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Comparison of microfinance models in China and Bangladesh: the implications for institutional sustainability

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ABSTRACT

The study investigated the operational mechanism of key Microfinance Service Providers (MSPs) in Bangladesh and China. It seeks to understand diverse methodologies toward financial inclusion of the poor. A total six microfinance service providers were taken for critical evaluation consisting three from each country. A little variation on operational mechanism found among MSPs within the country but a greater variation has appeared between two countries. The most observable differences were- (i) outreach, (ii) service provision, (iii) collateral status, (iv) interest rate, (v) financial sustainability, and (vi) regulatory status which have direct influence on institutional sustainability. Findings of the study can help microfinance practitioners and policy makers to gain a better understanding on existing MSP and leads to further methodological improvement. Finally, the cross country comparison could bring win-win situation for both countries.

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Introduction

The present form of microfinance and microfinance movement has started since 1970s with the efforts of Prof. Mohammad Yunus (EIU, 2009). Microfinance is the financial provision to the poor who were traditionally not served by the conventional financial institutions. Microfinance service is not only limited to financial provision but include other things such as, savings, insurance, remittance, health, education, skill training and social awareness etc. It is well known that a comprehensive development cannot be achieved bypassing financial inclusion of the poor. Hence, Non-government Organizations (NGOs) and Microfinance Institutes (MFIs) have been promoting financial inclusion of the poor alongside government institutions. Thus, Microfinance Service Providers (MSPs) have expanded the frontier of finance by providing micro-credit and other financial services to the under-served poor in the world (Hartarska and Denis, 2008). With this success, microfinance has served 150 million borrowers with 39 billion USD in loans and holding 22 billion USD in deposits from 67 million clients (MIX, 2010, Pacheco et al, 2010). Meanwhile, financial access to poor has enhanced the latent capacity of the poor for entrepreneurship, income generation, self-reliance, creating employment opportunity, increase wealth and at the end reducing poverty. Microfinance is also playing a very crucial role in the growth of an economy as it has direct linkages with the people's livelihood.

In this development process, MSPs have developed and improved a good number of original methodologies and defied conventional wisdom to financing the poor with maintaining financial viability (Morduch 1999, CGAP, 2006). Noticeably, Bangladesh has made tremendous success in respect to developing innovative micro-credit model, service diversification, financial sustainability and reaching poor. Going ahead, Grameen Bank (GB) group lending model is one of most successful model. GB model has been widely replicating in the world with little modification according to the suitability of the specific regional environment. Similarly, China has been applying different credit models and developing innovative approach considering their country's environment. In reality, China's microfinance has greater prospect and huge demand as country has large rural populations, high numbers of unemployed workers, many Small and Medium Enterprise (SMEs) and micro enterprises, limited outreach to rural areas and high loan/deposit ratio of formal financial institutions (Rahman and Luo, 2011; He, 2008). An estimation shows that one third of the rural population (about 250 million) have no access to credit, and a significant proportion of these may be expected to qualify as potential recipients of microcredit (Geraci et al, 2010). Nevertheless, microfinance practitioners and policy makers have not paid enough attention to equilibrium the supply and demand gaps through developing innovative model and building a suitable market environment. More importantly, there is a lack of international orientation on microfinance services in China. With this circumstance, the present study critically evaluates the different approaches that have been used by major microfinance suppliers in Bangladesh and China for a better understanding. The paper is organized into two parts- first, provides an overall scenario of microfinance sector in Bangladesh and China, and then special attention is given in the aspect of the service provision, collateral status, outreach, interest rate, financial sustainability, and policy environment.

Research Methods

The paper was based on secondary sources of information. Data were collected from published articles, annual report of the selected MSPs, Microfinance Regulatory Authority in Bangladesh, China Banking Regulatory Commission (CBRC), China Association of Microfinance (CAM) and so on. A total six microfinance service providers (MSPs) were taken for critical evaluation consisting three from each country. Grameen Bank, Association for Social Advancement (ASA) and Thengamara

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Mohila Sabuj Sangha (TMSS) were chosen from Bangladesh side as their greater contribution in the microfinance sector. Meanwhile, Rural Credit Cooperatives (RCC), Village and Township Banks (VTB) and China Foundation for Poverty Alleviation (CFPA) were chosen from China on similar background (greater contribution in China's microfinance sector). More specifically, CFPA, RCC and VTB were selected as representative of NGO-type financial intermediaries, formal financial intermediaries and newly established financial intermediaries respectively. In reality, CFPA is most influential NGO type MFI in respect to geographical coverage and number of beneficiaries.

