The Social Performance of Microfinance Institutions
in Rural Bangladesh

A thesis submitted to the University of Manchester for the degree of
Doctor of Philosophy in the Faculty of Humanities
Mathilde Maitrot
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School of Environment and Development
The University of Manchester
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“The Social Performance of Microfinance Institutions in Rural Bangladesh”

ABSTRACT

Microfinance was rapidly hailed as a poverty alleviation tool by development agencies, researchers and practitioners. Despite the increasing capacity of MFIs to manage their financial sustainability, impact studies available report disappointingly low social achievements. Social performance assessment tools available struggle to combat a narrow MFI-centric approach which often overlooks contextual issues and institutional characteristics which can influence MFIs’ poverty reduction potential. This research’s main objective is to identify which and explain how organisational structures and management systems impact on MFIs’ social performance.

This work uses a bottom-up research strategy, based on a 10-month extensive fieldwork in Bangladesh, a 490 household data-set, an ethnographic community study in Modhupur and institutional analyses of ASA and PDBF. It analyses the livelihoods, capitals and strategies of rural households in Bangladesh, explores their perceptions and experiences of microfinance and examines the management of socio-financial trade-offs within MFIs at different hierarchical levels.

The research’s main findings seriously question the poverty reducing potential of standardised commercialised microfinance in settings characterised by vulnerability, shocks and seasonality, such as rural Bangladesh. It finds that although most MFIs have similar poverty reduction missions it is the way in which their organisational structures, management systems and working cultures are arranged that shapes their financial and social achievements. There is strong evidence that commercial MFIs can experience a silent practice drift at the field level in Bangladesh and that the commercialisation of MFIs provides strong incentives for the field staff to prioritise the achievement of their financial targets to the detriment of social performance, discouraging them from reporting low social performance. There are therefore few reasons why MFI senior managers should question their model and policies. This drift can manifest itself through malpractices-hard-selling of loans, poor client selection and follow-up procedures, forcing clients into borrowing more and larger loans, using extreme forms of pressure through abusive language and behaviours and micro-collateral. This process usually has longer-term negative impacts on clients, especially the very poor who adopt successive short-term coping tactics to meet inflexible repayment schedules. This thesis concludes that commercial microfinance should not be targeted to the poorest and that more consideration should be given to client selection and follow-up procedures.

This thesis argues that the commercialisation of the global microfinance industry serves the interests of diverse stakeholders who contribute to maintaining the industry’s reputation though the media. This can be deemed an iceberg industry (that shows little of its actual workings and impacts to the
public) which is sustained through considerable support from an increasing number of private investors for whom MFIs’ commercial expansion (regardless of its social achievements) serves their financial and political interests.
Declaration

No portion of the work referred to in the thesis has been submitted in support of an application for another degree or qualification of this or any other university or other institute of learning

Mathilde Rose Louise Maitrot
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**List of Abbreviations**

<p>| APR     | Annual Percentage Rate |
| ASA     | Association for Social Advancement |
| BIDS    | Bangladesh Institute of Development Studies |
| BRAC    | Bangladesh Rural Advancement Committee |
| BRI     | Bank Rakyat Indonesia |
| BURO    | Buro Tangail |
| BM      | Branch Manager |
| BNP     | Bangladesh Nationalist Party |
| BRAC    | Bangladesh Rural Advancement Committee |
| BRDB    | Bangladesh Rural Development Board |
| CBOs    | Community Based Organisations |
| CERISE  | Comité d’Echange, de Réflexion et d’Information sur les Systèmes d’Epargne-crédit |
| CGAP    | The Consultative Group to Assist the Poorest |
| CSR     | Corporate Social Responsibility |
| DFID    | Department for International Development of the UK government |
| FINCA   | The Foundation for International Community Assistance |
| GDP     | Gross Domestic Product |
| GNP     | Gross National Product |
| GFC     | Gender Focus Committee |
| GFP     | Gender Focus Point |
| HDI     | Human Development Index |
| HIES    | Household Income and Expenditure Survey |
| HPI     | Human Poverty Index |
| ICT     | Information and Communication Technology |
| IGA     | Income Generating Activity |
| IPO     | Initial Public Offering |
| IRDP    | Integrated Rural Development Program |
| LO      | Loan Officer |
| M-CRIL  | Micro-Credit Ratings International Ltd. |</p>
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<td>MFI</td>
<td>Microfinance Institution</td>
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<td>MIX</td>
<td>Microfinance Information Exchange</td>
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<tr>
<td>MRA</td>
<td>Microfinance Regulating Authority</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>PDBF</td>
<td>Palli Daridra Bimochon Foundation</td>
</tr>
<tr>
<td>PKSF</td>
<td>Palli Karma-Sahayak Foundation</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Paper</td>
</tr>
<tr>
<td>RM</td>
<td>Regional Manager</td>
</tr>
<tr>
<td>ROSCA</td>
<td>Rotating Savings and Credit Association</td>
</tr>
<tr>
<td>ROA</td>
<td>Return On Assets</td>
</tr>
<tr>
<td>ROE</td>
<td>Return On Equity</td>
</tr>
<tr>
<td>SFYP</td>
<td>Sixth Five Year Plan</td>
</tr>
<tr>
<td>SPI</td>
<td>Social Performance Indicators</td>
</tr>
<tr>
<td>SPTF</td>
<td>Social Performance Task Force</td>
</tr>
<tr>
<td>TU</td>
<td>Trade Union</td>
</tr>
<tr>
<td>UN</td>
<td>United Nations</td>
</tr>
<tr>
<td>UP</td>
<td>Union Parishad (the lowest and only democratically elected level of local government, consists of a chair and members)</td>
</tr>
<tr>
<td>VGD</td>
<td>Vulnerable Group Development</td>
</tr>
<tr>
<td>VGF</td>
<td>Vulnerable Group Feeding</td>
</tr>
<tr>
<td>VO</td>
<td>Village Organisers</td>
</tr>
</tbody>
</table>
Glossary

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bari</td>
<td>Homestead</td>
</tr>
<tr>
<td>Bazaar</td>
<td>Local market</td>
</tr>
<tr>
<td>Bigha</td>
<td>A unit of land measurement (1 bigha = 1/3 acre)</td>
</tr>
<tr>
<td>Crore</td>
<td>A numbering unit equal to ten million or one hundred</td>
</tr>
<tr>
<td>lakh</td>
<td></td>
</tr>
<tr>
<td>Dokhan</td>
<td>Small corner shop</td>
</tr>
<tr>
<td>Gramer Meye</td>
<td>Daughter of the village</td>
</tr>
<tr>
<td>Grihini</td>
<td>Housewife</td>
</tr>
<tr>
<td>Haat</td>
<td>Periodic market, held weekly or bi-weekly</td>
</tr>
<tr>
<td>Kendra house</td>
<td>Place for weekly meetings</td>
</tr>
<tr>
<td>Kisti</td>
<td>Weekly repayment</td>
</tr>
<tr>
<td>Lakh</td>
<td>A numbering unit equal to one hundred thousand</td>
</tr>
<tr>
<td>Lojja</td>
<td>Shame or shyness</td>
</tr>
<tr>
<td>Madrasa</td>
<td>Islamic religious school</td>
</tr>
<tr>
<td>Matbars</td>
<td>Village faction leaders</td>
</tr>
<tr>
<td>Monga</td>
<td>Seasonal hunger occurring between mid-September and mid-November</td>
</tr>
<tr>
<td>Para</td>
<td>Cluster of houses in a village</td>
</tr>
<tr>
<td>Puja</td>
<td>Celebration</td>
</tr>
<tr>
<td>Shomiti</td>
<td>Village savings and loans association</td>
</tr>
<tr>
<td>Taka</td>
<td>Bangladeshi currency (during fieldwork approximately 1 BDT = 0.0127507 US$, unless stated otherwise, this exchange rate is used to translate Tk. values to US$)</td>
</tr>
<tr>
<td>Thana</td>
<td>Lowest-level administrative unit, also refers to a police station</td>
</tr>
<tr>
<td>Upazila</td>
<td>Administrative unit below the District</td>
</tr>
</tbody>
</table>

Bengali calendar months with the equivalent period in the English calendar
<table>
<thead>
<tr>
<th>Month</th>
<th>Time Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baishakh</td>
<td>Mid-April to mid-May</td>
</tr>
<tr>
<td>Jaistha</td>
<td>Mid-May to mid-June</td>
</tr>
<tr>
<td>Ashar</td>
<td>Mid-June to mid-July</td>
</tr>
<tr>
<td>Shravan</td>
<td>Mid-July to mid-August</td>
</tr>
<tr>
<td>Bhadra</td>
<td>Mid-August to mid-September</td>
</tr>
<tr>
<td>Ashin</td>
<td>Mid-September to mid-October</td>
</tr>
<tr>
<td>Kartik</td>
<td>Mid-October to mid-November</td>
</tr>
<tr>
<td>Agrahayan</td>
<td>Mid-November to mid-December</td>
</tr>
<tr>
<td>Paush</td>
<td>Mid-December to mid-January</td>
</tr>
<tr>
<td>Magh</td>
<td>Mid-January to mid-February</td>
</tr>
<tr>
<td>Falgun</td>
<td>Mid-February to mid-March</td>
</tr>
<tr>
<td>Chaitra</td>
<td>Mid-March to mid-April</td>
</tr>
</tbody>
</table>
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1. INTRODUCTION

1.1 INTRODUCTION

The development sector is constantly looking for innovative ideas and approaches to reduce poverty. From the early 1980s microfinance was popularly acclaimed as an effective tool to alleviate poverty and it spread rapidly across most developing countries. It offers an attractive and simple promise to development partners and poor households that poverty reduction can be achieved through including the poor into the financial system. Microfinance is high on the public (Servet, 2009, CGAP, 1997) and development partners’ agenda as advocated in the G8 Declarations of 2004 and 2005; the UN 2005 World Summit, the Commission on Private Sector Development, the Brussels Programme of Action; and the Africa Commission Report (UNCDF, 2005). The expansion of microfinance has received significant financial support, most notably grants and subsidies from development partners and foreign governments (Cull et al., 2009) which claim that microfinance is a powerful poverty alleviation tool (Helms, 2006) and “one of the world’s most efficient solutions to alleviate poverty, as well as wars, diseases, and suffering that poverty ignites” (Datar et al., 2008). Through private firms or non-governmental organisations (NGOs, henceforth), microfinance institutions (MFIs, henceforth) deliver financial and non-financial services and products to low-income households (UNDP, 1999) usually with the intention of supporting the development or the expansion of income generating activities.

Conceptually and technically microfinance arguably embodies innovations in both the business and the development sectors. For private banks, the geographical remoteness and the considerable lack of information concerning the financial behaviour of the rural poor represent high risks and costs (Aktaruzzaman and Guha-Khasnobis, 2008, Hashemi, 1997, Zeller et al., 2001). “Hidden information”, “hidden actions”, and “enforcement constraints” make the assessment of creditworthiness impossible (de Aghion and Morduch, 2005, Matin, 1997). The stigmatisation of the poor and their exclusion from
formal financial systems is widely thought to promote a vicious circle of poverty (Hulme, 2003). Microfinance represents a breakthrough by bringing financial products and services to people who were considered “unbankable” poor clients, and promised to improve their well-being. Microfinance aims to empower the poor and help them build sustainable and resilient livelihoods through a business-like model scalable to millions of poor people (Morduch, 1998) in defiance of their reputation of being unreliable (no credit history), incapable of saving money and therefore risky clients. In informal financial dealings, local money-lenders benefit from a significant advantage over formal lending institutions because they enjoy “more detailed knowledge of the borrowers” enabling them to distinguish high and low-risk clients and to define interest rates accordingly (Stiglitz, 1990:352). MFIs overcome the lack of credit history of poor people and risks associated with information asymmetries by developing tools to monitor the volume of loans disbursed and the scale of operation (the number of clients served). A high level of loan repayment from clients is achieved through staff control mechanisms to reduce the costs of loan per client (Sievers and Vandenberg, 2007).

Microfinance claims to reconcile market mechanisms with poverty reduction (Duvendack et al., 2011, Bateman, 2010, Bateman, 2012), providing a business-based means of poverty reduction through reducing households’ vulnerability, and smoothing their consumption by either increasing income or improving the regularity of their earnings. Financial sustainability and outreach to the poor together constitute microfinance’s double bottom-line. For many, microfinance approaches poverty from a multi-dimensional angle through engaging with the poor through a group-lending methodology which involves both financial tools and social mechanisms (such as trust, peer screening, coercion and mutual help among group members) (Matul, 2009, de Aghion and Morduch, 2005). The pioneering microfinance model, also called the Grameen model, essentially relies on peer monitoring tools such as solidarity groups. Members of a borrowing group (generally composed of eight to 25 borrowers) substitute for collateral and self-monitor each other’s repayment. According to social exclusion theory, the vulnerability of poor people is associated with
social, economic, political and cultural exclusion from society (Schurman and Johnston, 2009). Group-lending is therefore seen as an economic and social instrument used by MFIs to fight social exclusion and widen members’ social networks by providing a platform through which participants access peer support and solidarity.

1.2 Objectives and Scope of the Study

During the ten month fieldwork in Bangladesh undertaken by the researcher from September 2010, controversies about microfinance’s evolution, transformation and impact emerged from different countries. The crisis of the global financial system together with negative news emerging from the field (notably Andhra Pradesh where reportedly some microfinance over-indebted Indian farmers committed suicide) drew the attention of development partners and donor agencies to client protection issues.

After three decades of transformation and expansion, the capacity of MFIs to reduce poverty is increasingly contested. In practice, without common management guidelines and with limited regulations, the market forces and sector’s structure provide opportunities and incentives for MFIs to focus on financial performance and neglect social performance (Armendáriz and Szafarz, 2011, Aubert et al., 2009, Vanroose and D’Espallier, 2012). Because the expansion of MFIs is increasingly supported by commercial sources of finance which are not motivated by social purposes, MFIs are required to have high financial accountability to the detriment of social responsibility. This process has had repercussions on the way clients are served and on how well they are served. There is no doubt that MFIs have developed large-scale streamlined institutional capacities that manage to deliver financial and non-financial services to the near-poor and poor cost-effectively (Roodman, 2011, Aleem, 1990). However, recent reviews of microfinance’s impact on poverty failed to report significantly positive and rigorous evidence for claims often made (Duvendack et al., 2011).
A mixed-methods approach covering 490 rural households, 36 MFI fieldworkers, and management level staff within two national-scale MFIs, enabled this study to examine the effectiveness of MFIs at addressing households’ needs and vulnerabilities in rural Bangladesh. The analyses presented in this thesis have benefitted from the insights the author had gained through her experiences in Bangladesh where she worked and lived in a slum in Chittagong for six months. By following a bottom-up approach (beginning by studying rural communities’ livelihoods, to the MFI local branches and head offices), the research challenges the mainstream top-down conceptualisation of research on microfinance, which typically consists of analysing MFIs’ social performance through an institutional-lens (according to institutional needs and capacities). The research design derives from five research objectives:

1. To examine the livelihoods, capitals and strategies of rural people in Modhupur, Bangladesh.

2. To understand rural households’ perceptions of microfinance and MFIs.

3. To identify the organisational structures and systems associated with social performance by MFIs in rural Bangladesh.

4. To relate findings to wider literature and debates regarding microfinance’s management.

5. To use empirical findings to promote improved systems and structures for MFIs to achieve better social performance.
1.3 Main Arguments and Structure of the Thesis

This thesis argues that microfinance is an iceberg industry\(^1\) characterised by a significant disconnect between what is presented to external audiences by charismatic figures, the media, and development agencies, and its actual practice and achievement. The tip of the iceberg, the only visible part of the industry, is characterised by good news about microfinance as a cost-efficient poverty alleviation tool. This thesis contributes to the existing microfinance literature through studying what is concealed below the water line. It identifies a set of processes and effects that affect the management of the socio-financial trade-offs and social achievement of MFIs.

Firstly it argues that most quantitative studies do not capture information which is essential to understanding and potentially improving microfinance’s impact. Studies on microfinance generally focus on narrow definitions of impact achievement and typically do not investigate the processes leading to impact.

Secondly, based on data collected in rural Bangladesh, it argues that at the field level, some large commercial MFIs experience what the author calls a silent practice drift\(^2\). With increasing pressures on MFIs’ financial performance, field staff are often discouraged and dis-incentivised from pursuing social performance and from reporting “bad news” about social or financial performance to higher-managers. To fulfil targets they often neglect client selection and follow-up procedures and use informal practices to recover repayments from clients despite the negative short or long-term impacts it has on them. Using forms of “micro-collateral”\(^3\) (assets or social connectedness)

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\(^{1}\)A concept developed by the author and introduced in section 8.3.

\(^{2}\)A concept developed by the author in this thesis and introduced in section 8.1.

\(^{3}\)A concept developed by the author in this thesis and introduced in section 8.1.
was found to be one of many informal techniques field staff members employ to force clients to repay their debt.

Thirdly, it argues that there are strong political and financial interests embedded in the expansion of commercial microfinance practices and in the spread of a neoliberal discourse about the role market forces can play in reducing poverty.

**1.4 Structure of the thesis**

Chapter two explores major reported evidence of the impact of microfinance on different poverty dimensions and identifies a gap between the theory and the evidence of microfinance’s achievements. It then analyses important debates concerning the management of the socio-financial trade-offs of microfinance and the difficulties faced in assessing microfinance’s impact. Finally, the concept of social performance is introduced and its origins within the business literature and relevancy for microfinance practices are analysed. Based on the literature review, a conceptual framework for understanding MFIs’ relationship with clients and wider communities and, in turn analytically understanding their social performance, is developed by the author and used as a basis for conducting the research.

Chapter three sets the scene and provides a comprehensive introduction to the political, economic and social situation in Bangladesh with a particular focus on rural poverty. It then explores the way in which microfinance developed in the country and analyses the state of the sector.

Chapter four explores the research strategy, methodology and case-studies used in this study and discusses the personal challenges faced during the fieldwork.

Chapter five analyses the livelihoods, vulnerabilities, financial concerns, and coping strategies of the rural households covered by the study. It discusses the
limitations to these and suggests a categorisation of different poverty levels based on context-specific key livelihood dimensions.

Chapter six explores the community’s diverse perspectives and experiences of microfinance and MFIs based on the analysis of data collected from clients, former-clients and non-clients of microfinance, as well as key informants. It examines organisational practices and malpractices and argues that loans are given out on the basis of households’ wants rather than their repayment capacity. It analyses the repercussions poor targeting and pressures on repayment can have on the poorest and most vulnerable households.

Chapter seven presents the two institutional ethnographies of ASA and PDBF to identify how social and financial performance is managed within them. It highlights the importance of organisational structure, management systems and working culture for staff performance and identifies key characteristics that can explain the differences in social achievement between the two MFIs.

Chapter eight, based on collected empirical evidence and wider literature, questions the practices and potential of commercial MFIs in Bangladesh. It explores how gaps between the theory and practices of microfinance (when organisational structure, management systems and culture are not aligned with the social mission) in market-based MFIs can create a silent practice drift. It analyses the neoliberal discourse on microfinance and the political and financial interests it serves. The metaphor of an iceberg industry is used to represent the microfinance industry which, it is argued, mainly publicises positive news about microfinance through the media, while less positive (or negative) information on microfinance’s actual achievements are largely invisible.

Chapter nine summarises the major arguments made in this thesis structured around the five research objectives and draws conclusions regarding the achievements of the microfinance industry.
Chapter two aims to review the evidence of microfinance’s impact on poverty and analyse existing theories concerning the management of MFIs. Section 2.1 reviews the expected and reported impact of microfinance on different poverty dimensions and examines some of the main conceptual and practical pitfalls embedded in impact assessments. Section 2.2 examines the theory and the diversification of practices of microfinance in terms of its social missions, institutions, governance and interventions, and socio-financial trade-offs. It argues that as MFIs scaled-up they have tended to adopt a more commercial approach to their activities which help them improve financial performance. This phenomenon can, according to some authors, divert MFIs attention away from social performance creating a “mission drift” (Cull et al., 2009, Copestake, 2007, Pawlak and Matul, 2003, Woller, 2002b). Section 2.3 introduces social performance which, grounded in the business literature, can in theory prevent that drift and help proving and improving microfinance’s social impact (Littlefield and Rosenberg, 2004a, Pawlak and Matul, 2003). It presents the state of social performance as a concept and reviews the main assessment tools in use before introducing a conceptual framework for understanding MFIs’ relationship with clients and communities and, in turn, analysing their social performance. This framework is applied in this research.

2.1 Microfinance and Poverty Reduction: What Do We Know?

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4 Developed by the author
This section reviews both what is expected from microfinance and major evidence of impacts (across different methodologies, countries and settings). It identifies a gap between the promoted and expected impacts of microfinance on poverty and the mixed-evidence of impact reported so far (Armendáriz and Morduch, 2005). It argues that methodological challenges and pitfalls may contribute to obscuring the impact assessment studies’ results.

2.1.1 Reviewing the impact of microfinance on poverty

The results obtained from impact studies using a range of conceptual and methodological approaches across different countries vary significantly and do not reach a consensus regarding microfinance’s impact on poverty. The body of empirical studies, both qualitative and quantitative, report mixed and contested results.


5 The corpus of impact studied available is so vast that analysing it comprehensively, is beyond the scope of this chapter.
29


2.1.1.1. WHAT IS EXPECTED FROM MICROFINANCE?

Microfinance emerged in the development sector in the late 1970s, claiming to offer a “win-win” poverty reducing intervention that benefitted both clients and MFIs (Morduch, 1999b). It makes a set of assumptions about the causal relationships between microfinance interventions and poverty outcomes. Impact assessments of microfinance are conceptualised and designed against these theoretical relationships. They receive substantial attention from development partners and agencies for whom they are used to monitor, legitimate and inform development activities (Shaffer, 2011).

Impact assessors use terminology such as inputs, outputs, outcomes and impact, through which they test causal relationships between variables and indicators. Inputs can be heterogeneous in types and forms, They refer to the diverse combination of financial and non-financial products and services MFIs offer to clients (which include group-lending/individual loans, savings accounts, training and financial education for example) (de Aghion and Morduch, 2005). Outputs are the shorter-term implications from the delivery of products and services which can include female interaction, consumption smoothing, investment in income generating activities, changes in savings or in borrowers’ (often female) knowledge and skills. Outcomes are medium-term effects which determine the nature and the magnitude of longer-term impacts of microfinance including income, bargaining power (of women), diet, health and education. These supposedly generate long-term positive impacts on household well-being, health, women’s status, vulnerability and poverty (Hermes and Lensink, 2011, Hermes and Lensink, 2007).
2.1.1.2. REPORTED POSITIVE IMPACTS ON POVERTY AND EMPOWERMENT

In the late 1990s, the number of impact assessment studies of microfinance boomed, providing some evidence of microfinance’s positive impact on poverty. Increase in assets, income or savings are often used as proxies of positive impact (Azam and Imai, 2009). Some argue that the role played by women is crucial for microfinance’s poverty reducing effect and that women (and children) often benefit from this intervention (in terms of empowerment, diet, education or medical care) (Aoki and Pradhan, 2013, Alhassan and Akudugu, 2012, Rai and Ravi, 2011, Swain and Wallentin, 2009, Altay, 2007, Amin et al., 1998).

In Bangladesh diverse impact assessment methodologies have been used (with the exception of randomized control trials) and report some positive results. In Bangladesh, Mina and Alam (1995) found that microfinance clients increased their assets by on average 90 percent, including investments in business assets (1475 percent), housing (107 percent), farming (72 percent) and livestock (72 percent). They identified that owning tangible and productive assets (rickshaw, a sewing machine, a plot of arable land, or savings) and generating sustainable income benefit households’ financial resilience. Similarly, Khandker in Bangladesh (1998), Mk Nelly and Dunford in Ghana (1998) and Dunn in Peru (1999) found that clients’ income was significantly higher than non-clients’. Rahman et al. (2001b) and Latif (2001) found positive impacts of microfinance on clients’ saving. Rahman reported that prior to joining Grameen, households had no savings, whereas after joining clients owned on average Tk.625 savings\(^6\) (approximately US$7.6\(^7\)) and Latif confirmed and added that the saving-income ratios are significantly higher for clients than

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\(^6\) They do not specify whether clients’ savings were voluntary or mandatory.

\(^7\) Exchange rate, August 2012, 1 BDT= USD$0.0121969
non-clients within similar income categories. Lower changes were reported for land ownership (only 13percent) whereas livestock and poultry ownership and housing improvement seemed to explode after households take their loans (respectively 1606.05percent and 265.43percent higher than before joining).

In Pakistan, Setboonsarng and Parpiev (2008) conducted a comparative impact assessment of microfinance between borrowers (of Khushali Bank) and non-borrowers and found strong positive impacts on agricultural production, especially in animal rearing activities and agricultural farming. Clients own higher values of livestock and agricultural equipment, and receive higher income from rent than non-clients (ibid). Nevertheless, results obtained showed no significant impact of microfinance on non-farm businesses, assets accumulation, households’ consumption, schooling, health care spending and women’s empowerment. In the same country Noreen et al. (2011) using a quasi-experimental study design (using a treatment group of non-borrowers and propensity score matching) found positive and significant effects of microfinance on children education and households’ expenditure, but no significant effects on housing conditions, food consumption and asset ownership. They concluded unlike Ghalib et al. (2011) that microfinance has a statistically significant positive impact on clients’ welfare (healthcare expenditures, clothing, monthly income and a set of housing condition variables). The latter study found no statistically significant difference in ownership of livestock, transport-related assets or appliances and electronics between clients and non-clients (although not at a significant level) (Ghalib et al., 2011).

In Ghana, Annim and Alnaa (2013) conducted a quasi-experimental research using “consumption expenditure” as the main outcome variable and found that microfinance has 0.12percent poverty reducing effect and that MFI clients spend weekly on the average 40percent more on basic needs than non-clients in the Upper East Region of Ghana (controlling for other factors).
2.1.1.3. INCONCLUSIVE AND CONTESTED EVIDENCE

The previous sub-section showed that a large body of literature reports a positive effect of microfinance on diverse economic and social indicators. This section aims at nuancing these claims by showing the diversity of the results obtain in similar countries with different methodologies. It reports on the negligible and negative impact of microfinance on participating households. A range of studies in conducted in Bangladesh (Pitt and Khandker, 1998), India (Chen and Snodgrass, 2001), Zimbabwe (Barnes, 2001) and Peru (Dunn and Gordan, 2001) do not confirm positive results found elsewhere. This section argues that weak research design fails to provide convincing and robust evidence of the beneficial impacts of microfinance.

Pitt and Khandker (1998) based on the results from a quasi-experimental cross-sectional survey conclude that credit delivered to women has a large and statistically significant impact on two of three measures of the nutritional well-being of both boys and girls (Body Mass Index and height-for-age) while credit provided to men has no impact. They report that a 10 percent increase in female credit increases the height of girl’s and boy’s by 0.37 and 0.46 centimeters while the same intervention delivered to men reduces the height of girl’s and boy’s by 0.16 and 0.10 centimeters, respectively, at the mean. Khandker (2005) argues that the extreme poor benefit more from microfinance than the moderate poor (based on a follow-up study using panel data between 1991-92 and 1999). Applying the propensity score matching method to the same data, Chemin (2008) found positive impacts of microfinance on households’ expenditure, labour, and schooling. Roodman and Morduch (2009) however contest their results, arguing that they can be explained by numerous omitted variables, questioning the causal link between livelihood changes and microfinance.

There are two main studies using longitudinal data in Bangladesh. The empirical results of the first (Razzaque, 2010) provided evidence that cumulative household borrowing significantly and positively influence household per capita income and asset-holding. Results show that borrowing from MFIs is inversely related to the possibility of households falling below
the poverty line, implying that if eligible households used microfinance, their poverty headcount ratio would fall by seven percentage points. The second study by Khandker and Samad (2013) using data from over three rounds of surveys (1991/92; 1998/99 and 2010/11) however found that within twenty years the real per capita income of microfinance clients more than doubled overall (a 104 percent increase), but that for non-clients it had increased by 125 percent. Investigating the source and variation of income they found that the share of non-farm income was higher for clients and that it also increased faster for them (13.8 percentage points compared to 11.3). They however find no significant differences in the share or in the variation of food and non-food. They report a statistically insignificant impact of microfinance on moderate poverty incidence, and a statistically significant and positive impact on extreme poverty (16.2 percent for clients and 23.1 percent for non-clients, which is statistically significant).

In urban India, Waelde (2011) use a difference-in-difference approach with a quantile treatment effects (QTE) on a database of 2,440 households for 2005 and 6,763 households for 2007. They report significant negative impacts of microfinance on both poor and better-off slums (compared to poor and rich slums without microfinance) over nearly all quantiles in terms of private expenditure or business expenditure. They concluded that very poor entrepreneurs are more “heavily faced with the negative time-trend and additionally, microfinance has a negative impact” (2011).

In Egypt, Abou-Ali et al. (2009) used propensity score matching and nearest-neighbour on a sample of 22,480 households to assess the impact of the

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8 Which refers to the proportion of the population that is classified as poor
9 They use data from the IFRM-Centre of Microfinance which are also used in Banerjee et al. (2009).
Egyptian Social Fund for Development (SFD). They find that in terms of income micro-lending only lead to substantially higher levels of non-farm income per capita, in the metropolitan areas and urban Lower Egypt where microcredit is associated with higher levels of general expenditure, food expenditure and income, and lower levels of poverty. In the rest of the country, however, the impact of SFD on these variables is statistically insignificant. In Sri Lanka, the reported impact of Samurdhi by Thibbotuwawa et al. (2012) is underwhelming. Using propensity score matching they reported that client households were significantly worse-off than non-clients in terms of household income, health, and food and non-food consumption. Samurdhi recipients’ food expenditures did not increase and their diet after receiving Samurdhi has not changed. They reached similar conclusions for non-food expenditures despite of the fact that a major element of the state-run programme is a food stamp.

From the late 2000s, randomized control trials (RCTs) began providing evidence that microfinance had little or no statistically significant impact on poverty. Originating from medical sciences, RCTs isolate problematic external factors, to assign a treatment to randomly selected participants and compare results obtained with a non-treated group called the “control group” (Stewart et al., 2010). The approach taken by RCTs relies on differences in the value of outcome/impact indicators to substantiate causal linkages (Shaffer, 2011). Karlan and Zinman (2009), Banerjee and Duflo (2010) and Banerjee et al. (2009) found no impact from large-scale microfinance programmes. Karlan and Zinman (2009) study in the Philippines, found that 11 to 22 months after randomly assigning loans, there was a significant unmet demand for loans at the current price and that clients’ households’ net borrowing amplified in the treatment group as compared to the control group. They concluded that

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10 The largest state-sponsored microfinance program in the country.
although microfinance increased households’ ability to manage risk, they also report that the number of business activities and employees in the treatment group decreased relative to the control group, and that their well-being slightly deteriorated.

In rural Morocco, Crépon et al. (2011) using an RCT covering 5,000 households over a two year period found no significant impact of microfinance on average consumption of clients or on poverty (measured by average consumption per capita according to a certain threshold) and insignificant impacts on business creation, schooling and women’s empowerment. The probability of being poor was found to be similar for both treatment and control groups. Using a cluster RCT in Ethiopia Desai et al. (2011) reported that microfinance had no impact on income (from wages, transfers or other sources) in the study areas. Augsburg et al. (2012) in Bosnia Herzegovina reported no impact of individual-liability microcredit on profits or household income and found that impact on weekly food consumption significantly varies according to the clients’ level of educational achievement. Clients with less education reduce their weekly food consumption by 22 percent compared to non-client households. They also reported some negatives effects of the treatment on teenagers’ schooling and child labour compared to control group households.

Angelucci et al. (2013) conducted a large-scale clustered randomized trial in Mexico and reported that microfinance reduces “fire sales” (when someone sells an asset to help pay for a loan) by one percentage point (se=0.4 percentage points), a 20 percent reduction. They found no significant effect of the treatment on asset purchases, on groceries expenses and hunger or on the following proxies: total household income, labour income, participation in any economic activity, remittance income, and positive saving in the last six months the five measures.

The impact of microfinance on women’s empowerment is also contested. Though, as was noted in the previous section, some report positive impacts,

2.1.2 IMPACT STUDIES: CONCEPTS AND LIMITATIONS

A conclusion that can be drawn from section 2.1.1 is, in line with Morduch, that reports of microfinance’s success have “moved far ahead of the evidence” and that “most fundamental claims remain unsubstantiated” (Morduch, 1999b:1609). This sub-section argues that impact assessments of microfinance generally suffer from weak methodologies which can create misunderstandings of the effects of microfinance on clients and hinder the search for more effective development interventions (Mac Dougall, 2009). Although the available options for impact assessments and the menu for data collection methods and tools have widened (Armendáriz and Morduch, 2005, Hulme, 2000), conceptual and technical limitations to assessing both social and financial impacts remain (Helms, 2006:39, Wright and Dondo, 2001). The type of impact studied is often associated with specific impact assessment methodologies (McGregor, 2000) which, when solely quantitative (for example RCTs and surveys), can neglect unforeseen impacts. Both “better science and better art” (Hulme, 2000:79), could help develop financial products and services that suit the livelihoods of poor people and deliver them cost-efficiently or even profitably (Steger, 2007, Matin et al., 2002:291, Matin and Hulme, 2003).
2.1.2.1 Quantitative Indicators

MFIs function as what can be seen as “hybrid systems”, half way between developmental organisations and commercial businesses (Campion, 1999b). Designing an assessment framework that captures all parameters that affect MFIs’ performance is therefore inherently challenging. It is argued that studies most often prefer using easily quantifiable economic and financial indicators to assess microfinance’ impact such as product up-take, client base size, market share, loan recovery rates, and subsidies (Johnson, 2001, Hulme, 2000, Granovetter, 1994), which can arguably create an institution-centric vision of microfinance (1994:453, Mac Dougall, 2009, Gutiérrez-Nieto et al., 2006). These studies often lack social indicators because they are often more difficult to identify, quantify and measure (Sievers and Vandenbergh, 2007, Woolcock, 1999:21). Quantitative individual and household level variables (household income and consumption) are therefore commonly used to prove programmes’ performance by comparing their variation amongst households (clients and non-clients comparisons).

2.1.2.2 Nature and Level of Impact

Identifying the nature and level of microfinance activities’ impacts is challenging given the diversity of products and services that exist and the multitude of ways through which they are delivered to a heterogeneous client base. A one-model-fits-all (context of intervention, client-base, poverty dynamics or country) impact assessment model that captures microfinance’s interplay in households’ livelihood is almost impossible to draw and its desirability is questionable. Across the literature, diverse understandings and definitions of the wider impacts of microfinance have emerged.

As the role of MFIs evolve and their scope broadens, the different types of impact become complex to trace, operating at a number of levels. Some MFIs are purely economic and financial agents providing financial products to households while others are major social intermediaries, actively engaged in
communities. The level (individual, household, community and macro) at which impacts are studied is an important consideration for understanding specific dimensions of microfinance’s impact (Bagazonzya et al., 2010, Zohir and Matin, 2004:304, Rahman, 2001b, Sobhan, 1999). Although a few empirical studies investigated community-level impacts of microfinance (Aktaruzzaman and Guha-Khasnobis, 2008, Zohir and Matin, 2002), they lack appropriate sampling methods which negatively affect the value of the findings.

Zohir and Matin described different areas of impacts as domains, “each of which is characterised by a set of relationship/engagements and changes in them” (Woller and Parsons, 2002:11). Their framework identifies changes in the social (housing quality, education, health, sanitation, family characteristics, intra-family relations, gender issues), political (policy regimes, civil rights, civil society/state relationships) and cultural spheres. Though impact on culture, beliefs, practices, attitudes, perception of women, religious education, child labour, and domestic relations are undeniable they remain hard to trace and measure (Woller and Parsons, 2002).

Whilst microfinance has become known for its ability to empower women as much as alleviate poverty (Amin et al., 1998), there are no rigorous frameworks that track MFIs’ effect on this dimension (Osmani and Khan, 2007, Latif, 2001) and measuring and conceptualising women’s empowerment is challenging (Ali and Hatta, 2012). Empowerment also has a subjective meaning which differs according to the socio-cultural background of both the study context and the researcher. Consequently, as some authors claim, universal indicators of empowerment are difficult to develop (Garikipati, 2013, Mahmud et al., 2012, Malhotra et al., 2002, Khatun et al., 1998). Major reviews of microfinance’s impact argue that the methodological diversity for assessment and the large range of microfinance products and services reflect the complexity of poor women’s financial lives and the difficulties of conceptualising and quantifying empowerment (Duvendack et al., 2011, Rutherford, 1999). Garikipati (2013) argues that discrepancies in impact reported across studies can be attributed to the use of different indicators and
conception of empowerment. She argues that “studies that view empowerment as outcomes for women associated with their access to loans, find positive effects, and those studies that focus on processes of loan use find negative effects” (2013:53). Most impact assessment studies focusing on outcomes, however use unsatisfactory indicators of female empowerment (neglecting issues regarding access and use of loans) which can distort findings.

2.1.2.3 Substantiating causation

Once the levels and dimensions of impact are identified the challenge faced by impact studies is to substantiate a causal link between the intervention and changes observed. Because impact studies failed to provide authoritative evidence of the positive impact of microfinance on livelihoods and well-being (section 1.1.1) RCTs, where feasible and practical, generated arguably more robust evidence, isolating microfinance’s impact. RCTs were expected to overcome important biases common to traditional statistical evaluations (Roodman, 2011) by allowing the identification of clear differences in outcomes attributable to microfinance through using control and treatment groups (Cartwright, 2007). As such they may have the potential to help policy-makers, development partners and practitioners make evidence-based decisions (Duflo et al., 2007). Though RCTs may have provided more robust evidence of microfinance’s impact, their validity and the generalizability of their findings are often however contested (Shaffer, 2011, Deaton, 2009, Cartwright, 2007). Investigating the impacts of microfinance requires holistic and multi-method approaches to capture the multiple ways in which microfinance can affect clients’ livelihoods (Hulme, 2000:93, Hulme and Mosley, 1996). This could help policy-makers and development partners design programmes more responsive to clients’ needs (Duflo et al., 2007).
2.2 Theoretical and Practical Challenges to Managing Microfinance

The limitations and challenges to assessing microfinance’s impact on poverty (section 2.1) arguably stem from the theoretical ambiguities and lack of consensus concerning the management of microfinance’s trade-offs. Based on a review of the debates over MFIs’ management and performance and on the assessment of the group-lending methodology this section argues that designing and implementing microfinance according to MFIs’ financial needs is not sufficient to achieve their social mission. It concludes that without a social performance framework, microfinance’s value for clients is difficult to ensure.

2.2.1 Socio-Financial Trade-Off Management

The management of socio-financial trade-offs is left to MFI managements which explains the diversity of microfinance in practice (Woller et al., 1999, Hulme and Mosley, 1996). This creates what Morduch called a “schism” in the microfinance sector (2000) whereby MFIs are faced with the dilemma of covering high transactional and operational costs through financial returns generated by small-scale lending activities to the poor (Wright and Dondo, 2001). This phenomenon, some authors argue, creates a mission drift which can harm the social achievement of MFIs (Armendáriz and Szafarz, 2011, Copestake, 2007, Woller, 2002b). These concepts are analysed further in this section.

2.2.1.1 Microfinance Schism and Social Enterprise

A polarization between the two camps of MFIs - “poverty mission” (welfarists) or “financial sustainability” (institutionalists) - presents the double bottom-line objective of microfinance as two sides of the same coin, unachievable simultaneously (Rhyne, 1998b:6). Institutionalists advocate commercialised microfinance, arguing that financial sustainability should be the priority of MFIs and therefore eschewing subsidisation. They argue that
commercialisation makes poverty reduction more achievable because MFIs can cover their costs with revenues, and the capacity to do this is a criterion of performance (Woller and Brau, 2004, UNDP, 1999). They agree with Littlefield and Rosenberg’s analysis that “dozens of institutions have proved that financial services for poor people can cover their full cost through adequate interest spreads, relentless focus on efficiency and aggressive enforcement of repayment” (Littlefield and Rosenberg, 2004a:38, Wright and Dondo, 2001). For them independent MFIs that develop better abilities to address the market’s needs will be rewarded through market forces (Zeller et al., 2001, Hollis and Sweetman, 1998). They are therefore critical of subsidies (from government and external development partners) which, they argue, generate market inefficiencies.

A welfarists approach to microfinance sees the unavailability of financial services for the poor as a failure of the global financial market (Hulme and Mosley, 1996). They advocate against reproduction of commercial financial systems at micro-scale which they argue could push MFIs to exclude the poorest from their portfolios (Woller et al., 1999:26). According to the approach, many MFIs could not bear the risks and costs associated with vast small-scale operations and would rather address the needs of better-off clients with larger loans at lesser risks. Instead of privileging the achievement of financial sustainability welfarists focus on the social outreach objective of microfinance. They often consider external support as temporarily acceptable (if not essential) to prevent MFIs from suffering from the high costs involved in delivering services and products to the poor (Conning, 1999:75, Hashemi, 1997). For them, there is no evidence of the negative impact of subsidies on service delivery quality and outreach to the poor (Zeller et al., 2003, Yaron et al., 1998) and they argue that rather than impediments to performance subsidies are palliatives to reach the poor (Granger, 2009).

This theoretical schism creates a rupture “between rhetoric and action” (Morduch, 2000:618). Through diversification MFIs adapted their institutional structures, management systems, missions and objectives (Labie, 2001) to their
own way of managing the socio-financial trade-offs. The theoretical divide between institutionalists and welfarists is evident in MFIs’ practices and achievements (Hermes and Lensink, 2007, Rhyne and Otero, 2007, Campion, 1999b). For example, the role played by subsidies in developing products and services that the poor can afford is intensely debated. Subsidised Grameen Bank activities which yielded greater benefits than other alternative activities such as food-for-work programmes it is argued represent better value-for-money (Karim, 2001). Grameen Bank managed to provide cost-effective services at affordable prices which, according to some authors, may not have been possible without previous subsidy schemes (Morduch, 1999c). Morduch argues that most of Grameen Banks’ financial and social achievements have been made possible through donor support (Morduch, 1999c). He finds that to operate autonomously, Grameen Bank would have to increase its interest rates from 20 percent per year to 33 percent which, he maintains, could lead to “losing clients” or “decreasing social impacts” (1999c:246). Morduch concludes that because pushing Grameen Bank into competition could have had significant negative repercussions on clients, subsidies may be “justifiable” (2011:245).

An alternative and intermediate position common within the microfinance sector between the “development first” welfarists approach and the “business first” institutionalists is, as described by Gravesteijn and Copestake (2010), the social enterprise model. The concept of a social enterprise emerged as a business-like management model contrasted with the traditional non-profit organisation model. Social enterprises are “hybrid” forms of enterprise¹¹, and have what Emerson (2003) calls a “blended value” of financial and social outcomes. Robinson defines social entrepreneurship as a process of:

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¹¹ Term used by Hockerts (2006)
“identification of a specific social problem and a specific solution... to address it; the evaluation of the social impact, the business model and the sustainability of the venture; and the creation of a social mission-oriented for-profit or a business-oriented non-profit entity that pursues the double (or triple) bottom-line” (Robinson, 2006:95).

Some scholars conceptualise the emergence of these new forms of institutional management as a response to the challenges experienced by non-profit actors in the third sector (Dees et al., 2001, Dees, 1998, Emerson and Twersky, 1996). These “newly legitimated institutions” (Dart, 2004:411) (social activism, philanthropy or self-help according to Hockerts, 2006) can have different forms of organisational arrangements. They can refer to the commercialisation of a nonprofit organisation by developing a profit orientated approach (Hockerts, 2006), generating their own income to pay for their operations. In addition, the concept of social enterprise can refer to the idea that non-profits can benefit from adopting more market-orientated practices and expertise so that they can become more cost-efficient and their interventions more effective (through using monitoring, audit and evaluation tools for instance) (Dees et al., 2001). Social enterprises are often viewed as business ventures with a social purpose or as a social innovation that can be turned into a profitable business (Mair and Noboa, 2003a, Mair and Noboa, 2003b, Foryt, 2002, Campbell, 1998b).

What is of relevance here is that social enterprises’ performance is assessed against multiple social objectives, which in the case of MFIs are, according to Schreiner (2002a), segmented into five types of outreach: breadth, depth, scope, length and quality (Gravesteijn and Copestake, 2010). Breadth of outreach may be the easiest dimension to measure as it simply refers to how many people have access to financial services (Rhyne, 1998a). The depth dimension touches on the value of the services offered to the target group, not from the clients’ perspective but from society’s. In the microfinance sector, activities are more valuable when offered to the poor than to the rich (Gulli,
1998), hence the poorer the client base, the more substantial the depth of outreach. *Scope* concerns the diversity of financial and non-financial products and services accessible to clients. *Worth* or *quality* of outreach assesses how valuable the services and products are to the target group. It considers the benefits clients get from using the products and services and the costs incurred by it (possible transaction and opportunity costs) incurred obtaining these services (Schreiner, 2002a, Schreiner, 2002b). Finally the *length* of outreach refers to the capacities and ability MFIs have to sustain the provision of products and services to the clients over a long period of time.

As opposed to the two polarized positions described previously, the social enterprise model claims that the combination and the achievement of both social (outreach) and financial (viability) mission are desirable and synergetic. Some authors have however raised concerns regarding the effects such a strategy can have on an organisations’ social mission\(^\text{12}\) (Fowler, 2000, Dees, 1998). The ways in which these can be managed for social enterprises, *welfarists* and *institutionalists* constitutes the focus of the next section.

2.2.1.2 THE GOVERNANCE OF COMMERCIAL MICROFINANCE

At the end of the 1990s, the process of MFI commercialisation led to the re-conceptualisation of their structures and practices (Campion, 1999a, Rock et al., 1998, CGAP, 1997) transforming a civil society initiative into a sector in its own right. In 1997, the Consultative Group to Assist the Poorest (CGAP henceforth) argued for the necessity to search for governance structures and practices that could optimise the scaling-up of microfinance’s operations during its “transformative phase” (Campion, 1999b:3, Woller, 2002b). Some NGOs, thanks to commercial funds, developed sufficient capacities to cover

\(^{12}\) Which can be compared to concerns regarding *mission drift* in microfinance, section 2.2.1.3
operational costs. Mainstream financial institutions even began to integrate microfinance activities (Campion, 1999a, Churchill, 1998). To compete, MFIWs (mostly registered as NGOs or cooperatives) were then encouraged to address serious cost-efficiency concerns (Labie, 2009, Ledgerwood and White, 2006) through diversifying their product range using private capital. Some authors argued that applying corporate governance principles to MFIWs could enhance their accountability and performance (Labie, 2001). This approach is often advocated by international development partners or bilateral agencies which encourage the professionalisation and commercialisation of microfinance activities in order to find cost-efficient solutions to poverty alleviation.

The rationale for commercialisation often however lacks empirical evidence and ignores many fundamental issues. Analogies between the corporate and the microfinance sectors are limited in helping to foresee emerging challenges to be addressed in the management of MFIWs (issues of power, efficiency and transparency for example) (Woller, 2002b, Churchill, 1998) particularly given the poor performance of some major commercial banks since 2007. Early publications on this issue attempted to find a one-model-fits-all solution to MFIWs’ management challenges by focusing on financial performance, cost-efficiency, and financial returns more than outcomes for clients (Morduch, 1998, Robinson, 1995, Khandker et al., 1994). Keeping a balanced management of the socio-financial trade-offs can be challenging (Woller, 2002a) when financial sustainability requires “adequate interest spreads”, “relentless focus on efficiency” and “aggressive enforcement of repayment” which can hinder social achievements (Littlefield and Rosenberg, 2004a). Although like corporate firms MFI management requires various areas of expertise, the microfinance double bottom-line requires a specific governance structure which allows balancing the management of financial and social performances while the profiles of their stakeholders and shareholders diversify (Sa-Dhan, 2003). Entrenchment and internal conflicts amongst stakeholders and managers can threaten microfinance’s efficiency (Labie, 2001, Campion, 1999b:17) and lead to the neglect of social outcomes.
Although researchers intended to build linkages between MFIs’ inputs (institutional features, products and activities) and their financial performance and social outreach, such studies remain scarce and their definition of microfinance’s social mission can be mis-conceptualised. Hartarska (2005) and Mersland and Strom (2007) assessed the relationships between MFIs’ performance and corporate governance practices, arguing that “governance is about achieving corporate goals” and that “for most MFIs, dual goals exist” (Mersland and Strom, 2007:74). Hartarska traced and measured correlations between governance patterns and institutional performance to optimise ways “strong organisations channel scarce resources to the entrepreneurial poor” (2005:1641) and examined the achievability and compatibility of the double-bottom line and the possibility of substitution of one objective for the other. The study assesses the suitability of institutional characteristics such as ownership structure, board structure, CEO and board remuneration, auditing systems, information disclosure and corporate control systems for financial performance only (Helms, 2006, Navajas et al., 2000), disregarding social outcomes. In fact, the social mission is often defined as “reaching more clients and poorer population strata” (Mersland and Strom, 2007:4), considering breadth (number of active borrowers) and depth (the average loan size) of outreach (Hartarska, 2005:1632) which ignores the four other dimensions of outreach depicted by Schreiner (2002) introduced in the earlier sub-section.

In conclusion, only a few empirical studies investigate the processes of social impact and attempt to link them with institutional practices (governance, organisational structure or management systems). Most studies either focus on impact or examine institutional arrangement in an attempt to improve financial performance. When they are concerned with social performance achievements and social outcome measurements most studies use insufficient and narrow definitions of microfinance’s social mission. The difference between an MFI having broad and deep outreach (serving a large number of poor clients) and an MFI which helps reduce poverty is considerable (Morduch, 1999a). This mis-conceptualisation can encourage MFIs to focus on financial targets and limit their opportunity to maximise social impact (Simanowitz, 2002). Unless the development of MFIs’ practices considers the financial and the social
missions of microfinance, the positive impact of microfinance on clients cannot always be ensured. This argument is substantiated in the next section.

2.2.1.3 THE RISKS OF MISSION DRIFT

This section explains how the diversification of the types of institutions delivering microfinance services and the diverse sources of finance supporting them can affect the way in which microfinance is delivered. In an attempt to scale-up their operation, MFIs (even non-profits) have a tendency to adopt commercial practices or transform into commercial for-profit banks which affects their management of the microfinance trade-offs. Debate concerning the effects of commercialised practices emerged particularly after the first case of MFI commercialisation in Latin America in 1992 when Banco Sol transformed into a regulated commercial microfinance bank. This strategic decision allowed the MFI to have increased access to funding, become more financially self-determining, free themselves from capital constraints on expansion and develop a larger product portfolio (Montgomery and Weiss, 2005). This gave impetus to a new trend in which 39 NGOs converted into commercial banks within ten years (Fernando, 2003).

While some scholars and development agencies commend the full integration of microfinance services with the mainstream banking systems (Helms, 2006, CGAP, 1997), others warn that such changes in institutional preferences regarding the pursuit of either the social or financial missions may lead to a mission drift (Woller, 2002b). Such arguments raise serious concerns about the feasibility and desirability of combining poverty reduction initiatives such as microfinance with commercial pressures (Dichter and Harper, 2007). A “mission drift” refers to a “de-emphasis of social mission in pursuit of higher financial returns” (Woller, 2002b) or as a “cross-subsidisation” of poverty-focused microfinance activities (McIntosh and Wydick, 2005). Copestake suggests it can work both ways, “abandoning welfare goals for profit, or vice versa”. He argues that this drift can be induced by a “lack of transparency and weak performance management” (2007:1722). Hermes and Lensink (2007)
argue it is rooted in shareholders’ pursuit of a self-sustainability objective which may take priority over a poverty-reduction objective which Ghosh and Van Tassel (2011) argue is particularly true for MFI s sponsored by profit-oriented donors. Cull et al. (2009) found that a highly competitive market in microfinance can increase the risk of mission drift as MFIs compete for external financial support (and therefore are under substantial financial pressures) or compete among themselves for market shares (tending to serve wealthier clients to reduce transaction costs and financial risk) (de Quidt et al., 2012:33).

It is also argued that mission drift is not only the product of cost-minimisation strategies but result from the interplay between MFIs’ mission and the opportunity costs of not serving unbanked wealthier clients (Christen and Drake, 2002, Christen, 1998). Competition is considered beneficial by some in that it gives a strong incentive to develop new strategies to adapt their product through lessening the cost of borrowing for clients (lowering interest rates or entry fees for instance) or by widening their product portfolio (Rhyne and Otero, 2007). These factors can affect the strategic portfolio management decisions of MFIs without them deviating from their poverty reduction mission (Littlefield and Rosenberg, 2004b, Littlefield et al., 2003).

The proxies used to measure the mission drift are diverse (Armendáriz and Szafarz, 2011). Driven by profit-maximisation or cost-minimisation strategies MFIs tend to deliver larger loans to less poor clients (considered more profitable) (Navajas et al., 2000, Cull et al., 2007). Hence variables such as average loan size, cost was per dollar lent and poverty gap ratio are typically used to measure it (Armendáriz and Szafarz, 2011).

2.2.2 GROUP-LENDING: A DOUBLE-EDGED SWORD?

This section examines the social and economic rationale of the group-lending methodology, perceived by many economists, microfinance practitioners and scholars as the main innovation embedded in microfinance (Ahlin and Townsend, 2007, de Aghion and Morduch, 2005, Jaffer, 1999). It argues that
since the mid-90s some empirical studies have questioned the beneficial impact of group-lending on clients (Feigenberg et al., 2009, Conning, 1999, Ghatak and Guinnane, 1999, Wydick, 1999, Bhatt and Tang, 1998). Underlying the argument that the group-lending methodology has positive outcomes on clients are assumptions about the linkages between what is often termed “social capital” and poverty. The concept of social capital has received significant attention within international development discourse since the 1990s (Harriss, 2002, Harriss and de Renzio, 1997). Although the importance of social connectedness and social interactions for personal or professional achievements is widely accepted (Fukuyama, 2002), its theorization within development literature and practice is contested (Schuurman, 2003).

The concept was popularised by Putnam who defined social capital as “features of social organisation such as norms, trust and networks that can improve the efficiency of society by facilitating coordinated actions” by acting as a “moral resource” as people comply to act towards common goals (Putnam et al., 1993:169). Social capital can refer to a range of social interactions including (but are not limited to) trust, solidarity and associational power. Particularly since 2000 academics and policy-makers have examined the underlying role of social capital in the poverty context (Fukuyama, 2002). Social capital is perceived to be an important and overlooked explanatory variable and as the “missing link” in economic analysis of poverty (Woolcock and Narayan, 2000). The World Bank defines social capital as “more than the sum of
institutions which underpin a society, it is the glue that holds them together”. They developed the “Social Capital Initiative” that funds projects to help define and measure social capital, its evolution and its impact (Grootaert and van Bastelaer, 2001). Social capital became an attractive amorphous concept used by the political left because it refers to notions of solidarity, common good and sociologic behaviour (Schuurman, 2003).

2.2.2.2 SOCIAL CAPITAL IN GROUP-LENDING

Theoretically within microfinance there is a distinction between structural social capital (participation in groups) and cognitive social capital (the sense of trust and collaboration), both of which are argued to play an important role in achieving the double-bottom line which is essential for the financial performance of MFIs (Anderson et al., 2002, Collier, 1998, Grootaert and van Bastelaer, 2001). Some authors argue that the relative success of microfinance relies on financial innovations (group-lending, joint liability, refusal of future loans) based on social dynamics (such as trust, loyalty, and collaboration) (Ito, 2003, Anderson et al., 2002, Woolcock, 2001b, Grootaert and van Bastelaer, 2001). Social capital includes these dynamics which MFIs can only partially control. In theory, the learning process taking place during group meetings enables members to establish stronger trustworthy networks and assess their fellow group members’ creditworthiness which can enhance the sustainability of the group (Feigenberg et al., 2009, Armendáriz and Morduch, 2005). By encouraging interactions, information sharing, screening, monitoring cooperative behaviours and self-enforced reward and punishment schemes amongst members group-lending enables MFIs to enforce high loan repayment (Feigenberg et al., 2009:10) to protect their financial performance (Ghatak and Guinnane, 2001).

Empirical studies that attempted to establish linkages between group-lending activities and social capital however obtained mixed results of its impact on social and financial outcomes. Leading research within ACCION’s activities in 1999 in Guatemala, Wydick observed the impacts which social relations (social ties, peer monitoring, and peer pressure) had on borrowing group performance
(1999). He found that strong social capital (tight social networks connecting community members) does not necessarily have a positive influence on client households’ investments in human capital (notably education). This result received further support from the studies of van Bastelaer and Leathers (2002) in Zambia and Ahlin and Townsend (2007) in Thailand. On the other hand, improvements in repayment performance are often associated with peer monitoring and peer pressure as empirical studies conducted in Madagascar, Costa Rica and Burkina Faso showed that social cohesion leads to higher repayment rate (Zeller, 1998). FINCA credit groups found that group members engaged in formal screening with an internal code of regulations had a low probability for delinquency, indicating that screening within the group resulted in informational efficiency gains for MFI's (Wenner, 1995). Research in Burkina Faso emphasised that weak social ties may lead to negative outcomes if there is no willingness to support fellow group members, negatively affecting MFI's financial performance (Paxton, 1996, Mondal and Tune, 1993).

Whilst numerous researchers found that social capital is important to MFI’s financial performance, they often neglect the implications that group-lending can have on clients. Associating social capital only with positive outcomes is a common misconception (Woolcock and Narayan, 2000:231). Montgomery (1996) was one of the first authors to question the efficiency of the group-lending methodology, based on empirical evidence from Sri Lanka and Bangladesh. He argues that the group-lending tool overlooks the heterogeneity of the poor’s livelihoods, disregards the power relations within groups and ignores repercussions peer pressure has on group members (Montgomery, 1996: 291). He compares the very different social processes between group lending and cooperative MFI model. Some authors find that group-lending can create unwelcome impacts which are often not identified by traditional impact assessments (Isen, 2004). MFI’s staff’s constant “disciplining” and monitoring can overrun group members’ social networks with mistrust (Momen and Begum, 2006, Montgomery, 1996a). In Bangladesh studies also found that because BRAC used joint-liability and loans contingent renewal through group-lending to secure repayments, it discourages solidarity, mutual-fraternity
and trust between group members (Rahman, 2003, Goetz and Sen Gupta, 1996, Montgomery, 1996). Clients therefore not only dread the financial consequences of default but also its social implications. As a result, to avoid social exclusion and preserve social cohesion clients often work more, mortgage their homes or sell assets (Ahmed et al., 2001, Montgomery, 1996a).

One further documented repercussion of group-lending is the self-exclusion or exclusion of the most vulnerable poor from microfinance. Morduch (1999a), Ghatak and Guinnane (2001) and de Aghion and Morduch (2005) argued that joint-liability in group-lending contributes to excluding and marginalising the poorest amongst the poor because of the high risks that joining a group of better-off borrowers can represent for the former. The poorest may avoid such risks by forming homogenous groups with clients with similar characteristics to them. Similarly, in order to minimise their likelihood to default better-off households often avoid riskier clients (Ghatak and Guinnane, 2001).

