Microcredit Regulatory Authority

Financial Institutions Division, Ministry of Finance
Government of the People's Republic of Bangladesh

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1. Introduction

The microfinance of Bangladesh is well known as one of the largest microfinance sectors in the world. The government established the Microcredit Regulatory Authority (MRA) to build a conducive microfinance sector which will alleviate poverty and increase financial inclusion by ensuring transparency and accountability in the country's microfinance activities. Since its inception, MRA has been working tirelessly for the overall development of the country's microfinance sector through issuing licenses, formulating rules and regulations and determining procedures. This huge microfinance sector consists of MRA-licensed Microfinance Institutions (MFIs), Grameen Bank, and various ministries and agencies of the government. Banks and NBFIs are providing financial services near to 7 crore people through conducting credit, deposits as well as various social development activities that help to develop micro-entrepreneurs and human resources as well. As of June 30 2023, only MRA-licensed 731 MFIs have provided microfinance related various services to about 4.08 crore clients.

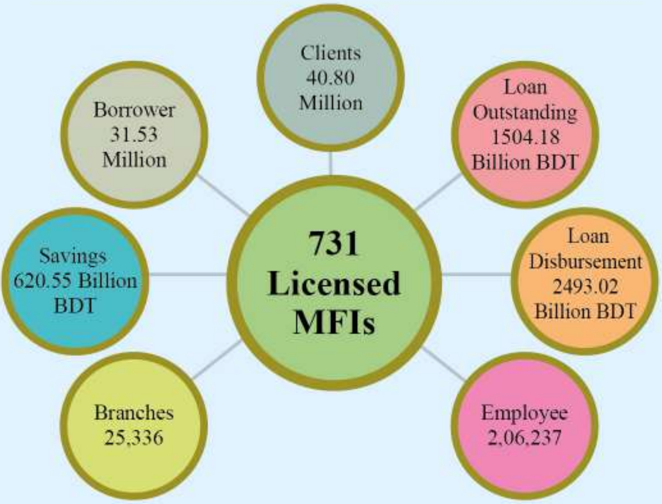
2. History

Following the independence of Bangladesh, Bangabandhu Sheikh Mujibur Rahman, the greatest Bengali of all time and Father of the Nation, gave instructions to grant collateral and interest-free loans to small or micro borrowers to protect their interests and develop the fate of the underprivileged. The first interest and collateral-free microcredit introduced in 1974 under a project named Rural Social Services (RSS). Just after taking office in 1996, the Honorable Prime Minister Sheikh Hasina, the daughter of the Father of the Nation, gave proper importance to the development of policy formulation of this sector.

Following the completion of a detailed study in this field in 1997, significant steps were accomplished including the creation of Microfinance Research and Reference Unit (MRRU) and a steering committee at Bangladesh Bank in 2000. Following this, the Microcredit Regulatory Authority Act, 2006 was passed in 2006 and the Microcredit Regulatory Authority (MRA) was established under this Act.

Subsequently, to ensure effective, transparent and proper regulation of the Microfinance sector, "Microcredit Regulatory Authority Rules, 2010", "the Depository Safety Fund Rules, 2014", and "Microcredit Information Rules, 2020" have been formulated. In addition, the service charge rate has been reduced to 27% initially from 35-45% and in 2019 to 24% determined and implemented. Moreover, the minimum interest rate of saving at 6%, minimum of 15 days Grace period, Loan loss provision etc. has been implemented.

3. At a Glance, the Microfinance Sector Under MRA



(Source: MRA-National database-June, 2023)

4. Vision

To ensure poverty eradication and sustainable development of the country by establishing a transparent and accountable microfinance sector.

5. Mission

To create a conducive and healthy environment for the microfinance institutions, generate employment and develop micro-entrepreneurship by ensuring effective and efficient regulation to the microfinance sector.

6. Goals and Objectives

- To ensure transparency and accountability in the microfinance sector;
- To assist in the expansion and operation of microfinance activities by creating a conducive and proper environment for the microfinance institutions;
- To conduct research on important issues of the MF sector and improve the quality of the services;
- Creating skilled manpower, increasing employment and building micro entrepreneurs;
- Empowering women by increasing credit facilities for women;
- Bringing dynamism to the activities of microfinance institutions, developing financial & asset management and improving the quality of the services.

