3.6.2 CAPS ON LENDING RATES

In 2009, the Government, in a meeting with top level NGO leaders, the MRA and Grameen Bank, intimated that the interest rate charged by MFIs should not exceed a flat rate of 15%, and that the effective rate of interest should be no more than 30% per annum.⁴⁰ This was

³⁶ M Mobasherur Rahman, Director General of Post Office and Md. Siraz Uddin, Director (Banking and Insurance), General Post Office, Dhaka revealed this information in an interview.

³⁷ <http://www.nationalsavings.gov.bd/About%20us.htm>

³⁸ M A Awal, Executive Director; provided this information during his interview.

³⁹ State of Bangladesh Economy and Global Financial Crisis: Policy Response, Ministry of Finance, Bangladesh (http://mof.gov.bd/en/index.php?option=com_content&view=article&id=76&Itemid=1), p.20

⁴⁰ M A Awal, Executive Director; Credit and Development Forum (CDF), Dhaka.

based on a calculation which assumed 52 weeks as the repayment period. However, MFIs contested that they usually are paid back in 45-46 instalments. So, to earn the interest that MRA has calculated, the interest rate should exceed the 15% flat rate. The cap would lead to loss of income from interest for MFIs, which may reduce the interest earned by customers on savings. The move would adversely affect the clients' motivation to save. Also, the cost of operations vary significantly based on the age of the MFI, scale of operations, product delivery, etc.

3.6.3 PREVALENCE OF DUAL REGULATION

As mentioned, the PKSf is an apex microfinance institution and has financed about 233 NGO-MFIs, including the larger ones, like BRAC, ASA and Proshika.⁴¹ The PKSf imposes its own requirements on its partner organisations as conditions for borrowing. The PKSf allowed its partners to charge a maximum of 15% flat rate until June 30, 2004 when this was changed to 12.5%. Pressure to reduce the interest rates ostensibly came from the Government, but the PKSf supported the reduction based on a small internal study, which concluded that NGO-MFIs can still be sustainable when lending at 12.5%.⁴² BRAC and ASA opted out of the PKSf partnership following this move and disagreements on lending rates. At present, 10% of the savings mobilised in the PKSf-supported branches have to be kept in a regulated bank, and partners of the PKSf are subject to rigorous monitoring and internal audits. Thus, the PKSf functions as an informal regulator and the NGO-MFIs borrowing from the PKSf are subject to dual regulation by MRA and the PKSf. If the PKSf continues to regulate its partner organisations the way it currently does, it risks making the MRA virtually ineffective.

3.6.4 LIMITATIONS TO MOBILISING SAVINGS BY NGO-MFIs

The only relatively cheap source of funds for NGO-MFIs is from clients' savings, and thus the need to mobilise large amounts of savings to run their growing credit programmes is high. The amount of money that the industry needs now for on-lending cannot be sourced solely from donors and commercial banks.⁴³ *Figure 18* below shows the use of savings by top 10 MFIs as loan funds. BURO Bangladesh derives 38% of its revolving loan funds (RLF) from savings, and BRAC and SSS derive similar amounts as well.

As safeguarding the interests of savers is a key responsibility of the MRA, it has drafted a policy which has set a ceiling on the savings amounts that can be mobilised by licensed NGO-MFIs. Yet, without adequate deposits from the general public, the NGO-MFIs would not be able to finance their loan funds. This will be a defining issue for the rapid growth of the sector.⁴⁴

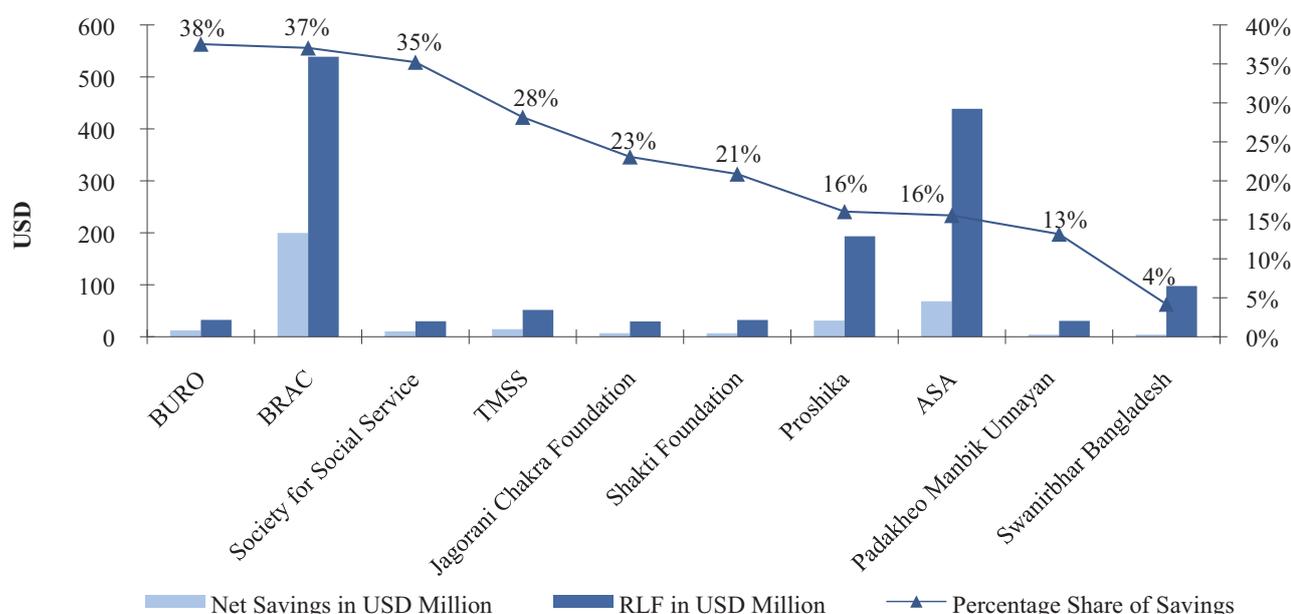
⁴¹ PKSf Annual Report 2008, Dhaka.

⁴² Kamrun Nahar, Executive Director, PMK revealed this information while discussing this issue.

⁴³ S M Rahman, 2008, *Strengthening Savings Services in the MF Sector of Bangladesh*, The Financial Express, Dhaka.

⁴⁴ M Rahman, 2001, *Savings is a Pragmatic Way to Defeat Poverty*, The Financial Express, Dhaka.

Figure 18: Top Ten NGO-MFIs by RLF and Share of Net Savings



Restrictions on Savings Mobilisation by NGO-MFIs

According to current regulations, NGO-MFIs can offer three kinds of savings: compulsory, voluntary and time deposits.

- > The NGO-MFIs can mobilise *compulsory savings* of up to a maximum of 80% of their loans outstanding. If an NGO-MFI exceeds this limit, the surplus savings have to be kept in a bank as fixed deposits. MRA's permission will be required to withdraw the fixed deposit.
- > An NGO-MFI with five years of operations and three years of consecutive profitability, an on-time recovery rate of 90% and a cumulative recovery rate 95% can introduce *voluntary savings*. Voluntary savings mobilised must not exceed 30% of the MFI's total capital.
- > To mobilise *time deposits*, an NGO-MFI must have 10 years of operations, five years of consecutive years of profitability, an on-time recovery rate of 90% and a cumulative recovery rate of 95%. Savings under time deposits must not exceed 20% of capital.
- > Capital includes donations and retained earnings. Violations of these rules will lead to closure of the savings products, and the savings mobilised must be returned to depositors with interest.

These prudential requirements of the MRA will adversely affect some of the large NGO-MFIs, reducing their savings mobilisation and resulting in the loss of substantial income. The re-engineering and reclassification of many of the NGO-MFIs' deposit products to comply with MRA's requirements will mean a loss of interest income for depositors as well. However, security of deposits will be enhanced through these provisions.

The Effect of MRA Regulations on BURO and Its Clients

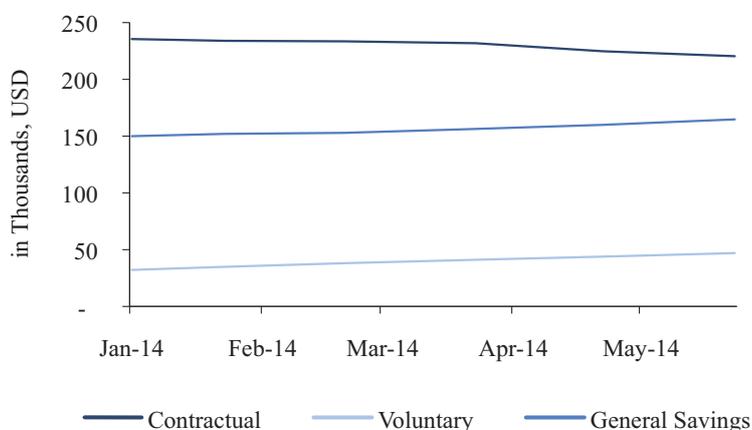
BURO’s unique selling proposition is to provide flexible and market-oriented savings products. The interest rate and savings amount ceilings imposed by the MRA led to BURO changing its savings products in 2008. This had some important effects on the financial performance of the organisation as well as its brand and positioning in the market.

Discussions with BURO’s clients revealed that they need a mix of deposit products, with and without the lock-in period. So while they like to withdraw cash when required from general savings account, they wanted the contractual savings account to be able to save up lump sums for larger financial needs. They also wanted to save only if the returns are high, or else they preferred to invest in some income earning asset, even though there may be related risks.

