

**EFFECT OF GOVERNANCE STRUCTURE ON THE  
OUTREACH AND SUSTAINABILITY OF  
MICROFINANCE INSTITUTIONS IN BANGLADESH**

**BY**

**MD NAZIM UDDIN**

**A dissertation submitted in fulfillment of the requirement for  
the degree of Doctor of Philosophy (Business  
Administration)**

**Kulliyyah of Economics and Management Sciences  
International Islamic University Malaysia**

**JUNE 2022**

## ABSTRACT

This research identifies the effect of governance structure on outreach and sustainability of microfinance institutions (MFIs) in Bangladesh. One of the essential aspects of MFIs is ensuring that the governance structure is managed effectively. This study finds the effect of governance structure, outreach, and sustainability on MFIs in Bangladesh. The effective governance design for MFI has the potential to deliver sustainable institutes, in turn providing a staggering boost to Bangladesh's economy. This study makes several contributions to the existing knowledge of corporate governance and MFIs in outreach and sustainability. First, it provides evidence from Bangladesh of what aspects of governance structure need to be strengthened and how much effect each component has on MFIs outreach and sustainability. Second, the study identifies the importance of considering differences in institutional values, culture, and the environment and points to the risk of applying normative assertions of governance structure in MFIs in Bangladesh. Finally, in contrast to extant studies in the microfinance sector, this study accommodates governance structure, outreach and sustainability of MFIs in Bangladesh. The research approach is a quantitative research model. This research used empirical data. A panel data analysis approach and the random sampling technique are used. The population is 676 MFIs, and Grameen Bank of Bangladesh has a sample size of 42 institutions. Hypotheses are sourced from the Microfinance Information Exchange (MIX) database, and Microcredit Regulatory Authority (MRA), in Bangladesh. The sample period is 2009 to 2018 MFIs in Bangladesh. Fixed-effect, random-effect approaches, and generalised system method of moment (GMM) estimator approach. This study's results indicate that the association between current MFIs' performance is statistically significantly positive for sustainability and outreach variables across four categories of MFIs, suggesting that the governance structure relationship between MFIs should be examined dynamically. This demonstrates the importance of user experience as an independent variable in analysing existing governance structures and performance in the microfinance sector. Additionally, this research demonstrates that the standard of national governance has a statistically important positive effect on the sustainability and outreach of MFIs in Bangladesh. This robustness forms the groundwork for business and political policy changes that will dramatically increase the quality of life for Bangladesh's most impoverished lowest-income people and achieve SDGs. Additional study in other countries is essential to decide if this is a generalisable pattern or unique to Bangladesh. Finally, this study suggests that a regulatory and supervisory framework be introduced in Bangladesh to enhance the governance structure of MFIs. The sector requires a robust regulatory environment to improve its governance and administrative frameworks and expand the microfinance sector's outreach and sustainability opportunities.

## خلاصة البحث

تقوم هذه الأطروحة بإستكشاف تأثير هيكل الحوكمة على إنتشار وإستدامة مؤسسات التمويل العديد من المساهمات في المعرفة القائمة حول حوكمة تقدم هذه الدراسة الأصغر في بنغلاديش الشركات ومؤسسات التمويل الأصغر من حيث الإنتشار والإستدامة وذلك بعدة طرق. أولاً ، من منظور بنغلاديش ، تقدم الدراسة اقتراحاً على جوانب هيكل الحوكمة التي تحتاج إلى تعزيز إنتشار مؤسسات التمويل الأصغر وإستدامتها. ثانياً ، تحدد الدراسة ومدى تأثير كل عنصر على أهمية النظر في الاختلافات في القيم المؤسسية والثقافة والبيئة وتسلط الضوء على مخاطر تطبيق التأكيدات المعيارية لهيكل الحوكمة في مؤسسات التمويل الأصغر في بنغلاديش. وأخيراً ، على عكس الأدبيات المتاحة في قطاع التمويل الأصغر ، تأخذ هذه الدراسة في الاعتبار هيكل الحوكمة وإنتشار وإستدامة مؤسسات التمويل الأصغر في بنغلاديش. تستخدم الدراسة نموذج البحث الكمي، وهذا يمكن الباحث من تحديد فلسفة البحث والبيانات التجريبية. يتم إستخدام أسلوب تحليل البيانات المقطعية وتقنية أخذ العينات العشوائية. يتكون عينة الدراسة من 656 مؤسسة تمويل أصغر ، ومصرف غرامين بنغلاديش وحجم العينة 42 مؤسسة. تأتي الافتراضات من قاعدة ( في MRA)، وهيئة تنظيم الائتمان الأصغر (MIX)بيانات تبادل معلومات التمويل الأصغر ( بنغلاديش. بالإضافة إلى ذلك ، يتم جمع البيانات المتعلقة بهيكل الحوكمة على مستوى المؤسسة من المؤسسات الفردية من خلال الاطلاع على تقاريرها السنوية ، ومواقعها الإلكترونية، ومن خلال الاتصال الشخصي بالمؤسسات الفردية. فترة أخذ العينة هي 2009 إلى 2018 في بنغلاديش. يتم إستخدام أسلوب التأثير الثابت ، للتأثير العشوائي وتقدير الطريقة العامة للحظات). تظهر نتائج كل عنصر من عناصر مؤسسات التمويل الأصغر تنبؤات نظريات GMM) الوكالة وأصحاب المصلحة والاعتماد على الموارد. وعلى وجه التحديد، أن نتائج هذه الدراسة تشير إلى أن تأثير هيكل الحوكمة مثل حوكمة الشركات والمساءلة والشفافية على أداء مؤسسات التمويل الأصغر في جميع أنواع مؤسسات التمويل الأصغر لا يزال مهماً حتى بعد الأخذ في الاعتبار الوجود المتنوع لهيكل الحوكمة والإنتشار وعلاقات الإستدامة. كما وأن نتائج هذه الدراسة أيضاً تشير إلى أن الارتباط بين الأداء الحالي لمؤسسات التمويل الأصغر والأداء التاريخي يعد إيجابياً بشكل ملحوظ من الناحية الإحصائية بالنسبة لمتغيرات الإستدامة والإنتشار عبر أربع فئات من مؤسسات التمويل الأصغر ، مما يشير إلى أنه ينبغي دراسة علاقة هيكل الحوكمة بين مؤسسات التمويل الأصغر بشكل ديناميكي. وهذا يدل على الأهمية الكبيرة لإستخدام الخبرة التاريخية كمتغير مستقل في تحليل هيكل الإدارة القائمة والأداء في قطاع التمويل الأصغر. بالإضافة إلى ذلك ، يوضح هذا البحث أن معيار الحكم الوطني له تأثير إيجابي ذي دلالة إحصائية على إستدامة مؤسسات التمويل الأصغر وإنتشارها في بنغلاديش. تشكل هذه القوة الأساس لتغييرات الأعمال التجارية والسياسة التي ستزيد بشكل كبير من نوعية الحياة لأكثر الناس فقراً في بنغلاديش من ذوي الدخل المنخفض وتحقيق أهداف التنمية المستدامة. من الضروري إجراء مزيد من الدراسة في بلدان أخرى لتحديد ما إذا كان هذا نموذجاً قابلاً للتعميم أو فريداً في بنغلاديش. وأخيراً ، تقترح هذه الدراسة إستحداث إطار تنظيمي وإشرافي في بنغلاديش لتعزيز هيكل إدارة مؤسسات التمويل الأصغر. ويتطلب هذا القطاع بيئة تنظيمية صلبة لتحسين أطر الحوكمة والأطر الإدارية وتوسيع فرص إنتشار قطاع التمويل الأصغر وإستدامته.