7. Important Work

- Issuing licenses for operating microfinance activities;
- Formulating policies for the microfinance sector;
- Conducting inspection to the microfinance institutions;
- Disposal of irregularities unveiled during inspections;
- Taking necessary action against the organizations those fail to protect the interests of the clients;
- Analyzing the financial and management reports submitted by microfinance institutions (MFIs);
- Approving various policies of the MFIs including the charging names and address, conducting social developmental activities.
- Providing eligibility certificate to MFIs for taking loan from domestic and foreign lending agencies/Banks;
- Providing the required non-objection certificate for raising funds from the capital market;
- Providing training to the human resources of the microfinance sector;
- Publishing research and publications related to the microfinance sector;
- Disclosure of the information related to the Right to information and self-motivated information;
- Introducing ease of doing business and online based services;
- Conducting innovative activities;
- Implementing the Government Fifth year plan, Visions and Sustainable Development Goals (SDGs);
- Following the Annual Performance Agreement (APA), Innovation and Integrity policy;

- Providing no objection certificate for conducting bank linkage loan services, remittance services, mobile financial services, agent banking etc.;
- Providing approval for collecting term deposits;
- Giving permission for conducting various types of income generating/profitable activities other than micro credit;
- Coordinating among Microfinance Institutions (MFIs), Palli Karma-sahayak Foundation (PKSF), Public-Private Banks, Bangladesh Bank, Ministries and other stakeholders;
- Rendering responsibilities for the development of the sector;
- Conducting all development works.

8. Board of Directors

The highest policy-making body at MRA is the Board of Directors, which consists of 8 members. The Governor of the Bangladesh Bank serves as the Board's ex-officio Chairman, and the Executive Vice Chairman (EVC) of MRA serves as the Member Secretary. The responsibility in this regard is currently carried out by the Board of Directors, which is chaired by the Governor of Bangladesh Bank and includes the Secretary of Financial Institutions Division, the Ministry of Finance, the Managing Director of PKSF, the Director General of NGO Affairs Bureau, and the Executive Vice Chairman of MRA.

9. Organizational Structure

MRA, a statutory body under the Financial Institutions Division of the Ministry of Finance, is led by an Executive Vice Chairman (EVC) and began its operations with two directors and 87 employees. At present, MRA is being operated under the leadership of EVC with 2 Executive Directors, 5 Directors and a total of 142 personnel.

10. Laws, Rules & Regulations and Circulars Issued

- The Microcredit Regulatory Authority Act, 2006 (Act No. 32 of 2006) was passed in the Great National Assembly on July 16, 2006 and the Microcredit Regulatory Authority (MRA) was established on August 27, 2006 under that Act;
- Formulation of Microcredit Regulatory Authority staff Regulations, 2009;
- Formulation of Microcredit Regulatory Authority Rules, 2010 & amendment in 2015 and 2022;
- Formulation of Depositor's Safety Fund Rules, 2014;
- Formulation of Microcredit Information Rules, 2020;
- The rate of service charge for microcredit has initially been reduced from 35-45% to 27% and later to maximum 24% in 2019;
- Ensuring minimum 6% interest on clients savings;
- Setting a minimum grace period of 15 days;
- Determining and implementing of Loan Loss Provision.

11. License Issue

As per Section 15 (1) of the Microcredit Regulatory Authority Act, 2006, it is mandatory to obtain a license for conducting microfinance activities in Bangladesh. The Microcredit Regulatory Authority (MRA) accepted the application for the license in the financial years 2006-2007 and 2011-2012 and issued the first license on 5 September 2007. The Authority issued licenses through a transparent way of verifying the records and activities of 5455 applicants. License is cancelled by MRA if satisfactory activities are not conducted. The authority has issued licenses to 882 microfinance institutions till June 2023 and among them, 151 licenses have been cancelled because of failing to operate satisfactory activities as per the existing rules and regulations. At present, 731 institutions are conducting micro-credit activities in 25,336 branches across the country through 2.06 lakh staff. For the third time, MRA sought online applications in February 2021 to issue licenses for carrying out microfinance services, and 1130 applications were submitted. According to the information based on June, 2023, 358 microcredit institutions are conducting microcredit activities after receiving the initial approval of the authority from the aforementioned applications.

12. Inspection Activities

One of the Authority's primary responsibilities is to on-site inspect Microfinance Institutions' (MFIs) operations. The MRA personnel physically inspect the institutions once a year to ensure appropriate accounting procedures and good governance. Field-level operations, the accounting system, and different administrative and managerial issues of microfinance institutions are carefully checked and tracked during the inspection. Officials from the MRA speak with the institutions' clients directly to assess whether or not the client's interests are being safeguarded.