The analysis of group-lending through a social capital lens can help better understand and promote clients’ proactive financial behaviours (trust, collaboration, reciprocity, and mutual help). Woolcock developed a typology of social capitals accounting for intra-community ties (bonding social capital) and extra-community ties (bridging social capital) (2001a) which can help understanding the social mechanisms that leverage group-lending’s outcomes for clients. Often clients try to combine different types of social capitals to increase their opportunities to improve their well-being (Fukuyama, 2002). Woolcock and Narayan found that lending-groups, relying almost only on high bonding social capital, face significant obstacles to grow (2000). They argued that when a lending-group reaches an acceptable level of well-being, members become reluctant to admit new members, who they see as threats (2000:233). Sometimes group members would quit their group to join another endowed with more bridging social capital and through which their economic opportunities are greater. These adverse processes often discourage the poorest from joining microfinance at all (Vigenina and Kritikos, 2004:217). Group-lending can therefore be considered a double-edged sword which can have negative effects on clients.
Though social capital is a useful concept in that it acknowledges the importance of social relationships in context of poverty and is therefore used in this thesis, it is important to note that it is however strongly critiqued for its analytical “ambiguity”, “imprecision” and political instrumentalisation (Harriss and de Renzio, 1997:927, Harriss, 2002, Grootaert and van Bastelaer, 2001, Fine, 2001, 1999, Grootaert, 1998). One major critique of the concept is that its use as an explanatory factor for understanding poverty issues tends to depoliticise debates around the structural causes of poverty, notably governance (Harriss, 2002). Harriss argues that the adoption of the concept by academics and practitioners reflects a denial of inequalities which, he argues, reinforces “the neo-liberal agenda of reducing the role of the state” (2002:120). For Fine (2001) social capital is a political tool that allows organisations like the World Bank to bypass the state in development interventions. Schuurman (2003) argues that the explanatory function of this concept can lead to imputing poverty to the poor and blaming poor households for their situation. Their analyses converge in that they find that the use of social capital fits with the popular neoliberal approach to development whereby poor populations are not victims of their situation (or beneficiaries) but active players.

Sections 2.1 and 2.2 analysed the gap between theories of microfinance and its documented poverty alleviation impact. Despite the diversity of ways in which microfinance is practiced and evaluated, the link between poverty reduction and microfinance remains unclear. Deductive impact studies often overlook contextual factors and impacts on different livelihood dimensions, the study of which is important to improving microfinance’s impact (Wright and Dondo,

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13 For critiques of Putnam’s measurement methodology of social capital see Levi (1996) and Fine (2003).
2001, Gulli, 1998). Under financial pressures, MFIs often adopt commercialised practices to sustain or improve their financial performance; this phenomenon according to some authors can generate a “mission drift” that can generate a set of negative outcomes for the poor. Impact studies must therefore not only consider measuring the impact of institutional practices but understanding processes that lead to impact on clients. Specific institutional features ought not to be considered “good practice” if they only contribute to MFIs’ financial performance and neglect social outcomes. In an attempt to understand the complex interplay between microfinance and clients (Helms, 2006:39), the conceptual framework for social performance developed by the author and applied in this research is introduced in the section.

2.3 Social performance for MFIs

While most MFIs may have developed the financial capacity to offer financial and non-financial services to poor households while remaining financially viable (chapter two), the challenge of proving sustainable poverty alleviating impact on clients remains (Ledgerwood and White, 2006) or at least lacks empirical evidence (IFPRI, 2003, Mayoux, 2001). Concerns with institutionalising social performance within MFIs have emerged late in the microfinance sector, but if poverty alleviation still stands as one of the two objectives of MFIs, the assessment of their social achievements should constitute a priority in their development and expansion (Copestake, 2004).

This section explores the conceptual and practical constraints faced by scholars and practitioners when trying to re-focus on the social objectives of microfinance (Littlefield and Rosenberg, 2004a, Pawlak and Matul, 2003). Grounded in business literature it explains the conceptual and practical challenges faced by for-profits and financially self-sustaining organisations when implementing such principles. It then, from the microfinance literature, examines how social performance tools have been developed. The final part introduces the conceptual framework for social performance developed by the author and applied in the research.
2.3.1 Social Performance in the Business Literature

Since the 1990s most studies undertaken in the field of microfinance have been fuelled by the intention of ensuring the cost-efficient scale-up of the sector (Rock et al., 1998, CGAP, 1997). Tracing the origins of social performance assessments within institutions more widely in is essential for understanding the importance of such studies. The emergence and development of corporate social responsibility (CSR henceforth) in the business sector can be compared to that of social performance in the microfinance sector. Because it has long been a complex issue in practice and a topic of wider academic research in the business sector, useful lessons can be learned from its history.

2.3.1.1 Corporate Social Responsibility

CSR models associate social responsibilities, social issues and philosophies of societal responsiveness with businesses (Carroll, 1979). The concept has drawn significant attention from both academics and practitioners since 1973 (Freeman, 1984, Davis, 1973) and can be defined as:

“the underlying interaction among the principles of social responsibility, the process of social responsiveness and the policies developed to address social issues” (Wartick and Cochran, 1985:758).

It is generally acknowledged that the ethical responsiveness of firms is difficult to identify, delineate and assess. Contrary to accounting principles, CSR refers to ethical principles which lack a common framework (Clarkson, 1995:95, Clarkson, 1988). Conceptualising CSR as “policies […] to address social issues”, could imply that for the evaluation of social performance it is sufficient to assess the extent to which regulations and laws are in place (Wartick and Cochran, 1985:785). The establishment of regulations and policies in a firm may not however be sufficient to prove that the company behaves in a socially responsible manner. Rules and regulations could solely
indicate the awareness of the company concerning its social responsibilities rather than their enforcement (Clarkson and Deck, 1993). Equally, the absence of rules and regulation might not be a sign of bad corporate social behaviour (Cochran, 2007). Socially responsible behaviours and systems may be in place without the need of formal regulation. Consequently, concepts of CSR and social performance integrate some notion of the importance of outcomes (Wood, 1991), observed through activities’ outcomes and staff behaviour for instance.

The concept of CSR also evolved to relate to the study of the processes through which firms and societies interact rather than being an assessment of outcomes. Defined as “business organisation’s configuration of principles of social responsibility, processes of social responsiveness and policies, programs and observable outcomes as they relate to the firm’s societal relationships” (Wood, 1991:693), it includes motivations, the behavioural processes and observable outcomes of an organisation’s activity (Wood, 1990). This conceptualisation suggests investigating the explicit intentions of firms towards society and ways in which they mean to achieve them (Wilcox, 2006). Overall, it is the coherence of interactions within the tripartite framework- principles, processes and outcomes which shall determine a firm’s social performance (Wood, 1991)\textsuperscript{14}.

\subsection{Corporate social responsibility: challenges and pitfalls}

There is a lack of consensus within the business literature concerning the implementation of CSR. Whilst some academics and practitioners maintain that firms do have societal obligations to “work for social betterment” (Frederick, 2006) which shares similarities with the mainstream conceptualisation of social performance in microfinance explored in section 2.3.2.2.

\textsuperscript{14} Which shares similarities with the mainstream conceptualisation of social performance in microfinance explored in section 2.3.2.2.
1986:4, Davis, 1973:312), others question the appropriateness of the concept under competitive conditions. Despite debates and diverging opinions, there is a consensus within CSR that firms and society are not isolated but interacting actors (Igalens and Gond, 2005). From this perspective firms should aim to have social benefits in addition to financial and economic gains (Carroll, 2000, Davis, 1973). Beyond the economic outcomes of firms’ core activities, societies generally have economic, legal, ethical, and discretionary expectations towards them.

On the other hand a philanthropic approach (Carroll 1979) involves aligning CSR with the economic rationale of firms. Because clear economic incentives were lacking, many firms refused to adopt CSR until it was established that firms with a philanthropic dimension were likely to be more competitive than others (Carroll and Shabana, 2010, Jackson and Apostolakou, 2010, Enquist et al., 2006). Under competitive conditions, this reasoning provides incentives for firms “to do good to do well” (Vogel, 2005:20-21) with the median total giving of Fortune 100 companies increasing with donations to non-profit organisations from leading publicly traded companies of pharmaceutical, oil, garment, food and beverage industries (CECP, 2011, Walter and Bruch, 2005:49).

The power firms have largely depends on the legitimacy given by members of society according to Davis (1973:314). For-profit and non-profit firms’ activities often have unexpected impacts on diverse stakeholders (Freeman, 1984:49). For them, and for their more direct stakeholders, organisations need to be kept accountable and held responsible for the problems their activities might raise (Preston, 1975) whether they relate to staff’s wage and employment or activities that are “not intrinsic to the character of the organisation” (Khatun et al., 1998:10-11) (for instance environmental effects). Within the organisations, CSR principles are enforced by the staff (Wood, 1991:699) who are seen as active moral actors who make daily decisions engaging with ethics, this process is called “the management of discretion” (Wood, 1990, Ackerman, 1975). Because CSR enforcement relies on individual choices, knowledge,
values and beliefs but also on behaviours people have when facing “options, opportunities, constraints and choices” (Wood, 1991:700) it is difficult to control and manage even with explicit rules and policies.

The divide over CSR occurring corporate sector shares similarities with the microfinance schism described in section 2.2.1.1. Swanson describes a split between two ideological and managerial perspectives: the institution-centred on one hand, and the duty-aligned on the other (1995). The institution-centred view shares values with institutionalists considering that the duties of organisations are limited to their core activities. Rooted in the neoclassical approach, the institution-centred approach “prizes not only efficient and profitable outcomes, but also autonomy and economic freedom” (Granger, 2009:44), questioning the reasons why corporations should compromise profits maximisation and shareholders satisfaction under the competitive condition, “even if that includes acting in socially irresponsible ways” (Campbell, 2007:946-947). The duty-aligned perspective emphasising ethics in business could be seen as similar to the welfarists’ viewpoint. “Benevolence” and “duty-based morality” are important principles in the duty-aligned standpoint (Granger, 2009:44). The analyses of the two MFIs (chapter seven) show how relevant the challenges faced in the for-profit sector are to commercialised approaches to microfinance in terms of the importance of staff’s discretionary power over performance in particular.

2.3.2 A FRAMEWORK FOR CONCEPTUALISING MFIS’ SOCIAL PERFORMANCE

The evolution of microfinance sector shares similarities with the business sector. The underlying ideology of social performance is however in theory already deep-rooted into microfinance’s double-bottom line, its social mission (Copestake, 2004). While firms can position themselves as pure economic actors and refuse to be socially benevolent, this argument is not admissible for NGOs (Edwards and Hulme, 1995) or for-profit MFIs. The last sub-section introduces the guiding conceptual framework used in this research to understand MFIs’ relationships with clients and communities.
Even if they share organisational characteristics with firms, MFIs’ *raison d’être* is to “contribut[e] to economic growth and solving the problem of poverty” (Prior and Argandona, 2009:349). It was estimated that microfinance represented one of the biggest markets to receive social investment funds (Steger, 2007) but although financial performance evaluations are institutionalised within MFIs, the same is not necessarily true for social performance. This justifies the need for social performance assessments.

Due to the rapid expansion of the microfinance sector and the attention given by the international community, the demand for evidence of social impact has increased (Cochran, 2007:451). The development of the sector reflects the great expectations aid practitioners, development partners and policy-makers nourish about its poverty reduction potential. Funding agencies however require sound evidence of its impact (Mac Dougall, 2009, Hashemi, 2007:1). The multiplication of social performance initiatives in the past ten years reflects the increasing pressure from investors to establish social performance assessment. However MFIs still often lack accurate and regular assessments of their social achievements (Kerer, 2008:3).

Assessment methods required for MFIs to improve their double-bottom line achievements are however difficult to conceptualise and apply (Pawlak and Matul, 2003). The lack of reliable data and the methodological difficulties associated with assessing the impact of microfinance on clients raise doubts regarding MFIs’ potential to reduce poverty in a sustainable manner (Zeller et al., 2003, Malhotra et al., 2002). The spread of social performance assessments as part of auditing and reporting practices could benefit financial performance (IFPRI, 2003) by helping managers optimise the management of their resources and improve their social impact (Cochran, 2007, Copestake, 2004:12, Pawlak and Matul, 2003). Therefore, in theory, social performance assessments
could provide MFIs crucial operational information on the risks and benefits associated with their systems, management, products and activities.

### 2.3.2.2 Main approaches to social performance assessments

The institutionalisation of social performance assessments is expected to improve MFIs’ responsiveness to clients’ needs and to increase their accountability to the multiple stakeholders in the sector (Doligez and Lapenu, 2006). They are not intended to evaluate *if* MFIs intend to achieve their social objective but rather *how* (Carroll and Shabana, 2010, Mayoux, 2001), determining whether the structures, systems and products of an MFI are in line with the social mission (IFAD, 2006).

Under the umbrella of the Social Performance Task Force (SPTF henceforth) a number of organisations have, to a substantial degree, reached a basic agreement in their approach to social performance (Sinha, 2006). The SPTF’s mission is “to engage with microfinance stakeholders to develop, disseminate and promote standards and good practices for social performance management and reporting” (SPTF webpage). Alongside CGAP-Ford and other development partners and social investors, SPTF define social performance as “the effective translation of an institution’s social goals into practice in line with accepted social values” (Hashemi, 2007:3, Sinha, 2008, IFAD, 2006, Woller and Brau, 2004, Woller, 2004). Their approach conceptualises social performance as a channelling process originating from the MFIs’ intentions (missions) and results in impacts on clients (Jacquand, 2005). The structure-conduct-performance paradigm they adapted from industrial organisations

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15 Organisations include the Imp-Act consortium, CERISE (Comité d’Echange, de Réflexion et d’Information sur les Systèmes d’Epargne-crédit), SEEP, the Argidius Foundation, FOROLAC and Grameen Foundation
(Zeller et al., 2003) and applied to MFIs investigates intentions, activities, outputs, outcomes and impact, as illustrated in figure 2-1.

**Figure 2-1: The Social Performance Framework**

![Diagram of the Social Performance Framework](image)

Source: Hashemi (2007)

Although a number of challenges concerning social performance’s operationalisation exist, it is generally acknowledged that social indicators and tools are critical to the institutionalisation of social performance assessment (Kerer, 2008) and for proving and improving microfinance’s impact (Copestake et al., 2005a). In social sciences, causal linkages between *treatment* and *changes* are difficult to establish and measure (section 2.1.2) and because social performance is not always a quantifiable outcome (see the diverse dimensions of outreach) it is challenging to measure. Largely based on qualitative indicators social performance assessments account for and quantify well-being outcomes resulting from activities (Copestake, 2007, Copestake et al., 2005b, Copestake, 2004). Moreover, as intentions, activities, and contexts of operation diversify, relevant common indicators of performance are almost impossible to identify (Doligez and Lapenu, 2006).

Nevertheless, there are a handful of tools which address the steps in the social performance of MFIs illustrated in figure 2-1. Though a comprehensive review of all existing approaches to social performance is beyond the scope of this work, the CERISE SPI tool, ACCION, and M-CRIL rating tool (Grootaert and van Bastelaer, 2001) are reviewed here as these represent the dominant
approaches\textsuperscript{16}. The first step investigates whether actions of an MFI are in line with its mission.

Monitoring social performance is a task characterised by a variety of questions and objectives. The first question to be asked is whether MFI have developed the capacities they need to fulfil their social mission. On figure 2-1 this question addresses the first stages along the chain of impact on the left-hand side of the arrow: the upstream processes. The SPI-CERISE tool addresses this issue. It consists in a questionnaire investigating three major dimensions of social performance that CERISE identifies as crucial. The first part of the SPI-CERISE’s study considers goals of an MFI, products and services offered, but also its responsiveness to clients and employees, and its outreach to clients. It uses thirteen indicators to analyse the intent, strategies, systems and outreach of a MFI so to examine whether it acknowledges and establishes systems that enforce its social commitment (two dimensional) (IFAD, 2006). The second part focuses on achievements of social goals and on the influence MFIs have on education, employment, the environment and poor people’s living conditions. It evaluates the adequacy of products and services within the context of operation and the implications microfinance might have beyond the individual level (Steger, 2007). The final part uses three different indicators to assess and measure the evolution of the poverty level of clients over time. It estimates the number of clients who remain below the poverty line and those who successfully escaped poverty three or five years after they joined the MFI (Sinha, 2008). The following dimensions are graphically presented: the outreach to the poor and excluded, the level of adaptation to targeted clients, the improvement of social and political capital, and the social responsibility of

\textsuperscript{16} There are three other audit tools besides CERISE’s (SPI) which are MFC Quality Audit Tool (QAT), EDA Rural Social Performance Audit (SPA) and the MicroSave SPM Toolkit. In addition to M-CRIL, Microfinanza Rating, MicroRate and Planet Rating are also important rating tools.
the MFI toward its stakeholders (IFAD, 2006). This analysis is then correlated with the financial and social performance data available. Given its standardisation the tool enables comparisons of MFIs’ performance per size, region, type or geographical area.

Technical limitations however hinder its relevance across MFIs. The SPI-CERISE tool can reveal particular pitfalls and patterns of behaviour specific to a type of MFI or to a region. The SPI-CERISE tool is a self-completed questionnaire which requires MFIs’ managers to evaluate their own performance according to a set of criteria whose valuation is left to their discretion. Leaving the evaluation of social performance to MFIs’ managers assumes that they have reliable information about the way in which regions, branches and lending-groups are being managed. It neglects the perceptions of field staff and of clients who arguably have insightful experiences of the social performance of MFIs. It presumes that managers are impartial judges who are interested and incentivised to report accurately regarding the positive or negative social impact their MFI is having on the ground. Relying only on internally-managed assessment tools for social performance may not however be sufficient to generate reliable data. Furthermore, though some criteria may appear relevant in particular contexts it may be of little value or inappropriate in others.

After addressing the question of institutional capacity the area of concern (according to figure 2-1) is the outputs and outcome of MFIs’ activities. This refers to the downstream stages in the process of impact. ACCION’s approach uses existing information to evaluate the poverty impact of an MFI on clients (Hashemi, 2007, IFAD, 2006). It interviews MFI’s stakeholders (clients, board managers, and staff) and analyses their opinions concerning the MFIs’ achievements. Gathered information is compared and triangulated with secondary data including business plans, organisation strategy, Mix Market studies, national surveys or market studies (Doligez and Lapenu, 2006). Clients’ poverty level is compared with non-clients’ using poverty measurements produced by national surveys. Final information is then
presented through a geographic map of outreach considering both breadth and depth. This approach is usually used to complement financial assessment and to develop cost/benefit analyses of activities. The qualitative stakeholder approach may help to evaluate strengths and weaknesses of MFIs and more importantly collect different opinions about ways to improve services offered (Mac Dougall, 2009). ACCION’s approach, however, largely relies on secondary data whose availability, reliability and precision may vary significantly across different countries (Jackson and Apostolakou, 2010) which could therefore affect the external validity and the comparability of the results.

The performance assessments of MFIs can often fail to capture clients’ experiences of loans and many of the effects microfinance can have on their livelihoods (Sievers and Vandenberg, 2007, IFAD, 2006). These frameworks and tools tend to embed a top-down conceptualisation of development (Conlin and Stirrat, 2008, Goldberg, 2005, Megicks, 2005) which can affect the design of microfinance activities, products and services.

SPI-CERISE and ACCION tools both cover three steps along the social performance process: intent and design; internal systems and activities and outputs (figure 2-1). Micro-Credit Ratings International Limited, M-CRIL, the third main tool used to assess social performance, is a social rating tool which covers these first three steps and as well as three dimensions of results: outreach to poor clients (both in terms of depth and width), appropriateness of services (efficiency and transparency), and changes achieved in clients’ lives (Sinha, 2008). The access to reliable and up-to-date client-level can significantly vary across MFIs. M-CRIL’s approach to social performance is nonetheless the most comprehensive tool in that it covers both processes and results.

In its conceptualisation and implementation, the tool however shares important pitfalls with CERISE’s and ACCION’s tools and to a lesser extent with Imp-Act’s conceptualisation of impact processes and monitoring. Similar to impact assessments, current social performance approaches often neglect wider contextual issues (section 2.2). To date, approaches to social performance tend
to adopt an MFI-centred and constricted perception of the context of operations (economic and social), and a narrow understanding of the multiple ways in which they interact with and impact on clients’ and non-clients’ livelihoods. The tools mainly aim to prove and quantify activities’ impact across anticipated dimensions (income, food consumption and education) rather than understanding the processes by which impact occurs (Zeller et al., 2003). As a result, the utility of products and services for poor people is rarely investigated (Fisher et al., 2002, Matin et al., 2002, Rutherford, 1999). Microfinance’s social performance depends on clients/institution interactions. It is therefore essential for research to fill this gap and better understand microfinance from communities’ perspective (Sa-Dhan, 2003, Dehejia and Wahba, 2002).

2.3.2.3 Conceptual Framework for Social Performance in Microfinance

In light of the considerations highlighted above, this sub-section describes the author’s analytical framework guiding the research, illustrated in figure 2-2. The framework conceptualises MFIs’ activities within their macro socio-economic context and the social performance of MFIs. It uses a client-centred and bottom-up lens.

Firstly, this framework involves a client-centred approach which enables the findings to give analytical insights into poverty and well-being issues. This approach requires an analysis of the context of operations and a household-centred approach which considers specific challenges and vulnerabilities faced by household members (for example females, elders, and youngsters). The framework includes an element of the “livelihoods approach” which investigates the opportunities and constraints associated with households’ livelihoods in context (Rakodi and Lloyd-Jones, 2002, Sebstad and Chen, 1996). It focuses on livelihood as “the capabilities, assets (including both material and social resources) and activities required for means of living” (Sa-Dhan, 2003) and considers them as determinants of poor people’s strategies for survival or well-being improvement (Carney, 1999:4, Chambers and Conway,
According to this approach, households manage a portfolio of social, human, natural, financial and physical capitals which they strategically adjust to their vulnerability environment over time (Rakodi and Lloyd-Jones, 2002, Scoones, 1998).

It is important however to note critiques of the livelihoods approach. Although it can be useful to examine and compare inequalities between households, it can be argued that the livelihood approach brings little to the understanding of more complex structural and relational drivers or factors contributing to poverty or disempowerment (Hickey and du Toit, 2006). Placing households at the centre of the analysis of poverty may neglect wider power relation and context-specific history (du Toit, 2005, Wood, 2003) which may be more insightful explanatory and analytical variables for poverty analyses than capitals (Cole, 2005, Green and Hulme, 2005). Designing development interventions based on the perception that the future beneficiaries lack different types of capitals rather than lack entitlements (van Dijk, 2011:101) attribute material value to capitals rather than an analytical understanding of the multiple social processes explaining their absence (White and Ellis, 2006).

Though these critiques are acknowledged here, if carefully used (with the in-depth bottom-up research methodology adopted, chapter four) the livelihoods approach will nonetheless be useful to analytically assess (if not explain) households’ financial, physical, human, natural and social capital endowment which is an essential step towards understanding the role microfinance plays in clients’ livelihoods. Given that microfinance does not intend to address structural causes of poverty the conceptual framework depicted below focuses on issues of households’ resilience to examine the agency of capitals at the household level. With this purpose in mind, this thesis focuses on a relatively narrow analysis of the vulnerability context and livelihoods analysis of the studied population. This theoretical focus combined with the research methodology described in chapter four will allow the author to provide an in-depth context-specific poverty analysis with references to wider structural influences.
Given that the outcomes of microfinance on clients’ social capital are unclear (section 2.2) (SFYP, 2010, Collier, 1998), the social capital element in figure 2-2 includes different functions associated with positives outcomes (such as social connectedness, cohesion, trust and solidarity) and negative ones (such as patron/client relationship, insecurity, exclusion or violence). Most studies focus on analysing the impact of microfinance activities on clients’ social capital in relation to the group-lending methodology (section 2.2.2.2) creating a gap in the understanding of relationships and interactions between MFI’s and clients. This research therefore analyses these relationships between MFI’s and clients more broadly and does not explicitly focus on the dynamics within microfinance borrowing groups.

The analytical framework uses a bottom-up approach aiming to counterbalance mainstream top-down conceptualisations17 described in the previous section, providing a more holistic approach to the study of indirect and unintended effects MFI’s may have on multiple stakeholders (clients, non-clients, women, children, fieldworkers) (Rossel-Cambier, 2008, Khan and Seeley, 2005, Mayouxi, 2001). Figure 2-2 is applied by the researcher within the study context to deeply analyse the socio-political context at macro and micro level (chapter three), investigate the vulnerability context in which households live (using a sustainable livelihoods framework) (chapters five and six) and finally, explore MFI’s management systems and structures (from local branches to the head-offices) in selected institutions MFI (SEEP, 2007) (chapter seven).

17 The vertical arrow in figure 2-2 emphasises the strategic direction taken by the researcher to evaluate social performance.
**Figure 2-2: Conceptual Framework for MFIs’ Social Performance**

Source: the author
3. Microfinance in Bangladesh: Context and Developments

Chapter three analyses how country-level politics, economic, social, cultural and developmental challenges and opportunities have, and do, influence the evolution of the microfinance sector in Bangladesh. The analytical framework (figure 2-2) emphasises that to be relevant to the context understanding MFIs’ social performance requires different levels of analysis. Because the context for this study is rural Bangladesh, section 3.1 presents the economic and political context and sets the scene of the research by describing rural livelihoods and capitals. Section 3.2 presents a brief overview of the historical developments of the microfinance sector in Bangladesh.

3.1 Bangladesh: Economic, Social and Political Overview

Bangladesh (officially the People’s Republic of Bangladesh) is perceived as becoming economically and socially stable while remaining in some respects vulnerable (UNDP, 2009, UNDP, 2005). Economic and social indicators in Bangladesh are improving but the country and the livelihoods of its people remains vulnerable to economic and political downturns. Recent UN estimates state that Bangladesh has 162,221,000 citizens, or 2.38 percent of the world population living on a land surface of 143,998 km². That is more than 2.5 times the population of the UK on half of its surface. Making exceptions for small city-states and small countries such as Macau, Singapore or Monaco, Bangladesh has the highest population density in the world with more than 1,126 people per km². With over 130 million Muslims, Bangladesh is the fourth-largest Muslim population in the world after Indonesia, India and Pakistan. Islam is a central component to the country’s national identity and dominates the political, cultural and social life of the people (Walter and Bruch, 2005, Shamsuddoha and Nazneen, 2003).
3.1.1 Political history and culture

The tumultuous post-colonial political history of the country explains why Bangladesh remains a relatively new nation that Lewis identifies as a “state in the making” (2011:12). Bangladesh is the homeland for multiple ethnic groups and religions. Although the majority of citizens are Muslim Bengalis, 10 percent of the population are Hindus, a smaller minority is Christian (about 3 percent) and a lower percentage is animist, some of whom live as relatively independent ethnic communities with different dialects, beliefs and cultures (there are at least 24 minority ethnicities) (WorldBank, 2012, Ahmed, 2005, Landell Mills, 2002). After its independence from Pakistan in 1971, Bangladesh’s governance was dominated by multiple coups d’état which triggered periods of military governments before an imperfect but relatively effective democratic system, based on a parliament was established in 1991. The legacy of past rivalries between the Bangladesh Nationalist Party and the Awami League, the two main political parties, continues to dominate current politics and policies in the country. Furthermore, a strong politics of patronage dominates the functioning and dynamics of governmental infrastructures and political parties and can pervade into large-scale firms, NGOs and civil society (Lewis and Sobhan, 1999, McGregor, 1989). The concept of patron/client relationships is therefore important for understanding the political and social culture in Bangladesh and can be defined as “a reciprocity of exchange based on unequal rank” which can lead to exploitation based on existing economic, political and ideological inequalities (Lewis, 2011). At a household, village, district, and regional level the power of elites is respected and reinforced by this culture of patronage (McGregor, 1989).

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18 Led by Khaleda Zia, widow of General Ziaur Rahman
19 Led by Sheikh Hasina Wazed, daughter of Sheikh Mujibur Rahman, the country’s first leader
Bangladesh has drawn significant attention economically from international agencies and social investors globally. Most significantly since the 1990s the country has received foreign grants from governments including Japan, the United States, the United Kingdom, Korea and Australia and attracted major development partners (Boone, 1996). In 2005, a senior manager for the World Bank’s South Asia region, Sadiq Ahmed, suggested that Bangladesh could become a middle-income country by 2016 (or soon after) if it could sustain economic growth of 7.5 percent or more. Bangladesh has experienced unbroken economic growth since at least 1980, averaging 4.6 percent annual growth from 1980 to 2008 and over 6 percent over the last five years, despite the natural disasters during that time (Kabeer et al., 2010, Azam and Imai, 2009). The “Vision 2021” adopted under the leadership of Prime Minister Sheikh Hasina emphasises the long-term challenges ahead and sets development targets in line with the MDGs, through the Sixth Five Year Plan, and the Country Investment Plan. The former suggests that the economy’s expansion in annual GDP incurred a rise in real, per capita GDP of 36 percent or twice the average rate of other low-and middle-income countries in the same decade. The inflation rate was also halved in two years from 11.6 percent in December 2007 to 6.1 percent in January 2009 (SFYP, 2010). Bangladesh was ranked the 61st largest world economy growing by an average of 5.7 percent since 1999 and a GDP reaching US$78,992 million in 2008, half of which is generated by the service sector. The IMF’s October 2009 forecast suggested that Bangladesh will maintain this average growth rate from 2009-2014, despite a fall in growth to 5.4 percent in 2009 and 2010 (Report, 2012).

With the objective of transforming Bangladesh from a low income economy relying on agriculture to the first stages of an industrialised middle income
country by 2021, efforts have been made to fuel growth in real GDP in the manufacturing sector (export-oriented\textsuperscript{20}) and encourage remittances inflow (WorldBank, 2007). World Bank statistics suggest that the economy has seen industry and services increase in economic importance at the expense of agriculture, while the proportion of land used for agriculture fell from around 75 percent to just under 70 percent between 1990 and 2005 (WorldBank, 2012). Consequently the consumption elasticity for basic food items is constrained as low-skilled labour face great difficulties to find jobs in the agricultural sector as the market’s evolution and development are relatively slow (compared to manufacturing or services). The labour force involved in agriculture and in the informal economy have a very low income. The Sixth Five Year Plan aims at sustaining and accelerating economic growth, and focuses on improving productivity to increase agriculture related and informal labour income by facilitating the shift of workers involved in low-productive employment (in agriculture and informal services) into higher productivity sectors such as manufacturing and organised service (SFYP, 2010).

3.1.1.2 Economic growth and poverty reduction

Alongside the improvements in levels of income and consumption for much of its population Bangladesh has also achieved significant improvements in human development and is making good progress towards the UNs’ Millennium Development Goals (MDGs). According to some studies despite income-poverty reduction, the actual developmental impact is limited and unevenly distributed across regions (Sen and Hulme, 2004), households and gender (Kabeer et al., 2010, Goetz, 2001, Goetz and Sen Gupta, 1996). With 160 million citizens the GDP per capita in the country equals US$521, which ranks Bangladesh 158th in the world in 2008. Serious development and poverty

\textsuperscript{20} Essentially woven garments, knitwear, raw jute, jute goods, leather and frozen food.
issues affect the lives of millions of people as 50 percent of the national population remains under the poverty line. Bangladesh’s human development index highlights important gaps in well-being and life chances in the country. In 2011, the human development index for Bangladesh was 0.500, which gives the country a rank of 146th out of 187 countries (Report, 2012). The human poverty index focuses on diverse dimensions of the human development Index for a proportion of people below certain threshold levels. Looking beyond income deprivation, the human poverty index provides a multi-dimensional poverty status. More than 45 percent of the population is illiterate and with a human poverty index of 36.1 percent Bangladesh ranks 112th out of the 135 countries for which the index has been calculated (Azam and Imai, 2009).

Achievements of the MDGs regarding hunger and poverty, HIV/AIDS and infectious diseases, women health and empowerment, education of children, and child mortality are frequently tracked and reported. At a national level, Bangladesh has made considerable progress with regard to achieving these goals and if the trend sustains, the country may even meet some of the 2015 MDGs objectives ahead of schedule (appendix A). Based on the upper poverty line, in HIES-2010 incidence of poverty is estimated at 31.5 percent at the national level, 35.2 percent in rural areas and 21.3 percent in urban areas. In 2005, these rates were 40 percent at the national level, 43.8 percent in rural area and 28.4 percent in urban area. Poverty has declined by 8.5 percentage points (approximately 1.7 percent per annum) at the national level, 8.6 percentage points in rural areas and 7.1 percentage points in urban areas during 2005 to 2010. Moreover, the poverty gap ratio has dramatically decreased between 1991 and 2005 from 17.1 to 9.0 respectively and declined to 3.1 percent in 2010. In terms of food and nutrition, per capita per day intake of food items at the national level increased by 5.4 percent between 2005 and 2010 (from 947.8 to 1000.0 grams) (HIES, 2010).

With respect to education, significant improvements in school enrolment have been reported but dropout rates remain significant and school completion rates low. Although progress has been made to reduce adult literacy to 54 percent (2005), more effort will be required to reach the target (HIES, 2010). Gender
issues in primary and secondary education are on track and the percentage of women employed in agriculture sector keeps increasing (appendix A).
Figure 3-1: Upper and Lower Poverty Lines Head Count Rates: 1991 to 2010 (CBN Method)

<table>
<thead>
<tr>
<th>Year</th>
<th>National upper poverty line</th>
<th>National lower poverty line</th>
<th>Rural upper poverty line</th>
<th>Rural lower poverty line</th>
<th>Urban upper poverty line</th>
<th>Urban lower poverty line</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991/1992</td>
<td>56.7</td>
<td>41.1</td>
<td>58.8</td>
<td>43.8</td>
<td>42.8</td>
<td>24</td>
</tr>
<tr>
<td>1995/1996</td>
<td>50.1</td>
<td>35.2</td>
<td>54.5</td>
<td>39.5</td>
<td>27.8</td>
<td>13.7</td>
</tr>
<tr>
<td>2000</td>
<td>48.9</td>
<td>34.3</td>
<td>52.3</td>
<td>37.9</td>
<td>35.2</td>
<td>20</td>
</tr>
<tr>
<td>2005</td>
<td>40</td>
<td>25.1</td>
<td>43.8</td>
<td>28.6</td>
<td>28.4</td>
<td>14.6</td>
</tr>
<tr>
<td>2010</td>
<td>31.5</td>
<td>17.6</td>
<td>35.2</td>
<td>21.1</td>
<td>21.3</td>
<td>7.7</td>
</tr>
</tbody>
</table>

Source: adapted from HIES (2010)
Notwithstanding considerable progress in monetary and human development aspects of people’s lives, extreme poverty persists. In terms of infrastructure and health services serious challenges remain. Though maternal mortality rates are on track with the MDGs, the government must maintain these figures despite the challenging global economic context. Whilst progress has been reported regarding the access to safe drinking water and sanitary latrines in cities, the situation barely changed in rural areas (appendix A). It may also be experienced differently across the country and across ‘categories’ within the population. In 2007, UN statistics estimated that 116 million people (75 percent of the population) live in rural areas in Bangladesh (Azam and Imai, 2009). Such geographic distribution makes rural poverty a central issue for the development of the country.

**Table 3-1: Poverty Incidence and Trends in Bangladesh from 1991 to 2010**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>National (headcount rates21)</td>
<td>56.6</td>
<td>50.1</td>
<td>48.9</td>
<td>40.0</td>
<td>31.5</td>
</tr>
<tr>
<td>Urban (headcount rates)</td>
<td>42.7</td>
<td>27.8</td>
<td>35.2</td>
<td>28.4</td>
<td>21.3</td>
</tr>
<tr>
<td>Rural (headcount rates)</td>
<td>58.7</td>
<td>54.5</td>
<td>52.3</td>
<td>43.8</td>
<td>35.2</td>
</tr>
<tr>
<td>Poverty Gap22</td>
<td>14.6</td>
<td>15.5</td>
<td>13.8</td>
<td>9.8</td>
<td>6.5</td>
</tr>
<tr>
<td>Squared Poverty Gap23</td>
<td>5.6</td>
<td>5.7</td>
<td>4.8</td>
<td>3.1</td>
<td>2.0</td>
</tr>
</tbody>
</table>

Sources: Sen (2003) and HIES (2005) and (2010)

21 Head count rates were calculated using the Cost of Basic Needs Method
22 Poverty gap ratio is the mean distance separating the population from the poverty line (with the non-poor being given a distance of zero). It estimates how far below the poverty line the poor are on average as a proportion of the value of that line.
23 The squared poverty gap measures the severity of the poverty. Estimations presented in this table were calculated using the upper poverty line.
Table 3-1 highlights the urban/rural divide in poverty trends and Table 3-2 disaggregates variations of poverty lines across districts. Table 3-1 shows that reductions in the poverty gap ratio have been considerable. Trends in the poverty gap show a drop from 14.6 in 1991-92 to 13.8 in 2000, 9.8 in 2005 and 6.5 in 2010. In 2010 Bangladesh had already halved the poverty gap (slightly slower in rural areas) which was a target to be achieved in 2015. Data suggests that greater proportion of the people are now closer to the poverty line than at the beginning of the 1990s and that poverty gaps declined more rapidly than poverty headcount rates.

**Table 3-2: Incidence of Poverty (Head Count Rate) by CBN Method by Division, 2005 to 2010**

<table>
<thead>
<tr>
<th>Division</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>National</td>
<td>Rural</td>
</tr>
<tr>
<td><strong>Lower poverty line</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barisal</td>
<td>35.6</td>
<td>37.2</td>
</tr>
<tr>
<td>Chittagong</td>
<td>16.1</td>
<td>18.7</td>
</tr>
<tr>
<td>Dhaka</td>
<td>19.9</td>
<td>26.1</td>
</tr>
<tr>
<td>Khulna</td>
<td>31.6</td>
<td>32.7</td>
</tr>
<tr>
<td>Rajshahi (Former)</td>
<td>34.5</td>
<td>35.6</td>
</tr>
<tr>
<td>Rajshahi (New)</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Rangpur</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Sylhet</td>
<td>20.8</td>
<td>22.3</td>
</tr>
<tr>
<td><strong>Upper poverty line</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Barisal</td>
<td>39.4</td>
<td>39.2</td>
</tr>
<tr>
<td>Chittagong</td>
<td>26.2</td>
<td>31.0</td>
</tr>
<tr>
<td>Dhaka</td>
<td>30.5</td>
<td>38.8</td>
</tr>
<tr>
<td>Khulna</td>
<td>32.1</td>
<td>31.0</td>
</tr>
<tr>
<td>Rajshahi (Former)</td>
<td>35.7</td>
<td>36.6</td>
</tr>
</tbody>
</table>
Economic and social improvements reported at the country level may however be attributed to specific strata of the Bangladeshi population and may affect the life of chronic and extreme poor at different rates (Afsar, 2003, Azam and Imai, 2009). Studies reveal that rural poverty in Bangladesh is characterised by poor education, very low or non-existing land and/or livestock ownership, low asset rights, and is more likely to affect young children and elderly people (Ahlin and Townsend, 2007, Ahmad, 2000). For people who live far below the poverty line the situation may have improved over the past decades but to a much lesser extent (CECP, 2011). Shocks and unexpected events do not affect all households in the same dimensions of their livelihood nor with the same intensity (Lewis, 2011, Becker and Ichino, 2002). Their vulnerability towards external events and shocks may depend on asset endowment as well as households’ livelihood and access to services and markets (HIES, 2010, Bateman and Chang, 2009). Pockets of extreme poverty in the country reveal strong inequalities among districts (table 3-2).

Positive figures can be attributed to a myriad of factors such as uninterrupted economic growth, remittances and the government’s social protection programmes such as Food for Works, Employment Generation Programme, Stipends for Female Secondary Students, Vulnerable Group Development, Primary Education Stipend Program, Vulnerable Group Feeding, widow, orphan and old-age allowances, Cash for Work, Gratuitous Relief, 100-days employment guarantee schemes, NGOs’ dense coverage and innovative actions and microfinance’s developments.
3.1.2 Rural Livelihoods and Poverty

The study of the different forms of capitals, as suggested in the analytical framework for social performance, is important to understand the opportunities available to rural households as well as their limitations. Following the conceptual framework (figure 2-2) the roles of the livelihood capitals which are generally available to rural households are described and analysed here.

3.1.2.1 Natural Capital

Natural capital covers issues of water access and quality as well as forestry and land. In the literature on rural livelihoods and poverty in Bangladesh land emerges as a central issue and is therefore focused on here. Land is one of the most productive assets for rural households in Bangladesh, however it is often difficult to access and secure. Issues of land access, ownership and availability are therefore great concerns for most rural households. Landlessness, unequal access, land-grabbing and disputes over land in which the more powerful can often subjugate the weaker remain intractable problems for the development of rural livelihoods against which the government in practice provide little protection (Davis and Baulch, 2010, Baulch and Davis, 2008).

Climatic conditions in Bangladesh can also affect the quality of land and jeopardize its value as a reliable source of income. Rooted in the nature of its terrain, its geographic features and its tropical climate, natural disasters are a great concern for rural agriculture in Bangladesh. Adverse natural phenomenon such as floods, cyclones, tsunamis, and rising water levels dramatically affect the use of land as an income-generating resource. In addition to unpredictable disasters, Bangladesh experiences two lean seasons per year (March-April and October-November) which generate significant seasonal variations in food availability and prices. These ‘transitory shocks’ can be particularly severe for the rural landless and poor households as it engenders food insecurity and periods of low employment opportunities in the agricultural sector (Gill et al., 2003, Maddala, 1983). The effects of natural events and shocks on households may vary significantly within and across districts according to the geographic
location (prone to drought, flooding or riverbank erosion) and infrastructure development. These factors combined can push landless rural households to move away from agricultural activities and to seek to diversify their sources of income in order to reduce, spread or mitigate risks.

3.1.2.2 Human Capital

The ability of rural households to improve their livelihoods requires people to overcome a number of barriers. Arguably one of the most significant is health, which is a central concern for the rural poor (HIES, 2010, TANGO, 2006). Although no widespread famine has occurred in Bangladesh recently a significant portion of rural households have inadequate food intake and remain trapped into forms of “chronic” or “transitory” food insecurity which affects their ability to work (Ahmad, 2000). Education and health conditions may be sine qua non requirements for rural households to provide labour and build a sustainable livelihood strategy however their opportunity to improve human capital largely depends on external factors.

Although they often know that income source diversification could reduce their vulnerability, rural households, to pursue this strategy, often need diverse skills, competences or contacts which might not be available to them. In spite of the increase in public resources changes in human capital were mostly noticeable for ascending and never poor households (Azam and Imai, 2009, Baulch and Davis, 2008, Afsar, 2003, Montgomery, 1996). Access to education and health services might have improved broadly for rural households, but remain unequal across populations and localities. To date, the lack of human capital among rural households partly explains their incapacity to take advantage of new livelihood opportunities.

3.1.2.3 Physical Capital

Related to physical capital, infrastructure, housing and sanitation, and productive assets have been shown to be important issues for rural livelihoods in Bangladesh. Sen (2000) found that the accumulation of non-land fixed and
non-agricultural assets significantly helped people to improve their livelihood. In fact, infrastructure significantly expanded in rural Bangladesh and an increasing number of rural communities have access to electricity and communication channels. Access to clean water, sanitation, secure settlements, and healthy living conditions significantly vary within and across districts. Approximately 97 percent of rural households depend on tube wells as their main source of drinking water. The majority of vulnerable households do not use latrines, 54 percent of non-vulnerable households use pit latrines and 37 percent use flush toilets (Baulch and Davis, 2008, TANGO, 2006). In term of asset ownership, only not-so-poor households have good opportunities to diversify their portfolio and accumulate non-agricultural assets (schooling and human capital development, housing, sanitation). Thus even if some poorer households recognise the relative advantage of favouring non-agricultural asset accumulation they often are not able to afford the transition costs associated with this strategy.

3.1.2.4 **Social capital**

The social capital of the rural poor relies on multiple contextual factors. Rooted in religion or cultural traditions, the role women can play in society can appear more constrained than men’s (Larance, 1998). Both socially and economically women are highly dependent on men (either their father or husbands) who are most often the main breadwinners of households (Kabeer, 2011, Pulley, 1989:98). Datar et al. (2008) identified a clear separation between the status of men and women (Pulley, 1989) therefore assuming that the endowment of social capital is the same for both would be a mistake. Because microfinance targets women, this research scrutinises women’s social capital and gives particular accounts to their access to different social networks, as individuals, rather than at the household level.

In rural Bangladesh, vulnerable women experience complex social situations which affect their social networks and capital (shiree, 2011). As the lives of women exist within hierarchical systems of patronage, they have limited access to wider social or political networks. In this male-dominant context, situations
of divorce, husbands’ death or inability to earn can generate great vulnerability and destitution for women. Generally, during their lives, women are dependent on male “patrons” who offer them financial support and security (a father, brothers or husband for example) (Kabeer, 2011). According to patriarchal customs, generally when women get married they move from their natal village (a woman’s bari, homestead, usually her father’s village) to establish in their husbands’ village (patri, husband’s village) (Balasubramanian, 2013). In the process, they often leave a type of social network (long standing friendships, kinship connections, and familial support network) to relocate in an unfamiliar environment where they are recognised through their husband (gramer meye, daughter of the village) (Uddin, 2013, Larance, 1998). The potential cost of leaving these reasonably secure forms of dependency from men can be discouraging. Their actions and the social networks of such brides can be considerably curtailed by social norms like purdah (Pulley, 1989:99). Often confined to the homestead, women rarely move freely in public spaces, reflecting the power of customs and traditions over women within society. Women tend to be isolated within their paras (neighbourhoods) or bari and their opportunity to access socially sanctioned public space or extra-familial community life becomes further limited (Awal, 2006, Kabeer, 1994, White, 1992).

Some coercive aspects of social capital binds community members via social norms and rules rather than trust and reciprocity (WorldBank, 2007, Todd, 1996). Women’s social networks are relatively constrained to their husbands’ networks or other informal connections established around washing clothes and child care (BBS, 2009, Affleck and Mellor, 2006, March and Taqqu, 1982). After the death, divorce or abandonment of husbands, women’s status changes affecting the ways in which they interact with the community. Widows, divorcees and abandoned women have to survive on their own while abiding to well-established coercive social norms (Momen and Begum, 2006, Begum and Sen, 2004).

Due to macroeconomic changes within Bangladesh (increased manufacturing for example) the role of women has evolved. As a consequence, women have
opportunities to access new kinds of livelihoods. Women increasingly are able to provide cash income either through paid jobs or access to credit. These transformations have implications within households, villages and wider local level. The analysis of rural women’s experience provides different insights into rural livelihoods. Women’s participation in the private sector (such as garments), in small-scale businesses (such as tea shops, vegetable selling) at the marketplace, but even more so in agriculture-related activities can be associated with a loss of status (shiree, 2011, TANGO, 2006) and as a break of purdah. As a result, unskilled, low-paid and disregarded women represent only 36 percent of the total labour force (table 3-3).

**Table 3-3: Labour participation in mainstream economic activities, 1990-2010**

<table>
<thead>
<tr>
<th>Gender</th>
<th>1990</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Share of women in wage employment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>in agricultural sector</td>
<td>Female</td>
<td>45.5</td>
<td>66.54</td>
</tr>
<tr>
<td>Share of women in wage employment</td>
<td>Female</td>
<td>19.1</td>
<td>14.6</td>
</tr>
<tr>
<td>in non-agricultural sector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Labour force participation rate</td>
<td>Female</td>
<td>23.9</td>
<td>29.2</td>
</tr>
<tr>
<td></td>
<td>Male</td>
<td>84.0</td>
<td>86.8</td>
</tr>
</tbody>
</table>

Source: BBS (2009)

Traditional roles and cultural beliefs can disadvantage women vis-à-vis men in seeking remunerative jobs; therefore poverty often affects women more acutely (Walter and Bruch, 2005, Khatun et al., 1998, Morduch, 1998, March and Taquq, 1982). Despite the increase of women’s labour, women’s work in rural Bangladesh is less well remunerated than men’s (BBS, 2009). Female-headed households are left without many options to survive and can be considered as the most economically and socially vulnerable strata of the population (shiree, 2011). Decline in households’ income are often gender-specific (according to the gender of the household-head) (Ravallion, 2008) (table 3-4).
Attitudes towards these gender issues have however moved forward (Joshi, 2004). The influence of NGOs on social norms has grown in rural areas through the provision of socially-oriented programs to increase social awareness concerning gender issues (Kabeer et al., 2010). Women can have more opportunities to develop their social capital if they can become member of various committees such as schools, markets, mosque groups, Grameen Bank groups, NGO and CBO groups, village courts, government welfare recipient groups including Vulnerable Group Development and old age pensions, professional associations or village-based governmental organisations.

Civil society organisations play an increasingly significant economic and social role in rural Bangladesh. Politicians may lack experience of democratic politics and policy-making and their relations with communities they represent may be led more by personal interests and patronage than policy concerns (Karim, 2001, Devine, 2006, Devine, 2003). This trait is part of a broadly fragile and fragmented government structure that leaves space for civil society to provide

<table>
<thead>
<tr>
<th>Causes for Declining Incomes</th>
<th>Female household head</th>
<th>Male household head</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loss of employment</td>
<td>14.4%</td>
<td>33.1%</td>
</tr>
<tr>
<td>Loss of crop/animal</td>
<td>8.9%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Prolonged illness</td>
<td>41.7%</td>
<td>50.9%</td>
</tr>
<tr>
<td>Death of income earner</td>
<td>93.1%</td>
<td>7.6%</td>
</tr>
<tr>
<td>Decrease in income or remittance</td>
<td>8.1%</td>
<td>1.1%</td>
</tr>
<tr>
<td>Loss of asset</td>
<td>18.0%</td>
<td>31.4%</td>
</tr>
<tr>
<td>Exposure to shocks</td>
<td>3.4%</td>
<td>26.2%</td>
</tr>
<tr>
<td>Market failure</td>
<td>22.3%</td>
<td>44.5%</td>
</tr>
<tr>
<td>Other</td>
<td>23.0%</td>
<td>30.3%</td>
</tr>
</tbody>
</table>

Source: TANGO (2006)
services to and engage with rural communities (Fox and Menon, 2008). As a result new power structures like NGOs, CBOs, religious groups or businesses emerged in rural Bangladesh (Smith and Todd, 2005, White, 1999, Maddala, 1983). At the Upazilla or district level, civil society organises itself into groups to defend and promote particular issues. Thus charities, lobbying groups, professional bodies and the media organise themselves around policy concerns specific to a district (Imai and Azam, 2012, Hulme and Mosley, 1996, Pulley, 1989). The role played by NGOs in the rural context often compensates for ineffective governance (Kabeer et al., 2010, Moon, 2009, Ahmad, 2002a). NGOs provide a range of services including schools, skills training, financial products and services as well as community events (TANGO, 2006) therefore their multi-dimensional influence on rural livelihoods should not be underestimated (Quisumbing and Baulch, 2009, Baulch and Davis, 2008, Kabeer, 1999). Analysing rural power relations between local stakeholders can therefore help understand rural households’ livelihoods and how the poor take advantage of economic opportunities (Carroll, 2012, Carney, 1999, Chambers and Conway, 1992).

3.1.2.5 Financial capital

In most parts of the world before the evolution of formal financial institutions informal institutions existed. Some of these were only for elites (for example the informal credit systems that the overseas Chinese have operated). But others were ‘micro’ – especially devices such as money lending from friends and family members and informal money-lenders (Rutherford, 2000). In addition, Rotating Savings and Credit Associations (ROSCAs henceforth) are common informal local financial intermediaries in Bangladesh, where they are called loteri samities (Rutherford, 1997 and 2000) comprising five to 100 people from the same neighbourhood. A ROSCA is an informal financial
device set up by a group of households or individuals who agree to frequently save money in a shared fund which is then distributed to each member in rotation. Usually, ROSCAs are perceived as reliable and transparent financial systems by their members. The simple structure and rules\textsuperscript{24} of ROSCAs often suit the members’ financial needs and capacities and allowed them to use the small financial surplus they had in a productive manner (Rutherford, 1997 and 2000).

## 3.2 Microfinance in Bangladesh

This section analyses the macro level political, economic and social dynamics that have influenced the evolution of the microfinance sector in Bangladesh (Bagazonzya et al., 2010). It explains why and how microfinance in Bangladesh is often perceived as a global exception (Rhyne and Otero, 2007). In addition to the socio-economic conditions presented above there are other factors which have influenced the development of microfinance in Bangladesh.

### 3.2.1 The emergence of microfinance

This section contextualises the historical emergence of microfinance in Bangladesh in relation to concerns regarding state governance capacity and the growth of NGOs.

#### 3.2.1.1 National motivations

The rapid expansion of microfinance in Bangladesh can be seen as a response to the historical failures of state-owned development banks across the

\textsuperscript{24} ROSCAs use multiple ways of selecting members and identifying who will benefit from the fund.
developing world (de Aghion and Morduch, 2005). After the Second World War, most governments of low-income countries attempted to reform and strengthen their agricultural sectors by improving rural finance through large state agricultural banks. In Bangladesh after 1971, access to land and productive use of land, especially in rural areas, was dominated by large landowner elites and hence kept away from peasants and small farm-owners whose livelihood largely depends on agricultural land. As a result most agriculture day-labourers would share the tenancy of arable land, lease small plots or mainly work on other people’s land (Lewis, 2011, Lewis, 2004). Banks were expected to allocate funds (subsidised credit) to help farmers improve their harvest and their productivity (through investing in irrigation, crop diversification, fertilizers, or other technologies). It was hoped that land productivity, labour demand, and agricultural wages would increase together based on heavy subsidies that compensate the high risks and costly investment embedded in this initiative.

### 3.2.1.2 Regional Pressures

In the 1980s, difficult experiences in, for example, India showed how subsidised credit can lead to the mis-allocation of funds to better-off households, and a worsening of income-based inequality in poor rural areas (de Aghion and Morduch, 2005). India’s Integrated Rural Development Program, a subsidised credit initiative which intended to target specific poor and marginalised groups (ethnic minorities, kinfolk or cast populations) had disappointing results. Generally, national governing bodies and policy-makers failed to consider the role and the importance of financial intermediation within the existing local powers dynamics. The programme failed to recover the money invested with an estimated repayment rate of 60percent and a high drop-out rate as only 11percent of households renewed their loan (Pulley, 1989). Amongst others, these experiences seriously weakened the belief that state-owned institutions could efficiently serve the rural poor. Policy-makers and development partners then started to consider credit “as a fungible tool of financial intermediation (with many uses) and not as a specific input into particular production processes” (de Aghion and Modurch, 2005).
3.2.1.3 Local Politics

Politically, Bangladesh is a highly decentralised country where local government is, according to some authors, dominated by ineffective bureaucracy (Fox and Menon, 2008). The lack of relevance of many government policies often creates tensions at a local level between political power and citizens (Rahman, 2003, Rahman, 2001a, Sobhan, 1999). Often poverty-reduction programs in Bangladesh, both governmental and non-governmental (Landell Mills, 2002), are found unsuccessful in delivering effective and well-targeted services to the poorest (Begum and Sen, 2004, Hulme, 2003, Rahman and Hossain, 1995). In this context microfinance emerged as an innovative solution for the re-birth of rural banking for the poor with clear social and financial aims that could enable institutions to overcome and avoid the failures of the past. Microfinance’s commercial aspirations were seen as providing sufficient incentive for MFIs to perform efficiently instead of creating ineffective monopolies (through subsidised banking). Competition would push MFIs to use pricing and interest rates as tools and mechanisms which determine their financial performance. Loans would then be distributed to the most industrious borrowers, who were most likely to repay.

Bangladesh’s politico-economic history played an important role in shaping its development sector. Banks and NGOs blossomed at a time when the value and the efficacy of foreign aid to governments for reducing poverty was questioned (Easterly, 2001, Boone, 1996) whilst the government of Bangladesh was also blamed for being corrupt and insufficiently effective during times of crisis. Major humanitarian disasters (famines, floods, cyclones) may have interrupted the development of NGOs as politically engaged actors because the need for disaster response and relief was urgent. Through these experiences, Bangladeshi NGOs developed efficient logistical networks and institutional capacities to address emergencies (Lewis, 2004, Shamsuddoha and Nazneen, 2003, White, 1999). Microfinance proposed an innovative commercial and scalable tool which, it was believed, had the potential to alleviate poverty.
The industry, represented by charismatic figures was and still is considered part of Bangladesh’s national identity. Microfinance and the Grameen model itself became ubiquitous to poverty reduction programmes in Bangladesh. Microfinance claimed to offer a financially sustainable model that attracted considerable support from development partners and private investors, and built on the distinct institutional capacities NGOs had developed. Regardless of their impact on clients’ livelihoods and national poverty, large MFIs became powerful economic and political actors. It is arguable that with the increasing influence of microfinance on the international scene (and for development partners) some NGOs decided to re-consider or abandon their activity portfolio to focus more on delivering microfinance (Fernando, 2006). Focusing on rights, livelihoods, employment and training came to represent high opportunity costs for these NGOs.

3.2.2 THE STATE OF MICROFINANCE

Both globally and in Bangladesh, after two decades of expansion a variety of NGO-MFIs, microfinance banks, government programs, nationalised commercial banks, and private commercial banks compete to provide financial service to the poor (Pine, 2010).

3.2.2.1 THE GROWTH OF THE SECTOR

The profitability of the sector and its potential for future expansion attract conventional commercial banks which now finance a large number of MFIs (table 3-5). The formal banking sector including state-owned banks (Sonali, Agrani, Janata, and Rupali Bank) and specialised banks including the two agricultural banks (Krishi Bank and Rajshahi Krishi Unnayan Bank) have, in addition to their conventional loans, unsuccessfully attempted to replicate the
Grameen group-lending model facing high default rates. Yet, with more than 13 percent market penetration rate\textsuperscript{25} (MIFA, 2009), Bangladesh represents the most highly penetrated microfinance market in the world (Honohan, 2004). According to data provided by the web-based microfinance information platform, MixMarket (Microfinance Information Exchange) out of 57,655,149 microfinance borrowers on the Asian continent, 40 percent are Bangladeshi (Lampe, 2010). In Bangladesh as of 2011 the microfinance industry represents a substantial power in terms of economic value and labour with US$2.8 billion of loans engaged with 20.9 million active borrowers, and 18.5 million depositors with a total value of all deposit of US$2.2 billion (MixMarket’s estimates).

The growth of the sector has been phenomenal since the 1990’s and still continues now with an average annual growth rate of 23 percent for 2003-2008 which is expected to reach 25 percent between 2009 and 2014 (Mahmoud et al., 2010). For a large number of young unemployed graduates, large MFIs constitute an important career opportunity. MFIs for them represent exciting employers, offering good promotion opportunities, salaries and a relatively good social status. The Microfinance Regulating Authority (MRA henceforth) estimated that the sector currently employs 111,828 staff.