A Glimpse of Microfinance in Bangladesh

Microfinance services have started in 1970s as response to relief and rehabilitation needs of the post independent in Bangladesh. A huge destruction was made by Pakistan army during independence war in 1971. Hence, government received billion of dollars from several international donor agencies to rebuild the nation. Rightly, government and non-government organizations worked hand in hand to restoring livelihoods of the people through income generating activities (MIRB, 2009). Noticeably, NGO-MFIs have vastly widened their activities as social and economic empowerment of the poor. These services are micro-credit, savings, insurance, formal and informal education, training, health and nutrition, family planning and welfare, agriculture and related activities, water supply and sanitation, human rights and advocacy, legal aid, women entrepreneur development and so on.

In Bangladesh, there are four types of institutions involved in microfinance activities. These are- Grameen Bank, (a special kind of bank) NGO-MFIs, commercial and specialized banks, and government sponsored microfinance programs (BRDB, RDA-credit etc). Accordingly to MRA report, microfinance clients were exceeded 30 million (end June 2009) out of them 24.48 million were borrowers. The outstanding loans was Tk 152,334 million ($ 2,200 million) and balance of savings was Tk 47,680 million ($685 million) (MRA, 2009). It is noticeable that the repayment rate was around 100 percent for NGO-MFIs program while government program repayment rate was about 90 percent. In reality, Bangladesh has made tremendous success in microfinance sector as 80 percent of the poor has covered under microfinance services and remaining 20 percent are expected to be covered within the next two years (Microfinance World, 2009).

With the rapid expansion of NGO-MFIs activities and increasing inflow of external resources, the government concerned with transparency and accountability. Government established the NGO Affairs Bureau (NGOAB) in 1991. In fact, NGO-MFIs remained "unregulated" until Micro-credit Regulatory Authority Act of 2006 was formed by Bangladesh Bank (the central Bank of Bangladesh). Since then, MRA has registered/licensed 539 NGO-MFIs out of 4240 applied for (end of November, 2010). The remaining applicants are under reviewing process for registration. Recently, MRA has issued a guideline for NGO-MFIs after a fruitful discussion with different stakeholders (i.e NGO-MFI representatives, PKSF etc.) (MRA, 2010).

A Glimpse of Microfinance in China

Microfinance is young but promising industry in China was emerged in 1993 (MIFA, 2009). Several microfinance models have developed in diverse political and economic contexts and it has been trying to popularize of China (Sun, 2002). Accordingly, donors, government authorities, and NGO type MFIs come forward targeting poverty reduction through micro lending in the less developed regions in China (Aghion, 2002). For instance, Grameen Bank model was replicated by China Academy of Social Sciences (CASS) in 1993 in the six counties of China as an experimental case (Du, 2001). Consequently, micro-credit services have expanded whole over the country with the collaboration of government and NGO-MFIs. China's rural financial markets consist of three major micro-credit suppliers- first, the formal financial institutions i.e Rural Credit Cooperative (RCC), Rural Commercial Bank, Rural Cooperative Bank, Agricultural Bank of China (ABC), Agricultural Development Bank of China (ADBC) and the Postal Savings Bank of China (PSBC), second- informal lenders (including credit among relatives and friends) and finally various non- bank financial institutions (NGO type MFIs, and project based microfinance). Hence, formal market has been dominated so far by Rural Credit Cooperatives (RCCs) as special treatment by the government.

According to people's Bank of China recent report, as end of 2010, there were 2614 registered microcredit companies, about 100 NGOs and 275 village banks working in China (PBC, 2011). The increasing trend was quite impressive particularly it was true for MCCs (the number of MCC was increased by 2614 in 2010 from only 500 in 2008). Micro-credit services have reached 77 million households and have meet 20 percent of existing demand (MIFA, 2009). The China Association of Microfinance (CAM) reported NGO-type MFIs have accumulated assets 114.88 billion RMB ($16.89 billion) and outstanding loan was 57.77 billion RMB ($8.49 billion) as end of 2009 (CAM, 2009). Despite the success, the number of villages and towns without financial institution was estimated 2,792 as end of 2009. Even the number of villages and towns without access to financial services was 342 (Marks, 2010). So, it seems existing MSPs are not enough to meet up the microfinance demand in China or requires more favorable market for the financial intermediaries.

