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ABSTRACT

This study aims to conceptualise and document the historical evolution of microfinance in Bangladesh using the life cycle theory (LCT). Based on the LCT nomenclature, the microfinance sector in Bangladesh shows characteristics broadly consistent with the saturation phase (2006–2015) – which potentially has adverse impacts on both microfinance clients and institutions. The maturity phase (1996–2005) of microfinance has corresponded with competition and several innovations (financial and non-financial). However, the saturation phase sees increasing presence of uncoordinated microfinance institutions and expansion of multiple borrowing, as well as commercialisation and 'mission drift', which constitute important challenges for the regulatory authority and management of microfinance institutions.

KEYWORDS

Microcredit and microfinance; microfinance institutions; multiple borrowing; life cycle theory; Bangladesh

1. Introduction

Formal and informal financial institutions targeted at providing services to the masses have evolved significantly over the years. However, most formal financial instruments are profit-driven. It is for this reason that they tend to neglect the poorest segment of society who have little means of meeting their collateral requirements. Informal instruments, such as borrowing from friends, family members and neighbours are quite common. Both formal and informal moneylending exist, but the poor are either discouraged by exorbitant interest rates or often become victims of such high and poorly regulated rates. Also, the absence of commercial banks in the rural areas of poor countries leaves the poor vulnerable to the activities of lightly regulated moneylenders. In light of these shortcomings, microcredit became a major breakthrough. Developed by Professor Muhammad Yunus in 1976, microcredit offers the poor in Bangladesh a vital means to access credit. The success of microcredit

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