3.2.2.2 A SEGMENTED SECTOR

As the microfinance sector has expanded the number of actors and the level of competition between them has increased (Pollin, 2007), especially in rural areas (Imai et al., 2010, Churchill, 1998). As opposed to other regions such as Latin America, the competition within the microfinance industry in Bangladesh is so high that MFIs compete against themselves rather than against

\textsuperscript{25} measured by the number of borrowers as a share of the total population.
conventional banks (Hermes and Lensink, 2007). Some authors describe the Bangladeshi market as “crowded” and that it could reach the limits of simple horizontal expansion (Mahmoud et al., 2010). Commercial banks serve no more than 16 percent of the population, and with half of the population below the poverty line without access to formal financial services, the potential market for microfinance in Bangladesh is considerable (Ahmed, 2009, Pollin, 2007).

**Table 3-5: The Four Main Active Microfinance Players in Bangladesh for 2011**

<table>
<thead>
<tr>
<th>Name of MFIs</th>
<th>Gross loan portfolio (US$)</th>
<th>Number of active borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>BRAC</td>
<td>646,094,136</td>
<td>4,959,133</td>
</tr>
<tr>
<td>Grameen Bank</td>
<td>921,074,346</td>
<td>8,370,998</td>
</tr>
<tr>
<td>ASA</td>
<td>466,081,486</td>
<td>4,359,218</td>
</tr>
<tr>
<td>BURO</td>
<td>79,374,449</td>
<td>812,511</td>
</tr>
<tr>
<td>PROSHIKA</td>
<td>57,683,740</td>
<td>1,761,638</td>
</tr>
<tr>
<td>National</td>
<td>2,000,000,000</td>
<td>22,787,466</td>
</tr>
</tbody>
</table>

Source: Lampe (2010)

Competition encouraged MFIs to focus on cost-efficiency and on clients’ needs through product innovations (Thankom and Hulme, 2008). Large financially performing Bangladeshi MFIs are generally effective in protecting themselves and clients against corruption and bribes to get a loan, to be hired, to buy transfers or promotions, through tight monitoring and control systems. With

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26 Value of outstanding loans (includes current, delinquent and restructured loans)

27 PROSHIKA data for 2007
more than 18,000 branches spread across the country and 576 licensed NGO-MFIs of June 2011, NGO-MFIs account for about 61 percent of the cumulated loans disbursed in Bangladesh (Enquist et al., 2006, Chemin, 2008). To break away from the Grameen-model, BRAC, ASA, PROSHIKA, BURO and Grameen Bank diversified their product portfolios and offer diverse loan sizes, repayment schemes, and products (micro-insurance, life insurance, solidarity groups, and individual loan to men, women and enterprises). High domestic competition influences MFIs’ strategic development and pushed them to become some of the most effective large-scale institutions in Bangladesh. Table 3-6 provides an overview of the distribution of MFIs by type in 2006, showing that despite the great number of actors, the sector remains largely dominated by a handful of experienced MFIs (Cull et al., 2009). Data from MixMarket indicates that together, the Grameen Bank, BRAC and ASA cover 77 percent of the market. The outreach of the major players such as Grameen Bank, BRAC, and ASA is 4.4 percent, 3 percent and 3.3 respectively at a national scale (Ali and Hatta, 2012).

**Table 3-6: Categorisation of MFIs in Bangladesh, 2006**

<table>
<thead>
<tr>
<th>Number of borrowers</th>
<th>No. of MFIs on the basis of borrowers</th>
<th>% of MFIs on the basis of borrowers</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;10,000</td>
<td>521</td>
<td>81.28</td>
</tr>
<tr>
<td>&gt; or = 10,000 but &lt; 50,000</td>
<td>92</td>
<td>14.35</td>
</tr>
<tr>
<td>&gt; or = 50,000 but &lt; 100,000</td>
<td>15</td>
<td>2.34</td>
</tr>
<tr>
<td>&gt; or = 100,000 but &lt;1,000,000</td>
<td>10</td>
<td>1.56</td>
</tr>
<tr>
<td>&gt; 1,000,000</td>
<td>3</td>
<td>0.47</td>
</tr>
<tr>
<td>Total</td>
<td>641</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Chemin (2008)

The government created the MRA under the "Microcredit Regulatory Authority Act" in 2006 “to ensure transparency and accountability of microcredit activities of the NGO-MFIs in the country” (Pine, 2010). As a
result of the increasing political pressures to reduce interest rates the MRA, in 2009, capped it at 15 percent (flat). Out of the 535 MFIs included in the Microfinance Statistics 2007, more than 95 percent of them follow flat calculation methods for interest rates and only 3.3 percent follow both flat and declining methods and 1.6 percent follow declining calculation methods (Dewan and Alamgir, 2009). The large majority MFIs practice a rate of 15 percent flat, which corresponds to 29 percent Annual Percentage Rate (APR) (Mahmoud et al., 2010, Awal, 2006). Both ASA and BRAC along with more than 300 other MFIs have interest rates at 15 percent (flat) and Grameen Bank has the lowest rate at 10 percent (flat) (Dewan and Alamgir, 2009).

3.2.2.3 IMPLICATIONS OF THE SECTOR’S EXPANSION

The expansion of microfinance in Bangladesh was based on the premise that the lack of financial capital was a major cause for persistent rural poverty (Helms, 2006). Since the expansion of the sector, the access to micro-credit and micro-savings in rural Bangladesh has considerably modified the traditional financial behaviour of rural households (Lewis, 2011, Chemin, 2008, Awal, 2006, Hulme and Mosley, 1996, Kabeer, 1994). Households often take advantage of the high supply of microfinance by borrowing money from different MFIs (Greene, 2003, Pollin, 2007). It is acknowledged within some literature that multiple client-ships can complicate and distort impact assessments (Roodman, 2011, Roodman and Morduch, 2009, Abed and Matin, 2007, Matin et al., 2002). Because of cross-indebtedness, multiple client-ship, and low information disclosure, it is difficult to calculate the exact number of active borrowers in Bangladesh. PKSF for example estimates an overlap of approximately 40 percent (PKSF, 2006, PKSF, 2004). Empirical studies report that the very poor still rely on local money-lenders and local elites because MFIs fail to effectively address their needs (Pitt, 2011, Karnani, 2007, Wood and Sharif, 1997, Rahman and Hossain, 1995).

There are strong incentives for NGOs in Bangladesh to be involved in microfinance including donor support, international recognition, sustainable sources of funding and better access to commercial loans. As such there are
therefore high opportunity costs for not being involved in microfinance activities. Given that microfinance is generally perceived to be a non-political form of poverty reduction its growth has arguably led to a de-politicisation of NGOs (Fouillet et al., 2013, Shakya and Rankin, 2008, Rankin, 2006). Microfinance’s expansion may therefore have reduced the institutionalised space for social activism. These dynamics fragmented the domestic approach to development creating a schism between MFIs and other NGOs that do not do microfinance and are often distinguished by this characteristic. The latter may focus on making the poor more employable and help them develop sustainable income generating activities. Few home-grown initiatives fight against illegal land occupations, genetically modified rice and child labour and deploy efforts for women’s rights, HIV prevention and the redistribution of unclaimed parcels to landless poor for example.

Though generally not perceived as political, there has been a recent high level case of political interference in an MFI. Political actors may view the increasing power of large MFIs as a potential threat. In December 2010, the Prime Minister Sheik Hasina, accused Yunus of "sucking blood from the poor" (FinancialTimes, 2010) and criticised the ethics of the Grameen Bank (Roodman, 2011, Roy, 2010). Four years after sharing the Nobel peace Prize with the Grameen Bank, Yunus was forced out of the Bank for exceeding the mandatory retirement age\textsuperscript{28}.

This section helped identify political and social stakeholders (formal or informal) who interplay and affect rural livelihoods (Smith and Todd, 2005). Table 3-7 summarises key actors in rural microfinance at the international, national, regional, local community and household-levels. Identifying power

\textsuperscript{28} This political turmoil brought serious tensions in the sector, which made the institutional studies more challenging.
dynamics between organisational, associational and religious communities and understanding relationships of patronage is central to the lives of the rural poor (notably in their relationship with NGOs, Devine (2006)) which is central to the analytical framework. Rural areas have maintained traditional patriarchal structures through formal and informal sources of power (section 3.2.1) (Lewis, 2011). Therefore, consideration is given to elders and local religious leaders because of their important status and function within rural communities.
Table 3-7: Political actors of rural microfinance in Bangladesh

<table>
<thead>
<tr>
<th>Stakeholders</th>
<th>Particular interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Government</td>
<td>Social and economic betterment at national level</td>
</tr>
<tr>
<td>Small enterprises</td>
<td>Access to better financial products and services</td>
</tr>
<tr>
<td>Poor households</td>
<td>Access to financial and non-financial products and services</td>
</tr>
<tr>
<td>Poor vulnerable women</td>
<td>Access to financial and non-financial products and services and opportunities for social empowerment</td>
</tr>
<tr>
<td>Wider non-client community</td>
<td>Indirect effects on the local culture (beliefs, values and habits), social and economic conditions</td>
</tr>
<tr>
<td>Religious movements</td>
<td></td>
</tr>
<tr>
<td>CBO NGOs, media, associations…</td>
<td></td>
</tr>
<tr>
<td>Regulatory authorities</td>
<td>Protection of participants and of the health of the sector</td>
</tr>
<tr>
<td>Other microfinance institutions</td>
<td>Enlarging their present clientele and building better financial sustainability</td>
</tr>
<tr>
<td>Competitive commercial banks</td>
<td>Broadening of their clientele by penetration of a new market</td>
</tr>
<tr>
<td>Donor agencies</td>
<td>Poverty reduction agenda</td>
</tr>
<tr>
<td>International observers</td>
<td>Build socially-performing and accountable institutions</td>
</tr>
</tbody>
</table>

Source: the author

3.3 Conclusion

Chapter three introduced the macro-economic context in which Bangladeshi MFIs operate as the first step in implementing this study’s conceptual
framework. Bangladesh has been a laboratory for development intervention and innovations since the 1990s (Lewis, 2011). The government of Bangladesh focuses on instilling competition and pro-market policies within domestic sectors (Carroll, 2012:382) and the development of microfinance was a response to the failure of rural state-credit schemes, as well as ineffective policy-making and high levels of gendered rural poverty. The rapid commercial expansion of the sector in Bangladesh is reflected by the density and high degree of segmentation of the market with an increasing number of registered MFIs, commercial banks using microfinance’s technology and state-run schemes competing against each other.
Chapter four explores the different phases of the research, from its epistemological justifications and ontological roots to its methodology and research tools. Section 4.1 gives detailed information concerning the research strategy followed to conduct the fieldwork. Section 4.2 explains the mixed-methods approach used and describes the case study of the research. Section 4.3 explains the community study (phase I) describing the tools used for the quantitative sequence and outlining the objectives and outcomes of the qualitative tools. Section 4.4 examines the qualitative and quantitative approaches to the MFIs studies (phase II). Section 4.5 explains how the evidence collected during the fieldwork has been used to engage with other empirical literature to contribute to the broader microfinance theory (phase III). Section 4.6 recognises the ethical and personal challenges of the fieldwork and explains how the data was used and analysed.

4.1 **THE RESEARCH STRATEGY**

4.1.1 **RATIONALE**

The purpose of this study is to identify organisational structures and systems which enhance the social performance of MFIs in rural Bangladesh. It aims at filling existing gaps in understanding between MFIs and clients identified by numerous authors (Hulme, 2000, Woolcock, 1999, Hulme and Mosley, 1996) which are often caused by the difficulties to challenge the mainstream institution-centred conceptualisation of microfinance. The *bottom-up* research strategy followed in this thesis aims to counter the *top-down* lens dominating mainstream microfinance research which places MFIs’ financial needs (costs, scale and repayment) at the centre of the study and often overlooks communities’ perspectives (Rogaly, 1996). There are considerable practical advantages in identifying an MFI and evaluating its performance across the hierarchical structure starting from top management offices to the local
branches and conducting some interviews with purposefully selected clients. The main methodological challenge however is to generate reliable information from various stakeholders that informs top-down MFIs’ organisational structures and management systems.

4.1.2 Research Design

The research design and strategy are in line with the conceptual framework (figure 2-2) and research objectives described in earlier sections. They reflect a constructivist worldview and consider diverse perceptions and experiences of microfinance as well as the power relations and multiple livelihoods dynamics that characterise the poverty context in which rural Bangladeshi households live. A context-specific study of poverty entails covering issues of social status, exclusion, power, empowerment, conflicts and political participation which are easier to investigate through a bottom-up lens. The strategy of this research combines different levels of analysis (starting by community members, then MFIs managers and finishing with a global industry study) to understand the complexities of microfinance from numerous stakeholders’ perspectives.

The research strategy in this case aims to discover new variables (processes of impacts), concepts and/or relationships (MFI/clients) to attempt to develop new theoretical models or test existing ones (section 3.1.2) and is therefore called abductive. It uses “a mixture of deductive and inductive approach” to investigate rural livelihood (Dubois and Gadde, 2002:559). Being inductive it pools various perspectives from community stakeholders and then analyses them against organisational ethnographies (Smith, 2006) aiming to identify how MFIs’ social performance is channelled within institutions. Such a strategy provides insights into the complexity of the socio-economic dynamics within rural communities and within MFIs (Hirschheim et al., 1995:20). This in-depth approach is in line with ethnographic or anthropological studies of McGregor (1989) which provide reflective critical analyses on underlying processes of microfinance, Collins et al. (2009) with the financial diaries approach, Mosse (2005) who examines the political economy of development programmes, policies and actions, and Smith (1987) who uses ethnographic
tools to examine institutions from staff experiences. The research can be considered deductive in that organisational analyses were conducted not only on the basis of data collected from the field but were also guided by existing empirical literature on social performance management within MFIs such as Copestake (2007). This deductive lens allowed the researcher to test how relevant and important a role, pre-identified drivers of MFIs’ social performance (staff incentives, financial targets, audits, reporting systems, disciplining systems and so forth) have in Bangladesh.

Given the research’s exploratory approach it was critical to adapt the tools to the context of study. The research strategy adopted an iterative learning process in the field. Thus, after using one tool and analysing the data gathered, the next tools were adapted to new information, opportunities and challenges identified to remain context-relevant. As Baulch and Davis (2008:9) stated "the more innovative the research project, the more room is needed for adapting methods on the ground".

4.1.3 Mixed-methods research

To gain a deep understanding of the relationship between rural people and microfinance as a developmental tool but also as institutions, as well as the relationship between staff and MFIs, this study has used a wide range of methods for data collection. To tackle the different natures of the research objectives, mixed strategies and mixed-methods for data collection have been used (Kabeer, 1999). Mixed-methods and data triangulation have been used to gather the quality of words together with the precision of numbers (Mason, 2006). Data was collected from natural social settings at three different levels (micro, meso and macro, semi-natural settings) focusing on individuals’ characteristics and perceptions, and social artefacts -considering MFIs’ reports, official statistics, public and private documents (Blaikie, 2000). Phases I and II consisted in interacting with key stakeholders at the village, branch, and district level to triangulate the data. Phase III analyses and explains the evidence in order to provide an informed argument about the ways in which MFIs social
performance is managed in Bangladesh and about the wider debates at the industry-level.

4.2 **Phase I: Community Study**

The first phase of the research is a community study which uses a case study approach to address two objectives: (1) examining and understanding rural livelihoods in the studies’ villages (2) understanding households’ perspectives and experiences of microfinance. In order to address these objectives the researcher used a combination of both quantitative and qualitative research tools. The first part of the community study used a community survey and the second part used a combination of semi-structured and in-depth interviews, and focus group discussions. This section explains the purposes of the tools, their design and their outcomes.

4.2.1 **Case-study selection**

This section provides details and justifications for study site’s selection criteria. The research takes the form of an exploratory case-study that uses a set of qualitative and quantitative research tools (section 4.3).

The community study was conducted in four different villages within Tangail (টাঙগাইল) district. The limited resources (time and scope) available to conduct this doctoral research created inevitable shortcomings of scale (sample size) and a geographic bias which engender latent drawbacks concerning the generalizability of findings. The researcher mitigated these methodological
pitfalls through careful district, villages and households’ selection procedures and specific research tools (sections 4.3 and 4.4.29)

Firstly, a high level of competition in the study site suits the objectives of the research to compare MFIs’ performance in a similar poverty context across types and sizes. Tangail is one of the districts the most densely served by MFIs as it was the first district where microfinance projects were extended before national expansion (Armendáriz and Morduch, 2005:128). All the major indigenous Bangladeshi microfinance organisations have branches in Tangail: Grameen Bank, ASA, BRAC, BURO Tangail and Proshika are all well represented, as are many smaller NGO-MFIs. This district therefore served the purpose of the research objective to capture sufficient diversity of practice to contribute to the theory on microfinance practices. The main empirical and analytical chapters build on other empirical evidence from studies conducted in Bangladesh, to liken the findings and assess how far the evidence collected here resonates with other literature.

Secondly, although seasonality and flooding are uncommonly low in Tangail district compared to other areas in Bangladesh, as it is located along the Jamuna River it does however experience regular flooding. In order to limit influences seasonal factors could have on the research findings, the villages studied are located in an area with a low incidence of flooding. Modhupur Upazila does not flood frequently and has more extensive irrigation facilities and hence greater cultivation of high yielding variety rice and other crops (Kabeer, 2005b). The main occupations in the region are agriculture (52 percent), agricultural labouring (22 percent), wage labouring (about

29 This research needed high quality information about perceptions and understandings of microfinance of rural people, it therefore could not have been undertaken by enumerators with questionnaires and required the researcher to conduct all interviews herself and to record them. Without close control over the data, information collected would not be as rich and reliable.
3percent), commerce (8percent), and transport and services service (5percent) (Kabeer, 2005b). Thus, the research captures the impacts of seasonal flooding that affect most of the country, while avoiding extreme flooding conditions which would be specific to location. Modhupur *Upazila* suits the purpose of the research, as it enables investigating and comparing ways in which MFIs’ social performance is enforced in an area which is reasonably typical of rural settings in much of the country.

Thirdly, to improve the generalizability of the research findings, the villages’ selection considered the diversity of rural livelihoods. Prior to fieldwork an overview study of the area and a mapping exercise of the *Upazila*, in collaboration with key local informants on site were useful to map important factors influencing households’ livelihoods (economic, conflicts, religions, occupational activities, culture, poverty level, access to infrastructure and services). To provide a picture that is as representative as possible of rural livelihoods villages were selected with various degrees of isolation, development of infrastructures, access to services and access to markets (section 6.3.1). The four villages’ were selected according to different degrees of proximity to the main town (Modhupur), access to natural resources (rivers), and the diversity of services and infrastructure (bridges, roads, markets, tea stands, schools, NGO offices). Three villages are within Modhupur *thana* and one village is outside of it five kilometres away from Tangail city. The latter constitutes a point of comparison and a source of verification for findings from other villages.

Fourthly, to avoid other selection biases, a systematic village mapping procedure enabled the researcher to identify and cover every household in villages studied (section 4.3.2).
4.2.2 THE COMMUNITY SURVEY

The quantitative sequence of phase I was a rapid community survey covering every household in four villages located in Tangail district. The study covered 490 households (4022 individuals) between September 2010 and February 2011. The questionnaire is articulated into three parts and designed to collect a broad range of individual and household level data in a small amount of time (appendix C).

30 Few households were not available after two to three visits have not been covered by the study (three to four households).
4.2.2.1  HOUSEHOLDS’ SELECTION

In line with the research objectives it was important to capture as far as possible the diversity of rural livelihoods in the studied area. To meet this objective all inhabitants of the studied villages’ were included in the community survey. Whilst a rapid participant selection technique could have been employed using the voting lists or recent official census or community reports, no official or reliable documents were available from the UP office. Therefore the researcher developed a rapid mapping exercise in participation with the villages’ inhabitants. The researcher and her assistant’s presence drew curiosity and because people were generally keen to speak to us and because of the author’s ability to speak Bangla, interactions between the author and local people were easily facilitated. In each village between six and ten people were gathered opportunistically (labourers, elders sitting outside, tea sellers, rickshaw drivers, and women washing clothes in the river banks) to discuss the boundaries of the villages. Key village sites - rivers, bazaars, tea shops, main roads, ponds, mosques, bridges, schools, Hindu temples, and boro bari (distinctively big houses) – were drawn on the ground (and later drawn on paper) and became yardsticks to delineate the villages’ boundaries.

This enabled the researcher to develop maps which ensured all households living in the villages were covered by the community survey. Covering the entire village allowed the research to eliminate potential self-selection biases, and poor households are neither over nor under-represented in the studied population. This process also provided a way to introduce ourselves and the research to villagers.

4.2.2.2  QUESTIONS

The community survey is divided into three parts. The first covers individual demographic information comprising: names, relation to the household head, age, gender, level of education, reasons for not studying (if applicable) literacy, marital status, main occupation and reasons for not working (if applicable). The formats for identification of villages, households, and individuals was
numbered and anonymised at the moment of data collection. The coding system used under the household composition and education section drew from that used by the survey designed for evaluating the impact of anti-poverty intervention undertaken in Bangladesh by CPRC (Chronic Poverty Research Centre) and IFPRI (International Food Policy Research Institute) in 2006.

The survey’s second part examines households’ physical capital. It investigates the type of tenure of different ranges of assets: transportation, communication, electricity, gas, water point, electronic appliances, as well as land and livestock. The third section of the survey examines multiple qualitative dimensions of rural households’ livelihoods. Each question aims to examine various types of livelihood capital households have access to or own so to assess the level of vulnerability of households through using open and close ended questions in combination with Lickert scaled questions. The areas of investigation cover food seasonality; food security; and food quality, (human capital and vulnerability); sources of cash in case of emergency; the main financial concern (financial capital, social capital and vulnerability); number of wedding attended (social capital and financial capital); security (robbery); solidarity and trust among village inhabitants (social capital and vulnerability) (appendix C).

At the end of the section the survey investigated the microfinance client-ship status of respondents: current-client, former-client or non-clients. Current-clients are households which are involved in financial activities with an identified MFI, former-clients are the households which have stopped all relationship with MFIs and the non-clients are the household which have never been involved in transactional relationship with them. The last question required respondents to assess the evolution pattern of their life trajectory
within the last five years\textsuperscript{31} to which six patterns were possible answers: improving (gradually or suddenly), stable (struggling to remain stable or flat), or declining (gradually or suddenly) as described in Davis and Baulch (2010, Kabeer, 1999).

4.2.2.3 Answers

The process of collecting answers to particular questions included in the questionnaire was adjusted to match the socio-economic context (either individual, household or village level) with the coding system. The completion of the questionnaire via coded answer schemes was challenged by the complexity of marking and ranking the level of development of their village, the quality of their food habits, and their level of trust towards their neighbours. Thus, the completion of the questionnaire required an interpretation of people’s answers and their translation into codes. At the early stages of implementation, key Bangla words were rapidly identified and systematically translated into scales and ranking levels. The respondents’ answers have been categorised into sets of alternatives which equate to pre-defined numerical format of Lickert scales or other simple ranking methods. For example asking people how many weddings they have attended in the last six months (appendix C) investigates the access people have to positive social capital (if they have friends or relatives who will ‘feed them’ at a wedding ceremony) but also assesses whether the household could afford attending the event considering the travelling costs and dressing up as well as the gift costs it involves. This approach proved to be relevant to the rural Bangladeshi context by covering both social and financial capital.

\textsuperscript{31}The term ‘obosta’ in Bangla (which means situation or condition) was used during the investigation on poverty because it is a sufficiently loose concepts, that refers to both financial and well-being dimensions, fitting with the objective of studying respondents’ own interpretations.
A further delicate issue to investigate was food security. It is often difficult to ensure that respondents give truthful answers. Respondents were questioned about whether they generally have enough food or not (question 10), if their food varies according to seasonality (question 11) and were asked to assess the quality of their food (question 12) (according to their own standards). These answers were verified by question nine which investigates the ability of the household to feed other people in the village. According to the norms and traditions of rural Bangladesh, households which can afford to share or give food to one person who is poorer without having to give out their own food, has the moral duty to do so. Rooted in Islam (under the principle of zakat) this donation to the needy and disadvantaged and is socially recognised and enforced within rural communities. Questioning how often they feed a poor person, question nine satisfactorily assesses the affordability of food for the household.

The third dimension studied is housing condition. This information was collected through a question with scaled answers and verified through a personal observation scale that assesses the capacity of the homestead to resist to mild climate (light rain and heat) and extreme climatic conditions (storm, monsoon, or flooding).

As a result, early in the fieldwork, the author was able to understand rural livelihoods and the vulnerabilities specific to certain locations, activities or family situations and to distinguish different levels of resilience and sources of vulnerabilities. In terms of outcomes, the survey generated quantitative data on 490 households with heterogeneous socio-economic situations and poverty profiles (Hulme and Shepherd, 2003, Matin and Hulme, 2003, Jalan and Ravallion, 2000). This approach was proven to be valuable to the fieldwork but also rigorous, as it avoided a mechanical assessment of poverty through pre-defined criteria. The scope and the outcomes of the quantitative sequence of phase I went beyond expectations and facilitated the transition to the qualitative activities.
4.2.3 **Qualitative tools**

In the second sequence of phase I in-depth interviews and focus groups were conducted with purposively selected target groups. This section presents the two tools, their objectives, their application in practice, and outcomes.

4.2.3.1 **Respondents’ selection**

The database obtained through the survey was used to disaggregate the studied population into different categories according to three criteria: level of poverty, microfinance client status and life trajectory each of them presenting three alternatives—resulting in 27 possible categories. The latter two are straightforward; the microfinance client status considers three possible outcomes: non-client, former-client, current-clients and life trajectories could generate three possible answers: stable, improving or declining, both of which were covered by the questionnaire. Assessing poverty levels however, required deeper considerations and thoughts as well as a careful use of the data available.

No single indicators (however accurate) can comprise sufficient information that would produce a realistic understanding of poverty. This study uses a combination of multiple non-monetary indicators for two main reasons. Firstly, it is very complicated for researchers as well as for household members themselves to assess and give a realistic picture of all cash flows within and out of a household (saving, borrowings, selling, earning, credits, losses, robbery and loans) (Collins et al., 2009). Secondly, the concept of poverty includes a myriad of dimensions which go beyond money-matters. In this case the dimensions of well-being, education, nutrition, housing condition, financial concerns, and social relationships revealed to be relevant poverty indicators. Thus, a combination of asset ownership, nutrition and food security with housing conditions and main financial concerns appeared to be contextually relevant indicators against which households’ condition could be assess. This led to 27 categories of households for the qualitative activities of phase I. The level of poverty and source of vulnerabilities in the studied rural settings are
analysed in chapter five along with the indicators used to assess the poverty levels of households.

4.2.3.2 In-depth semi-structured interviews with former-clients

Initially the author planned to group people according to their MFI client status and to create three discussion groups in each village gathering current-clients, former-clients, and non-clients. However, while conducting the survey and observing the results, the author observed that non-clients often do not know enough about microfinance or MFIs to provide relevant or reliable information. The tools were adjusted and in-depth interviews with former-clients appeared to be more suitable than focus groups to investigate successes and failures of microfinance. As Woolcock argues there is a need to better integrate the study of the failure of microfinance, to study weaknesses in order to get a complete understanding of the “institutional factors” and “institutional junctures” which contribute to particular outcomes and impacts within the same context (1999:36). This is particularly useful to identify the organisational structures and management systems that help achieve better social outcomes. The qualitative sequence was structured around pre-defined themes, though the author allowed the necessary freedom for respondents to provide the information and answers which they deemed more relevant.

Former-clients’ selection for in-depth interviews was easier than anticipated as there were not many former-clients in the villages. Therefore the researcher created a sample of nine former-clients as diverse as possible to capture diverse poverty statuses and life trajectories\(^3^2\). This approach enabled the researcher to

\(^3^2\)See appendix E: transcript sample
revisit the participants a second time a few months later. Table 4-1 summarises the areas of investigation covered.

4.2.3.3 FOCUS GROUPS WITH CURRENT-CLIENTS

The research’s primary aim was to gather truthful perspectives on and experiences of microfinance institutions in the area. Discussing in a group the weaknesses and strengths of the MFI they work with may however be intimidating and embarrassing depending on the level of wealth and the level of accomplishment of the clients.

After categorising the population and analysing the quantitative data, tools were therefore used to form two different groups for discussion of five to eight current-clients (men and women). “Improving” clients were together because they would feel able to compare their experiences of livelihood improvements and discuss the main drivers of it. It offered the opportunity to collect information concerning how these MFIs which have contributed to improving livelihoods. “Stable” and ”declining” current-clients were interviewed together because they could have felt reluctant to share potentially negative experiences before “improving” clients.

Arranging the groups in that way, people were encouraged to engage in the conversation and in practice were very keen on making their point count. For focus groups, incentives such as paying travelling expenses and serving tea and biscuits were offered to participants. Generally however the participants were happy to take part in the research without compensation and agreed to respectfully listen to one another’s perspectives making the discussion both fruitful and opinionated. To make the respondents feel as comfortable as possible it was critical to focus on providing them with an environment that did not constrain the expression of their opinions and feelings. The author was careful not to gather two people from the same household (therefore either the husband or the wife joined, but not both), not to gather people belonging to the same lending group or solidarity group and to gather reasonably small groups of individuals. Table 4-1 summarises the areas of investigation covered.
The aims of in-depth interviews and focus groups were achieved as they enabled the author to identify diverse uses, preferences, and expectations towards microfinance and MFIs. They also helped identify three contextually-relevant informants.

4.2.3.4 **Key Informant Interviews**

Key informant interviews were useful to firstly, verify the community-data by triangulating information and secondly, to provide unique perspectives on MFIs’ activities and their impact on the communities. Three key informant interviews were conducted with a police sub-inspector in Modhupur town, a village head (in one of the studied villages) and an upazilla chairman. These key informants were identified during the community survey either through participants’ direct suggestions or indirectly through an analysis of key local stakeholders who emerged as relevant on the basis of the data collected. Other key informant interviews with local elites (such as wealthy community members, other religious leaders, government officials and police) would have been useful, however during the time of the fieldwork many elite households identified were staying in Dhaka and the time frame of the research restricted the number of interviews possible. Also, local religious leaders preferred not to speak about microfinance as it is commonly viewed as forbidden by religious laws of Islam\(^\text{33}\).

Table 4-1 summarises the tools used during the qualitative sequence and the area of investigation they covered to address objective two (understand people’s perspectives towards microfinance and MFIs - from both client and non-client perspectives) and objective three (identify which organisational

\(^{33}\) Because it involves charging people interest
structures and systems of MFIs are associated with higher/ lower social performance in rural Bangladesh).

**Table 4-1: Qualitative tools used in Phase I**

<table>
<thead>
<tr>
<th>Tools used</th>
<th>Areas investigated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nine former-clients</td>
<td>• Livelihood strategies and trajectories of households</td>
</tr>
<tr>
<td>in-depth interviews</td>
<td>• Reasons for stopping being a client</td>
</tr>
<tr>
<td></td>
<td>• Opportunities, risks and limits associated with microfinance</td>
</tr>
<tr>
<td></td>
<td>• Impacts of MFIs and credit on rural lives</td>
</tr>
<tr>
<td></td>
<td>• Perceptions of MFIs and credit</td>
</tr>
<tr>
<td>Six current-clients</td>
<td>• Reasons for borrowing from MFIs</td>
</tr>
<tr>
<td>focus groups</td>
<td>• Opinions regarding MFIs</td>
</tr>
<tr>
<td></td>
<td>• Problems associated with MFI loans</td>
</tr>
<tr>
<td></td>
<td>• Impacts of microfinance on their lives</td>
</tr>
<tr>
<td>Three key informant</td>
<td>• Perceptions of MFIs’ activities and impact</td>
</tr>
<tr>
<td>interviews</td>
<td>• Experience with MFI operating in the area</td>
</tr>
</tbody>
</table>

A key outcome from the community study was the identification of two MFIs which were perceived by community members as contrasting in their levels of social performance. Multiple criteria according to which the community judged the social performance of institutions were identified. The highly regarded MFI was Palli Daridra Bimochon Foundation (PDBF) and the MFI which was identified as the lowest socially performing was the Association for Social Advancement (ASA).

### 4.3 Phase II: MFI ethnographies

“In institutional ethnography, a researcher goes about exploring and understanding her own or someone else's everyday/everynight life in a methodical way.”

(Campbell, 1998a:56)
Phase I identified specific issues to be further investigated through quantitative and qualitative methods during MFIs ethnographies (phase II). The design of phase two is inspired from Smith (1987) who refers to institutional ethnographies as “the investigation of empirical linkages among local settings of everyday life, organisation and translocal processes of administration and governance” (Smith, 1987:15). This research tool serves the objectives of the research as it allows the researcher to engage not with the theoretical ways in which institutions work but with the “actual relations” and “ruling” relationships (Smith, 2006, 2001) among people within MFIs from studying the diversity of staffs’ experiences of it (Campbell, 1998a). The aim of this phase was to understand these complex social processes within the MFIs under study using mixed-methods.

4.3.1 The Credit Officers’ Survey

The staff survey constitutes the first step of the MFI bottom-up study. The two MFIs studied were selected amongst other MFIs operating in studied villages based on their reported social performance. The objectives of this research sequence were to investigate the organisational structures and management systems of MFIs and to capture the staff’s experiences, perceptions and opinions regarding their organisations.

4.3.1.1 Accessing Credit Officers

On arrival at branches we were told to follow the formal procedures for research by asking for authorization from the head-offices which would have
informed branches and arranged our visit\textsuperscript{34}. To obtain truthful answers from the credit officers concerning delicate issues, it was crucial to create an environment of trust. Given the risk of hierarchical tensions affecting the validity of answers the questionnaire was made anonymous and self-completed by credit officers. To facilitate the procedure and maintain their interest and attention, the questionnaire was translated from English to \textit{Bangla} and kept relatively short. The forms were completed within the branches in a room isolated from their manager who after negotiation allowed the surveys after the credit officers’ daily loan collection (appendixes G and H).

After explaining the purpose of the study and collecting their consent they shared their anxieties concerning filling out the form by hand and giving truthful written answers about personal and work related issues. The main assumption of the loan officers, when seeing a male Bangladeshi and a white foreigner, was that we had been sent to assess and evaluate them. It was important to emphasise the independence of the research (from any government or donor initiative) and the absence of connection between the researcher and the MFI head office. We assured the participants of the confidentiality of the data, and insisted on the fact that this research was an academic initiative and that apart from the researcher and her assistant, no one will access the unanonymised data sheets (with respondents’ signatures and identifiable handwriting on it). The researcher and her assistant helped respondents to complete the surveys.

Overall, 36 credit officers were surveyed; 21 in ASA and 15 in PDBF. The number of respondents varies according to the number of staff members

\textsuperscript{34}After negotiations, the study was sanctioned by both MFIs. This process however raised the suspicion of managers who were often reluctant to leave us alone with loan officers. When isolated access to loan officers was refused, the researcher interviewed the branch manager whilst her assistant supported loan officers in completing the survey in a separate room.
working within a branch. We visited the branches which covered the geographical region where the community study was undertaken. Thus, four branches of ASA were visited against two for PDBF. The survey had three major parts which correspond to three different types of information: close ended questions, Lickert scaled statements, and three open-ended questions. The areas of investigation covered multiple dimensions of credit officers work experience, opinions, and perceptions (appendix G).

The first part of the questionnaire collected information regarding the staff members’ age, position, years of experience within this organisation, number of clients, the number of villages they operate in, their working times and the frequency of staff meetings. The second part investigates the management systems of the MFI, scrutinises the loan officers’ perceptions and impressions regarding the organisation and their work through a four-level Lickert scale (appendix G). This part addresses management systems and organisational structures; job satisfaction; conflicts within the organisation and with clients; personal motivations; and perspectives and opinions on their personal achievements, their clients and their organisation. The third part of the questionnaire included three open-ended questions concerning their MFI and microfinance’s impact (appendix G).

4.3.2 Qualitative tools

4.3.2.1 Observation

Visiting the local branches of the institutions ourselves without giving prior notice was useful to observe and compare their facilities, the daily working conditions as well as the functioning of MFIs at branch level. These visits also gave valuable insights on the dominant organisational cultures in the MFIs. Of course, due to the sensitive nature of the research and for ethics and confidentiality matters, the method was constrained to passive observations. Informal discussions with credit officers allowed the author to understand their experiences and perceptions of MFIs and of their work. In order to maintain a
friendly and relaxed environment for data collection, these conversations were not audio recorded but noted down as personal field observations. Observation-based data as mostly produced during a reflection period at the end of each day and put together at the end of each week in a fieldwork diary so to avoid people feeling uncomfortable during note taking.

4.3.2.2 **Semi-structured interviews**

Branch managers were also interviewed, and this often took place simultaneously with the staff survey. This procedure helped to keep the manager away from where the loan officers were conducting surveys and thereby helped ensure confidentiality and maintained a non-threatening environment for the credit officers. When this procedure had to be set up the author conducted the interview of the Branch Manager whilst her research assistant provided the necessary support to staff for the completing the survey. Semi-structured interviews conducted with higher staff officials enabled me to verify and explain information collected in Phase I and in the first sequence of Phase II. In total seven branch managers, three area/district managers, one executive director (PDBF’s), two HR managers, one IT manager and one training manager were interviewed formally. As with community members the interviews were audio recorded and lasted about 40 minutes. Table 4-2 presents how semi-structured interviews have been used within the MFI study in order to address objective three (identify the organisational structures and systems associated with social performance in a specific rural context).
### Table 4.2: Quantitative and Qualitative Tools Used in Phase II

<table>
<thead>
<tr>
<th>Number of observations and tool used</th>
<th>Area investigated</th>
</tr>
</thead>
<tbody>
<tr>
<td>Credit officer survey (appendix G)</td>
<td>• Job satisfaction</td>
</tr>
<tr>
<td></td>
<td>• MFI management</td>
</tr>
<tr>
<td></td>
<td>• Personal motivations</td>
</tr>
<tr>
<td></td>
<td>• Information management</td>
</tr>
<tr>
<td></td>
<td>• Organisational culture</td>
</tr>
<tr>
<td>16 semi-structured interviews with branch/district/regional and senior MFI managers (appendix I)</td>
<td>• Organisational structure</td>
</tr>
<tr>
<td></td>
<td>• Management systems</td>
</tr>
<tr>
<td></td>
<td>• Information management</td>
</tr>
<tr>
<td></td>
<td>• Organisational culture</td>
</tr>
<tr>
<td></td>
<td>• Perceptions of rural livelihoods</td>
</tr>
<tr>
<td></td>
<td>• Financial and social performance</td>
</tr>
<tr>
<td></td>
<td>management</td>
</tr>
</tbody>
</table>

#### 4.3.2.3 Secondary Data

Data gathered through the survey, the semi-structured interviews, the informal discussion and the participant observations was supplemented and verified by secondary data as suggested in Smith (2001). Existing e-mail correspondence and extensive archival records including internal documents, annual reports, budgets, performance measurements, program performance evaluation reports, management systems, and codes of conduct were used when available. All publicly-available data including information from the organisation’s website, other promotional material and evidence from secondary sources (newspaper articles) was analysed to form the complete organisational analysis.

By the end of phase II, the researcher was able to contrast and to compare the community members’ perceptions of microfinance and MFIs with the perceptions of MFI managers and identify discrepancies and convergence. Structures, patterns and systems in place that could explain major gaps between
the intended and the actual processes of impact of MFIs’ activities were identifiable. This phase was essential to draw on practical implications for MFIs’ social performance management.

4.4 Road Map to Theory Building

This section discusses the processes whereby the author built theory from the research design described above. During and after the fieldwork phase III consisted in bringing the empirical evidence gathered from both the community case study and the two institutional ethnographies together to address research objectives four (to relate findings to wider literature and debates regarding microfinance’s management) and five (to use findings to promote improved systems and structures for MFIs to achieve better social performance). This is explored in chapters eight and nine.

4.4.1 Managing Case Study Data

The main aim of the case study approach was to capture sufficient diversity of microfinance practices to contribute to theory and to collect sufficiently context-specific data. It is acknowledged that the use of case studies as a qualitative research method entails pitfalls that can only be mitigated through careful and rigorous research design (Eisenhardt, 1989). “The field” for this research was not just part of the “empirical world”, but rather a reflection of the researcher’s own theoretical interests on microfinance (i.e. district’s, villages’ and respondents’ selection procedures). How the case study fieldwork evolved was driven by the researcher’s own interpretation of the data collected and on her reflections on this data’s positioning and meaning within the broader literature (Ahrens and Chapman, 2006). The iterative research process (the flexibility of the research design and adaptability of research tools) helped improve the data and its theoretical significance.

Assessing the theoretical significance of data collected was crucial for this research to go beyond reporting “findings” (about microfinance’s impact for
instance) specific to a village or region of Bangladesh or one particular MFI as the researcher aimed to preserve the value of context-specific data whilst avoid losing its significance for microfinance theories and debates. “Thinning” the data can risk producing highly context specific data that is so embedded in the studied context that is loses its connection to the analysis of broader phenomenon (the commercialisation of microfinance) or process (social performance management) (Ayres et al., 2003). However the importance of context-specific detailed accounts and nuanced descriptions of a phenomenon for theory building should not be undermined by these pitfalls. The literature generally acknowledges the way in which case studies can contribute to theory development in a holistic way (Dooley, 2002:336) because it has “the ability to embrace multiple cases, to embrace quantitative and qualitative data, and to embrace multiple research paradigms”.

Arguably, the validity of data often depends on how nuanced the information gathered is and how the researcher understands the influence of the context onto the studied process and phenomenon (Ahrens and Chapman, 2006). Ultimately the process of developing arguments and linking data about microfinance practices with the theoretical underpinnings of rural household poverty, MFIs’ socio-financial trade-offs management, and the microfinance industry relies on the authors’ understanding of the wider literature concerning poverty, power and vulnerability issues, MFIs’ functioning and sector wide processes and structures. Confronting a large body of collected qualitative and quantitative data with other empirical evidence across different contexts helped the author structure and communicate the significance of the findings and contribute to theorizing it (Eisenhardt, 1989).

To build up to a critical analysis of the workings of commercial microfinance and of the industry the author, in empirical (five, six and seven) and analytical (eight) chapters, carefully cross-references relevant literature from wider contexts (both in Bangladesh and beyond) in a way that highlights commonalities between key findings raised here and those made elsewhere. Such a process helps re-evaluate existing theories by combining different types of data (through mixed-methods) in a “synergistic” manner (Eisenhardt,
1989:538). It is the repeated observations of similar phenomenon or processes at the household and institutional levels across the author’s and other empirical data that gives substance to the theory-building process (Dooley, 2002). More specifically, comparisons are drawn between key findings related to client experiences of microfinance and wider studies in Bangladesh. The iterative research design facilitated the analysis of data and its linkages to existing theoretical work on the processes influencing MFIs’ social performance. This helps substantiate these specific findings but thereby also indirectly highlights the relevance of the institutional analyses conducted.

4.4.2 Phase III: Theorizing MFI Management

In phase III of the research the author examined her observations and findings from the community and institutional ethnographies in relation to the existing body of literature on microfinance management (Armentáriz and Szafarz, 2011, Copestake, 2007, 2005a, Gutiérrez-Nieto et al., 2006, Woller, 2002a, Labie, 2001). On this basis arguments were made concerning relationships between organisational structures and systems and outcomes for clients. This stage of the analysis gave particular attention to firstly, wider literature within Bangladesh. Secondly, reports from Andhra Pradesh regarding possible negative impacts of microfinance on rural clients were identified as being of relevance to the analysis of ASA and PDBF (section 8.1). The process of comparing empirical data collected with other literature on Bangladesh and India helped the author build theoretical and analytical linkages between institutional features and social outcomes for clients (and staff members) and reach conclusions on the potential risks of microfinance commercialisation and market-based approach for clients (Kumar, 2012, Ballem et al., 2011, Ghate, 2007, Shylendra, 2006).

Because of the way in which the industry is built, observations made in rural Bangladesh are not only applicable but relevant to understanding the workings of the microfinance industry more generally. To address the study’s final objective the analysis and theory developed are contextualised within the broader structures and processes that compose the industry. This, in line with
Mosse (2005), leads to questioning the processes and structures of policy-making for development action. The analysis of the strong neoliberal underpinnings of microfinance and MFIs’ outcomes-based performance evaluations leads to a re-conceptualisation of the major stakeholders which directly or indirectly, support, fund, promote, or implement consciously or unconsciously a market-based approach to microfinance. The environment within which microfinance discourse was shaped (by the media and within the microfinance industry) must be considered as an important factor perpetuating its development. Given that MFIs are under similar pressures to conform to financial imperatives for their organisational survival and under similar reputational risks the arguments advanced in chapter eight are relevant to the prevailing development discourses about microfinance’s achievements.

The researcher kept herself heavily engaged with theoretical and practice orientated literature on microfinance. Using Ngram, a new analytical tool developed by Google in 2010, the researcher conducted a statistical analysis of word patterns within the mined text of over 15.2 million book corpus that represent approximately 12 percent of all published books (Montagne and Morgan, 2013). This tool, when applied to the literature on microfinance, was useful to understand trends in microfinance discourse and changes in the popularity of specific terms over the last three decades. This was combined with a study of news published between 2009 and 2012 in North American, Indian, British, French and Bangladeshi digital media outlets. The researcher was unable to engage with the content of the literature in-depth, as a comprehensive analysis of the media content on microfinance goes beyond the objectives of this study.

In addition to studying how microfinance is presented in the media, the author de-constructed discourse endorsed by microfinance. It examines the evolution of microfinance from being a development tool to a hegemonic development discourse and an attractive financial market. The data gathered and the analysis built from it provides a reflective analysis of the behaviour of MFIs with regard to diverse external ideological, economic and financial interests. The analysis engages with different strands of the literature on the rise of neoliberalism in
development discourse and practices, participation, feminism, and how microfinance is presented within prominent media outlets.

4.5 **FIELDWORK ETHICS AND CHALLENGES AND DATA ANALYSIS**

4.5.1 **ETHICS AND CHALLENGES OF THE FIELDWORK**

4.5.1.1 **ETHICS**

The research was designed to ensure high ethical standards and to overcome technical challenges that could have been faced in the field. The tools of research - questionnaires, semi-structured interviews, and focus groups discussions - were carefully designed to not harm or negatively affecting participants.

Firstly, it was essential that participants were aware of the research’s purpose. Thus a procedure whereby the author introduced herself and the objectives of the research was applied during the fieldwork. Participants’ were explained their rights to confidentiality and anonymity, and formal written consents were systematically collected from them (appendixes C, G and H).

Secondly, it was important to ensure the security and freedom of participants during the data collection process through providing a permissive, non-threatening and confidential environment where respondents felt comfortable. To avoid negative or positive associations with a particular site and to ensure that participants feel comfortable, the data collection took place in neutral locations. During the community-based research it was common that neighbours or relatives interfered during interviews. Given the sensitivity of the information collected (concerning private household matters such as money, food consumption, relationships with community members or job-related matters such as opinions of staff management and MFI’s activities), when it happened, interviews were systematically interrupted and only
continued once the person agreed to leave the room. This improved the reliability of the data and ethical standard of the research.

4.5.1.2 PERSONAL CHALLENGES

Besides ethical considerations, significant personal challenges entailed by the fieldwork were acknowledged before the beginning of the fieldwork in order to be overcome. Firstly, the researcher considered that the community would either perceive her as white westerner (a *bideshi*) who could develop a programme within their community, or that households would be reluctant to participate in the research because of fear, lack of interest, lack of time, or other personal reasons (letting two strangers, one white girl and a young Bangladeshi man enter their home). This could have stopped participants from sharing truthful information and hampered the data collection process.

The researcher author made an effort to establish trustworthy relationships with the communities. Therefore before surveying a new village, a couple of days were dedicated to walks in the villages as a way to interact with and inform people about our intentions in an informal manner. More importantly it helped meet religious leaders and explain our purpose. They spread the word within the community and saved us from suspicion and importantly allowing us to talk to females’- wives, sisters, daughters-in-law and daughters- in their homesteads. As a consequence the large majority of men agreed to take part and also let their wives participate. Being a woman allowed me to be more easily trusted by village women during the phase I of the research and facilitated access to women, as compared to a male researcher.

The researcher’s language skills and experience in Bangladesh facilitated the rapport she had with participants, smoothed the data collection process and, she believes, increased the quality of information collected. Furthermore, to avoid biasing or influencing the respondents’ answers during the community survey, participants did not know that the ultimate focus of the research was microfinance. The author considered that there was a danger of bias had she specified the focus of the research, respondents would have exaggerated the
impact of microfinance on their livelihoods (positively or negatively). After completing the questionnaire the vast majority of encounters turned into informal, often insightful, discussions about their livelihoods’ opportunities and challenges. With the consent of respondents, the author took notes of those conversations concerning households’ livelihood and poverty which enrich the analysis presented in chapters five and six.

Secondly, she was aware that local and district-level stakeholders and microfinance staff members could consider the research as a potential threat to their power or status. If participants were overly cautious in disclosing information the opportunities to obtain truthful answers could have been limited. Therefore respondents were informed of the purpose of the research and the researcher adopted an impartial attitude during the enquiry. The author insisted on the fact that the research focused on investigating organisational structures and management systems not on assessing MFIs’ performance and highlighted the research’s independence. As a result, the author generally received a positive attitude from staff.

Thirdly, as the bottom-up design of the research responds to the need to better understand the ways in which MFIs influence rural livelihoods, the bottom-up organisational analysis is a central and challenging feature of the fieldwork. However, like in many organisations (and perhaps particularly so in Bangladesh) the distance and power within the organisational hierarchy is very distinct. As a consequence, staff members often have little confidence to give truthful opinions about their immediate superiors and on the other side the senior staff member (district and branch managers) could easily feel put off by the investigation and not allow us access to their staff. It is for this reason that the author and her assistant sometimes conducted the staff surveys and branch managers’ interviews simultaneously. As part of a broader body of work, potential lessons and findings of this bottom-up and participative research, could be used by development policy-makers and microfinance practitioners to inform better development initiatives.
4.5.1.3 DATA CONFIDENTIALITY AND ANONYMISATION

Throughout the fieldwork the information collected has been gathered and stored in order to ensure the confidentiality of respondents and anonymity of their responses. The questionnaire attributed each respondent with a code number according to their village. Their names and codes were carefully stored on a separate file. The interview recordings were coded according to the location and the discussion group characteristics. Both the recordings and the respondents’ names spread sheet were anonymised as soon as possible via a coding and indexing system that makes it impossible for anyone but this author to link information to its source. In-depth interviews and focus groups transcriptions have been coded and added to a central index so that participant names are not connected to the data. Besides, fieldwork notes, personal observations, and questionnaire spread sheets were destroyed after the data was extracted and entered into excel files.

In a systematic manner, issues of confidentiality and anonymisation of data were carefully presented and explained to each respondent. The author and her research assistant presented themselves as the guarantors of those basic principles. It was essential for them to know that no one else but the research team (the author and her research assistant) would have access to the information they provided and to their names. The consent forms were signed before the surveys, in-depth interviews, and before focus group discussions by the author and the respondents as a mutual agreement. This constituted an important symbol of the author’s personal commitment toward them and the protection of the information.

It is important to acknowledge the limitations to the approach taken to data collection for publication. The extent to which the bottom-up strategy guiding the two organisational ethnographies is replicable is problematic. The access to field offices in large-scale institutions is usually heavily restricted or at least controlled by head offices. The fact that the researcher and her assistant were granted access enabled them to collect crucial information from field officers which has to be handled and published carefully. Apart from anonymising
respondents’ names, the researcher faced an ethical issue with disclosing the names of the MFIs covered in this study to protect participants. It was however decided that given the regularity of staff transfers, the limited exposure of this publication as a doctoral research to MFIs’ practitioners in Bangladesh and the anonymisation of the branches visited, the risk to the sources of information of being identified is minimal. In order to transform empirical findings into theoretical arguments it is important that the selected MFIs are named and carefully analysed. Further publications based on the data collected in this research shall, however, re-consider anonymising the study site and/or the names of the MFIs.

4.5.2 Data collection and analysis

Most qualitative and quantitative researchers establish a clear divide between those who collect and those who analyse the data. This trend tends to increase the risk of major data loss and misinterpretation. It was therefore essential to teach the assistant how to collect data in an ethical, systematic and rigorous manner while remaining objective and flexible. The author was careful to keep close control on the quality of the data that was collected and led the field research with her assistant at all times.\textsuperscript{35}

In all the phases of the research: data collection, data entry, data translation, information coding, and data analysis, only the author and her assistant accessed the data. The focus group discussions and in-depth interviews were audio recorded and notes taken during discussions with respondents’ consent. The majority of the qualitative data collected is in narrative forms (recordings, field notes, informal discussions, reports or personal observations) which are

\textsuperscript{35}The research assistant was only left alone when in-depth interviews of some branch managers were conducted simultaneously with the staff survey.
inherently embedded in the reflexivity and subjectivity of the researcher (section 4.4). Therefore to be more effective and to ensure coherence throughout transformation of the data and the redaction of this thesis the author (the main researcher, data collector, analyst and writer) actively led it at all times.

The semi-structured interviews and focus group discussions were transcribed in Bangla then translated into English, taking into consideration the context of the data collection and the cultural richness of the words. The symbolic meaning of words and analogies and comparisons made by respondents give great insights to the complexity of the issues treated. Cultural and linguistic nuances are critical as they communicate particular feelings and emotions that are specific to the context. In order to guarantee the truthfulness and rigor of the final transcriptions of interviews and group discussions both of the research assistant and the main researcher, who are both competent in Bangla and English, listened carefully to the recordings and intensely reviewed the transcripts to then cross-check for transcription or translation mistakes.

When speech is transcribed into written texts and then translated from English to Bangla, misinterpretations and poor turns of phrase can erode the richness and alter the meaning of the data. Translating represents a fastidious and perilous task whereby the quality of the information is only partially reported because each language has unique tones, expressions and words that refer to deeper cultural symbols and concepts. In order to preserve the richness of the respondents’ testimonies, the analytical chapter provides sufficient contextual background and necessary symbolic clarifications when Bangla words lack resonance in English (or have no literal meanings or equivalent: lojja, grihini, bari, purdah).

The data coding and analysis respected the exploratory research strategy. An inductive thematic approach used Nvivo software to analyse the data, with transcripts first being read through by the author and her research assistant. Transcripts were analysed by the author to develop codes that best conceptualised the data’s meaning. Dominant concepts emerged and no
predefined coding themes were applied. This procedure was important to let participants’ interviews draw the ideas and concepts instead of trying to articulate or use the data against the conceptual framework. The themes identified were coded according to their relevance and importance to the respondents. If themes that were expected failed to emerge from the data collection process it is reported in the analytical chapters as a finding.

The analysis is primarily based on the qualitative data and is supported by the analysis of quantitative data. Quantitative data from the community survey were processed with SPSS software and used as descriptive data to quantify the social phenomenon identified through qualitative data. This strategy was also used for analysis quantitative and qualitative data from MFIs’ studies. This way, mixed-methods strengthened the theoretical value of the research findings.

The inclusion of excerpts and verbatim quotations extracted from semi-structured interviews and focus group discussions transcripts clarify links between data, interpretation of information and analysis which increase the validity, reliability and integrity of findings. Words and phrases in italics are re-transcriptions of words spoken by respondents which were deemed more valuable than paraphrasing.
5. LIVELIHOODS OF MODHUPUR

Chapter five presents a socio-economic and demographic analysis of the communities studied and is the first step in the *bottom-up* methodology used. Scrutinising rural livelihoods, poverty and vulnerabilities and examining livelihood coping and adaptation mechanisms is important to understand rural households’ financial needs and constraints. Microfinance practitioners often make assumptions about impacts that loans can have on rural poverty because they make the assumption that rural households are *poor* and therefore need financial capital. This section finds that because *vulnerabilities* dominate the lives of the rural poor, standardised financial products may pose problems. This chapter is an important basis to chapter six which explores the interaction between microfinance activities and rural livelihoods.

Section 5.1 analyses the poverty context and the diverse types of livelihoods in Modhupur on the basis of the quantitative and qualitative data. Section 5.2 explores the different types of financial concerns and vulnerabilities stemming from livelihoods and the range of coping and adaptation mechanisms used by households.

### 5.1 RURAL POVERTY

This section analyses the socio-demographic characteristics of households in Modhupur and the diversity of their livelihoods. It defines poverty as conceptualised in the communities and analyses the primary social structure: the household.

#### 5.1.1 THE STUDIED POPULATION

The community survey covers 490 households (2,022 individuals) in four villages of Modhupur. The distribution of households across the villages is relatively even as shown in table 5-1.
**Table 5-1: Distribution of Households Across Villages**

<table>
<thead>
<tr>
<th></th>
<th>Number of Households</th>
<th>Number of Individuals</th>
</tr>
</thead>
<tbody>
<tr>
<td>Phamillia</td>
<td>129</td>
<td>511</td>
</tr>
<tr>
<td>Rickshapoor</td>
<td>92</td>
<td>394</td>
</tr>
<tr>
<td>Bhaatbag</td>
<td>147</td>
<td>571</td>
</tr>
<tr>
<td>Saripur</td>
<td>122</td>
<td>546</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>490</td>
<td>2,022</td>
</tr>
</tbody>
</table>

Source: community survey results

Phamillia

Phamillia is a densely populated village within Modhupur *Upazila* located about 15 kilometres from the Modhupur bus stand. The figures generated by the perception survey indicate that on a scale from one to seven, on average people rated the village 3.8 with respect to its level of development\(^{36}\) (table 5-2). Criteria selection for this scoring was purposefully left to the respondents which provided useful insights into the factors that, according to them, impede or foster development. In Phamillia, respondents often reported the lack of school (only one *madrasa*), poor access to medical facilities and electricity as major reasons for low scoring. Phamillia lacks basic facilities such as electricity (only 30 percent of the households have access to the electricity), latrines, tea stands, schools, markets, and although numerous NGOs operate in the village none have an office there. The state of the roads leading to the village does not enable motorised vehicles to access the village and, as a result, it requires more than an hour by van or rickshaw to reach the village from the

\(^{36}\) On a scale from one to seven, where seven indicate a highly developed village, according to participants and one suggests low village development (appendix C, part 3, question 1, code 9)
The lack of infrastructure makes access to Phamillia more difficult and contributes to isolating it from the main road, schools, markets and town.

The dominant income generating activities of households are farming and livestock, construction labour and rickshaw/van pulling (see table 5-3 and appendix D for detailed data). In the last five years, the number of brick fields around Phamillia village increased, providing both day-labour opportunities for local people (trading the bricks, day labour in the brick mill, brick transportation by van pulling) and regular and stable source of earning (selling or renting land for the brick field).

The village is rich in natural resources as it is located on a river bank which allows fishing and irrigation practices. The data collected suggests that the village is peaceful and experiences few issues of insecurity (table 5-2). There seems to be a strong social cohesion amongst villagers who qualify the absence of conflict as “God’s blessing”. The large majority of inhabitants are Muslim (more than 98 percent- with only two Hindu households) and because of the lack of government school most children go to the one madrasa in the village.
### Table 5-2: Villages Key Variables

<table>
<thead>
<tr>
<th></th>
<th>Phamillia</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Village development score&lt;sup&gt;37&lt;/sup&gt;</td>
<td>3.8</td>
<td>4.3</td>
<td>1.5</td>
<td>4.5</td>
</tr>
<tr>
<td>Neighbour trust&lt;sup&gt;38&lt;/sup&gt;</td>
<td>3.1</td>
<td>2.7</td>
<td>1.9</td>
<td>1.5</td>
</tr>
<tr>
<td>Trust for valuables&lt;sup&gt;39&lt;/sup&gt;</td>
<td>3.8</td>
<td>4.4</td>
<td>3.5</td>
<td>2.9</td>
</tr>
<tr>
<td>Own electricity access&lt;sup&gt;40&lt;/sup&gt;</td>
<td>34%</td>
<td>51%</td>
<td>38%</td>
<td>75.5%</td>
</tr>
</tbody>
</table>

Source: community survey results

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<sup>37</sup>According to respondents (appendix C, part 3, question 1, code 13) and following a systematic coding their answers were transformed into a five-level numbered perception scale: *Shobche bhalo- bhalo- mota muti- karap- shobche karap*, the best (1), good (2), average (3), bad (4), the worst (5), respectively.