Realizing the situation, China Banking Regulatory Commission (CBRC) has encouraged MFIs and all banking financial institutions to offer micro-credit services to the traditional farming households, households in a variety of business, sole proprietors and rural micro and small enterprises. In addition, CBRC has allowed individual, corporate legal entities and other social organizations investment towards establishment of microloan companies since 2008. However, NGO-MFI legal status is either unclear or prevents from expanding their market. More specifically regulatory frameworks and policy governing microfinance remain vague and do not have a comprehensive framework in China.

Comparative Features of the Selected MSP

This section mainly covers the operational mechanism of the selected 6 MSP in Bangladesh and China. These include-

Outreach

Generally, outreach refers to the ability to reach large numbers of borrowers in a certain period of time. In financial point of view, outreach can be defined by economics of scale. However, Meyer (2002) noted outreach is multidimensional aspects which includes- number of clients served particularly the poor and women those are traditionally denied from financial access, and diverse service provision. Navajas et al (2000) mentioned six aspects for measuring outreach- depth, worth of users, cost to users, breath, length and scope. It is notable that micro-credit outreach has expanded most of the Asian countries in the last decades along with other financial services. Annex-1 shows the selected MSPs outreach status in China and Bangladesh. In general, microfinance outreach has expanded remarkably in Bangladesh overtime with respect to number of clients especially the women and geographical coverage. For example, Grameen Bank has extended services to 83,458 villages, with 2564 branch offices spread across country, serving 8.32 million borrowers (cumulative no. end of July 2010). Similarly, ASA and TMSS have extended services to 5.73 million and 1.8 million, with 3236 and 533 branch offices respectively spread all over the country (cumulative no. end of July, 2010). It is noted that the percentage of active women borrowers for the three institutions, GB, ASA and TMSS were 97, 88 and 90 percent respectively (as per 2010 statistics), which is an indicator of their commitment to empowering women.

In Bangladesh, women’s mobility and their interaction with men other than immediate family members were restricted in the past. The cultural attitudes restrict women’s mobility to go to the market, leaving them dependent on men to put their income-generating skills and knowledge into practice in terms of income generation from their assets (Holmes and Jones, 2010). Accordingly, rural women are placed in a vulnerable position since employment opportunities are limited and lack health care services, receive less nutrition, and are less educated than their male counterparts. In addition, there is growing number of female-headed households due to divorce, death of the male earner, and desertion and male migration. In contrast, it is regarded that women are the best care taker of the future generation, efficient to utilize tiny amount of money and good repays as well. Realizing the issues, GB, ASA, and TMSS along with other NGO-MFIs (ASA has micro-credit program for male) have focused mainly on rural women, bringing about meaningful transformation in their lives by making small loans available to them for income generating activities. MSPs also provide other non-financial services i.e education, health, livelihood development training and legal aid ensuring empowerment of women in the society. Accordingly, NGO-MFIs have discovered doing business with poor particularly with women is not only profitable but also less risky. Incredibly, Bangladeshi NGO-MFIs (GB, ASA, and TMSS) have reached to the poor clients as a significant rate. For instance, Grameen Bank struggling members program exclusively for the beggars which has extended services over 112,216 beggars. Similarly, ASA has extended services to 4754 hard core poor with its special credit program (ASA, 2009).

On the other hand, in China VTB and CFPA have limited cliental coverage compare to RCC even it is much lower comparing with Bangladeshi NGO-MFIs (see annex). Usually, in China larger NGO-MFI covers about 5,000 clients whereas smaller one covers fewer than 1,000 clients (Xuechun et al, 2010). The exception was CFPA which provided financial services to 150,000 clients (cumulative) and active clients were 48,050 (end of May, 2010). Most of clients are women for VTB and CFPA (78 % women) while it was opposite for RCC. RCC disburses credit on the basis of creditworthiness, mainly target head of households, about 95% of whom are men. On the other hand, RCC financial services have not reached to the poor clients as because of physical collateral requirement. The physical collateral requirement has leaded loan concentration to the hand of the village richer and powerful (Cheng and Abdullahi, 2009). In contrast, CFPA performance is better in a sense that it has reached poor clients in a certain level.

