



Best Practices in Microcredit Governance: Lessons from Bangladesh

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"Governance is n't just about power, management, or administration. True governance begins with compassion, with the willingness to see the struggles around us, connect with them as if they were our own, and act meaningfully to address them." - Nobel Laureate Kailash Satyarthi

Abstract

The performance of two prominent microcredit providers – Grameen Bank and BRAC NGO – is examined in this paper, with particular attention paid to their different organizational structures and governance frameworks. As a borrower-owned cooperative, Grameen Bank promotes member involvement in decision-making, which, through group lending, encourages ownership and peer support but may also lead to social pressure. BRAC NGO, on the other hand, employs a centralized governance model and offers a thorough approach to micro credit that is in line with its larger social development initiatives. Although this strategy provides comprehensive assistance, it may not be as flexible to meet the needs of each borrower. Although borrower choices and economic conditions have an impact on their effectiveness, both groups aim to increase loan attachment and reduce poverty. While BRAC depends on a combination of donor money and revenue-generating operations, Grameen Bank places a higher priority on self-sufficiency. The impact and sustainability of microcredit systems might be improved by fusing the advantages of both models – BRAC's integrated approach and Grameen Bank's borrower ownership.

Key Words: Microcredit, Governance Models, Grameen Bank, BRAC NGO, Poverty Alleviation, Borrower Ownership, Social Development.

PAPER/ARTICLE INFO

RECEIVED ON: 29/04/2025

ACCEPTED ON: 08/06/2025

Reference to this paper
should be made as follows:

Akhter, Tahmina &
Hassan, Shanzida (2025),
"Best Practices in
Microcredit Governance:
Lessons from Bangladesh",
Int. J. of Trade and Commerce-
IIARTC, Vol. 14, No. 1, pp:
23-41.

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DOI: 10.46333/ijtc/14/1/2

1. INTRODUCTION

The microcredit system refers to the small loans to low-income persons or groups without demanding collateral. Microcredit has emerged as a significant tool for poverty alleviation, particularly in developing countries. This analysis contrasts the governance structures of two prominent micro credit institutions: Grameen Bank and BRAC (Bangladesh Rural Advancement Committee). By examining their respective governance frameworks, we can better understand how these institutions operate and impact their clients. Ali and Akter (2011) argue that Professor Muhammad Yunus aimed to formalize a definition of micro credit with great enthusiasm, leading to its popularity in free market economies. NGOs assert that the rural poor, particularly women, have benefited from microcredit initiatives. The Grameen model is constructed on the values of trust, group lending, and social collateral. And it has been contributory in changing the lives of millions of individuals in rural Bangladesh (Suzuki et al., 2015). Ali et al. (2024) argue that Grameen Bank's microcredit model needs to be modernized, and new technological innovations also need to address the poor communities' current problem-solving methods to align with political economy, which is very much appreciable. Governance is the system of processes, structures, rules, and norms that guide decision-making within an organization or community. It encompasses relationships among various actors and defines acceptable conduct. In the context of NGOs, governance is influenced by social, political, and economic factors, shaping how they operate and interact with stakeholders.

The BRAC was established in 1972 by Sir Fazle Hasan Abed. It has begun as a help association but firmly lengthens its possibility to contain development agendas in areas such as education, health, and economic empowerment. BRAC's micro credit program started in the late 1970s. It has changed over time with an emphasis on participating in financial services alongside other development initiatives to ensure holistic and sustainable improvements in the lives of its recipients. In our country, a significant percentage of the population lives in poverty, and there is also a need for sustainable economic empowerment. Entrepreneurship has managed to create the impression of being at the fore front of financial solutions. (Godquin, 2004). Micro finance aims to offer small loans and financial services to persons who lack the right to use traditional banking systems. The Grameen Bank Ltd was founded by the Nobel Laureate Dr. Muhammad Yunus in 1983. This bank has been an innovative strength in the field of microcredit (Suzuki et al., 2015). On the other hand, it is especially important in play ingrolein fostering entrepreneurship among the underserved population. While both Grameen Bank and BRAC have made remarkable contributions to the field of Microcredit, they differ significantly in their organizational structures, methodologies, and areas of focus. Grameen Bank's approach his predominantly centered on the individual borrower's ability to repay through group lending, while BRAC combines microcredit with a wide range of development programs aimed at improving health, education, and social well-being. Uddin (2020) described that Micro Finance Institutions in Bangladesh are trying to reduce the poverty alleviation over the country.

This comparative analysis intends to look at the comparisons and dissimilarities between the micro credit systems implemented by Grameen Bank and BRAC in Bangladesh. It will search their organizational structures, loan & loan repayment methodologies, and social impact. It is providing understandings into how each organization has contributed to the fight against

poverty. By critically assessing their successes and trials, this research will also highlight the micro credit components that can be well-informed by their involvements and the likelihood of informative microcredit agendas in the future. This research paper will provide a comprehensive impression of the historical context and development of Grameen Bank and BRAC, monitored by the consideration of their operational models and consequences. A comparative analysis of their approaches will be conducted by focusing on key factors such as outreach, sustainability, repayment rates, and social impact.