## **APPROVAL PAGE**

The dissertation of Md Nazim Uddin has been approved by the following:

---

**Hamdino Hamdan**  
Supervisor

---

**Salina Bt. Kaseem**  
Co-Supervisor

---

**Nor Azizan Che Embi**  
Co-Supervisor

---

**Dzuljastri Abdul Razak**  
Internal Examiner

---

**Nor Hayati Ahmad**  
External Examiner

---

**Norma Md Saad**  
Chairman

## DECLARATION

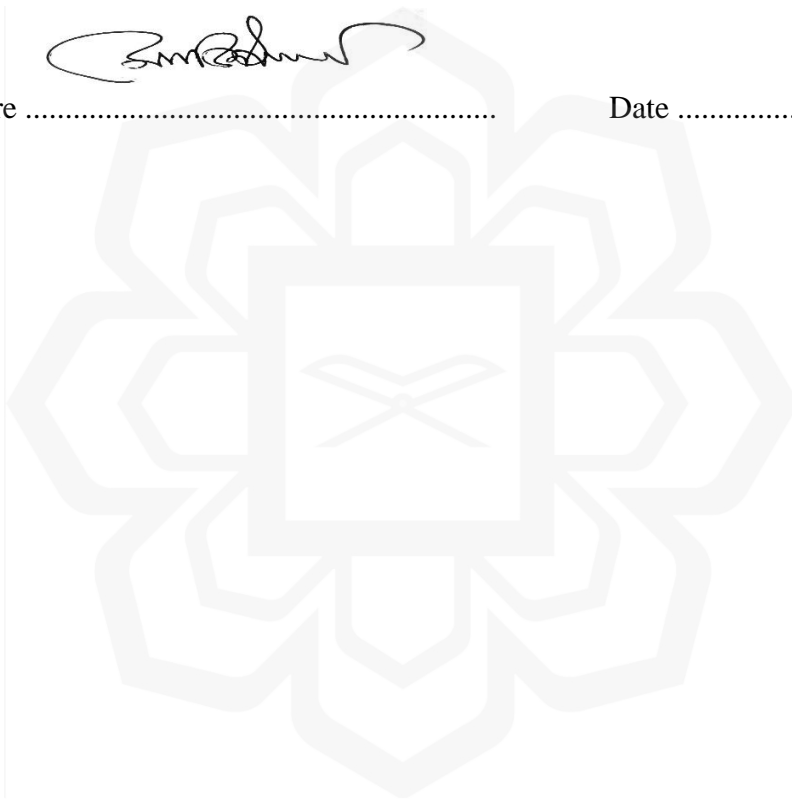
I hereby declare that this thesis is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

Md Nazim Uddin



Signature .....

Date .....



**COPYRIGHT PAGE**

**INTERNATIONAL ISLAMIC UNIVERSITY MALAYSIA**

**DECLARATION OF COPYRIGHT AND AFFIRMATION OF  
FAIR USE OF UNPUBLISHED RESEARCH**

**EFFECT OF GOVERNANCE STRUCTURE ON THE OUTREACH  
AND SUSTAINABILITY OF MICROFINANCE INSTITUTIONS  
IN BANGLADESH**

I declare that the copyright holders of this thesis are jointly owned by the student and IIUM.

Copyright © 2021 Md Nazim Uddin and International Islamic University Malaysia. All rights reserved.