Regarding geographical coverage, GB, ASA and TMSS have allowed to offer their services whole over the country while VTB, CFPA have restricted to expend their financial services. VTB and CFPA have expanded their business within selected counties. The CFPA and VTB have expended their services 11 provinces (37 branch) 6 provinces (91 branch) respectively. In contrast, RCC does not have such geographical restriction. So, RCC has expanded services whole over the country with 4965 branches.

Micro-credit Model

Several microfinance models have developed in different countries and serve clients with diverse social and cultural backgrounds. GB model is the most popular and widely replicated model in the world. China has also been replicating the GB model along with other Asian countries i.e India, Malaysia, Philippines, Indonesia etc. The basic feature of GB model are-(i) poor people’s access to credit with women as a priority by forming small solidarity groups (5 members) (ii) GB’s goes to the door steps of the clients instead clients coming to office (iii) does not require any collateral (iv) small loans repaid in weekly installments (there are some loan products which accept monthly repayment) (v) eligibility for higher loan amount for succeeding loans (GB, 2010). Generally, when a person wants to borrow money from the bank, she/he is asked to form a group of five people. It is not an easy process to form a group of five like-minded friends. This is to ensure group solidarity. After the formation of a group, the bank discusses the rules and procedures of the Grameen bank. The group is told that the bank would not extend loans to the five at the same time. In the first stage, only two of them are eligible for, and receive a loan. Only if the first two borrowers begin to repay the principals plus interest over six weeks, will the other members of the group become eligible for a loan (GB, 2010). The group is asked to make sure that the money is used rightly and repayment is made in due time. In this way group support among the members is grown up and a member of the group not only becomes responsible to oneself but also to the group as a whole. Usually, eight groups constitute a center, while 30-60 centers represent a branch. Each center elects a chief from the groups’ chairpersons. Group members are required to attend weekly center meetings conducted by the center chief who oversees applications for new loans as well as payment of loan installments. The bank worker/loan officer attends all meetings, participates in the discussions, and disburses and receives money. Thus banking is conducted openly in front of all members, and members take active roles in discussions on progress and problems. In each village, there may be one or two centers. Centers are responsible for banking transactions and other social functions as well. In the process of doing that, they have come up with something that is popularly known in Grameen Bank as "sixteen decisions" (no dowry, education for children, sanitary latrine, planting trees, eating vegetables to combat night-blindness among children, arranging clean drinking water, etc.). Mostly, these "decisions" deal with social issues.

ASA model is slightly distinct from GB model. ASA group consists of 30-40 people. ASA approach is known as sustainable and cost-effective microfinance model. The approach has proved effective in making a branch self-reliant within 12 months. Any MFI that adopts this model for operations becomes sustainable within the shortest possible time. The distinct feature of ASA's operational mechanism are-

• Branch offices have no accountants. Accounting and cash-handling is simplified, distributed between the branch manager and the three or four loan officers, and then subjected to a tight schedule of repeated monitoring by senior staff at four different levels stretching up to head office. Nor do they have guards: male staff lives on the branch premises.

• Each branch prepares its own annual work plan with fiscal targets and cash flow projection. After money comes in from daily collections (savings, insurance premiums and loan installments), the branch calculates how much it needs for daily accounts or expenditures and then deposits the rest in to the bank. The branch office can draw money whenever required. Even, money may also come from other branches in the district, depending on their surplus.

• Districts and regions have no support staff and no separate offices of their own. District and regional managers is supervisory staff who shares a building and services with one or more branches.

• There is no training. No training cell, no training centre, no trainers. Work routines are standardized and simplified so that new recruits need only a few days of supervised work experience in a branch before being sending off to another one to start work. Head office staffs are given no in-service training. Head office thinks, develops strategies and procedures sends manuals and instructions to the field.

On the other hand, Tangamara Mohila Sabuj Shanga (TMSS) model is known as HEM i.e Health, Education and Microcredit. TMSS believe that only micro-credit cannot change the livelihood of poor particularly the womenfolk. Thus, TMSS follows mixed credit model which includes- prompt approval and disbursement of micro-loans, group based guarantees, credit determine on the basis of longevity of membership, compulsory saving, required guarantee for large credit and the repayment made on installment basis (TMSS, 2010).