BURO has USD 60.06 million in loans outstanding and thus can mobilise savings up to USD 48.05 million as compulsory savings.⁴⁵ BURO has accumulated a surplus of about USD 8.5 million and grants of USD 3.06 million and thus 30% of this will allow BURO to mobilise only USD 3.47 million in voluntary savings.⁴⁶

The earlier contractual savings account of BURO has now been converted into Regular Voluntary Savings (RVS) accounts. In this account, clients agree to deposit regularly an amount as fixed by them, but customers can withdraw the entire amount, including interest. As a result of this, clients lose earning power, as BURO offers a much lower interest rate on RVS accounts than on the old contractual savings products. Clients are also deprived of long term lock-in period products, as the NGO-MFIs now do not encourage these. BURO also loses, as reduced interest rates do not attract the same kind of savings in RVSs as it did for contractual savings. NGO-MFIs cannot increase their capital by issuing equity, etc., so the option is to focus on increasing the operating surplus which is not easy or the costs necessary to generate profit eventually could fall on the client. The real issue may be that these limits do not necessarily address the issue of safeguarding deposits. This regulation will affect mostly the large established MFIs such as ASA or BURO, who are now forced to reduce their focus on savings, rather than the smaller ones whose clients the MRA wanted to protect.

Figure 19: Changes in Product Performance in a Branch of BURO, from January - June 2010



These restrictions will especially affect the savings mobilisation capacities of mid-sized and large NGO-MFIs. Above is an example from BURO of the effect these new changes have made. Many experts feel that separate regulations and perhaps a separate regulator should be appointed to help monitor larger NGO-MFIs (and perhaps let them transform into banks).

3.6.5 REDUCTION OF LENDING RATE BY COMMERCIAL BANKS

The Government has been constantly asking and pressurising commercial banks to reduce the lending rate to single digits. A reduction in the lending rate could impact savings mobilisation of the banks, resulting in the lowering of savings rates. This, in turn, is likely to affect on the savings mobilisation of NGO-MFIs, as many set their savings interest rates on the banks' rates. For instance, ASA follows Sonali Bank Limited – a public sector bank – to set its interest rates for savings.

3.7 IMPACT OF REGULATION

The passing of the Act has given the microfinance sector the needed legal backing. NGO-MFIs are required to submit detailed information of their microfinance programmes biannually, based on which the MRA assesses their performance. This has/will result in:

- Higher accountability, enhanced transparency and improved processes
- Closing down of inefficient MFIs
- Reducing the mushrooming growth of MFIs with no check on quality
- Increased commercial borrowing as banks are sure of the quality of the institutions. (Commercial funds have already exceeded the funds supplied by PKSF).
- NGO-MFIs playing a greater role in agriculture, SME funding, international and domestic remittance services, which traditionally have been provided by the government.

However, some of the issues listed above will pose challenges. For example, as the number of registered MFIs increase (estimated to be around 1,000 within two to three years), simply collecting accurate information from them on a half-yearly basis, based on self-reporting, will require extensive resources; the MRA may not yet be equipped to perform these monitoring and supervisory functions.

“The large MFIs have

started making changes in their products to comply with the regulations, which had its initial set back both for the MFI and its clients. Understandably the small and medium level NGOs do not pose any challenge to regulation. If government can have separate regulation for at best 10 large NGOs, it is possible for the MRA to regulate the sector effectively. To allow for increased savings mobilisations, it was felt that the larger NGOs should be granted banking licenses”.

*--Md Shafiqul Haque Choudhury
President, ASA, Dhaka*

“Following introduction

of the regulation, mushrooming growth of microfinance NGOs has stopped. The fraudulent microfinance NGOs, if any, will disappear soon and the effective NGOs doing microfinance can be easily accounted for as there is a licensing authority”.

*- Lila Rashid
Director, Microcredit Regulatory
Authority (MRA), Dhaka*

4. (MICRO) DEPOSIT SERVICE PROVIDERS, PRODUCTS, METHODOLOGIES

4.1 PERFORMANCE OF MF-NGOS IN DEPOSIT MOBILISATION

Microfinance initiatives were initially credit-led since there was a myth that the poor people cannot save, which has now been proven wrong by the robust microsavings market in Bangladesh and elsewhere across the globe. To develop regular saving habit and thus create financial assets for poor members, the Grameen Bank, and subsequently by all other NGO-MFIs, made compulsory savings a precondition for receiving loans.⁴⁵ Clients were thus told to save small amounts every week as *compulsory savings*. Clients could not withdraw these savings when there was a loan outstanding; they could only withdraw the entire amount when their membership ended and they left the organisation. Earlier, some NGO-MFIs deducted additional forced savings up front on the loans disbursed, but this unpopular practice was discontinued by most NGO-MFIs in the mid 1990s. The unspoken reason for these compulsory savings was to create some collateral for the microcredit loans, and most clients saw them as part of the expense of securing a loan.

In the late 1990s, NGO-MFIs started to provide voluntary savings services to their clients, which allowed the withdrawal of savings as and when clients wanted.⁴⁶ While some NGOs introduced this product in addition to the compulsory savings, a few, introduced it as the only savings product. BURO Bangladesh pioneered this approach, and introduced a fully open and flexibility voluntary savings product, requiring its clients to maintain a minimum balance of just USD 0.14 (BDT 10) to keep the account active. ASA, in part, followed suit, requiring clients to keep 10% of their loan outstanding as savings balance – later this rate was then reduced to its present level of 5%. The BRAC continues to maintain compulsory savings only, but does allow savings withdrawals in special cases.⁴⁷ The experience of BURO showed that after some initial massive withdrawals, clients began to deposit more and the net savings balance grew rapidly.⁴⁸ However, perhaps because of the 10% (and later 5%) lock-in component, the ASA did not have the same experience.

In the mid 1990s, some NGO-MFIs introduced recurring deposit products, commonly referred to as a *deposit pension scheme* (DPS). Clients could choose to deposit a specified amount every week for a chosen period, say 1, 2, 3, 5, 7 or 10 years and earn interest in the range of 7-14% per annum. This was immensely popular with both, the clients and the NGO-MFIs, and it increased the volume of savings significantly.

Towards the end of the 1990s, some NGOs introduced fixed deposit savings service with one to 10 year durations with varying rates of interest.. However, these fixed deposits were not popular. The growth in savings trends in the top four MFI-NGOs is shown in *Figure 20*. (*The Grameen Bank has its own separate section below*).

⁴⁵ Md. Fazlul Kader, General Manager, PKSF, Dhaka

⁴⁶ Ibid.

⁴⁷ S N Koïry, Director of BRAC Bank Ltd and Finance Director, BRAC, Dhaka.

⁴⁸ M Mosharraf Hossain, Finance Director, BURO, Bangladesh

“With the passing of the

Act, NGO-MFIs now operate under a law and are not subject to frequent harassment with regard to governance, rate of lending, etc. or by government officials or political leaders. Now, we get respect from the Deputy Commissioners and Upazila Nirbahi Officers (UNO) who regularly hold monthly meetings with us.

-M Mosharraf Hossain

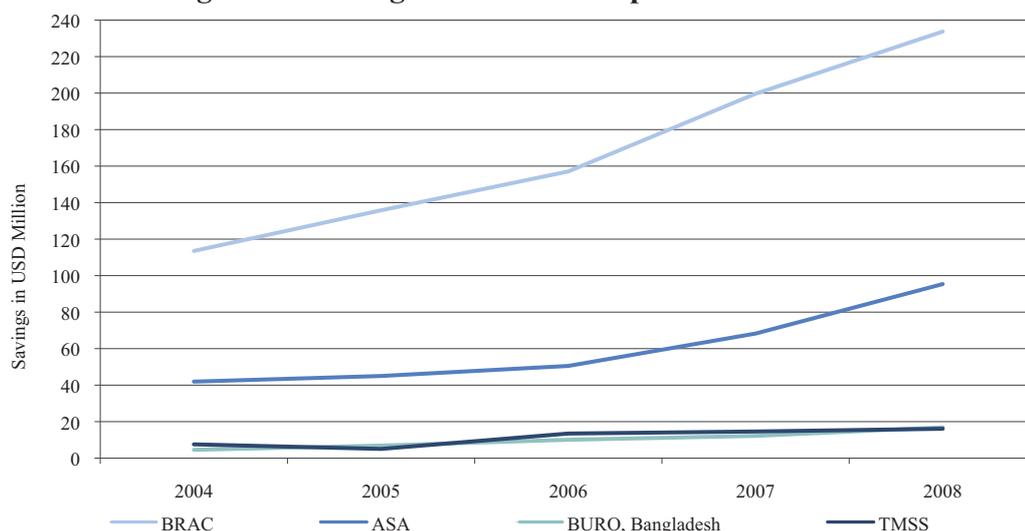
Chairman, Credit and Development

Forum (CDF), Dhaka

Mobilising savings by MFIs has two key implications.

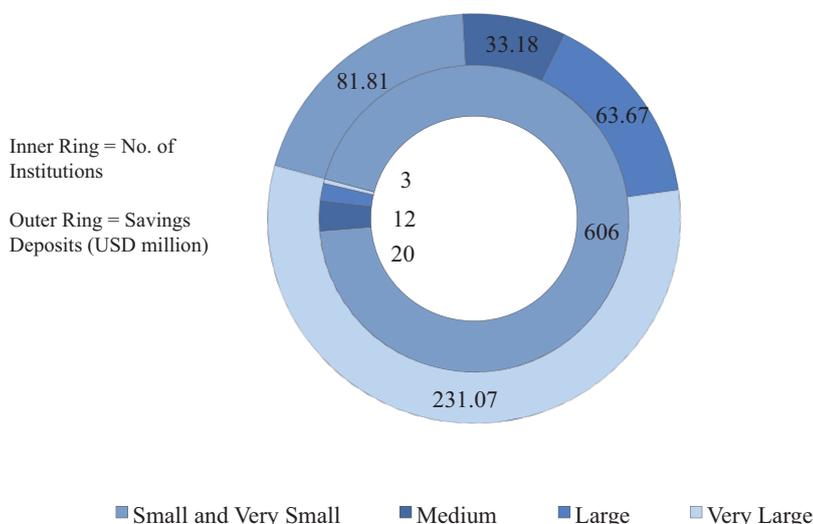
- Savings mobilisation increases the probability of client retention, which is important in Bangladesh’s highly competitive environment.
- MFIs are able to fuel their own loan funds through savings (rather than through more expensive commercial capital).