No part of this unpublished research may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise without prior written permission of the copyright holder except as provided below

1. Any material contained in or derived from this unpublished research may be used by others in their writing with due acknowledgement.
2. IIUM or its library will have the right to make and transmit copies (print or electronic) for institutional and academic purposes.
3. The IIUM library will have the right to make, store in a retrieved system and supply copies of this unpublished research if requested by other universities and research libraries.

By signing this form, I acknowledged that I have read and understand the IIUM Intellectual Property Right and Commercialization policy.

Affirmed by Md Nazim Uddin



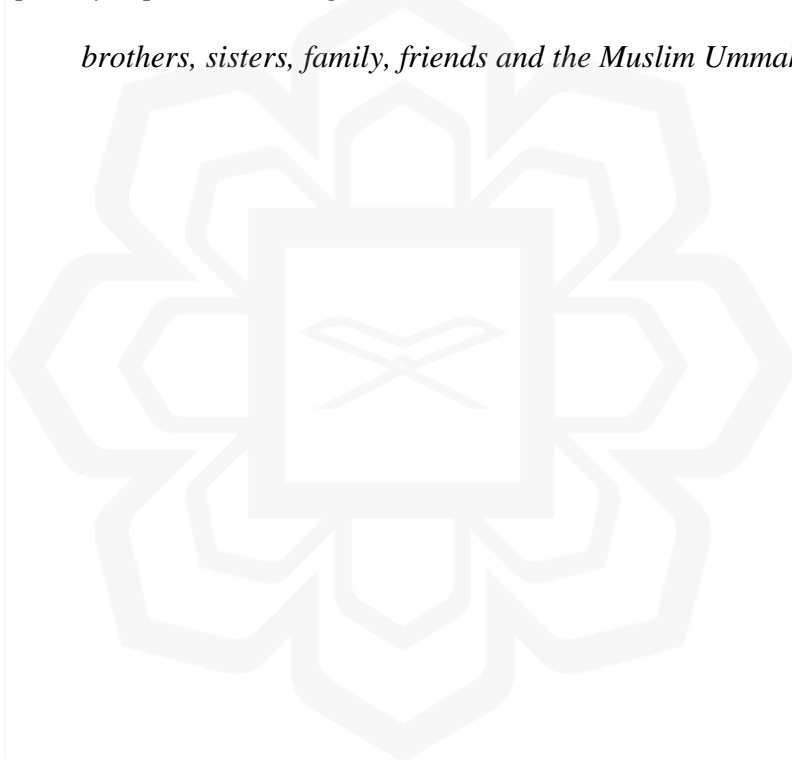
.....

Signature

.....

Date

*I wish to dedicate this thesis to my beloved mother and my late father, who taught me never to give up and whose influence has been lifelong and has shaped my aspirations and goals. I also dedicate this thesis to my beloved brothers, sisters, family, friends and the Muslim Ummah.*



## ACKNOWLEDGEMENTS

In the name of Allah, the Most Compassionate and the Most Merciful. First and foremost, (*Alhamdulillah*), all praise be upon Allah, Lord of the Universe, for all the blessings He has given His' creatures. It's good that our beloved Prophet Muhammad (PBUH), a good person for the whole world, gets all the good things that God gives. This thesis could not have been written without Allah's blessing, grace, and guidance.

Every step of my PhD journey was challenging. Overcoming these challenges would not have been easy without the help of other people. I would like to acknowledge and show my gratitude to these people. I would like to express my sincere thanks to my ambitious and patient supervisor, Assistant Professor Dr. Hamdino Bin Hamdan, who always encouraged me to go on to the milestones of my study. I am fortunate to have such a conversant, helpful, and dedicated supervisor. His insights, interest, and vast knowledge helped me get to grips with analytical tools in my research work.

I would like to acknowledge my co-supervisor, Assistant Professor Dr. Nor Azizan Bt. Che Embi and Prof. Dr Salina Bt. Kassim, for their unwavering dedication and enormous enthusiasm shown in my work. Her astute querying and insights into my work have helped strengthen my confidence in the study. I admire her immense knowledge in this research area, which has driven me to master the use of finance research approaches throughout my thesis.

I want to thank all of my supervisors again for their impassioned encouragement, constructive criticism, invaluable comments, and extensive discussions about my work that led me to improve my research ability by publishing several journal articles. I greatly appreciate my Supervisory Committee chairman, Prof. Norma Bt Saad, for her prompt and thorough feedback on my work and her tremendous support, patience, and excellent guidance helped enhance my analytical skills and critical knowledge. Similarly, I thank my lecturers, Prof. Dr. Ataul Huq Pramanik, Prof. AKM Ahasanul Haque, and Dr. Hasanul Banna.

This PhD draws on the help of many people in the MFIs of Bangladesh. It is impossible to mention all of them here. I would like to acknowledge the help of my friends, Advocate Md Atikur Rahaman, Salah Uddin Ayubi, and Saiful Haue. My heartfelt gratitude goes to my PhD colleague, Md. Atiqur Rahman Sarkar and the KENMS staff for their assistance and moral support. Most importantly, I acknowledge the financial support received from the IIIT Scholarship, which enabled me to focus more on my studies.

To my late father, Humayun Kabir, I do not have enough words to express my thanks to you. You always prayed for my success when you were alive. I will never forget the love and affection that you showed me. That offered you a golden opportunity for me and enabled me to obey your commands rightly. As you have departed this world, all I can say is for Allah to make your graves portions of your homes in paradise and reunite us in Jannat al-Firdaus.



