

What Are the Governance Challenges of Microcredit Programs in Bangladesh? The Case of a Specialised Government Credit Program

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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 (Moreno, 2012; Morvant-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 public-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

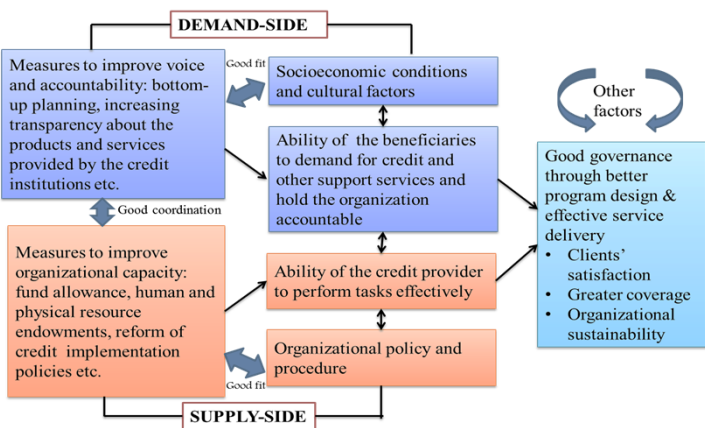
Objective

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



Source: Adapted and modified from Birner (2009)

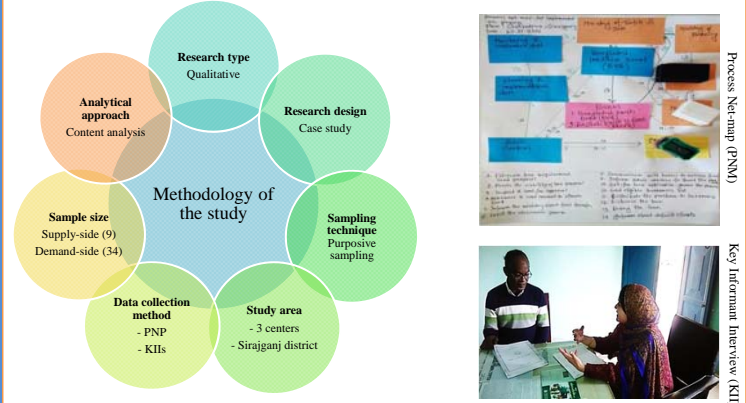
7. Conclusion and recommendations

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.

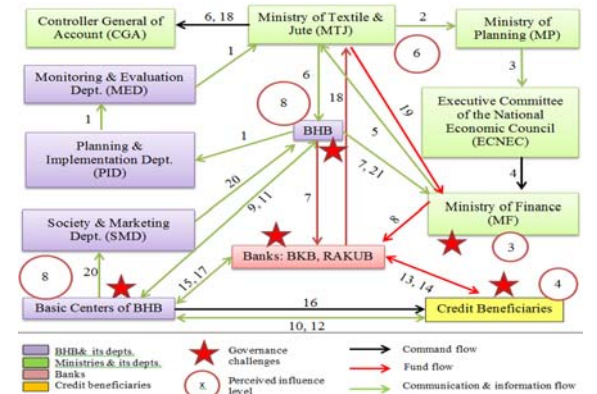
For improvement, focus should be placed on

- 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

5. Methodology of the study



6.1 Result: Step by step MC implementation process of BHB



1. Estimate loan requirement, send the proposal through two departments
2. Assess the viability of the loan proposal, send for further inspection
3. Inspect and send for approval
4. Approve and send command to allocate the fund
5. Inform respective ministry about fund allocation
6. Inform CGA to maintain an account for BHB, send the clearance paper and command to communicate with respective banks for fund obtainment
7. Open BHB's account in BKB and RAKUB banks, communicate with MF for fund releasing
8. Release the fund to BHB's account in the specified banks
9. Inform BHB's basic centres to start the implementation activities
10. Call for a loan application, govern group formation, select president of the group, select eligible borrowers etc.
11. Send eligible borrowers' passbook for issuing, resend it back after issuing
12. Distribute the passbook to the borrowers and send them to the banks for loan obtainment
13. Disburse the loan to eligible borrowers
14. Repay the loan to associated banks in installments
15. Inform about default clients
16. Take action against loan defaulters
17. Inform the banks to adjust the defaulted amount from those client's personal savings fund
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. Prepare and send the report on microcredit transaction to BHB through a departmental help
21. Communicate 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

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