1. Introduction

- Bangladesh is well known for its micro-finance institutions (MFIs) which are widely recognized as an effective tool for poverty reduction and employment generation.
- However, MFIs are inherently confronted with several challenges as it involves several processes while transferring the fund from the supply point to the demand point (Morvos-Roux et al., 2014).
- More sensitive to public-funded credit programs than NGOs with regard to higher operational cost of fund transfer (Ahmed, 2009).
- Lack of in-depth qualitative research in exploring why such challenges arises in an micro-credit programs and from where exactly?
- This study, therefore, attempts to uncover those factors that may help the organization to improve its governance practices through better program design and effective service delivery.

2. Case selection

Bangladesh Handloom Board (BHB)’s microcredit scheme
- Established in 1998
- Provides credit to handloom weavers
- Repayment rate as of July 2015: 65.71% (BHB, 2015)
- Indicates lack of governance

3. Objective and research questions

Objective
To understand the process of credit implementation by BHB and to uncover the governance challenges faced by this institutions

Research questions
- How does the BHB implements their credit program?
- What kinds of challenges does this institution face that has resulted in a poor level of performance?
- What are the ways to mitigate such challenges?

4. Conceptual framework

**DEMAND-SIDE**

- Measures to improve demand-side
  - Good credit rating
  - Good governance

**SUPPORT-SIDE**

- Other factors
  - Socioeconomic conditions and cultural factors

**ORGANIZATIONAL CAPACITY**

- Ability of the beneficiaries to demand for credit and other support services and hold the organization accountable
- Ability of the credit provider to perform tasks effectively
- Organizational policy and procedure

Source: Adapted and modified from Birner (2009)

5. Methodology of the study

**Analytical Approach**
- Qualitative

**Research Design**
- Case study

**Data Collection Method**
- KII
  - 5 centers
  - 37 participants

**Sampling Technique**
- Purposeful

6.1 Result: Step by step MC implementation process of BHB

1. Estimate loan requirement, send the proposal through two departments
   - Assess the viability of the loan proposal, send for further inspection and send for approval
   - Approve and send command to allocate the fund
2. Inform respective ministry about fund allocation
3. Inspect and send for approval
4. Approve and send command to allocate the fund
5. Inform respective ministry about fund allocation
6. Open BHB’s account in BKB and RAKUB banks, communicate with respective banks for fund releases
7. Call for a loan application, govern group formation, select president
8. Release the fund to BHB’s account in the specified banks
9. Inform BHB’s basic centers to start the implementation activities
10. Prepare and send the report on microcredit transaction to BHB through a departmental help
11. Send eligible borrowers’ passbook for issuing, resend it back after issuing
12. Disburse the loan to eligible borrowers
13. Repay the loan to associated banks in installments
14. Return the deposited amount from the banks
15. Inform about default clients
16. Prepare and send the report on microcredit transaction to BHB through a departmental help
17. Further transfer the fund to the finance ministry through the help of CGA
18. Transfer collected fund to respective ministry without interest amount
19. Further transfer the fund to the finance ministry through the help of CGA
20. Comunicate with the finance ministry for further loan release

6.2 Result: Governance challenges of BHB’s MC program

**Supply-side challenges**
- Shortage of manpower
- Lack of capacity building initiative: training, workshop
- Lack of technology and communication facilities: computer, internet
- Political instability
- Shortage of fund from government
- Competition with informal institutions
- Adverse policy of group formation
- Lack of proper administration
- Unproductive utilization of loan
- Moral hazard of the borrowers

**Demand-side challenges**
- Inadequacy of and delay in loan obtainment
- Existence of corruption
- Higher opportunity cost of loan collection
- Complexity in group formation
- Inadequate support services: advice, training, donation

7. Conclusion and recommendations

The common cases of government-owned credit program are the human, physical, capacity constraints. However, when they are combined with microfinance policy, operational and regulatory constraints, it leads to the failure of the organization to operate in a sustainable manner.

For improvement, focus should be placed on
- Increasing the fund allowance
- Increasing the endowment of human and physical resources
- Strengthening both internal and external governance structure: accountability
- Revision and reformulation of implementation policy: group formation
- Participatory bottom-up planning

References