I would like to convey my highest appreciation to my beloved mother, Achia Begum, for her continued support, encouragement, and advice. The miracles of their do'a and hopes are the catalysts of my strength to complete this thesis. My thanks go to my elder brother, Md Jasim Uddin, for enrolling me in primary school and continuing to mentor me from childhood until I completed this study. I also extend my deepest gratitude to my beloved brother, Md Jahidul Islam, who made many sacrifices for me to fulfil my dreams, and to my brother Rakib, sister Nasrin, and Rosina, for their unconditional love, great encouragement, and support.

Finally, I would like to thank the rest of my relatives and friends who have supported me in many ways to achieve this great expectation in my life.



## TABLE OF CONTENTS

Abstract .....	ii
Approval Page.....	iv
Declaration .....	v
Copyright Page.....	vi
Declaration .....	vi
Acknowledgements .....	viii
Table of Contents .....	x
List of Tables .....	xv
List of Figures .....	xvii
List of Abbreviations .....	xviii
<b>CHAPTER ONE: INTRODUCTION .....</b>	<b>1</b>
1.1 Background of Study .....	1
1.2 Problem Statement.....	4
1.3 Research Objectives.....	7
1.4 Research Questions.....	7
1.5 Significance of Study.....	8
1.6 Organization of The Thesis .....	11
<b>CHAPTER TWO: MICROFINANCE INSTITUTIONS: GOVERNANCE STRUCTURE, OUTREACH AND SUSTAINABILITY .....</b>	<b>13</b>
2.1 Introduction.....	13
2.2 Overview of Microfinance Institutions.....	13
2.2.1 Governance in Microfinance Institutions in Bangladesh .....	17
2.3 Microfinance in Bangladesh .....	19
2.3.1 Governance Structure and Scope of The Microcredit Regulatory Authority (MRA) .....	21
2.3.3 Cooperatives in the Rural Credit Mode in Bangladesh.....	24
2.3.4 Banks in Rural Credit Model in Bangladesh .....	24
2.3.5 Microfinance Banking (MFB) Model in Bangladesh .....	25
2.3.6 Micro-Credit Programme Model in Bangladesh.....	26
2.3.7 Rural Development Scheme (RDS) in Bangladesh .....	26
2.3.8 Government Credit Program in Bangladesh .....	27
2.4 Issues In The Operation of Microfinance Institutions .....	28
2.4.1 Weak Governance and Internal Control.....	28
2.4.2 Limited Managerial Capacity, Innovation and Capacity Building .....	29
2.4.3 Lack of Regulation and Supervision.....	30
2.4.4 Limited Outreach and Sustainability.....	31
2.5 Chapter Summary .....	33
<b>CHAPTER THREE:THEORETICAL AND EMPIRICAL LITERATURE REVIEW .....</b>	<b>34</b>
3.1 Introduction.....	34

3.2 Theoretical Review .....	34
3.2.1 Agency Theory.....	34
3.2.2 Stakeholder Theory .....	36
3.2.3 Resource Dependency Theory .....	38
3.3 Governance Structure of Microfinance .....	40
3.3.1 CEO Duality.....	42
3.3.2 Board Size .....	43
3.3.3 Board Competence.....	44
3.3.4 Board of Diversity.....	45
3.3.5 Female Board Member.....	46
3.3.6 Board Independence.....	47
3.3.7 Remuneration .....	47
3.4 Accountability.....	50
3.4.1 Equity to Total Assets Ratio .....	52
3.4.2 Loan to Total Assets Ratio.....	52
3.4.3 Internal Audit Function .....	53
3.4.4 Board Meeting.....	53
3.5 Transparency.....	55
3.5.1 Timely Disclosure .....	56
3.5.2 Board of Directors.....	58
3.5.3 Stakeholders .....	59
3.6 Control Variables.....	61
3.6.1 Firm size.....	61
3.6.2 Firm Age .....	61
3.6.3 Leverage Ratio .....	62
3.7 Sustainability .....	62
3.7.1 Financial Self-Sufficiency.....	63
3.7.2 Operational Self-Sufficiency.....	64
3.7.3 Return on Equity .....	65
3.7.4 Return on Assets .....	65
3.7.5 Yield on gross loan Portfolio (YOGLP) .....	66
3.8 Outreach.....	66
3.8.1 Percentage of Women Borrowers .....	67
3.8.2 Breadth of Outreach .....	67
3.8.3 Depth of Outreach.....	67
3.8.4 Number of Depositors .....	68
3.9 Empirical Review .....	72
3.9.1 Determinants of Outreach .....	74
3.9.2 Determinants of Sustainability.....	74
3.10 Research Gap .....	75
3.11 Conceptual Framework.....	76
3.12 Chapter Summary .....	77
<b>CHAPTER FOUR: RESEARCH METHODOLOGY .....</b>	<b>78</b>
4.1 Introduction.....	78
4.2 Research Approach.....	78
4.3 Research Design .....	79
4.4 Research Paradigm .....	80
4.5 Data Collection Method.....	80

4.6	Assessment Criteria .....	82
4.7	Data Collection Procedure .....	82
4.7.1	Sampling Size and Procedure .....	82
4.7.2	Sample Survivorship Bias .....	84
4.7.3	Data Cleaning and Editing .....	85
4.7.4	Data outliers .....	86
4.7.5	Normality Test .....	86
4.8	Research Instrument .....	87
4.8.1	Model Specification for Governance Structure in MFIs.....	88
4.8.2	Panel Data Analysis .....	88
4.9	Data Analysis Techniques .....	89
4.9.1	Descriptive Analysis of Data .....	90
4.9.2	Inferential Analysis of Data .....	90
4.9.3	T-test Analysis .....	90
4.9.4	Analysis of Covariance (ANCOVA) .....	91
4.9.5	Statistical Significance of the Study .....	92
4.9.6	Multiple Linear Regression Analysis.....	92
4.10	Robustness Estimations With Panel .....	93
4.11	Specification Tests.....	95
4.11.1	Test for Heteroskedasticity .....	95
4.11.2	Test for Regressor Endogeneity .....	96
4.11.3	Test for Over-Identifying Restrictions.....	96
4.11.4	Stepwise Regression .....	97
4.11.5	The Rationale for Using Statistical Tests.....	97
4.12	Chapter Summary .....	98

