

The Microfinance Sector in Bangladesh: Innovation or Stagnation.

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Executive Summary

Bangladesh has been known as the birthplace of microfinance, and competition has markedly increased during the last decade. However, the microfinance industry is only just now beginning to put mechanisms in place that will advance commercialization and innovation. As the MFI-sector's apex wholesaler played an important role with regard to the rapid growth of the sector during the 1990s, it will now be necessary to reduce these cheap, subsidized funds.

The "Microcredit Regulatory Act", enacted in 2006, could help prepare large and middle-sized MFIs to transform into formal financial institutions and to integrate into the formal financial sector, but at present, it is still nascent and the newly established Microcredit Regulatory Authority will need to build its own capacity before the law can be extended. In addition, the MRA must further the interests of *both large and small* microfinance institutions - which were virtually unregulated during the last three decades - in order to gain their universal acceptance.