Figure 20: Saving Trends of the Top Four MFI-NGO



Total savings of the 641 registered NGO-MFIs, as per CDF prior to the new MRA regulations, was USD 409.73 million in June 2006. The average savings per member of NGO-MFIs is USD 17.89 (BDT 1,207). However, out of the 641 institutions, only seven have average per member savings exceeding USD 74.13 (BDT 5,000). Thirty-five of the major players in the sector mobilise 80% of the total savings, and three of the very large organisations have mobilised 56% of the savings. Meanwhile, 606 small organisations, representing 95% of institutions in the sector, have mobilised only 20% of the savings⁴⁹ (see *Figure 21*). The amount of per member savings increased from USD15.22 (BDT 1,207) in 2006, to USD19.76 (BDT 1,333) in 2007 and 21.46 (BDT 1,448) in 2008 (though the average amount is likely to be skewed due to the size of larger NGO-MFIs).⁵⁰

Figure 21: Savings Mobilisation by NGO-MFIs (in USD Million)



⁴⁹ NGO-MFIs in Bangladesh, Volume-V, June 2008, Micro credit Regulatory Authority (MRA), Dhaka
⁵⁰ Ibid.

4.2 PERFORMANCE OF GRAMEEN BANK IN DEPOSIT MOBILISATION

Grameen Bank tested its Grameen II model in 2001 and rolled it out in 2002. This model was drastically different from the classic Grameen model and had savings mobilisation at its core instead of credit. The model recognises that people need savings services as much as they need credit.

As a result, the model yielded tremendous results and the bank, which took 27 years to reach 2.5 million members, tripled its membership within five years of rolling out Grameen II. By 2010, its wide range of products enabled it to reach a staggering 7,970,000 clients and mobilise deposits of USD 17.91 million.

At present, Grameen Bank's authorised capital is USD 7.41 million (BDT 500 million) and paid up capital is USD 4.71 million (BDT 318 million). Members own 94.34% of Grameen Bank shares and the remaining 5.66% is held by the Government of Bangladesh. The outreach of Grameen Bank is shown in *Table 3*.⁵¹

The bank has eight savings products for both members and the public.⁵² These include:

- Personal Savings (open to all)
- Grameen Pension Scheme (Grameen Bank members and staff)
- Special Savings (Grameen Bank members)
- Loan Insurance Savings Fund (Grameen Bank members)
- Double in 7 years –Term Deposit (open to all)
- Fixed Deposit (open to all)
- Fixed Deposit with monthly income (open to all)
- Other fund (Grameen Bank members & others).

Though Grameen Bank started with microcredit, the deposit to loan ratio is now 146%, and 1,717 branches (out of 2,564 branches)⁵³ have more savings than loans outstanding. The sudden growth of savings from the year 2000 is attributed to the introduction of Grameen II, especially the popular Grameen Pension Scheme (GPS), which can be used for any purpose, not just retirement. The GPS is a long-term, recurring deposit savings with a generous commitment of 12% interest per annum. GPS has since been extended to non-members and has attracted not just the poor, but also the better-off within the villages.

⁵¹ http://www.grameen-info.org/index.php?option=com_content&task=view&id=453&Itemid=527

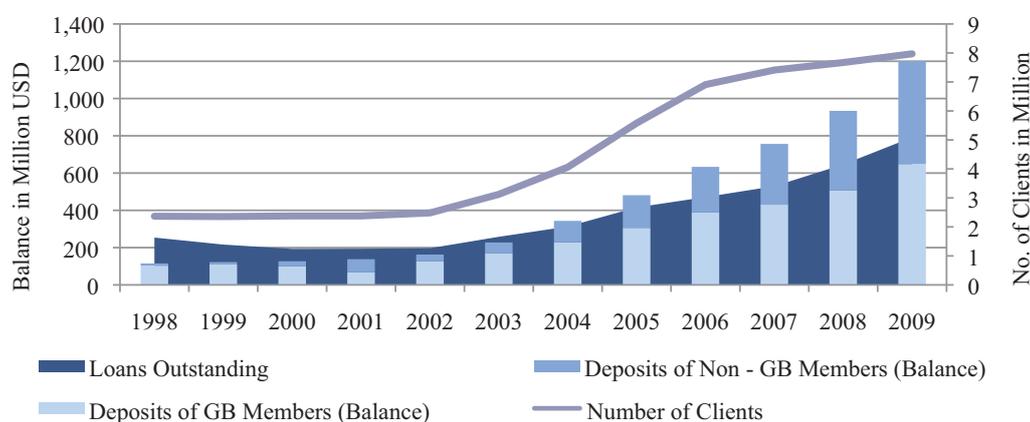
⁵² *The Grameen Bank Generalised System, 2002, Dipal Chandra Barua, General Manager, Grameen Bank, Dhaka.*

⁵³ [://www.grameen-info.org/index.php?option=com_content&task=view&id=453&Itemid=527](http://www.grameen-info.org/index.php?option=com_content&task=view&id=453&Itemid=527)

TABLE 3: OUTREACH DETAILS OF GRAMEEN BANK

Parameters	Achievement (as on August 2010)
Total Number of Groups	1,279,573
Total Number of Villages	81,371
Total Members	8,304,294
Total Number of Branches	2,564
Total Deposit	1,352.11 USD

Figure 22: Deposit and Loan Balance of Grameen Bank



After a difficult period of stagnation and compromised portfolio quality, the Grameen Bank has grown significantly both in the number of customers served and in profitability. It took Grameen Bank 27 years to reach 2.5 million members; the membership doubled soon after the establishment of Grameen II. Even in Bangladesh’s fiercely competitive environment, Grameen Bank continued to grow at a remarkable rate, attracting almost 140,000 new members each month – a staggering 1.7 million new members every year in 2005 and 2006. In the three years till December 2005, Grameen Bank’s deposit base tripled and loans outstanding doubled. In the same period, the bank introduced a more conservative provisioning policy and built up a formidable loan provision for its troubled housing loan portfolio. At the same time the quality of the loan portfolio significantly improved, as did profitability; despite much heavier loan loss provisioning, profits soared from around USD 0.82 million (BDT 60 million) in 2001 to USD 7 million (about BDT 442 million) in 2004. Previous clients, who had dropped out, are returning and some old defaulters are repaying to re-join. Market-led Grameen II is yielding very encouraging results.

TABLE 4: OUTREACH OF THE BANKING SECTOR

Year	No. of Banks	Number of Branches ⁵⁶	Population per Branch ⁵⁷	Number of Deposit Accounts as a % of Adult Population ⁵⁸	Total Deposit (in USD billions) ⁵⁹
2004	49	6,303	21,443	38.42	19.66
2005	48	6,412	21,420	39.50	23.05
2006	48	6,562	21,171	40.78	27.58
2007	48	6,717	20,920	42.02	31.86
2008	48	6,886	20,566	43.83	37.97

⁵⁴ Annual Report, Bangladesh Bank, 2006-07 & 2008-09

⁵⁵ http://www.afj-global.net/downloads/GPF_Atiur_Rahman_2.pdf

⁵⁶ Adult Population : defined as population above age 15

⁵⁷ Annual Report, Bangladesh Bank, 2006-07 & 2008-09

However, with the rapidly increasing liabilities – primarily driven by the programmed GPS – Grameen Bank may face increasing pressure to lend in order to finance the 12% per annum interest rate that these savings attract. Grameen Bank is unlikely to find this level of return on investment in the traditional fixed deposit market and therefore, may have to finance the interest payable through its own lending operations – either to its traditional client base (and those that have graduated out of poverty as they have used Grameen Bank’s services) or to the other better-off members who have joined the bank to access the attractive fixed deposit or contractual savings products.⁵⁸

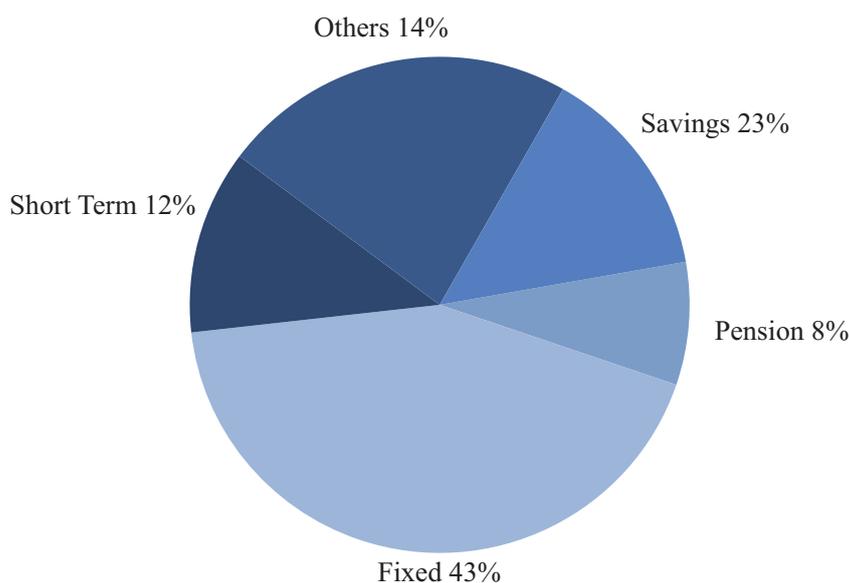
4.3 PERFORMANCE OF BANKS IN DEPOSIT MOBILISATION

Table 4 provides the outreach trends of the banking sector. Though the table shows a large number of banks and an increase in the deposit base, it should be noted that only 29 million accounts have balances below USD 370.64 (BDT 25,000), amounting to a total of USD 2.43 billion (6.39% of the total), meaning that a majority of accounts are serving the well-off.⁵⁹ (The per capita deposit in Bangladesh is USD 299.75 (BDT 20,218).)

Banks offer a range of savings products. Highlights on some of the 14 different kinds of savings products (Figure 23) are described below.