**CHAPTER FIVE: FINDINGS OF GOVERNANCE STRUCTURE ON THE OUTREACH AND SUSTAINABILITY OF MICROFINANCE INSTITUTIONS: AN EMPIRICAL INVESTIGATION.....99**

5.1	Introduction.....	99
5.2	Descriptive Data Analysis of Extra-Large Size Microfinance Institutions In Bangladesh .....	102
5.3	Pair-Wise Correlation of Extra-Large Size Microfinance Institutions In Bangladesh .....	113
5.4	Selection of Analysis Technique of Extra-Large Size Microfinance Institutions In Bangladesh .....	117
5.5	Multiple Regression Analysis For Sustainability of Extra-Large Size Microfinance Institutions In Bangladesh.....	118
5.5.1	Selection of Regression Model of Extra-large Size MFIs in Bangladesh.....	118
5.5.2	Empirical Results for Sustainability of Extra-Large Size MFIs in Bangladesh .....	121
5.6	Multiple Regression Analysis For Outreach of Extra-Large Size MFIs In Bangladesh .....	125
5.6.1	Selection of Regression Model of Extra-Large Size MFIs in Bangladesh.....	125
5.6.2	Selection of Regression Model of Extra-Large Size MFIs in Bangladesh.....	126

5.7 Descriptive Data Analysis of Large-Size Microfinance Institutions In Bangladesh .....	132
5.8 Pair-Wise Correlation of Large Size MFIs In Bangladesh.....	141
5.9 Selection of Analysis Technique of Large Size MFIs In Bangladesh ....	145
5.10 Multiple Regression Analysis for Sustainability of Large Size MFIs In Bangladesh .....	146
5.10.1 Selection of Regression Model of Large-Size MFIs in Bangladesh.....	146
5.10.2 Empirical Results for Sustainability of Large Size MFIs in Bangladesh.....	147
5.11 Multiple Regression Analysis for Outreach of Large-Size MFIs In Bangladesh .....	154
5.11.1 Selection of Regression Model of Large Size MFIs In Bangladesh.....	154
5.11.2 Empirical Results for Outreach of Large Size MFIs in Bangladesh.....	155
5.12 Descriptive Data Analysis of Medium-Size Microfinance Institutions In Bangladesh .....	162
5.13 Pair-Wise Correlation of Medium-Size MFIs In Bangladesh .....	172
5.14 Selection of Analysis Technique of Medium-Size MFIs In Bangladesh .....	176
5.15 Multiple Regression Analysis For Sustainability of Medium-Size Mfis In Bangladesh.....	177
5.15.1 Selection of Regression Model of Medium-Size MFIs in Bangladesh.....	177
5.15.2 Empirical Results for Sustainability of Medium-Size MFIs in Bangladesh.....	178
5.16 Multiple Regression Analysis for Outreach of Medium-Size MFIs In Bangladesh .....	183
5.16.1 Selection of Regression Model of Medium Size MFIs in Bangladesh.....	183
5.16.2 Empirical Results for Outreach of Medium-Size MFIs in Bangladesh.....	184
5.17 Descriptive Data Analysis of Small-Size Microfinance Institutions In Bangladesh .....	188
5.18 Pair-Wise Correlation of Small-Size MFIs In Bangladesh.....	196
5.19 Selection of Analysis Technique of Small-Size MFIs In Bangladesh .....	201
5.20 Multiple Regression Analysis For Sustainability of Small-Size Mfis In Bangladesh.....	202
5.20.1 Selection of regression model of Small-Size MFIs in Bangladesh.....	202
5.20.2 Empirical results for sustainability of Small-Size MFIs in Bangladesh.....	203
5.21 Multiple Regression Analysis for Outreach Of Small-Size MFIs In Bangladesh .....	208
5.21.1 Selection of regression model of Small Size MFIs in Bangladesh.....	208

5.21.2 Empirical Results for Outreach of Small-Size MFIs in Bangladesh.....	208
5.22 Descriptive Data Analysis of Total Microfinance Institutions In Bangladesh .....	213
5.23 Pair-Wise Correlation of Total MFIs In Bangladesh.....	223
5.24 Selection of Analysis Technique of Total MFIs In Bangladesh.....	228
5.25 Multiple Regression Analysis For Sustainability of Total MFIs In Bangladesh .....	229
5.25.1 Selection of regression model of Total MFIs in Bangladesh.....	229
5.25.2 Empirical Results for Sustainability of Total MFIs in Bangladesh.....	229
5.26 Multiple Regression Analysis for Outreach of Total MFIs In Bangladesh .....	235
5.26.1 Selection of regression model of Total MFIs in Bangladesh.....	235
5.26.2 Empirical Results for Outreach of Total MFIs in Bangladesh....	236
5.27 Research Findings.....	243
5.28 Chapter Summary .....	248
<b>CHAPTER SIX: CONCLUSION, LIMITATIONS AND SUGGESTIONS FOR FUTURE RESEARCH .....</b>	<b>251</b>
6.1 Introduction.....	251
6.2 Focus of The Study .....	251
6.3 Contribution of The Study .....	254
6.4 Policy Implications .....	257
6.5 Limitations .....	259
6.6 Recommendation For Future Research .....	260
6.7 Chapter Summary .....	262
<b>REFERENCES.....</b>	<b>264</b>
<b>APPENDIX .....</b>	<b>307</b>

