

# **“The Role, Challenges, and Way Forward for Bangladesh’s Microcredit-Providing Cooperative Societies in an Inclusive Economy”.**

**An Empirical Research**

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## **Research Summary**

### **Introduction**

In today’s global economy, which is increasingly driven by modern technology, advancement in any field requires adopting appropriate strategies and processes. A competitive race exists in all sectors for achieving quality, speed, and efficiency. To firmly survive this process, the principle of "survival of the fittest" is being followed. In this regard, no initiative that leaves anyone behind will be successful for the country and society. Therefore, emphasis is placed everywhere on an inclusive economic system. The current global agenda, such as the SDGs, also places special emphasis on an inclusive financial system.

According to the practical definition, an inclusive economy refers to an economic system, whether macro or micro, that ensures the unhindered inclusion or participation of all segments of society, regardless of age, gender, race, education, personal identity, physical and mental disabilities, and other characteristics.

On the other hand, cooperatives represent grassroots-level inclusive institutions and are, in effect, the foundational step toward establishing an inclusive economy. Hence, if effective cooperative systems can be developed across all sectors and professions in the country, an inclusive national economy can gradually be established as a result.

### **Rationale for the Research**

Currently, there are 188,886 registered cooperative societies in Bangladesh, with a combined working capital of approximately BDT 250 billion. These societies have directly created employment for 1,112,033 individuals and include around 12.24 million individual members. Considering the family members of individual members, more than 40 million people are involved with cooperatives. The Department of Cooperatives is working to improve the socio-economic status of this large population involved with cooperatives through cooperative societies and various projects.

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Cooperatives significantly contribute to the national economy in sectors such as agriculture, fisheries, livestock, garments, dairy production, housing, microcredit and savings, and traditional crafts (e.g., leather and pottery). Notably, many cooperatives are involved in microcredit programs that support low-income groups and play a vital role in improving their livelihoods. According to the 2023 Annual Statistics Report, there are 9,355 such societies (of which 5,578 are active), with approximately 1,064,939 members (790,750 male and 274,109 female). These societies collectively manage BDT 173 billion in share capital, BDT 453.4 billion in savings deposits, and BDT 692.2 billion in working capital, generating employment for 290,225 people. The primary target group for microcredit-providing cooperatives comprises the poor and those with limited capital. These individuals typically make small savings and invest in local, often traditional, income-generating sectors with family support. Although they aim to increase their investment to secure sustainable income, they are constrained by a lack of capital. Microcredit cooperatives bridge this gap using the capital accumulated through members' regular savings and share deposits.

Furthermore, the members themselves are involved in the management of each microcredit-providing institution. They analyze and assess to provide investment loans to genuine and eligible members and monitor the investments. They also determine the service charge for the loan amount. In this way, the accumulated funds of microcredit-providing institutions gradually increase, and simultaneously, the income and savings of the members also grow. Thus, members continue to benefit from their investments.

In this context, microcredit cooperative societies have made significant contributions to building an inclusive economy. However, their traditional operational methods are insufficient to meet current demands. There is no comprehensive data on the operational needs, risks, or challenges of these cooperatives. Their activities remain largely invisible. Since it is essential to make these cooperative institutions more effective and sustainable, and to make their activities more transparent and visible by highlighting the benefits/drawbacks of microcredit, an initiative was undertaken to conduct an applied research to identify the role and obstacles of microcredit cooperative societies in the inclusive economy of the country and determine future courses of action, as part of the current government's development plan. It is worth noting that no such research initiative has been undertaken previously.

## **Research Objectives**

In light of the aforementioned context, this applied research study was conducted with the following objectives:

1. To identify the role, positive impact, and potential of microcredit-operating cooperative societies in promoting an inclusive economy.
2. To determine the challenges faced by microcredit-providing cooperative societies within an inclusive economic framework and to provide recommendations for future actions.

## **Research Methodology**

For sampling purposes, cooperative societies were selected using a stratified two-stage cluster sampling method from 437 upazilas (sub-districts) across the 64 districts of Bangladesh's 8 administrative divisions. As of now, there are 5,578 active microcredit-providing cooperative societies in the country.