- Fixed deposits account for 43% of deposit growth, which increased by 16.4% by December 2007 and by 28.5% at the end of September 2008.
- Basic saving deposits account for about 23% of deposits with a growth rate of 10.1% to 11.8% over the same period.
- Short-term deposits saw sharp growth of 12% in March 2008, followed by decline of 21.0% by the end of September 2008, likely due to the increase in inflation and possibly because of the decline in agricultural output from the cyclone-affected areas (and people therefore needed to withdraw funds).
- Other deposits rebounded to a growth of 10.9% in September 2008 from a decline of 1.2% in 2007.⁶⁰

Figure 23: Product Distribution of Banks



⁵⁸ MicroSave Briefing Notes on Grameen II #8: Lessons From The Grameen II Revolution, Wright Graham A.N., Cracknell and Rutherford

⁵⁹ Scheduled Bank Statistics, Bangladesh Bank, July-Sept '09, Table #32

⁶⁰ Annual Report 2008-09, Bangladesh Bank

Table 5 below presents the performance of banks over a three-year period.

Type of Bank	2006			2007			2008		
	No. of Branches	Total Deposits (USD bn)	Rural Deposits	No. of Branches	Total Deposits (USD bn)	Rural Deposits	No. of Branches	Total Deposits (USD bn)	Rural Deposits
SCB	3,384	9.7	23.65	3,383	10.37	21.87	3,386	11.25	22.43
DFI	1,354	1.49	35.92	1,359	1.71	33.88	1,362	2.04	32.65
PCBs+Islamic	1,776	14.16	6.62	1,922	17.05	7.65	2,082	21.51	8.05
FCB	48	2.23	0	53	2.72	0	56	3.17	0

The private commercial banks (PCBs) and Islamic banks are growing at a faster pace than other bank types. Deposit mobilisation by different types of banks shows that deposit growth of foreign commercial banks (FCBs) and PCBs is higher than that of state-owned commercial banks (SCBs) and specialised banks (SBs). However, banks are seen to be moving away from the rural market and focusing increasingly on urban areas. Banks are perceived as the most secure option to save but they are accessible largely only to the higher economic section due to their product attributes and their delivery mechanism.

The practice of Islamic banking started in 1983. Presently there are seven dedicated Islamic banks with 429 branches, and nine private banks have 20 Islamic banking branches. The Islamic banks are immensely popular due to their adherence to religious norms and constitute 26% of deposits within private commercial banks.

Islami Bank - Bangladesh

Established in 1985, Islami Bank is the oldest and largest Shariah-based bank in the country. In Bangladesh, where 90% of the population is Muslim, the bank has earned the respect and trust of millions of people. Presently it has 210 branches and 15 dedicated SME centres. For the low income market, Islami Bank has developed a special microfinance programme under its Rural Development Scheme, which is operated from almost 90% of its branches (all branches except the city branches). In addition to health, education, sanitation and credit support, Islami Bank requires all beneficiaries to open a Mudarba Savings Account, where every week, they must save a minimum of BDT 10 (USD 0.14). This is a basic savings account without cheque facilities. (However, most clients save BDT 100 [USD 1.37] every week.) The savings collection and withdrawal happens through the bank's field officers. Islami bank presently has a total of USD 13.34 million in savings from nearly 400,000 clients.

Islami Bank - Bangladesh (continued)

In addition to its Rural Development Scheme, Islami Bank has a popular monthly recurring deposit scheme known as the “*Mudarba Special Savings (MSS) Scheme*”, which is accessed by a wide range of clients ranging from garment factory workers to businessmen with monthly income of USD 444.77 (BDT 30,000) and above. Twenty-seven percent of Islami Bank’s deposit base is derived from the MSS Scheme. The salient features of the scheme are as follows:

- It is a recurring deposit scheme with monthly installments of USD 7.41-296.52 (BDT 500-20,000) and a 5-10 year maturity period
 - > Initially BDT 100-200 per month were also allowed, but very few clients wanted to save that little
 - > Installments must be deposited between the 6th to 25th day of each month
- The preferred tenure of investment is 10 years
 - > Most people save in MSS for future lumpsum needs, such as education or marriage of children etc.
 - > 20-25% of clients, however, take pre-mature withdrawals after 3 - 5 years
 - > For every pre-mature withdrawal, the clients benefit/return is based on how long they have continued the scheme
 - > The return on MSS is as follows
 - 5 years: 1.1 * profit (6.9% for last 3 years): 7.59%
 - 10 years: 1.3 * profit (8.2% for last 3 years): 10.66%
 - Premature withdrawal: 4.5%
- The return can be withdrawn as lumpsum or in monthly installments; however, most of the clients prefer the lumpsum withdrawal option.

While word of mouth and religious sentiment play an important role in the promotion of the product, inward remittances also create substantial footfall in Islami Bank’s branches, and this provides opportunities to cross sell the MSS and other products. However, it is said that customer service is suffering from these high volumes of clients and management has a dilemma since they believe that the ATM network is not an appropriate strategy for their clientele, many of whom are illiterate.

4.4 PERFORMANCE OF THE POSTAL DEPARTMENT OF BANGLADESH IN DEPOSIT MOBILISATION

The Bangladesh Postal department is a state-owned and -run organisation, attached to the Ministry of Post and Telecommunication. The Savings Act, 1873, is still enforced which operates the saving bank accounts. The products offered by the Post Office were introduced by the Government under the National Board of Revenue (NBR) Act. Of the 10,000 outlets, 2,000 post offices are run by government salaried staff, while the other 8,000 rural branches are run by agents who are paid an honorarium. Of the 2,000 post offices, 471 (24%) are located in urban areas and 1,529 (76%) are in rural areas.⁶¹ Post offices can

⁶¹ M Mobasherur Rahman, Director General of Post Office and Md. Siraz Uddin, Director (Banking and Insurance), General Post Office, Dhaka provided this information during interview.

be found at all union levels in the country. People have confidence in its services since the Post Office is a governmental organisation. However, poor quality of service has turned clients away from the post offices, and thus, the potential to use the postal network to tap the savings in rural areas remains unrealised.

In addition to conventional postal services, it also provides six savings products and one insurance product in all 2,000 of its branches. The products include:

- *Family Savings Product* – Women can invest a minimum of USD 148.26 (BDT 10,000) and maximum USD 40,000 (BDT 3 million) in a single name and USD 90,000 (BDT 6 million) in joint names with an 11% interest rate. Interest on this account is exempted from income tax.
- *Savings Certificate (Sanchayapartra)* – Provides three basic savings products:
 - a) *5-Year Bangladesh Sanchayapartra (Five-year fixed deposit savings certificate)*: A maximum amount of USD 74,128.98 (BDT 5,000,000) can be invested by an individual. The account earns an interest of 12% over a five-year term. If the client withdraws before this period, s/he gets 8% in the first year, which increases by 1% for every complete year the money has been deposited.
 - b) *Tin Mash Ontor Munafa Vittik Sanchayapartra (savings certificate with quarterly profit sharing)*: A minimum of USD 1,482.58 (BDT 100,000) must be invested by the client. This offers 11% interest in the third year, if the client does not withdraw before maturity. The product yields 8.5% and 9.5% in the first and second years, respectively, if the purchaser of the certificate withdraws before maturity. Interest is paid every three months in this scheme.
 - c) *Pensioner Sanchayapartra (pensioner savings certificate)*: This scheme is offered only to a person who has retired from a government or semi-government autonomous body and has served for a minimum of 20 years and has reached the age of 55 years. Dependents of a deceased employee can purchase certificates under the family pension scheme. No age bar is applicable for them. A minimum of USD 741.29 (BDT 50,000) has to be invested for a period of five years under this scheme.

The post offices also offer products for low-income/poor people:

- *Ordinary Savings Accounts*: People can save a minimum of USD 0.14 (BDT 10) daily and make withdrawals twice a week. The maximum amount that an individual can deposit is USD 37,064.49 (BDT 2.5million). The account earns 7.5% interest per annum before taxes.

- *Fixed Deposit Accounts:* Where people can save a minimum of USD 1.37 (BDT 100) for 1, 2 and 3 years and a maximum of USD 0.04 million (BDT 3 million) in one name and USD 0.09 million (BDT 6 million) in joint names. These accounts earn 8%, 9% and 10% interest, respectively. Interest on this account is exempt from income tax.

The overall savings programmes of the Bangladesh Postal department are significantly popular and grew by 26.8% in 2009, as found in *Table 6*.⁶²

4.4.1 POSTAL INSURANCE

The Postal department also offers life insurance products to clients. There are three types of insurance that include a whole life policy premium payment, ceasing at the age of 50, 55, 60 or 70 as per the contract or upon death, whichever occurs earlier. The products are:

- Postal Life Insurance
- Endowment Assurance
- Endowment Assurance for Marriage and Education

These are “no profit, no loss products” offered by the department, and the entire surplus is distributed amongst the policyholders as a simple reversionary bonus. The premium rates charged on postal insurance are comparatively the lowest in the country. Premiums can be paid monthly, quarterly, half-yearly or annually. It can be paid in cash at post offices or it may be deducted from monthly salaries. A loan up to of 90% of the surrender value of a policy after two years is available to the policyholders to meet the immediate financial needs.

Postal Life Insurance offered by the Bangladesh Postal department is given in *Table 7*, indicating that net premiums paid by clients remained level in 2009.⁶³

FY 08	FY 09
Net Collections	Net Collections
0.54 (BDT bn)	0.53 (BDT bn)
8.0 (USD mn)	7.9 (USD mn)
<i>*Provisional</i>	

4.4.2 ELECTRONIC MONEY ORDERS

Electric money orders – based on the post office’s own mobile phone network – are also available in some post offices (104 to date). The post office aimed to introduce electronic money orders in all of its 2,000 branches by end of year 2010 and then roll it out in the

⁶² Annual Report (08-09) of Bangladesh Bank

⁶³ *Ibid.*

remaining 8,000 thereafter. Once the mobile transfer product is in place, then the savings products will be introduced gradually on the new mobile platform. ^{64,65}

4.5 PERFORMANCE OF THE DIRECTORATE OF NATIONAL SAVINGS IN DEPOSIT MOBILISATION

The Directorate of National Savings (DNS) is attached to the Department of Internal Resources Division (IRD), which, in turn, works under the control and supervision of the Ministry of Finance (MOF). The DNS was formed under the provision of the Public Debt Act, 1943, with a primary objective to motivate people to invest in different savings instruments. When Bangladesh was formed, the Government brought all district-level savings offices under the DNS, thus, post offices and commercial banks function as commission agents of DNS to sell government savings instruments all across the country.