On the other hand, in China CFPA and VTB have adopted mixed credit approach with having little modification according to their suitability. Generally, VTB offers short term credit up to 12 months to the farmers without guarantee or mortgage. The lenders simply consult village officials and peasants-turned-businessmen concerning the applicants' credit standing and repayment capacity. Farmers can get loans up to 20,000 RMB (US$2941) without guarantee, while small enterprises or farmers engaged in special areas can obtain loans of up to 100,000 RMB (US$ 14,705) with a collateral/guarantee. CFPA offers collateral free group based microloan up to 3 years term within credit limit 1000 RMB (US$147) to 50,000 RMB (US$7353). VTB and CFPA have adopted installment basis repayment on quarterly instead of weekly. On the other hand, Rural Credit Cooperatives (RCC) follows single payment method instead of installment and does not provide micro-credit on group solidarity basis.

Service Provision

The concept of microfinance does not limit within micro-credit rather it carries broader meaning. These are micro-credit, savings, insurance, remittance, health, education, skill training and social awareness. Almost every MFI in Bangladesh offers micro-saving option for borrowers as country pioneer of modern microfinance concept (Bedson, 2009). GB, ASA and TMSS have experienced all kind of microfinance services with enable clients to withdraw savings. They have also been offering two kinds of saving i.e compulsory and voluntary saving. For instance, TMSS requires 2.5% compulsory saving at the time of credit disbursement. Going ahead, the HEM model of TMSS extends their diverse services by following ways - average 2000 clients in a branch (service providing center), one paramedic or health assistant in a branch for covering the commanding area, one doctor for the coverage of 5 branches having regular one day service for each branch in a week, referral services, bringing the clients with local facilities and opportunities, awareness and rights, nutrition and early childhood development, basic and life skill education and training and identifies the unused local resources and ensures the best use of these incorporation the poor people and making them productive. Thus, the HEM model is known as cost effective as well as sustainable model.

On the other hand, RCC, VTB and CFPA have restricted to offer diversified products (Annex-1). RCC and VTB have allowed for collecting deposit while CFPA has excluded from such services. Despite restriction on deposit collection, CFPA has been offering diverse microfinance products i.e information services, training on legal issues, management and production technology but it is uncommon for most of the Chinese NGO-MFIs. In fact, NGO type MFI is only offer micro-credit service in China. In contrast, RCC has begun to offer insurance services using the partner-agent model but the outreach is extremely low.

Interest Rate

Interest rate is most debatable issue in microfinance sector particularly in Bangladesh. Recently, the debate is getting more serious as MRA has settled reduce interest rates through amendment of Micro-credit Regulatory Act-2006 (Khan, 2010; MRA, 2010). It is claimed that MFIs interest rate is higher than formal financial institutions and like as money lenders. However, MFI has justified the interest rate as their operation cost is higher than formal financial intermediaries. In fact, they provide financial services to door steps to door of the clients. Usually, Bangladeshi MSP offers 12-15 % flat interest rate. The charge is varies according to the clients and purpose of credits. For instance, GB has micro-credit program for baggers and students where it does not charge interest and the term of payment is different (student repays the money after having job).

In China, interest rate is little bit lower than Bangladesh. RCC and VTB have charged similar interest rate (0.9-2.3 times basic rate). However, VTB have an advantage with loan terms and a streamlined approval process compare to local RCC. The interest rate ranges from 8 to 10 percent, slightly higher than the current interest rate in urban markets. The interest rates for deposits are the same as the official rate set by the PBC, which is 0.72 percent for on-call deposits and 2.52 percent for 12 month time deposit. NGO-MFI interest rate are varies a greater range (8-18%) in China while CFPA charges 12-18 %.

Collateral or Guaranty System

Collateral free financial provision is most acknowledgeable innovation in the microfinance sector. Undoubtedly, it has brought success to financing the poor those were traditionally ignored from formal financial institutions. Grameen Bank is the pioneer who adopt the approach and since now is practicing. Grameen Bank does not require any kind of collateral against its micro-loans. It does not require the borrowers to sign any legal instrument and the group is not required to give any guarantee for a loan to its member. Even, group members are not responsible to pay on behalf of a defaulting member (GB, 2010). Likewise Grameen Bank ASA and TMSS have also been offering collateral free loans. However, TMSS requires collateral like papers and documents of properties and business in case of large amount of loans.