In the first stage, cooperative societies were stratified by division, and then a total of 240 societies were randomly selected in proportion to the number of societies in each division. In the second stage, from each selected cooperative society, three individual members were randomly chosen for interviews, resulting in a total sample of 720 members. After excluding incomplete or faulty responses, data from 679 members were retained for final analysis. In addition, survey data were collected from 240 presidents or general secretaries of the selected cooperative societies' management committees.

Data collection tools included semi-structured questionnaires designed for both individual members and management committee members, aimed at gathering both qualitative and quantitative data relevant to the research objectives.

Furthermore, Key Informant Interviews (KIIs) were conducted with officials from relevant departments, organizations, NGOs, banks, university professors, economists, and subject-matter experts. Focus Group Discussions (FGDs) were also organized involving cooperative members, debt collection officers, cooperative department officials, and stakeholders from relevant fields.

Concurrently, a workshop was organized with representatives from the Department of Cooperatives, various departments, organizations, universities, and cooperative societies based on the report prepared from field survey data.

Data was collected through both primary and secondary sources. Primary sources included filling out questionnaires, direct data collection from cooperative members and officials, and conducting interviews. Secondary data included official records, audit notes, and investigation reports from cooperative societies.

After data collection, all responses were coded and processed using SPSS version 16.0, with data being sorted, compiled, and analyzed. The results were presented through tables, charts, and graphs. Statistical tests such as T-tests and Z-tests were also conducted to validate specific hypotheses.

## **Findings, Analysis and Observations**

Based on the questionnaire responses, key informant interviews (KII), focus group discussions (FGD), and secondary data, the following major findings and observations were made:

### **1. Demographic and Socioeconomic Profile of Respondents:**

- Analysis of the research data reveals that the majority of the cooperative members participating in the survey are between 36 and 45 years old

- Most members were moderately educated, having completed primary or secondary education.
- The families of the research participants were typically reliant on a single income earner.
- A majority were engaged in business activities, though many also participated in agriculture or formal employment.
- Most members reported a monthly per capita income between BDT 5,000 and 25,000, However, the number of cooperative members earning above BDT 25,000 is also significant.
- Analysis of borrower data indicates that most utilized their loans for small businesses and the agricultural sector.

## **2. Organizational Status of Cooperatives:**

- Through the survey participants, it is evident that, most cooperatives had elected management committees that held regular monthly meetings.
- Many cooperative societies owned immovable properties such as land, ponds, or orchards.
- Most cooperative societies undergo regular annual audits by the Department of Cooperatives.
- While the majority of cooperative societies have bank accounts, one out of every ten societies does not have a bank account.
- Loan records and transactions were mainly documented manually in ledgers; use of digital software was minimal.
- There was a lack of robust monitoring tools for loan disbursement and recovery activities.

## **3. Support Services Beyond Credit:**

- In addition to loans, some cooperatives offered limited training and technical or business advice.
- However, the majority provided only loan services without capacity-building initiatives.
- Members generally did not receive training essential for productive use of loans.
- Although the Department of Cooperatives occasionally arranged training, it was deemed insufficient.
- Members expressed the need for additional support such as training and material inputs alongside credit.

## **4. Training and Technical Knowledge:**

- Training plays a critical role in production and marketing.

- Most respondents indicated that they received little to no training on income-generating activities.
- Two-thirds of members said they had not received any training on loan utilization.
- Although the Department of Cooperatives organizes income-generating training, it is inadequate for achieving optimal profit.
- Participants suggested that both the Department and the cooperatives themselves should facilitate regular member training.

#### **5. Technology Adoption:**

- Research findings indicate that, the use of technology in cooperative operations was very limited.
- Digital tools for loan monitoring, cashless transactions, and mobile financial services (MFS) were rarely used.
- Members showed little interest or familiarity with modern technology.