## LIST OF TABLES

Table 2.1	Indicators of Good Corporate Governance	18
Table 2.1	The Structure of The Governance Board	23
Table 4.1	Sampling size of MFIs in Bangladesh	83
Table 5.1	Definition of Dependent, Independent and Control Variables	97
Table 5.2	Descriptive statistics of Extra-large size MFIs in Bangladesh	101
Table 5.3	Correlation Matrix for Variables in Extra-large size MFIs	111
Table 5.4	Multicollinearity Diagnostic Tests	114
Table 5.5	Multiple Regression Tests	115
Table 5.6	Selection of Fixed or Random-Effect Model	116
Table 5.7	The Relationship Between Governance Structure and Sustainability of Extra-Large Size MFIs	117
Table 5.8	Selection of fixed or random-effect model	123
Table 5.9	The relationship between governance structure and outreach of extra-large size MFIs in Bangladesh	125
Table 5.10	Descriptive statistics of Large-size MFIs in Bangladesh	130
Table 5.11	Correlation Matrix for Variables	139
Table 5.12	Multicollinearity Diagnostic Tests	142
Table 5.13	Multiple Regression Tests (Large size MFIs)	143
Table 5.14	Selection of Fixed or Random-Effect Model	144
Table 5.15	The Relationship Between Governance Structure and Sustainability of Large Size MFIs	149
Table 5.16	Selection of Fixed or Random-Effect Model	151
Table 5.17	The Relationship Between Governance Structure and Outreach of Large Size MFIs	156
Table 5.18	Descriptive Statistics of Medium-Size MFIs in Bangladesh	162
Table 5.19	Correlation Matrix for Variables	170
Table 5.20	Multicollinearity Diagnostic Tests	173
Table 5.21	Multiple Regression tests (Medium Size MFIs)	174
Table 5.22	Selection of fixed or random-effect model	175

Table 5.23	The Relationship Between Governance Structure and Sustainability of Medium Size MFIs in Bangladesh	177
Table 5.24	Selection of Fixed or Random-Effect Model	180
Table 5.25	The Relationship Between Governance Structure and Outreach of Medium Size MFIs in Bangladesh	182
Table 5.26	Descriptive Statistics of Small size MFIs in Bangladesh	187
Table 5.27	Correlation Matrix for Variables	195
Table 5.28	Multicollinearity diagnostic tests	198
Table 5.29	Multiple regression tests (Small Size MFIs)	199
Table 5.30	Selection of Regression Model (Small Size MFIs)	200
Table 5.31	The Relationship Between Governance Structure and Sustainability of Small Size MFIs in Bangladesh	203
Table 5.32	Selection of Fixed Effect Model	205
Table 5.33	The Relationship Between Governance Structure and Outreach of Small Size MFIs in Bangladesh	207
Table 5.34	Descriptive Statistics of Total MFIs in Bangladesh	213
Table 5.35	Correlation Matrix for Variables	220
Table 5.36	Multicollinearity Diagnostic Tests	223
Table 5.37	Multiple Regression Tests	224
Table 5.38	Selection of Fixed or Random-Effect Model	225
Table 5.39	The Relationship Between Governance Structure and Sustainability of MFIs in Bangladesh	227
Table 5.40	Selection of Fixed or Random-Effect Model	232
Table 5.41	The Relationship Between Governance Structure and Outreach of MFIs in Bangladesh	236
Table 5.42	Summary of Hypotheses Results Regarding Governance Structure Variables, Sustainability, and Outreach of MFIs in Bangladesh	292



## LIST OF FIGURES

Figure 3. 1 Hypothesized Model of The Study	42
Figure 3. 2 Hypothesized Model of the Study	51
Figure 3. 3 Hypothesized Model of the Study	56
Figure 3. 4 Conceptual framework	76



## LIST OF ABBREVIATIONS

BRDB	Bangladesh Rural Development Board
Breadth	Breadth of Outreach
CBOs	Community-Based Organizations
CDF	Credit and Development Forum
Depth	Depth of Outreach
ETAR	Equity to Total Assets Ratio
FBM	Female Board Member
FBOs	Faith-Based Organizations
FSAs	Financial Services Associations
FSS	Financial Self-Sufficiency
GMM	Generalised Method of Moment
IRDP	Integrated Rural Development Programs
LTRA	Loan to Total Assets Ratio
MCP	Microcredit Pogramme
MFB	Microfinance Bank
MFIs	Microfinance Institutions
MIX	Microfinance Information Exchange
MRA	Microcredit Regulatory Authority
MSE	Micro and Small Enterprises
NGOs	Non-Governmental Organizations
NOD	Number of Depositors
OSS	Operating Self-Sufficiency
PWB	Percentage of female Borrowers
RDS	Rural Development Scheme
ROA	Return on Assets
ROE	Return on Equity
ROSCAs	Rotating Savings and Credit Associations
SACCOs	Savings and Credit Cooperative Societies
SDGs	Sustainable Development Goals
SHG	Self-Help Group
YOGLP	Yield on a Gross Loan

# CHAPTER ONE

## INTRODUCTION

### 1.1 BACKGROUND OF STUDY

Generally, governance entails how an organisation is managed or run. The World Bank defines corporate governance as to how power structures manage resources. In Micro-Finance Institutions (MFIs), governance refers to the effective use of the resources of different stakeholders such as investors, creditors, and donors. One of the essential aspects of MFIs is ensuring that deposit-taking is managed efficiently and that the collected deposits are used for the intended purposes (Iqbal et al., 2019; Islam et al., 2015). Governance plays a significant role in economic outreach and sustainability. External forces must be used in the interests of the managers of MFIs. There are many justifications for why MFIs should be well-governed. Whenever there are examples of fraud in the MFIS, the sector is tainted in the eyes of international stakeholders such as donors (Ghosh & Guha, 2019; Thrikawala et al., 2017; Naser & Crowther, 2016).