Total borrowings under NSD instruments,⁶⁶ including postal savings in USD billion, are as follows:

TABLE 8: TOTAL BORROWINGS UNDER NSD INSTRUMENTS

Name of Scheme	FY 08 Net Sale	FY 09 Net Sale
NSD Instruments	0.37	0.54
<i>*Provisional</i>		

4.6 PERFORMANCE OF CO-OPERATIVES SOCIETIES IN DEPOSIT MOBILISATION

Co-operative societies have a long history but have only recently emerged as a popular savings conduit, especially in urban Bangladesh. Though they are not professionally managed and lack efficiency, clients prefer the flexibility they offer in terms of processes, services and product features. Co-operatives in Bangladesh are not typical financial co-operatives in the sense that they are member-focused and-owned. Due to relaxed regulations, many are often set-up by one to three individuals/promoters, created for their personal benefit. Indeed many MFIs, rejected by the MRA, are doing exactly this. Co-operative societies, can be categorised into three segments:

- **Asset Co-operatives:** Savings of the clients accumulate for a long duration only to culminate into the purchase of a joint asset, which in most of the cases is a piece of land or a building for residential or commercial purpose.
- **Savings Co-operatives:** Have a portfolio of diverse savings products, such as recurring and fixed deposits. These organisations invest the funds collected in some other business of the parent organisation and do not generally promote internal credit among clients.
- **Multipurpose Co-operatives:** Offer both savings and credit to members (see “*Case of a Multipurpose Co-Operative*”).

⁶⁴ M Mobasherur Rahman, Director General of Post Office and Md. Siraz Uddin, Director (Banking and Insurance), General Post Office, Dhaka provided this information during interview.

⁶⁵ <http://www.bangladeshpost.gov.bd/ViewNews.asp?NewsID=6>

⁶⁶ Annual Report (08-09) of Bangladesh Bank

Case of a Multipurpose Co-operative: E-Shikha Bahumukhi Samabay Samiti

E-Shikha Bahumukhi Samabay Samiti is a multipurpose co-operative society operating in the Mirpur area of Dhaka. It is a five-year-old organisation with 17 employees, most of whom are field agents. Like any other multipurpose co-operative, *E-Shikha* mobilises deposits from and gives loans to clients. At the end of December 2009, *E-Shikha* had 1,545 members who collectively deposited USD 30,000, of these 928 were borrowing. The co-operative had a portfolio outstanding of USD 60,000 (the remaining funds generated from the owner's own investment). The average monthly deposit collection of *E-Shikha* is USD 4,447.4 to 7,412.90 (BDT 300,000 to 500,000) for all members.

The client profile of *E-Shikha* ranges from garment factory workers and vegetable vendors, who have a monthly income of USD 45-75 (BDT 3,000-5,000), to shopkeepers in the Mirpur market, who comfortably earn USD 300-445 or BDT 20,000-30,000 per month. *E-Shikha* has realised that these clients in the Mirpur slums and market are quite versatile in their savings and credit behaviour and therefore, has developed saving and loan products separately with varied options for daily and weekly saving instalments as well as individual and group-based lending. Recently, *E-Shikha* realised huge savings potential in the area and focussed more on deposit mobilisation than earlier. Some innovative aspects of *E-Shikha* which helps it attract clients in the competitive environment are:

- It has a segmented approach for its versatile clients. The small balance deposit (and credit) is collected weekly through group based methodology; the high value deposits, mainly from shop-owners, are collected through daily collections by dedicated agents. This is because:
 - > Their weekly group based clients are mostly small vegetable vendors and garment factory workers, who do not have a daily cash-flow. Also, it is cost-effective for them to target these customers through a group-based approach.
 - > Shop owners have daily cash-flow and would prefer to have daily collections. Also these shop-owners have fluctuations in income across the days of a month and hence demand more flexibility in the savings instalment amounts, which can be best managed by their daily collectors.
- *E-Shikha* has three different types of savings products for three different kinds of needs :
 - > Term savings product with the flexibility of withdrawal from 1-7 years. The return on these savings is 10-11% per year.
 - > A monthly regular savings product which can be leveraged to access a loan. The products has a 5-7 year term. This product has an effective interest rate of 19% per year.
 - > An innovative Lakhpati Scheme in which the maturity amount determines the instalment per month. For example, if a client wishes a maturity amount of USD 1,482.58 (BDT 100,000) after 10 years, s/he needs to save about USD 5 or BDT 400 per month. The product has a flexible maturity period of 3, 5, 6, 8 and 10 years with a maturity amount of BDT 100,000, 200,000 or 300,000. The effective interest rate is approximately 14% per year, but it has proved to be a high growth product mostly due to clients' perceptions that the product is easy to understand, and the product is simple and affords good returns.

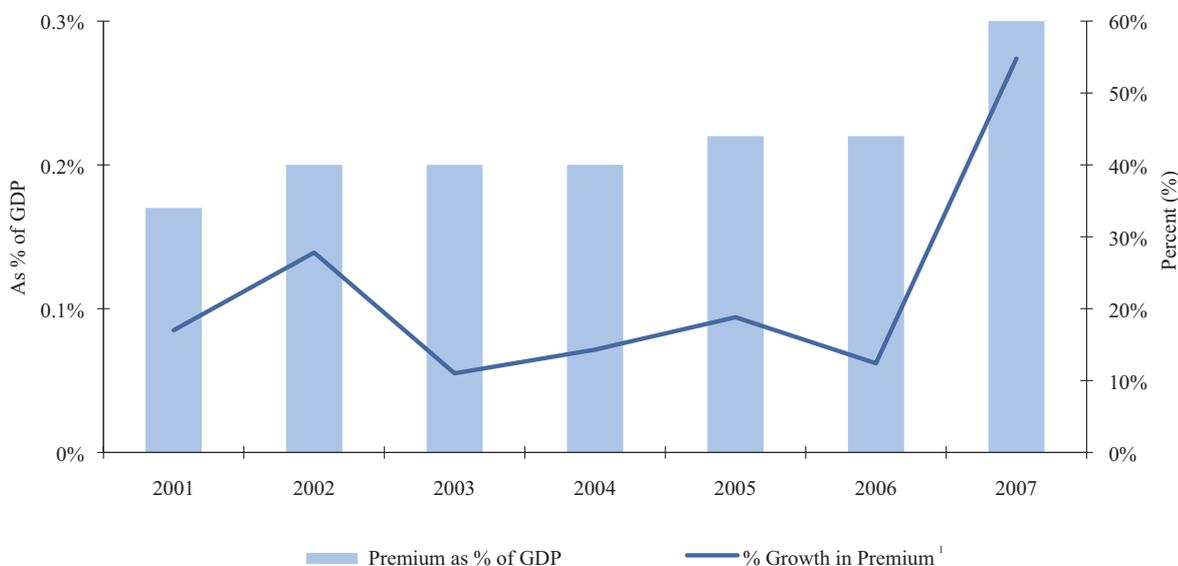
Co-operative societies typically cater to informal shopkeepers who have large cash flows and need convenient doorstep services, as they cannot afford to leave their business to visit the service provider. The co-operative societies take advantage of these circumstances and customise their services to suit the needs of their small client bases in terms of both product design and personalised delivery.

4.7 PERFORMANCE OF INSURANCE COMPANIES IN DEPOSIT MOBILISATION

A total of 62 insurance companies operate in Bangladesh, of these 18 provide life insurance and 44 are in the general insurance field. The life insurance companies, include the state-owned Jiban Bima Corporation (JBC), the foreign-owned American Life Insurance Company (ALI CO), and 16 local, private companies. Among the general insurance companies, state-owned Shadharan Bima Corporation (SBC) is the most active in the insurance sector. A total of 31 insurance companies are listed on the stock market, of which eight offer life insurance.

Figure 24 shows the growth of the general insurance sector and its contribution to the GDP through premium income. After a slow initial growth in the premium income from 2001-06, the sector realised a significant increase in 2007. However, despite this growth, insurance penetration is still only 0.7% of the population (as on 2007).⁶⁷

Figure 24: Premium Income and Premium Growth of the General Insurance Sector



¹ Figure 24: Premium income as % of GDP is “insurance penetration”, we can use this term here and should not use the penetration for the percent of people having insurance.

The private insurance companies have developed an effective agent network that covers even the most remote villages across the country. They follow the NGO-MFI structure of doorstep service delivery and interact with clients individually. This, coupled with the promise of huge lump sums at the time of maturity, have helped them expand very quickly. Insurance is largely used as a long-term savings instrument for any planned event, such as marriage of children, old age, business start-up, etc.

⁶⁷ Original Source: Swiss Re. http://www.irdaindia.org/annual_handbook/Table%202026.%20Insurance%20Penetration%20and%20Density.xls

Table 9 below details the products offered by a typical private insurance company. (Sunlife Insurance is used in this example).