#### **6. Capital and Investment Limitations:**

- Investment is required to leverage the benefits of elements such as credit, technology, training, and information, which cooperative societies are often unable to afford.
- Cooperative societies or their members lack the capacity for investment. According to the surveyed cooperative members, adequate loan provisions must be made.
- Participants believe that if microcredit cooperative societies are strengthened organizationally and financially, they will be able to play a supportive role in improving the socio-economic conditions of cooperative members.
- Banks and cooperative financing institutions (e.g., Bangladesh Cooperative Bank) could play a crucial role in funding.

#### **7. Loan History and Terms:**

- Analysis of the loan acquisition experience of participating cooperative members over the past three years shows that loans ranging from a minimum of BDT 4,000 to a maximum of BDT 5,000,000 have been disbursed by the societies.
- The loan Interest rates ranged between 10% and 24%, with repayment periods ranging from 3 months to 10 years.
- Most respondents used loans for business purposes and reported spending the money as intended.
- However, some diverted funds to household repairs, children's education, medical expenses, or spousal businesses.

- About one-third of female borrowers reported that the loans were actually used by their husbands.

#### **8. Asset Growth and Impact of Microcredit:**

- Analysis of the movable and immovable assets of the survey participants reveals a positive impact of microcredit on their asset acquisition.
- While over half owned immovable assets before receiving loans, one-third acquired such assets after receiving loans.

#### **9. Preference for Cooperative Loans:**

- The research revealed that cooperative members preferred loans from cooperatives over other institutions due to easier access, simpler repayment, and fewer bureaucratic hurdles.
- However, many noted that cooperative loan interest rates were high and loan amounts often insufficient.

#### **10. Risks and Loan Management Challenges:**

- The results show that participants cited high interest rates, lack of guarantors, and limited knowledge about specific business trades as major risks.
- On the other hand, regarding the main risks in loan disbursement, members of the cooperative society's management committee stated that in many cases, borrowers use the loan for a different purpose than intended and show reluctance to repay, which hinders the objective of the loan and makes it difficult for the borrower to repay the loan.

#### **11. Loan Misuse and Over-indebtedness:**

- The research indicated that microcredit-providing cooperative societies often make errors in selecting loan recipients, and at the client level, loan funds are frequently misused.
- Poor and low-income loan recipients often used loans to meet basic needs, not for productive purposes.
- Many individuals took loans from multiple institutions, leading to repayment difficulties and a cycle of indebtedness.
- Furthermore, it was observed that due to incorrect selection of loan recipients and inadequate financing for viable businesses and initiatives, these funds are often spent on unproductive sectors, thereby hindering the primary objective of microcredit activities and failing to achieve desired outcomes.

#### **12. Loan Repayment Methods:**

- Most repayments were collected through door-to-door visits or by members visiting cooperative offices.

- Bank or mobile financial service-based repayment was rare and not preferred.
- Manual recordkeeping was the norm; software use was minimal.
- This suggests that due to a lack of technological knowledge and limited use of technology, cooperative members are not comfortable with this transaction process.

### **13. Loan Policy and Documentation:**

- According to the research findings, most cooperatives followed written loan agreements, but lacked a specific loan policy or framework for credit operations.

### **14. Sources of Loan Funds and Profitability:**

- Analysis of loan disbursement and collection data by the cooperative societies shows that around 95% of cooperatives issued loans from members' savings and share capital.
- Additionally, loans were also issued from cooperatives' own funds.
- The loan installment recovery rate is good.
- a review of the net profit of the surveyed cooperative societies over the past three years indicates that the amount of profit is increasing every year, which signifies the success of the society's activities.