1.1. Background of the Research

As a traditional bank and lending institution in Bangladesh, Grameen Bank has often been disinclined to deliver loans to the rural poor due to anxieties about repayment risks and a lack of collateral. The microcredit model is founded by organizations like Grameen Bank, which are designed to fill the gap by offering small loans without requiring collateral. This approach relies on social networks and community-based mechanisms to ensure repayment. (Suzuki et al., 2015). The Grameen Bank was originated in the early 1980s by Dr. Muhammad Yunus. This is a non-scheduled bank has been recognized for the potential for providing small loans to rural women to help them start or else enlarge small businesses. According to Milgram, & Rahman (2001) Dr. Muhammad Yunus's revolutionary idea was to provide credit to the poor, enabling them to break the cycle of poverty and improve their employment opportunities. The concept of microcredit had rapidly gained popularity, and Grameen Bank developed into an internationally recognized institution (Suzuki et al., 2015). Ali, & Wanaslip (2021) observed that Bangladesh is gradually decreasing poverty over the time period, along with rising per capita income for which stable government regulation to drive poverty is needed so that LDC graduation in 2026 can be feasible. Meanwhile, BRAC, founded in the aftermath of Bangladesh's independence in 1972, began as a relief organization but soon expanded its mission to include development programs aimed at improving the socio-economic conditions of the rural population. The organization's Micro credit program, which started in the late 1970s, was based on the idea of providing financial services to the poor as a means of empowering them and fostering self-sufficiency. Although both Grameen Bank and BRAC have a significant impact on microcredit in Bangladesh, their governance structures are essentially different. While BRAC is a non-governmental organization with a broad development agenda that incorporates microfinance with programs for social empowerment, healthcare, and education, Grameen Bank is a specialized microfinance bank with a distinctive ownership structure involving its borrowers. Examining how governance models influence institutional behavior, operational methods, and societal results is made possible by these disparate structures. Wise, Ali, & Yadav (2014) raised the complain that NGOs are imposing higher interest rates, and the formal sector needs proper development. They argue that Poverty reduction efforts are failing, leading to greater wealth concentration among a few and the gap between the rich and poor continues to widen.

1.2. Research Question

This question seeks to understand what effects do Grameen Bank and BRAC's governance methods, management structures, decision-making procedures, and leadership styles have on the sustainability, efficacy, and risk management of their microcredit initiatives?

1.3. Objectives of the Study

This comparative analysis aims to highlight the differences between the microcredit models of Grameen Bank and BRAC NGO, focusing on:

- To analyze and compare the governance models of Grameen Bank and BRAC in the context of microcredit delivery, including their oversight mechanisms, stakeholder involvement, and accountability frameworks.
- To analyze and compare the governance models of Grameen Bank and BRAC in the context of microcredit delivery, including their oversight mechanisms, stakeholder involvement, and accountability frameworks.
- To investigate how each organization manages risk including credit risk, operational risk, and external shocks (e.g., economic downturns, climate change), and the role of governance and leadership in shaping these risk management strategies
- To explore decision-making procedures, including the degree of participation, transparency, and speed of implementation, and how these impact microcredit service delivery and adaptation to client needs.

2. LITERATURE REVIEW

Valvekens and Develtere (2024) find that microcredit positively influences women's empowerment, particularly in decision-making and mobility. A study on microfinance institutions (MFIs) in Bangladesh shows that while microfinance banks (MFBs) and microcredit programs (MCPs) negatively impact financial efficiency, rural development schemes (RDS) may improve it, particularly with greater gender diversity in management (Uddin et al., 2022). Uddin et al. (2023) highlight how BRAC's leadership has shifted accountability to create a counter-hegemony. Another study by Uddin et al. (2023) explores Islamic microfinance as a sustainable alternative to conventional models. Msoffe (2022) notes that loans enable low-income households to buy motor cycles, improving business travel. Jemal (2022) emphasizes that microfinance is more effective for better-educated clients. Mia, & Ramage (2021) argue that microcredit is vital for entrepreneurship and economic independence, while Faruquee, & Gautam (2016) credit it with reducing poverty. However, high interest rates and repayment schedules can trap borrowers in debt. The effectiveness of microcredit varies, with some borrowers advancing while others remain impoverished due to market limitations and external shocks (Faruquee & Gautam, 2016). Microcredit is crucial for poverty alleviation in Bangladesh, providing access to capital for the poor (Hoque, 2014). Ali et al. (2018) emphasize the transformative role of social networking in empowering women in rural Bangladesh which builds on the model developed by Ali (2016) concerning community banking, illustrating how financial and social resources can be leveraged for greater human dignity. While it cannot eliminate poverty, it improves living standards and stimulates local economies as the article also identifies key challenges for Grameen Bank and BRAC (Kickul et al., 2012): Over indebtedness: Multiple loans lead to repayment issues; Operational Costs: High expenses due to extensive loan monitoring; Sustainability: Dependence on donor funding threatens viability; Economic Pressures: Natural disasters impact repayment ability; Interest Rate Critique: High rates undermine credibility. Rahman (2017) argued that poverty reduction was quite successfully done by NGOs in Bangladesh. Iyer (2015) argues that