In addition, the MFIs submit their audit reports to the authority and update their financial and operational status through MIS- National Database on a monthly, half-yearly and yearly basis which is then thoroughly checked by the MIS. More than four thousand inspections have so far been carried out, including 372 institutions for the fiscal year 2022–2023.

13. Publication and Research Activities

Every year, MRA publishes a statistical report entitled 'Microfinance in Bangladesh'which provides an actual picture of the microfinance sector in Bangladesh. In addition, MRA publishes Annual Report on its own activities and achievements of the microfinance sector, regularly. MRA has already completed one research collaborating with Management Dept. of University of Dhaka on "Role of MFIs in Borrower Graduation: Bangladesh Perspective ".

Ongoing research activities on the following topics: -

- Contribution of Microcredit (Microfinance) in GDP of Bangladesh;
- Digitalization of Microcredit/Microfinance in Bangladesh: Opportunities and
- Challenges;
- Impact of regulation on Microfinance sector of Bangladesh;
- Climate Change on Microcredit Ecosystems in Bangladesh.

Recently, IFC and MRA has joined in a research collaboration on Digital Transformation and offering of Digital Financial Services and Micro housing by MFIs".

14. Training

MRA arranges the requisite training for its personnel and the employees of microfinance institutions both domestically and internationally in order to increase efficiency for the development of the microfinance sector. The Authority is providing training to the staffs of the microfinance institutions in different terms on rules and regulations, accounting, financial and institutional management, preparation of financial statements, use of e-regulatory system, governance, integrity, service facilitation, innovation etc. More than 13500 officials of MRA-licensed microfinance institutions have been trained till now. MRA also provides various awareness training including financial literacy to the clients by microfinance institutions.

15. Social Development Activities

MRA-licensed microfinance institutions conduct various social development activities with their microfinance operation. The microfinance activities such as

(1) Pre-primary, primary and technical education activities, operating primary and secondary schools providing educational scholarships, etc. as educational services.

(2) Operating medical camps, the establishment of hospitals and diagnostic centers, etc as health services.

(3) Distribution of relief items among the flood victims, distribution of winter clothes, rehabilitation of the disabled, and operation of orphanages.

(4) Assistance in agriculture, fisheries and grazing of cattle etc. About 20% of the annual surplus of microfinance institutions is being spent on disaster management and social activities for overall development including poverty alleviation of clients. Institutions have played an important role as front liners tackling Covid-19. In the fiscal year 2022-23, microfinance institutions have spent Tk. 461 crore from their own fund for operating various social development activities.

16. Microcredit Utilization fields

In the economic development of the country, the role of Microfinance is enormous. MFIs don't only provide loans; they also follow up with customers to make sure they're using their money wisely and offer advice on how to promote their goods if necessary. Therefore, clients can enhance their income as well as employment opportunities by ensuring the proper utilization of their loans. MFIs play significant role in the country's socio-economic development as well as poverty elevation through providing loans to the following sectors:

- Agriculture
- Fishery
- Birds rearing
- Cow rearing dairy
- Goat rearing
- Poultry
- Prawn cultivation
- Crab cultivation

- Pottery industry
- Jute industry
- Cane products
- Bamboo products
- Thor Mat/Carpet
- Wooden products
- Glass industry
- Bronze industry

- Cottage industry
- Weaving industry
- Jamdani industry
- Tailoring
- Hyacinth cultivation
- Organie manur/varmicom post production
- Seasonal business
- Micro enterprise etc.

17. Recent Important Achievements

- Financial inclusion of 4.08 crore people of the country through micro-credit activities conducted by MRA-licensed MFIs, of which about 91% are women;
- In the last 15 (fifteen) years i.e. from FY 2008-09 to FY 2022-23, the number of clients, savings, loan outstanding and loan disbursement of the institutions increased to 4.08 crore clients, Tk. 62,055 crore, Tk. 1,50,418 crore and Tk. 2,49,302 crore from 2.48 crore clients, Tk 5,061 crore, Tk 14,313 crore and Tk 26,116 crore respectively.
- In addition to direct employment of 2.06 lakh people in microfinance institutions more than lakhs people have been employed directly by creating micro-entrepreneurs and conducting various income generating activities;
- About 20% of the yearly surplus income of the microfinance institution is spent for disaster management and social development works.
- Introduction of District Coordination Meeting on Micro-credit under the Chairmanship of District Commissioner.