## **Identified Problems and Recommended Actions**

Based on the analysis of survey responses and stakeholder consultations, the following key challenges and proposed solutions emerged regarding the operations of microcredit-providing cooperative societies:

### **Identified Problems:**

- Insufficient financial resources and capital.
- Requirement to provide collateral/mortgage against loans.
- Rigid and complex loan conditions.
- Requirement to submit blank cheques against loans.
- High interest rates on cooperative loans.
- Inadequate borrower screening and improper borrower selection.
- Mismatch between loan disbursement and the intended sector of investment.
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### **Recommendations from Respondents:**

To address the aforementioned challenges, the participants suggested the following actions:

- Ensure timely collection of members' shares and savings and provide loans against them.
- Simplify complex loan conditions and avoid requiring blank cheques.
- Guarantee that loan funds are used strictly for the intended purpose.
- Conduct pre-loan project inspections and schedule post-loan project visits at fixed intervals.

- Reduce high interest rates and introduce more reasonable service charges.

Additionally, respondents offered suggestions for improving loan utilization:

- Hold guarantors accountable for ensuring repayment.
- Introduce legal provisions to obligate borrowers to repay installments.
- Provide regular member training and motivation meetings.

These measures, if properly implemented, were believed to ensure the effective use of loans and empower borrowers to improve their economic status.

### **Impact of microcredit:**

According to the survey questionnaires and FGD data:

- Almost all participants believed that microcredit cooperatives have had a positive impact on local economic development and the socio-economic status of families.
- Z-test results showed that over 80% of members believed microcredit cooperatives play an important role in improving members' economic conditions.
- Most cited increased income, entrepreneurship, and self-employment as key outcomes.
- A paired t-test comparing income before and after receiving loans showed a statistically significant increase in member income due to proper loan utilization.

### **Perceived Benefits and Drawbacks of microcredit:**

Participants highlighted the following as key benefits:

- Increased income.
- Growth in permanent assets.
- Enhanced social status.

As for drawbacks, they pointed to:

- Growing dependence on loans.
- Loan funds often being diverted for non-productive purposes, especially in households with limited financial literacy.

Nevertheless, the study revealed that cooperatives play an important role in entrepreneurship development and self-employment creation, ultimately contributing to the socio-economic empowerment of their members

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### **Gender Dimensions and Women's Empowerment:**

The research also found:

- Women borrowers experienced enhanced family and social status.
- Their participation in household decision-making and economic activities increased.
- Female involvement as micro-entrepreneurs have significantly risen.
- Microcredit programs run by cooperatives have made a noteworthy contribution to women's empowerment.

To further expand the role of microcredit cooperative societies in an inclusive economy and to enhance their positive impact on the socio-economic conditions of cooperative members, it is necessary to strengthen these societies. In this regard, participants recommended increasing society shares, savings, and membership, providing specific training, modernizing the society's accounting system, undertaking projects for the society, and initiating income-generating programs/projects for members from the society, formulating specific loan policies, providing low-interest loan assistance by Bangladesh Bank, and providing legal assistance to the society.

### **satisfaction levels of microcredit recipients**

- Analyzing the satisfaction levels of loan recipients based on their experience with microcredit services, most participants expressed satisfaction as they benefited from taking loans from the society.
- Particularly, cooperative members involved in small businesses were able to expand their businesses by taking multiple loans.
- Recognizing the importance of microcredit, almost all believe they would recommend microcredit services to family members/relatives or neighbors, which is an expression of their satisfaction.

### **Policy Recommendations**

Based on the research findings, it is evident that microcredit through cooperatives plays a significant role in poverty alleviation and the development of marginalized communities. However, to ensure greater participation of various classes and professions in an inclusive economy, there are some institutional weaknesses, obstacles, and risks in increasing the contribution of cooperatives, which have emerged from the research, and recommendations regarding necessary actions have been found as follows:

#### **Regulatory and Institutional Framework:**

- The Department of Cooperatives should formulate an integrated policy for savings, investments, and loans, and make adherence to this policy mandatory for all cooperative societies.
- Rationalize interest rates and set a maximum ceiling on interest and profit margins.
- Introduce a mortgage-based system aligned with the cooperative loan ceiling.
- Develop a standardized accounting and reporting software for managing cooperative loan activities, and ensure its use across all cooperatives.
- Establish a robust monitoring mechanism to oversee loan disbursement and utilization.
- Ensure cooperatives verify whether loan recipients are investing funds in the intended sectors.