On the other hand, in China borrowers have to use mainly collateral substitutes for their lending (formal and NGO-MFI) as legally the farmland and houses are not allowed to be used as loan collaterals (Cheng and Abdullahi, 2009). Most of the RCCs require collateral substitutes and the loan procedure is little complex (RCC required collateral for large amount of loan). Furthermore, Chinese law requires fixed assets to be used as loan collateral. In China, farmers do not own the land and can't put it up as collateral. According to ADB 2010 report, without credit guarantee system, loans are mainly granted to the richest peasants. Quoting example, about 80% of loans to peasants were granted to those in high income, peasants in middle and low income have difficulty to get loans, especially in the developed regions (Xuechun et al. 2010). However, some RCCs have begun to introduce effective collateral substitutes such as bills of landing, harvest rights, and livestock instead of group guaranty though it is not legalized. More interestingly, RCCs have established a risk-sharing mechanism with local quarantine authorities. In some counties, RCCs, local guarantee authorities, and village officials have established accountability mechanism. Under this mechanism, if livestock die for disease, the local guarantor authority will bear 50% of the loss, village officials will bear 10%, and rural households will bear the remaining amount (Xuechun et al, 2010). On the other hand, CFPA has adopted guaranty system instead of traditional collateral.

Financial Sustainability

Bangladeshi MSPs are most self-sufficient in Asia particularly the larger one. They are financially sustainable as because, they can accumulate fund from diverse sources i.e, local banks, wholesale fund from Polli Kormo Shyakak Foundation (PKSF), international donor grants, savings/deposit of members, interest and service charges. However, external donor grants have declined a significant pace (from 30.4% in 1997 to 7.9 % in 2005) in recent years. The declining donor grant does not affect the microfinance sector. For instance, GB and ASA do not accept any grants or donations from outside sources since 1998 and 2001 respectively but they are enjoying financial self-sufficiency status. Similarly, TMSS has been enjoying financial self-sufficiency without receiving donor grants. In fact, PKSF has been playing a greater role to making MSP financially self-sufficient. As an apex institution, PKSF has worked both financial intermediary and market developer and continues to be an institution central to the Bangladeshi landscape (Bedson, 2009). PKSF was established in 1991 by the Government of Bangladesh for refinancing the NGO-MFIs providing micro-credit services to the poor in rural areas. PKSF was refinanced by government funds as well as funds from the World Bank to continue to meet the growing financing needs of the sector. Accordingly, most of the large MSPs have established their scale of operations and achieved financial self-sufficiency through their collaboration with PKSF. It is regarded that PKSF is part of the success of MSP giants such as ASA, TMSS and small MSPs (MIRB, 2009). PKSF has helped various small MSPs to achieve high levels of operational efficiency whereby they can enhance their financial self-sufficiency and leverage funds from the commercial banking sector in future.

In contrast, financial sustainability is one of the major constraints for China's MSPs. There is a lack of wholesale fund and government has restricted to receive fund from different sources. For instance, NGO type MFI such as CFPA is not allowed to collect deposit from members, commercial investment and foreign sources. However, in 2006 the China Development Bank has provided wholesale funds to the CFPA, which marks the first time a government institution has provided wholesale funding for NGO type MFI (Bedson, 2009). This is a single evidence to receive funds from formal banks for NGO type MFIs. VTB has permitted to collect funds from 'not more than two banking financial institutions' in a certain amount (within 50 % of net capital) since 2008 which has resulted in an increase in the funding of VTB. Despite funding option from formal institutions, VTB is still struggling to reach financial sustainability as might cause for not adopting the cost effectiveness approach. In reality, VTB follows three-tier operational approach, these are- offices are set up in counties, branches are set up in townships, and credit officers are located in villages which increases the loan cost and lead to lack of financial sustainability (Xuechun et al, 2010). In addition, microfinance institutions in China transform group loans into group guarantied individual loans, but this does not transfer costs from MSPs to borrowers which might be another reason towards weakness of their financial sustainability. Nevertheless, RCC is better in respect to fund rising as formal institute but the concerning issue is non-performing loans which accounted 24.6 percent. Rural credit cooperatives generally receive funding solely from the People's Bank of China (PBOC) and the Agricultural Development Bank (ADB). Though international investors cannot invest in RCC directly but IFAD is supporting them for better functioning in the rural financial market.