NGOs in India are effectively enhancing civic engagement and equipping elected officials to fulfill their responsibilities which perspective is also applicable in Bangladesh. Ab-Rahim, & Shah (2019) describe that positive impact on the borrower's income and consumption while negative impact for saving and assets and microfinance has improved the well-being of the borrowers. Dzinamarira, Bopoto, Mutiro, Chitungo & Dzinamarira (2024) argues for a combined tactic, advising international NGOs, funders, and stakeholders to significances mentorship programs, online resources, and regional training hubs to equip new NGOs with the tools they need to thrive and become architects of positive change. Jelovac (2025) argued that the NGO's Board of Directors, Ethical Office, key stakeholders, collaborators, and managers make important decisions about how to be well governed, and CSR strategies and policies are a crucial part of those decisions.

2.1. Justification of the Research

This study examines how the governance frameworks of BRAC and Grameen Bank influence small business growth in Bangladesh, focusing on institutional efficiency and sustainable microenterprise development. It emphasizes microcredit's role in poverty reduction in developing countries and analyzes how Grameen Bank's group lending model contrasts with BRAC's individual and group lending combined with development services. The research aims to provide insights into how these differing approaches affect borrower behavior, loan repayment, and socioeconomic outcomes, particularly for women. As demand for microcredit rises, the study addresses sustainability and scalability challenges, advocating for data-driven policies to enhance impact. By focusing on women's empowerment and effective governance, the project seeks to bridge the research gap between BRAC and Grameen Bank and propose best practices and policy recommendations to improve microcredit institutions globally.

3. RESEARCH METHODOLOGY

This research examines the role of microcredit and micro-investments in promoting entrepreneurship through Grameen Bank and BRAC NGO in Bangladesh. A combination of surveys and case studies will be utilized, incorporating both quantitative and qualitative data to provide a comprehensive view of microcredit's impact.

3.1. Research Design

A descriptive research design will assess the effects of microcredit programs on entrepreneurship. Surveys will identify general trends, while interviews will capture personal experiences from borrowers of Grameen Bank and BRAC.

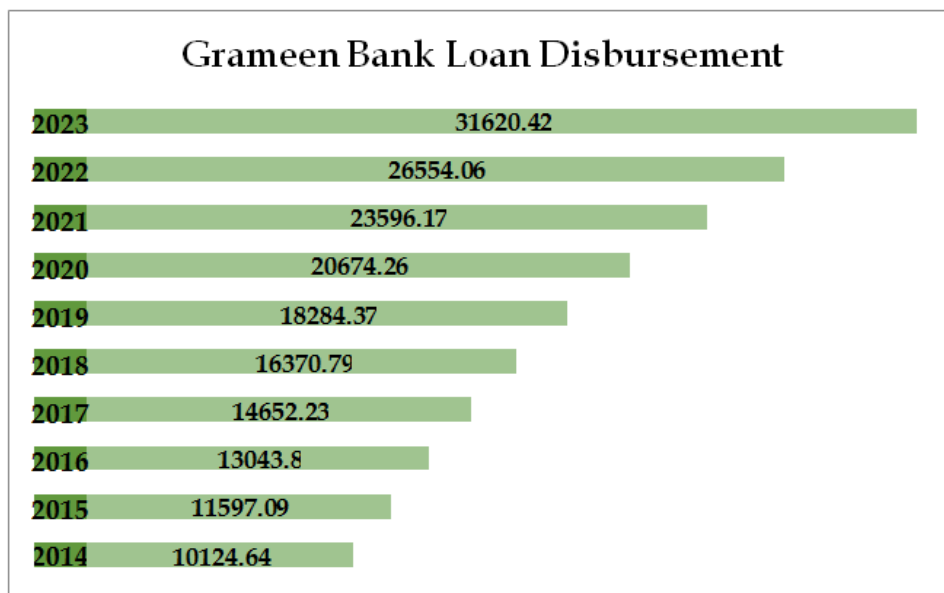
3.2. Data Collection Methods

Survey: Quantitative data will be collected from 40 randomly selected borrowers in the Cumilla district, with 20 participants from each organization. The survey will include closed-ended questions focusing on their experiences with microcredit and its socioeconomic impacts.

Case Studies: Two case studies each for Grameen Bank and BRAC will be developed, focusing on beneficiaries in rural Cumilla. Participants will be selected for convenience at the grassroots level.