18. Grihayan Fund

Established in the year 1997, Grihayan Tahobil was conceived with the noble objective of mitigating the housing crisis and alleviating poverty among the indigent and economically disadvantaged people of our society. This visionary initiative and its operational framework are a testament to the foresight of the Honorable Prime Minister Sheikh Hasina, exemplifying her government's deep-seated commitment to addressing the predicament of homelessness of the nation.

In addition to extending housing loans to rural individuals in need, Grihayan Tahobil is dedicated to the construction of dormitories and women's hostels, with a specific focus on catering to the female labor force in the garment industry. These housing endeavors are executed through collaboration with NGOs (Presently MFIs) across the country.

Under this program, Grihayan Tahobil provides a housing loan of Tk. 1,30,000 (Presently Tk. 2,50,000) for each predefined housing structure, as outlined in the schedule, via the intermediation of NGOs. The interest rates applied are notably modest, with Grihayan Tahobil imposing only 1.5% interest rate, while the participating MFIs charge 5.5% interest rate on the borrowers. The repayment period for these loans spans from 3 to 10 year.

This initiative is currently being executed by 174 microfinance institutions (MFIs), and as of June 2023, the total outstanding loan amount for these MFIs stands at 109.09 crores.

19. Database & E-Services

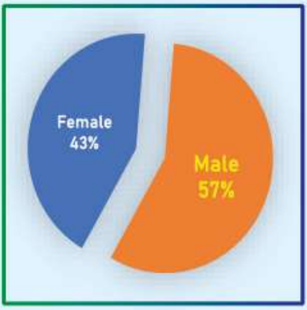
- Introduction of e-regulation in the microfinance sector;
- The Establishment of MF-CIB (waiting for piloting);
- Establishing National Database of Microfinance;
- Establishing IT-based microfinance sector;
- Introducing digital mapping of microfinance access points;
- Introduction of client Interest Protection Center (CIPC) to receive clients' complaints and suggestions in the microfinance sector;
- Introduction of MRA info;
- Introduction of MRA Hot Line Number (Number: 16133);
- Receiving and disposal of applications for Licenses through online.
- Introduction of E-filing/nothi digital archiving.
- Introduction of Biometric attendance.
- Personal Digital sheet (PDS)
- MRA E-Clipping
- MRA E-library
- MRA Jogajog etc.

20. Bangabandhu Higher Education Scholarship

The Bangabandhu Higher Education Scholarship program was introduced by the Microcredit Regulatory Authority in honor of Mujib Year for deserving disadvantaged students enrolled in higher studies in 2020. In context of this, the "Bangabandhu Higher Education Scholarship Policy 2020" is enacted by the Microcredit Regulatory Authority. The following criteria are used to determine a scholarship student's eligibility under this policy:

1. In order to receive scholarships, preference will be given to children of indigent clients of microfinance institutions. However, underprivileged but deserving pupils from the instituition's operating area may be taken into consideration;
2. The student should be studying in a Government Medical/Public University of Bangladesh at the undergraduate or graduate level;
3. The percentage of scholarships given to female students should be at least 40%;

In accordance with the policy, MRA-licensed MFIs after confirming their competence award a number of deserving students studying in public universities and government medical institutions around the nation monthly scholarships of Tk 3,000–10,000. According to information on the Bangabandhu Higher Education Scholarship, 116 microfinance institutions now have given a total of 974 students Bangabandhu Higher Education Scholarships valued about Tk 4.05 crore annually. This higher education program has an eight-year maximum length.



21. Raising the funds through Bond for the Microfinance Sector

The microfinance institutions, to build its loanable fund, can finance or borrow money from bank or other financial institutions. In addition, according to the rules 18 (1) (f) & 18 (1) (g) in Microcredit Regulatory Authority Rules, 2010, the microfinance institutions can collect fund from the capital market with NO-objection Certificate from the authority. The authority, till now, approved NOC to four microfinance institutions namely BRAC, TMSS, SAJIDA foundation, and BURO Bangladesh to raise funds from the capital market through issuing bond.