Regulatory Status

Beside financial sustainability, policy regulation of microfinance has considered a crucial factor for overall development of microfinance sector. Policymakers, economists and financial specialists have given special priority of financial regulations as they presumed financial crisis in 2008 was the cause of ineffective regulations. Consequently, policy regulation for a sustainable microfinance has gotten priority at national and international level since 1990s (Haq et al. 2008; Villacorta et al. 2009; Mohanty, 2010). Even, the importance of policy regulation has realized by stakeholders (Government, NGO-MFIs and the borrowers) and attaining consensus is under consideration. For instance, a recent speech of Prof. Muhammad Yunus, founder of Grameen Bank"…there should be a separate regulatory authority for MFIs as distinguished in character from that for the commercial banks. The regulatory authority for MFIs should evolve guidelines keeping in view the objectives of socio-economic development of the poor". With responding the issue, over 50 countries have implemented or are considering specific arrangements for regulation and supervision of microfinance either as a separate law or as amendments to the existing legal and regulatory framework (Mohanty, 2010).

Bangladesh has created Micro-credit Regulatory Authority (MRA) in 2006 to ensure transparency and accountability of the microfinance sector. Previously, microfinance sector was regulated by NGO Affairs Bureau (NGOAB). The MRA act has emerged with reviewing several previous Acts including- Societies Registration Act 1860, Cooperative Credit Society Act 1904, Companies Act 1913, Trusts Act 1882, Charitable and Religious Trust Act 1920 and Cooperative Societies Ordinance 1984 (MIRB, 2009). More importantly, MRA held an international conference on Microfinance Regulations: Who benefits? During 16-17 March, 2010 to have world experience regarding microfinance regulations (MRA, 2010). In addition, MRA has conducted another participatory conference among MSPs for settling most debatable issue i. e. interest rate and deposit collection (MRA, 2010, Khan, 2010). Recently, MRA has announced a guideline for NGO and MFIs in a circular issue on 10 November, 2010 (Rahman, 2010). The key guidelines are-

• The maximum effective interest on loans must be 27 percent

• MSPs must pay at least 6 percent interests on mandatory weekly savings of borrowers

• NGO-MFIs can be charged maximum Tk 15 for loan application forms, client admission fee, passbooks, etc.

• No deduction of money from loans should be allowed at the time of loan issuance, in the name of savings, insurance, or any other category.

• For micro-enterprise loans, the stamps fee must be Tk 50

• Mandatory to allow at least a 15-day gap between the dates of loan issuance and first repayment installment, negotiations between lenders and borrowers, for a longer gap, have been allowed

• Mandatory to allow at least 50 weeks time for recovering entire amounts of general loans which are issued for a period of one year

• MSP must calculate rates of interest on loans in declining balance method, in place of the existing flat rate method

• MSP must have a specific pay structure, which must be sent to the authorities.

On the other hand, CBRC is the prime authorized institution to handle and maintain the rules and regulations of banking and microfinance sector in China. So, the efforts of China Association of Microfinance (CAM) for constructing a regulatory framework for MFI has suspended due to lack of authorization from government (Sun, 2008). It is regarded that the slow and low quality development of these NGO-MFI has mainly attributed to the limitations caused by an incomplete regulatory and supervisory system (Du, 2005). For instance, NGO-MFI, VTB and lending companies are not adequately regulated under national policy, they come under the local administrations and departments, resulting in inconsistency, and consequently, insecure legal structures that undermine investor confidence (Bedson, 2009). However, in recent time, CBRC has brought some significant changes due to encouragement of individual, corporate legal entities and other social organizations towards establishment of microloan companies since 2008. In addition, VTB and MCC have permitted to raise their fund from shareholders, donated funds, and borrow from (not more than two) banking financial institutions (CBRC, 2010). Nevertheless, regulatory frameworks and policies governing microfinance in China remain vague and do not have a comprehensive framework in respect to special regulatory authority.