<sup>38</sup>Respondents evaluate their level of trust towards neighbours (appendix C, part 3, question 3).

<sup>39</sup>Assessing the level of trust amongst neighbours when it comes to valuables such as money or jewelleries (appendix C, part 3, question 5, code 10).

<sup>40</sup>Does not involve renting electricity lines
### Table 5-3: Villagers’ Occupations

<table>
<thead>
<tr>
<th></th>
<th>Phamillia</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
</tr>
</thead>
<tbody>
<tr>
<td># Income earner/ # HH per village</td>
<td>169/129</td>
<td>130/92</td>
<td>179/147</td>
<td>202/122</td>
</tr>
<tr>
<td>Wage Labour</td>
<td>27.8%</td>
<td>24.6%</td>
<td>21.2%</td>
<td>6%</td>
</tr>
<tr>
<td>Self-employed Low Qualification</td>
<td>26%</td>
<td>24.6%</td>
<td>24.6%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Farming and Livestock</td>
<td>20.7%</td>
<td>29.2%</td>
<td>26.8%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Salaried worker</td>
<td>8.3%</td>
<td>5.4%</td>
<td>12.3%</td>
<td>47%</td>
</tr>
<tr>
<td>Trade</td>
<td>6.5%</td>
<td>11.5%</td>
<td>6.7%</td>
<td>7%</td>
</tr>
<tr>
<td>Production</td>
<td>10%</td>
<td>2.3%</td>
<td>5%</td>
<td>12.4%</td>
</tr>
<tr>
<td>Self-employed High Qualification</td>
<td>0.5%</td>
<td>1.5%</td>
<td>3.3%</td>
<td>3%</td>
</tr>
</tbody>
</table>

Source: community survey results

### Rickshapoor

Rickshapoor is in Modhupur Upazila, located along a highway close to the main town of Modhupur. On average villagers scored the development of the village at 4.3 as compared to surrounding villages (table 5-2). The village is

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41 Includes agricultural day labour, factory worker, transport worker, construction labour, earth work labour, and sweeper
42 Includes rickshaw, van puller and CNG driver, tailor and seamstress, potter, blacksmith, hair cutter, cobbler, clothes washer, repairman, beggar, mechanic, carpenter/mason, plumber and electrician and midwife.
43 Includes government workers, private enterprise, maid, teacher (prim/sec school and college and university).
44 Includes contractor, doctor/engineer, herbal doctor and kabiraj, lawyer, deed writer and moktar, house tutor, religious leader (imam or muazzem or khademor purohit).
45 For detailed results see appendix D
divided into two parts (called paras) by the highway which allows frequent buses, vans, cars, motorbikes, and other motorised vehicles to easily access Rickshapoor from Modhupur town, Jamalpur and Mymensingh. The village counts one bazaar (with shops, chemists, small restaurants, and tea stands) and some NGO branches, as they operate in the village. No government school, madrasa or hospital are based within the village, nevertheless such facilities are available nearby Modhupur.

Rickshapoor benefits from a river used as a canal in the dry season and employed for irrigation throughout the year. As the village is close to Modhupur, the infrastructure for electricity is in place and available for the households who can afford it, covering 47 percent of households (table 5-2). The categorisation of household through the community survey and participant observations allowed discerning that the north-west para of Rickshapoor was noticeably worse-off than the rest of the village. Households living there live in a congested part of the village, subsisting on a hand to mouth livelihood.

Frequent conflicts amongst community members negatively affect the social cohesion in Rickshapoor. Because the village is close to the main town, the economic status of inhabitant households is diverse. Economic and social inequalities, conflicts over land and imbalanced and contested power relations constitute great sources of tension (tables 5-2, 5-3 and appendix D). Besides, children of the village go to different schools in Modhupur which can impinge on the social cohesion (as compared to Phamillia). When children have different schools, programmes, and teachers they do not play in the same playground and their families attend different school events. In addition, accessing the schools in town requires children to use transportation on the highway which entails a financial cost and safety risks. As a result a large number of households living in Rickshapoor do not to send their children to school. All these differences contribute to reinforcing existing social divisions among the community.
Bhaatbag

Bhaatbag is within Modhupur Upazila, located in Dhanbari thana (unlike Phamillia and Rickshapoor). On average villagers scored their village’s development at 1.5. Because it is situated beside a highway at about 15 kilometres from Modhupur town the transportation and roads are good and it is accessible by motorised vehicles (car, bus, or truck) in 30 minutes. The infrastructure for electricity is available in Bhaatbag, however only 32 percent of the villagers have access to it within their homestead (table 5-2).

Bhaatbag is on the bank of a river which divides the village into two big paras and facilitates irrigation for the farmers. Although there is no bazaar within the village, there are small shops selling basic items and a main market place at a walking distance from the village where many NGOs have their branches. The village is 100 percent Muslim and the villagers have access to two mosques, two schools and one madrasa all located within one kilometre. As Bhaatbag is spread-out and divided by large rice fields, forests, and rivers the social relationships among the community is not as tight as in the other villages and people do not know the names of their fellow community members. In Bhaatbag in particular there are strong tensions and conflicts over land tenure and ownership.

Saripur

Saripur village, located within Pathrail Upazila and 15 minutes from Tangail, has the highest development score, 4.5. This village differs from the other three by having greater access to basic infrastructure (more than 75 percent of households have their own access to electricity). Homesteads are delineated by gates, decorated with plants, flowers, gardens and a specific space for the livestock. Generally, households have busy and stable livelihoods which heavily rely on small sari handloom factories spread out across the village. The sari production ensures a reasonably secure source of income for about 45 percent of income earners (table 5-3 and appendix D). Only 6 percent of
respondents are wage labourers. A large number of families benefit from the remittances sent by a family member working abroad in Singapore, Dubai, Qatar, Saudi Arabia or Malaysia. Villagers generally were neither surprised nor disturbed by our presence in the area and felt comfortable interacting with a white female foreigner.

In Saripur 17 percent of the population is Hindu and a large part of the community follows the Lalon's philosophy\(^\text{46}\) (yet, they are referenced here as Muslims because they identify themselves as such). The Lalon philosophy shapes the life of the community around frequent music festivals (\textit{purja}), poems reading, cultural gathering, religious and school events which build social cohesion amongst community members. In Saripur, women participate in the social life noticeably more than in other villages studied. They take their children to school, walk along the streets sometimes run income generating activities (such as tea stands or small \textit{dokhan}) and engage and interact with males and females every day.

5.1.2 Defining Poverty

This sub-section draws on information collected through the community study including the community survey, six focus group discussions with current-clients of microfinance, nine semi-structured interviews with former-clients, three semi-structured interviews with key-informants and numerous informal conversations with stakeholders. When asked about wealth assessment, respondents provided their own definition of poverty and explained their perception and experience of it.

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\(^{46}\)In theory, followers of Lalon, also called \textit{Bauls} of Bengal ignore issues of property, money and possessions. This spiritual community sings songs of joy, love, and search for one’s inner self. They usually incorporate rituals from Hinduism, Buddhism, and Sufism to create their philosophy. Muslims and Hindus can be part of the community and may change their birth names for \textit{Baul} names to proclaim their devotion.
5.1.2.1 ASSETS FOR RESILIENCE

Often respondents defined and assessed poverty levels according to the number and type of assets owned by a household, not according to their income levels. They clarified that poverty is not necessarily about the lack of income and that poverty is sometimes not even related to the level of income. Increasing income and reducing poverty levels are too different things. The income increase (due to market opportunities, extra work, loan from friends or relatives, selling asset, harvest, son starting to earn) may be spent for unproductive activities that have no financial return on the short and long-term (gambling or buying alcohol) and which does not necessarily improve their well-being or improve their resilience to shocks.

The level of wealth of a household is judged upon a set of criteria which generally follow this pattern: land ownership comes first, owning a parcel of land or a pond contributes to guaranteeing free access to food for households’ members (rice or fish). Second comes the type and value of visible assets owned by the household, productive ones (motorcycle, cows, agricultural machines) and unproductive ones (TV, number and types of saris and jewelleries owned by women in the household, the size and condition of the homestead). Finally, having a relative who has migrated to Dhaka or abroad is considered as a significant and reliable source of income (remittances).

Households who own productive assets and exploit them effectively can significantly reduce their vulnerability to shocks and events. Productive assets are considerably important in times of food shortage, inflation or temporary inability to earn. Unequal access to productive assets between community members generates inequalities and can create important social conflicts that significantly affect the social cohesion within villages. Repeatedly, respondents pointed out the unequal access to land and the lack of surface available for cultivation. This is confirmed when comparing land ownership rates across villages and livelihoods depending on farming and agricultural activities (table 5-4). Quantitative results and qualitative investigation suggests that that the
lack of and the unequal access to natural resources (land and/or pond) is a major cause of conflicts. For example, in Rickshapoor where almost a third of livelihoods rely on land-related occupations, only 54 percent own a parcel of land; more than 60 percent of them own a little parcel, between 0.1 and one acre (which can hardly cover one family’s needs) and only 26 percent own more than two acres.

Table 5-4: Land ownership and land-dependent livelihoods by village

<table>
<thead>
<tr>
<th></th>
<th>Phamillia</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Land ownership rates (%)</strong></td>
<td>50</td>
<td>54</td>
<td>50</td>
<td>37.7</td>
</tr>
<tr>
<td><strong>Livelihoods depending on land (%)</strong></td>
<td>20.7</td>
<td>29.2</td>
<td>26.8</td>
<td>16.8</td>
</tr>
<tr>
<td><strong>Standard deviation for land surface owned by HH (acres)</strong></td>
<td>2.15</td>
<td>1.5</td>
<td>1.0</td>
<td>.9</td>
</tr>
<tr>
<td><strong>Pond ownership rates (%)</strong></td>
<td>43</td>
<td>22</td>
<td>20</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: community survey results

Increasing rural households’ resilience to events and shocks through productive investment and securing their belongings is necessary to protect and improve their situation. Community members described the trade-offs they have to face when they have to decide how to spend their earnings and how assets can help them cope. Their unreliable cash flows often affect their ability to pursue long-term and medium-term livelihood strategies and determine their capacity to earn. They compromise health for education, medical treatment for productive investment, lending to a friend or a relative in need for buying some extra rice to store. Having little (or no) access to assets, insecure earnings and financial capital, and restricted access to social networks and safety nets, exposes the vulnerable poor to severe economic, social and financial shocks. They get
diverted from their long-term livelihood strategy and find themselves regularly using short-term coping strategies. Protecting households’ productive assets is essential for them to protect themselves from shocks and events and minimise the impacts on their on-going livelihoods to manage to save or invest for longer-term livelihood strategies (productive assets like land or education). Limited capacity to plan and save prevents households from investing in productive assets.

5.1.2.2 Education for power

Generally, after labouring capacities, the most vulnerable respondents consider education as a central dimension that explains their condition. In the context of rural Bangladesh, education and access to knowledge increases people’s access to power (through peer social networks) and control (through political or institutional linkages) which contributes to their future economic security and social status (and those of their children). People believe that there is a clear link between the level of education of a person and the prospect this person has to access a better job, be recognised by the society and access power. Thus, being an influential and accepted person within the community (shop keeper, teacher, chemist, imam, and government officer) grants people a social status which people value significantly. Respondents generally acknowledged that for their children to prosper their access to different types of social capital is critical. Communities highlighted both social capital that can be seen as bridging, including political connectedness and general access to knowledge and information, as well as social capital that can be seen as bonding which refers to the level of inclusion of the household in the community (section 2.2.2). The access to both types of capital can often help households to better manage relationships of patronage. Well educated people may have better

47 The concept of livelihood strategy is examined section 5.2
access to reliable linkages with trustworthy economic spheres which could help mitigate their vulnerability as compared to uneducated and illiterate people. Within the studied population, the majority of adults, 58.3 percent (above 25 years old) cannot read and write (the number is significantly lower for younger populations, 41.3 percent for adults or above 12 years old\(^{48}\)) (table 5-5).

**Table 5-5: Literacy rates (above 25 and 12 years old) for the studied population**

<table>
<thead>
<tr>
<th></th>
<th>(%) &gt;25</th>
<th>(%) &gt;12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannot read or write</td>
<td>24.4</td>
<td>17.5</td>
</tr>
<tr>
<td>Can sign name only</td>
<td>33.2</td>
<td>23.0</td>
</tr>
<tr>
<td>Can read only</td>
<td>.7</td>
<td>.8</td>
</tr>
<tr>
<td>Can read and write</td>
<td>41.7</td>
<td>58.7</td>
</tr>
<tr>
<td>Total</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: community survey results

Households stated that the recognition of the importance of investing in children’s education has significantly increased over the years. Households said that they grant importance to education and would make greater efforts to enrol their children at school when they can afford it and when they have easy access to education. Qualitative and quantitative data collected confirms this trend. Younger generations’ education does not only depend on parents’ awareness but also varies according to location (table 5-6). Variations in literacy rates can be explained by the lack of infrastructure (Phamillia) the issue of safety and distance to the nearest school (Rickshapoor).

\(^{48}\) Children over 12 are expected to be able to read and write Bangla
### Table 5-6: Literacy Rates by Village (for Individual above 12)

<table>
<thead>
<tr>
<th></th>
<th>Phamillia</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannot read or write</td>
<td>19.2%</td>
<td>17.3%</td>
<td>20%</td>
<td>13.3%</td>
</tr>
<tr>
<td>Can sign name only</td>
<td>29.1%</td>
<td>21.7%</td>
<td>23%</td>
<td>18.3%</td>
</tr>
<tr>
<td>Can read only</td>
<td>1%</td>
<td>.3%</td>
<td>1.2%</td>
<td>.7%</td>
</tr>
<tr>
<td><strong>Can read and write</strong></td>
<td><strong>50.6%</strong></td>
<td><strong>60.7%</strong></td>
<td><strong>55.5%</strong></td>
<td><strong>67.7%</strong></td>
</tr>
</tbody>
</table>

Source: Community survey results

There are important opportunity costs incurred by education which affect households’ decision to enrol children. Table 5-7 indicates that the main reasons for not sending the children to school are associated with the direct costs involved with schooling (tuition fees, side expenses like books and stationery, school uniforms). Often, households cannot afford losing a possible income earner or labourer (need for own farming and working elsewhere to earn).
<table>
<thead>
<tr>
<th>Reasons for Not Schooling Children by Village (%)</th>
<th>Phamillia</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannot afford tuition fees</td>
<td>32.3%</td>
<td>3.3%</td>
<td>6%</td>
<td>3.8%</td>
<td>11.3%</td>
</tr>
<tr>
<td>Cannot afford school dress</td>
<td>1.5%</td>
<td>NIL</td>
<td>NIL</td>
<td>NIL</td>
<td>.3%</td>
</tr>
<tr>
<td>Cannot bear expenses</td>
<td>1.5%</td>
<td>10%</td>
<td>4%</td>
<td>NIL</td>
<td>4.8%</td>
</tr>
<tr>
<td>Disabled</td>
<td>2.2%</td>
<td>1.3%</td>
<td>.4%</td>
<td>NIL</td>
<td>1%</td>
</tr>
<tr>
<td>Needed for own farming</td>
<td>3%</td>
<td>NIL</td>
<td>NIL</td>
<td>NIL</td>
<td>.7%</td>
</tr>
<tr>
<td>Worked elsewhere to earn</td>
<td>18.8%</td>
<td>28%</td>
<td>40%</td>
<td>23%</td>
<td>31%</td>
</tr>
<tr>
<td>No school/school is too far away</td>
<td>2.2%</td>
<td>1.8%</td>
<td>NIL</td>
<td>NIL</td>
<td>1%</td>
</tr>
<tr>
<td>Didn’t want to send girls to coeducation school</td>
<td>10.5%</td>
<td>6%</td>
<td>2.6%</td>
<td>NIL</td>
<td>5.2%</td>
</tr>
<tr>
<td>Did not want to go to school</td>
<td>18.8%</td>
<td>NIL</td>
<td>6%</td>
<td>23%</td>
<td>11.5%</td>
</tr>
<tr>
<td>Got married</td>
<td>10.5%</td>
<td>33%</td>
<td>40.4%</td>
<td>50%</td>
<td>32%</td>
</tr>
<tr>
<td>School environment is</td>
<td>NIL</td>
<td>2%</td>
<td>.4%</td>
<td>NIL</td>
<td>.8%</td>
</tr>
</tbody>
</table>

49 The results presented in this table are based on a previous question which asked whether all eligible children were in school, data for those who answered “no”.

143
<table>
<thead>
<tr>
<th></th>
<th>9%</th>
<th>NIL</th>
<th>NIL</th>
<th>NIL</th>
<th>.1%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Boys tease girls/ don’t like girls</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Follow other trainings</td>
<td>.75%</td>
<td>NIL</td>
<td>.4%</td>
<td>NIL</td>
<td>.1%</td>
</tr>
<tr>
<td>Natural disaster</td>
<td>NIL</td>
<td>.6%</td>
<td>NIL</td>
<td>NIL</td>
<td>.1%</td>
</tr>
</tbody>
</table>

Source: community survey results

Poverty is characterised by the lack of choice and opportunities which reinforce households’ exposure to shocks and events and perpetuate their vulnerability. In the case of education, it is not that people do not recognise its value, but that the lack of financial means to send their boys and girls to school (tables 5-7 and 5-8) pushes households to adjust their livelihood tactics to socio-economic circumstances. Men and women have distinct roles within households, and boys and girls have different responsibilities and opportunities. Social and financial pressures and customs and traditions are significant incentives that push parents to value the marriage of their daughter as important (or more valuable) than their education. As a result, the access to education varies according to age but according to gender too. The large majority of the women said that their education was interrupted and stopped as they got married (between 15 to 19 years old), and survey results confirm this information (table 5-8), hence a gap between men and women literacy rates exists (62 percent of males can read and write against 54 percent of females).
### Table 5-8: Gender/Literacy Cross-Tabulation

<table>
<thead>
<tr>
<th></th>
<th>Cannot read or write</th>
<th>Can sign name only</th>
<th>Can read only</th>
<th>Can read and write</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>within sex</td>
<td>17.5%</td>
<td>19.6%</td>
<td>.6%</td>
<td>62.2%</td>
<td>100.0%</td>
</tr>
<tr>
<td>% of Total</td>
<td>9.1%</td>
<td>10.2%</td>
<td>.3%</td>
<td>32.2%</td>
<td>51.8%</td>
</tr>
<tr>
<td>Female</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>within sex</td>
<td>17.5%</td>
<td>26.6%</td>
<td>1.1%</td>
<td>54.8%</td>
<td>100.0%</td>
</tr>
<tr>
<td>% of Total</td>
<td>8.4%</td>
<td>12.8%</td>
<td>.5%</td>
<td>26.5%</td>
<td>48.2%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>within sex</td>
<td>17.5%</td>
<td>23.0%</td>
<td>.8%</td>
<td>58.7%</td>
<td>100.0%</td>
</tr>
<tr>
<td>% of Total</td>
<td>17.5%</td>
<td>23.0%</td>
<td>.8%</td>
<td>58.7%</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: community survey results

5.1.3 Social structures and livelihoods in rural Bangladesh

This sub-section examines the *household* as one of the key social structures in rural Bangladesh and emphasises the necessity to understand its structure, intra-dynamics, and functioning.

5.1.3.1 Households

Structures and dynamics of households can vary according to the socio-economic environment and to the culture. *Household* has become a generic term used by virtually all development actors and academics to refer to the social entity which they intend to impact on. It is necessary to re-define household in a way that comprehends its dynamics and inner power relations. In the traditional and patriarchal Bangladeshi culture, the family constitutes the

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50 1565 cases corresponds to the population above 12 years of age.
core and bounding of society. Family provides individuals with a social status and an identity to be recognised through by members of the society. In rural Bangladesh, a household refers to a complex family-based social unit composed of one to perhaps fifteen people who are often part of the same family but also “eat from the same pot”. Sharing the food generally implies that all the household members contributed to the functioning of the households and share risks, costs and benefits. Resilient family allegiance embeds mutual dependency and dominates over individual aspirations, responsibilities, needs and personal objectives. Each household member has distinct powers and specific roles depending on their age and sex which vary according to the socio-economic status of the family.

Although in Bangladesh, the dominating culture mainly complies with patriarchal traditions, roles and responsibilities are not set in stone. The roles and obligations of households’ members, the structure and the intra-household dynamics evolve and are slowly re-defined through negotiations amongst household members across generations. The socio-economic context, the culture and the religion determine the opportunities for change in the family.

5.1.3.2 GENDER AND AGE

The role of men and women are defined by cultural and religious norms. By tradition, men bear the financial responsibility of their household members by providing their labour to earn enough to cover their basic needs. It is the husband’s responsibility to provide their parents, wife and children with sufficient food and shelter and enforce obedience to family rules and decisions. Normally, new married couples settle with the husbands’ family and form a household. Elder males, despite their incapacity to labour, play a dominant role in the household as they have the power to dominate intra-households discussions. Their opinions have a significant weight in the negotiation process with their son and his wife about households’ matters. Monogamy is the norm, as the study encountered only four exceptions out of 490 cases (<1 percent).
Financially, most women are dependent on their husbands as they cannot provide any income. Because working for money is not the women’s role, husbands can consider it as a social disrepute if their wife work outside the home. The role of women in rural Bangladesh revolves as much as possible around domestic tasks and therefore most of them refer to their occupation as being *grihini* which literally means “housewife”. 96 percent of women respondents are housewives (the 4 percent left are to widows or abandoned women who work to survive).

Women’s social life is highly gender-differentiated and the large majority of rural Bangladeshi women practice moderate forms of *purdah* (the Bangla word for “curtain”). According to this tradition, women should remain separated from the public sphere (occupied by men) and limit their interactions with males. Roles, responsibilities and the structure of families can, however, vary according to the capabilities and the situation of the father. Many households are composed of eight or more members including the father and his wife, their sons, daughter-in-laws and grandchildren who take care of each other by providing care and support to younger and elder ones (health, food, clothing, education, social interaction). The number of healthy men who can labour often significantly contributes to building socially powerful and financially resilient families. Women’s role generally is to clean the vegetables, cut, cook, and prepare the meal for the family two to three times a day every day, they clean around the house, arrange the trees, collects the water, wash the clothes, look after the children and sometimes rear the poultry and livestock (chicken, ducks, goats, or cows).

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51 a woman working to generate an income can be an indicator of high vulnerability in rural Bangladesh (widowers, extreme poverty or husband’s serious illness).
5.1.3.3 Migration and Households’ Structure and Dynamics

The growing issue of migrated fathers can considerably disrupt the dynamics of the households (Ball and Wahedi, 2010). Both inner (rural to urban) and international migration became a major driver of social change in rural Bangladesh over recent decades and an integral part of the livelihood strategies of poor people (Khan and Seeley, 2005, Afsar, 2003). Though migration does not constitute the focus of this study, the large majority of respondents’ livelihoods were directly or indirectly affected by it in some ways, hence it constitutes one important element of their life to be considered here. Migration to bigger cities represents a considerable economic opportunity to work in the informal sector or in the formal garment manufacturing industry, rickshaw pulling and the domestic sector. Rural-urban migration accounts for about two-thirds of out-migration from rural areas, while rural-to-rural migration accounts for 10 percent of out-migration from rural areas, and 24 percent migrating abroad. Estimates by the Coalition for the Urban Poor indicate that migration into Dhaka is increasing by 6.3 percent annually (IOM, 2007). Living apart is sometimes indispensable for the husband to find a sustainable livelihood and provide enough money for their children, wives and parents. Sending a male member of the household abroad to Malaysia, Saudi Arabia, Singapore, or Kuwait to earn constitutes a challenging but foremost goal for many families.

In families where the husband has migrated (temporarily or indefinitely), the role of women changes. As they live alone with in-laws and children they become responsible for bringing up and providing care to the children. Despite the distance, fathers remain merely involved and the main decision-makers regarding the education of their children. Occasionally, they find a surrogate person for parenting their children (Ball and Wahedi, 2010). This role can often be assumed by their own father, a neighbour, an older brother or the child’s uncle. Problems however arise when husbands migrate and leave their families behind with no support.
The livelihoods of a female-headed household is complicated as a woman exposing herself in public spheres remains controversial and precarious (Joshi, 2004). In their daily life, it often means that they cannot go to the market to buy food, or that they will be over-charged, it means that if a child needs to be taken to the hospital they will face many obstacles to take him or her, they cannot ask for favours and help from neighbour males for household matters as they would feel lojja. This Bangla term refers to a concept that is between shyness and shame and that is used to qualify the way women might feel when they are in company of men. Lojja is apparent through women’s specific dress code (loose clothing and covering or hiding the top of their head) and obedience to adopt a ‘proper behaviour’ in the presence of males (not interrupting or not smiling or making inappropriate comments). This constrains the space women occupy and their opportunity to engage with the public sphere.

5.2 Vulnerabilities, Financial Concerns, and Coping Tactics

Section 5.1 provided definitions of poverty as reported by the communities. Poverty is distinguished from vulnerabilities, which is the focus of this section. Whereas poverty can often refer to the lack of financial, physical or human capital, vulnerability however refers to the susceptibility of people to experience poverty. This latter process is often driven by a number of predictable and unexpected factors which are explored in this section. Traditional coping tactics used by households in response to these shocks and events are often found to be limited.

5.2.1 Financial Concerns

Poor people manage the little money they earn to meet their daily needs in a risk-prone and unpredictable environment. Most incomes of households in rural Bangladesh are based on unreliable day-to-day or month-to-month work which is highly vulnerable to changes in the local economy, price fluctuation, climatic conditions and social conflict (Rutherford, 2009b). Poor people’s main
financial concerns are often interrelated. During the community-based fieldwork (survey and focus groups), they provided comprehensive explanations concerning the difficulties to meet basic needs. The analysis of the survey results and interviews identifies saving and spending patterns of the rural households.

Three major categories of outlays were identified: the “rudiments”\(^52\), the “predictables” and the “unexpected”. Firstly, “rudiments” refer to the most basic of daily expenditures: food. The issue of food in terms of quality and quantity is crucial to people’s livelihood and well-being. Secondly, “predictables” include expenses related to the life-cycle of a household and its members and which can be anticipated. In total, they comprise eight types of expected costs which are in chronological order: dowry, wedding costs and asset acquisition for new married couples, child-birth, education, house building and repair, lean month shortage, medication for elders, Eid day, Diwali, or Christmas celebrations, as well as burial ceremonies and funerals. Thirdly, the “unexpected” correspond to the sudden shocks and events that disrupt rural livelihoods and require urgent disbursement of significant amounts of money and a possible transformation of livelihood (Collins et al., 2009). Those shocks and events can be internal to the household (such as illness or death) or external to the household (flooding, cyclones, or the destruction or robbery of critical assets like rickshaw, sowing machine, cow or house). Outlays are analysed in details and contextualised below.

\(^52\) The term “rudiments” is introduced here to express how essential this type of expenditure is for survival.
5.2.1.1 THE “RUDIMENTS”

Food is the most critical expenditure for many rural households. It conditions the well-being of the household members in the short and longer term and their capacity to labour but it is also one of the most adaptable expenditures to reduce in times of crisis. In rural Bangladesh illness, physical weakness and injury of the income earner is one of the main causes of poverty. It was observed that one of the major purposes of meals is to maintain the income earner healthy enough to work and provide for his family. Food is a decisive determinant for labour which is one of the most vital and vulnerable resources of a household and usually only provided by the husband (or younger males). It is critical for poor and vulnerable households to ensure that the income-earner(s) get sufficiently nutritious food to ensure their fitness to work and earn.

Both the scarcity of food and the low quality of food can brutally accelerate household’s descent into poverty. The capabilities and healthy development of each household member and their physical resilience to diseases and illness is critically contingent upon nutrition. Food insecurity is an accurate indicator of high vulnerability and poverty as it points out an alarming dysfunction and level of vulnerability within the households’ livelihoods (table 5-9).

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53 Food insecurity was defined as the incapacity of the household members to feed themselves two to three times a day throughout the year (despite seasonality, harvest fluctuation and price inflation).
Table 5-9: Food insecurity rates\textsuperscript{54}

<table>
<thead>
<tr>
<th></th>
<th>Phamillia</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food insecurity (%)</td>
<td>38</td>
<td>40</td>
<td>46</td>
<td>31</td>
<td>39.2</td>
</tr>
</tbody>
</table>

Source: community survey results

5.2.1.2 The “predictables”

Marrying daughters

Marriage is an essential issue that is rooted in the specificities of culture and socio-economic contexts and often provides useful indications on the ways in which culture interlace with poverty. The Bangladeshi government has enacted the Dowry Prohibition Act in 1980 and 1986, yet to stop the perpetuation of the dowry system more than legislation will be required to challenge the patriarchal tradition of the Bangladeshi society. The costs associated with the wedding expenses and the dowry of a daughter represents a considerable expenditure which sometimes leaves poor households in vulnerable situations. Where and when this study has been conducted the age range of girls at the time of marriage is 15 to 19 (the age of girls at the time of marriage can be a good indicator of households’ vulnerability). Contrary to boys, girls often cannot become income earners and start pulling a van or helping their dad in a shop or selling vegetable in the market as it would not be socially acceptable. Because income-generating activities are largely administered by men, educating a girl represents a considerable investment and also opportunity costs that will generate limited (if any) economic returns.

\textsuperscript{54} Reported by respondents (question 10, part 3, appendix C)
CHILDBIRTH AND NEW FAMILY COSTS

After marriage the bride is sheltered in her husband’s family, where she contributes to the house chores, shares their food and raises their children. The subsequent costs associated (new clothes, the birth of the first child and medication) are most often shared between the wife’s and the husband’s families.

RELIGIOUS FESTIVALS

The different religions within Bangladeshi society (Hindus, Muslims and Christians) have major festivals (Eid, Diwali, and Christmas) which give rhythm to villagers’ lives and contribute to strengthening social cohesion amongst rural communities. Practicing their religion and celebrating cultural and religious events incur expenses (to buy a cow, sweets, a new saree, bangles or gifts) and failing to afford them can lead to the exclusion (often self-exclusion) to taking part in those events, and can constitute an accurate indicator of poverty. When they can afford to, households save up in expectation of these predictable expenses.

EDUCATION

The importance of education is now acknowledged by most households in rural Bangladesh (section 5.1). Generally, household head respondents acknowledge the importance of enrolling children at school. Education takes an important share in households’ financial concerns and absorbs a significant part of their income (transportation, stationery, school dress or books) (table 5-11). Interestingly, gender discrimination in the public life appears to affect the access to education in an unexpected way. In vulnerable households it is now common to see the sons interrupting their schooling in order to pay for their sisters’ education-related expenses. Respondents explain that they cannot afford all their children’s school expenditures and that they would rather drop
him out of school and send him to work because girls cannot work and get their daughter educated.

**BUILDING A HOME**

Constructing their own home is one of the most important steps in a household life-cycle. Most respondents remember the exact year when they erected their own house. In financial concerns of respondents housing was not a pre-coded answer and was therefore categorised under the “asset acquisition” category (table 5-11). The importance and need for frequently repairing homesteads was confirmed by multiple sources (survey, in-depth interviews and focus group discussions) as in the studied population, 174 households are living in inadequate and hazardous conditions failing to protect them from the wind and the rain (table 5-10). Costs associated with securing a house are considerable given that it requires raising the ground, erecting the foundations with concrete pillars and constructing walls and roof with new tins.
### Table 5-10: Housing Conditions across Villages (Counts of Households and Percentages)\(^{55}\)

<table>
<thead>
<tr>
<th>Rating criteria</th>
<th>Phamillia</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 No door, unable to stand in the home, very poor (or no) sanitation. Extremely vulnerable to the wind and rains (roof and walls made of straw, plastic, cement bags or coconut tree leaves)</td>
<td>10</td>
<td>6</td>
<td>24</td>
<td>13</td>
<td>53</td>
</tr>
<tr>
<td>2 Small homestead (one room) made of bamboo sticks and plastic bags. Have a bed but no basic furniture, no solid foundations</td>
<td>42</td>
<td>26</td>
<td>38</td>
<td>15</td>
<td>121</td>
</tr>
<tr>
<td>3 House with one</td>
<td>62</td>
<td>37</td>
<td>72</td>
<td>78</td>
<td>249</td>
</tr>
</tbody>
</table>

\(^{55}\) Based on a scale of personal observations (appendix C, part 2)
<table>
<thead>
<tr>
<th>Room.</th>
<th>Roof and walls typically made of tins. Some concrete foundation and pillars to hold the walls</th>
<th>48%</th>
<th>40.2%</th>
<th>49%</th>
<th>64%</th>
<th>50.8%</th>
</tr>
</thead>
<tbody>
<tr>
<td>4</td>
<td>House with multiple rooms. Metal roof and walls. Windows and big furniture. Concrete flooring</td>
<td>15</td>
<td>15</td>
<td>9</td>
<td>13</td>
<td>52</td>
</tr>
<tr>
<td></td>
<td></td>
<td>11.6%</td>
<td>16.3%</td>
<td>6.1%</td>
<td>10.6%</td>
<td>10.6%</td>
</tr>
<tr>
<td>5</td>
<td>House with more than one room and a communal area for guests. Concrete walls, flooring and latrines and a solid metal roof</td>
<td>0</td>
<td>8</td>
<td>4</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td></td>
<td>NIL</td>
<td>8.7%</td>
<td>2.7%</td>
<td>2.4%</td>
<td>3%</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>129</td>
<td>92</td>
<td>147</td>
<td>122</td>
<td>490</td>
</tr>
<tr>
<td></td>
<td></td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: community survey results

**SAVING FOR LEAN MONTHS**

Most households in rural Bangladesh are directly or indirectly affected by seasonality, whether their livelihood rely on agriculture or not (Rutherford,
Different livelihood strategies are affected differently and with different intensity by climatic conditions, seasonality and their implications. Respondents reported that the worst time of year are the months of October and November as food (especially rice) becomes scarce and food prices increase. Therefore, significant variations in food production (following the harvest cycles) affect the availability of food in rural areas, the price of food and so the food consumption of households. Naturally, the households mostly affected by those predictable variations are the poorest and vulnerable households. Therefore, it is one of their primary concerns to save money or food for hardship.

About two-thirds of rural wage-labour in the studied villages relies on outdoor activities (rickshaw or van pulling, construction sites, brick mill, and earth work labour) and are exposed to difficult weather conditions. For example, a rickshaw puller working under the heavy monsoon rain (June to August) or cold winters needs energy and nutritious food to provide good labour. Out-door labourers are exposed to extreme weather conditions and precarious working conditions which can affect their labour and ability to earn.

MEDICATION FOR CHILDREN AND ELDERS

The husband’s parents are an integral part of the household, and often considered as the household’s head. People’s health generally starts declining around the age of 65 and it is the responsibility of household members to look after the elders and provide the care they need. These expenses are predictable as the deterioration of the health of elders is part of the life-cycle of any household. Similarly, the health care required to keep a baby healthy and to make sure that his vital functions develop effectively (especially during the first two years) is critical for the children’s future physical and mental abilities. However, households often cannot save ahead and address the health problems of their parents and baby when they arise. Costs associated with treatment of a disease are consequent for vulnerable households and absorb a large part of their income (table 5-11).
FUNERALS AND BURIALS

The predictable expenditures including costs related to the funerals and burials of a relative are often an anxiety for poor rural households. Some households admitted that they managed to plan ahead and have saved a small amount in case of death of a parent, while others disclosed that they had to wait for a few days to mobilise enough money before they could proceed with the burial. When their financial situation does not allow poor households to afford a basic burial procession and ceremony after the death of a relative, it is considered by them and by the community as a failure to honour the memory of the dead and lacking the most rudimentary duty one has regarding their family members. This is also an accurate indicator of poverty.

5.2.1.3 THE “UNEXPECTED”

It is widely recognised that the income of poor households is small and irregular. It is important to recognise similar unpredictability in the way they spend money (Collins et al., 2009). Poor people intend to save for various needs and events (reviewed previously). However, their capacity to save is impeded by emergencies (internal or external to the household) that unexpectedly absorb their reserves and future earnings (if any). Unexpected emergencies can be internal to the household (sudden illness or intra-household conflict) or external to it like any climatic shock (cyclone, heavy rainfall, floods) or events (fire, house destruction, robbery).

One of the main internal household emergencies concerns household members’ sudden illness which can often incur considerable financial and social costs (Collins et al., 2009, Rutherford, 2009b). Expenses associated with transportation to the hospital, medical care, home-base care and medication represent (especially for prolonged illness) important financial and opportunity costs (labour days lost) that disrupt the household’s livelihood engage major outlays and savings with little guarantee of betterment. The repeated, temporary or prolonged illness or death of the income earner can leave a
female–headed household in a situation of serious financial distress, economic vulnerability and social exclusion as the wife would have to assume his financial and social responsibilities (Joshi, 2004).

Moreover, social conflicts and insecurity (notably over assets ownership) have been common topics emerging in informal conversations with local people, in focus group discussions, in-depth-interviews and confirmed by the head of the village and police officers. Conflicts over assets or land ownership, family rejection, and power altercations (domestic or between neighbours or community) can lead to robbery, violence, destruction of assets and sometimes law cases which incur significant expenses which represent a major financial concern for poor households (table 5-11).
### Table 5-11: Main Financial Concerns of Households by Village

<table>
<thead>
<tr>
<th>Concern</th>
<th>Phamillia</th>
<th>Rickshapoorn</th>
<th>Bhaatbag</th>
<th>Saripur</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>The rudiments:</strong> Food</td>
<td>19.5%</td>
<td>25%</td>
<td>25.2%</td>
<td>14%</td>
<td>20.8%</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>23</td>
<td>37</td>
<td>17</td>
<td>102</td>
</tr>
<tr>
<td><strong>The predictables:</strong> Education</td>
<td>30%</td>
<td>28.2%</td>
<td>25.2%</td>
<td>47%</td>
<td>32.5%</td>
</tr>
<tr>
<td></td>
<td>39</td>
<td>26</td>
<td>37</td>
<td>57</td>
<td>159</td>
</tr>
<tr>
<td>Dowry</td>
<td>2.3%</td>
<td>1%</td>
<td>.6%</td>
<td>NIL</td>
<td>1%</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>NIL</td>
<td>5</td>
</tr>
<tr>
<td>Medical care</td>
<td>6.2%</td>
<td>6.5%</td>
<td>7.5%</td>
<td>5.7%</td>
<td>6.5%</td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>6</td>
<td>11</td>
<td>7</td>
<td>32</td>
</tr>
<tr>
<td>Migration</td>
<td>NIL</td>
<td>1%</td>
<td>3.5%</td>
<td>4%</td>
<td>2%</td>
</tr>
<tr>
<td></td>
<td>NIL</td>
<td>1</td>
<td>5</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Asset acquisition</td>
<td>31%</td>
<td>24%</td>
<td>25.2%</td>
<td>25.4%</td>
<td>26.5%</td>
</tr>
<tr>
<td></td>
<td>40</td>
<td>22</td>
<td>37</td>
<td>31</td>
<td>130</td>
</tr>
<tr>
<td>Wedding costs</td>
<td>4.6%</td>
<td>3.2%</td>
<td>4.8%</td>
<td>2.4%</td>
<td>3.8%</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>3</td>
<td>7</td>
<td>3</td>
<td>19</td>
</tr>
<tr>
<td>Loan repayment to: Bank</td>
<td>NIL</td>
<td>1%</td>
<td>NIL</td>
<td>NIL</td>
<td>.2%</td>
</tr>
<tr>
<td></td>
<td>NIL</td>
<td>1</td>
<td>NIL</td>
<td>NIL</td>
<td>1</td>
</tr>
<tr>
<td>MFI</td>
<td>4%</td>
<td>1%</td>
<td>5.5%</td>
<td>.8%</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>1</td>
<td>8</td>
<td>1</td>
<td>15</td>
</tr>
<tr>
<td>Relative</td>
<td>NIL</td>
<td>NIL</td>
<td>1.3%</td>
<td>NIL</td>
<td>.4%</td>
</tr>
</tbody>
</table>

---

56 According to households’ most imminent financial concern (appendix C, part 3, question 6, code 12). Households could only provide one answer.
This sub-section analyses the ways in which people adapt their livelihoods and resources to address shocks and events. It considers different patterns of resource adaptation within households and resource mobilisation through external informal networks. The analysis of the community study shows that rural livelihoods in Bangladesh are often disrupted by unpredictable shocks and events to which households are compelled to adapt to.

What do households adapt to and how do they do so? Mainstream literature and policy-makers use the term “coping strategies” to refer to the phenomenon through which households cope with shocks and event and mitigate risks associated with them. However, defined as a “skilful use of a stratagem” or “a plan, method, or series of manoeuvres or stratagems for obtaining a specific goal or result” (the Random House Dictionary, 2011) the term “strategy” calls on a calculative behaviour and planned development. Because poor households’ livelihoods are dominated by constraints rather than choices, the term “strategy” is inadequate. This term can lead to misinterpretations of the complex dynamics involved in the process and the causes that push households to adopt short-term tactics. Households are not in a position to make conscious and informed decisions nor have opportunities and resources to choose other ways to cope with shocks and events.
Their tactics result from the lack of (or very little) choice and opportunities households have to build and pursue a livelihood strategy. Reducing food consumption (or quality), selling a cow, borrowing money from a friend or pushing sons to drop-out of school to work and earn to cope with a shock or event are often last resort tactics rather than choices. In times of crisis and hardship, it is the combination of the state of poverty and high vulnerabilities of households which hinders households’ ability (lack of time and sufficient resources) to frame an effective livelihood strategy to sustain or improve their well-being.

5.2.2.1 Extra work

Labour is the most important and vulnerable resource households have and use to cope with shocks and events. However, working more or harder constitutes an adaptation tactic which includes serious limitations and risks. Often income-earners work already as many hours as they can and being pushed to provide more labour can endanger their health. Besides, in times of crisis the availability of extra work is not guaranteed (unemployment, little market opportunities, market saturation). Moreover, one of the major sources of vulnerability is health. In case of disease, illness or disability of one of the income earners in the household (labouring males) whether it is occasional, temporary or long-term, has serious implications on the households’ income and livelihood tactic and can compel women to work.

Women looking for paid work face considerable social and practical barriers which incur a lengthy and precarious process and can worsen their vulnerability. The author interviewed old women and girls who mobilised themselves to find paid jobs and provide food and medication for their husbands or fathers. Off record, they explained that despite their determination to work, the psychological pressures (from their peers, family members and the community members) that they face when leaving the homestead to labour in the fields, on construction sites or brick mills are challenging for them.
5.2.2.2 SELLING ASSETS

The qualitative analysis shows that in the population studied, renting or selling assets (jewellery, land, livestock or furniture) is commonly used by a majority of households when shocks or events occur. In case of illness of the income-earner, his wife has urgent needs for cash to provide the necessary medication to her husband and feed the children. Selling assets is a way to access cash rapidly for households who own valuable assets. Very poor households often cannot use this tactic as they have no or few assets to sell. Therefore, acquiring assets constitutes a tactic that vulnerable households use to build a buffer in perspective of potential shocks or emergencies. Although they acknowledge that saving lump sums for acquiring assets is critical, the saving process is considered as “tiresome” and requires them to plan investment for future events that might not happen. Saving represents high opportunity costs and efforts for people who live on small and unreliable incomes.

5.2.2.3 INFORMAL BORROWING

The use of the sustainable livelihoods framework often offers a perspective on livelihoods which lack dynamism (regarding the relationships between different types of capitals). Borrowing money from informal networks like family, neighbours, friends or money-lenders is common amongst communities, whether the money is used for predictable expenses (daughter’s wedding or productive investment) or unexpected needs (illness, asset destruction, death of a relative or accident). This form of informal lending remains an important dimension of people’s livelihood and financial lives and is one of the most common ways through which households mobilise resources. The access to peer networks often depends on households’ level of connectedness and reputation in the community (section 5.1.2). It represents a rapid way to address an urgent need of liquidity in a manner which does not require going to the town, facing bureaucrats, speaking to strangers about financial matters, and taking the risk of being rejected. Informal dealings with peers and relatives who understand the unpredictability of livelihoods are often flexible (possibilities of re-scheduling repayment).
### Table 5-12: Source of Cash in Case of Emergency

<table>
<thead>
<tr>
<th></th>
<th>Phamilla</th>
<th>Rickshapoor</th>
<th>Bhaatbag</th>
<th>Saripur</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own savings</td>
<td>7.7%</td>
<td>10.8%</td>
<td>7.5%</td>
<td>32.5%</td>
<td>14.5%</td>
</tr>
<tr>
<td></td>
<td>10</td>
<td>10</td>
<td>11</td>
<td>40</td>
<td>71</td>
</tr>
<tr>
<td>Selling assets</td>
<td>11.6%</td>
<td>6.5%</td>
<td>8%</td>
<td>5%</td>
<td>8%</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>6</td>
<td>12</td>
<td>6</td>
<td>39</td>
</tr>
<tr>
<td>Extra work</td>
<td>8.5%</td>
<td>3.8%</td>
<td>6.8%</td>
<td>3.3%</td>
<td>5%</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>4</td>
<td>5</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td>Borrow from:</td>
<td>1.5%</td>
<td>NIL</td>
<td>NIL</td>
<td>NIL</td>
<td>.4%</td>
</tr>
<tr>
<td>NGO</td>
<td>2</td>
<td>NIL</td>
<td>NIL</td>
<td>NIL</td>
<td>2</td>
</tr>
<tr>
<td>Bank</td>
<td>8.5%</td>
<td>3.8%</td>
<td>2%</td>
<td>NIL</td>
<td>3.5%</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>4</td>
<td>3</td>
<td>NIL</td>
<td>18</td>
</tr>
<tr>
<td>MFI</td>
<td>27.3%</td>
<td>42%</td>
<td>43.5%</td>
<td>33.6%</td>
<td>36%</td>
</tr>
<tr>
<td></td>
<td>35</td>
<td>38</td>
<td>64</td>
<td>41</td>
<td>178</td>
</tr>
<tr>
<td>Family</td>
<td>17%</td>
<td>14.4%</td>
<td>16.3%</td>
<td>11%</td>
<td>15%</td>
</tr>
<tr>
<td></td>
<td>22</td>
<td>13</td>
<td>24</td>
<td>14</td>
<td>73</td>
</tr>
<tr>
<td>Neighbour</td>
<td>11.6%</td>
<td>8.6%</td>
<td>7.5%</td>
<td>8.1%</td>
<td>9.5%</td>
</tr>
<tr>
<td></td>
<td>15</td>
<td>8</td>
<td>14</td>
<td>10</td>
<td>47</td>
</tr>
<tr>
<td>Money-lender</td>
<td>3.1%</td>
<td>7.6%</td>
<td>3.2%</td>
<td>7%</td>
<td>4.7%</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>7</td>
<td>5</td>
<td>7</td>
<td>23</td>
</tr>
<tr>
<td>No option</td>
<td>3.1%</td>
<td>2%</td>
<td>6%</td>
<td>NIL</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>2</td>
<td>9</td>
<td>NIL</td>
<td>15</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>129</td>
<td>92</td>
<td>147</td>
<td>122</td>
<td>490</td>
</tr>
</tbody>
</table>

Source: community survey results

#### 5.2.3 Risks and Limitations of Informal Networks

The vulnerable poor adapt their livelihoods and mobilise resources through complex tactics which incur serious limitations and constraints. The main
financial and social limitations to these informal coping tactics are analysed below.

5.2.3.1 **FINANCIAL LIMITATIONS AND RISKS**

Borrowing cash from peers and relatives is a limited and possibly risky tactic. The quantity of resource (money or asset) available is limited and the money borrowed from peer networks might not be sufficient or available at the time of crisis. Because lenders and borrowers experience similar contextual risks and livelihoods, lenders’ capacity to lend money is uncertain, low and unreliable. Moreover, multiplying informal lending sources makes the financial lives of the poor more in some ways more difficult to manage and can contribute to creating conflicts amongst community members by interlacing social networks with financial dealings. Money-lenders on the other hand often represent an alternative to access liquidity in the village. However, while loans from peers or relatives are often virtually free, the interest rates practiced by money-lender are often a barrier for poor households. When financial risks are too high, vulnerable households often prefer to avoid them.

5.2.3.2 **SOCIAL LIMITATIONS AND RISKS**

For the population studied, most livelihood tactics pursued significantly rely on households’ access to social networks. Because of their limited access to reliable social networks, and their low capacity to repay, poor households are generally considered too risky and find themselves excluded from informal solidarity networks in their community. Besides, the poorest often self-exclude themselves from those transactions to avoid the risk and the humiliation of failing to repay their peers. In fact, informal lending practices almost always imply a degree of reciprocity between the two parties.

In rural Bangladesh, the access to informal finance networks is (to a great extent) conditional upon social connections, therefore, the fear of eroding those networks and become marginalised can prevent the poor from accessing them.
The risks of borrowing from peer networks can include public embarrassment, shame, bad reputation (on the entire family) and potential conflicts in case of bad repayment. Because relatives and peers often lend money out of a mixed sentiment of care and duty, the implications of financial transactions can be intricate in case of default. Non-payment brings shame and guilt upon the defaulter and contributes to wearing away their social connections. Financial transactions amongst community members can either bring the members closer together or negatively affect the social cohesion by changing the nature of their relationships binding them. Respondents said that to avoid jeopardizing their social networks they would rather borrow money from money lenders, who are often outside their circle of trust, despite the extra costs incurred.

Borrowing money from money-lenders involves a different type of relationship between the borrower and the lender which is closer to a patron/client relation with a defined hierarchy and forms of formality (which is virtually non-existent in peer-to-peer lending). Sometimes this relationship becomes easily exploitative for borrowers. As an example, violent encounters can occur between money lenders and borrowers. During the community study respondents reported that when they defaulted or delayed the repayment of their loan to money-lenders, their house was relentlessly broken down every week during three months. Money-lenders are aware of how lending money entrenches both financial and emotional pressures which they sometimes use as a tool for repayment. For example, borrowers said that they feel insulted and humiliated as they were regularly asked for repayments by money-lenders in public places.

Peer lending does not always entail mutual trust, good intentions or altruism and certainly is not free of risk. In fact, community members in the four villages repeatedly explained how they have been cheated by their peers or relatives on financial transactions (who claimed that the money has not been repaid or not in due time) and how the lack of formality and the absence of written contracts makes those transactions defective. There is rarely any evidence or trace of such agreements and it is often impossible to settle a
dispute and stop lenders from threatening, excluding, stealing or destroying assets or exerting violence on the borrower and his/her relatives.

5.2.3.3 The poverty assessment

The survey is based on both quantititative and qualitative assessments of non-monetary dimensions of livelihoods to assess the vulnerability and poverty level of rural households. It enabled the author to analyse interrelationships between livelihood capitals of the poor’s portfolio and capture context-specific poverty dynamics. Rural livelihoods are unstable, unpredictable and often unreliable, and therefore so are their financial and social lives. Despite their lack of assets and opportunities, the resourcefulness of vulnerable rural households enables them to adopt one or a combination of tactics to temporarily cope with shocks.

However, the persistence of shocks prompting short-term tactics impedes on households’ self-determination and prevents them from pursuing a livelihood strategy. They have aspirations, such as providing three meals a day to households’ members, educating their children, marrying their daughters, investing in a machine or building a house. Coping with shock and events disrupt their livelihoods and transform it into series of consecutive short-term tactics which absorb their income and energy diverting them from building resilience. Table 5-13 illustrates the poverty assessment tool, the main outcome generated by the survey which was used to rigorously assess households’ level of poverty (non-poor, poor and very poor) according to food security and nutrition (average), financial concerns, and housing conditions\(^{57}\), and to select them for the qualitative sequence (section 4.3).

---

\(^{57}\) Criteria were identified through personal observations and informal discussions with community members.
### Table 5-13: The 3-Dimensioned Poverty Categorisation

<table>
<thead>
<tr>
<th>Dimension</th>
<th>Non-poor</th>
<th>Poor</th>
<th>Very poor</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nutrition and food security</td>
<td>• manage to maintain a sufficient quantity of food for household members throughout the year (answer 1 to the question 9.2)</td>
<td>• generally can ensure enough food throughout the year but are vulnerable to seasonality, though includes other households that cannot (both answer 1 or 2 to question 9.2).</td>
<td>• cannot maintain enough food for their family throughout the year (answer 2 to question 9.2)</td>
</tr>
<tr>
<td></td>
<td>• can afford to feed other people (non-relatives) without having to give away their own food (answer 1 and 2 to question 9)</td>
<td>• cannot afford to feed any non-relatives without having to give from their own food (answer 3, 4 and 5 to question 9)</td>
<td>• have no option to feed anyone else (answer 5 to question 9)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• qualify their food quality as 'amongst the worst' (answer 5 to question 11)</td>
</tr>
</tbody>
</table>

---

58 Appendix C parts 2 and 3
<table>
<thead>
<tr>
<th>Housing conditions</th>
<th>Financial concerns</th>
</tr>
</thead>
<tbody>
<tr>
<td>- can maintain a higher nutrition level (eating meat, milk, chicken, eggs) (answer 1 and 2 to question 11)</td>
<td>- have their own savings as buffer for emergency and concerns: asset acquisition as a</td>
</tr>
<tr>
<td>- have an average or worse than average quality of food (answer 3 or 4 for question 11): meat once a month or once every three months.</td>
<td>- do not have enough saving or family support for financial emergency and who would have to borrow money from</td>
</tr>
<tr>
<td>- consider their home as 'the best', 'amongst the best' as compared to surrounding houses in the village (answer 1, 2 and 3 to question 8)</td>
<td>- live in 'huts' made of different types of materials</td>
</tr>
<tr>
<td>- 4 to 5 on personal observation scale</td>
<td>- very vulnerable to climatic conditions</td>
</tr>
<tr>
<td></td>
<td>- would qualify their home as 'amongst the worst' or 'the worst' (answer 6 or 7 to question 8)</td>
</tr>
<tr>
<td></td>
<td>- 1 or 2 on the personal observation scale</td>
</tr>
<tr>
<td></td>
<td>- have no (or very little) savings</td>
</tr>
<tr>
<td></td>
<td>- very little or no social network</td>
</tr>
<tr>
<td></td>
<td>- either borrow from MFI, sell</td>
</tr>
</tbody>
</table>
| major strategy (car, fridge, machine) | external sources such as: neighbours, banks, MFIs or money lenders  
  - concerns: housing conditions, debt(s), education, medication or dowry | asset, do some extra work, or have no option for source of cash  
  - financial concern: medication or food |

Source: the author
5.3 Conclusion

This chapter demonstrated that poor people manage their money to meet daily needs (the rudiments) to face life-cycle events (the predictables) and address shocks and events (the unexpected). Vulnerabilities and the fear of taking risks reduce households’ scope for strategic choices and limit their room of manoeuvre by reducing their capacity to plan and pursue a livelihood strategy and by absorbing their energy and earnings through short-term coping tactics. Social connections and networks play an important role in rural households’ financial lives because they often determine their ability to mobilise resources in time of crisis (access to peer-to-peer solidarity networks, work opportunities). Women (more than men), are subjected to specific norms (cultural and social) which tend to increase their vulnerability within the household and within the community. Identifying informal resource adaptation and mobilisation tactics (their risks and limitations for well-being) and segmentation criteria for vulnerable rural households is necessary knowledge to understand the role and implications of microfinance on rural vulnerabilities and poverty.

This chapter demonstrated that although those concepts might be associated (poverty might induce vulnerability and vulnerability can lead to poverty) they however remain two different phenomena and should be addressed as such. Because under certain circumstances those two occurrences might overlap, their particularities are often concealed, creating misconceptions around poverty issues. Chapters six and eight build up on this argument by giving rural households’ insights with respect to microfinance’s outcomes (chapter six) and analysing the implications of MFI’s practices for clients’ vulnerability and poverty (chapter eight).
6. **Microfinance: claims and evidence**

Chapter six brings the voices of communities to the forefront of the study of microfinance’s social performance. It uses these views to analyse discrepancies between microfinance discourse and communities’ experiences in rural Bangladesh\(^59\). Although microfinance is intended to reduce poverty and empower women, the community study provides evidence that these claims need to be moderated. It argues that experiences of microfinance loans can vary significantly according to the initial asset endowment and socio-economic situation of households. It argues that microfinance can exacerbate the impact of household vulnerabilities on livelihoods. Furthermore, women rarely have the decision-making power to borrow money or the power to choose how loans are spent and repaid. Community members consistently reported that rigidity in weekly repayment is often enforced through pressures on women from the household, community and MFI. These pressures can lead to households adopting coping tactics that can have long term negative consequences for their wellbeing (over-indebtedness, multiple client-ship or debt circle). These findings question the achievements of microfinance on women’s empowerment and poverty reduction, and highlight MFI behaviour that could be considered institutional malpractice.

Section 6.1 analyses the diversity in the use of microfinance loans and explores the implications loans can have for different types of households. Section 6.2 examines processes that can create indebtedness and gives accounts of MFIs’ malpractices, abuses and breaches of ethics, and analyses their effect on borrowers’ livelihoods.

\(^{59}\text{It uses lightly edited quotations to illustrate respondents’ diverse personal experiences as accurately as possible whilst enhancing their readability and complying with ethical standards.}\)
6.1 Schisms between Theory and Evidence

This section, on the basis of quantitative and qualitative data, identifies and analyses gaps between expectations and clients’ experiences of microfinance. It finds that households face difficulties doing what they want with loans whilst still meeting their basic needs and limiting any negative impact on their wellbeing (chapter five). This evidence questions the potential of microfinance to address firstly households’ needs and secondly clients’ vulnerabilities.

6.1.1 Rural Microfinance: Quantitative Analysis

One of the main intended effects of microfinance is household poverty reduction. Because rural households have diverse needs and limited economic opportunities (chapter five) the proliferation of MFIs in villages increases their opportunity to access finance from formal sources. The expectation is that the increased access to finance to the poor would provide them with the means to reduce their vulnerability, increase their income and improve their well-being. This sub-section briefly describes the context of the population studied and presents an analysis of the data generated by the community survey. According to the quantitative data analysis (descriptive statistical analysis and a full factorial ordinal logistic regression), the poverty reducing effect of microfinance does not meet the high expectations of microfinance advocates (chapter two) and has a polarizing effect on client households (better positive effects on richer households and more negative effects on poorer households) which corroborates Hulme and Mosley’s (1996) and Copestake’s conclusions (2002).