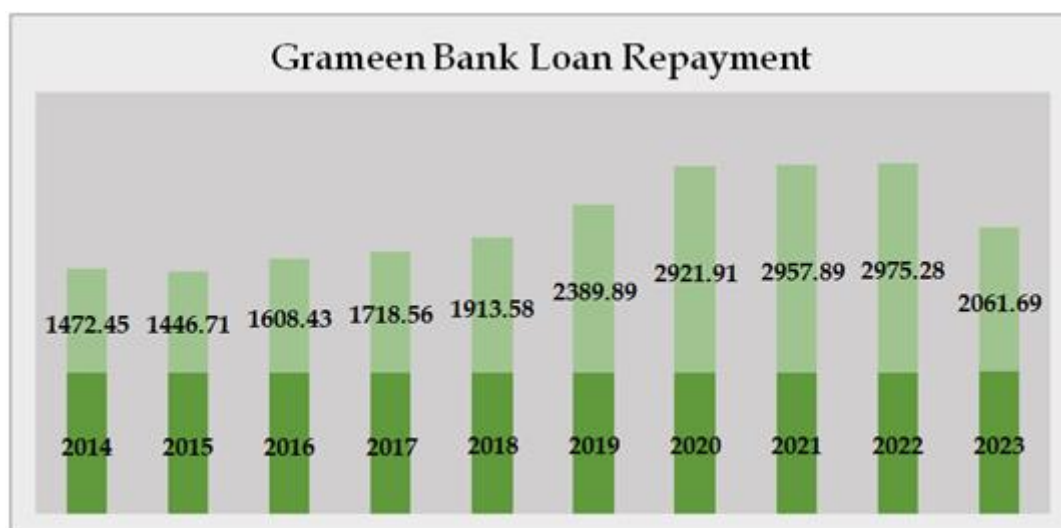
Time Period of the Study: The study was conducted from January 10 to April 9, 2025.

4. DATA ANALYSIS



Source: Collected from the organization

Loan Amount Growth: The loan amount increases steadily over the years. The loan amount grew from \$10.12 billion in 2014 to \$31.62 billion in 2023. This represents a gradual increase each year, signaling that the bank is issuing more loans over time. The percentage growth from 2014 to 2023 is approximately 212.3%.



Source: Collected from the organization

Loan Repayment Growth: Similarly, the loan repayment amount grows over time. The repayment grew from \$1.47 billion in 2014 to \$2.06 billion in 2023. While there is an increase, the repayment growth is less pronounced than the loan amount increase. The percentage growth from 2014 to 2023 is 40.1%.

Loan Repayment Trends: 2019 and 2020 show the highest loan repayment amounts. This could indicate that the bank had a high recovery from earlier loans issued in 2018 and 2019. In 2020, the repayment amount reached \$2.92 billion, a substantial jump compared to previous years. After 2020, the repayment amount is relatively stable, with small increases in 2021 and 2022. However, the growth rate starts to slow down.

Impact of External Factors (COVID-19): The year 2020 shows an increase in the repayment amount despite being a global crisis year. This could be attributed to various factors like financial support programs or borrowers' ability to repay despite the pandemic. The data shows a potential delay in loan repayments in 2023, where repayment amounts are significantly lower despite a larger increase in the loan amount compared to earlier years.

4.1. BRAC NGO Data Analysis

Loan Amount Growth: The loan amount increases over time, starting from \$14.63 billion in 2014 to \$28.61 billion in 2023. The percentage growth from 2014 to 2023 is approximately 95.3%.

Loan Repayment Growth: The loan repayment amount also increases over time, from \$1.84 billion in 2014 to \$4.46 billion in 2023. The percentage growth from 2014 to 2023 is approximately 142.5%.

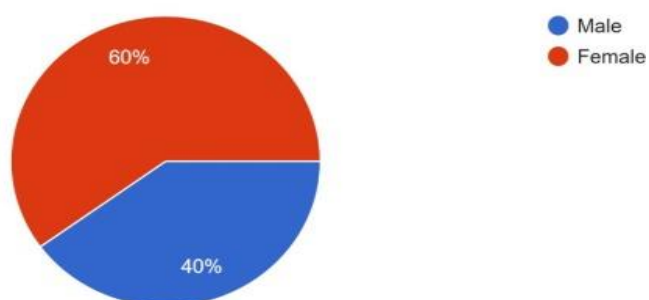
Loan Repayment Trends: From 2014 to 2023, the loan repayment shows a steady increase. The repayment amounts more than doubled, from \$1.84 billion to \$4.46 billion. This increase in repayment indicates that BRAC NGO has been able to recover a higher proportion of the loans issued, which could point to improved loan collection efforts or a higher capacity for borrowers to repay.

Impact of External Factors (COVID-19): 2020 shows an increase in both loan amounts and repayments, which is notable considering the global pandemic. This may indicate that the institution was able to adjust to challenges and still manage higher repayments despite global economic disruptions.