Conclusion

It can be summarized that microfinance sector is gradually expanding in China and is moving to liberalization and commercialization stage. CBRC has provided some favorable policy guidelines for the development of microfinance market within a controlled environment. The market access of microfinance service providers among others RCC, VTB and NGO-MFI have significantly contributed to mobilizing capital in rural setting. RCC is dominating in rural financial market in respect to micro-credit disbursement and deposit collection. However, it has been facing difficulties due to higher non-performing loans. VTB and CFPA activities have restricted within certain geographic location. VTB and CFPA have certain restriction on fund rising and CFPA is prohibited to collect deposit from clients. Even, the traditional collateral system or group guaranty is still practicing by CFPA, VTB and RCC in particular cases which may hinder the smooth growth of this sector. On the other hand, GB, ASA and TMSS have adopted collateral free microfinance provision and free from geographical restricted. Even, GB, ASA, TMSS have attained their financial sustainability whereas China's MSPs have been struggling to reach that target. It is observed that China's MSPs have limited option to rising fund while Bangladeshi MSPs have accumulated fund from diverse sources. Even, there is a lack of cost effectiveness approach for VTBs and RCCs which might obstacle towards their sustainability.

Bangladesh has established a separate micro-credit regulatory authority to promote the sustainability of NGO-MFIs while China's NGO-MFIs are still being regulated by CBRC. In Bangladesh, ASA and TMSS have registered as NGO-MFI while GB is regulated through Grameen Bank special ordinance 1983. In contrast, China's microfinance suppliers particularly VTB and NGO-MFI have not been adequately regulated by CBRC which tend to make them to seek provincial government or local administration assurance. So, it is recommended to the concern authority to have a balance microfinance regulation for enhancing sustainability of MSPs in China. In addition, building a separate regulatory authority should be prioritized. Furthermore, policy makers and microfinance entrepreneurs should rethink to adopt the cost effective model and collateral free financial access considering the market environment in China. Meanwhile, in Bangladesh, MRA should evaluate existing MRA Act of 2006 more critically within the shortest possible time.

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Annex-1 Comparative Feature of the Selected MSP in China and Bangladesh

Feature		Bangladeshi MSP			China's MSP		
		GB	ASA	TMSS	RCC	VTB*	CFPA
Starting year of microfinance service		1983	1992	1986	2000	2006	1996
No. of Branch/entities		2,564	3,236	533	31,446	91	37
Area coverage		Whole country	Whole country	63 districts out of 64	Country-wide	6 province	11 province
Type of beneficiaries		Poor, farmers and women priority	Poor, farmers and women priority	Poor, farmers and women priority	All farm households	Farmers and microenterprises	Farmers, microenterprise
No. of Clients (cumulative)		8.2832illion	5.75 million	1.8 million	73 million	-	150,000
% of women Clients		97	88	About 90	05	-	78.38
% of rural household excluded from financial services		20			64		
Credit disbursed (cumul. US dollar)		9.43 billion	6.0 billion	5.73 million	720.17 billion	Not available	1.89 million
Outstanding (US$)		887.44 million	559.7 million	4.18 million	46.19 billion		3.6 million
Operational self-sufficiency (OSS)		-	143.38	107	-		124.80
Financial self-sufficiency		100	100	97	100		-
Loan size (US dollar)		Varies on clients	Varies on clients	Varies on clients	147-2941	2941-7353	147-7353
Interest rate (%)		8-20	12-15	Around 15	Around 8	8-10	12-18
Repayment rate (%)		97.20	99.67	99.69	24.6 NPL	-	90
Deposit (US$)		1310.63 million	130.86 million	15.52 million	406 billion	-	No
Deposit rate (%)		8.5	4-12	4-6	0.72 -2.5	0.72-2.5	No
Collateral substitute		No	no	yes for large loans	yes for large loans	yes for large loans	guaranty system
Members in the solidarity group		5-7	20-25	15	no	no	10
Operational restriction		No	No	No	no	Restricted	Restricted
Other services	Micro-insurance	√	√	√	√	no	no
	Remittance transfer	√	√	√	no	no	no
	Health	√	√	√	no	no	no
	Education	√	√	√	no	no	no
	Skill training	√	√	√	√	no	√
	Social awareness	√	√	√	no	no	√

Source: compilation based on CBRC, (2008), Planet finance, (2008), GB, (2010), ASA (2010), TMSS (2010), CFPA (2010), MIFA, (2009)

*Combined financial data is not available, however the basic criteria is- lower register capital threshold is RMB 3 million ($430,000) in counties and CNY 1 million CNY ($140,000) in townships.