From the capital market, four institutions namely BRAC, TMSS, SAJIDA FOUNDATION, and BURO Bangladesh have issued diverse non-convertible zero coupon bonds, predominantly with a minimum tenure of 2 years. BRAC raised Tk 1,040.12 crore from a Tk 1350 crore face value, disbursing Tk 1,039.28 crore for micro-loans. Similarly, TMSS entered the market with Non-convertible Women Empowerment Zero Coupon Bonds, extracting Tk 122.40 crore out of the approved Tk 173.46 crore against a face value of Tk 200.10 crore, directing it into micro-loans. SAJIDA FOUNDATION, on the other hand, issued Non-convertible Green Zero Coupon Bonds, withdrawing Tk 90.75 crore out of the approved Tk 90.75 crore, distributing the total funds as micro-loans. BURO Bangladesh's Non-convertible Unsecured Fully Redeemable Sustainable Finance Zero Coupon Bonds issuance, with a called price of Tk 150 crore, is currently in progress to collect funds from the capital market.

22. Project Implemented by MRA

- After the establishment of MRA, a project worth Tk. 40 crore has been implemented with the funding of DFID for enhancing its capacity. MRA has started activities by renting 5,500 square feet office space.
- Implementing microfinance credit information bureau (MF-CIB) to enhance dynamism and transparency to the financial activities of Bangladesh's 4 crore microfinance clients. With a view to enlightening microfinance clients and micro-entrepreneurs of the country as well as continuing inclusive economic growth of the poor especially women, the Business Finance for the Poor in Bangladesh (BFP-B) project with the grant of UK Aid, FCDO (formerly DFID) started its operation in 2015 which ended in February 2021. The total allocation for the BFP-B project is 25 million pounds. Under this project, necessary steps were taken and implemented by the Microcredit Regulatory Authority to manage the establishment of MF-CIB for the microfinance sector and readiness. To this end under BFP-Project MRA has established MF-CIB Data Management Unit, Computer Training Lab, Completed Business Requirement and System Requirement Specifications and provided Technical Training to the software development team as well as MRA and MFIs staff for developing their skills. Consulting services for the formulation of rules and regulations are provided. Besides, validating MFI sector data and regular seminars and workshops with stakeholders in the microfinance sector are also conducted. Note that the necessary activities for the establishment of MF-CIB are currently being conducted by MRA with its fund. Besides, Bangladesh Bank is providing all kinds of technical assistance for the establishment of MF-CIB and pilot testing of MF-CIB has started after completing its software development.

23. Library

The Microcredit Regulatory Authority (MRA) has its own library. There are 2,800 books in the library including microfinance and economics related book. A recent addition to the library is "Bangabandhu Corner," which offers a vast collection of books and periodicals on Bangabandhu's life, accomplishments, and the Liberation War. Additionally, the work of establishing a digital library is going on.

24. MRA Website

The Microcredit Regulatory Authority (MRA) has a website attached to the National Information Window. On the aforementioned website, all information on MRA and micro-credit institutions is regularly updated. All details regarding the granting of licenses, their cancellation and suspension, temporary approval, License Application, staff, Microfinance operation, Act, Rules and Circulars, enlisted Audit Firms, Appointment, Complaints and NOC, Office Orders, digital maps of their main and branch offices, APA, Innovation, Citizen Charter, Annual Report, Workshop, Seminar, Views Exchange Meetings, Regional Meetings, Training, Development Fair, Observing Different Days, Hotline Number, etc.

25. MRA Building

Though Microcredit Regulatory Authority (MRA) started its operation from NSC Tower, Purana Paltan, Dhaka, MRA has been operating its activities from its own floor at Gulfeshan Plaza (6th Floor), 8, Shaheed Sangbadik Selina Parveen Sarak, Baro Mogbazar, Ramna, Dhaka-1217, from 2012. The Hon'ble Prime Minister has provided 10 kathas of land in the Agargaon administrative area for the establishment of MRA's own head office, where construction of a 14-story building has already begun.

26. Future Plan

MRA has conducted various activities to enhance the efficiency of the microfinance sector by ensuring good governance in microfinance institutions through strengthening supervision and providing training to existing human resources. In accordance with that MRA is going to ensure the full operation of the National Database of Microfinance and Microfinance Credit Information Bureau (MF-CIB), the establishment of Disaster Recovery Center (DRC), the completion of research on microfinance activities, formulating time needed rules and regulations and establishing information and technology-based microfinance sector such as:

- Establishing MF-CIB;
- E-news clipping
- Online inspections;
- Establishing digital library;
- Digital Transactions;
- Establishing Unified Software for all organizations.

27. Conclusion

MRA is determined to build the Hon'ble Prime Minister's proclaimed developed and SMART Bangladesh by 2041 and the Sonar Bangla of the father of the nation by elevating poverty through ensuring transparency and accountability in microfinance activities that involves in developing the living standards of marginalized people.