6.1.1.1 Descriptive Data Analysis of Quantitative Data

13 MFIs operate in the four villages studied. These MFIs include different types of formal institutions: national NGOs, commercial banks, International NGOs, state banks, government-initiated programs and local NGOs: Grameen Bank, ASA, BRAC, BURO, SETU, Society, Vumihin, SEBA, Caritas, BASA, BUSA, Palli Daridra and Islami Bank. These institutions combined have
provided loans to a sizeable majority of the population studied. Altogether 60 percent of people were current-client households, 5 percent former-clients and 35 percent of households have never used and are not registered with any MFI. In the absence of a baseline study against which the author could compare client, non-client and former-client poverty statuses over time, households’ reported perceptions of well-being variation are used. We can compare the general consequences of loans by comparing the fortunes of clients and former-clients with those of non-clients over a five year period. These however can be influenced by unobservable endogenous factors outside of microfinance which are not captured by this study. Given the scope of the survey and the limitations highlighted above the data analysis presented below serves descriptive purposes on which qualitative data builds.

**TABLE 6-1: % OF HOUSEHOLDS BY LIVELIHOOD TRAJECTORIES**

<table>
<thead>
<tr>
<th></th>
<th>Improving</th>
<th>Stable</th>
<th>Declining</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>cts*</td>
<td>%</td>
<td>cts</td>
<td>%</td>
</tr>
<tr>
<td>Client and former-clients</td>
<td>108</td>
<td>33.9%</td>
<td>113</td>
<td>35.4%</td>
</tr>
<tr>
<td>Non-clients</td>
<td>46</td>
<td>26.9%</td>
<td>85</td>
<td>49.7%</td>
</tr>
</tbody>
</table>

*cts: counts, number of households

Source: community survey results

Firstly, according to the figures in table 6-1, current-clients and former-clients are more likely than non-clients to have experienced noticeable livelihood changes in the last five years. Non-clients’ livelihoods are more likely to have not experienced variation and be stable (50 percent). Because the purpose of this study is to understand the effect of microfinance on livelihoods, the first chi-square test considers the difference between the livelihoods of households who have used or still use microfinance (former and current-clients) and those who have never used microfinance. The variation in livelihoods of current or
former-client households is significantly different from non-clients’ livelihoods with both more improvement and decline ($\chi^2 = 10.38; p=0.03; df=2$). The survey data suggests that microfinance introduces significantly more dynamism into livelihoods, but, and this is crucial, it is associated with both positive and negative changes.

**Table 6-2: Households livelihood trajectories by MFI status**

<table>
<thead>
<tr>
<th></th>
<th>Improving</th>
<th>Stable</th>
<th>Declining</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>cts*</td>
<td>Cts</td>
<td>cts</td>
<td></td>
</tr>
<tr>
<td>Current-clients</td>
<td>102</td>
<td>101</td>
<td>88</td>
<td>291</td>
</tr>
<tr>
<td></td>
<td>35%</td>
<td>34.7%</td>
<td>30.2%</td>
<td></td>
</tr>
<tr>
<td>Former-clients</td>
<td>6</td>
<td>12</td>
<td>10</td>
<td>28</td>
</tr>
<tr>
<td></td>
<td>21.4%</td>
<td>42.8%</td>
<td>35.7%</td>
<td></td>
</tr>
<tr>
<td>Non-clients</td>
<td>46</td>
<td>85</td>
<td>40</td>
<td>171</td>
</tr>
<tr>
<td></td>
<td>26.9%</td>
<td>49.7%</td>
<td>23.4%</td>
<td></td>
</tr>
</tbody>
</table>

*cts: counts, number of households

Source: the survey

Secondly, the results of the second chi-square test indicate a significant difference between current-clients’ and former-clients’ livelihood trajectories ($\chi^2=8.823; p=0.01; df=2$) (table 6-2). This could indicate that microfinance has a different impact on the livelihoods of households who used to use microfinance compared to current-clients’. Former-clients seem to be more likely to experience decline and less likely to experience improvement, compared to current-clients. Current-clients appear to be more likely to improve their livelihoods than both former and non-clients.

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60 Livelihood trajectories have been studied via the survey by asking respondents about major livelihood changed in the last five years. Six answers were possible, categorised into three groups: improving, stable and declining.
From a poverty graduation perspective, analysis suggests that the effect of microfinance differs by household poverty status. Results suggest that microfinance represents a risky livelihood strategy, especially for the poorest and to a lesser extent, for the poor. The data suggests that participation in microfinance is more associated with the livelihood improvements of the non-poor than the poor. The data shows that though 35 percent of current-clients are improving, 34 percent are stable and 30 percent are declining (table 6-2), when considering the poverty status of households it is clear that the poorer households are, the less likely they are to experience livelihood improvements (table 6-3).

**Table 6-3: Households livelihood trajectories by MFI and poverty status**

<table>
<thead>
<tr>
<th></th>
<th>Improving</th>
<th>Same</th>
<th>Declining</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current-clients</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-poor</td>
<td>29</td>
<td>10</td>
<td>5</td>
<td>44</td>
</tr>
<tr>
<td>Poorest</td>
<td>54</td>
<td>63</td>
<td>33</td>
<td>150</td>
</tr>
<tr>
<td>Very poor</td>
<td>19</td>
<td>28</td>
<td>50</td>
<td>97</td>
</tr>
<tr>
<td><strong>Total current-clients</strong></td>
<td>102</td>
<td>10</td>
<td>88</td>
<td>291</td>
</tr>
</tbody>
</table>

|                     |            |      |           |       |
| **Former-clients** |            |      |           |       |
| Non-poor            | 1          | 1    | 0         | 2     |
| Poor                | 3          | 7    | 3         | 13    |
| Very poor           | 2          | 4    | 7         | 13    |
| **Total former-clients** | 6 | 12   | 10        | 28    |

|                     |            |      |           |       |
| **Non-clients**     |            |      |           |       |
| Non-poor            | 15         | 15   | 3         | 33    |
| Poor                | 29         | 46   | 18        | 93    |
| Very poor           | 2          | 24   | 19        | 45    |
| **Total non-clients** | 46 | 85   | 40        | 171   |

* cts: counts, number of households

Firstly, the data in table 6-3 indicates that poorer households face more difficulties in trying to improve their livelihoods. Results indicate that very
poor households experienced decline more often (49 percent, 76 out of 155 households) than the poor (21 percent, 54 out of 256 households) and non-poor (10 percent, 8 out of 79 households). This is evidence that, regardless of whether households borrow, have borrowed or have never borrowed from MFIs, very poor households in the studied population are generally more likely to experience livelihood decline.

Secondly, regarding the association between loans and well-being variations, table 6-3 shows that very poor clients and very poor former-clients are the two groups which are more likely to experience livelihood decline (compared to the other 25 groups). It is clearly difficult for very poor households to improve at all with or without microfinance. 51 percent of very poor current-clients and 54 percent of very poor former-clients’ experienced livelihood decline against 22 and 23 percent for poor clients and poor former-clients, and 11 percent and 0 percent for non-poor clients and non-poor former-clients. Livelihood improvements are more likely to be experienced by wealthier households, whether they are current-clients, former-clients, or non-clients (table 6-3). In the studied population, only 15 percent of the very poor households have improved (23 out of 155 very-poor households) against 33.5 percent of the poor (86 out of 256 poor households) and 57 percent of the non-poor households (45 out of 79 non-poor households).

Thirdly, very poor clients seem more likely than very poor non-clients and very poor former-clients to experience livelihoods improvement. The data indicate that microfinance generates dynamism in the lives of the poorest clients (both downwards and upwards). Table 6-3 shows that the very poor only experience more stability (53 percent) than decline (42 percent) when they are non-clients compared to approximately 30 percent for both very poor former and current-clients. 20 percent of very poor current-clients have experienced improvement whilst less than 5 percent of very poor non-clients did so. For the poorest it is clear that while borrowing from MFIs may represent one of the few means to livelihood improvement it can also be a risky strategy (51.5 percent of very poor clients are declining as opposed to 42.2 percent of very poor non-clients).
Non-poor clients however are more likely to do well compared to poorer households who are more likely to do badly.

Fourthly, the figures show that households who quit microfinance seem to be more likely to stabilise their livelihood (for the poor) or decline (for the very poor). Whilst it is expected that client households use microfinance to improve their well-being, build financial resilience and quit microfinance, the data, however, shows that not only is there only a small minority of former-clients within the studied population but also that there is a small number of stable or improving former-clients. This could indicate no relationship or even a negative association between microfinance and household well-being. Table 6-3 shows that poor and very poor households represent 93 percent of former-clients. Less than a quarter of former-clients improved their livelihoods (21.4 percent, six households), while 42.8 percent stabilised and 35.7 percent declined (which is higher than for non-clients and clients).

Regarding the analysis of poor clients, the data shows that for such households, loan taking seems to make little difference to prospects either way (improvement or decline). With respect to poor households, roughly similar proportions of clients, former-clients, and non-clients, are improving (36, 23 and 31 percent respectively), stable (42, 53 and 49 percent respectively), and declining (22, 23 and 19 percent respectively) (table 6-3). This is important because it is precisely this group of people which should be demonstrating a significant difference due to the effect of loans. There appears, from this survey, however to be no significant apparent consequences of taking loans for the poor.

I used a full factorial ordinal logistic regression to identify whether the effect of microfinance depends on the poverty status of households and/or on their livelihood trajectory. The livelihood trajectory of households can be expected to be a function of whether they participated in microfinance and of their poverty status. The model therefore considers livelihood trajectory as the independent variable (Y) and wealth ranking and microfinance participation as two independent variables. The full factorial design can detect the level of
interaction between the variables which experiments involving a single factor cannot achieve. The results obtained show that households’ poverty status is the only variable that influences the livelihood trajectory of household ($\chi^2=69.9; \text{df}=2; p =<0.001$). The $p$ value is so small that it indicates a very convincing significance of this result.

The quantitative data analysis of clients, non-clients and former-clients indicates gaps between the claims made about microfinance’s poverty reduction effect on households and the experiences of clients in rural Bangladesh. The main gaps identified are firstly that microfinance appears only to have unambiguously positive consequences for the non-poor. Secondly that although microfinance can make the livelihoods of the poor more dynamic, there is no evidence of its systematic positive outcome for the poor. Thirdly, while microfinance can make a positive difference for the lives of the non-poor and poor, it appears to be a riskier strategy for the poorest. The data analysis suggests that very poor households taking loans are more likely to become poorer than richer. The next sub-section explains the mixed-results obtained through the quantitative analysis.

6.1.2 LOANS: DIVERSE EXPERIENCES

It is argued here that the influence of microfinance on rural households is diverse because the vulnerabilities that households experience, their asset endowment and their socio-economic situations are diverse. Qualitative data suggests that only a minority of clients successfully invest their loans in an income generating activity which generates sufficient and regular financial returns to maintain their well-being and their weekly loan instalments (called kisti in Bangla).

It argues that clients have mixed intentions for taking loans from MFIs. While some take them with the intention of starting an income generating activity, others pretend to have interest in starting an income generating activity but actually intend to use the loan for other forms of consumption (health, dowry, food, education, or exiting debt). Of the clients who intend to invest in an
income generating activity, some do so but are unable to maintain *kisti* repayments. Their exposure to vulnerabilities (related to their human capital for example) can affect their ability to earn and repay the *kisti* in a timely manner. Because poor households lack the necessary financial buffer which would allow them to meet rigid repayments their investment often fails to generate financial returns that can be used for their well-being. Other households who intend to invest in an income generating activity however are prevented from so doing due to other financial pressures (the *unexpected* and the *predictables*, see chapter five). These can include investing in education, paying dowry, purchasing medicine for example, or relate to underlying vulnerabilities which often affect health and labouring capacity. Of the clients who do not intend to invest in an income generating activity (who are often categorised as the very poor), microfinance can represent the easiest and fastest means to mobilise finance but also a risky strategy (the outcomes for the poor and very poor of using microfinance as a short-term coping tactic or for consumption are analysed in section 6.2).

### 6.1.2.1 POSITIVE OUTCOMES OF LOANS

Focus group discussions with improving current-clients help understand how lending lump sums of money can, under certain circumstances, enable borrowers to improve their household’s livelihood. Small investments can successfully generate sufficient financial returns or positive developmental effects (education, training, migration) for households to later invest in an income generating asset (van, rickshaw, machine) or activity (selling food items, vegetables, car repair) generating relatively regular and reliable income. For example:
Momeena Akter: “I needed money to survive; I bought a van\(^{61}\) and bore my children’s studies’ expense. Then when my children grew, I bought vans for them as well. Later I built my house too.”

Sabera Khatun: “I used the money to buy a van rickshaw. Then I paid back the loan and took some more later. I did farming.”\(^{62}\)

A minority of clients emphasised the long-term positive role that microfinance can have in their livelihoods. A household which successfully runs a business can benefit from both its financial returns and from the increasing loan amount which clients are entitled to yearly. Borrowing increasing amounts of money each year allows households to run the business on debts rather than on the earnings and benefits it generates. Loans to some extent can fill liquidity gaps and hide business shortfalls when they arise. The community study shows that households who successfully manage an income generating activity keep borrowing increasing amounts and rarely reach a sufficient level of financial stability and self-sufficiency that would allow them to quit the MFI. As a result clients who invest in income generating activities often remain active MFI clients for a long period of time (sometimes more than 25 years\(^{63}\)). Md. Riyaz Uddin reported that while his wife takes and repays loans regularly for him, his businesses are continuously reliant on microfinance to be sustained:

“I don’t remember why I first took the loan. I have a big family. My business is in Dhaka and we also have a farm

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\(^{61}\) a van gari is a cycling vehicle used to transport goods, materials, livestock or people.

\(^{62}\) 01FGCCI03, for the codes of qualitative data of the community study, refer to appendix F

\(^{63}\) The length of clientship has not been covered by the survey. If the fieldwork was to be replicated, it would be advisable to include it as a new variable.
here. I need money now and then to take care of these. Like a few days ago I borrowed Tk.60,000 from Society for my business in Dhaka to deliver the goods which needed Tk.90,000. So I borrow and pay back regularly.”

Clients’ well-being may increase if the investment generates an income that covers households’ expenses and if the activity undertaken does not increase the household’s vulnerabilities (as compared to being employed). During the nine focus groups respondents told stories of households who became “dhoni” (meaning “wealthy”) through using loans. The following quote from Nazma, a current-client illustrates how stories (often the same ones) convince households to borrow money from MFI:

“We see successful people here and there, if you go to this place in Uttarnagar you will see lots of cows over there. This one guy started with Tk.30,000 and now he has grown so big. He has a huge farm. He is rich. These stories convince us to take money but most of us fail.”

6.1.2.2 LOANS AND VULNERABILITIES

For households who have invested in an income generating activity however the income generated is often not sufficient repay the kisti and achieve financial resilience, and businesses when they face shocks can often fail, as highlighted in the quote above. In many cases, the earnings from newly created
income generating activities are insufficient to cover the *kisti* and other basic financial expenses (*predictables*\(^{67}\), *unexpected*\(^{68}\) and *rudiments*\(^{69}\), section 5.2):

> “If we take loans to start a business and face losses then again we have to take more loans to pay back.”\(^{70}\)

The risk taken by the man of a household by becoming self-employed, when their main income depends on their competence and labour, is considerable, especially given that the activity at the beginning relies on access to credit. The ability of women to repay their microfinance loans largely relies on their husbands’ capacity to invest in an income generating activity, and to earn a sufficient income in a manner that suits weekly repayment schemes. Because starting a business is often conditional to accessing loans, focus group discussions with current-clients found that instead of starting businesses out of entrepreneurial ambition, vulnerable households often start a business to fulfil this criterion. Only an extremely small minority of households (four out of 490) expressed the desire of starting a business or income generating activity, reflecting the magnitude of the risks for households.

Although it is commonly assumed that microfinance enhances clients’ incomes and thereby reduces poverty (chapter two), the data suggests that even when

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\(^{67}\)“*predictables*”: expenses related to the life-cycle of a household and its members and which can be anticipated it comprises eight types of outlays such as dowry, wedding costs and asset acquisition, child-birth, education, house building and repair, lean month shortage, medication for elders, Eid day, Diwali or Christmas celebrations, and burial ceremonies and funerals.

\(^{68}\)“*unexpected*”: sudden shocks and events that disrupt rural livelihoods and require urgent disbursement of money and a possible transformation of livelihood. It can be internal to the household (illness or death) or external to the household (flooding, cyclones, earthquakes, tsunami, or the destruction or robbery of critical assets like rickshaw, sowing machine, cow, house etc…).

\(^{69}\)“*rudiments*”: food

\(^{70}\)02FGCCI01
households have the intention of starting an income generating activity they may be prevented from so doing by other financial pressures which stem from vulnerabilities. As a result, vulnerable households often use loans for other purposes. Microfinance may have the potential to facilitate not-so-vulnerable households’ livelihood improvement but can fail to enable vulnerable households to invest productively. Clients and former-clients consistently reported in all nine focus group discussions (with declining and improving clients) that investing money in productive assets or income generating activities is challenging because of shocks and events they experience. The following excerpt from a focus group discussion with stable and declining current-clients substantiates this argument:

_Nazma: “I couldn’t use it properly. My husband is sick and I have children to take care of. My original purpose was not realised. I have too much repayment to make.”[…]

_Jomila: “I wanted to buy land for farming. But I paid all my money for my medical expenses.”[…]

_Sabina Begum: “I couldn’t use it properly. I also wanted to buy land. I really needed to. But I had to get my daughter married and my husband was sick. So I couldn't utilise it the way I wanted to.”[…]

_Author: “What was the main problem?”

_Sabina Begum: “Sickness for example. And the amount I borrowed was quite small. All the money that I took had to be used for medical expenses. My husband suffered from
diarrhoea twice. I could not even pay it in full. So I could not do business with it. One problem arises after another. We don’t have land or anything so we have to rely on the loans.”

Though some households may experience shocks and events which prevent them from investing in income generating activities, others take loans with the primary intention of using it for different purposes, commonly food, medication, dowry, house repair or debt repayment (formal or informal contracted debts). Client households who manage expenditures and earnings well can generate beneficial short-term outcomes but can also experience “harmful” medium and longer-term impacts. Improving current-clients provided clear explanations as to why vulnerable poor households often experience loans differently:

Author: “When people aren’t being able to utilise the loan properly, they aren’t being successful in raising their standard. Where do you think the problems lays? “

Ayesha: “I think it’s being given to the wrong person. Say if I take the loan and if I don’t utilise it properly, say if someone is requesting something and you buy that for them. I’m not spending the money where there’s income instead doing the opposite. I have a lot of cash in hand so I have the urge to buy something. Maybe I wanted to eat something so I go and buy that. Sometimes someone might actually have invested properly but it was not so successful. Say I bought a cow but
it got infected with a disease or something. So that might be harmful.”

Khodeza: “All these loans are bad but when needed it is a help. I got my daughter married I spent Tk.15,000 for dowry and ornaments. It all depends on my husband’s hard work.”

One improving current-client from Phamillia recognises the help provided by the loans, saying that “getting money during times of need is helpful”. In fact during focus group discussions five improving households (out of 16) linked their household’s livelihood improvement with the short-term function of the loans in their lives. During a focus group discussion with improving clients in Phamillia, Saleha explained why some households can prosper as they have more opportunities to invest properly and generate profits to repay the kisti or have better access to work opportunities than others:

“She [referring to Kohinoor, another group member] has a father and brothers; they are van drivers and works in the farms. They look after the family. For example, someone needs to buy fertilizer for their fields so they loan the money and use it in their work. But the poor people, once they get some money in their hand they spend it on groceries and food items, and spend all the money.”

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72 03FGCCI06
73 02FGCCI01
74 01FGCCI03
75 01FGCCI03
Clients who invest loans in non-productive assets (which do not generate immediate financial returns) often face severe repayment difficulties. This finding was corroborated through other interviews and focus group discussions with current declining and former-clients.

6.1.2.3 Loans’ Limitations

Repeatedly clients emphasised that their temporary default was not due to insufficient income but by its irregularity and unreliability. Reports collected from former and current-clients across the studied villages substantiate this finding. A considerable proportion of households’ livelihood relies on daily wages which can vary according to the weather, the work availability, the season, the health and labouring capacity of the income earner (usually men, chapter five). Therefore, respondents (including non-clients) often reported that the inflexible kisti collection schedules of MFIs was a reason for their self-exclusion from microfinance (for non-clients) or a reason for their drop-out from it (former-clients) or a cause of defaulting on repayments. Clients often highlighted that usually only a few more days, would have allowed them to repay the kisti and enabled them to avoid adopting the destructive short-term tactics (described in section 5.2.2) and which often causes the erosion of their productive assets.

Repeatedly, former and current-clients reported that the time between the money transfer and the first repayment did not correspond with rural livelihoods’ needs and capacities. They consider weekly repayments to be impractical for vulnerable poor families who start an income generating activity and said that it is unrealistic to expect this activity to generate sufficient earnings just seven days after the loan in order to repay kisti. For example, a current-client Khadeeza’s husband said “I took the loan and opened
a small medicine shop and from its earnings I pay the loan”. Because earnings generated from the shop are not regular and his personal expenses can vary, he explained: “if I am unable to at any time then I have ducks and chickens and sell their eggs to pay up.”  

Clients and former-clients stated that repayment schedules of MFIs do not match their needs and that therefore only clients who have other means to repay can maintain regular kisti repayments. For poorer households who do not have diverse sources of finance, options are limited. For example, Zoshim, a former-client, explained that he quit his MFI because there was not enough time between the money transfer (the loan) and the first repayment due:

“If I take money from you and start a business, I will not see profit at the beginning, will I? First I need to learn doing that business. I will face losses at the beginning, so I should be given time. […] Think like a person who decides to start pulling a van. He is new, so if anyone asks him to go to take him to a place, that puller at the very beginning will face difficulties to recognise places. He needs at least 15 days to know different places of the area and if it is in the town he needs more time. […] Like- you have given me money to start a business, but you didn’t give me time to start it […] people should be given one month time to start repayment, after taking a loan.”

Rural livelihoods are characterised by periods during which loans are significantly easier (Jaistha and Ashar months of harvest) or harder (Ashin

02FGCCI01
01IDIFC004
Jaistha: mid-May to mid-June ; Ashar mid-June to mid-July)
and Kartik\textsuperscript{79} to repay. Borrowers spoke of their frustration when after taking
the loan they realised that the repayment schedules often do not take account of
these variations\textsuperscript{80}. The majority of rural households’ earnings and labouring
capacities are affected directly or indirectly by seasonality (section 5.1.1);
directly affected because their livelihoods are dependent on weather changes
(saree production, rickshaw pulling, construction works) and indirectly affected
by the implication it has on the broader economic environment (employment,
food prices, market opportunities).

To summarise, the gap between clients’ hopes and clients and former-clients’
reported experiences is considerable. Quantitative data and qualitative accounts
from these respondents indicate that investing in an income generating activity
can significantly help poor households to improve their livelihoods. However,
because they are vulnerable, clients borrow money; and for the same reason
they struggle to use it for the intended purpose. The occurrence of shocks and
events in the first months after receiving the loans significantly affects the
capacity and opportunities households have to invest productively. The
majority of clients reported not having used their loan as they expected to and
used the money to cover expected and unexpected expenditures the \textit{rudiments},
the \textit{predictables} and the \textit{unexpected}. Other households took loans with the
primary interest in addressing other consumption needs. Generally it is the poor
and very poor who are the most affected and for whom the magnitude of
shocks prevent from investing in an income generating activity whilst
protecting their well-being and maintaining \textit{kisti} repayments.

\section{6.2 Multiple microfinance stigmas}

\textsuperscript{79}Ashin: mid-September to mid-October; Kartik mid-October to mid-November
\textsuperscript{80}This was also found in Cons and Paprocki (2010)
This sub-section is one of the most important and sensitive parts of this thesis. The analysis presented below shows how informal sources of pressure experienced by the poor and the very poor can exacerbate negative repercussions of default on their well-being.

It firstly analyses the reports from clients of MFIs’ practices with clients facing repayment difficulties. The data collected is used to explain the different tools used by loan officers to force clients to repay, some of which can be considered institutional malpractices (inappropriate targeting, hard-selling of loans, poor follow-up and extreme forms of pressures\(^{81}\)). Secondly, it explores the repercussions of such practices on the livelihoods and well-being for these clients. Focus groups and in-depth interviews report that poor clients use pre-existing and new (multiple client-ship) coping tactics to repay their *kisti*.

### 6.2.1 Institutional Malpractices and Pressures

“The World Bank takes money from all these poor villagers and makes a lot of profits at our expense.

*If the loans are stopped the public shall develop* \(^{82}\)

*a satirical song written by villagers and sung by Aklima.*

“On pay day night we go back home

And sit down in a chair.

The merchant knocks upon our door

*He's come to get his share*....”

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\(^{81}\)Because the author did not observe the scenes and the practices reported by clients and former-clients, personal observations have not been used.

\(^{82}\)02IDIFC001
This section analyses the informal practices used by MFIs to give new loans and to make sure that clients repay their kisti. A large majority of the clients and former-clients said they were experiencing or had experienced difficulties in repaying weekly kisti. Clients’ and former-clients’ experiences of targeting processes used by credit officers demonstrate various forms of pressure they experience from credit officers when they cannot repay their kisti. Clients reported a number of practices related to client targeting which arguably can be considered malpractices. Clients reported that they can easily access loans without starting a business, that credit officers are not generally interested in whether they use their loan for business purposes, and that credit officers target males within their households for loans. Furthermore, clients feel pressured into taking loans by loan officers. Given that these negative accounts were consistently directed towards particular MFIs, against which other MFIs were contrasted, malpractices identified through this study can be considered to largely stem from institutional characteristics.

6.2.1.1 Poor client selection

The data indicates a lack of thorough selection and follow-up procedures when loans are taken and during the time of loan repayment. The majority of households had long-standing relationships with MFIs\(^{83}\) (former and current-
client) and described credit officers as commercial agents whose purposes are to persuade as many households as possible to borrow large loan amounts for any purpose. According to clients and former-clients, credit officers’ interests lie more in the recruitment of a high number of clients and in collecting kisti repayments than in being concerned with clients’ livelihood improvement. During five focus groups respondents reported that they lie on loan application forms stipulating that loans are intended to fund businesses and that credit officers are aware that applicants lie about their capacities to repay, their financial situation and the purpose for which they borrow money. The majority of clients said that although credit officers at the time of recruitment inquire about the purpose of the loan, they are rarely asked to give an account of the actual use of the loans. During focus group discussions current-clients explained that because lying to credit officers about the purpose of the loan is easy, it becomes common practice to access loans easily:

Author: “Do bank employees ask you why you are taking the money?"

Muneera: “Yes they do. Sometimes we have to say both the truth and some lies too. If a woman goes and asks for a loan she could say that ‘my husband wants to start a business or wants to start farming or open a shop’. So yes we have to give them a reason”. […]

Author: “If 100 people take the loan how many would lie and manage to take it?”

moderate costs, reduce their likelihood to miss an instalment and default, they tend to join the same MFI as family relatives or neighbours.
Muneera: “Initially maybe around 10 to 15. Seeing them maybe a few more would lie. And like this a lot of people may start lying, like around 90 to 95 percent.”

Parveen, a former-client of ASA and BRAC for 15 years, explained the reasons why she decided to quit microfinance and refuses to borrow from them again.

“Banks [MFIs] give money to everyone, they don’t worry about helping anymore; they only care about interest and repayments […] One must think before giving loans, now the banks don’t think. […] The good sirs and the people who were part of the organisation then are not there anymore. The people now are unaware of what’s going on and are not updated of past events. […] There are new rules and regulations now, there are more clients now than there used to be before. People misuse the money now and the officers do not check on them like they used to. The relationship was better then. […] There are changes in the attitude of the people. Now it is too professional they only talk about money and instalments, before they were very light hearted. They would advise us about our mistakes but now it’s nothing like this.

The key informant interview conducted with the Union Parishad member also reported issues of poor client selection and follow-up:

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8403FGCCI06
85“Sirs” is a colloquial term in Bangla to refer to more than one person deemed “Sir”, literally from the English used to denote someone of respect.
8601IDIFC006
“There are some people who have money but they don’t utilise it right. They take loans but don’t work properly. Two to three [loans] is enough and there should be rules that it is for the poor, and monitoring should be done. They give money when asked without verification. They simply want more and more clients.”

Reports collected from former-clients and clients indicate that most MFIs only offer simplified forms of credits and standardised financial products without complementary support. The terms repeatedly used by clients to qualify the ways in which loans were delivered to them was “taka dai khali, taka nei… ar kicchu nai” which means that MFIs give only money, take money and nothing else. For example:

Author: “Do you get training or advice from microfinance institutions?”

Firoza: “No. They never say such things. They simply give loans. They do ask the purpose of the loan and after saying it they simply give the money. Then they simply collect money. […] Many are very poor and when they are in a group others help in paying off their loan and we lie to the officers so that they get loan.”

The targeting procedures of MFI officers were described by clients and former-clients interviewed as inappropriate (regardless of their poverty status or client-ship status). Clients consistently reported on the fact that loans should be
denied to the poorest because of their limited opportunities to invest it productively. Qualitative data from very poor households indicates that households who have some assets, financial education and risk awareness can use their loans strategically and are more likely to benefit from loans’ returns. For example, Abdul Baker, Shufiya Khatun’s husband, expressed concerns regarding the way in which MFIs select clients:

“That is the reason why people are messing everything up. If they are provided with money they cannot calculate they cannot plan their life. […] If you provide them [uneducated people] with loans, they cannot manage the money because they cannot eat properly. Suppose one day that person cannot find a job, what will he do? He will think ‘let’s eat with the money first then will see’.”

Five focus groups and informal discussions highlighted how credit officers intentionally target males (husbands and father-in-laws) for loans, knowing that they are able to request the women in their household to apply for them. When questioned about their motivations to borrow from MFIs, over 90 percent of women said that they did so in response to their husbands, sons, father-in-law or brothers’ requests. Many women reported that borrowing from MFIs was associated with being a “good wife”. Cons and Paprocki (2010:647) gave similar reports that women would be considered “worthless” if they did not borrow “to help the family”. To sign up for a loan, women agree to give their names which legally binds them to the repayment obligations stipulated in the contract which they, often, cannot read (60 percent of women and 50 percent of their husbands are illiterate, section 5.1). They therefore have to rely on loan

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8901IDIFC004 and 01IDIFC005
9001IDIFC005
9101FGCCSD04, 01FGCCI03, 02FGCCSD02, 03FGCCSD05 and 03FGCCI06
officers’ explanations before they commit to 43 to 53 weekly repayments. Similar to findings here Cons and Paprocki found that women report that a male presence has become an informal requirement for accessing loans and that, for men, women had become “conduits” for credits (2010: 647).

6.2.1.2 Pressuring Clients

A large body of qualitative research conducted in rural Bangladesh reported that women had little control over the loan (Uddin, 2013, Balasubramanian, 2013, Bhusal, 2010, Hossain et al., 2009, Karim, 2008, Hunt and Kasynathan, 2002, Ahmed et al., 2001, Goetz and Sen Gupta, 1996, Montgomery et al., 1996). The data collected here corroborate this finding and questions the assumed empowering effect of microfinance for women given that a large proportion of women participants gave their loans to male relatives to manage. Current-clients and former-clients reported that credit officers sometimes use pressure to force women to take loans. This relates to both the recruitment of new clients and encouraging existing clients to take new and larger loans. Credit officers (from some MFIs in particular) reportedly go door to door to convince households (mainly husbands) to take loans. Clients experience this as a form of “tsap” (“pressure”) and report that credit officers use a pushy and forceful manner which makes their husbands feel ignorant and imprudent if they do not borrow. This can be described as hard-selling. According to clients, once a loan is recovered credit officers push them to borrow larger amounts92 regardless of their needs, income or ability to repay. Parveen, for example, explained:

“The officers came to our houses to inform us about these loans, its usefulness and that it will help us lead a better life.”

92After completing one loan, clients are usually eligible for bigger loan amounts.
If we can return the first loan of Tk.10000 then they shall give us Tk.20,000 as loan the next time. That is how I took it. I first took Tk.5,000 and returned it in a year by weekly payments. Then seeing my record the officer gave me Tk.10,000 the next time. I returned the 10000 in due time, and they gave me Tk.20,000 the next time. I returned that in a year too and then I stopped taking loans. I don’t need it anymore. Then ASA visited me and convinced me to take more loans, so I took Tk.5,000 and then Tk.10,000 and returned in 2 years.”

As the quote above highlights, clients find it difficult to resist the temptation of taking loans in order to address long-standing problems (chronic disease, lack of food), urgent needs (sudden illness, food temporary shortage) or anticipated needs (daughter’s dowry or religious celebration). These reports raise serious questions about the formal procedures adopted by MFIs to target solvable clients and deliver appropriate complementary services to them.

According to clients and former-clients, credit officers are aware of the pressures put on women in the households and that they use them to recruit clients and hard-sell loans. Some women reported that men were encouraged by loan officers to use them as an access to loans. Eight informal discussions and one focus group reported that women were sometimes violently reprimanded or seriously threatened by their husbands when they refused to borrow money. On a few occasions women reported that the use of violence

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93IDIFC006

94During four focus groups with current-clients and three in-depth interviews with former-clients, respondents said that MFIs threatened them to keep their savings if they closed their account. This was later confirmed by credit officers
was sometimes suggested by credit officers themselves. For example, during informal discussions, Momeena described the psychological pressures and violence she experienced because of loans. She said that she is a defaulter from many MFIs because her husband forces her to borrow, takes control over the money, drinks, bets, beats her, and does not leave her with enough money to feed her children. She said she spoke to fellow group members (neighbours and friends) who refused to lend money because they worry about their group’s solvency and fear her husband. She said she then talked to her credit officer, showed him bruised arms and legs (she also showed this author), and explained to him how she was forced by her husband to apply for more loans although she did not want them. She specified that she asked him to reject future applications because she could not repay and eat. Momeena stated that shortly after their conversation, the credit officer informed her husband about it and advised him to reprimand her, which he did. She keeps borrowing money from four MFIs and distant neighbours who are not aware of her story. She said she dreads the day when she will be excluded from her community as she becomes more indebted and poorer.

Clients and former-clients reported that credit officers use extreme forms of pressure in the process of hard-selling loans and particularly to collect kisti. Where clients cannot immediately repay the kisti, credit officers’ often use a range of forms of pressure, from public verbal abuses and threats to taking and selling assets. These humiliate, stress and scare women and their households. All focus-group discussions with improving, stable, declining clients and three former-clients reported such humiliations, abuses and pressures from credit officers. The day of weekly repayments was therefore often depicted by respondents as a common time for conflicts between some MFIs’ officers and

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Section 6.2.2 give more accounts of these forms of violent pressures
borrowers when, according to clients officers “change their colours”\(^{96}\) in case of non-repayment. Other studies conducted in rural Bangladesh also reported that clients said that when they cannot repay the *kisti* credit officers “ask for it very inhumanly. They force them [us] to pay at any cost” (Cons and Paprocki, 2010:644).

A common form of pressure which was consistently reported was the use of abusive language, often in public. Molida is a former-client who borrowed from Grameen for three years, BRAC for five years and ASA for one year and stopped borrowing from all MFIs ten years ago. She and her husband Zoshim explained that because timely weekly repayments are frequently enforced through disrespect and abuses they decided to stop taking loans from MFIs:

> “When I am giving one instalment, I am reducing my loan. So in every instalment I am actually helping myself. But due to some unavoidable reason I can fail to arrange money, but they are not ready to except it. If I fail I push the on button of insults- ‘why the hell are you here without money’ etc. They are not ready to listen to the clients’ problems.”\(^7\)

The researcher asked Zoshim if during six years of client-ship he missed a *kisti*, he answered:

> “Once it happened like this- it was the day of instalment and I went to my relative’s house, but for some family matter I could not come back home on due time. The money was

\(^{96}\) Colloquial Bangla expression referring to the fact that loan officers rapidly change their attitude in case of non-repayment and start using pressure.

\(^{97}\)01IDIFC004
arranged but I failed to come. That day they insulted my wife,
I heard from my neighbours.”

Abusive language can range from insults to more explicit threats and humiliation. Molida said that she has always tried to not be alone in the house when credit officers collect repayment, she said: “if he [her husband] was not here I would have trembled in fear.” After asking her why she would rather send her husband to repay the *kisti*, she answered that when women fail to repay, credit officers say explicit sexual threats to them which would embarrass her and her fellow group members, such as:

“We will stay in the house today, make a bed for me!”

Zoshim said because he could “not bear the humiliation of [his] wife” he quit the MFI. Farida, a current-client and Aklima a former-client also reported:

“The credit officer once told me to hang myself if I cannot pay the instalments.”

“Then at times they try to exert force. They knock down the doors and slam doors, such kind of pressure [...] they threaten us to take loans. They say that if we do not take

98IDIFC004
99IDIFC004, in Bangla: যে আত্মকর্ষ বাসায় থাকুসই আসার।, ওই বিচলে কর... এরুম খারাপ ভাবোয় কথাকিড়....
100IDIFC004
101FGCCSD04
loans then they shall use inappropriate steps and even violence.”

Given the substantial reports of regular abuses and malpractice collected across villages about particular MFIs, the author systematically asked clients to identify “the worst” MFI letting respondents justify and discuss their answers. Clients reported that although almost all MFIs insist on collecting loans on a certain day, some MFIs are known for being more lenient than others. On the other hand, across the studied villages clients consistently identified other MFIs who are known for not leaving the field on the day on which the repayment is due, until they collected the kisti. The quote below is an excerpt from a focus group discussion with stable and declining clients:

Nazma: “Islami Bank and BRAC. BRAC is the worst.”

Author: “How bad are they?”

Nazma: “They have a very foul mouth.”

Author: “What kinds of words do they use?”

Aklima: “They say they would sexually abuse us.”

Author: “The male employees do that?”

Sophya: “No the females do so. There is one female employee named Monwara, who is very fat and dark looking whom we
fear the most. We just hate her. She says that she will take our clothes off in front of everyone if we cannot pay off.”

Author: “Does she actually do that.”

Aklima: “She tries to grab us by our clothes. She does it on the streets.”

Author: “Is it only BRAC? Only she does this?”

Nazma: “Yes. It’s only her. Nobody else is like her. Islami Bank only threatens us, but they don’t treat us like she does.”

Sophya: “They shout at us. That’s why we are scared of them too. Male employees of Islami Bank call us ‘whores’ if we can’t pay. They say whatever comes to their mouth. [...]Monwara comes every time and creates chaos here.”

Author: “I thought a woman would not behave that bad with other women.”

Sabina Begum: “No, she does not care about anyone. She is the worst one ever if you cannot pay.”

Author: ” Are you always alone in the house when she comes? Or is your husband there with you as well?”

Aklima: “Yes, sometimes they are here too, but sometimes they are not.”

Author: “Does Monwara act the same in front of your husband’s as well?”
Nazma: “Yes, she is all the same. If you come on Thursdays you might bump into her. She was here last Thursday. She moves around in a cycle. She is a bit short.”

Author: “If you say you cannot pay this week, what does she say?

Sophya: “She would not accept anything we say. She shouts at us and says ‘Is it your father’s money? We will sell you off!’”

A key informant interview with the head of Modhupur police station explained that MFIs in some cases use the police as a means to pressure households who do not repay loans. The respondent explained that about once a month police officers are sent to clients’ houses and that notices are sent to them as threats.

“There are cases where the people who took loans from the NGO’s cannot pay back the loaned amount on time. The NGO’s come to me and complain so that we create a pressure and try to get the loan back. We try to solve it. We provide a notice to them. [...] We solve the issue through sending a notice from the police station to the family so that they pay the money. If they pay the money then there will be no more problems. I sometimes visit the people or the S.I. [Sub-Inspector] and try to make them understand.”

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103 03FGCCSD05

104 KIP009
A Union Parishad member also reported that he was often asked for help by credit officers to mediate between loan officers and clients and to pressure clients to repay kisti:

“When the loans are taken the problems come automatically to us. It comes through the credit officers. The ones who have the problems [clients] don’t come because I would encourage them to pay up which they can’t do.”  

6.2.1.3 NO TOLERANCE FOR DELAY IN REPAYMENT

Clients consistently reported that MFIs do not tolerate delays in kisti repayment. In every village clients reported that even on the day of the death of a relative (a husband, a son or daughter), officers forced their clients to repay the kisti. They said that officers stay in the client’s house until they repay even when that leaves him/her without enough money to bury the body and afford a funeral ceremony. Monika, a former-client, stated:

“There is a rule that if her [a borrower’s] son died, on that very day she still has to pay it back. She has to pay back before she can take care of the dead body.”

Hussain, based on women’s reports, estimated that about 30 percent of women clients sometimes “pass their daily life without taking food if they fail to repay their kisti” and also found that BRAC did not defer the weekly repayment even in case of a clients’ mother-in-law funeral (2010:11). In Cons and Paprocki (2010), clients’ accounts echo the one presented above:

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105 KILG007, like the police officer the union Parishad member reported that BRAC was the MFI which required their assistance the most.
106 This information was confirmed by credit officers (chapter seven)
107 02IDIFC003
“‘Say I tell the field officer ‘I can’t give you the instalment today, my child is sick’. And then I bring the doctor to my house. Then the field officer comes and says ‘why can you buy medicine for your child, but you can’t give me the instalment?’’” (2010:644)

Clients and former clients reported that several times during the week a group of credit officers from different MFIs often stay late at night and argue loudly with clients inside their houses to force them to repay. This has been confirmed by the data collected from clients and former-clients who reported loud arguments between clients and credit officer who force them to repay. Monika said:

“If somebody cannot repay, they [credit officers] will stay there even if it takes up to midnight. From the office the manager will come with ten to twelve people and will make that person pay, it doesn’t matter from where she is managing it.” 108

This is corroborated by Hussain (2010:12) who notes one woman reporting:

“If we do not give their kisti they (BRAC staffs) will be sitting here even till 10 pm at night. We give the kisti even without taking food because we do not want to lose our maan-shomman109. People will taunt us if they see BRAC staffs are waiting at my door.”

108_02IDIFC003
109_dignity in the society
The phenomenon of “unauthorised, though tacitly accepted, asset confiscations” identified in other parts of Bangladesh by Cons and Paprocki (2010:645) was also found in this study. In two focus groups (out of six) respondents reported cases when credit officers took away their valuable assets (such as chickens, ducks, chairs or tin roofing sheets) to sell at the market and get sufficient cash to cover the due kisti:

“An officer from ASA bank took a chicken from Shamsu. Even if there is a death in the house, they would take the instalment”\textsuperscript{110}

Cons and Paprocki report:

“It is common practice to take the tin roof off of the home of a non-paying borrower in order to sell the sheet metal to repay the loan. Other confiscated assets include pots and pans, furniture, rice and pulses, and other productive assets such as agricultural tools” (2010:645).

Despite the repercussions that those practices can have on their livelihoods some clients reported feeling empathy for credit officers. Clients reported that the pressure they were experiencing originated from the pressures put on credit officers by their managers. Although their behaviour can partly be influenced by their individual personalities the analysis presented below and in chapter seven shows that institutional characteristics can often significantly influence or determine credit officers’ behaviours with clients. During informal conversations clients reported that staff members said they would be heavily

\textsuperscript{110}01FGCCSD04
penalised and punished in case of repayment delay. Clients described pressures experienced by credit officers from their managers as incentives to collect all repayments. Anuwara, during a focus group said:

“It is not the officer’s fault, when you are working you are simply following orders of the top officials. I heard that if instalments are not being collected then money shall be taken from their salary figures. They are scolded at work. It is poor people like us who work there so they do not have any say. The managers say very bad things to them the words they use are so terrible, I feel bad for them when I go there and I hear such things.”

During an informal conversation, Amina, a poor client reported that once she could not repay the weekly kisti because her husband had been ill that week. She said that her pregnant female credit officer came back to her house during the night to collect the repayment. The officer begged Amina at 10pm to find a way to repay, she said she feared her manager’s reaction if she returned to the MFI office without the money. Amina said that because she could not give her the kisti, the pregnant officer instead of going back to the branch, slept at Amina’s home, in poor conditions until her water broke. This story is one of many reported by clients which indicated serious pressures experienced by credit officers.

6.2.2 DEBT-CENTRED LIVELIHOODS

“Access is more important to small borrowers than costs”
(Malcolm, 1998:12)
These institutional pressures and malpractices have a severe impact on poor and very poor client’s livelihoods and well-being. This section analyses the impact on and function of debt for clients. It was found that in response to pressures households adopt a range of both pre-existing and new coping tactics which have negative impacts on their well-being (health, labouring capacity, financial resilience, social status, community integration, assets and women’s empowerment). In practice, clients’ ability to recover from these varies according to their socio-economic characteristics and their lending MFIs (and this is crucial for this study of social performance). The data collected indicate high levels of over-indebtedness in the studied villages based on Schicks’s definition of over-indebtedness as a state at which borrowers “continuously struggle to meet their repayment deadlines and structurally have to make unacceptably high sacrifices to repay” (2013b:156).

6.2.2.1 PRE-EXISTING COPING TACTICS

Shortly after receiving their loans stable and declining clients often reported experiencing shocks and events which affected their capability to repay the *kisti*. Clients reported the importance for them to repay the *kisti* in time not only to avoid pressures from credit officers but also because it is often a prerequisite for accessing future loans. Having only few alternative options (besides from borrowing more from MFIs, peers or money-lenders) clients often adopt short-term coping tactics which they know can maintain their well-being and allow them to repay the *kisti*. During a discussion with declining clients Taslima reported:

“If we are able to pay, then all banks are good and if we are unable then none of them are good. Sometimes the officers
and managers force us to pay the instalments no matter how. Even if we have no food to eat we must pay up.”

The means by which clients repay ‘no matter how’ involve common tactics for adapting and mobilising resources which include reduced food consumption and quality, selling assets, working extra, removing children from school and borrowing money from peers. A recurrent new coping tactic reported by clients is the accumulation of multiple loans from MFIs. These tactics are analysed below. Respondents’ consistent accounts of their use of coping tactics as their only means to afford loans show that in turn kisti became a “predictable” outlay.

Data collected indicates that clients commonly sell both productive and non-productive assets including livestock, jewellery, tin walls and roofs, saris, pots and pans, and bicycles. Hussain also found that in rural Bangladesh microfinance-indebted households, to afford their kisti, sell assets to others (2010:12). The following excerpt from a focus group discussion with stable current-clients illustrates this:

Author: “When you have no money in hand, how do you manage to pay back the kisti?”

Molida:” We have to borrow from other people. Like, I borrowed money today.”

Author: “Is there anyone here who sold their belongings to pay back?”
Fateema: “Many times. I sold my chicken.”

Anuwara: “When there is no other way then I sell the cows and goats.”

Taslima: “I don’t have any cows but I sold my son’s goats to pay the instalments. Even ducks and chickens.”

Farida: “Yes, I sold my jewellery. I sold my cows.”

Asma: “I have sold everything.”

A further quote illustrates this point:

“I could not pay the instalment so I sold the bamboo I had, my TV and many other things to get rid of the loan.”

A further tactic described by many women clients interviewed was for household members to take on extra work and in some cases women who had not previously worked outside the house to take on paid work, in order to pay the kisti. This is illustrated by the quote below:

Laila Begum: “I am financing my daughter’s education. We have a hard time making ends meet. Our daughter is the eldest, not the son. So I’m running the family with that money.”
Author: “Oh with that money? Then how do you repay?”

Laila Begum: “I work elsewhere to repay” (Shameema spoke at the same time and said the same thing).  

In addition to taking on extra work and for women to begin working, there were also cases of parents deciding to remove their children from school in order to work and hence help pay back the kisti. School, in these instances, can represent a considerable expenditure and high opportunity costs for poor parents. Education does not generate any immediate financial return and keep children away from earning an extra income for the household.

Another pre-existing coping tactic described was to reduce the quantity and quality of food consumed by the household. As Anuwara explains:

“When we take the loan they give many conditions, like whether we can pay the instalments and how long will it take to pay back. Then they give the money. Now in order to meet those conditions we even have to go without food on certain days but I have to pay the instalments, because I have to keep my word.”

The last pre-existing coping tactic commonly described was for clients to take informal loans from community members. When they have access to informal financial networks, households borrow more money from their peers or relatives. During a group discussion with other declining and stable clients, Anuwara explained:

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11503FGCCI06
11601FGCCSD04
“I first loaned money from ASA then had some difficulties in paying the instalments. So I borrow money from others [peers and relatives] just so that I could meet the instalments. Then I stopped with ASA. I got admitted in Society and again I missed many instalments and would borrow money from others [peers and relatives] and eventually they quit on me too. Then I went to BASHA, if I am able to pay then it’s all good but I have to survive too so I had to borrow money from others often”.

Clients reported that although informal financial transactions used to be interest free, giving informal loans had now become a source of earnings for some households. MFIs’ borrowers face similar pressures every week and some households therefore consider their neighbours and relatives’ financial debt as an opportunity for them to earn. Where households have regular cash flows they can play the role of the bank and lend them money at a high rate (reported to be 20 to 40 percent). Clients often accept their offer because they know that as opposed to MFIs, peers’ loan repayments are often negotiable. The access to informal loans highly depends on the client’s social connectedness, reputation and level of integration in their community (which in the conceptual framework of the research falls under “social capital”). Very poor households are often more isolated and more vulnerable to shocks. Therefore, for them, recovering from default (or shocks) might be significantly more difficult, or at least slower, as they have a smaller set of investment opportunities or sources of cash to select from.

11701FGCCSD04
A discussion with Farida in a focus group highlights the limitations to this coping tactic and the process by which clients take multiple loans from MFIs, which can be considered a new coping tactic:

Author: “Then why don’t you do something with the money you took?”

Farida: “Loans were all spent on food. I did not get the chance to do anything else with them. Then if someone falls sick I have to pay for it. It is so hard to give up. Sometimes I wish I had no loans, there are people in the village who ran away because of these loans."^{118}

Author: “The idea of using one loan to repay another, is it yours or your husband’s?”

Farida: “Husband’s. Actually both of ours, there is no other way. If we loan from others [community members] then there is the tension of repaying that so we admit ourselves in other banks and take loans.”^{119}

6.2.2.2 Multiple client-ship

Due to pressures to repay kisti as well as coping with regular shocks and events, households borrow from multiple formal sources. Because they generally use this tactic as a short-term means of coping, households often

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^{118} During the fieldwork some houses could not be visited (approximately four) because the families had, according to neighbours, migrated because of their indebtedness to MFIs.

^{119}01FGCCSD04
resort to taking multiple loans which are not invested in any income generating activity. The impact of multiple client-ship on the household’s well-being often depends on the situation of the borrowing household when the loans are taken and on how the household uses them. Whilst some households manage their loans in a way that allows them to maintain their well-being, other households cannot bear the pressures that constant borrowing and frequent high repayments can have on their livelihood. In either case, multiple client-ship is rarely used as a strategy to finance income generating activities. The livelihoods of multiple borrowers, therefore essentially rely on their access to increasingly large loan amounts. This strategy can lead to debt circles through which households’ outstanding loans keep increasing. Improving clients from Rickshapoor reported:

Author: “Where did you take your first loan from?”

Aklima: “I took from ASA Bank”.

Author: “How many organisations are you working with now?”

Aklima: “I am currently holding loans from ASA, Grameen, BASA and BURO.”

Author: “What about you?”

Sophya: “I started with BURO Tangail”

Author: “How many do you have now?”

Sophya: “Buro Tangail, ASA, BRAC, BASA, Palli Daridro, Ushama”.

Author: “What about you?”
Nazma: “BURO Tangail, BASA, Polli Daridro.”

[...] Author: “And you Jomila?”

Jomila: “Grameen Bank, BASA, and a few more from other banks.”

[...] Aklima: ”Well, I took loan from one of the organisation and I am paying back in instalment and then I needed more loans so I went to another one for that reason. I needed loans for different reasons. I had to get my daughter married so I chose to take loan from one. Then I needed loans for paying medical expenses, so I took a loan from another one. I am paying everyone back bit by bit.”

[...] Sophya: “My husband took Tk.20,000 from one organisation where I have to give back Tk.600 per month. That’s a lot to pay off per month. So I decided to take more loans from another one to pay for the first one. [...] Firstly I was doing well. I took the loan and spent it and then I had to ask from another bank. Now I am affiliated with a lot of banks. I am always taking loans and I am always paying back. I can’t get out of it. It’s tough to pay back the loans. But we are keeping up somehow.”

As described in other studies (Ali and Hatta, 2012, Karim, 2011, Bhusal, 2010, Cons and Paprocki, 2010, Mahmoud et al., 2010, Afsar, 2003, Ahmed et al., 2001) the combination of internal pressures (coming from households’ urgent...
needs of cash) with external pressures (from group members worried about the group’s solvency) push households to borrow from others MFIs, from fear of potential default. Women reported feeling pressured to apply for new loans from other MFIs to repay the first one and this is a means of maintaining good relationships with relatives, peers and credit officers to avoid conflicts, penalties and stigma. MFIs may therefore represent convenient financial intermediaries that provide access to relatively large sums of cash when households need it. Fateema, a declining current-client explained why she has five loans:

“Well, I took a loan from one of the organisation and I am paying back in instalments and then I needed more loans so I went to another one for that reason. I needed loans for different reasons. I had to get my daughter married so I chose to take loan from one. Then I needed loans for paying medical expenses, so I took loan from another one. I am paying everyone back bit by bit.”

Reports collected from clients indicate that credit officers know of client’s financial distress and multiple client-ship. However, numerous clients reported that credit officers either choose to ignore it and continue to supply or even encourage clients to take more loans to repay existing debts. This is also illustrated in the following focus group discussion:

*Author:* “*Do NGOs ask you whether you already have loans?*”

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121 Because respondents use the terms *Banks* or *NGOs* as synonyms for MFIs, the author used it during interviews.
In the four villages, respondents stated that credit officers are aware of the destructive coping tactics clients adopt to repay, and reported that credit officers sometimes even encourage them to borrow from other MFIs in order to pay *kisti* on time and borrow more. Mis-targeting clients or forcing them into borrowing engenders multiple risks and vulnerabilities that often push them into over-indebtedness and multiple client-ships that hinder the potential positive achievement of the loans (by absorbing energy and resources). This corroborates the conclusion of Cons and Paprocki (2010) which is that the influx of MFIs in rural Bangladesh “undermined livelihoods and increased insecurity”. Their study participants reported that “not only are other institutions [MFIs] ready to offer them loans to pay back old debt, but that loan officers often encourage their clients to take out loans from ‘competing’ institutions to meet repayment schedules” (Cons and Paprocki, 2010:643). Moving from one coping tactic to another, poor and vulnerable clients generally prioritise paying their weekly *kisti* over covering their basic needs. As a result, consecutive or simultaneous coping tactics based on loan repayment, can encourage a short-term livelihood vision of loans which may stop borrowers from building longer-term livelihood strategies. Rather than being aligned with households’ long-term livelihood strategies, loans are

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commonly perceived as a short-term coping tactic and *kisti* repayments as *predictable* expenses.

Different households use microfinance in very different manners, generating different outcomes. Figure 6-1 conceptually categorises the participation types observed in the site of study which include: *loyal* (households who are clients of only one single MFI), *hopper* (households who borrow loans from multiple MFIs consecutively) and *multiplier* (households who are clients of more than one MFI during the same period). The type of participation and their dynamics depend on the needs and opportunities of the households and vary according to the policies of MFIs and their practices.
The percentages presented in this diagram are based on the quantitative data collected (the left cells) and on the estimation of the author (based on participant observations, field notes, interviews and informal discussion with community members).
6.2.2.3 OVER-INDEBTEDNESS AND DEBT-CIRCLES

Given the pressures experienced by clients as a result of their relationship with the MFI credit officers, from the community and the household, and given the coping tactics explained above, what are the impacts on poor and very poor clients’ well-being? It is found that although multiple client-ship can help some households maintain their well-being and *kisti* (even if they do not invest in an income generating activity) it can lead to over-indebtedness through a debt circle whereby *kisti* repayment depends on loans and not earnings from labour. The data presented in this section is in line with Schicks (2013b) definition of over-indebtedness.

In the studied population, a majority of clients’ livelihoods rely on debts (formal or informal) and more than half of them reported borrowing from two to nine MFIs. The data collected in this research and in Cons and Paprocki (2010) report that multiple client-ship is often a long-term strategy used by poor households to maintain timely repayments and access to larger loans. Clients repay *kisti* on the basis of loans taken from other MFIs. Although this strategy may help clients repay *kisti* on time the data suggests that it leads to over-indebtedness. The Union Parishad member interviewed explained that clients are increasingly in a circle of debt through which “*one takes loan and repays it by another loan*”\(^\text{125}\). Clients’ ability to repay loans however depends on accumulating debt. Parveen also describes this:

> “They [villagers] would take loans of say Tk.10,000. One is supposed to use that money in such a way that they can pay back. But they wouldn’t and would finish the money instantly. Now, the instalments had to pay and they would borrow more

\(^{125}\) KILG007, like the police officer the union Parishad member reported that BRAC was the MFI which required their assistance the most.
money from others to pay it back. However it is, they have
paid the loan back and hence the bank gives them more loans
which they used to pay back to the other lenders. It is a
vicious circle.”

The arrangement of multiple MFI client-ships is sometimes reported by clients
as a way of making loans fit their cash flow better. MFIs give households the
possibility to start a business with a Tk.3000 to Tk.5000 loan. Households
borrow money with the perspective of having the opportunity to access a
considerably bigger loan after completing their first loan (46 to 53 weeks).
Thereby, the borrowing circle builds up. In year-2 households will borrow
Tk.7,000, Tk.10,000 to Tk.12,000 in year-3, and so on. This system gives
client incentives to cope with hardship faced during their first year and to
compromise their well-being to maintain their repayment to access future
loans. Cons and Paprocki reported that MFI indebted households intertwine
their debt with local money-lenders credits in a way that allow them to
“manage the NGO and the mohajans together” (2010:644). As a result, long-
term clients can only maintain their well-being with great difficulty because
their weekly kisti are very high compared to what they earn. The livelihood of
these multiple clients, and their ability to repay, therefore critically relies on
loans:

Nazma: “I have four kids. I use half the loan amount to feed
ourselves and the other half to pay loans.”

126 01IDIFC006
127 Local money lenders, in Bangla
Jomila: “We take the loans use it to do some work and then repay. Also say if we take loans we even have to take more loans to pay that.”

Monowara Begum: “I have to pay Tk.700 [US$9] as instalment per week.”

Jomila: “I pay Tk.1,200 [US$15.3]”

Shundori: “I pay Tk.2,000 [US$25.5]”

Malika: “I pay Tk.3,500 [US$44.6]”

The quote above shows how clients’ over-indebtedness can help clients maintain regular kisti repayments of clients. During a key informant interview with a union Parishad member the researcher asked the respondent if he could report some changes he observed in clients’ lives. He replied:

“There is no significant improvement, people are taking loans and defaulting. People are taking loans illegally and its increasing. Like a day labourer would have to pay weekly instalments of TK 1000-1500.”

This confirms that many clients become over-indebted and have to continue repaying their loans despite the fact that they do not have an income generating activity. Whether borrowing money from MFIs was their planned choice or whether loans were pressured upon them, the dilemma for clients who borrow

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128 1 Tk=US$ 0.0127507
129 02FGCCSD03
130 KILG007
from multiple sources is to maintain repayments whilst their income remains as uncertain and as little as it was before the loan (if not smaller). Over-indebted clients often prioritise loan repayments over their well-being whilst coping with other shocks (illness, death of relative, low market demand).