4.2. Survey Analysis

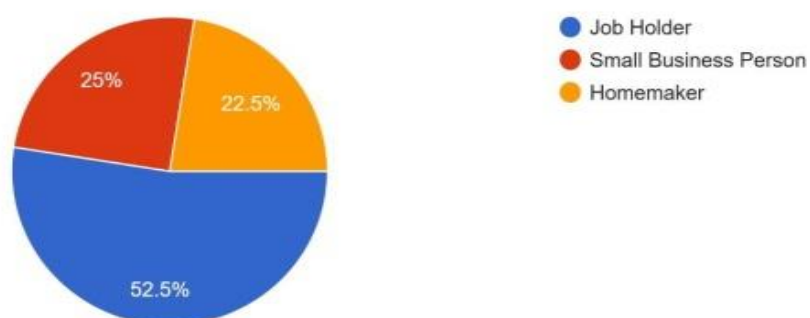
1. Gender

40 responses



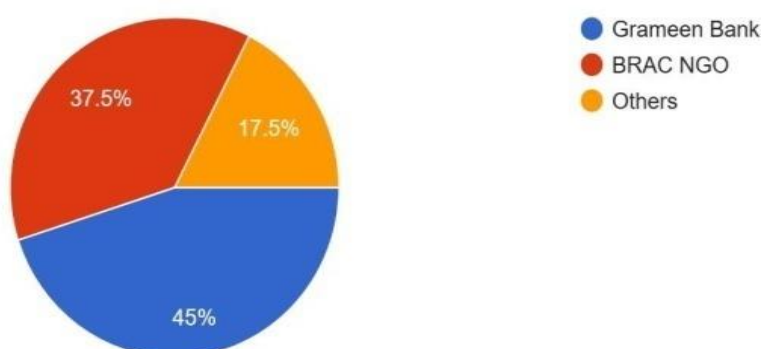
2. What is your occupation?

40 responses



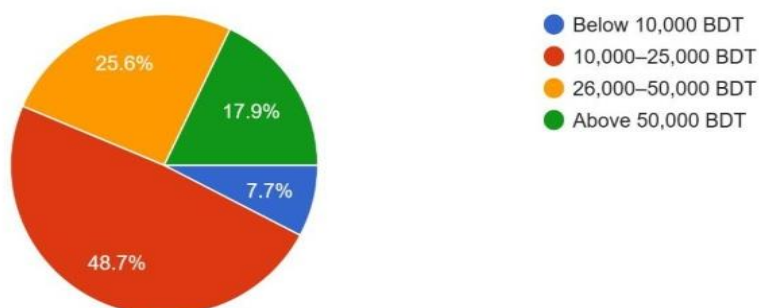
3. Have microcredit program have you taken a loan from?

40 responses



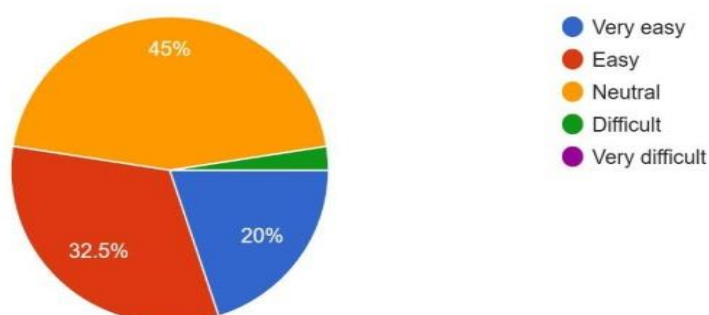
4. What was the amount of your first loan?

39 responses



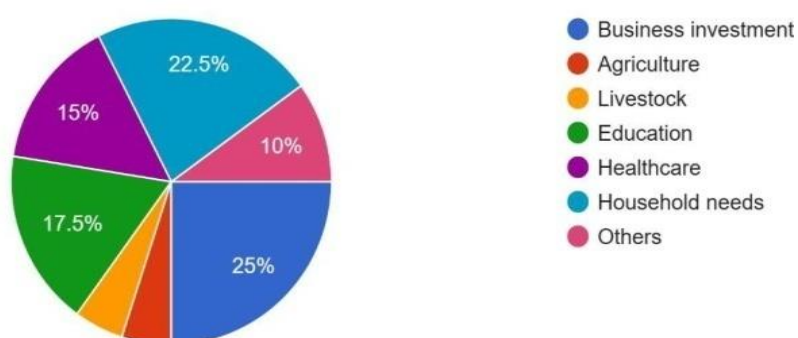
5. How easy was the loan application process?

40 responses



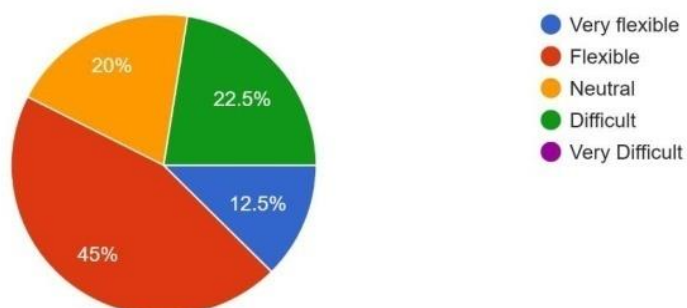
6. What was the purpose of your loan?

40 responses



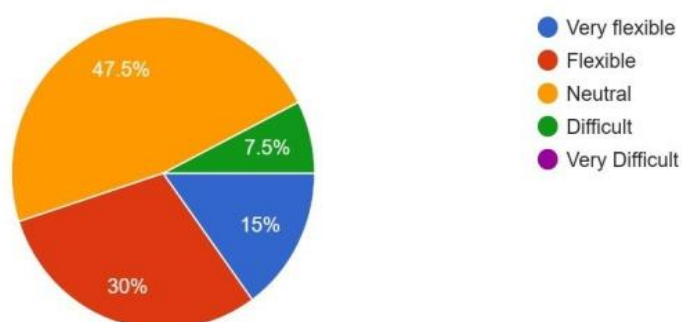
7. How do you rate the repayment terms of Grameen Bank loan?