TABLE 9: PRODUCT OF SUNLIFE INSURANCE	
ATTRIBUTE	DETAILS
Positioning	<ul style="list-style-type: none"> • Typical life insurance is difficult to pay as the premium amount is high for low-income people. This product is the same as the premium is collected in smaller instalments to make it easier for the poor to pay.
People (Member Profile)	<ul style="list-style-type: none"> • This product is for low-income people, daily labourers and small retail shopkeepers. • This product can also be used by beggars, if they can save USD 0.09 (BDT 6) per day for 30 days or USD 2.67 (BDT 180) per month. • Those with a daily income of USD 4.45 (BDT 300) open an account of USD 2.97 (BDT 200) per month. Those with a daily income of USD 2.22-2.97 (BDT 150-200) open an account of BDT 100 monthly. • Members are in the age of 18-40 years. • The agency has added 500 clients in the last 10-15 months. Each of the six field officers (FOs) have an average target of five new clients per month. • Only 5% of people, mostly wholesalers, in the area access banks but this agency is for all.
Process	<ul style="list-style-type: none"> • The collection date is between 1st and 20th of the month. • People appreciate the doorstep collection method as they don't have to stand in queues. • The FO collects the money and brings the passbook to the office. Receipts are issued the following day and delivered to the client's house. (There is a risk in allowing the FO to issue receipts, as it can lead to fraud due to the literacy level of clients). • If clients shift to another district, their account can also be shifted for no extra cost. • Seasonality affects income; payments are difficult in the rainy season and easy in winters. • FOs can collect partial payments, but only pay the full sum to the office. This helps if clients have problems in saving up (but raises its own set of risks).
Product	<ul style="list-style-type: none"> • Similar to an NGO-MFI DPS scheme. Minimum of USD 1.48 (BDT 100) per month for 10 years, which yields USD 177.91 (BDT 12,000). The rate of interest is 15%. • If members have paid the premium for at least five months, they can withdraw USD 177.91 (BDT 12,000) in case of the client's death. • Deposit amounts can be USD 1.48 to 14.83 (BDT 100 to 1000). If the deposit amount exceeds USD 14.83 (BDT 1000), the client must open another account, but the target client is not so affluent. • If a client has made deposits for 13 months, the member will receive the full amount, but after 10 years. • If a client has made deposits for 25 months, the member will receive the full amount plus interest, but after 10 years. • If a client has made deposits for less than 13 months, the member will forfeit the entire amount, as it is needed for cost recovery of acquisition of the client. If the amount is large, then this may be treated as an exception.
Price	<ul style="list-style-type: none"> • The staff persons have a combination of fixed salary (USD 44.48 [BDT 3000]) and variable incentives. A mix of parameters, such as number of new policies and collection rates, are used to set the incentives and are incremental. • No fine for non-payment for three months. A fine of BDT 20 for non-payment beyond three months.

Microinsurance has emerged as a significant financial service in the sector. Most large and medium NGO-MFIs have introduced very basic microinsurance products, covering the life of the client and in some cases the spouse as well. Generally USD 0.7 or 0.15 (BDT 5 or BDT 10) is charged against each USD 14.83 (BDT 1,000) of a loan. In the event of a client's death, the loan outstanding is waived and the client's accumulated savings are returned to his/her nominee. Very few NGO-MFIs offer insurance for health or livestock, and no formal insurance companies in Bangladesh provide life and health insurance products for poor or low-income people. To provide more professional life insurance for the poor, International Network of Alternative Financial Institutions (INAFI) Bangladesh has launched a four-year pilot test involving two products⁶⁸ with 11 microfinance NGO-MFIs covering more than 60,000 clients. USD 0.92 million premiums have been collected and a total of 102 claims have been settled for USD 10,000. The INAFI is considering floating a commercial company to capitalise the success of the pilot test and provide microinsurance to microfinance clients.⁶⁹ The PKSF is also piloting an insurance scheme for poor people.

4.8 PERFORMANCE OF INFORMAL SERVICE PROVIDERS

Informal savings mechanisms are not governed or monitored by any law. These mechanisms are used parallel to the formal and semi-formal sectors but are not accounted for, and therefore no concrete data is available regarding the size of the informal sector for savings.

The *MicroSave* team, in the course of conducting a qualitative market research for the study, tried to ascertain the usage level of various informal savings mechanisms prevalent in Bangladesh. These are broadly:

Savings in-Kind: Saving by investing in livestock or land (non-cash based) serves the twin purpose of having an asset put to use (often leased out) and is also relatively liquid, ideal for meeting emergency requirements. Many respondents felt that paying for their children's education or a trip abroad for work was also a form of savings.

⁶⁸ Simple Term Life Insurance (STLI) is available for single and spouse. Premium is monthly paid @ BDT 5 or its multiple. While term life insurance with endowment (TLIE) is also monthly and premium is paid @ BDT 50 or its multiple.

⁶⁹ Atiq Un Nabi, Executive Director, INAFI and M Shazzadul Karim, Project Director, MIME, INAFI Bangladesh.

Microinsurance Products by NGO-MFIs

A study titled 'Inventory Analysis of Micro Insurance Products in Bangladesh,' by InM revealed that 37 of the 42 (88%) NGO-MFIs surveyed provided some form of microinsurance product(s). Of the 37 MFIs, 64% are small and medium size MFIs. All of the small MFIs in the sample offered only term life insurance. Large MFIs offered insurance schemes that incorporated both credit risk and endowment.

- **Term Life Insurance:** More than 49% of the sampled MFIs offered term life insurance to protect against credit risk, while 27% offered another type of term life insurance that went beyond covering the loan amount.
- **Endowment Life Insurance:** Only 11% of MFIs offer endowment policies.
- **Health Insurance:** Grameen Kalyan (GK), Sajida Foundation and a few others offer health insurance schemes. GK provides health services through its network of 38 health centres in 32 upazilas in 12 districts.
- **Livestock Insurance:** Livestock insurance is offered by the few MFIs (including Grameen Bank) that offer livestock loans.

About 68% of the MFIs charge premiums as a percentage of the loan taken. Around 22% of the MFIs offering microinsurance charge a fixed amount as premium.

Claim settlements always takes less than 1½ months for any MFI, and 53% of them need only one to two weeks to settle a claim. Only some 5 % of MFIs require more than three weeks.

Rotating Savings and Credit Associations (RoSCAs), accumulating savings and credit associations (ASCAs) and savings clubs also exist in Bangladesh. These mechanisms are popular because of the ease of transactions and flexibility as the rules are made up by group members.

The informal savings methods/institutions vary widely, and are generally considered costly (particularly as they may occasionally fail) or have liquidity limitations (livestock, land, etc.). Savings in-kind was the most common informal savings mechanism used within the sample from the market research. ROSCAs, ASCAs and even money lenders were mentioned, but not as frequently as one would expect due to the availability of so many other providers, such as NGO-MFIs, co-operatives (found in almost every grocery shop), banks, postal services, etc.

5. SAVINGS PRACTICES IN BANGLADESH

Bangladesh has multiple financial service providers, formal and informal, making the market highly competitive. This competition gives clients many savings options to choose from and, in the process, has educated them on the need for savings, influenced their priorities in terms of how to use the saved money/sum, enabled them to do a detailed analysis of comparative positioning of service providers and devised improved risk management techniques.

Each of the demographic parameters detailed in Section 1 of this report influence the microfinance market. Based on those parameters, the low-income population of Bangladesh, can be categorised into segments which have very specific savings needs (see *Table 10*).

In Bangladesh, saving in-kind is a traditional and prevalent financial behaviour. In-kind savings can be for both personal needs to enhance quality of life (buy an asset for use) and for making small investments from which the family can earn small amounts (buying poultry or goats). In most cases, the expected income from the use or sale of the asset, and how it will be spent and/or saved is pre-planned. However, sometimes additional money, usually irregular, and sometimes unexpected income (for example, from a seasonal fruit securing a stronger price than expected in the market), come at different times of the year. While regular income is generally saved as cash savings in different schemes in NGO-MFIs, insurance companies or banks, these additional sums of irregular income are largely invested in simple in-kind mechanisms that are readily available.

The choice of a savings scheme is primarily based on:

- Purpose of saving, which determines how much is needed and after how long, and
- The cash flow, which will service it.

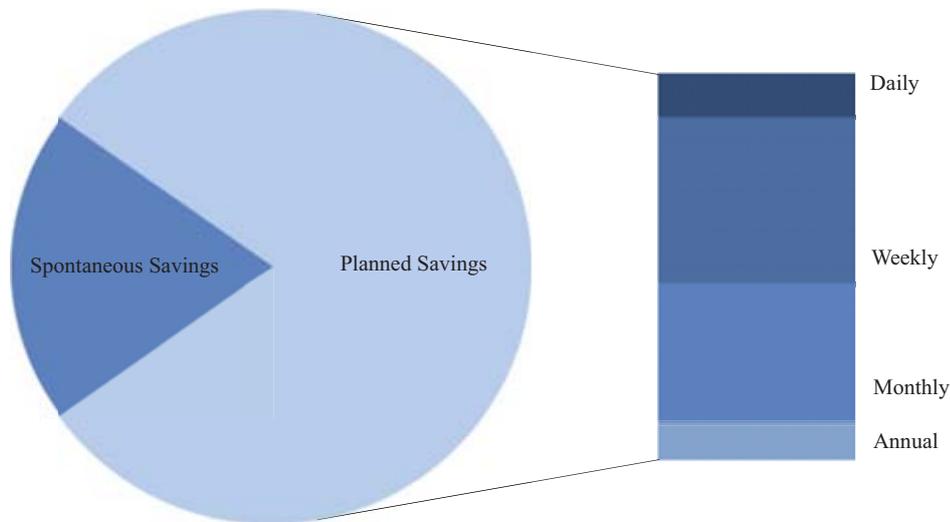
For cash savings, the frequency of saving is critical. During the research conducted as a part of this project, typical saving patterns emerged. These were predominantly planned and were made on a weekly and monthly basis (see *Figure 25*).

“Our income is limited

and so we keep a close track of it. Even before any income comes in our hand, we know where it will go. But if sometimes we manage to save up a little more, we invest it in anything we can around the house, so that we can use it when one of the many needs emerge.”

– Respondent from market research

**Figure 25: Savings Frequency
(Number of Times Discussed During the Sessions)**



People, especially women, tend to keep as little cash as possible in hand as it is usually spent. Thus, most of the savings are made through planned schemes, based on the household’s predicted cash flow.