6.2.2.4 IMPACTS ON CLIENTS’ WELL-BEING

Beyond the fact that women often do not have control over loans, this study finds, similar to Uddin (2013), Hussain (2010), Karim (2008) and Ahmed et al. (2001) that microfinance can leave rural women under substantial pressures. Ahmed et al. (2001) conclude that microfinance activities “provoke” emotional stress for women which is found to be a consequence of the pressures from credit officers as well as the condition of over-indebtedness identified in this study. It is clear that women clients are particularly exposed to high levels of stress and feelings of humiliation and disempowerment (Hussain, 2010). These feelings were common through the community study and were expressed emotionally by participants. Clients in all six focus groups and interviews reported that when they failed to gather the money for kisti they feel scared (“bhoy pai”) of credit officers and MFI’s managers. During semi-structured interviews and focus group discussions respondents said that they feared weekly instalment collection so much so that they would avoid being home or hide under their beds inside their house. Molida Begum reported:

“I would even hide on the day the instalments are due. And I would tell people to inform them that I am not there. But people also tell them where I am hiding. But the days I hid, they didn’t tell. They understood my problem.”

131

13101FGCCSD04
During this study community members reported that many households has migrated because of their incapacity to repay their loans and because they feared credit officers’ reactions. This has also been described in previous studies such as Hussain (2010:14):

\[\textit{Once I failed to repay the kisti and then BRAC officers quarrelled with me at the door of my house. In order to avoid this unbecoming event I went to my father’s home far away from here. But, BRAC officers along with my other VO members also went to my father’s home and they quarrelled with me.}”\]

Experiences reported in this section indicate that the magnitude and intensity of such malpractices often prompt clients’ desire to quit their MFIs\(^\text{132}\). Zoshim reported that he never had missed an instalment repayment, but that one day he was not able to deliver the money. He reported that the credit officer disrespected his wife and threatened to take their assets:

\[\text{Author: “But you were regular, weren’t you? One miss changed everything?”} \]

\[\text{Zoshim: “Yes. They said that they will take away the tins [roof and wall] and a lot more. I heard it from my neighbours and I became so upset that I arranged the total money of the instalments and cleared everything, including the relationship with them”}\]

\(^{132}\text{However, the data indicates that only a small minority of households manage debts and cash flows in such a way that they can repay their loans and close their account.}\]
“After that you stopped taking loan?”

Zoshim: “Yes, a total shutdown and decided that we will never be involved with any NGO.”

In a similar study context (mainland rural Bangladesh), Hossain (2010:13) quotes former-clients who reported quitting the MFI for comparable reasons:

“I told them I will return the kisti just after coming back from doctor. BRAC officer said that kisti was more important than visiting doctor. Thus, I took another credit from ASA and paid back the kisti to BRAC.”

Another former-client reported that although she felt relieved after quitting the MFI after a bad lending experience, she still avoids credit officers:

“I avoid any meetings when they take place just so that I don’t have to utter anything wrong. Now the women even say bad things there, even men. There is no respect for women.”

Although rural households have borrowed money from peers, relatives, and money lenders for a long time, the peer pressures they reported MFIs use enhance coercive social pressures amongst clients. Indebted rural households reported that the debt circle affects their financial and social lives. All former-clients interviewed (nine households) and three focus group discussions reported that by making poor households’ debt liable to others, microfinance
made households’ finances a public matter. Indebted households understood that the options available to them after borrowing had reduced and borrowed money from other MFIs to circumvent community pressures. Like Saleha, former and current-clients said that their reputation and dealings with neighbours depended on their repayment:

Author: “For example, if one day you are not able to pay the instalments then what do you feel?”

Saleha: “I feel bad. I feel like crying. I took loans and now I am not able to pay back, people will say wrong things.”\(^{135}\)

In the studied villages, community members reported that a couple of indebted households had to leave the area because of the financial and social pressures they were under. The general psychological state of over-indebted vulnerable households indicates serious stigma. Molida said that the financial pressures combined with the threats of her credit officer could push her to commit suicide:

“I do not like any loans. They are a torture, not to me but all of us. I do not know how to leave it, I want to. Like I have to pay Tk.1,000 and it is late already, from who shall I borrow? That is why I am sitting here. Sometimes I feel like killing myself.”\(^{136}\)

Access to loans for women, in rural Bangladesh, can engender intra-household pressures which have serious negative repercussions on women’s and

\(^{135}\)01FGCCI03

\(^{136}\)01FGCCSD04
children’s well-being (physical, social, financial and psychological). Gathering data on both clients’ and former-clients’ experiences of microfinance provides a deep understanding of the complex dynamics and driving factors of livelihood ascent and descent in the studied site and of the role microfinance activities play for these households. This is summarised in figure 6-2.
Figure 6-2: Experiences of Loans

Short-term tactics
- Sell assets/ livestock
- Borrow from peers/relatives
- Extra work
- Borrow from MFI

Adaptation of resources
- Reduce food consumption
- Reduce food quality
- Children drop-out from school to earn

Mobilisation of resources

Failure to repay loans weekly
- Financial resilience and well-being improvement

- YES

- NO

Self-employed, indebted
- Households fail to build a profitable IGA
- Stabilisation of income and well-being

- YES

- NO

Households spend the loan on *rudiments, predictables or unexpected.*
- Investment in an IGA

- YES

- NO

Credit

Source: the author

137 Access to tactics is uneven across households and largely depends on the household’s livelihoods’ capital on which it has serious short-term and long-term negative impact (section 8.2)
After poverty reduction, the most important claim in microfinance’s achievements concerns its empowering effect on women clients. MFIs claim to address the vulnerability of households and of women by giving them access to financial products and services. Kabeer’s definition of empowerment as the “expansion of people’s ability to make strategic choices” (1999) encompasses the complexity of the concept and is therefore used in this thesis. The study of the impact of microfinance on women empowerment has not reached a consensus. While a few scholars praise microfinance as a catalyst for women empowerment (Osmani and Khan, 2007, Khandker and Pitt, 2005, Shamsuddoha and Nazneen, 2003, Todd, 1996), others nuance the claims (Alhassan and Akudugu, 2012, Ali and Hatta, 2012, Ahmed et al., 2001, Mayoux, 2001, Rahman, 2001b) whilst other denounce them (Kabeer, 2011, 2005b, Karim, 2008, Isserles, 2003a, Karim, 2001).

As previously documented (chapter five), women in rural Bangladesh have constrained decision-making power when it comes to household finances. A woman’s ability to repay almost entirely depends on the health, the occupation and the goodwill of the males in her household. Qualitative data suggests that microfinance is often not a source of empowerment for women. Because women have restricted control and influence over the expenses and earnings of the household, the loan’s impact on their ability to make strategic choices should be questioned.

6.3 CONCLUSION

This chapter challenged the often assumed association between loans and livelihood improvements. It finds that because microfinance is used differently by different households it can have different outcomes and impacts on their livelihood depending on their level of wealth (section 6.1). Clients reported that households with greater levels of existing assets and resources were better
able to invest in an income generating activity and to cope and adapt resources to meet *kisti* requirements. On the other hand all types of clients reported that because the poor and the very poor often lack the social networks, financial capital, good health and assets they face greater difficulties in investing and benefitting from an income generating activity. Either because they intended to invest in an income generating activity and failed, or because they intended to spend it for consumption purposes (food, health, education, asset, dowry, wedding costs or debt payment), households are often left without improved productive capacities and are burdened with often increasing debts. As a result households face difficulties in repaying *kisti* and as a result face extreme forms of pressure from MFI credit officers.

Credit officers use informal forms of pressure such as verbally abusing, threatening, forcibly taking and selling client assets, and over-lending to poor clients. In response to these pressures clients adopt coping tactics that deplete their assets, can damage their working capacity, and lead to debt circles. Such practices can have severe negative impacts on clients’ livelihoods and well-being (over-indebtedness, low level of assets, social marginalisation, migration, high levels of stress), by encouraging households to borrow from multiple sources (formal and informal). This repayment-centric approach taken by MFIs makes clients view microfinance as a short-term means rather than a means to building a livelihood strategy.

The community study indicates that many households, both with and without income generating activities, rely on multiple MFI loans to maintain their livelihood. The circle of debt builds a trap whereby clients overcome shocks and events through more and larger loans. The longer the debt circle the less likely clients are to be able to overcome the growing social and financial pressures. For these clients minor shocks can therefore incur over-indebtedness. The number of loans per household, the length of client-ship, and the outstanding amount borrowed cannot therefore be considered effective indicators of households’ financial resilience or well-being improvement. Despite these processes described credit officers offer loans to households who
have existing MFI loans, do not have the capacity to repay or do not have the intention/capacity to invest in an income generating activity.

In an area with relatively high density of microfinance, two MFIs emerged as having contrasting practices and impacts as reported by both clients and non-clients. PDBF was highly regarded while ASA was identified as the opposite. Ethnographies of these two institutions are the focus of chapter seven.
Chapter seven examines how social performance is shaped within MFIs by scrutinising the institutional characteristics of two organisations operating in similar contexts with significantly different performances in terms of social impact as reported by the communities\textsuperscript{138}. Based on interviews, staff surveys and secondary sources, this chapter builds linkages between the outcomes and impacts of these MFIs and their self-reported performance, organisational structures, management and working culture. The perspectives of staff members are essential to substantiate the data collected at the community level and provide insights into the managerial challenges of the socio-financial trade-offs (section 2.2.1)\textsuperscript{139}.

Section 7.1 is an in-depth organisational analysis of the enforcement of ASA’s cost-efficient development strategy on a large-scale. It explores ASA’s mission and organisational structure, management systems and working culture, and it is argued these offer explanations for the negative reports from clients regarding ASA’s social performance within the studied communities. Section 7.2 analyses PDBF’s organisational structure, management systems and working culture and identifies mechanisms which can to an extent explain clients’ positive reports on the institution’s social performance.

\textsuperscript{138} chapter six for details
\textsuperscript{139} For anonymity respondents are referred to by their position titles: DM: district manager; RM: regional manager; BM: branch managers; LO: loan officers (generally called “credit officers” by clients)
7.1 ASA: A MACHINE FOR GROWTH

This section shows how ASA’s focus on cost-efficiency allows it to generate a high financial performance but results in relatively low social performance.

7.1.1 ASA’S FINANCIAL PERFORMANCE

“We are the lowest cost microfinance provider in the world […] we are the MacDonald’s of microfinance. We operate though standardisation and decentralisation. MacDonald’s provides cheap and affordable models. We provide microfinance.”

Shafiqual Haque Choudhury, the founder and president of ASA (Roy, 2010:133)

7.1.1.1 FACTS AND FIGURES

ASA is an NGO founded in 1978 in a context of political unrest and economic turmoil with the vision of establishing a poverty free society. Its present day mission statement is to “support and strengthen the economy at the bottom of the socio-economic pyramid by facilitating access to financial services for the poor, marginalised and disadvantaged” (ASA, 2010). It now serves more than 4.9 million borrowers (up to February 2012) across more than 68,000 villages, 511 thanas, in 64 districts through 3,177 branch offices (table 7-1). ASA employs 22,458 people in total (more than 88 percent males) but with a very low central/field staff ratio of 1 percent (ASA, 2010). The head office is led by the President of ASA who directs the institution’s departments including human resources, operations, finance and management information system, accounts, audit, research and documentation and IT.

ASA’s annual financial reports emphasise indicators such as recovery rate, product uptake, client retention, loan disbursement and borrower numbers. The institution has undergone significant transformations across the years and managed to multiply its portfolio size by more than 200 times in 20 years (US$2.97 million USD in 1992 to more than US$608.08 in 2012) whilst
halving its operating cost ratio (from 21.89 percent in 1992 to 9.82 percent in 2012) (MixMarket, 2013). It is proud of its rate of loan recovery of 99.83 percent (June 2011). By October 2011, its cumulative loan disbursement reached Tk.481,381 million (US$ 6,326 million) and outstanding loan amount Tk.44,972 million (US$ 591 million). In 2008, ASA reported its net income after tax to be almost US$43 million (Pine, 2010:14). Since ASA declared itself a donor free self-reliant MFI in 2001 it has not accepted any financial aid and follows a strict cost-efficiency strategy.

**Table 7-1: ASA - at a glance**

| Total number of branch offices | 140  
| Total number of active groups | 3,177  
| Total number of active members | 240,365  
| Primary | 96.04% | 4,783,172  
| Special | 3.96% | 197,166  
| Number of Long Term Savings A/C | 1,710,004  
| Savings (end balance) | 13,888,118,300  
| Primary | 51.26% | 7,119,435,726  
| Special | 7.59% | 1,054,377,313  
| LTS | 41.15% | 5,714,305,261  
| Total number of active borrowers (end of the month) | 4,370,385  
| Primary | 95.46% | 4,171,768  
| Special | 4.51% | 197,166  
| Solar | 0.03% | 1,451  
| Loan Outstanding (with service charge) | 58,004,014,496  
| Taka Rate of Recovery (cumulative) | 99.65%  
| Interest rate (flat) | 15%  
| APR | 29%  

140 up to February, 2012
Although still non-profit, ASA has energetically adopted commercial practices (MacDonald, 2012). Its surplus rose above 60 percent in 2003, 2004 and 2005 (table 7-2). While ASA is mainly a rural institution (with 2,878 rural branches) it is also implementing in urban areas (with 316 urban branches) (table 7-1). It developed highly standardised human resource management procedures. This level of standardisation enables it to benefit from economies of scale and to expand in a cost-effective manner (MacDonald, 2012, Rutherford, 2009a). ASA presents some striking figures such as a financial self-sufficiency of 118.32 percent\(^{141}\) and an operational efficiency of 182.48 percent\(^{142}\) (table 7-2).

\(^{141}\)According to Yaron and Manos (2007), the FSS index evaluates the level of subsidy dependence of MFIs and their progression towards self-sufficiency. Here, it refers to the total operating
The expansion strategy of ASA evolved over the years, especially since 2008 when the levels of delinquency became very high (table 7-3).

**Table 7-2: ASA’s financial performance indicators**

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<tbody>
<tr>
<td><strong>Financial self-sufficiency (FSS) (%)</strong></td>
<td>47.03</td>
<td>124.9</td>
<td>169.73</td>
<td>112.4</td>
<td>118.3</td>
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<td></td>
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<td>0</td>
<td></td>
<td>9</td>
<td>2</td>
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<tr>
<td><strong>Operating self-sufficiency (OSS) (%)</strong></td>
<td>53.17</td>
<td>136.6</td>
<td>275.24</td>
<td>143.3</td>
<td>182.4</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0</td>
<td></td>
<td>8</td>
<td>8</td>
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<tr>
<td><strong>Return on assets (ROA) (%)</strong></td>
<td>-</td>
<td>8.97</td>
<td>10.71</td>
<td>2.24</td>
<td>3.52</td>
</tr>
<tr>
<td></td>
<td>-</td>
<td>11.44</td>
<td></td>
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<tr>
<td><strong>Return on equity (ROE) (%)</strong></td>
<td>-</td>
<td>22.88</td>
<td>19.66</td>
<td>4.11</td>
<td>6.36</td>
</tr>
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<td></td>
<td>-</td>
<td>14.00</td>
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<tr>
<td><strong>Profit margins (%)</strong></td>
<td>48.67</td>
<td>60.77</td>
<td>37.29</td>
<td></td>
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</tr>
</tbody>
</table>

Source: MixMarket (2013)

revenues divided by total administrative and financial expenses (adjusted for low-interest loans and inflation). If an MFI generates sufficient revenues to cover its administrative costs, loan losses and funds it is self-sufficient.

\[ \text{OSS} \] indicates whether or not the MFI earns enough to cover its costs. It helps MFI managers to monitor operations’ self-sustainability (financial efficiency: total operating revenues/ (total administrative and financial expenses). Here, when OSS>100 it means that the MFI covers administrative costs with client revenues.
<table>
<thead>
<tr>
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<th>2005</th>
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<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
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</thead>
<tbody>
<tr>
<td>Delinquency of &lt;1 month</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5,614,669</td>
<td>3,744,598</td>
<td>4,338,378</td>
<td>4,223,603</td>
</tr>
<tr>
<td>Delinquency of 1 to 3 months</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>49,071</td>
<td>18,357</td>
<td>11,618</td>
<td>16,405</td>
</tr>
<tr>
<td>Delinquency of 3 to 6 months</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>77,273</td>
<td>44,105</td>
<td>16,101</td>
<td>29,131</td>
</tr>
<tr>
<td>Portfolio at risk &gt; 30 days (%)</td>
<td>1.09</td>
<td>1.53</td>
<td>3.52</td>
<td>4.44%</td>
<td>4.31%</td>
<td>2.40%</td>
<td>2.32%</td>
</tr>
<tr>
<td>Portfolio at risk &gt; 90 days (%)</td>
<td>0.87</td>
<td>1.18</td>
<td>2.69</td>
<td>3.61%</td>
<td>3.80%</td>
<td>2.16%</td>
<td>1.96%</td>
</tr>
<tr>
<td>Loan loss rate (%)</td>
<td>0.13</td>
<td>0.18</td>
<td>0.24</td>
<td>0.43%</td>
<td>0.97%</td>
<td>1.00%</td>
<td>0.80%</td>
</tr>
</tbody>
</table>

Source: MixMarket (2013)
The portfolio of products and services offered by ASA nationally is more diverse than information collected at the field level indicates. Although ASA offers a large panel of saving and loan products to clients, including loan/life insurance, its product portfolio since inception largely depends on two major credit-based products. The primary loan (a standardised credit product) and the special loan (credit product for businesses, figure 7-2) at 15percent flat interest rates\(^{143}\) (29percent APR) and 46 instalments spread over 12 months which are topped up with Tk.20 mandatory savings\(^{144,145}\). ASA, like many MFIs in Bangladesh charge relatively reasonable interest rates to clients, as compared to other MFIs in Bolivia and Mexico (chapter three).

**Figure 7-2: The client-product ratio as of October 2011 (% of clients)**

![Pie chart showing 96% Primary Loan and 4% Special Loan](chart.png)

Sources: MixMarket (2013) and ASA (2010)

\(^{143}\) With correspond to the 2009 announcement of the microfinance regulation authorities in Bangladesh which imposed an interest rate ceiling of 15percent flat or 30percent effective interest rate on MFIs.

\(^{144}\) Clients also pay Tk. 20 as membership fees when joining ASA.

\(^{145}\) The rates practiced by MFIs are expected to be higher than commercial banks’ (due to the size of loans and the high transactional costs). The effective interests actually paid by clients within a year are usually not reflected in the conventional indicators used by MFIs, which generally do not annualize their rates. Pricing issues are discussed in chapter eight
The ASA model is branded internationally as one of the most cost-effective microfinance models, and is currently replicated in ten countries across Asia and Africa. ASA pursued “operational simplicity and massive scale with a vision unmatched in its clarity and relentlessness” (Rutherford, 2009a). Its activities are popular and well-respected in the international arena and its performance has been saluted by numerous international agencies who view ASA as a model for microfinance development. Microfinance advocates praise and recognise the rapidity with which ASA expanded through the years and the financial results it achieved within a short timeframe. ASA has also:

- Been nominated as the world’s leading MFI by MIX report in 2005

- Been nominated as the world’s best MFI by Forbes magazine in 2007 (out of 641 microfinance service providers worldwide selected by the MixMarket)

- Won The Financial Times and International Finance Corporation 'Banking at the Bottom of the Pyramid-2008' (out of 129 institutions across 54 countries) (ASA, 2013)

Most awards and rankings are established on financial evaluations using financial indicators. The community study and the institutional ethnography of ASA indicate that these assessments neglect social performance. Simple reviews of key financial indicators (scale of gross loan portfolio, efficiency, risk and return on assets) show impressive cost-efficiency but overlook the social outcomes for ASA’s clients and staff.

### 7.1.1.2 Organisational Structure

ASA has developed its organisational structures, human resources and culture to achieve exceptional financial performance (MacDonald, 2012). Because of the scale at which it operates, human resource management constitutes one of ASA’s most important managerial challenges. ASA is structured in two distinct tiers: the central office and branch offices in the field which makes it a highly decentralised institution with branches operating as independent profit centres.
Effective management procedures and systems are essential to manage a large-scale financial institution in Bangladesh. The district manager interviewed below highlighted the approach designed and followed by ASA to reach its leading position:

“ASA registered and started itself as an NGO but its policies and structure was different. It grew on its own, we never recognised how BRAC, GRAMEEN, Proshika worked but paved our own path. We [...] developed a manual. We did not stop growing from where we faced problems. We had to meet our goals and never looked back.” [...] “Policies have been developed over time through practical experience, if it was sudden then that would have been a pressure but since the processes are old and revised it works with the flow and work gets done. The work has become something regular like waking up and brushing my teeth. So I don’t require any help. The condition is perfect and so is the system.”

ASA relies on powerful financial monitoring systems. At the field level a top-down financial monitoring system identifies transactional and financial faults and errors made by field staff. Interviews with district, regional and branch managers indicated that the management of performance at ASA is of a well-organised hierarchical and decentralised system based on financial targets. The district manager explained “The system of chain of command works in our structure from above [...] every branch, regional and district managers have a target. Targets are given all over Bangladesh” 147. ASA has 35 district managers who are in “top position in the field” 148. The number of managers at

146 KIASA010, for these codes report to appendix I
147 KIASA010
148 KIASA010
district or regional level varies according to the demand for loans. For example, there are two regional managers in Tangail (North and South), Mymensingh, Dhaka, Chittagong, and Comilla districts with only one in remaining districts. This organisational structure is illustrated in figure 7-3.

**FIGURE 7-3: ORGANISATIONAL STRUCTURE OF ASA: FIELD OFFICES**

![Organisational Structure Diagram]

Source: the author

Regional managers allocate funds across branches (sometimes six or seven) by assessing the reports on projected loans and savings and anticipating planning for the liquidity needs in each branch of the region. “*It’s like a budget which will include the total anticipated income and expenditure for the month*” \(^{149}\) said the regional manager interviewed. They can balance surpluses and deficits across branches to ensure the required liquidities for the branches to function properly and respond to demand. The regional manager reported: “*whenever I* 

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\(^{149}\) KIASA006
need extra funds, I will try to gather it from other branches”. In case of deficit they must ask for extra funds from the district office and the head office which transfer the money through banks or provide cash. The regional manager added that given the minimal expenditures of branches, the help of the head office is only rarely required:

“Funding is very important, and another interesting fact is that we don’t have much expenditure, so we don’t have to go directly to the Head Office to ask for funding. We are likely to get the necessary funds from the other branches.”

7.1.1.3 Management in the Field

Besides fund management, regional managers supervise human resource policies and monitor employees following “a strict monitoring policy”. They identify and rectify staff “irregularities” or faults and ensure that “proper action has been taken for the mistakes”. To maintain simple and strict management policies at low costs, ASA developed its own management tool called the operation manual. It is the foundation stone with which branch managers, regional managers and district managers make decisions regarding fraud, default, misbehaviour, and remunerations. The manual explains in detail the incentives, penalties, recruitment, remuneration policies and other operational protocols to enhance staff productivity at low cost (with limited staff training required). It facilitates decision-making for managers and loan officers and seeks to protect clients and the MFI by reducing the discretionary power of employees.
The use of the manual and the strict financial reporting and monitoring enable ASA’s managers to reduce opportunities for fraud, money misappropriation and mismanagement, decreases the number of ghost loans and maintains cost-efficient operations; these are examples of the 22 possible offences listed in the manual. The vice executive president of ASA reported that 70 to 90 percent of cases under these are “clerical mistakes” including reporting errors and application mistakes. He added that with 14,000 loan officers and 3,000 branch managers who handle cash money every day the scope for misappropriating money is considerable. Hence, ASA built a monitoring system which detects fraud and default within one to 15 days (preferably within one day). Branch managers verify transactions every day and loan officers enter data into ASA’s own computer software so higher managers know how much money needs to be collected. Regional managers visit each branch twice a month to verify and supervise financial operations.

One after the other branch managers, regional managers and district managers oversee the loan register, “any mistakes found result in punishments: loan officers are fined Tk.50 [US$0.6], branch managers and regional managers are fined Tk.100 [US$ 1.2] each” depending on the size of the error. One branch manager, who said that the maximum amount he had been fined in the last eight years (since he had been promoted to branch manager) was Tk.600 (about US$7.6), gave an example of such an error:

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153 KIASA012
154 KIASA006_1
155 About 10 percent of a branch manager’s basic salary
“If a certain amount of money is sent from Dhaka to fulfil loan demands but later the outstanding is returned then I have to pay the transfer cost of the money.”

If more mistakes are found by the district manager, the regional manager is penalised and the faults are “noted down into the personal file of the regional manager. There is a personal file for everyone and any such wrongdoings are all posted there for future reference. The regional manager reported that this is a very embarrassing thing to go into staff’s personal file, “so people would rather try to keep up a good reputation.”

District managers regularly meet the regional managers to discuss previous and current lenders’ figures, outstanding amounts, the recovery rate, the number of clients, problems faced and “punishment” measures taken after submitting the monthly report. Twice a year there is a meeting at the district office attended by all regional managers. The regional managers interviewed reported experiencing pressures from district managers to improve outstanding figures of the five to six branches under his supervision. One regional manager explained that district managers (referred to as “the sirs”) visit branches to “motivate” the staff and generate a review which “depends on the profit. In 2008, the sir gave a good review but in 2009 and 2010 the profit was less and sir sent a circular to motivate us to improve ourselves but this year it is better.”

Author: “How much was your profit last year?”

RM: “About 4 lakh.”
Author: “And this year?”

RM: “This year will be more, assuming around 7 lakh.”

Competition amongst branches revolves around a system whereby each branch gets a grade: A, B, C or D according to its transactional and financial achievements. This cheap tool motivates branches to keep costs low and helps branch managers compare their performance and profits against other branches (grades are available to them on the internet). Grades are based on financial indicators (essentially branch financial surplus) that branches communicate monthly to the head office.

As regional managers visit branches twice a month, they verify recent loan approvals, report on the financial performance branches and go to the villages with the branch managers and loan officers. They write down all the faults committed by staff members in a report with a table with columns including “The irregularities and errors found during monitoring”; “Suggestions and decisions by regional manager”; “Actions taken by branch manager”; “Analysis by district manager”. Regional managers reported that the communication between them and branch managers is frequent and that they regularly attend meetings to discuss financial reports, budgets and staff management.
Procedures for promotion are set by the *manual of operations’* regulations circulars which grant them according to employee performance. Promotion is a major incentive for ASA staff to remain in the organisation, as the opportunity to be promoted according to experience and merit is generally limited in large-scale institutions in Bangladesh (where promotion can often depend on nepotism and bribery). The five branch managers interviewed said performance is evaluated on the basis of the financial reports produced in the past years, on superiors’ recommendations and tests results. Information collected indicates that the promotion process is very transparent as all branch managers and regional managers interviewed reported starting their career in ASA as loan officers and gradually being promoted to assistant branch managers and branch manager in six to eight years. ASA’s executive vice president explained:

“In ASA we have only one entry position which is loan officer. […] We don’t directly recruit branch manager or upper level staff. Gradually we promote them to senior positions. […] Regarding incentives, it is very structured. We have service book and manual. When you join ASA, the first year is a probationary period. After one year is confirmation. Once employees are confirmed they get benefits like gratuity, provident fund, festival bonus etc. All these things are very structured, automatically you will get it. In that case probation period may be increased if one cannot perform well. Then the management can decide that not one year but probation period can be 1.5 year. […] That is also mentioned in the manual.”

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163 KIASA002
164 KIASA003
165 KIASA012
To keep costs low, recruitment and training of loan officers operates at the branch-level. The executive vice president explained that ASA developed its “own non-conventional training system” taking place in the field and organised as followed:

“District and regional managers will give a technical briefing for the first two days, as in background of this organisation, goal, objective, etc. From day three they will be assigned with a senior colleague to the field directly but not to work but to observe. They will learn from the senior colleague how the work is done, interacting with the clients, how to write the pass book and other documents and recordings. At the end of the day there will be a discussion with the senior colleague about any questions and they will explain. This will last one week. From the second week they will ask to do it themselves but senior colleague will observe and monitor.”

After two weeks loan officers are assessed by managers (branch and regional) who make the final recruitment decision. At ASA there is no formal training course, the executive vice president explained that training is an “on-going process” whereby employees learn “on the job” through a procedure called “each one teach one learning”. This practical training conducted by supervisors is kept informal to develop the capacity, knowledge and skills of staff without requiring a week of formal training. Hence ASA, unlike BRAC for example, has no training centre or trainers. The executive vice president emphasised that top-managers in the field are responsible for identifying staff

166 KIASA012
members’ weaknesses and coach them accordingly. The executive vice president added that the main purpose of this approach is to keep the costs and the time invested in staff training and management as low as possible:

“If you ask me I would say we have 3,000 training centres and 600 trainers as the managers and the branches do that work. The branch manager and regional managers are actually our trainers to develop the staff and carry out their work efficiently. […] They have to achieve the most they can at a low cost while managing the branch’s transactions and performance. They supervise loan officers and are the financial managers looking after the solvency of the branch and an answerable person reporting to the regional, district and head offices. The training of newly-hired loan officers is kept to minimum in cost and time. It consists in spending seven to ten days with another loan officer, observing and learning about the challenges and the obstacles of working in the field. Thereby ASA ensures the replication of its management practices and borrower/staff relationship through one-teaches one at low-cost and in a decentralised manner.”

ASA decentralises its management to lower levels (branches, regional and district offices) which must follow strict financial and staff management rules. Each branch is self-reliant and aims to keep its operational costs to the minimum. Branch managers are in charge of the “daily loan requirements of the people” and “to balance and report the figures” reporting financial

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167 KIASA012
168 KIASA002, for ASA qualitative data code, refer to appendix I
transactions (loan transfers and repayments) in the register book called the “BM register”. Branch managers must guarantee the solvency of the branch and ensure that the monthly targets set by the Dhaka headquarters are met. Funds are self-managed by branches and district offices to limit headquarters’ support and intervention. Branches prepare their own yearly work proposal with clear and detailed financial targets and cash flow projections. Branch managers go regularly to the bank which guards the branches’ money in their account that the branch manager can access when a branch needs more liquidity. When they fail to anticipate expenditures he/she requests money from headquarters or could use the money surplus of other sister branches in the district.

Each branch, including four to five loan officers, one assistant branch manager and a branch manager, at the beginning of each month, each loan officer’s number of new loan clients, loan collection and outstanding amount are calculated. At the end of the month managers assess officers’ performance and take steps accordingly. One branch manager insisted: “Our earnings and success depends on these loan officers’ performance level and evaluation.”

Within the studied population, loan officers are on average 30 years old, have passed their A levels, have six years of experience within ASA and manage a portfolio of 400 clients across 11 villages. Branch managers review and assess loan applications filled by loan officers and verify if they are “justified”. To minimise costs, ASA branches do not have accountants and loan officers are responsible for maintaining daily accounts and they rotate to perform the job of cashier. As previously highlighted, rural branches mainly offer primary and special loans. Regional and branch managers explained that usually no training was provided with the primary loan (Tk.5,000 to Tk.50,000) but more

169 KIASA002
170 Appendix K
likely provided to clients associated with agri-business like poultry, dairy, vegetable farming. This simple and replicable low-cost expansion strategy allows ASA to grow whilst investing minimum money in staff and client training. Branch managers accompany loan officers during two field visits daily in order to “solve any problems that arise”\textsuperscript{171}, mostly by helping officers collecting \textit{kisti}.

7.1.2 ASA’S SOCIAL PERFORMANCE

\textit{Author: “According to you, how is your Branch doing now?”}

\textit{BM: “Very good! Rate of return is 100%.”\textsuperscript{172}}

\textit{BM: “Our earnings and success depends on loan officers’ performance level and evaluation.”\textsuperscript{173}}

This sub-section argues that ASA’s social performance is largely determined by management systems, an organisational structure and working culture which prioritise financial targets. It explains how prioritising financial performance (through incentive and disciplinary measures) affects the role and the function of loan officers which has repercussions on the nature of their relationship with clients. It is then argued that this has negative implications for clients, corroborating findings from the community study (chapter six), and the MFI.
7.1.2.1 Financial targets

ASA’s financial performance is achieved, as previously noted, through strict management systems, targets and punishments procedures\(^{174}\). The primary means through which loans are delivered and *kisti* received are loan officers themselves. Understanding the interaction between loan officers and management systems, targets and punishments procedures is therefore essential for understanding ASA’s financial performance.

The lives of loan officers revolve around their work as the vast majority of staff members (especially males) sleep in ASA branches’ dormitories and women officers have the choice to live there or outside with their family. Loan officers share the same room, get up, have breakfast, determine the amount to be collected that day, write it on the board and leave to the villages by 8am. After collecting *kisti* they return to the office by 1 or 2pm to fill up the daily financial transaction reports around the same table and enter collected amounts in the table on the wall. The importance of these systems for ensuring financial performance can be seen symbolically in ASA offices themselves. At the five rural branch offices visited there are prominent posters reporting yearly financial indicators, organisational rules and protocols. Office walls are covered with charts representing daily cash flows (focusing on three figures: the number of borrowers, the daily disbursement and the daily repayment) which reflects ASA’s finance-orientated approach to operations (also see Rutherford 2009).

ASA’s head office communicate fixed targets to branch managers who are responsible for anticipating the demand for loans and for ensuring that loan officers meet individual targets (section 7.1.1). One branch manager said that

\(^{174}\) Word used by staff members interviewed (including managers).
each loan officer “has to get 360 clients”\textsuperscript{175} and “has to loan out around Tk.500,000” monthly.\textsuperscript{176} Disbursement targets are set twice a year in six month reports setting monthly predicted figures of loan disbursements.\textsuperscript{177} All branch managers reported that rural loan officers have to recover 100percent of their loans. One branch manager explained: “they [loan officers] don’t come without collecting all the money. Even in times of adverse weather conditions they do not come without the proper amount”.\textsuperscript{178} Ability to collect repayment reflects performance, as one branch manager explained: “if an officer complains that he/she could not collect certain number of instalments after the field work, it would reflect that person’s inability.”\textsuperscript{179} What if targets are not achieved? “Then there is punishment” “If the target is not maintained then the pressure will be on me”\textsuperscript{180} he added. Another branch manager reported “If a target is given, we can’t meet less than that. If it happens so then we are under pressure. It can go above but not below”\textsuperscript{181}.

## 7.1.2.2 Staff Incentives and Motivation

Loan officers are motivated to meet these targets through incentive and penalty measures (outlined in the manual) (section 7.1.1). Through the staff survey, 76percent of loan officers reported being motivated by the fear of “punishment” and exclusion in case of bad results\textsuperscript{182}. One mechanism through which ASA ensures high repayment rates is by moving loan officers between

\textsuperscript{175} KIASA005
\textsuperscript{176} KIASA005
\textsuperscript{177} KIASA003
\textsuperscript{178} KIASA005
\textsuperscript{179} KIASA003
\textsuperscript{180} KIASA003
\textsuperscript{181} KIASA004
\textsuperscript{182} Appendix J, question 20
branches every three years. This rule is designed to reduce fraud and maintain financial performance. Working many years in the same villages, loan officers become familiar with clients and local elites and could establish informal relationships with them. Top managers reported that loan officers’ financial performance curve goes down as loan officers cannot force clients to repay when they become too familiar with them, and that this may constitute a risk for repayment performances\textsuperscript{183}. For loan officers, the frequent automatic transfers (every three years) and additional transfers in case of low financial performance are incentives to maintain formal relationships with clients that enable them to ensure high repayment rates\textsuperscript{184}. If a loan officer is unable to collect instalments, he/she is told about the consequences bad repayments have on the ASA. If the problem continues he/she will get a written warning, and if it persists further they are fined Tk.100 or more\textsuperscript{185}. Moreover, their yearly increment can be interrupted and their holidays unpaid\textsuperscript{186}.

7.1.2.3 A FINANCE-BASED WORKING CULTURE

The staff survey corroborates this finding that ASA’s management systems, policies and culture revolves around repayments. From this, as well as informal discussions, it seems that these financial targets and the manner in which they are enforced by branch managers have a negative psychological impact on loan officers. Loan officers reported being stressed about meeting rigid financial targets and depressed as they face daily conflicts in the field (as a result of ASA’s zero-delay, zero-default policy\textsuperscript{187}, reported by nine loan officers). 47 percent of them agreed with the statement “people get angry very often in

\textsuperscript{183} KIASA003
\textsuperscript{184} AQ005, for credit officers codes, refer to appendix K
\textsuperscript{185} KIASA004
\textsuperscript{186} KIASA002
\textsuperscript{187} AQ003, AQ004 AQ007 AQ011, AQ012, AQ015, AQ018, AQ020, AQ021; appendix K
the organisation” and 71 percent said they “fear punishment from their boss”\textsuperscript{188} (appendix J). This is illustrated well in one loan officer’s written statement:

“When I do not get an instalment then I inform my boss that ‘sir, there is a problem in this house and they cannot repay today’. Then my boss orders me to sit in that house until the clients gives the money. If you have to sit there throughout the night you will but do not come back without the instalment he says. So if I leave without the money and I face this kind of mental and physical torture I feel like quitting the job.”\textsuperscript{189}

A number of further quotes from the staff survey also illustrate this:

“The worst part is that in every position the subordinates suffer mental harassment from superiors.”\textsuperscript{190}

“The rules in ASA and the mental harassment faced by the employees are the worst part of ASA.”\textsuperscript{191}

It is however important to note that loan officers did report some positive attributes related to ASA human resource management. Having asked loan officers’ to write positive accounts about ASA\textsuperscript{192} they indicated that the MFI fulfils its employer’s duty (in terms of salary and employment) efficiently. Officers reported being satisfied with their salary and reported that there was

\textsuperscript{188} Appendix J, questions 9-51
\textsuperscript{189} AQ012
\textsuperscript{190} AQ008
\textsuperscript{191} AQ012
\textsuperscript{192} Appendix J, question 3
no delay in the payment of their salaries and that the procedure for recruitment and promotion were transparent. 47.6 percent of them reported being motivated by bonuses and rewards (thank you letters), as salaries of staff members are reviewed once a year and systematically incremented based on officers’ experience within ASA. On a large-scale and at minimal administrative and operational costs, ASA manages a financially efficient MFI with an impressive financial discipline, as the following quotes illustrate:

“ASA gives the salary on the right time, the salary structure is good.”

“I will say it is a good organisation because I am working for it.”

“It helps people through giving them small loans to develop themselves socially and economically. For crores of people it works as a friend. That is why to thinkers and educated people ASA is a good organisation.”

“The good part is that I get my salary by the 25th of each month.”

As a response to the pressures highlighted above loan officers have developed a number of tactics to manage their relationship with ASA to achieve their

193 Appendix J, question 19
194 KIASA004
195 AQ009
196 AQ012
197 AQ001
198 AQ020
daily financial targets. As was shown in chapter six clients often face difficulties in repaying their loans. Staff survey results indicate that 71 percent of loan officers sometimes find it difficult to collect money from clients and 62 percent said they get into trouble when their clients cannot repay. To maintain their relationship with their branch manager and avoid disciplinary action loan officers rely on each other to cover payments that they have not been able to collect from clients. Loan officers’ efficiency is doubted when they are unable to enforce repayments, and they therefore aim to achieve targets as fast as possible, as one loan officer illustrated: “When I get back my instalments from my clients in time, I can finish my work fast and get good feedback from my colleagues and organisation.” It was reported that ensuring good repayment was the easiest way to keep their job, avoid penalties and get promoted. Consequently, a loan officer who for example has been unable to collect Tk.20 from a client knows they are unable to return to the office without it and therefore may prefer to either use their own money or borrow money from a colleague who has sufficient liquidity on that day. 24 percent of loan officers agree to the statement “I sometimes pay my clients’ instalments” (appendix J). This principle is illustrated in the following quotes:

“When I cannot get instalments I consult my colleagues and they help me. So I can solve the problem fast and easy.”

“If there is a problem regarding instalment we discuss them with colleagues and they are always there to help. The organisation asks for 100 percent guaranty of the instalments. If we cannot get an instalment then we suffer mental

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199 Appendix J, questions 47-31-39
200 AQ002
201 AQ003
This management system has implications not only for loan officers themselves, but also for the nature of the relationship they have with clients, as well as for ASA as an institution. As a result of the pressure on loan officers their relationship with clients is focused around *kisti* repayments. This focus is at the expense of development outcomes for clients through firstly, failing to encourage and incentivise business activities, secondly, poor client selection procedures and thirdly, because it leads to multiple coping tactics. The purpose here is to demonstrate the link between these management systems and the behaviour of loan officers. The repercussions of these are examined, based on the community study in chapter eight.

### 7.1.2.4 The Impact of Organisational Characteristics on Loan Officers’ Performance

As a result of ASA’s financial targets to assess branch and staff performance, the role of loan officers revolves around ensuring loans are given and *kisti* received. As already highlighted loan officers often face problems in collecting repayments; over 66 percent of loan officers reported not allowing any delay in *kisti* repayment (appendix J). 47 percent also reported that they believed that clients lie to them and this perception can influence their behaviour towards clients. In response loan officers use numerous forms of informal pressure to achieve *kisti* collection, four of which are analysed here. One loan officer summarised ASA’s approach as “It [ASA] takes harsh and hard steps if anybody fails to repay the instalment.” The first of these is to stay at the...
clients’ houses on the day on which the kisti is expected and as a result they are forced to work late into the evening. One loan officer reported “the worst part is that every day we have to work until late at night.” As a result, the time by which loan officers return to the branches vary according to client repayment. Survey data shows that more than 76percent of loan officers report coming back to the office after 8pm, 51percent after 10pm (although the official office time ends between 5pm and 6pm) (appendix J). This form of pressure is illustrated by one loan officer:

“When I do not get an instalment my boss orders me to stay in the clients’ houses and orders me not to come back without the instalment. So we have to wait in the clients’ house. It is tiresome for us. As the clients get upset on us and make delays on purpose.”

A second form of pressure is to return to the client’s house with a group of staff members and this can include the branch manager. All tiers of staff reported returning to the clients’ homes as a strategy to convince them to pay kisti in instances of delayed repayment, as stipulated in the manual. Branch managers and sometimes regional manager reported going to clients’ homes with a team of three to five field workers to “convince” borrowers to repay the kisti. The written statements from loan officers confirm this finding:

“If I do not get an instalment I inform the manager. Then he comes with all the staff and we stay in the client’s house up to twelve or one at night. And we are not authorised to enter the
office without the instalment. Whatever happens I have to collect the instalment and then can go to the office.”

“If there is a problem regarding instalment then first we call the group leader then the client to solve the problem. Then, if it does not work we call the branch manager and we go to the house of the clients. If it is necessary then we have to stay in that house during the night. Then if it does not work we call and inform the head of the village and the chairman. And if this step fails then, according to rules, we have to file a case.”

This practice was also reported by the regional manager:

“Yesterday I went to seven such people who do not cooperate properly with us. We went in three groups, four people per group and one Team Leader in each group. We had target of going to at least 15 clients [...] There are about 200 defaulters in total in this branch.”

A third form of pressure which is not documented in the manual involves using strong and sometimes threatening language, public humiliation may be an element to this. This practice was documented through the community study in chapter six and findings from the institutional study confirm this. 47 percent of loan officers reported having to threaten their clients to force them to repay (appendix J). During informal discussions, loan officers confirmed allegations formulated by community members concerning their behaviour and strategies.
to make clients repay on the due day (stealing properties, threats, argument, public altercations, and request of repayment on the day of decease of a relative). Loan officers explained how pressuring clients and treating defaulters insensitively is required to not be penalised themselves:

“The colleagues help each other. But the organisation is not ready to accept and delay in instalment. So we have to be inhuman and treat the clients in an inhuman way.” 211

12 out of a total 21 loan officer reports gave similar accounts of ASA’s hard-line approach to client repayment212. The border between “convincing” and “forcing” (as described by clients) are indistinct and easily crossed given the economic and social status gap between managers and clients and their patronage relationship. A regional manager told the story of a woman who owed money to ASA and could not afford the kisti, and slowly became a defaulter. He described the argument he had with her husband’s and his manipulation techniques:

“I started to induce fear of God in him. I told him: “whatever you are doing God will make you pay for this someday”. I enlightened him with different verses of Islam where it says that these kinds of behaviour always get punished. Because of this you will be cursed for life. Maybe I will not come to you again, but another Manager who will be in my position later will come for you once again. This will go on throughout your life. You will pay for this.”213

211 AQ005, AQ007, AQ013, AQ020
212 AQ007, AQ008, AQ009, AQ010, AQ011, AQ018
213 KIASA006
A branch manager also reported:

“It also happened many times that the money was not returned before evening. Four or five of us go together and if we force a little the money is paid up.” 214

During informal discussions, loan officer explained that they were encouraged by managers to get clients to repay whatever it takes and that they had been trained this way (through one-teaches-ones training, section 7.1.1).

A fourth means to collect *kisti* from households who are defaulting is to use clients’ savings accounts as loan collateral and threaten clients who cannot repay to cut money from their savings. Such practice was reported in the community study (chapter six) 215 and was confirmed by branch managers who stated that when borrowers say they cannot pay back

“officers cannot leave the spot without taking the money”. 216 […] “We try to negotiate to take back the payments but there is also a system called savings withdrawn. So they can collect savings and pay for instalment for the time being. This is the best solution.” 217

This, they reported, has become a common practice which often creates conflicts between loan officers and borrowers, whose savings are used as loan collateral. These informal practices, when they become systematic, can often contradict the purpose of voluntary or mandatory savings (providing clients with a security buffer against shocks and events).

214 KIASA004
215 KIASA003
216 KIASA004
217 KIASA004
Loan officer’s working lives and relationships with clients are affected by ASA’s management systems to such an extent that it affects the way in which clients use loans and perceive microfinance in general. Because loan officers are incentivised to collect repayments, they pay less attention to the investment dimension of loans and spend most of their working time negotiating repayments with clients. Despite the theoretical purpose of microfinance, ASA do not, within the communities studied, provide training on small businesses, agriculture, livestock, financial management or financial literacy. Furthermore, 66 percent of loan officers reported that their clients do not understand the concept of credit\(^\text{218}\). As was noted in the community study clients reported applying for ASA loans because they are well-known for being easy to access and poorly followed up on. Data collected by MacDonald (2012:102) indicates similar results. The lack of attention given by ASA to social performance management may fail to encourage and incentivise clients to use the loan capital for business activities. It is important to note discrepancies existing between reports provided by clients and reports provided by regional and branch managers concerning the use of loans by clients. Although a minority of clients did report using loans for business purposes, many reported a wide variety of uses for their ASA loans. Examples include:

“I needed money to survive”

“I built a tube well from the money loaned from the bank”.

\(^\text{218}\) Appendix J, question 42
“I first took loan from ASA to give loan to another person who was going abroad just to help them.”

“The first thing we do after taking the money is buy rice for our family.”

“The reason I took the loan because after my husband died I had no place to live.”

Branch managers, on the other hand, reported that:

“In my 19 years of work here I never heard anyone say they want to take loans to have rice. We don’t get that sort of clients here. They would only take loans for business purposes.”

“They take for various purposes. Some take for business initiatives like poultry, bamboo, fisheries, agriculture. Around 80percent is given off for agriculture. For last two years we had been giving loan for transportation like bus, truck, etc. Previously it was for vans and rickshaws but now it has changed.”

Author: “Do people take loan for food intake?”

BM: “No, they take for businesses.”

219 01FGCCI03
220 KIASA005
221 KIASA002
In addition to loan use, the process of client selection also suffers from the lack of incentives given through ASA’s management system for social performance. As previously highlighted, loan officers are incentivised to meet targets not for only *kisti* collection but also for the number of clients they recruit. Branches are required to maintain a certain level of liquidity in order to be able to provide new loans to clients. For that reason they need to constantly give new loans to existing or new clients. Financial performance evaluations might foster contradictions between clients’ long term needs and loan officers’ short-term interests. This financial pressure on loan officers, combined with the lack of social performance targets and incentives, leads to a number of poor practices related to client targeting. One poor practice, documented in the community study and institutional-study, is ASA loan officers hard-selling loans to existing ASA clients. One branch manager reported:

> “Some of them could not pay back on time, so I went to them and explained that what they did was wrong, and because of this they are falling further behind. They cannot take loans anymore, whereas some of the clients have developed tremendously and are always taking more loans in higher amounts. So I told them to give it back within a certain period and then take loans again.”

A further problematic practice is accepting new clients who already borrow from other MFIs. The phenomenon of clients being members of numerable MFIs is well known by branch managers. One manager reported:

> “Yes there are a lot of clients who are taking loans from more than one particular organisation. Maybe around

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222 KIASA006
85 percent of the clients are doing this. They are clients of ASA, Grameen Bank and BRAC at the same time. Not only in this part of Bangladesh, but it is happening all over the country. ”

The issues of over indebtedness that multiple client-ship can cause are often neglected and sometimes exploited by ASA field staff. The community study documented a number of coping tactics adopted by clients as a result of their over indebtedness and the institutional study shows that field staff are both aware of these and encourage them to ensure kisti repayment. Incentivised to prioritise target achievement loan officers neglect the long-term negative effects loans may have on clients’ livelihoods and well-being. Information about repayment problems collected from loan officers verify clients’ versions and confirm the magnitude and the importance of the problem of repayment, over-indebtedness and multiple client-ship. Staff survey results indicate that loan officers’ perception of their clients partially resonates with the community study’s findings. 90 percent of them stated that their clients are poor; 71 percent that clients struggle to survive, and 38 percent that clients cannot repay (appendix J).

Field officers use intimidation and economic arguments to convince defaulting clients to find a short-term coping tactic to gather the kisti that week to access more and larger loans. This information was corroborated by discussions with loan officers and interviews with branch and regional managers who explained the process of recovering overdue loans, through whatever strategy. The most illustrative quote is one from the executive vice president of ASA who

223 KIASA005
224 Questions 36-37-44
explained that loan officers and managers often have to call on the help of community members to repay defaulters’ due amounts:

“We have several steps in recovering overdue loans. How we can recover the overdue or default loans. First we go to them, sit with them and try to identify their problems; we suggest some alternatives, we go to the community people, we go to their relatives, neighbouring people. Then we mobilise the community people. […] We request them that ‘your relative is facing some problems, troubles, can you help him/her, you can pay today and next day he will repay you?’ We motivate them but not force them to help on behalf of their relatives, fellow group member or neighbours. That is the initial step to recover overdue loans. Then we go to the community people and see that the client has potential for alternatives but not willing to use that alternative.”

In addition to being “encouraged” to rely on other community members as this quote illustrates informal discussions with loan officers substantiates some of the more extreme coping tactics which emerged in the community analysis. Asking a number of loan officers informally to verify information collected from the community study confirmed that loan officers do resort to strongly encouraging clients to sell assets (both productive and non-productive) in order to pay their *kisti*. It was very common to hear from loan officers that they also resort to encouraging clients to take loans from other MFIs in order to pay their ASA *kisti*. One loan officer even reported requesting a client to postpone burying her husband because her *kisti* was due on that day.
The magnitude of these practices at a branch level may have serious implications on ASA as an institution. In pressuring branches to meet financial targets loan officers are incentivised to keep information between them and their clients in the first case and between loan officers in the second case, and to not communicate difficulties to their branch manager in order to avoid disciplinary measures, transfer and to maintain good performance reports. This gap between loan officer and branch manager is reflected in the fact that only 52 percent of loan officers reported that they “think their boss understand the difficulties of their job” and only 52 percent “think management and employees talk openly about work issues” (appendix J). One third of the loan officers (33 percent) reported that their manager does not understand clients’ problems. Differences in information reported by loan officers and branch managers also reflect this gap. For example, branch managers generally denied the repayment challenges faced on the ground. One manager stated that “if clients cannot pay in the morning they do pay back within one or two hours or by the afternoon. There are female labourers working in the fields who fail to come on time, but they do pay up by the end of the day.” He continued: “there aren’t people who totally fail to pay back within the assigned date. A very negligible amount of people do that, not even 1 percent”. Discrepancies could however also be explained by the fact that higher managers intend to protect the image of ASA. As was previously highlighted however loan officers report a high number of clients facing severe repayment difficulties and some also reported occasionally paying the *kisti* themselves. ASA penalises poor financial performance to such an extent that financial and social “bad news” is concealed by staff members at the field level to avoid “fall[ing] into more troubles” and show good performance.

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226 Reported by clients, non-clients, former-clients and loan officers
227 KIASA005
Having reported more critical findings regarding the repercussions of ASA’s tight financial discipline for clients and loan officers a number of survey findings report positively about the branch managers’ commitment and capacity to achieve targets and these findings need to be interpreted. Despite the difficulties reported by ASA loan officers, 100 percent reported that their manager was committed to improve clients’ situations, 100 percent are motivated because they want to help clients improve their situation, and furthermore the majority reported that their managers respected them (appendix J). Arguably, these can be interpreted as representing loan officers’ acknowledgement of the capacity of their managers to achieve targets which they evidently do effectively, and which are essential for securing their own livelihoods. In their written statements loan officers tend to critique the management systems which they repeatedly qualify as being “excessive” and they associate with “mental harassment.” Positive statements may therefore represent solidarity among staff at a field level rather than reflecting perspectives towards ASA as an institution.

Despite some positive accounts on their working lives, loan officers’ statements indicated that they are critical of the outcomes of ASA’s work with clients. Some loan officers distinguished outcomes for clients by their loan use and initial asset endowment, as illustrated below:

“If a person takes a loan and works with it then he/she can prosper in life. If they take a loan from ASA they can buy a cow or a vehicle and start a business, it will work for them. But for those who take the loan and eat with it, it will not prosper or develop, and he will get another loan.”

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228 AQ003, AQ008, AQ0012, AQ015, AQ018, AQ021
229 AQ004
“Microcredit is not working for the poor or who are landless. It brings good fruits to the middle classes people who have resources to use this money.”

Other loan officers are however more critical of ASA’s work. One loan officer reported:

“If I want to say the truth, ASA does not do anything that can be considered as good work.”

Despite these critical perspective there are however some findings which seem at odds with the analysis. For example, 95 percent of loan officers agreed to the statement “I feel good doing my job” and 81 percent reported that they had observed credit helping people get out of poverty. This second finding can be explained by the loan officers interpreting the statement broadly, and it is therefore unsurprising that they had observed at least one client benefitting from their loan. The first statement contradicts many of their other accounts and experiences highlighted above concerning difficulties collecting kisti from clients and the pressures faced at their branches for meeting targets.

ASA was identified through the community study as having low social performance as defined by the community involving poor kisti collection practices, a high level of client indebtedness, client distress, multiple client ship and limited positive outcomes for clients compared to other institutions operating in the same communities. ASA is one of the most famous

230 AQ010
231 AQ005
232 Poor outcomes for clients cannot be quantified given the data collected however poor outcomes for clients was consistently reported by ASA clients (see chapter six).
examples of a commercialised approach to microfinance (although it remains a non-profit NGO) (MacDonald, 2012, Rutherford, 2009). This institutional ethnography studied the organisational structure, management systems and organisational culture behind client experiences, to establish links with social performance management. It finds that there is a relationship between incentives given to loan officers (related to financial targets) and social performance outcomes. While disciplinary measures allow ASA to achieve rigid financial targets and high cost-efficiency, it can also often, in the absence of social performance targets, push loan officers to compromise the well-being of clients. The systematic financial monitoring in place may only accurately report ASA’s good financial performance, and may misrepresent its social performance. Doubts concerning ASA’s social performance and impact can therefore be raised. Figure 7-4 illustrates the main factors, starting from its mission statement and strategy, organisational structure, management systems and working culture which help ASA achieve high financial performance and low social performance.
**Figure 7-4: Organisational Analysis of ASA**

<table>
<thead>
<tr>
<th>Intend and mission</th>
<th>“Alleviate poverty and improve the quality of lives of the landless and assetless, rural poor by providing them access to financial services”</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cost-effectiveness strategy</strong></td>
<td></td>
</tr>
<tr>
<td>Organisational structure</td>
<td>Decentralised profit-centered branches</td>
</tr>
<tr>
<td>Management systems</td>
<td>Quick and easy decision making process</td>
</tr>
<tr>
<td>Delivery channels</td>
<td>Inflexible repayment patterns</td>
</tr>
<tr>
<td>Outputs of operations and services</td>
<td>Over-indebted clients multiple borrower</td>
</tr>
</tbody>
</table>

Source: the author
7.2 Palli Daridra Bimochon Foundation

Palli Daridra Bimochon Foundation (PDBF), meaning “Foundation for the Elimination of Rural Poverty” in English, was selected as a case study for this thesis because of its reported distinct positive impact in comparison to competitors within the communities studied. It is argued that observed financial and social performance outcomes are the result of the alignment of management systems and organisational structure with the institution’s mission. It finds that a number of characteristics are conducive to social and financial performance outcomes at the field level. PDBF has two employee-based bodies—a trade union and a gender focal point—which allow employees’ voices to be heard by higher management and more accurate information from the field to travel up within the MFI. Related to human resources, each branch has an accountant and all field staff receives regular training. All of these characteristics contribute to strong institutional communication between the field and higher management. A further important characteristic related to this is the element of decentralisation in decision making to branches. Related particularly to financial performance, disciplinary and incentive mechanisms rely on competition and target-based management at the village level. It is argued that social performance in PDBF heavily relies on the village organisers who, due to PDBF’s management policies, maintain what are arguably appropriate targeting processes, provide guidance and facilitate training to clients for income generating activities, and are flexible with kisti repayment. These practices lead to better social outcomes for clients, including a higher proportion of clients with an income generating activity, better management of income generating activities, lower use of coping tactics, and therefore arguably improved well-being in the longer term.

7.2.1 analyses key structural and managerial characteristics in PDBF. 7.2.2 explores the linkages between these and social performance. Through both sections differences between PDBF and ASA are highlighted.
7.2.1 Social Mission and Financial Performance

This section first gives an overview of PDBF’s origin and development and key performance figures. It then explores the organisational structures and management systems which contribute to facilitating communication amongst staff and to achieve high social performance.

7.2.1.1 Facts and Figures

In contrast to the large number of commercialised institutions providing microfinance services and products in Bangladesh, PDBF is distinctive. PDBF was founded by the Government of Bangladesh through a parliamentary law (law no. 23) in 1999 which with the assistance of the Canadian International Development Agency (CIDA) converted a micro-credit and poverty alleviation program led by Bangladesh Rural Development Board (BRDB) called the RD-12 into an independent and autonomous microfinance institution. PDBF’s mission is to provide

“effective financial support and skills training to develop and empower socially and economically and also promote gender equity” (PDBF, 2012b).