40 responses



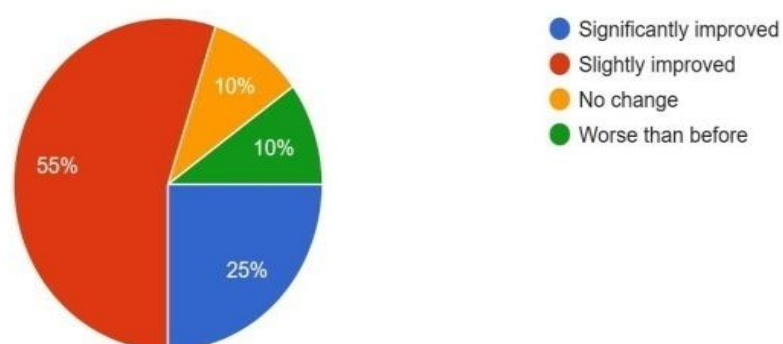
8. How do you rate the repayment terms of BRAC NGO loan?

40 responses



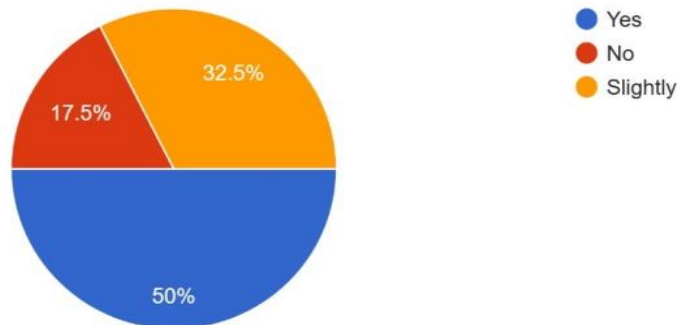
9. Has the loan improved your financial condition?

40 responses



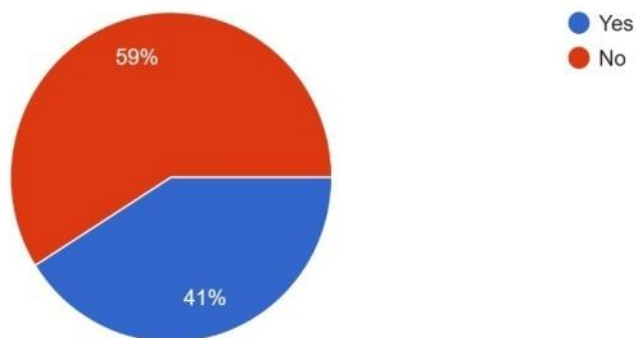
10. Has your household income increased after taking the loan?

40 responses



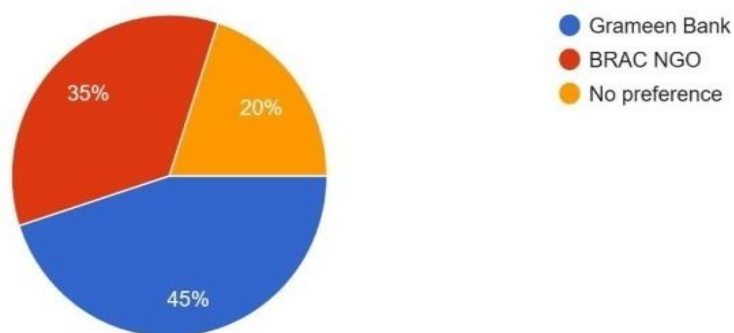
11. Did you receive any training or business guidance along with the loan?

39 responses



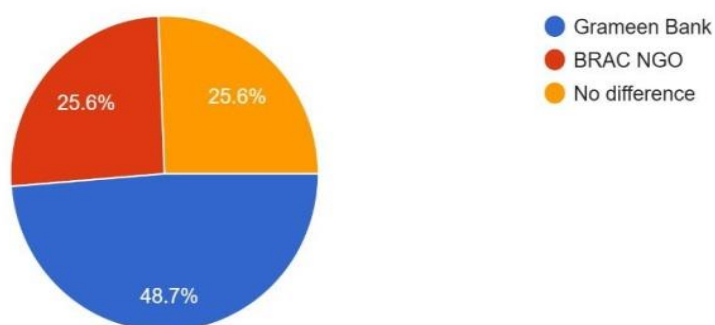
12. If you have taken loans from both institutions, which one do you prefer?

40 responses



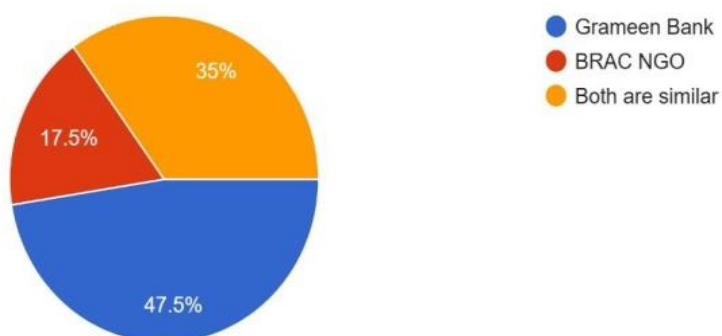
13. Which institution has more flexible repayment terms?

