

# COMMERCIALIZATION OF MICROFINANCE

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## BANGLADESH

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## FOREWORD

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The microfinance industry landscape has begun to change significantly in recent years. Yet, the outreach of the industry remains well below its potential in the Asia and Pacific region. If the full potential of microfinance for poverty reduction is to be realized, it is essential to expand its outreach substantially. It is in this context that commercialization of the industry has become a subject of in-depth study. Although many industry stakeholders appear to believe firmly that commercialization is necessary, there is inadequate understanding of the complex process of moving toward a sustainable microfinance industry with a massive outreach.

The Microfinance Development Strategy of the Asian Development Bank (ADB), approved in June 2000, provides a framework for supporting the development of sustainable microfinance systems that provide diverse high-quality services to traditionally underserved low-income or poor households and their microenterprises. One element of this strategy is support for development of viable microfinance institutions that can set in motion a process of commercialization of microfinance services. As a first step, ADB approved in November 2000 a regional technical assistance project on Commercialization of Microfinance, to improve understanding of the process of microfinance commercialization as well as its challenges, implications, and prospects. The project, which was financed from the Japan Special Fund, has three components: country studies on microfinance commercialization; in-country workshops to discuss the country studies and specific institutional experiences; and a regional workshop to discuss each country study and institutional experiences in a comparative context.

The countries chosen for study—Bangladesh, Indonesia, Philippines, and Sri Lanka—represent different stages of development and commercialization of the microfinance industry.

The Bangladesh country study was carried out by Stephanie Charitonenco of Chemonics International Inc. and S. M. Rahman, an independent consultant. Their report, presented here, was first presented at the Country Workshop on Commercialization of Microfinance, held at the Bangladesh Rural Advancement Committee (BRAC) Centre for Development Management, Rajendrapur, Gazipur, Bangladesh, 2–4 April 2002. Workshop participants provided valuable input to refine the report and improve its relevance.

This publication is one of a series of papers resulting from the project. The series comprises four country reports (on Bangladesh, Indonesia, Philippines, and Sri Lanka, respectively) and a regional report covering these countries.

It is hoped that this publication series will contribute to a better understanding of the issues involved in commercialization of microfinance and lead to better approaches toward a sustainable microfinance industry that will provide a wide range of services to poor and low-income households not only in the Asia and Pacific region but also in other regions.

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## ABBREVIATIONS

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ADB	Asian Development Bank
ASA	Association for Social Advancement
BRAC	Bangladesh Rural Advancement Committee
BRDB	Bangladesh Rural Development Board
BURO	Bangladesh Unemployed Rehabilitation Organization
CDF	Credit and Development Forum
CGAP	Consultative Group to Assist the Poorest
CIB	credit information bureau
FSS	financial self-sufficiency
FY	fiscal year
GDP	gross domestic product
GNP	gross national product
MFI	microfinance institution
NGO	nongovernment organization
OSS	operational self-sufficiency
PKSF	<i>Palli Karma-Sahayak</i> Foundation
RASUS	<i>Rupgonj Artha Samajik Unnayan Sangstha</i>
RLF	revolving loan fund
Tk	taka
TMSS	<i>Thengamara Mohila Sabuj Sangha</i>

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## CURRENCY EQUIVALENT

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Currency Unit	–	taka (Tk)
Tk1.00	=	\$0.0175
\$1.00	=	Tk57.00

The value of the taka is fixed in relation to a basket of reference currencies with the US dollar as the intervention currency. For the purposes of calculations in this report, an exchange rate of \$1.00 = Tk57.00 is used based on the mid-rate of buying and selling exchange rates on 31 December 2001, unless otherwise noted.

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## NOTES

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(i) The fiscal year (FY) of the Government ends on 30 June. In this report, FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2000 ends on 30 June 2000. The FY of Sonali Bank ends on 31 December.

(ii) In this report, “\$” refers to US dollars.