PDBF argues for the need to address poverty through an inclusive development strategy that ensures that clients achieve economic empowerment and social mobilisation simultaneously. This initiative is the first of its kind in transforming a public sector poverty alleviation program into an autonomous microfinance programme. PDBF’s purpose is to strengthen clients’ capacity for self-help through providing training that develops skills for income generation, encouraging economic opportunity through collecting regular savings and disbursing credit, training on social development issues to empower members and increase awareness, and promoting gender equity. According to this approach microfinance’s impact can be sustained if other dimensions (beyond the economic capacity of the households) are enhanced.
PDBF (similar to ASA) provides two major products: microfinance loans (with a group lending methodology) and small enterprise loans. The product ratios are 98 percent and 2 percent for micro and mela (enterprise) loans, respectively. Similarly to ASA, at PDBF branch level, village organisers offer these two main products to their clients. One branch manager explained that the two products serve different purposes and needs; the mela loans provide loans of larger amounts to male businessmen and the micro loans smaller amounts to poor women. The financial products are offered at 12.5 percent interest rate (flat) by PDBF (24 percent APR) (PDBF, 2012a). Compared to ASA, PDBF has very few official documents published in English. According to a 2009 report published by the institute of microfinance (Dewan and Alamgir, 2009) the viability of BRDB services and project (including PDBF) is “very poor”. This study reports that in 2009 PDBF had over 450,000 borrowers of which 255,931 (56.7 percent) were defaulters. This number indicate that despite a high recovery rate of 98 percent, PDBF faces some serious loan repayment issues at the field level which could in the long-term affect its self-sufficiency.

233 KIPD013
234 KIPD011
235 This is the most recent figure available.
### TABLE 7-4: PDBF - AT A GLANCE UNTIL FEBRUARY, 2012

<table>
<thead>
<tr>
<th>Category</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of branch offices</td>
<td>253</td>
</tr>
<tr>
<td>Total number of districts</td>
<td>38</td>
</tr>
<tr>
<td>Borrowers (in million)</td>
<td>0.715</td>
</tr>
<tr>
<td>Total number of active members (Jun-2011)</td>
<td></td>
</tr>
<tr>
<td>Micro loan</td>
<td>98%</td>
</tr>
<tr>
<td>Mela loan</td>
<td>2%</td>
</tr>
<tr>
<td>FY loan disbursement</td>
<td></td>
</tr>
<tr>
<td>Million</td>
<td>718,990</td>
</tr>
<tr>
<td>Tk</td>
<td>15,591</td>
</tr>
<tr>
<td>Rate of Recovery (cumulative)</td>
<td>98%</td>
</tr>
<tr>
<td>Cumulative loan disbursed</td>
<td></td>
</tr>
<tr>
<td>Million</td>
<td>42,000</td>
</tr>
<tr>
<td>Tk</td>
<td></td>
</tr>
<tr>
<td>Savings balance</td>
<td></td>
</tr>
<tr>
<td>Million</td>
<td>1900</td>
</tr>
<tr>
<td>Tk</td>
<td></td>
</tr>
<tr>
<td>Total Number of Staff</td>
<td></td>
</tr>
<tr>
<td>(2160 at branch level)</td>
<td>2,400</td>
</tr>
<tr>
<td>Employment generated (in million)</td>
<td>1.46</td>
</tr>
<tr>
<td>Trainings provided to borrowers</td>
<td>35,000</td>
</tr>
<tr>
<td>Solar home installed</td>
<td>9,500</td>
</tr>
</tbody>
</table>

Source: (PDBF, 2012a), PDBF (2012b) and compiled information collected at the head office

PDBF has 15 regional offices to oversee the operations of 253 branches covering 38 districts and 0.715 million borrowers employing 2,400 people. The MFI reportedly generated employment for 1.46 million people, provided 35,000 training courses to its borrowers and installed 9,500 solar home systems in rural Bangladesh (table 7-4). Twelve years after its inception, PDBF managed Tk.383.02 Million for the year 2011 (PDBF, 2012a). PDBF’s

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236 Compared to ASA, PDBF has only a few documents available in English.
outreach is considerably less significant in terms of scale compared to ASA as it serves almost seven times fewer clients’ though more than 12 times fewer branches. The managing director, in charge of PDBF’s strategy, emphasised that his short-term objective was to expand PDBF’s coverage, he said:

“After one or two years you will see a different PDBF. According to the target in my mind, it will cover 350 Upazilas and contain over one million members”. 237

An important characteristic for understanding PDBF’s approach to microfinance and development as an MFI is the privileged relationship it has with the government. The human resource manager explained that PDBF does not belong to the government anymore, it does not receive funds from “donors and no help from government”, although they are “in good terms” with them 238. The board of directors is composed of three members of the government, in addition to a chairperson, a secretary and clients. The managing director, who is a civil servant, repeatedly emphasised how tight connections with the government ministries facilitated the management of the MFI. The following quotes highlight the importance of the support (political, moral, and administrative) he receives from government bodies:

“I have kept close contact with all the Ministries and administration which the previous management avoided. This is because I know that without the help or support of the government I cannot run this organisation.”

237 KIPD016
238 PDHRM21
He gave several examples of situations related to corruption and theft in which his connections with the government have helped him resolve problems faced within the MFI. He added: “if I don’t have connections I’ll fail to do so. Therefore keeping connection is the highest priority. I have many friends in the government and different NGOs.” PDBF’s model itself also involves linking microfinance products and services with existing government services in order to build better leverage for clients. The human resource manager explained PDBF’s objective is to “give them skills, training, money and technical support” by connecting client households with government health, law, administration, relief, disaster management and agriculture offices. She gave an example:

“Individuals cannot make a difference without government support. We can use government support to help in our cases. Say this woman is brutally beaten by her husband and now wants legal support. The law officials in the Upazila can help her through us. We are making linkages with the clients, law officers and Upazila officials. This way we are establishing linkages.”

7.2.1.2 Organisational Structure and Policy Making

PDBF’s organisational structure and policy making is partly inherited from its history as a government instituted initiative but also comes from the role of the managing director and senior management. The managing director described the organisational structure as follows:

239 KIPD016
240 PDRM02
241 PDRM02
“In a nutshell it goes: Board- Managing Director-Management Team- Field Management Team- Branch Management Team. We have four tiers.”

Further, the head office is composed of human resources, operations, finance and management information systems department, accounts department, audit department, research and documentation department and IT. Outside of the head office there are two main employee bodies which give field staff formal means to maintain communication with the head office (outside of reporting). PDBF firstly has a trade union which was a mandatory structure at the time of a government initiative. The trade union represents 66 percent of staff who communicate demands to higher management based in the head office (figure 7-5). As well as having a strong membership PDBF’s managing director stated that most of employees’ formulated requests through the trade union had been addressed. He emphasised the effectiveness of the trade union contributing to maintain cohesion amongst staff and between field staff and higher management:

“They [employees] wanted to be paid according to the government pay scale, and I have ensured they get that. I fixed other problems with overtime and leave. They only had a day off every week, I increased that to two. […] This is the key reason why the staff are not disturbing me.”

A second employee-based body in PDBF is the gender focal point (figure 7-5) recently instituted in branches. With 35 percent female employees, the top

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242 KIPD016
243 KIPD017
management team perceived women’s working conditions and equal access to rights and opportunities for both sexes as an important issue within the institution. In each branch the body has three representatives, with at least one woman per branch (figure 7-5) whose responsibility is to communicate complaints and reports between field staff and the gender focal committee based at the head office. As per policy, the committee cannot be chaired by a senior staff member and is presided over by a non-senior employee to preserve its independence. The managing director said “even if I commit a crime he [gender focus committee chairman] will take actions against me”, and explained that in the absence of such entities other MFIs managers could treat employees unfairly.

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244 KIPD019
245 KIPD017
PDBF’s managing director was appointed two years prior to the study by PDBF’s board of directors. As the former director of human resources, he within these two years self-reportedly focused on improving the human resources of PDBF through “mobilisation, income, staff-motivation, staff capacity, staff commitment”\textsuperscript{246}. He describes himself as being committed to social performance\textsuperscript{247} and as having prioritised staff training and management to efficiently protect employees’ rights and well-being, and ensure social outcomes for clients. The human resource manager also explained that the

\textsuperscript{246} KIPD016

\textsuperscript{247} At the author’s arrival, the managing director encouraged her not to speak with him but rather to his field officers and clients. He recommended her to not interview heads of MFIs if she wanted to know about its action but to visit the field without giving prior notice and observe things and meet clients and staff. He did not know that the author had spent eight months in the villages prior to this interview.
managing director restored the MFI’s management systems and structure to how it is presently after it had previously started shifting towards a commercial and cost-efficiency based approach:

“We had some officers and managers from ASA, BRAC, and Grameen. They viewed things differently. The management was outsourced. Many felt that training was not needed, so it was shut for a while. There was also a crisis in this organisation. I have been through a lot. […] Our current MD who was human resource development head supported us. […] People are happy now; they get their salary on time. […] We work for the public, they are happy with us and our MD is very nice and friendly too. So we are doing great now from what we lost over eight years.”

7.2.1.3 MANAGEMENT SYSTEMS

Beyond broad organisational structures, specific management systems, human resource policy and working culture encourage communication within the MFI. The recruitment of village organisers together with staff training is organised centrally by top management. The human resource manager publishes job offers in the newspapers and organises recruitment procedures at the Dhaka head office. The recruitment process consists of a written test and a viva examination. The human resource manager explained that applicants see working at PDBF as a respected position as employees are well-established in the areas they work and because transfers, and being made redundant or fired is rare.

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248 PDHRM21
249 KIPD011
Each employee is given training for an annual average of six days. Workshops and regular training are organised at the district level for all staff members to enhance their leadership skills and are intended according to the managing director to give them a sense of responsibility towards their work and clients. Staff training and workshops are frequently organised centrally in response to staff needs which are identified through the activities of the trade union. Staff members reported that such gatherings are important for sharing experiences and learning from colleagues from other branches. These practices encourage communications between field and head-office staff. Field staff reported communicating difficulties they sometimes face to higher management through these events. The human resource manager explained how this system is used to reinforce the relationships between the head office and the field officers and involves them in the decision-making process:

“Relationships are much better in our organisation than in other NGOs. That is because we meet the field organisers of two to three regions in a big meeting three times at least a year. The meeting is like a picnic where the family members are present. It happens after the financial ending that is around July-August. We have an Action Plan workshop. We discuss and make the plan. They usually opt for the targets we suggest them.”

As the above quote highlights the process of developing targets is to an extent consultative in that it considers the suggestions of field staff. The decision
making process between the higher management and branches is not therefore rigid and top-down as some of the important decisions and budget-related information are taken after consulting field staff members. Then, branches are given an outline of the works and activities to be achieved at the beginning of each year together with the establishment of the budget. At PDBF each branch has an accountant who reports and verifies financial transactions daily, which is not the case in ASA. Work is therefore organised around these pre-set targets which are decided upon consultatively. Plans are made at the branch level and then reviewed by the top management. Branch managers are required to deliver against these and are responsible, similar to ASA, for the management of their branch’s liquidity. They calculate their ability to cover their costs, i.e. their financial sustainability. The financial year starts from July and follows targets that are discussed during a yearly planning phase, which are however reviewed monthly. The following quote from a branch manager summarises the relationship between head office and branch:

“We are given an outline of the works we will do at the beginning of the year, the same time that the budget is decided. Basically we mainly make the plans and the top management reviews our plan. If they want to add to the plan they do or vice versa. And they also provide us with all the sufficient aids or things we need to carry out the plan [...] we are not pressurised from the management. We take the initial idea from the root level employees and then we compile it and pass it on to the management.”

\(^{254}\) KIPD014
\(^{255}\) KIPD011
\(^{256}\) KIPD014
Other management structures also encourage communication between all tiers of field staff, from the regional manager to the village organisers. Village organisers, accounting officers and branch managers share updates on client follow-up and discuss difficulties faced on a weekly basis. 100 percent feel that their boss understands the difficulty of their job (against 52.4 percent in ASA, appendix J). Branch managers meet monthly with the regional managers of their district, who themselves visit the Dhaka office every three months to discuss performance and strategies.\textsuperscript{257} The timing and agenda for meetings across both of these levels are open to discussion:

\textit{“There is no rule that the meeting has to be held every month. Whenever the regional manager wants to meet then he calls the branch manager. The top level officials do the same too with the regional managers.”}\textsuperscript{258}

Systematic communication also takes place between village organisers and branch managers. This communication forms the basis of village organisers’ performance evaluation. Weekly verification sheets are produced at a client committee level and these are accessed by branch managers almost every day. Branch managers write monthly statements about village organisers and they are judged against the achievement of the monthly pre-set financial targets they were given (their yearly target divided by 12) with marks given accordingly. These reports form the basis of future career opportunities with PDBF. There is a minimum standard that is required in order to avoid disciplinary measures or re-attend training. Future promotions are based on these evaluations and on a marked viva to evaluate the interaction of officers with clients in the field and their capacity to adjust and to manage their work \textit{“smoothly”}\textsuperscript{259}. It is important

\textsuperscript{257} KIPD014
\textsuperscript{258} KIPD014
\textsuperscript{259} Word used by the branch managers
to note that social performance at PDBF is monitored through formal and informal mechanisms.

7.2.1.4 Working Culture

As a result of this performance assessment system, PDBF village organisers, as with ASA, are under considerable pressure to meet financial targets. Despite this, clients and staff members’ reports indicate that PDBF’s organisational culture differs from most other MFIs operating in the area. This distinct working culture is reflected in village organisers’ survey results and, arguably, can be seen as being a result of the broader management structures previously examined in this section. Contrasted to ASA, differences can be seen in village organisers’ daily lives. PDBF’s village organisers are on average 30 years old, have worked for the institution around eight years and manage a portfolio of 406 clients across nine villages. Daily work is more structured by comparison with ASA. Village organisers typically start work at 9am and finish by 5am, except in cases of training or special meetings (appendix L). Village officers’ work revolves around client’ training and follow-up, PDBF employees have a stable balance between their private and professional lives and do not live in branch offices as compared to ASA’s staff whose work often encroaches on their personal lives.

Contrasting ASA and PDBF’s survey results related to organisational culture substantiates the notion of a distinct working culture. None of PDBF’s village organisers agreed with the statement “people get angry often in the organisation” (against 47percent for ASA) or with “people argue a lot within the organisation” (against 28percent in ASA)\textsuperscript{260}. Similarly, only 6percent agreed to the statement that “people working in my organisation are stressed”

\textsuperscript{260} Appendix J, questions 9-10
compared to ASA’s 47percent, and 33percent agreed to the statement that “I fear punishment from my boss” compared to 71percent at ASA. 60percent of village organisers are motivated towards their work because they get rewards and bonuses for good results (against 47percent in ASA) and 40percent of them said that they are motivated because in case of bad result they get punished or excluded (76percent in ASA)\(^{261}\). Only 13percent reported being stressed about being fired against 38percent in ASA\(^{262}\). 100percent of the village organisers agreed with the statements “I talk about my problems with my work colleagues” and “management and employees talk openly about work issues”\(^{263}\). Whilst ASA survey results are 95percent for the former statement, the latter gathered only 52percent agreement. The survey results documented here indicate significant differences between the working cultures in ASA and in PDBF. The majority (53percent) of village organisers stated that they get financial rewards when their performance is good (against 14percent in ASA)\(^{264}\). 100percent stated that if clients cannot repay they get into trouble\(^{265}\).

Whilst ASA management systems essentially rely on disciplinary measures for bad financial performance evaluated on rigid targets, PDBF’s staff performance is incentivised by both disciplinary measures and rewards. PDBF’s structural arrangement and management systems, together, contribute to creating an enabling work environment.

Having highlighted differences in the two MFIs’ working cultures there are however a number of similarities. Both 100percent of PDBF and ASA field workers are generally convinced that branch managers are committed to help their clients and the majority of them, in both MFIs stated being satisfied with

\(^{261}\) Appendix J, questions 19-20
\(^{262}\) Appendix J, questions 8-32
\(^{263}\) Appendix J, questions 33-60
\(^{264}\) Appendix J, question 53
\(^{265}\) Appendix J, questions 51-39
their salaries (60 percent in PDBF and 57 percent in ASA) and generally trusting their colleagues\textsuperscript{266}. In both organisations about 60 percent of the respondent answered that they would quit their job if they got another proposition\textsuperscript{267}.

The large majority of village organisers’ written statements (13 out of 15) reported that “\textit{no bad comments}” could be reported on PDBF and a few (two out of 15) suggested increasing staff training and technological equipment at the branch level. Answers to open ended questions substantiated the idea that social performance can be established through training, good communication amongst employees and top-managers. The following quotes are representative of their answers\textsuperscript{268}:

\textit{“PBDF is working days and nights to resolve and mitigate the poverty problems in Bangladesh. I have no bad comments.”}\textsuperscript{269}

\textit{“PDBF is working really hard to eradicate poverty and working on the female empowerment issue. It has no bad side.”}\textsuperscript{270}

\textit{“There are no bad sides, but if we could organise more trainings and workshop for the clients I think it will help poor people more.”}\textsuperscript{271}

\textsuperscript{266} Appendix J, questions 35-34
\textsuperscript{267} Appendix J, question 30
\textsuperscript{268} Appendix F, question 3
\textsuperscript{269} BQ002, for PDBF village organisers’ codes, refer to appendix L
\textsuperscript{270} BQ003
\textsuperscript{271} BQ013
Underlying these positive perceptions is a working culture built around communication. Indeed, senior managers report that their managing director spends a minimum of three days in the field per week, with other senior managers spending four to five days in the field. The staff spoken to recognised the achievements of their managing director and said they regarded him as family. A different element to this culture is reflected symbolically in the fact that branch managers were very reluctant to speak of “profits” but preferred to speak of good financial performance and social outcomes. One branch manager explained:

“We are here to help so why should there be profit. It would be a bank not a development program. If sustainability crosses 100 percent we are supposed to pay back to the people [borrowers] and not make profits”.

7.2.2 PDBF’S SOCIAL PERFORMANCE

This sub-section examines the implications of the organisational structures, management systems and organisational culture described and analysed above for the village organisers’ behaviour, performance, and outcomes for clients. It argues firstly, that because training on income generating activities is institutionalised within PDBF, and village organisers are also highly trained, PDBF clients are more likely to invest in an income generating activity and to receive guidance from their village organiser. Clients with income generating

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272 BQ014
273 KIPD011
activities are more likely to be able to repay their kisti. It argues secondly that because village organisers work in the same communities for longer as per management policy their relationship with their clients allows them to be more flexible with kisti repayment and understand and provide better support to them. A further outcome is that village organisers have incentive to target and follow up on clients well given that their performance depends on them maintaining a successful long-term relationship with them. Appropriate targeting procedures reinforce the likelihood of client starting and well-managing income generating activities.

7.2.2.1 Service delivery

A key characteristic of PDBF’s approach to microfinance is providing each client with income generating activity training. The institutional analysis suggests that it plays an important role for PDBF’s social performance outcomes which are analysed here. Clients highlighted the relevance and quality of the trainings provided by PDBF, and mentioned training as a key criterion for choosing PDBF amongst other MFIs. All PDBF clients involved in the research reported having participated in a training programme. PDBF provides four types of skill trainings: leadership and group development, adult literacy, skills development and a weekly training forum. 1.3 million clients attended the monthly training forum, and more than 63,000 attended skill development groups. The group leadership training has been provided to around 24,000 clients since PDBF has been established. Because PDBF clients receive systematic training, it can be argued, they are more likely to invest their loans in productive income generating activities. The following quote from the human resource manager illustrates the importance of training:

“We give loans for income generating activity based on some criteria. Like they [loan applicants] have to live in a place permanently, they must be active and productive, they must not have any bad report from the village or in police report, and their age must not be above 50-55. [...] Then we discuss what the clients will do with their money, some will grow
vegetable, many will have fisheries, look after cows. We select the candidates according to feasibility. For example if some want to look after cows then we will see whether they have enough space to keep cows. If someone wants to have a fishery, we will check whether they have a pond. And if someone wants to grow vegetables we will see whether they have some space to do so. We give money but we also train them for skill development.274”

This quote also highlights the importance of staff support and follow up related to income generating activities in delivering outcomes for clients. As explained in section 7.2.1 the staff receives continuous training from PDBF. 87 percent of PDBF village organisers reported receiving adequate coaching and supervision (against 48 percent in ASA) and 100 percent reported having enough knowledge and competence to do their job properly (appendix J). Clients reported that they had been provided advice and training before the loan and that village organisers follow-up on them and their income generating activity to ensure that they generate sufficient and stable income to repay and live. Well trained staff is essential to providing such support.

Another important characteristic of PDBF’s approach to microfinance which results from management systems is the practice of village organisers remaining within the same community and working with the same clients for long periods of time. This can be contrasted with ASA’s policy of transferring loan officers every three years. Staff survey results indicate that only 6.6 percent of PDBF village organisers reported that people get fired often in their MFI (against 52 percent in ASA, appendix J). This practice has implications for the quality of the targeting and follow up practice provided by

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village organisers to their clients. As previously stated, given that the performance of village organisers is assessed on their clients’ capacity to repay, it is in their long term interest to target and monitor clients well.

7.2.2.2 TARGETING PROCEDURES

A further management characteristic important for understanding social and financial performance is loan targeting. One could argue that, as highlighted earlier, because PDBF’s targeting procedures are tighter than they are in ASA, clients who do get loans do so because they have sufficient repayment capacities. The study at the branch level found that field staff members grant importance to the selection and follow-up of clients and acknowledged the risks incurred by targeting households who cannot afford to repay in a timely manner without compromising their well-being. Given PDBF’s current expansion strategy it could be expected that targeting procedures criteria would become looser in order to expand the client base rapidly. 86.6percent of PDBF village organisers reported being expected to recruit new clients, and the same proportion said they were expected to recruit poor clients (against 76percent and 57percent respectively in ASA, appendix J). This analysis finds that PDBF’s targeting procedures remain in line with its social mission.

PDBF’s targeting procedure establishes borrowing groups through following an assessment of financial needs and opportunities and capacities to repay. A branch manager explained that procedures used to evaluate the solvency of households involve investigating “whether they [households] have any property or live animals, furniture and what people think of her. After filling out the form and after talking to others, the loan is given”. He added that they

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275 Questions 15-16
276 KIPD013
“form groups by including people who are neighbours or living close to each other. The age limit is set in between 18 to 50 years. We see if they are capable of working properly or not”. Village organisers investigate whether household members “can earn money […] [and] whether the family is in peace, it is called social responsibility. What status they have in the society in terms of character.” Unlike in ASA, he reported that households who already borrow from other MFIs are considered a risk, may be excluded and are not prioritised as clients. At PDBF targeting procedures include ensuring that loans they grant are not used to cover other exiting debts and will be invested in income generating activities. A branch manager emphasised the financial risks embedded in microfinance and the benefits of enforcing tight client targeting and follow-up practices for the MFI and for clients:

“This is all about the money. We work with money and for money, so we always need to make sure that everyone is sincere. Keeping good track of the money coming in and money going out is very important. We follow this very strictly. The people we are working with, we need to monitor them well so that they don’t lose their way. If they lose their way, we will suffer. Our capital is based on trust. We need to trust them and they need to trust us, so everything must be very interactive and organised.”

Besides loan history and clients’ earning capacity, branch managers grant foremost importance to what they call the human capital (in English) of households before sanctioning the loan. Their concept of “human capital” refers to the connectedness of household members within their community, and
thereby their capacity to mobilise finances (through different networks). Similarly to ASA’s loan officers, PDBF village organisers reported examining the social networks of the clients and their possible external sources of support in case of default. PDBF staff member reported using information about the ways in which clients interact with other community members (their relationships with neighbours, relatives and reputation) as a way to assess households’ repayment capacity.

“*How they [household’s members] interact with other people, whether or not they are well behaved. How good is their relationship with neighbours? […] It is a total analysis of their surroundings. It is all about how good he or she is as a person. They are not going to keep anything as mortgage, so we must make sure that the person we are dealing with is trustworthy*”\(^{280}\).

Although both institutional ethnographies of MFIs suggest that clients targeting procedures informally developed by loan officers and village organisers involve the examination of their access to informal social networks, the data collected in PDBF and at the community level does not indicate that these networks are being exploited for *kisti* repayment. Unlike in ASA, PDBF’s managers, during a minimal period of four weeks of saving, observe clients financial behaviour and assess whether or not they can be trusted\(^{281}\). Whilst in ASA, loans are accessible one week after the application has been accepted without further consideration for the purpose it serves or the way in which clients intend to repay it. One quote from PDBF’s human resource manager illustrates this procedure

\(^{280}\) KIPD013

\(^{281}\) KIPD013
7.2.2.3 CLIENTS AND OFFICERS’ RELATIONSHIPS

There are a number of outcomes from these management characteristics for clients. The provision of income generating activity training combined with support from trained village organisers may leverage the outcome of loans. Through regular staff training and income generating activity training for clients, a long-term vision of loans is communicated and advocated for. All PDBF clients included in the studied population reported having invested their loan in an income generating activity that they were still running at the time of the study. Confirming observations made in the field and clients’ reports, branch managers explained that borrowers use loans and earn a living from dairy farms, livestock, rickshaws, vans, smaller businesses or some types of home-based handicrafts. A further outcome of training is that clients have a better understanding of credit. 33 percent of village organisers (half the proportion of ASA, appendix J) reported that clients do not understand the concept of credit.

Across the villages studied, PDBF was consistently referred to as “very good people” by clients. The MFI was perceived as being committed to offering more scope for clients’ betterment. When compared to other MFIs operating in the same area households reports strongly suggested that the quality and reliability of PDBF staff and services was considerably higher. The community study found that the PDBF staffs were perceived as more knowledgeable and

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more understanding than the loan officers of other MFIs. This quote from a focus group including PDBF clients illustrates this:

Author: “How did you hear about Palli Daridro, it is so far away?”

Respondent: “My mother got admitted there.”

Author: “Why did you not choose Grameen, it is so close?”

Respondent: “Palli Daridro had other benefits, suppose I am very needy and desperate. If I can manage to fully express that to them, then they understand the situation.”

A broader outcome for clients of these management practices is that they have more beneficial relationships with village organisers. The findings from the community study indicate that clients and village organisers have a strong relationship, as these quotes from focus groups illustrate:

Author: “How was your relationship with the officer who collected money from you, as in what did you call him?”

Respondent: “I called him bhaiya”.

Author: “What did he call you?”

Respondent: “He called me bhai too.” 284

284 “Bhaiya” and “Bhai” in Bangla, literally means “brother” it is commonly used as an informal and cordial way of calling someone who you consider as your equal and who you pay respect to.
Author: “Was the relationship same with everyone?”

Respondent:” Yes, it was a healthy relationship” […]

Author: “Your wife used to deal with the loan matters, what was the behaviour of the loan officers like?”

Respondent: “Their behaviour is extremely good, they are nice and gentle.”

Author: “Do you think the officer influenced you to take more loans?”

Respondent: “No they were very very helpful.” 285

Clients indicated that access to trainings that are relevant to their livelihood and the follow-up of professional staff contributes to building strong relationships with their village organisers, though the community based study suggested that PDBF tended to refuse more loans than most MFIs in the area and applied severer selection criteria. It was on this basis that PDBF was selected to be a case study as an example of a socially performing MFI.

Further, PDBF’s investment in training for clients and staff improves the likelihood of loan recovery at the branch level. Although PDBF’s clients are likely to run an income generating activity, they still face shocks and events which threaten their earnings and their capacity to repay weekly. 33percent of village organisers reported that their clients cannot repay most of the time.
ASA staff reported 38 percent, appendix J. The ASA study found that in response to client default loan officers used a number of forms of pressure to force households to repay. In PDBF some of these tactics exist. Though none of the village organisers reported arguing with their clients, 20 percent reported that they sometimes threaten client to make them repay (against 24 percent and 48 percent for ASA, respectively). 27 percent stated not tolerating any delay in the repayment (against 67 for ASA). One village organiser reported:

“When I do not get the instalment I do not harass or insult my clients, rather I take his word that he will give it later. But my organisation understands it and do not treat me badly.”

PDBF have a number of formal procedures to be followed in case of client default. Information gathered during informal discussions with village organisers and interviews with branch managers indicate that field staff usually recognises the necessity to listen to clients and adapt repayments as much as possible. A branch manager stated that if clients cannot repay he/she “goes and talks to them the next day, to try to understand his/her problem. If it seems to us that it is impossible for them to pay back, then we give them time.” In case of temporary incapacity to repay managers re-schedule repayments, after negotiating with clients and agreeing on a more suitable repayments pattern (penalties and fines are often incurred on clients after one year of non-payment, around 2 percent of their due amount). A branch manager explained:

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286 appendix J, questions 44-38-45-46-42-50
287 BQ002
288 KIPD013
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“If someone does not pay in a week we mutually decide when they will pay back. We give them terms but we do not forgive their payments. They eventually pay the amount due. […] If we cannot collect the money it is a huge loss for us. Motivation is very important.”

The human resource manager reported:

“Some [borrowers] do not pay on time but field officers will see why that happened”. […] if it is voluntary then a little force will be used but if there are valid reasons like illness than we rather help them more. People say PDBF is the best because of the behaviour of the officers. So our recovery is very good. We always say that microfinance is to be used for human development. We need to value that loan is something that is given for help and should be returned.”

Considering the limited capacity of clients to repay according to tight schedules, village organisers assess whether clients try to delay the repayment “intentionally regardless of his ability to pay back” or if clients are in an extreme situation when repaying the loan will further impoverish them. Branch managers and village organisers acknowledged that in case of clients’ non-repayment or default, PDBF had the capacity to make “effective decisions”, finding the best solution for clients. 100percent reported that their organisation is strongly committed to quality (against 76percent in ASA). Written statements of village organisers provide accounts of this collaborative culture.
at the branch level and indicate that clients’ default or delayed repayment are dealt with carefully and with limited conflict (which is confirmed by staff survey results):

“When we do not get the instalment we talk with each other and with the organisation. The organisation gives us valuable guidelines and suggestions.”

“When I do not get the instalment I do not harass or insult my clients, rather I take his word that he will give it late. My organisation understands it and do not treat me badly.”

“If a client fails to repay I let my managers know about the situation. They judge the situation and take an effective decision.”

“When my client cannot repay then I listen to their problem and I get good behaviour from my clients.”

“I get help from everyone, so as a result my work becomes easier for me.”

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294 BQ001
295 BQ002
296 BQ010
297 BQ013
298 BQ014
7.2.2.4 INFORMAL PRACTICES

In addition to these formal procedures the study found that village organisers frequently use an informal means of giving clients flexibility with their repayment as a means of maintaining their financial performance. As was found with ASA but to a greater extent, village organisers repay clients *kisti* with their own money. This was reported by 53 percent of village organisers (appendix J). Village organisers reported engaging with their clients’ income generating activity so that in case of non-repayment it is easy for them to assess the veracity of clients’ explanations concerning their lack of liquidity and to evaluate their capacity to repay. From the aforesaid findings, it can be suggested that staff members sometimes repay the *kisti* of their clients, because they trust their repayment capacities and believe that they will recover their informally lent money the week after.

An outcome for clients of these practices is that unlike when delaying repayment is strictly prohibited, they are not forced into coping tactics. In case of a lack of liquidity of Tk.100 for example, the sale of an asset or the adoption of coping tactics will immediately negatively affect the well-being of the household and its labouring capacity, and thereby also its ability to repay in longer-terms (its solvency). As was reported in chapter six it is often due to this rigid repayment schedule that households accumulate debts from different sources and compromise their well-being. The human resource manager, in this quote, explained these practices:

“People in the village are very aware and smart now. There are other banks but we are flexible. Other firms are very strict in collecting money.”

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A PDBF client described how repayment flexibility is enforced:

“We can delay payment for up to a week or so, they do not really create any sort of problems in this regard. They will always wait for us when it comes to paying them back.”

When asked about their assessment of microfinance’s outcomes for clients broadly, village organisers reported similar findings to ASA’s:

“It works for my clients. They take the money and use it on the work they are suggested and they actually prosper in their life. But it doesn't work for them who are idle and do not like to work.”

“Microfinance will not work for those who are idle. It works for those who are industrious.”

“It works for people who know how to use it.”

“Yes it is good for them who can use it, but will not work for a person who is not using it and will not develop.”

Semi-structured interviews with members of staff at different levels of PDBF’s hierarchy reported malpractices of other MFIs operating in the area and

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301 BQ009;BQ006
302 BQ014
303 BQ001;BQ002; BQ005
304 BQ004; BQ010
provided their perspectives on it. After a brief experience in another MFI, a PDBF branch manager preferred to join PDBF, he stated “people from ASA and Grameen torture the poor villagers. Even if someone dies they must collect the money. I was an officer at Grameen for two and a half months. One person sold her crockery to repay the loan then I left the job. It hurt me.” Branch managers said that ASA was the most “aggressive” of all MFIs (supporting community study’s findings) and explained that most MFIs “think it is their money, they must retrieve. For example ASA is really aggressive. There are no other organisations that are as aggressive as ASA, and then BRAC. They are the second most aggressive, they are dangerous. We cannot compare any other organisations with those two.” A branch manager reported experiencing pressures concerning his financial performance but explained that PDBF stands out amongst other MFIs providing a detailed description of other MFIs’ practices which substantiates ASA staff members’ reports and community information:

“The top management [in other MFIs] cuts wages of the employees if they cannot meet targets. They put a lot of pressure. But here we do not do that. They will try their level best to collect all the money but they will not have anything to lose. This is a big difference. […] I have seen in other organisations that people think if they provide loans to somebody, he/she won’t be able to go anywhere without paying back. They will do anything for the money. They will stay back till the whole night. They force them to pay back the money. But our employees do not do that. You see our field workers just came back right? They will not go back again at
night to force the clients. But the people from other organisations will just not accept anything less."

How then can PDBF’s social performance management be understood? Although it is not monitored through formal reporting processes between village organisers and branch managers, PDBF management system incentivise village organisers to achieve social performance. Village organisers, given their long-term relationships with clients and need to collect kisti, have an incentive to ensure that clients are managing successful income generating activities. Managers in turn informally evaluate social performance through judging whether village organisers have established appropriate ties with clients and communities. Branch managers and higher officials both stated during interviews that if a village organiser is capable of conducting field collection without facing major repayment issue over a long period of time, it indicates that the employee had adequately screened, selected and followed-up on the client. The organisational structures and management systems within PDBF allow village organisers to pursue financial and social performance simultaneously without encouraging prioritisation of one over the other. Figure 7-6 outlines the dynamics and organisational mechanisms channelling the social performance of PDBF from the top-managers to clients, from its mission to its outcomes.

\[\text{\footnotesize 306 KIPD013}\]

\[\text{\footnotesize 307 KIPD014}\]
**Figure 7-6: Organisational Analysis of PDBF’s Model**

**Intend and mission**

“Providing effective financial support and skill training to develop and empower socially and economically and also promoting gender equity”

**Holistic development strategy**

**Organisational structure**

- Centralised policy making and organisational structure
- Strong field-based organisational structures
- Formal structure for consultative management processes

**Management systems**

- Social-performance and financial performance oriented staff management
- Long-term involvement of staff with clients and vision of loan
- Centralised and regular staff training

**Delivery channels**

- Few flexible products
- Systematic training and clients follow-up
- Strictly socially-oriented screening and selection procedures

**Outputs of operations and services**

- Trained staff committed to social performance
- Expensive and labour intensive operations on medium scale
- Clients run IGA

Source: the author
7.3 Conclusion

This chapter emphasised the importance of studying microfinance service providers’ management systems and structures following a bottom-up research strategy to identify key practices and patterns and to understand their relationship with social performance achievements. A key finding from both institutional studies has been the importance of understanding the relationship between loan officers/village organisers and clients. For both institutions it is this relationship which significantly influences outcomes for clients. These relationships are a function of the management systems and incentives experienced by the staff, which determine their behaviour, their relationship with clients, and thereby affect social performance. The studies highlight the importance of loan targeting procedures and the incentives staff has to implement them, as well as the importance of training both clients and staff. Based on the thematic features of the conceptual framework of the research (figure 2-2), table 7-5 presents a non-exhaustive list of the key organisation characteristic (considers the structure, management and working culture) which can explain differences in social and financial achievements between the two institutions.
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<th><strong>Table 7-5: Summary comparison of ASA and PDBF Microfinance Models</strong></th>
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<tr>
<th><strong>PDBF</strong></th>
<th><strong>ASA</strong></th>
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<tr>
<td><strong>STRUCTURE</strong></td>
<td><strong>Strong centralised control</strong></td>
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<td></td>
<td><strong>Comprehensive branch structure</strong> (branch accountant, Trade Union and Gender Focus Point)</td>
</tr>
<tr>
<td><strong>MANAGEMENT SYSTEMS</strong></td>
<td><strong>Self-monitored field officers</strong> (district, regional, branch and individual levels)</td>
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<td></td>
<td><strong>Financial target-based performance assessment</strong></td>
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<td><strong>Few partially flexible products and services</strong></td>
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<td><strong>Medium-scale activities</strong></td>
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<td></td>
<td><strong>Centralised recruitment procedures</strong></td>
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<td></td>
<td><strong>Centralised and regular staff training</strong></td>
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<tr>
<td><strong>ORGANISATIONAL CULTURE</strong></td>
<td><strong>Management systems encouraging competition based on long-term staff achievements</strong></td>
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<td></td>
<td><strong>Good information flow, consultative decision-making process</strong></td>
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<td></td>
<td><strong>Strict clients screening and selection procedures, thorough clients follow-up</strong></td>
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<td></td>
<td><strong>Long-term involvement of staff with clients and long-term vision of loan investments</strong></td>
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<td></td>
<td><strong>Links to other government services and access to information</strong></td>
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8. PRACTICES IN QUESTION

Following the analytical framework in section 2.1.3 chapter eight analyses the relationship between social performance and commercially-driven MFIs in Bangladesh by bringing together findings from the community and institutional ethnographies. The wider implications of this analysis for commercialised forms of microfinance are explored drawing particularly on evidence from Andhra Pradesh.

Section 8.1 focuses on processes occurring within MFIs. It analyses the influence of MFI strategies on organisational structures, management systems and working culture. Firstly it argues that MFIs social and financial performances constitute a trade-off between MFIs’ earning capacities, scale of operation and standardisation, and their alignment with their social mission. Secondly, it argues that in commercially-driven MFIs, the non-alignment of these three elements with their social mission can discourage fieldworkers from pursuing their social mission and lead to them resorting to use informal repayment tactics with clients (pressures, abuse, and micro-collateral among others\(^\text{308}\)). The concept of a *practice drift* is developed to theorise these practices and is developed on the basis of the existing concept *mission drift*.

Section 8.2 analyses the repercussions of such a *drift* on clients’ vulnerability and poverty. Commercially-driven MFIs are particularly exposed to financial constraints and trade-offs which often generate tensions at the branch level. This section raises concerns regarding their potential in reducing clients’ poverty and vulnerability. The main argument developed is that although MFIs can target the poor profitably, evidence from this study suggests it is often not

\(^{308}\) Refer to chapters six and seven for more detail
to the benefit of the poorest clients and therefore that MFIs should focus on serving less vulnerable and near-poor households.

Section 8.3 argues that the practice drift and its impacts on poverty and vulnerability are also rooted in the global microfinance industry which is increasingly influenced by commercial stakeholders and interests. This section explores the evolution of discourse on microfinance within development and the role the media plays within this. The analogy of an iceberg is used to illustrate the arguments presented in this thesis that microfinance’s visible public image is a limited and distorted part of its practice and achievement.

8.1 THE ECONOMICS OF COMMERCIAL MICROFINANCE

This section argues that for commercially-driven MFIs, there are tensions between financial pressures and the social mission they intend to achieve in the field (MacDonald, 2012). It argues that because of these tensions commercial MFIs can experience a silent practice drift. This concept is introduced as a refinement of the notion of a mission drift (Copestake, 2007) and is distinct from it by emphasising changes at the field level as fundamental to understanding how commercialisation can lead to poor social performance.

8.1.1 FINANCIAL TRADE-OFFS

The community study identified one of the most commercially-driven MFIs in Bangladesh, which is renowned for its cost-effectiveness and its high level of standardisation, as the lowest socially performing MFIs in the study context. By contrast, an MFI whose structure, management and culture diverge from most large-scale commercial microfinance models (because it, for a long time, escaped commercial pressures) and which is not financially self-sufficient, was identified as the most socially performing MFI in the community studied. This can question the compatibility of both a commercial drive and financial sustainability with development outcomes in Bangladesh.
Microfinance’s rapid recognition as a potential poverty alleviating tool is partly due to the 1970s disappointment with state-run credit schemes (section 3.2). A move away from state-intervention was justified by practitioners because of the multiple inefficiencies in their management and outreach (chapter three). State-owned development finance institutions were often criticised for their poor lending practices (weak client selection procedures, the absence of follow-up, dependence on subsidies and other external funds) (de Aghion and Morduch, 2005). Governments and development partners’ enthusiasm focused on reforming institutions for development finance in developing countries or establishing new ones to deliver credit to the poor more effectively. MFIs’ top managers and policy-makers acknowledged limitations that government interest rate caps and subsidies have on their financial performance (restriction in loans supply, mis-selection and resource misallocation) (Ibid).

PDBF’s comparatively high social performance might be achievable, and this is crucial, because PDBF’s activities are not yet financially sustainable. Because PDBF in its early development stages relied on government support, it developed its organisational structure, management systems and culture without the pressures of commercial competition. PDBF’s coverage remains small compared to the dominant MFIs and it is arguable that when or if it scales-up and become financially sustainable PDBF will as a result compromise on its social performance achievement.

For the last two decades MFIs have aimed to build self-sustainability to become independent of external assistance, aid and state subsidies through cost-efficient management (Roodman, 2011). This engendered the process of commercialisation which can be defined as “the application of market-based principles to microfinance” or “the expansion of profit-driven microfinance operations” (Charitonenko and Rahman, 2002:17). In theory, MFIs embody the aspiration to transform the banking sector which is exclusive of the poor into a socially inclusive financial system. In practice however MFIs have generally
benefited from the ambiguity around their social mission and practices and the sector has transformed from small and socially-motivated to a more commercial industry (Moon, 2009, Ghatak and Guinnane, 2001). Within three decades they have proven that providing financial products to poor and near poor households on a large scale can be financially sustainable and even profitable (Roy, 2010, Hermes and Lensink, 2007, Mersland and Strom, 2007).

8.1.1.2 IMPlications FOR MFI S STRATEGY

The commercial reorientation often raises financial performance higher within MFIs’ strategic priorities. By contrast, the pursuit of social performance may lack short-term incentives (Christen and Drake, 2002). The strategy they follow in terms of social performance heavily depends on financial resources available to them. Competition pushes MFIs to squeeze margins and undertake a market-based approach to the management of the socio-financial trade-offs. Not only does the literature report that MFIs drift away from their social mission as the industry commercialises (Assefa et al., 2013, Armendáriz and Szafarz, 2011, 2009) but according to some authors and the data collected in this thesis the boundaries between traditional commercial banks and MFIs has become so indistinct (with commercial bank increasingly interested in delivering microfinance clients) that the two sectors are in direct competition (McIntosh and Wydick, 2005)

Drawing on Copestake (2007) figure 8-1 categorises different types of MFIs according to their social and financial performance. Any point above the horizontal axis embodies positive social performance which implies that “the processes through which microfinance is delivered and the nature of MFI activities foster a sustainable positive-or at least a non-harmful stabilising
effect on the well-being of clients.” Points below the horizontal axis indicate that “the nature and the processes of interactions operated by the MFI generate negative outcomes on clients’ well-being.” The horizontal axis represents financial performance and the middle point indicates the break-even point where earnings generated by the MFI cover administrative and operational costs.

**Figure 8-1: The Social and Financial Performances Matrix**

![Matrix Diagram]

Source: the author

*Mortals* (bottom left corner, figure 8-1) have low levels of social and financial performance, these MFIs are the least desirable due to their financial unsustainability and the absence of added social value (or negative impacts) for

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309 Definition of the author

310 Definition of the author
clients. *Cheerleaders* (top left corner) deliver products and services that generate an added value to clients’ livelihoods, but fail to cover their institutional costs. Given that the type of activities offered are too costly and the structures and management systems in place require more inputs than they guarantee financial returns, their operations are not financially sustainable and often rely on external support. PDBF would be a *cheerleader* because, according to the data collected, its social performance is high whilst it has not reached financial self-sufficiency. *Opportunists* (bottom right corner) generate low social performance whilst generating high financial returns through cost-efficient activities. Because ASA operates large scale cost-efficient activities and generates important financial returns and because, according to the institutional analysis, it has a low social performance, it fits in this category. *Transformers* (top right corner) manage to balance the management of the socio-financial trade-offs (high social performance and high cost-efficiency) and achieve the double bottom-line. In theory, MFIs aspire to becoming *transformers*. In reality, it is MFIs’ pricing policy, scale and costs which largely determine the targeting and staff management practices it can afford (Yeboah, 2010, de Aghion and Morduch, 2005). Although external factors such as regulation and access to commercial finance also influence MFIs’ strategic development (Copestake, 2007, Copestake, 2004) these issues are not the primary focus of this study.

8.1.1.3 **The limits to managing trade-offs**

In order for commercially-driven MFIs to achieve the double-bottom line they must overcome significant financial resource limitations which are outlined here (Moon, 2009, Ghatak and Guinnane, 2001). Although it is acknowledged that developing institutional capabilities that ensure positive impacts on clients’ livelihoods requires time and commitment (Dichter, 1996), this thesis argues MFIs’ pursuit of either or both social and financial missions crucially depends on their financial resources (Copestake, 2007). At an early stage it is likely that MFIs become *opportunists* so that they generate the financial returns they need to deliver flexible financial services to the poor. Standardisation may be crucial
for MFIs to build cost-efficiency and scale-up their activities cost-efficiently (Rhyne, 1998b, Otero and Rhyne, 1994:11). To serve institutional needs MFIs design standardised products (small size loans, group lending methodology, joint liability, rigid repayment schedules, social collateral, and women targeting) which maximise financial performance and secure transactions\(^\text{311}\).

MFIs financial performance crucially depends on their scale of operations and on their level of standardisation. To reduce administrative costs (staff payments, administrative expenses, loans and possible losses-due to non-repayment, inflation, depreciation, or transportation costs) economies of scale (Mosley and Hulme, 1998, Hulme and Mosley, 1996) and standardisation are often crucial for commercially-driven MFIs (Copestake, 2007, de Aghion and Morduch, 2005).

Referring to Grameen Bank and BRAC Khandker (1994) argues such MFIs, like ASA, have “naturally” decentralised structures to become more efficient “as they grew”:

“\textit{as the organisation grew, decentralization became critical for ensuring efficient decision-making at all operational levels. [...] Zonal or regional offices were established when the number of branches increased, and the leadership gradually delegated more decision-making authority to these intermediate administrative units. Grameen Bank did not decentralize deliberately (1994:75).}\n
\(^{311}\)The community study indicates that the social performance of highly standardised MFIs is however low. In theory MFIs’ earned surplus, once they reached cost-efficiency, should be used to adapt their services and products to clients’ needs, to serve social performance. In practice however, most MFIs use this surplus to expand their activities.
Through economies of scale, high loan recovery, high interest rates, high client retention, and low administrative outlays, MFIs which can cover costs may generate sufficient financial returns to finance their expansion. In Bangladesh and in India, two of the densest and largest microfinance industries, regulating financial authorities set relatively low interest-rate ceilings. This only restricts one of the ways through which MFIs generate their financial returns. MFIs, to keep expanding cost-efficiently have to constantly find new clients. MFIs delegate the management of the socio-financial trade-offs to intermediate administrative entities which have virtually been provided no guideline on social performance management. In turn this enables them to use loan officers to sell loans onto the poor despite their incapacity to repay and deviate from their social mission in order to grow.

Though it is commonly argued that microfinance’s economics are based on economies of scale (Hulme, 2000), the data collected identifies two important dimensions to the strategic development of MFIs: a time and a price dimension. Given that they cannot generate abundant financial returns from interest rates, commercialised MFIs in the context of study adapt their structure and product marketing and delivery considering the liquidity required for branches to be financially self-sufficient. They adjust scale (number of clients), earnings (joining fee, compulsory or voluntary savings amount) and timing (duration of loan contract, repayment schedules, and time gap between loan disbursement and first repayment). In ASA recruiting clients and disbursing loans fast matter for financial returns. A branch manager explained that when 23 clients out of 100 cannot repay, they manage to keep their financial performance indicators high and generate profits if they disburse more and bigger loans rapidly:
“If the speed at which we can disburse loans is fast then we can make profits, but if it’s slow then losses are faced. Initially our total loan amount outstanding was low but now it’s about Tk1.5 crore.”

Data collected indicates a tendency of large-scale commercial MFIs to in effect delegate the governance of the socio-financial trade-offs and the management of social and financial performance to fieldworkers.

### 8.1.2 Social performance trade-offs and practice drift

“Actually when I go to the field, problems exist. Many are not able to pay back but because of the nature of my job I have to collect the money from the poor people. From their perspective I feel sad that they may not be able to eat that day but because it is what my job requires, I am successful.”

ASA Branch Manager

Based on the fieldwork data, this sub-section explores relationships between organisational structure, management systems and working culture, and social performance. It argues that the drift identified by some authors within microfinance does not stem from changes in mission but rather from changes in daily practices. The author terms this phenomenon *practice drift* and explains how it stems from organisational structures and management systems, how it manifests itself, and how it remains undetectable.
8.1.2.1 **Practice drift**

Drawing from the analysis of ASA and PDBF key characteristics that influence MFIs’ social and financial achievement are identified. As argued in the previous section, strategic decisions concerning the organisational structure, management systems and working culture are often heavily determined by the strategy adopted by the MFI and the financial resources available. Because organisational structures determine the ways in which responsibilities and power are organised amongst employees it influences the working culture. Management systems (human resource management, incentives and penalties for example) encourage particular behaviour within the institution which creates a working culture. Management systems also influence staff motivation and behaviour toward their objectives which in theory are collecting repayments and helping clients build sustainable financial resilience (Aubert et al., 2009). Similarly, the motivations of senior-managers who form institutional policies and the culture at that organisational level, influences the MFIs’ structures and management systems. Cost-efficient and socially performing structures, managements and cultures require alignment with the social mission to influence the commitment of staff members.

The concept of a *mission drift* was explored in section 2.2.1.3. In basic it refers to the way in which MFIs adjust to commercial pressures, targeting less-poor clients and lending larger loan amounts (Vanroose and D’Espallier, 2012, Mersland and Strøm, 2010, Armendariz and Szafarz, 2009, Copestake, 2007). On the basis of findings analysed here, this thesis argues that rather than leading to a change in *mission*, commercial pressures lead some MFIs to adjust the day to day *practice* of microfinance at the field level. These changes in practice lead to high financial performance but drift away from social objectives. It is therefore termed a *practice drift*.

More specifically, in the context studied, *practice drift* designates a process occurring at the branch level whereby agents manage to meet pressing financial and outreach targets. In large decentralised institutions *practice drift* stems
from the adaptation in organisational structures, management systems and working culture. Field agents (i.e. credit officers and branch managers) resort to using informal or even illegal marketing techniques to fulfil financial targets whilst still targeting poor households and fulfilling two important aspects of outreach: depth and breadth but low value to client (MacDonald, 2012). These achievements might mirror high financial and social performance on paper but informal practices used to achieve them, themselves, contradict the social objective of microfinance by reinforcing typical patron-client relationships between clients and credit officers, increasing women’s vulnerability inside the household, recruiting poor clients (who do not want, need, or cannot afford loans) or engendering over-indebtedness (through multiple informal and formal loans). Important trade-offs are faced by branch managers between pricing and time and this, as illustrated in the following quote from an ASA branch manager, influence the way in which credit officers target and select clients:

“Since meeting targets is a competition between the officers, many [loan officers] stir up trouble which requires a heavier workload. So we would provide smaller loans to more clients who cause the problems and that would generate less profit. But if we provide larger loans to a fewer number of clients, that would be more profitable and less pressure for the officers. Now the loan structure is much more effective, previously we could only provide Tk.5000 to each client but now it ranges from Tk.15,000-Tk.20,000 hence more profit.”

313 And also length, in case of over-indebted clients
314 KIASA002
This quote indicates that at ASA socio-financial trade-offs are managed by branch managers and loan officers who informally assess the financial risks associated with targeting poorer clients and the financial opportunity cost of excluding less poor clients. The lack of social performance focus can therefore encourage fieldworkers, subjected to high financial pressures, to maintain high repayment rates, large outstanding loan amounts and maximise profits to secure their job at the expense of social performance (Aubert et al., 2009). The pursuit of social performance can represent a significant opportunity cost for senior managers and fieldworkers when they are assessed against financial indicators. This argument is further substantiated in sections 8.1.2.2 to 8.1.2.4 through a deeper analysis of how institutional structures and systems can, as part of a wider process of commercialisation, lead to practice drift.

8.1.2.2 INSTITUTIONAL SOCIAL CAPITAL AND PERFORMANCE

What implications do commercially driven structures and management systems have on fieldworkers’ performance? Few in-depth studies in Asia and Africa explore the role of loan officers in microfinance performance (Ahmad, 2002a, Ahmad, 2002b, Goetz, 2001, Ahmad, 2000). Findings from this study indicate however that fieldworkers are the critical agents who heavily influence the impact of microfinance on clients. Although there is little research on fieldworkers, they are acknowledged as an important means for the poverty reduction outcomes of microfinance to be achieved (Siwale and Ritchie, 2011, Ahmad, 2000, Goetz and Sen Gupta, 1996). Dixon et al. (2007:8) emphasised that:

“The actions of loan officers have substantial and sometimes unexpected and unintended consequences for the actual direction and outcome of many credit programs”

The little literature available analysing their relationship to social performance, argues that the lack of alignment between MFIs’ means for performance and their social mission negatively affect the commitment of loan officers to social
performance and give them incentives to focus on financial targets (Copestake, 2007, Woller, 2002a). ASA and PDBF’s studies indicate that the concept of social capital (discussed in sections 2.2.2.1 and 2.3.2.3) is relevant to the study of MFIs’ social performance as a function of working culture. Some authors have documented its role in facilitating individual and collective action within NGOs (Adler and Kwon, 2002, Portes, 1998) where it can substitute for a lack of other types of resources such as financial capital (Nahapiet and Ghoshal, 1998, Baker, 1990). Within MFIs the author conceptualises social capital as broadly referring to the ways in which individual staff members interact with colleagues and with managers and clients. Evidence presented in this thesis indicates that structures and management systems determine the types of social capital (positive or negative) available to fieldworkers and influence their social and financial performance.

Social capital can be combined with, or substitute for, formal management control systems. Table 8-1 shows how different types of social capital (negative and positive) can contribute differently to improving the access to and use of information in policy-making, and affect MFIs’ financial and social performance. Strategy, structures and management create a working culture which influence relationships between staff members across different hierarchical levels, and affect their ability to communicate, collaborate and perform. Positive social capital (trust between loan officers/clients and loan officers/managers) generates better understanding, less conflicts across hierarchy and lessens the fear of punishment. The role of loan officers requires combining or substituting management control systems with positive social capital to encourage collaboration, trust, and support (Chenhall et al., 2010). Positive social capital breeds trust between fieldworkers and managers, initiates collaboration and trust-based relationships. Better mutual

\[315\] The distinction between negative and positive types of social capital is explained below.
understanding and less conflict can lead to better coordination and more effectiveness.

Communication can be undermined when the lack of coherence between the structure, the management systems and the social mission of MFIs create negative social capital. Negative social capital can be beneficial or harmful, according to how power, rules and norms are enforced. Whilst commercial MFIs’ head-offices play a critical policy-making role related to planning, designing, implementing, monitoring, and evaluating branch activities (Khandker et al., 1994), the case of ASA shows how top-down decentralised structures enforce negative social capital that keeps critical information about financial and social performance at the field level. Large-scale commercial MFIs, like large scale NGOs, face numerous obstacles to adapting their management systems and structures and can often be characterised by reluctance to change (Baktiar, 2008). The scale of their operation and the costs involved make flexibility and responsiveness more difficult to administer and they therefore rely on negative social capital as a low cost tool that closely monitors financial performance (section 8.1).

Evaluating staff’s performance against financial targets’ achievement however can narrow down the functions of fieldworkers (Ahmad, 2002a, Ahmad, 2002b) and create a practice drift. The institutional malpractices and abuses explored in section 6.2 illustrate this drift. Negative social capital often prevents the communication of bad performance or difficulties based in the field to managers because low performance is blamed on the individual staff members and often punished. Financial targets alone encourage informal practices which might be in contradiction with MFIs’ social mission. In ASA, structures and coercive management systems and competitive working culture contribute to isolating fieldworkers from head offices, fieldworkers from communicating “bad news” to managers and adopt informal practices to meet the financial targets. These processes are often hidden from higher-managers leading to what the author calls a silent practice drift.
### Table 8-1: Social Capital and Performance

<table>
<thead>
<tr>
<th>Features</th>
<th>Effects on staff</th>
<th>Effects on performance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hierarchy established through similar personal beliefs and motivations</td>
<td>Ability to adapt</td>
<td>Secure financial benefits</td>
</tr>
<tr>
<td>Collaboration and mutual help to achieve a common goal</td>
<td>High listening and self-questioning capacity</td>
<td>Access to high quality information</td>
</tr>
<tr>
<td>Responsiveness to challenges</td>
<td>High quality of information shared</td>
<td>Good control over delivery channels</td>
</tr>
<tr>
<td>Top-down structures and management systems</td>
<td>Low responsiveness to clients’ needs</td>
<td>Chronic organisational fatigue</td>
</tr>
<tr>
<td>Authority enforced through coercive measures</td>
<td>Few and low quality information shared</td>
<td>Standardisation of procedures</td>
</tr>
<tr>
<td>Dense network of competitive entities</td>
<td>Low personal commitment</td>
<td>Secure financial profits</td>
</tr>
<tr>
<td>Staff motivation based on coercion</td>
<td>Risk aversion</td>
<td>Dissatisfied or stressed staff members</td>
</tr>
<tr>
<td>Shared values and beliefs by employees</td>
<td>High quality of information shared</td>
<td>Good financial and social performance</td>
</tr>
<tr>
<td>Team members cooperating</td>
<td>Effective collaboration</td>
<td>Detailed information about clients</td>
</tr>
<tr>
<td>Generalized reciprocity</td>
<td>Empowered workers</td>
<td>Trust across delivery channels</td>
</tr>
<tr>
<td>Mutual trust</td>
<td></td>
<td>Receptive to staff’s reclamation</td>
</tr>
<tr>
<td>between a group of peers</td>
<td>Pressure on individual performance</td>
<td>Loneliness, isolation and exclusion</td>
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<td>-------------------------</td>
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<tr>
<td></td>
<td>Protection of personal interests</td>
<td>Individual problem-solving</td>
</tr>
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<td></td>
<td>Exclusive work structures</td>
<td>Staff fatigue</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Low personal confidence</td>
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<td></td>
<td></td>
<td>Low quality information</td>
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<td></td>
<td></td>
<td>Low social performance</td>
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<td></td>
<td></td>
<td>High financial self-monitoring and group monitoring</td>
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<td></td>
<td></td>
<td>Standardised procedures</td>
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<td></td>
<td></td>
<td>Low information sharing and learning capacity</td>
</tr>
</tbody>
</table>

Source: adapted from Chenhall et al. (2010)
8.1.2.3 Pressures on Fieldworkers in Microfinance

In top-down MFIs where trade-off management is decentralised, fieldworkers subjected to high financial performance pressures are often marginalised within their MFI (Agier and Szafarzy, 2010). The impact of microfinance products and services delivery on loan officers’ agency was examined by Siwale and Ritchie (2011), de Janvry and Sadoulet (2009b) and Labie et al. (2009). Based on data collected in Uganda, Brazil and Zambia they found that loan officers use discretionary power when it comes to clients’ selection and follow-up.