39 responses



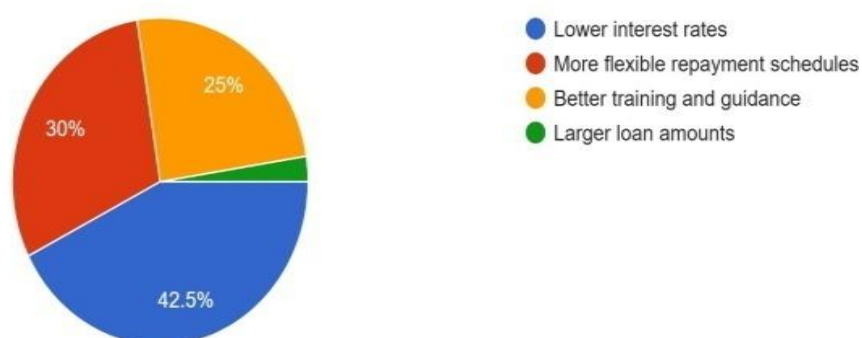
14. Which institution has a lower interest rate?

40 responses



15. What improvements would you suggest for microcredit programs?

40 responses



5. CASE STUDIES

5.1. Two case studies on Grameen Bank (Prepared by Researchers):

Case Study 1: Nishi's Livestock Loan Success

Background: Nishi, a 35-year-old small entrepreneur from a rural village in Cumilla, struggled to expand her livestock business due to financial constraints. Seeking support, she turned to Grameen Bank for a microcredit loan.

Governance Practices: Grameen Bank's governance model emphasizes community involvement and accountability. Nishi participated in group meetings where members shared experiences and provided mutual support. This collaborative environment fostered trust and responsibility among borrowers.

Outcomes: With a Tk. 40,000 loan, Nishi invested in high-quality livestock and improved her goat-rearing practices. This led to a significant increase in her income, allowing her to repay the loan promptly. The training and guidance from Grameen Bank staff helped her adopt better rearing techniques. Nishi's success not only enhanced her family's living standards but also contributed to local food security.

Case Study 2: Fatima's Handicraft Business

Background: Fatima, a 28-year-old mother of two, aspired to start a handicraft business in Cumilla to support her family financially. She approached Grameen Bank for assistance.

Governance Practices: Grameen Bank provides regular training on business management and financial literacy, particularly aimed at empowering women. Fatima benefited from these resources, which enhanced her entrepreneurial skills and confidence.

Outcomes: With a Tk. 15,000 loan, Fatima launched her handicraft business, creating traditional items for sale. Her training enabled her to manage finances effectively and market her products successfully. She not only repaid her loan but also expanded her business, creating job opportunities for other local women. Fatima's journey illustrates how Grameen Bank's governance practices foster economic empowerment and community development.

5.2. Case Studies on BRAC NGO (Prepared by Researchers):

Case Study 3: Suntee's Agricultural Cooperative

Background: Suntee, a 40-year-old farmer's wife from a village in Bangladesh, wanted to enhance her family's agricultural productivity but faced challenges due to limited resources and knowledge. She sought support from BRAC. In Bangladesh, women are a significant and growing part of the agricultural workforce, with cooperative farming initiatives playing a vital role in their empowerment.

Governance Practices: BRAC's governance model emphasizes participatory decision-making and community engagement. Suntee joined an agricultural cooperative facilitated by BRAC, where members collaboratively set goals and shared resources. Regular meetings ensured transparency and accountability among the farmers.

Outcomes: With BRAC's assistance, Sunitee received training in modern farming techniques and access to microcredit. She used a Tk. 30,000 loan to purchase better seeds and equipment, resulting in a doubled crop yield and significantly increased income. The cooperative structure fostered community support, exemplifying how BRAC's governance practices enhance collective growth and sustainability in agriculture. Sunitee actively participated in various stages of the agricultural value chain, from on-farm activities to post-harvest activities and marketing.

Case Study 4: Alaya's Education Initiative

Background: Alaya, a 32-year-old educator, aimed to establish a learning center in her community to improve educational access for children. She sought BRAC's support to realize her vision.

Governance Practices: BRAC's governance framework emphasizes local leadership and accountability. Alaya collaborated with BRAC staff to develop a curriculum tailored to community needs, ensuring that the initiative aligned with local priorities through community involvement in decision-making.

Outcomes: With a Tk. 25,000 grant from BRAC, Alaya opened the learning center, providing quality education to over 50 children. The center also conducted workshops for parents, raising awareness about the importance of education. Alaya's initiative improved educational outcomes and fostered community engagement, highlighting how BRAC's governance practices empower local leaders and promote sustainable development in education.

6. COMPARISON OF GOVERNANCE STRUCTURE

6.1. Governance Structure of BRAC

Model and Leadership: BRAC's decentralized governance enhances community responsiveness.

Community Involvement: Participatory governance fosters client ownership.