- Monthly deposits are the most preferred, as they give people more time to manage their money.
- However, weekly deposits are more prevalent and people have adjusted to this, indicating they appreciate that it keeps the pressure on them to save.
- Daily savings are mostly for business-class people in the market areas where they have daily cash flows.

For long-term schemes, such as an MFI Deposit Pension Scheme (DPS) or a similar product for insurance, people either deposit quarterly, or more often, annually. It is also important to understand that people tend to use multiple service providers, as they are easily accessible and people prefer to diversify their risks.

“People saved in the past, people still save in the present and people will save in the future; there is nothing new about the need to save. However the options available now and the way we save have changed a lot over time.”

– A respondent

“Earlier people had to be educated about the need to save and had to be pushed to save. Nowadays people are not only aware about the need to save, but they also understand the pros and cons of different options available to them and they very often use most of what is available”.

- An MFI field staff person

The details of such financial behaviour is best understood through the example of Farida, a typical microfinance client.

Farida's Money Management System

Farida lives in a village 5 kilometres from the town of Comilla. Her family has some land and is primarily dependent on agriculture. The area is fertile and they usually have good crops. During the lean season, her husband sometimes works as a casual labourer in construction sites at Comilla. They have two daughters and two sons; the eldest (son) is now 21 years old. Below is a description of her income, expenses and savings cycle, which give an idea of how economically active Farida's family is and how they manage their limited income to meet diverse expenses.

Farida's family generates most of its income from two rice crop cycles – one harvest in winter (Jan/Feb) and another in summer (in April/May), usually earning more from the winter harvest. They also sell fruits and vegetables grown on the land around their house and in the fields between rice seasons (once a year). Farida's husband and son also buy fruits brought from India and sell these in the local market. They also generate income from the sale of milk from their three cows, one of which was leased last year and later gave birth to a calf. When times are difficult, the family also sells duck eggs, which are otherwise consumed by the family. Her son just bought a mishuk - a battery operated auto rickshaw – which is now yielding some income as well.



The family's major expenses include: 1) medical expenses for one of the daughters, who has been sick for a couple of months now and is being treated in Comilla, 2) servicing an MFI loan for the mishuk and a ROSCA loan for the previous rice cultivation season (of which her husband is a member), 3) recurring household expenses, including school fees for the youngest daughter, food expenses, etc., and 4) the annual celebration of Eid at the end of Ramadan also incurs significant costs.

Farida's savings initiatives to meet her needs:

Farida is a group member in three NGO-MFIs and the centre leader for one of them. She has:

- Three general savings accounts in which she deposits weekly. She withdraws money from them when needed, which is not usually more than once in 6 months.
- She also has two DPS accounts (recurring deposits), one for 5 years and another for 10 years. She pays one of them monthly and one weekly. One DPS is for her son who wants to go abroad to work; this will require about USD 4,447.74 (BDT 3,00,000) for the paperwork. The DPS will not cover this but the remainder will be taken as a loan or the family will lease out some of their land. The other DPS is to save up for the marriage of her elder daughter.
- Another 5-year DPS just matured and was used to buy the mishuk.
- She had opened an insurance account for a 12-year scheme, in the name of her younger daughter.
- Her husband has an account in Janata Bank in which they transfer money from the NGO-MFI accounts when they accumulate significant amounts. He also deposits some of his seasonal income in this account, awaiting the time when he sees a good investment opportunity.

Farida is worried if she will be able to save up enough for her elder daughter's marriage and for the expenses to send her son abroad, especially since the medical expenses for her younger daughter seem to be going up with every visit to the doctor. The amounts saved in the bank may have to be used for this emergency if the medical bills mount.

Farida’s story reinforces that the poor are economically active, and over time they become good money managers. They make good use of the many options available to match their limited income and varying cash flows with expenses. Decades of work with NGO-MFIs has developed a disciplined savings culture in Bangladesh. As people benefit from their savings, they are motivated to save more and also encourage others and the next generation to save. Savings is not only seen as a pre-condition to getting loans but as a separate service in itself. Indeed, a growing number of poor people see savings as a way of building lump sums, which is preferred over taking loans.

The microfinance sector caters to a very diverse market as seen in *Table 10* below. Based on the demographic parameters listed in Section 1 of this report, the market can be segmented based on:

- Level of income
- Cash flow trends and frequency of income – regular and/or seasonal
- Scope for investment of in-hand cash (more for those in business than those who are salaried)

TABLE 10: MARKET SEGMENTATION (THOSE MARKED IN GREEN ARE MORE COMMON IN RURAL AREAS)

Occupation Income Frequency	Self – Employed/Business		Salaried/ Labourers	
	Daily Income	Monthly/ Seasonal Income	Daily Income	Monthly/ Seasonal Income
Income Amount > USD 300 pm or BDT 20,000 pm	<ul style="list-style-type: none"> • Wholesale vendors in vegetable, fruit and fish markets (kacha bazaar) • Big grocery/stationery stores in populated areas • Families with multiple earners in vegetable market/fish market • Taxi drivers who own taxis 	<ul style="list-style-type: none"> • Farmers with their own land • Shops in Dhaka or suburbs of Dhaka and district towns • Supply driven goods shop, e.g., new innovative electronics items 		<ul style="list-style-type: none"> • People in government jobs • People in established private companies
Income Amount USD 150 - 300 pm or BDT 10,000 - 20,000 pm	<ul style="list-style-type: none"> • Owners of mishuk • Drivers of a rented taxi or CNG-run three-wheelers • Small grocery/cloth shops in populated areas • Tea stall owners/ stationary shop owners in busy markets or office areas 	<ul style="list-style-type: none"> • Farmer with small land and some livestock • Owners of small driving schools and garage • Small readymade garment shops in markets 		<ul style="list-style-type: none"> • Garment factory supervisors • Employees in small private companies, drivers of private cars or rented cars • Sales agents in small private companies • Government employees

TABLE 10: MARKET SEGMENTATION (THOSE MARKED IN GREEN ARE MORE COMMON IN RURAL AREAS)

Occupation Income Frequency	Self – Employed/Business		Salaried/ Labourers	
	Daily Income	Monthly/ Seasonal Income	Daily Income	Monthly/ Seasonal Income
Income Amount USD 45 - 150 pm Or BDT 3,000 - 10,000 pm	<ul style="list-style-type: none"> • Small vegetable vendors in kacha bazaar • Hawkers • Owners of small tea stalls (can be in rural areas also) • Rickshaw pullers (can be in rural area also) 	<ul style="list-style-type: none"> • Small business affected by seasonality (can be in rural areas also) • Tailors • Casual daily labourers on farms 	<ul style="list-style-type: none"> • Casual daily labourers on construction sites • Daily labourers – plumbers, electricians • Casual daily labourers in the village – farm, tube well repair, etc. 	<ul style="list-style-type: none"> • Garment factory workers • Workers in shops • Government employees • Domestic help • Private tutors in villages

5.1 REASONS WHY PEOPLE SAVE

Bangladesh's financial market offers a wide range of products to customers, as there is a multitude of players in the market, generating a highly competitive operating environment. As mentioned earlier, the purpose of savings is a key determinant in choosing the savings instrument. The purpose is determined by the financial pressure and urgency. The economic status of the client (and very often the level of educational and awareness) defines the amount saved to manage emergencies or for smoothing consumption. The reasons why people save are:

- Saving for any future expenses, especially those which are unanticipated, is the key driving force behind proactive savings behaviour. Saving for medical expenses especially can be extremely costly.
- Bangladesh is a country of cyclones and floods and people are usually from a very low-income category and thus vulnerable. They often spend large amounts in addressing risks and so they try to save lump sums to cope with unforeseen events.
- Money, often more than what can be comfortably saved, is needed to set up or expand a business. So people often use the savings as collateral to leverage loans or take a smaller loan by investing the cash savings.
- In rural areas, saving to buy land for farming or household use is a common practice. Excess land is leased out during the cropping season.
- In some regions, sending sons abroad for work is common. This requires significantly large sums of cash (in excess of USD 4,447.74 (BDT 300,000)).

- Meeting daily consumption needs (food, festivals, entertaining guests, small medical expenses) was a challenge for many respondents. Children’s education, in particular, creates a lot of pressure because large amounts are involved and come as a monthly expense. Also, this investment does not yield immediate returns. However, it is encouraging to note that many perceive children’s education as a form of savings for support in old age.
- Marriage expenses are quite steep because of the social status attached this creates financial pressure to save more.
- With an increase in income level, investing in a savings plan for old age becomes more common.

During a Life Cycle

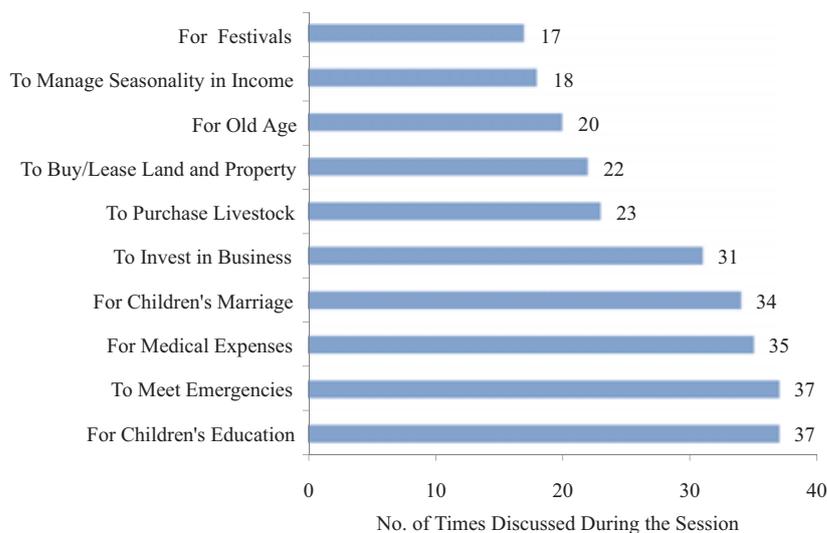
Analysis session, one respondent pointed at her daughter and said, “I am investing in her, sending her to school and paying little by little every month because one day she will get a good job and repay. She is my DPS (Deposit Pension Scheme) savings”.