Many believed thousands of creditworthy poor and minority borrowers were excluded from the conventional credit market. Thus, the microfinance programme started. Excluding such people from society permanently reduces their prospects of poverty reduction (Zhang & Naceur, 2019). Historically, the poor in developing nations have been forced to borrow from the informal sector, which charges exorbitant interest rates (Adusei & Obeng, 2019; Wamba et al., 2018; Quayes & Hasan, 2014). Many governments and non-governmental organizations (NGOs) feel that providing relatively inexpensive credit to the poor is an acceptable development approach. As a result, governments and NGOs have given assistance and subsidies to many businesses and agencies participating in micro-lending operations. Microcredit was the original name for microfinance, or lending small amounts of money. Microcredit's main emphasis was on lending money to the needy, and it was believed to be an efficient method to help impoverished people help themselves. Bangladesh's Grameen

Bank is a pioneer microfinance organization that started by helping the impoverished to better themselves. Grameen Bank's first financial contracts with the disadvantaged were solely for "lending" (Yunus, 2017; Ault, 2016).

Microcredit has been operating for several decades. The new version of MFIs has broadened micro saving, remittances, micro-insurance and other micro-financial products. According to Ombongi (2017), the defining features of MFIs is micro-insurance, little saving, all type of small loans, and operations at the community and local levels. The distinctive feature of MFIs is social intermediation which refers to raising the poor's voice to address their ambitions, issues related to their development and concerns over policies, and business intermediation (Tang et al., 2019; Islam et al., 2015). Micro-finance is the collection of small quantities of money from a large population of people. As Meyer (2019) points out, microfinance's primary aim is to alleviate poverty amongst the world's poor. Through MFIs, such populations are included in labour markets and the economic system. Through microfinance, low-income earners access savings to better their lives (Lam et al., 2019). In alternative terms, microfinance is the extension of formal financial services to persons considered inferior. Non-banking organizations also advocate microfinance to alleviate poverty among the world's poor (Gupta & Mirchandani, 2019). These include, for example, NGOs, cooperative societies and a wide range of rural-based table banking and rotating groups.

A literature survey indicates that modern microfinance arose in the 1970s and had taken a more cooperative approach. To this end, Rotating Savings and Credit Associations (ROSCAs) were established in several parts of the world (Chowdhury et al., 2019). MFIs nowadays have diverse sources due to the various paths different MFIs in their development. Some came from non-profits, while others came from credit unions. Some arose from the reorganization of previous public banks (Hasan & Ahmed, 2009). MFIs have grown to the point that they are now the backbone of a country's economy. The Microcredit Regulatory Authority (MRA) regulates microfinance in Bangladesh. The MFIs was founded in 1998, and by the end of 2018, it coordinated the operations of microfinance institutions in Bangladesh. This sector is

regulated by the Bangladesh Bank (Central Bank of Bangladesh) (just as the Capital Markets Authority regulates the stock and securities market).

MFIs are non-profit organizations that collect and distribute small-scale loans, mostly to low-income people. Microfinance in Bangladesh is now made up of several organizations that differ in size, vision, geographic coverage, commercial orientation, formality, and professionalism. NGOs, ROSCAs, Faith-Based Organizations (FBOs), Savings and Credit Cooperative Societies (SACCOs), Financial Services Associations (FSAs), and Community-Based Organizations (CBOS) are all examples of MFIs, according to Yunus (2017). According to a 1999 Micro and Small Enterprises (MSE) study, the industry employed 2.3 million Bangladeshis and generated 17% of the country's GDP (Mia et al., 2019). According to the Mix Market data<sup>1</sup>, the total population of MFIS borrowers rose from 0.6 million in 2000 to 30.48 million cited in the Credit and Development Forum (CDF)<sup>2</sup> in 2017. Also, savings increased to US\$ 2.64 billion in 2017 from US\$ 0.09 million in 2000. Moreover, after 2007, the MPESA mobile money transfer system accelerated the outreach of MFIs in the country (CDF,2019).

MFIs should help Bangladesh's most vulnerable people, such as women and youth. While just 62 MFIs were registered with the MRA by 2017, Bangladesh has many MFIs (MRA, 2017). In 2017, the 62 members had a total customer base of US\$ 8.1 billion, with about US\$ 1.21 billion in liquid assets. Microfinance institutions have established a competitive financial services sector with commercial banks in Bangladesh (Sun, 2012). With commercial banks, MFIs have a social purpose. In addition, many people in Bangladesh choose to deposit with MFIs since they provide greater flexibility regarding repayment durations and interest rates (Moenga, 2013). According to Lekaram (2014), the microcredit regulatory authority (MRA) divides MFIs in Bangladesh into deposit-taking and non-deposit-taking MFIs. It appears that there is an emerging consensus to conduct more studies on the effect of the

---

<sup>1</sup> MIX is a non-profit private organisation focused on promoting information exchange in the microfinance industry worldwide.