Accountability and Transparency: Regular reporting and feedback mechanisms promote local accountability.

6.2. Comparative Analysis

Decision-Making: Grameen's centralization may overlook local needs, while BRAC's decentralization enhances responsiveness.

Client Empowerment: BRAC actively empowers clients; Grameen can create dependency.

Sustainability: Both face sustainability challenges, with Grameen focusing on profitability and BRAC on community impact.

6.3. Common Criticisms

Critics point to accountability issues, potential misalignment with local needs due to reliance on external funding, and inadequate representation of community voices. The proliferation of these organizations may lead to fragmented initiatives, inefficiencies, and bureaucratic tendencies. Moreover, immediate project outcomes can overshadow root causes, and a focus on women borrowers' risks neglecting broader community needs.

7. DISCUSSION

Microcredit in Bangladesh has significantly evolved, impacting socio-economic development, particularly for marginalized communities. Research highlights its role in women's empowerment, entrepreneurship, and poverty alleviation, despite criticisms and structural challenges. Access to credit has enhanced women's decision-making, financial management, and community involvement, as noted by Valvekens, & Develtere (2024). Microfinance also supports broader economic goals like job creation. Studies indicate that rural development schemes with inclusive governance are more effective, though microfinance banks face sustainability issues due to governance limitations. Models like Grameen Bank and BRAC are central to microcredit's success. Grameen's focus on corporate social responsibility and BRAC's approach to social accountability have broadened their impact. However, concerns about high interest rates and repayment difficulties persist, particularly for those with limited financial literacy. Islamic microfinance is emerging as an ethical alternative, addressing conventional microcredit's shortcomings. While microcredit is not a complete solution to poverty, it remains crucial in Bangladesh's development narrative, necessitating approaches that integrate education, gender-sensitive governance, and technology. Iyer (2015) opinion that NGOs in India may be effectively implemented in Bangladesh to enhance civic engagement by all NGOs. Satyarthi's (seen on 9th April, 2025) view regarding governance must be followed by not only Grameen Bank or BRAC NGO but also other NGOs.

8. CONCLUSION AND IMPLICATIONS FOR FUTURE RESEARCH

BRAC and Grameen Bank are vital in enhancing governance, public participation, and local support. Their differing governance structures—Grameen's centralized model for efficiency and BRAC's decentralized approach for community engagement—offer insights for future microcredit initiatives. Both institutions significantly impact poverty alleviation and financial inclusion, particularly for women, though they face challenges.

Grameen Bank's group lending promotes financial discipline but has a rigid repayment schedule, which can burden those with irregular incomes. In contrast, BRAC's flexible lending and training programs support business growth but can lead to higher debt due to slower approval processes. Integrating technology can improve efficiency and transparency, but challenges like access and data security must be addressed. Ali et al. (2018) advocate for the community banking approach, based on the theory developed by Ali in 2016, as a means to enhance the governance of NGOs in Bangladesh. They argue that this model promotes greater accountability, transparency, and community involvement, leading to more effective governance. By integrating community banking principles, NGOs can foster stronger relationships with local populations and improve their service delivery, ultimately resulting in better outcomes for the communities they serve.

While both organizations have increased income and empowered women, issues like high interest rates and debt burdens persist. To enhance their impact, they should consider lowering interest rates, expanding financial literacy, and improving borrower support. The current focus on high interest rates and insufficient regulatory enforcement by the Microcredit Regulatory Authority and Palli Karma-Sahayak Foundation exacerbates wealth inequality.

9. RECOMMENDATIONS FOR GOVERNANCE IMPROVEMENT

- **Enhance Accountability:** Implement audits and feedback mechanisms for transparency.
- **Strengthen Community Engagement:** Involve community members in decision-making and assess local needs regularly.
- **Align Funding with Local Needs:** Prioritize community priorities over donor agendas and develop sustainable funding models.
- **Promote Inclusivity:** Ensure diverse representation in governance and seek marginalized voices.
- **Focus on Long-term Solutions:** Shift to sustainable development goals with robust monitoring systems.
- **Capacity Building:** Invest in training for staff and community leaders to enhance governance skills.
- **Leverage Technology:** Use technology for project management and beneficiary communication.
- **Foster Collaboration:** Collaborate with governments and other NGOs to avoid duplication and advocate for systemic change.
- **Cultural Sensitivity:** Conduct cultural assessments to ensure project relevance and involve local leaders.
- **Regular Training and Development:** Offer ongoing training to keep staff updated on best practices.

10. FUTURE RESEARCH DIRECTIONS

Future research should focus on adapting microfinance models to diverse socio-economic contexts, comparing long-term impacts on livelihoods in Bangladesh and India, and exploring the role of digital finance. Gender-sensitive approaches to support female borrowers and collaborations between NGOs and government programs should be examined. Sustainability practices and regulatory frameworks need analysis to strengthen policy advocacy. Effective community engagement strategies and longitudinal studies on microfinance interventions will enhance understanding of their social and economic impacts. Promoting cross-border learning between Bangladeshi and Indian NGOs can further strengthen their influence on financial inclusion and social change.

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