- An MFI field staff person

In the research conducted as a part of this project, the following were identified as the most compelling reasons to save (Figure 26).

A plethora of service providers in the country ensures that new and modified/customised savings products are designed and introduced in the market more often. Products are replicated quite fast. While Grameen Bank and the large NGO-MFIs cover all 64 districts, smaller operators exist throughout local areas. The penetration of service providers is significant, except for areas with difficult terrain, like the hilly areas in the south-eastern part of the country.

Figure 26: Purpose of Saving



5.2 PREFERENCE OF SERVICE PROVIDER TO MEET SAVINGS NEED

Table 11 summarises clients' demands and the savings mechanisms commonly used to meet different needs. People assess the benefits of each provider and its product, estimate their own cash flow, plan how to diversify risks and choose the provider. However, as people can access multiple options to save virtually from their doorstep, they also tend to become involved with many providers just to test a new option or simply because a friend has requested them to join the group.

TABLE 11: NEEDS AND SUPPLIERS

Savings Needs	Preferred Supplier
<p>Doorstep Service:</p> <ul style="list-style-type: none"> The most critical attribute about saving is that it should be collected on time before the cash is spent on other demands. Thus, regular doorstep collection is key to any savings product. This is true for any kind of income – daily, monthly or seasonal and for saving for any purpose. For large sums of seasonal or one-time income, people do take the initiative to go to the service provider, but there is still a risk of the money being spent before it reaches the service provider as most of the families have many demands to meet. A significant demand by clients is to be able to withdraw small amounts from general savings also at the doorstep. This is because 1) they have opted for general savings only because they want some amount of their savings to be accessible and 2) to avoid incurring the high costs (financial and opportunity cost) associated with a branch visit for such small amounts. 	<ul style="list-style-type: none"> All MFIs, private insurance companies and co-operative societies provide doorstep services for collecting deposit/premium. Some MFIs allow withdrawal of a small amount, approximately USD 7.41 (BDT 500), at the group meeting; for most others, clients must visit the branch. Banks and the post office are the least preferred as they do not provide doorstep service.
<p>Returns:</p> <ul style="list-style-type: none"> Earning returns on savings is a key motivation to save. Returns can be in the form of interest for savings products or higher income in case of investment. Returns are valued if received in a lump sum. For long-term products, people prefer to receive interim returns rather than wait until the maturity of the product. For general savings, people consider the accumulation of cash to be a return. Investing in children's education or sending them abroad to work is perceived as saving that has long-term returns. For long-term savings, if clients have to close the scheme for some reason, they want some return on the saved amount, at least at the same interest rate as the general savings account. 	<ul style="list-style-type: none"> Returns are perceived to be highest if invested in any income generating activity, as it also increases income along with savings, but this comes with the risk of loss. Insurance companies are preferred for returns as they promise lucrative returns for large sums, as the maturity period is long. Interest offered by all MFIs is usually in the same range. Thus, the other benefits offered are compared. Banks are perceived to offer high interest, but as the cost of accessing service is high, this is quickly negated.

TABLE 11: NEEDS AND SUPPLIERS

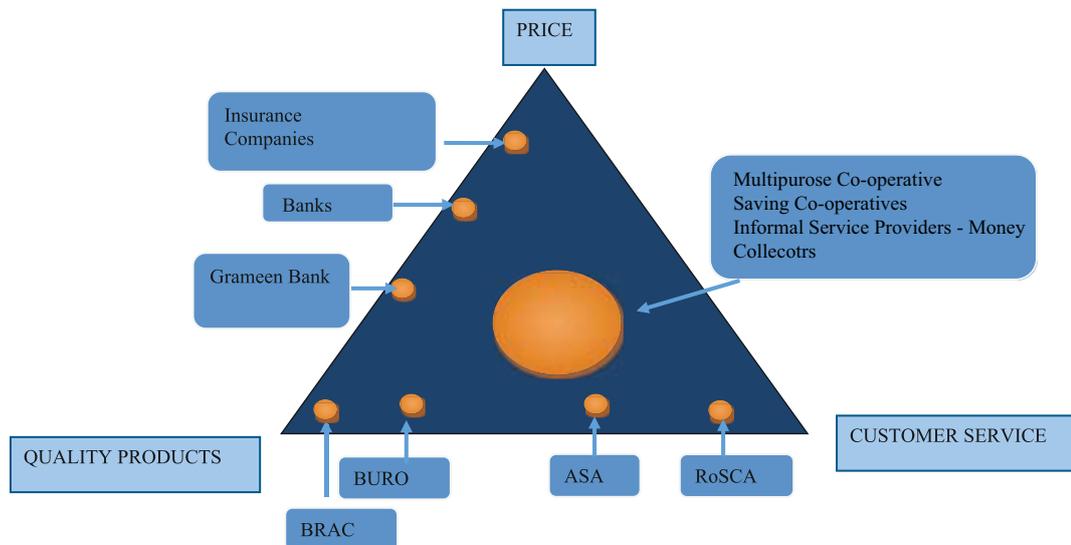
Savings Needs	Preferred Supplier
<p>Cashflow Based:</p> <ul style="list-style-type: none"> As people want to deposit small amounts at frequent intervals, which may be regular or irregular, it is important to note that the amount and frequency match the cash flow of the household. This holds for both regular savings and for seasonal lump sums. People want some flexibility in the product so that it can adjust to varying cash flows. Flexibility could be in terms of allowing adjustment of savings against a loan repayment instalment or to allow non-payment of savings for a week or two when cash flow is low. People need both liquid and illiquid services – where their deposits are not accessible (usually for long-term savings) and also where their deposits are accessible (for general savings to meet recurring or urgent needs). This is true for both deposits and withdrawals. Withdrawals are needed when cash in hand is low. 	<ul style="list-style-type: none"> To adjust to cash flows people always save in different institutions as this also addresses the issue of risk diversification. Clients prefer MFIs/co-operatives that allow adjustments of loan instalments with savings, etc. Options to deposit lump sums of seasonal income – which can also be accessed when needed – are limited with MFIs, so such cash deposits are usually made in the bank.
<p>Open Withdrawal Options:</p> <ul style="list-style-type: none"> Clients want a mix of both voluntary and compulsory savings, depending on the purpose for saving. Overall, they want access to the money they have saved when they need it most. The withdrawal rate is usually very low; it is more the option to withdraw which is in demand. Amounts less than USD 11.86-14.83 (BDT 800-1,000) are usually arranged from neighbours and relatives, and amounts only in excess of that are withdrawn. Cash is not withdrawn unless really needed. Thus it is important that the process of withdrawal is easy. Withdrawals are likely to be in response to pressing emergencies. In case of discontinuing a long-term product, clients want access to the amount saved at the time of discontinuation. 	<ul style="list-style-type: none"> The rules for withdrawing from the general savings account are largely the same for all providers. Thus, the preferred providers are those who allow withdrawal at doorstep or allow adjusting repayments with savings (if the cash is needed to pay a loan instalment). Recurring deposit (DPS) products of MFIs and co-operatives are preferred over insurance, as the amount is returned at the time of account closure and because people do not have to wait until the end of the maturity term.

If the complete set of products offered by these providers is added to a simple perceptual map, the financial landscape is clearly saturated, at least in the most accessible parts of the country. Supply is largely in line with the demand on most aspects though no product meets the demand completely.

However, in a market which provides multiple choices, the tendency to save with many service providers remains. The demand for higher returns will always remain in a market as highly competitive as Bangladesh. As all providers must remain price competitive and most, if not all, can easily copy the products offered, financial service providers may want to make further improvements in customer service and increase flexibility. It is here that the technology could play a significant role in revolutionising the sector once again by improving efficiency for service providers and offering enhanced convenience and security for customers. Access to a mobile phone (landline and/or mobile) increased from 2% of the population in 2000 to 39.6% (61.8 million subscribers just for mobile phones, not counting landlines) in July 2010. Efforts now need to be made to promote a technology-enhanced environment, using channels, such as mobile phones and POS devices, to deliver even more effective, efficient and secure savings services to the citizens of Bangladesh.

However, one must not take the simplicity and cost-effectiveness of current systems for granted. The biggest competitor to cutting-edge mobile banking systems is simple and easy-to-use systems that have been perfected over time, such as the widely used courier system for remittances. For example, many women borrowers from the market research exercise were reluctant to use mobile-banking as they personally did not own a mobile phone (though someone in their household did), and privacy and confidentiality is a key concern of theirs.

Figure 27: Simple Perceptual Map



- Banks seem to give high returns and also have different kinds of products, but they have very poor customer service. Thus, banks are placed on the price-product axis, more towards price.
- Insurance companies promise the highest returns as the savings are long-term, which helps accumulate large lump sums. Therefore, they are placed nearest to price. However, this too is relevant only for the insurance companies with a good reputation.
- MFIs are typically grouped around the product-customer convenience axis, however, each of the larger MFIs have a clear position. While BURO leads in quality financial products, BRAC is appreciated for their comprehensive approach and ASA is perceived to be more customer-oriented as they have simple processes and give additional benefits, such as doorstep withdrawals.
- Grameen Bank has a good range of products and is perceived to provide higher returns. It is thus placed on the product-price axis.
- The large middle section indicates a group of mushrooming service providers that do not have very distinct positioning (whether on price advantage, product quality advantage or efficient service advantage). However, as their numbers are huge and they are in close proximity to the client, they are very prominent.
- Doorstep delivery, easy processes and good behaviour by staff are key and have become the norm for most institutions, except banks. No institution specifically dominates the customer service corner of the triangle. However, RoSCAs are more convenient as rules are set by the people themselves and are perceived to be more customer-oriented.

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