### **Loan Screening and Risk Management:**

Before approving a loan, cooperatives must assess whether the applicant has outstanding unpaid loans from other institutions.

- Set repayment schedules, service charges, and installment plans based on the borrower's income sources and loan purpose.
- Ensure the use of smart technologies in managing cooperatives, including digital platforms for:
  - Borrower selection
  - Loan disbursement
  - Loan utilization tracking
  - Installment collection

### **Financial Sustainability and Member Empowerment:**

Through sound laws and balanced regulatory oversight by the Department of Cooperatives,

- Ensure that all loans are invested in income-generating sectors.
- Promote transparency, stability, and member protection
- Prevent financial irregularities and unhealthy competition in the sector.

### **Capacity Building and Training:**

- Provide specialized and regular training for cooperative members involved in loan administration.
- Offer mobile and trade-based training for loan recipients based on the nature of their proposed businesses.

### **Expansion of Inclusive Participation:**

- Launch cooperative-based development projects to increase the participation of marginalized groups in the inclusive economy.
- Facilitate low-interest capital for cooperatives from sources such as Bangladesh Bank, scheduled banks, PKSF, and international development organizations.

### **Strengthening Cooperative Financing Institutions:**

- Strengthen and enhance the capacity of the Bangladesh Cooperative Bank to finance cooperatives.
- Establish a Deposit Protection Fund under the Department of Cooperatives to ensure liquidity support to cooperatives as needed.

### **Innovative Financing Models:**

- Since individual borrowers often face limited impact, encourage group-based lending models that support joint businesses tailored to local needs—shifting from microcredit to microfinance.
- Provide legal support for debt collection and promote the use of dispute resolution mechanisms.
- Consider natural disasters and mortality risks in loan planning.
- Introduce inter-cooperative lending by allowing surplus-fund cooperatives to offer call money to deficit cooperatives at minimal service charges.

### **Loan Policy Enhancements:**

- Increase the loan multiplier ratio from 40x to 80x or even 100x of the borrower's savings.
- Ensure mandatory liquidity retention against savings.
- Establish reserve funds for financial sustainability.
- Provide revolving funds at low interest at the sub-district level.
- Facilitate access to funds from government or financial institutions to expand loan capital.
- Enable tripartite agreements (government–bank–cooperative) for structured loan disbursement.

### **Cost Efficiency and Technological Adoption:**

- Reduce operational costs of microcredit-providing cooperatives by enhancing efficiency and technology use.
- Promote diversification of financial services offered by cooperatives.
- Increase public awareness campaigns to highlight the benefits of cooperatives.
- Introduce periodic evaluations of the socio-economic status of borrowers.
- Ensure performance audits for all lending cooperatives.
- Enforce existing cooperative laws and regulations to prevent misappropriation of public funds.
- Take stricter measures during the registration of new cooperatives to avoid the proliferation of illegitimate or self-serving organizations.
- Prevent unhealthy competition by reclassifying cooperatives and regulating the number of cooperatives operating within the same area.

### **Conclusion**

Microcredit-providing institutions have established themselves as a powerful tool for the economic and social empowerment of low-income populations. These institutions play an

undeniable role in fostering economic growth at the grassroots level by ensuring stable and accessible financial flows tailored to the needs of small-scale entrepreneurs.

The findings of this research demonstrate that:

- Through microcredit cooperatives, the accumulation of member shares and savings has steadily increased.
- Members' incomes and investments have grown over time.
- Proper use of loan funds has enabled expansion of businesses, increased capital, reduced poverty, and helped the poor and low-capital individuals transition into small entrepreneurs.

If the recommendations derived from this research are implemented—through appropriate reforms, programs, and projects—it is expected that:

- The socio-economic conditions of cooperative members will improve significantly.
- Microcredit-providing cooperative societies will be empowered to play a broader and more impactful role in the national economy.

Thus, strengthening these cooperatives is not only necessary for the advancement of their members but also essential for achieving the broader goal of an inclusive and sustainable economic system in Bangladesh.