<sup>2</sup> CDF is a national networking organisation networking for the microfinance industry in Bangladesh (<http://www.cdfbd.org>).

governance structure of MFIs to analyse the institutional success and corporate governance. Therefore, this study selects Bangladesh to examine corporate governance, accountability, transparency, and sustainability of MFIs, as a means to determine the economic conditions in Bangladesh.

## **1.2 PROBLEM STATEMENT**

As the microfinance sector has evolved and rapidly expanded globally and in Bangladesh, outreach and sustainability have come to the fore. More specifically, MFIs are required to reach the poor and become financially viable (Hasan et al., 2019). Indeed, MFIs have been increasingly pressured to adopt increased financial practices and become more self-sufficient (Tanin et al., 2019). The shift in the importance of MFIs into viable financial institutions while maintaining greater outreach to the poor has given rise to a debate over the trade-off between this outreach and financial sustainability.

The microfinance community has had many problems because of operational inefficiencies, including corporate governance (Ahamad et al., 2022). In this study, there are still some problems with the corporate governance of MFIs and Grameen Bank. Given its unprecedented reach in recent years, the organization's development and viability are contingent on how it is controlled — the institutional structure (board), legal framework, and level of openness, among other factors (Ashraf et al., 2022). That's why this study looks into the possibility of changing the governance structures of MFIs in Bangladesh to make them more effective and sustainable in the fight against rural poverty (Farooq et al., 2022).

Microfinance loans were developed primarily to support entrepreneurial operations in disadvantaged areas, either entirely or partly excluded from the banking system. The goal is to eliminate poverty, encourage self-employment, and empower socially excluded people, especially the poorest of the poor, by giving them the tools they need to get ahead (Mutamimah et al., 2022). The present corporate governance structure in MFIs is geared toward capital raising, which promotes the idea that

private interests gain from the poor's vulnerability, which may result in "mission drift."

There are indications that MFIs' priorities have shifted away from outreach to poorer consumers and toward profit-making and improved financial performance (Mia, 2022). The priority of MFIs to reach the rural poor appears to be in question. MFIs are shifting their focus away from the rural poorest of the poor to the urban poor. The allotment of loan amounts in metropolitan regions by MFIs boosts their profit-making (Remer & Kattilakoski, 2021). As a result, the need for more money has led to less outreach from MFIs.

MFIs in Bangladesh have created central offices in each country's divisions and are moving to a more decentralized approach to work more efficiently and effectively (Rizkiah, 2019). Nonetheless, these measures do not necessarily significantly influence poverty reduction; rural people continue to fight for daily bread. This might imply that MFIs have yet to significantly impact capacity development for the poorest stratum of society (Nasrin et al., 2018). MFIs' goals are centred on outreach, which has been more thoroughly structured into governance criteria (Hasan et al., 2019). Preparation of increased general guidelines for corporate governance to address present deficiencies for MFIs, as well as dealing with cultural and regional variances via establishing a specialized framework for corporate governance, provide meaningful, practical, and sustainable contributions to outreach.

Good corporate governance in achieving MFIs' main aims and supporting further industry development has been underlined as a critical aspect of improving outreach performance, which would, in turn, encourage sustainable growth of micro-, small-, and medium-sized firms (MSMEs) in Bangladesh (Iqbal et al., 2019).

These are missing from these systems' well-intended normative degree of outreach. Furthermore, the financial viability of MFIs must be considered a crucial component of any empirical investigation. The institution's solvency is challenged if financial performance falls too much (Jacoby et al., 2019). MFIs must minimize the risk of management failures that might affect the efficacy of funding received from domestic and foreign donors. Transparency and accountability are essential.

Many issues must be considered in the context of Bangladesh. Improved access to MFIs, timely participation, non-collateralized loans, gender equality, transparency in monitoring loan-fund utilization and growing the pool of accessible resources are needed (Alam et al., 2019). Improving the outreach of MFIs in the context of sustainable development requires the development of an MFI governance model that requires more participation from all stakeholders and less game-playing between parties trying to take advantage of each other (Ali et al., 2017).

Most MFIs have a dual mission: a social mission to provide financial services to large numbers of low-income people to improve their welfare and a commercial mission to provide those financial services in a financially viable manner. MFIs are faced with the challenge of reaching indigent clients and making this service profitable to meet their internal financial objectives (Mia et al., 2018). Other research has looked at the issue of sustainability versus outreach. Mia & Aslam (2017) added a new dimension to the current literature by examining empirical evidence for a compromise between outreach depth and profitability. They investigate whether higher profitability is linked to a lesser depth of outreach to the poor and whether the institutional structure of microfinance compromises financial success and depth of outreach. Running regressions revealed that financial self-sufficiency is unrelated to any outreach indicators, concluding that earnings and outreach exist.

In Bangladesh, studies have been done over the last ten years focusing on credit rationing (Jaiyeoba et al., 2018), determinants of profitability (Uddin, 2018) and factors influencing sustainability (Jaiyeoba et al., 2018). However, the relationship between outreach and financial sustainability of microfinance institutions has never been explored. Thus, this study is designed to identify financial sustainability levels, the depth of outreach, and the relationship between the two, specifically in Bangladesh. MFIs have encountered significant challenges in many areas of the world. For example, the MFIs sector crises in Bangladesh, India, and Pakistan resulted in massive customer loan defaults and the ultimate collapse of several MFIs (Ferdousi, 2015; Derakhsan et al., 2019). High capital expenditure, high employee turnover, a high-profit margin, and reduced profit levels are symptoms of poor corporate governance in MFIs and microfinance banks (Iqbal et al., 2019). Inefficiencies in loan administration, excessive employee turnover, inadequate liquidity management