Although their role is largely unrecognised in the microfinance industry (Agier and Szafarzy, 2010, IFAD, 2006), empirical evidence indicates that fieldworkers are critical to microfinance’s achievement. This study found that commercial MFI fieldworkers are highly insecure about their job (due to the high availability of labour) and fear penalties in case of bad results. This is found elsewhere in Bangladesh by Ahmad (2002) who emphasised the risks, fear and insecurities associated with the work of an NGO fieldworker in Bangladesh (especially women, personally and professionally). Ahmad (2002b:183) and Uphoff (1996) agreed that the specificity of the Bangladeshi NGOs’ culture is that they behave like businesses rather than “third sector organisations”. Pressures on financial performance are experienced daily by fieldworkers who, to keep their jobs, work in informal ways to achieve financial targets and get promoted (section 6.2.1). They emphasised that the productivity of NGO fieldworkers often revolves around strict rules and policies on promotion or transfer (especially in large-scale institutions) which are not always effectively enforced because NGOs in Bangladesh often lack trade unions or staff bodies. For example, although MFIs, like most other organisations in Bangladesh, are required to close on Friday, this study and other empirical research (Ahmad, 2002a, Charitonenko and Rahman, 2002, Ahmad, 2000) find that because it is easier to find clients on that day, most fieldworkers work on Fridays. Fieldworkers at ASA know that they have to do everything possible to reach their financial targets to avoid penalties and exclusion. Their personal performance is critical for them to keep their job and
avoid getting transferred to another district. When I asked what data was used to evaluate employees, branch managers at ASA explained:

“From the beginning of each month, each employee’s number of new loan clients, the loan collection and their outstanding is calculated each and every day in the computer. At the end of the month we can get an idea about their performance and take steps accordingly. You must note that our earnings and success depends on these loan officers’ performance levels and evaluation.”

Another branch manager said that he found it difficult to balance his personal life with the targets set by his district manager:

“Well, I am doing the job because I have to. There are definitely some drawbacks of working. In my personal life I have to keep an eye on my children to see if they are studying properly or not, I have to go and get the daily necessities for my family, etc. I have faced problems regarding these. [...] I come here by 7:45 am every day, and I go back at around 9 or 10 pm at night. [...] There are different issues to deal with and I have to finish up a lot of work.”

Ahmad’s (2003) study of an NGO and community development field-workers identified similar pressures on MFI staff members. He gives the example of MFIs withdrawing fieldworkers’ food allowance in case of low repayment.
rates (Ahmad, 2003, 2002b) and reports they often qualify their job as “intolerable”, he quotes one fieldworker:

“I have to show good repayment rate of my disbursed credit to save my job. To get money back sometimes I abuse my members. Now my life is full of tension. Many nights I cannot sleep due to the anxiety about what I shall do if I lose the job” (Ahmad, 2003:69).

At PDBF, however, although fieldworkers are subjected to financial performance pressures they rarely have to work on weekends or beyond office hours. They reported no risk of losing their job or being transferred in case of bad financial performance and having access to effective structures to report abusive management practices (Gender Focus Centre and the Trade Union, section 7.2).

In large-scale commercial MFIs, coercive and financial target-based staff management can prompt forced repayments and social pressures on clients creating contradictions between the social mission of MFIs staff and their actions. The organisational structure, management systems and culture of MFIs determine the nature of relationships amongst loan officers and between loan officers and clients. Through weekly visits, loan officers are the main interface between an MFI and its borrowers and personify the MFI in the eyes of villagers. Loan officers have to recruit clients to complete their portfolio; and their role here is to persuade them about the benefits of loans (Siwale and Ritchie, 2011, Agier and Szafarzy, 2010, Dixon and Siwale, 2007). Informal discussions and interviews with ASA staff members (across the hierarchy) reported that ASA loan officers are neither expected nor trained to manage the socio-financial trade-offs. With restricted decision-making power, weak ethical standards and tight financial targets, loan officers have little incentive to invest time and effort in clients screening procedures and follow-up.

8.1.2.4 Micro-collateral to achieve financial targets
The data collected in this study shows that the ways in which fieldworkers are often incentivised within large commercial MFIs can encourage them to resort to informal practices to meet their financial targets. This finding has resonance with previous studies conducted in Bangladesh which found that the Grameen Bank’s high repayment rates may indicate that measures are being taken in the field to hide overdue loans because it is in the credit officers’, MFI managers’ and borrowers’ best interest to keep default rates hidden, so to give evidence of achievement and avoid punishment (Pearl and Phillips, 2001, Rahman, 1999). This study argues that failing to align institutional structures, management systems, and organisational culture with social mission can encourage loan officers to use informal and even illegal strategies to fulfil financial targets. The data collected indicates that micro-collateral, a term developed by this author and explored below, is one of the informal practices loan officers use. Such practices in rural Bangladesh are also explored by Fernando (2006), Uddin (2013) and White and Alam (2013) though the term micro-collateral is not used.

In Bangladesh, as many other developing countries, contract enforcement is a common problem, notably in credit transactions. Because obligations enacted through agreement, often commit borrowers and lenders in informal markets, the use of collateral in the event of repayment default securitises the transaction for both parties. MFIs in theory use group-based social mechanisms and financial incentives to serve their financial needs for expansion and do not rely on collateral. This has been seen as a tenet of microfinance since its inception. This study has however found that loan officers informally use collateral to secure loan recovery. Micro-collateral allows loan officers to secure repayment and compensate for appropriate (and time consuming) screening procedures and follow up. Loan officers’ informally use material and immaterial micro-

318 Or other terms meaning similar procedures
collateral (assets, social networks and multiple client-ship) to reduce their MFI’s financial risks associated with lending money to the vulnerable poor. This finding is corroborated by a recent study by White and Alam who have studied loan repayment patterns of BRAC’s clients:

“A common microfinance practice is for loan officers to speak with a potential borrower’s neighbours, relatives and friends to help gauge the individual’s creditworthiness. That applicants are also asked to report asset holdings suggests that lenders consider assets to be an important determinant of loan repayment. Higher asset values may indicate a borrower’s past financial success or their productivity. Likewise, greater asset holdings may foster a higher likelihood of loan repayment if borrowers can liquidate their assets, if/when necessary, to meet repayment obligations. Finally, a borrower’s assets may signal the wealth or income of extended family – a valuable potential source of funds for the borrower to draw upon, if necessary.” (2013:344)

Loan officers often make informal judgments about whether potential clients have a sufficiently reliable social network which, in case of repayment problems, the loans officers could pressurise to make repayment. Similarly, loans officers informally assess the asset endowment of clients before they grant the loan so that in case of repayment shortfalls they can compel clients to sell assets or in some cases can seize (i.e. steal and sell asset) to make the repayment (section 6.2.1).

Loan officers are aware of the coping tactics used by rural households who face shocks and events (chapter five). The capacity of households to mobilise financial resources from diverse sources (selling assets, relatives, friends, neighbours, money-lenders or other MFIs) can often help clients adjust with repayment problems. Loan officers know that the vulnerability of clients often prevents them from earning the regular, stable and reliable income they need to cover basic needs and kisti (sections 5.2 and 6.2). It is argued here that loan
officers often use informal screening and discriminatory practices to assess households’ capacity to mobilise and adapt financial resources. The possible financial returns generated by selling productive or non-productive assets can enhance poor clients’ likelihood to repay *kisti*. The data collected reported that the fact clients have livestock, jewellery, chairs, pots and pans are often used by loan officers to pressure and force repayments, as is the potential to access loans from other MFIs.

It should also be noted however that through this strategy loan officers often exclude the poor who have very few assets and/or a very poor social network because such clients are seen as incapable of managing inflexible financial products. At the community level having limited access to positive social capital means having limited access to peer lending (Anderson et al., 2002, Grootaert and van Bastelaer, 2001, Mayoux, 2001). On the other hand, being a client of another MFI often ensures that households have the opportunity to receive frequent lump sums of money to repay the *kisti*. Informal discussions with clients, non-clients and MFIs staff indicate therefore that loan officers sometimes exclude poor households who have insufficient social capital but select households who are also incapable of repaying when they have strong enough social capital or potential access to loans to use it as *micro-collateral*.

In different manners fieldworkers in ASA and PDBF reported scrutinising clients’ social networks before granting the loan and pressurising these in case of repayment problems (chapter seven). Loan officers believe that the better a social network a client has the more capable she is to cope with shocks and the less likely she is to default. In case of default, they can invoke the people who represent possible sources of financial liquidity and either pressure this person to lend money to the defaulter or urge the defaulter to borrow money from that person. For example in PDBF branch managers and loan officers reported rapidly screening loan applicants’ neighbours and community, called “human capital” (section 7.2). As a result, asset base, social network, and MFI client-ship became important client selection criteria that loan officers informally exploit to generate high financial performance and meet short-term targets. Outside the conventional joint-liability setting of microfinance, informal
practices are used to overcome the tensions between social mission and financial targets faced by loan officers in the field.

The short-term positive effects of these informal practices for MFIs’ financial performance are often prioritised over their longer-term negative impacts for clients. According to clients’ accounts, loan officers know the repercussions of using these short-term coping tactics to make repayments. The gap between the theoretical and actual functions of loan officers can have implications on commercialised MFIs’ impact on households. Without head-offices appreciating this practice drift in the field, for the reasons highlighted in the previous section, the outcomes of microfinance’s expansion for the poor, in a dense and competitive market can have important implications for microfinance’s social performance. The patronage relationship between loan officers and clients enforced through informal financial and social pressures impinge on the impact of microfinance on clients’ poverty status and vulnerability.

8.1.2.5 Commercial microfinance and practice drift beyond Bangladesh

It is important to analyse similarities between the empirical findings and theorisation of the practice drift developed from rural Bangladesh with practices and analyses reported elsewhere. Of particular relevance are studies of microfinance in India, a different but to some extent comparable context. Similar to Bangladesh, India has a growing commercial microfinance outreach, where according to recent reports “for-profit MFIs account for 90 percent of total client outreach and loans outstanding” (Champatiray et al., 2012). Similar to Bangladesh, the interest rates charged to clients are subjected to regulations under the form of caps (set relatively low compared to other countries) and the growth of the microfinance sector was mainly fuelled by substantial gains in operational efficiency as opposed to grants or subsidies (Kumar et al., 2012). Some of the major Indian MFIs, like SKS, follow a low-cost growth strategy the outcomes of which are comparable to the practices, processes and impacts.
identified in the Bangladeshi context (Kumar et al., 2012, Taylor, 2011, Srinivasan, 2010).

Andhra Pradesh is considered “one of the most saturated and competitive microfinance markets worldwide” (Champatiray et al., 2012, de Quidt et al., 2012, Chen et al., 2010). Though there is no official data on the density of microfinance providers, the ease of access to microfinance reported can be compared to Tangail where this study’s findings have a particularly strong resonance. Although some of the underlying causes of the Andhra Pradesh crisis (mentioned in chapter one) may be specific to the Indian context (Shylendra, 2006) the reported practices of MFIs in this Indian state share striking similarities with what was described in earlier chapters. Some authors report on “short-cuts in client selection and training”, coercive repayment practices of credit officers and loan over-lending practices (Ghate, 2007) malpractices, inappropriate pressures, and a lack of ethics (de Quidt et al., 2012, Ghate, 2007) adopted by commercial MFIs’ staff. Taylor’s interpretation of these findings from India, is that such practices are not the case of “a few ‘bad apples’, but are intrinsic to the power relations of commercial micro-lending” (Taylor, 2012:609). According to many authors therefore, the commercial drive of microfinance providers, in this context, strongly and negatively influence staff behaviour (Assefa et al., 2013). In line with this thesis’ main argument regarding the occurrence of a practice drift at the field level, Ghate noted that:

“Interestingly mission drift in the literature usually refers to moving up-market to increase breadth of outreach at the cost of depth of outreach. This has not been an issue at all in the”

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319 Other factor may be the competition between microfinance schemes and the SHG programme promoted by the Indian state and political interferences.
present crisis, and it is generally accepted that MFIs following the Grameen Bank methodology in particular have an extremely poor clientele.” (2007:1178)

The data from India thereby also provides some strong evidence that competition amongst MFIs push field staff to use informal techniques to meet financial targets and exploit the assets and social connections of households (Mohan et al., 2013, Taylor, 2012, Hussain, 2010). The impact of such practices on client’s vulnerability and poverty is explored in the next section.

8.2 Microfinance’s Effect on Poverty and Vulnerability

“The ultimate test of any institution is not whether it exists or sustains itself, but whether it manages to do something useful”

(Hulme and Mosley, 1996:86)

The evidence from this research and other studies presented suggest that commercialised MFIs may have weak or even negative impacts on poverty and vulnerability, particularly the poorest. Chapter six highlighted that resorting to coping tactics to repay loans often pushes clients towards multiple client-ship, often causing, among other outcomes, social marginalisation, asset depletion and sometimes over-indebtedness. The first two sub-sections here analyse the implications of commercial MFIs’ informal practices on households’ vulnerabilities (section 8.2.1) and poverty status (section 8.2.2) (the pentagon on figure 2). It argues that interactions between poor vulnerable client households and the standardised delivery processes of commercial MFIs can negatively affect the well-being of households as well as their poverty status. These sections follow the distinction between poverty and vulnerability made in chapter five. The nuanced picture of MFIs’ impact drawn by this study can be generalised to other regions sharing similar contextual characteristics (chapter four). These sections therefore refer to literature and empirical evidence elsewhere within Bangladesh and beyond.
8.2.1 Microfinance and vulnerability

The term “vulnerability” refers to the probability of falling into poverty in the near future (Chaudhuri, 2003) and to the frequent internal or external shocks and events experienced by households and which often incur significant unexpected outlays (Gehlich-Shillabeer, 2008, Barrientos, 2007). This study finds that individuals’ experience of vulnerability can vary across households within a community (according to its size, the dependency ratio inside the household or the occupation held by income earners) and within households (according to their gender and age) (chapter five). The data collected indicates that standardised loan delivery systems, rigid repayment schemes, poor targeting procedures and follow-up is common to commercialised MFIs and have a low (or even negative impact) on clients’ vulnerability. These arguments resonate with empirical evidence from outside Bangladesh which report that competition amongst MFIs can have negative implications for social achievements (Assefa et al., 2013). Empirical evidence from India indicates that credit officers use informal techniques to meet financial targets and exploit the assets and social capitals of households (Mohan et al., 2013, Taylor, 2012, Hussain, 2010).

8.2.1.1 Clients’ financial vulnerability

Findings from this study suggest that the way commercialised microfinance is designed and delivered can represent a considerable financial and social risk for vulnerable clients without always bringing positive outcomes. The data show that client households’ success in adapting their livelihood and well-being to the terms and conditions of the loan often depends on their access to

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320 This ratio divides the number of household dependents (who do not earn) by number of income earners.
financial and social capitals (as loan officers understood given their use of micro-collateral) but also on their ability to invest loans in productive income generating activities (chapter six). In most positive cases encountered in this research and reported in other studies, women borrowed from an MFI for male relatives to invest in an income generating activity\(^{321}\) (Kabeer, 2011, Kabeer et al., 2010, Cons and Paprocki, 2010, Hussain, 2010).

Clients’ level of financial vulnerability sometimes increases during their client-ship because MFI systems fail to adapt to clients’ livelihood unpredictability, pushing them to adopt coping tactics that often further increase their vulnerability and impede on their ability to protect their livelihood and build financial resilience. Recent studies conducted in Bangladesh reported that vulnerable clients often face repayment difficulties and that they have to adopt risky coping strategies to maintain weekly repayment (Hussain, 2010). Terms and conditions of MFI loans represent a high risk for uncertain positive outcomes. Bhusal (2010) reported that clients “\textit{receiving credit for one thing and using for another}” is common and that clients would decide to leave their income generating activity if they got a job offer from a factory because, they said it would “\textit{surely be more of a help than the loans}”. In line with the evidence collected through this study, Bhusal’s respondents (2010:44) stated that they usually

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\text{“don’t make a proper plan of credit use beforehand, but in order to fulfil the criteria of getting a loan they do mention an income generating activity which might not be strictly followed after a credit is received”}. \]

\(^{321}\) This questions the empowerment effect of microfinance for women who have little control over the loan they are responsible for.
One standardised tool almost never appropriately serves everyone, especially as Dalglish and Tonelli (2011) argue, when the clientele is so vulnerable. A low-cost, standardised one-size-fits-all approach to products, services and delivery channels cannot accommodate the complexities and diversity of clients’ vulnerabilities. Financial needs and capacities of clients vary according to the size of the households, the labouring capacity and occupations of its members (health, education or skills) and the external risks that might influence their lives (environmental risks, conflicts or geographical isolation).

For vulnerable households who are not followed-up on and advised by their loan officers the easy access to microfinance products and services can become a central means of living (section 6.2). A comparative study of four of the main MFIs in Bangladesh conducted in rural areas (Lu and Hasan, 2011) reported that clients of ASA and BRAC were more likely to be involved with more than one MFI (56 percent of ASA’s clients and 76 percent of BRAC’s) than Grameen Bank and BRDB (a government scheme) which report much lower figures (10 and 8 percent, respectively). These are strong financial incentives for vulnerable clients to use credit to cope with *the unexpected* and cover *the rudiments* through these short-term tactics. Multiple client-ship enables vulnerable clients to overcome rigid repayment obligations by intertwining different financial sources. Households are ready to face hardship for the first years (46-53 weeks), by mobilising and adapting their available resources because they know they could be entitled to access larger loans that will then repay the first one. This explains why multiple stakeholders adopt a market-driven strategy whereby clients lie to officers about their vulnerabilities (section 6.1) and officers are pushed to urge clients to take more, larger loans rapidly regardless of their repayment capacities (sections 6.2 and chapter seven).

### 8.2.1.2 Clients’ Social Vulnerabilities

A tenet of microfinance is that it empowers women (section 2.1). Research advocating for the empowering effect of microfinance on women’s social capital (Mahmoud et al., 2010, Pine, 2010, Boone, 1996) argue that women’s status within the household is enhanced because they are able to provide an income. According to this perspective microfinance increases women’s
economic self-reliance and decision-making role and reduces the risks of domestic violence often caused by economic scarcity (McGregor, 1989).

According to the data collected and some of the literature available, however, services and products of MFIs rarely consider the specific vulnerabilities faced by women. Commercial MFIs tend to have a narrow understanding of the responsibilities they have towards their clients (section 3.1) and provide standardised products which do not consider the complexity of clients’ (women’s) vulnerabilities. Chapters five and six examined how women in rural Bangladesh are exposed to numerous and often intense types of vulnerabilities, at the household, community and societal level (Shiree, 2011, Joshi, 2004). Informal discussions suggested that these intense pressures on kisti repayments can frequently lead to short-term coping tactics which push women to compromise their nutrition, food consumption, and assets in order to maintain those of the income earners. In a context where women’s access to legal institutions often is limited and problematic (section 3.2.2) and where citizens have limited awareness or trust in public services they often are excluded or self-excluded from these services. The lack of consideration for women’s status, opportunities and challenges can have negative effects on women and their households’ well-being, especially on the vulnerable women (Nawaz, 2010). Informal forms of pressures (chapter six) used to enforce high repayments can reinforce typical “patron–client” relationship between clients and loan officers.

Literature available from south Asia (Balasubramanian, 2013, Rai and Ravi, 2011, Swain and Wallentin, 2009, Garikipati, 2008, Holvoet, 2006, Ahmed et al., 2001) shows that women tend to be more vulnerable than men in the poverty context, and that it affects microfinance outcomes. A number of studies provide evidence of the negative implications MFIs practices can have on women’s status, livelihoods assets and well-being (Mahbub, 2001, Wood and Sharif, 1997) through discriminations, high insecurity, and different forms of physical abuse and psychological pressures women can experience (Cons and Paprocki, 2010, Ahmed et al., 2001). Loan officers’ abuses and malpractices may therefore be relatively accepted by women who experience
them and almost never report them to the police or MFIs’ managers, but deal with them informally. When women borrow as a result of pressures external or internal to their household their potential for empowerment (bargaining power, decision-making power, financial independence) appears to be low (Cons and Paprocki, 2010) and standardised delivery systems and informal mal-practices combined can increase women’s vulnerability.

8.2.2 Microfinance and poverty

This sub-section analyses the implications of commercial MFIs’ informal practices identified in the study context on households’ poverty, arguing that standardised delivery processes of commercial MFIs can negatively affect the well-being of poor and very poor households (Bateman and Chang, 2009, Woller, 2002b, Woller, 2002a).

8.2.2.1 Livelihoods and microfinance outcome

Numerous studies claimed to hold strong evidence that microfinance has a positive effect on poverty include those by Swain et al. (2008), Abed and Matin (2007), Khandker and Pitt (2005), Littlefield et al. (2003), Mann (2003) and Robinson (2002) to cite only a few. However, chapter six and empirical evidence from Latin America, South Asia and Africa indicate that clients’ initial capital endowment influences their ability to use loans for productive purposes and that commercial MFIs often exclude or have a limited impact on the poorest (Daley-Harris, 2009, Daley-Harris and Zimmerman, 2009, Pronyk et al., 2007, Matin et al., 2002, Rahman and Razzaque, 2000, Gulli and Berger, 1999, Hashemi, 1997). Hulme and Mosley (1996) looking at 12 programs from seven developing countries demonstrated that although microfinance clients’ income rose this improvement depended on the socio-economic condition of households before the loan (Nawaz, 2010). Mosley (2001) in Bolivia and Altay in Turkey (2007) found that microfinance might have the potential to reduce poverty for the near poor but remain ineffective for the extreme poor.
This study finds that physical, human and social capitals have an important role in determining the impact of microfinance on poor clients (Hulme, 2003, Hulme and Shepherd, 2003). Interviews with current-clients and former-clients indicate that households who owned physical assets (land, pond, livestock, agricultural equipment, rickshaw) and/or had reliable human capital (education, training, skills, leadership qualities, good health), and/or social capital (wealthy relatives, many brothers, friends, networks), and/or a/or multiple source(s) of regular earning(s) were more likely to invest their loans in productive income generating activities and leverage financial returns. Findings also indicate that because poor and very poor households often cannot maintain these capitals they are less capable of using microfinance for an income generating activities because opportunity costs for these types of households of such investment are too high and consumption loans brings better short-term returns.

8.2.2.2 INDEBTEDNESS AND IMPOVERISHMENT

The degree of standardisation required for MFIs to scale-up cost-efficiently seems to hinder the flexibility of MFIs’ systems and practices (through tight financial target-based management) which deteriorates outcomes for vulnerable clients (especially women) (Taylor, 2012, Montgomery and Weiss, 2011, Servet, 2009, Copestake, 2007). Corroborating the evidence generated by other studies such as Bhusal (2010), Cons and Paprocki (2010) Daley-Harris (2009) Hussain (2010) this research found commercialised MFIs show little (or no) interest in what clients invest the money in or mobilise money from as long as clients repay (this study finds that ASA does not ensure that clients invest in an income generating activities nor, within the community studied, provide training). The reported impact this practice drift has on borrowers, particularly the poorest, is similar to some empirical evidence emerging from Andhra Pradesh in that it can lead to borrowers having to "abscond", migrate or as
some studies argue, commit suicide\textsuperscript{322} (Kinetz, 2012, Kumar, 2012). In Kinetz (2012) one of many examples reports that:

\textit{One woman drank pesticide and died a day after an SKS loan agent told her to prostitute her daughters to pay off her debt. She had been given Rs.1.5 lakh in loans but only made Rs.600 a week.}

Regardless of whether the suicides are directly (and only) caused by particular MFIs of by particular members of staff, empirical evidence from Andhra Pradesh echoes Tangail client households’ reports on MFIs malpractices which overall points at the pitfalls of commercial pressures on staff behaviour and social performance. In the studied communities, clients reported that this lack of support was common to large scale MFIs. As a result many poor households cannot make long-term productive use of their loan, which does not only represent an opportunity cost for households, but often engenders negative outcomes (section 6.2).

Although in rural Bangladesh numerous loans can help poor households improve their well-being temporarily (through crisis, shocks or events) (Hermes and Lensink, 2011, Bhusal, 2010, Roodman and Morduch, 2009), debts constitute a long-term liability that negatively affect the livelihood of the poorest and the most vulnerable (Schicks, 2013a, Kritikos and Vigenina, 2005, Vigenina and Kritikos, 2004, Ghatak and Guinnane, 2001). As argued in chapter six households who cannot invest their loans in income generating activities often face difficulties repaying the \textit{kisti}. One can argue that the poorer and vulnerable households are the more repayment difficulties they face. \textit{Kisti} represents an expenditure increase which often absorbs a substantial

\textsuperscript{322} A recent independent investigation linked SKS employees to at least seven of the deaths. A second investigation only pointed to SKS’s involvement in two more suicides. These reports are not available.
share of poor households’ earnings and for which they adopt coping tactics (traditional\textsuperscript{323} and new ones). The fewer capitals households have, the fewer opportunities they have to repay kisti.

The impact that coping tactics therefore have on poorer households are greater and it is more difficult for these households to recover from this constant expenditure increase. There are limits to the extent to which households can rely on pre-existing coping tactics. Labouring household members can only work so much, food consumption can only be reduced so much and community members becomes less likely to lend money as households become poorer. As a result households often rely on formal lending sources (Hossain et al., 2009). Although borrowing from multiple MFIs can be an effective means for helping household’s cope with increased expenditure (some improving households were multiple borrowers), and hence can be a means to maintain immediate well-being (for example, to maintain food consumption and medicine) it usually leads to increasing long-term indebtedness. Multiple borrowers have reducing opportunities to rely on more traditional coping tactics and enter a formal debt circle. Clients for example can face exclusion from their community and there were reports of some household migrating to escape their debtors (section 6.1).

In line with Gehlich-Shillabeer (2008) and Daley-Harris and Zimmerman (2009, 2009), and empirical evidence from Andhra Pradesh (Ballem et al., 2011) this study finds that commercialised, market-driven microfinance can indirectly provide incentives for the long-term indebtedness of the poorest, with limited well-being improvements or even over-indebtedness as defined by Schicks (2013b). Schick’s identified three main factors that exacerbate this phenomenon and which all resonate with the analysis presented in chapters six,

\textsuperscript{323} includes asset depletion, reduced food consumption, extra work and peer lending (section 6.2.2)
seven and eight. She finds that an excessive focus on marketing and growth, unsuitable product characteristics and lending procedures conducive to over-indebtedness can foster clients’ over-indebtedness (Schicks, 2013b, Schicks, 2013a). These findings raise the question: should the poorest and most vulnerable borrow from commercial institutions?

Given that the potential poverty impact of commercial microfinance in Bangladesh and India is questioned, the author argues that commercially-driven MFI s should focus on leveraging better social impact by targeting less vulnerable near-poor households who have better chances to invest in, and benefit from income generating activities’ financial returns and redistribute them to the poor (Aubert et al., 2009). Unlike other studies (Woller, 2002b), this thesis argues that the exclusion or self-exclusion of the poorest from microfinance programme can be in line with the social mission of commercial MFIs and that commercial microfinance is not desirable for the extreme poor. If the socio-financial trade-offs restrict the actions of commercially-driven MFIs so much so that they are forced to develop rigid products and mis-target the most vulnerable (who cannot repay), perhaps commercial MFIs should not target the poorest.

Though commercial microfinance might be destructive for most vulnerable poor clients in rural Bangladesh, it has the potential, under certain circumstances, to improve not-so-poor households’ well-being. I argue that MFIs need to re-focus on targeting the near-poor rural households to whom they can provide sustainable economic opportunities and who can leverage positive well-being outcomes from them. Those who have a sufficiently stable socio-economic position and strong human capital to invest in an income generating activity are likely to run it productively and earn from it. Factors which persistently jeopardize the livelihoods of the vulnerable poor by threatening their basic needs exist in the lives of not-so-poor household but have fewer repercussions on them.
8.3 MICROFINANCE: AN ICEBERG INDUSTRY

Section 8.1 argued that commercially-orientated MFIs can experience a silent practice drift leading to the neglect of social performance. Section 8.2 argued that this neglect can lead to microfinance having a minimal or even negative impact on poverty and vulnerability for the poor, and particularly the poorest. Arguments were made on the basis of data analysed here, as well as through analysis and reference to literature from Bangladesh and India.

These arguments point to a gap between microfinance theory and practice that is rarely illuminated by quantitative studies of microfinance. This, it is argued here, is for three main reasons. Firstly, as chapter two demonstrated, that there are substantial conceptual and practical limitations to studying the impact of microfinance whether it is through a quantitative or qualitative approach. Deductive impact studies often adopt a narrow MFI-centric approach and overlook important contextual or institutional elements which can affect MFI’s social performance.

Secondly, as argued in chapter eight, the organisational structures, management systems and working cultures within commercial MFI models also discourage “bad news” regarding both financial and social performance from travelling through organisational hierarchies, thereby furthering a gap between microfinance practice and discourse.

Thirdly, this section argues that the practice drift is also rooted in the nature of the global microfinance industry. The industry is embedded in a neoliberal ideology that promotes market driven understandings of poverty and its alleviation (section 8.3.1) (Shakya and Rankin, 2008). This is encouraged by the global media through largely simplistic and uncritical discourse on microfinance (section 8.3.2.1) which largely promote the idea of commercial microfinance. It is argued that microfinance is an iceberg industry where a generally narrow picture of practice and achievements is visible to the public through mainstream media whilst the main base remains invisible.
8.3.1 Microfinance: converging discourses?

“The normative force underpinning discourses about the ‘virtuous’ impact of microfinance continues to legitimize the expansion of the agenda”

(Weber, 2006:52-53)

Though Yunus’ experiments travelled around the world, the story of how microfinance developed at an astounding pace into a trillion US dollar global industry is not so widespread (Barry, 2012). Drawing on secondary literature – primarily Weber (2001), Rogaly (1996), Fernando (2004a) and Rankin (2001) - and on the analysis of data from Bangladesh (presented in this thesis) this section examines how the microfinance movement has brought different viewpoints and diverse stakeholders together to create a strong hegemonic discourse, similar to that Mosse (2005) discusses within other development interventions.

8.3.1.1 From a state-led to neoliberal anti-poverty formula

Long before they meet the livelihood needs of poor people, aid projects satisfy the political needs of Western development agencies.

(Mosse, 2005:22)

Many advocates of microfinance claim that microfinance was a break-through in development thinking, revolutionising how poverty was conceptualised and addressed (Rhyne and Otero, 2007, Robinson, 2002, Otero and Rhyne, 1994). Advocates of microfinance hail microcredit as the ultimate tool to address financial exclusion (the main reason for poverty) and therefore reduce poverty by filling this market potential. Another body of literature believes that microfinance was used as a tool to promote and expand the visibility of a neoliberal ideology and agenda (Fernando, 2006, Rankin, 2006, Fernando, 2004b, Rogaly, 1996), while others argue it is a continuity in the dominant “economistic development approach” of previous decades (Brigg, 2001, Brigg, 2006).
Of particular importance to understanding the emergence of a global microfinance industry is the way in which it emerged in the US after the 1970s crisis (de Aghion and Morduch, 2005) when state-run rural credit schemes were considered as “plagued” by inefficiencies and financial unsustainability (Adams and von Pischke, 1992). The way in which microfinance was promoted during this period largely fostered the market-based approach it now follows (Bateman, 2012). The political response to the crisis was a re-structuration of the new global political agenda based on neoliberal governance (Brigg, 2006, Fernando, 2006). This neoliberal turn in the development discourse of the late 1970s to 1990s is a milestone, referred to as the Washington Consensus. More broadly it refers to the role of major development actors, such as the World Bank and the IMF, in calling for more efficient forms of governance, through the liberalisation of economies (Ellis and Biggs, 2001).

The US grassroots advocacy organisation RESULTS (led by Sam Daley-Harris) played a critical role in mobilising funds for the microfinance industry and influenced state policy. Facing strong ideological differences with US conservatives, they presented microfinance as a development initiative relying on free market competition, in line with a neoliberal conservative agenda and values (Taylor, 2012). Microfinance managed to obtain bipartisan support in both houses of Congress (Haase, 2012), but gained strong detractors in USAID (the US Agency for Development), who were reluctant to accept the idea of working with the poorest, and wanted to maintain focus on economic growth. In 1987 the Microfinance bill was accepted by the US Congress marking a significant point in the promotion of microfinance, allowing the US Government to fund microfinance organisations and entailed the worldwide promotion of microfinance as a potentially effective tool for poverty reduction.

The way in which financial inclusion was presented to donors as an opportunity to create capital and reduce poverty through microfinance (Bateman, 2010, Weber, 2006) drew the attention of multiple stakeholders adhering to the neoliberal view that credit could be a solution for a macro
societal problem like poverty (Cull et al., 2009, Affleck and Mellor, 2006). In
the context described above the Grameen Bank model was particularly
recognised by international policy-makers and donors as a “win-win” approach
to development whereby the poor help themselves through the market, a
potentially financially sustainable alternative to the typical state-driven
approach. The market gained global development planners’ consideration as
the most suited instrument to achieving economic growth and efficiency on the
one hand, and political freedom and social justice on the other (Rankin, 2001).
The global poverty discourse advocated by the IMF and the World Bank
encouraged the liberalisation of the financial sector.

The microfinance movement came to incorporate neoliberal language and
ideology which discouraged state dependency and promoted the notion of the
economically active poor as a model against passive recipients (Gray, 2010).
Post-Washington Consensus the IMF and the World Bank faced the challenge
of promoting structural adjustment “with a human face”\(^{324}\) and moved away
from the heavily criticised \textit{top-down} blueprint approach to rural development
(Fouillet et al., 2013, Anderson, 2003, Ellis and Biggs, 2001, Rondinelli,
1983). Some authors such as Weber (2001) argue that microfinance was the
World Bank’s response to the 1992 Levy Report that urged the World Bank to
innovate in the financial sector. The World Bank also attempted to improve its
public image as a top-down centralised technocracy which produced
development blueprints (Peck, 2011:167, Cammack, 2004, Miller-Adams,
1999:3) that had more to do with free markets than social justice (Hashemi,
2007, Weber, 2001, Mondal and Tune, 1993). While some authors argued that
if Yunus had “turned banking upside-down, the World Bank flipped it back
over again” (Haase, 2012:40), others goes as far as to saying that microcredit

\(^{324}\) This was the title of a 1987 UNICEF report examining the pitfalls of structural adjustment
programmes.
brought values of commodification to development (Brigg, 2006, Brigg, 2001) and contributed to blurring the frontiers between capitalism and development (Fernando, 2006, Fernando, 2004a).

As development policy-makers looked for non-state alternatives for service provision they initially accredited NGOs and later for-profit institutions as reliable intermediaries for delivering services to the poor, notably microcredit (Weber, 2006:47, Bhatt and Tang, 2001:320). Considered to be more bottom-up intermediaries between donors and the poor based on principles of “trust, generosity, and ideology” (Fouillet et al., 2013, Littlefield and Rosenberg, 2004b, Rose-Ackerman, 1996), NGOs were seen by donors and policy-makers as appropriate actors “marrying local delivery to worldwide leverage” (Edwards et al., 1999) to deliver financial products and non-financial services to the poor (Bhatt and Tang, 2001).

The microcredit discourse therefore emerged at a strategic turning point in the establishment of a global poverty reduction discourse willing to engage with local forms of civil society like grass-roots NGOs (Brigg, 2006, Woller and Woodworth, 2001). The salient embedment of microcredit within social relations (group-lending and women empowerment notably) and its image of a participatory initiative inclusive of the poor (within in the financial system) (Taylor, 2012) were rapidly endorsed by the World Bank and the United Nation (Montgomery and Weiss, 2005, Bhatt and Tang, 2001, Montgomery, 1996).

In 1997, the first Microcredit Summit in Washington, D.C. contributed to building a global microfinance community to reach 100 million of the world’s poorest families with microfinance loans (Haase, 2012:39). 2,900 participants including Government officials and celebrities from 137 countries attended the
event and committed to the Microcredit Summit Declaration and Plan of Action. Grameen gained the support of public figures such as Hilary Clinton, Kofi Annan, the Prince of Wales, Queen Sophia of Spain, the presidents of Mali, Peru and Uganda, the Prime Minister of Mozambique, the first lady of Malaysia, the MacArthur Foundation and the Aga Khan Foundation (Yunus, 2006, Yunus and Jolis, 1999:280). The global microfinance elite rapidly established itself around him.

8.3.1.2 **THE GIRL EFFECT** in microfinance

“The framing of gender relations in the discourse of empowerment through microfinance appeared as a sound compromise for feminists concerned with both gender inequalities and capital to achieve their respective goals” (Fernando, 2006:24).

The feminist discourse and movement has, since the 1980s and 1990s, significantly expanded globally. According to some authors this is due to “its congruence with the tenets of neoliberalism” (Fraser, 2009). In the 1980s the Gender and Development movement recognised that women’s empowerment needed to be initiated through a participatory approach at the grassroots level (Ellis and Biggs, 2001) to which microfinance represented an opportunity to improve the legitimacy and visibility of women’s social struggles and gender inequalities in development (Fraser, 2009, Isserles, 2003b). By the mid-1980s there emerged an “uneasy” consensus among the proponents of different perspectives and ideas concerning the position of women in development,

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325 Who wrote a foreword in *Banker to the Poor* (1999) by Yunus

326 The *Girl Effect* is a movement initiated by Nike in 2008 to encourage international development policy-makers to recognise the potential of women (more particularly adolescent girls) to contribute to reducing poverty. The term is used here to show how microfinance practices expanded in part, on the basis of its feminist approach to development.
about the role microcredit could play for feminism (Shain, 2013). Arguably microfinance contributed to the “feminisation of capitalist modernity” (Fernando, 2006:33) whereby the discourse of microcredit and women’s empowerment made the two trends of neoliberal and feminist thinking converge. At a moment when feminism was essentially associated with radical socialist ideas, microcredit presented an opportunity to consolidate the position of poor and marginalised women within the neoliberal framework (Keating et al., 2010, Fraser, 2009).

For neoliberals women represent an under-tapped source of labour, consumption and capital. For the neoliberal agenda, there is therefore a business case for positioning gender issues within the broader development agenda. By pursuing gender equality (the 2010 MDGs Goal three notably) and publishing the World Development Report on Gender Equality and Development the World Bank asserts the idea that gender equality matters because it “a core development objective in its own right” and because “greater gender equality is also smart economics” in that it is an key instrument for development and for economic growth (WDR, 2012:15). With this approach women and also girls have come to prominence in the global neoliberal development agenda put forward as potentially powerful, yet under-tapped, instrument for development (Shain, 2013).

In practice, however, feminist activists and scholars doubt the effectiveness of neoliberal development interventions attempting to give women more power through top-down channels in challenging power structures (often referred to as patriarchal327) on which the MDGs are, according to Kabeer (2005a), “silent”. Microfinance’s focus on women as a “better investment” for achieving social and economic goals positions women as both agents and

327 referring to reproductive rights, violence against women and unjust laws for instance
objects of social change based on which the microfinance global project ideological gained support (Berkovitch and Kemp, 2011:160). Kabeer argues that “policy makers often continue to see the benefits of educating girls and women in terms of improving family health and welfare, rather than preparing women for a more equal place in the economy and in society” (Kabeer, 2005a:18).

8.3.2 Microfinance’s public discourse and private financing

“I saw what a decisive role the media can play to bring change in the way people think and act”

(Yunus and Jolis, 1999:210)

The microfinance industry includes dynamic institutions that determine how information is managed and, it is argued, influence the commercial orientation of MFIs (Bateman, 2010). Of particular importance is the role of CGAP (mentioned in section 2.2) in creating a favourable environment for the market-driven microfinance industry to expand through financial liberalisation (Weber, 2001:550). Its control over the microfinance sector’s agenda (in terms of norms, metrics, benchmarks and best practices) has been recognised by many scholars (Roy, 2010, Weber, 2001, Rankin, 2001). It is often seen as the main advocate of downscaling commercial banks activities (developing microfinance niches) or on scaling-up NGOs and transform them into for-profit commercial actors (Bhatt and Tang, 2001:322, Montgomery, 1996a). This section however argues that other important actors have a strong influence on the way in which microfinance transforms and expands into an increasingly commercialised industry.

There is little academic analysis of the role played by the media and commercial actors in promoting the commercialisation of microfinance (Isserles, 2003a). Firstly, sections 8.3.2.1 and 8.3.2.2 show how central the media (newspaper outlets and web-based media) is to the construction of public discourse on microfinance (Bisen and Wilson, 2012). Finally section
8.3.2.3 makes public and private interests embedded in commercial microfinance more apparent. In the conclusion to this section explains how the global microfinance industry’s structure (political stakeholders, media, and financial interests) enables the occurrence of the practice drift (section 8.1.2), and formation of an iceberg industry.

8.3.2.1 Microfinance as a popular news item

An analysis of microfinance discourse within the media can help identify the perspectives that media outlets both endorse and quieten (Bisen and Wilson, 2012). A comprehensive review of media coverage on microfinance and analysis of its content is however beyond the scope of this study, sufficient here is to illuminate the broad trends within media coverage. This sub-section tracks the growth in media coverage of microfinance in major news outlets since the 1990s. It is argued that the media promotes a largely positive and simplistic view of the industry in line with the hegemonic discourse.

There are few reliable tools to estimate the evolution of publications on microfinance. Of most relevance is the recent history, particularly the past few decades. This study firstly uses the Google Ngrams tool to examine the evolution of the use of terms such as “microfinance”, “microcredit”, “Yunus” and “Grameen Bank” in published books over the past 20 years. Figure 8-2 indicates that whilst Yunus’ and Grameen Bank’s popularity emerged before the 1990s, the tendency to use the word “microfinance” or “microcredit” in books only developed after 1996. As of 2008, the word microfinance is more commonly used than the other three terms included in the search.
Figure 8-2: Share of the terms “microfinance”, “Yunus”, “microcredit”, “Grameen Bank” within the Ngrams database

Source: compilation of information gathered from Ngrams (2013)
Secondly, conducting a word search of the word ‘microfinance’ on a range of 11 popular media outlets - The Financial Times, BBC, CNN, The New York Times, The Guardian, Le Monde and Times of India, Le Figaro, The Economist, Le Nouvel Observateur - that cover economic affairs by year allows us to analyse microfinance’s popularity and trend in economic, financial and general media channels. Figure 9-2 indicates that prior to 2004-2005 microfinance received only very little coverage outside of academic and development circles. From around 2006 however coverage of increased dramatically.
Figure 8-3: “Microfinance” in Popular Media Outlets Covering Economic Affairs from 1998 to 2012

In the early 2000s the term “microfinance” was often used by mainstream media to promote its beneficial effects on poverty (Roy, 2010; Bédéccarat et al., 2012). The popularity of microfinance in high income countries supported its growth as a commercial and market-based model for poverty reduction through international campaigns, summits, videos, pictures and documentaries. The growth of microfinance’s popularity was facilitated by an intense coverage from economic and finance orientated media particularly after the UN launched the Year of Microcredit (2005) and even more so after Yunus and the Grameen Bank received the Nobel Peace Prize (2006). From 2006 an increasing number of stakeholders including governments, multilateral institutions (the UN, the World Bank, CGAP and the IMF), civil society organisations (charity-based, philanthropic, NGOs, religious and faith-based), scholars and celebrities promoted microfinance as a blueprint for development and nourished great expectations concerning the beneficial effects of it on the poor (Peck, 2011).

The increasing exposure of microfinance to financiers and economically literate audiences, particularly since 2006, has contributed to familiarising a new audience with microfinance. It has also arguably directed the sector towards a more simplified and commercial approach. The media may have contributed to diversifying and increasing the number of stakeholders within the microfinance industry by presenting it as a profitable and therefore investable sector associated with a positive popular image. There is evidence that it is the institutionalists’ viewpoint which has come to dominate the popular microfinance discourse in the media although numerous critics assert that it is precisely this conventional market-based system that excluded the poor and the poorest in the first place (Bateman, 2012, Bateman and Chang, 2009, Bisen and Wilson, 2012). Because the media has largely promoted supposedly positive impacts of microfinance on poverty to investors (Bateman,
2010), based on stories and information provided by MFIs themselves\textsuperscript{328}, the news coverage post-2009 (after the beginning of the Indian crisis) is particularly relevant in figure 8-3.

At a time when presenting microfinance as anything else but a reliable tool for women’s empowerment and poverty alleviation was rare outside of narrow academic circles, media criticism and a political backlash occurred in India (Kumar, 2012), Mexico and Bangladesh. In 2009, in primarily Bolivia, Mexico, India and Bangladesh, many commercial MFIs were accused by policy makers and some newspapers of behaving like money-making banks or loan sharks earning profits at the expense of the poor (Roy, 2010). The media’s response drew from public controversy that occurred in the sector. The initial public offering (IPO) of SKS Microfinance (one of the largest MFIs in India), of Banco Compartamos (a Mexican for-profit MFI that established in 1990 as an NGO) in 2007, and of Kenyan Equity Bank\textsuperscript{329} in 2006 threw doubt on MFIs’ social performance. The infamous Mexican case was criticised because of the high interest rates it charged clients in relation to the large share of interest revenue that went to profits (25 percent in 2005) (Barry, 2012, Bateman, 2010) and it’s 19.6 percent return on assets\textsuperscript{330}. Accessing capital markets also enabled BRAC in 2006 to securitise receivables worth US$180 million over six years with two thirds bought by the Netherlands Development Finance Company, Citibank and the one third by local banks and Citibank Bangladesh. Stories of clients’ suicides and over-indebtedness of farmers in Andhra Pradesh due to exorbitant interest rates charged by MFIs (Roodman, 2011, Roy, 2010, Hermes and Lensink, 2007) amplified media

\textsuperscript{328} The study of the discourse of these stories and reports is not focused on in this thesis due to the space limitation, but could constitute the basis of further publications

\textsuperscript{329} that put itself on the domestic stock exchange

\textsuperscript{330} CGAP assessed that to be financially self-sufficient, MFIs should generate an average ROA of 5.5 percent
coverage and prompted some within the international community to question microfinance’s effectiveness.

The mainstream argument emerging from both academic and media circles was that the sector’s crises across these contexts was caused by the simplification of MFI/borrower relationships due to the lack of commitment on both the supplier and beneficiary sides (M-CRIL, 2012) which resulted in over-lending and multiple borrowing. Relationships between the growth of microfinance and private participation were blamed for imposing corporate principles onto the microfinance sector (M-CRIL, 2012) but organisations like the World Bank and the UN were solicited to offer financial and political support to MFIs based on RESULTS’s market-based rhetoric (Haase, 2012, Bateman, 2010:17). As a response to the backlashes occurring within the sector, microfinance advocates, such as CGAP identified the necessity to re-assert microfinance’s legitimacy and popularity as a development intervention by focusing on developing some forms of social performance assessments (Lapenu and De Bruyne, 2008) and indicators in order to, as Haase argued, avoid a “meltdown” (2012:43).

Despite the fact that the media’s coverage intensified around clients’ abuses, much of the mainstream media continues to present simplistic and generally positive accounts of microfinance’s effects and potential for poverty reduction (Taylor, 2012, Taylor, 2011). The perspective taken avoids questioning the effectiveness of microfinance and rather focuses on ways to scale it up (Bisen and Wilson, 2012). For example, immediate reactions to the 2007 crisis focused on a few MFIs’ workings failures for their “irrational exuberance” (which can therefore be addressed through better regulation) and discounted the possible limits to the discourse of financial inclusion (Taylor, 2012, 2011).

The dominant discourse on microfinance remains focused on its commercialisation as a business and financial tool. A recent analysis of the media coverage of microfinance in the USA and in India (Bisen and Wilson, 2012) suggests that the Indian media tend to focus on operational issues of microfinance referring to it as an integral part of the banking system while in the US the media make generalisations about the innovative nature of the
microfinance industry. In line with this trend, an article published in the Guardian is a useful example that shows how microfinance is used by the media and private firms as a tool for presenting financial inclusion as the “global moral imperative” as described in Taylor (2012:601). The article by van Vark (2012) promotes the dominant discourse that microfinance is a potential commercial vehicle for conventional banks such as Barclays which could “bring in the fuller banking sector and technology from other sectors like mobile phone companies to complement it” (van Vark, 2012). For private sector firms microfinance represents a low-cost strategic move for expanding to developing countries. To microfinance advocates this approach presents microfinance as a “cross-cutting” industry (taking in matters of education, livelihoods, employment and gender) which can be shouldered by commercial actors motivated by profits to scale-up. Evidence presented in this thesis however suggests that there are considerable negative repercussions to the diversification of stakeholders and to the commercialisation of microfinance activities for social performance. Other consequences might be the “individualisation” and “depoliticisation” of the popular discourse on poverty issues (Brigg, 2001).

8.3.2.2 THE GROWTH OF INTERNET-BASED MICROFINANCE

The consecutive crises in the industry led to questioning the capacity of MFIs to deliver microfinance to the poor. This may partly explain why internet-based microfinance platforms have experienced a boom with an average 90percent annual growth from 2002-2003 and 2009-2010 (Barry, 2012, Heller and Badding, 2012, Ibrahim and Verliyantina, 2012). Social and private investors, who generally seek minimal risks and high (or at least secured) financial returns can maximise their returns by overseeing the delivery of services through direct, rapid and low-costs web-based services which contribute to making microfinance a highly profitable sector.

Generally web-based platforms (non-profits or for-profits) foster public and private investment in microfinance by offering them the opportunity to lend directly to individual borrowers, groups, micro-enterprises or MFIs. Kiva, a
non-profit organisation enables philanthropists from any country to browse households’ profiles, photos and descriptions of projects, and sponsor businesses based in developing countries. It is one of the only models that actively allows investors to choose recipient households (Barry, 2012:131). Although the personalisation process might be beneficial for lenders, Kiva’s capacity to provide sustainable sources of funds, which borrowers can rely on (regardless of loaners’ financial capacities and willingness variation), is questionable (Ibid). An alternative, GlobalGiving, approaches microfinance as an online non-profit business raising millions of dollars in donations ($6 million in since 2001) by allowing private donors to select borrowers and deliver loans to clients within 60 days.

A for-profit, MicroPlace, founded by a former Grameen employee, is a subsidiary of eBay and has become a global leader in microfinance. It embodies the US capital markets belief in the potential of microfinance to reduce poverty and perceives its growth as an investment opportunity. Lastly, Oikocredit, an issuer on MicroPlace, is a co-operative financial organisation offering loans, investment and technical support to more than 300 MFIs, co-operatives and SMEs in developing countries. As one of the few “ethical” investment funds, it encourages investors to serve the vulnerable poor with a more comprehensive approach to banking, and offers competitive rates (around 2percent) of return on investments and is held responsible for making interest and payments to investors (Dieckmann, 2007).

Some internet-based microfinance providers recognise the need and make effort, in partnership with NGOs, to implement social performance management and auditing systems, or some form of client protection scheme (Bédécarrats et al., 2012c, Sinha, 2008, Sinha, 2006). Despite this, the promotion of internet-based microfinance promotes the simplistic notion that poverty is a result of financial exclusion and that poverty alleviation can be a profitable process for commercial and social investors. Furthermore, given the commercial basis on which many internet-based providers operate it may be replicating or even accentuating problems that arise where NGOs compete between each other for financial support. Given the lack of overarching
regulatory body for internet-based providers it is not clear that these platforms have developed appropriate social performance tools that sufficiently incentivise NGOs to report accurately on their social and financial performance and therefore avoid *practice drift*. The trade-offs between social and commercial investors interests with client interests may therefore still be to the detriment of the clients. MFIs have less incentive to improve social performance because it, in the short-term, may yield low financial returns for investors.

8.3.2.3 COMMERCIAL MICROFINANCE: PRIVATE OR PUBLIC INTERESTS?

> "Without firm commercial foundations, microfinance cannot become the profitable business that it needs to be in order to survive. But without firm ethical principles and a commitment to benefit poor people’s lives first and foremost, it will no longer be microfinance"

Elizabeth Littlefield, CEO of CGAP cited in Roy (2010)

Access to sources of finance is crucial for MFIs to pursue their strategic development and manage the socio-financial trade-offs. Commercial influences can drive MFIs away from their social mission by influencing the management of socio-financial trade-offs (Servet, 2009, Christen and Drake, 2002, Woller, 2002b). Based on wider literature this sub-section shows how financial resources allocated to the sector encourage microfinance’s market-based commercial expansion more than its developmental effectiveness despite important consecutive crises and scandals in the industry.

Despite the global financial crisis, multiple national governments’ budgetary cut-offs and low growth rate in developed countries, private investors continue
to financially support microfinance. A recent CGAP publication (Lahaye et al., 2012) indicated that although there was a slowdown in the increase of the investment rate between 2009-2011 compared to 2007-2009\(^{331}\), investors committed to fund US$25 billion in 2011. The relatively slower pace at which investment in microfinance increased in 2009 relative to 2007 when new commitments to microfinance fell from 31 percent of total commitments to 7 percent may be due to the fact that most donor-funded projects reached an end in the past two years. Overall microfinance funding to European, Central Asian, Latin American and Caribbean countries (60 percent of total financial commitment for microfinance) (Lahaye et al., 2012) continue to grow in absolute terms (figure 8-4). Microfinance’s effectiveness as a commercial poverty reduction tool is however rarely questioned. What motivates investors?

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\(^{331}\) 17 percent annual growth from 2007 to 2009 and only 6 percent from 2009 to 2011
FIGURE 8-4: FUNDING COMMITMENT FOR MICROFINANCE BY REGION

Source: Lahaye et al. (2012)
Some authors argue that investments in microfinance are motivated by financial interests. According to Dieckmann (2007) public and private investors are motivated by knowing that in addition to the sector’s 15 years of uninterrupted growth, there is still a gap between the demand and the supply of microfinance which will need funds. In theory, the industry could expand until it reaches the estimated one billion of un-served poor households. The untapped client base constitutes an attractive return on investment prospect for private and social investors (Cull et al., 2009, Karnani, 2007, Affleck and Mellor, 2006, Wydick, 1999) as some of the world’s poorest countries still have relatively small market penetration rates (13 percent in Bangladesh, 3 percent in India, 2 percent in Brazil and Nigeria) (Dewan and Alamgir, 2009).

Disaggregating the composition of investment by source indicates that a growing commercial motivation drives the global industry (Bédécarrats et al., 2012b). Private funding represents the fastest growing source of capital for the last five years, now representing one-third of the total commitment to microfinance (US$8 billion). Although public funding represent two-thirds of total investments (US$17 billion) the annual growth for 2009 to 2011 was only 3 percent against 12 percent for private funding and 19 percent and 16 percent for public investment for 2007 (Lahaye et al., 2012). Private funders are increasingly attracted by financial intermediaries that can channel their investment to MFIs, government or apexes and other intermediaries in a rapid and cost-effective manner (Dieckmann, 2007). Development finance institutions allocate 63 percent of the direct funding to microfinance whilst other funding institutions prefer to fund governments (20 percent of funds) (Lahaye et al., 2012).

332 Private founders and donors include Citi Foundation, Cordaid, Ford Foundation, Bill and Melinda Gates Foundation, Grameen Foundation, HIVOS, ICCO, Mastercard Foundation, Michael and Susan Dell Foundation, Oxfam-Novib, Rabobank Foundation, Whole Planet Foundation, ING and others
Socially responsible investors, who mostly fund socially and environmentally worthy activities are also drawn by the double-bottom line of MFIs. With MFIs attempting to step away from governments’ and donors’ influence social investors (including foundations, NGOs, individual investors, firms, pension funds, some insurance companies, universities and religious institutions) increasingly invest in microfinance. The increase in investments from responsible investors was estimated at 27.3 percent between 2003 and 2006 (from 501 billion to one trillion Euros) in Europe and 13.6 percent (from US$639 billion to 2.3 trillion between 1995 and 2005) in the US (Dieckmann, 2007). The 2007 Deutsche Bank estimates that institutional and individual investment in microfinance will reach 20 billion US$ by 2015 (Dieckmann, 2007).

Commercial microfinance relies on passing on debts from international funders and investors motivated by commercial interests, to MFIs, governments, and other intermediaries to clients. Most financial contributors fund the refinancing of loan portfolios of MFIs (77 percent of the total funding) through debt instruments (55 percent of total commitments) whilst strengthening microfinance retailers’ capacity or supporting market infrastructure and regulatory environments receive 15 and 4 percent respectively of the total support (Lahaye et al., 2012). MFIs often maximise financial returns from delivering loans to the poor to attract more investors. Ghosh and Van Tassel (2011) argue that whilst “paying an external investor a higher return forces the lenders to raise their interest rates, it also can redirect funding from an inefficient lender to a more efficient lender”. The microfinance sector benefitted from the involvement of commercial banks (Roy, 2010) which either grant loans to the poor themselves as a niche product strategy or fund MFIs (like Citibank, Deutsche Bank or ICICI Bank) and help them secure portfolios (Dieckmann, 2007).

However, because MFIs have to prove their financial efficiency to access sources of finance, it adds extra financial pressures which can affect the ways in which they manage the socio-financial trade-offs. Pursuit of funding, access
to capital (such as grants or loans), or good international reputation drives extra attention towards MFI’s performance, which has long been put on financial performance. The global microfinance industry, as most commercial sectors, rewards good performance (either monetarily or in terms of reputation). This incentivises MFIs to focus on what investors measure and value (repayment rates and return on investments) (Ghosh and Tassel, 2011), and to adopt low-cost organisational structures and management systems. Evidence presented in this chapter suggests that this can negatively affect MFIs’ social performance, and ultimately their poorest clients (figure 8-5). Figure 8-5 summarises the implications of the commercial pressures stemming from the industry and does not intend to more broadly represent how reputational risks can influence MFIs’ structures and management.

A neoliberal discourse is commonly used to promote microfinance to corporate audiences using the success of MFIs themselves as an indicator of the success of the industry. Indicators include the number of poor clients, product-intake and uptake, loan outstanding (the cumulated amount of money borrowed by poor clients) and client retention ratio which supposedly indicate clients’ improvements, credit absorption capacity and growing demand for credit. Though financial and social reporting can help avoid inefficiencies and identify the unviability of programmes, it can also divert fieldworkers’ and managers’ efforts away from pursuing their social mission, to serving the financial performance for the growth of their MFI. Evidence outlined in this thesis shows how loan officers and clients use informal tactics to fulfil such requirements. Delivering financial services to the poor cost-efficiently is however different to actually reducing poverty. Similarly to Kanbur and Mukjerjee (2007) who emphasised that the paradox of poverty measurement is that “the death of a poor person reduces poverty”, high repayment rates and increasing in loan sizes do not always indicate positive outcomes for clients and can actually indicate clients’ long-term (over-) indebtedness as opposed to financial resilience. Using these indicators helps stakeholders maintain the hegemonic microfinance discourse through -perhaps unknowingly - misinforming the public about microfinance’s contested actual achievements.
Private and public push for the commercial rationale of microfinance

Dissemination of the discourse of microfinance as a poverty alleviation tool based on weak evidence of significant positive impacts on poverty

Diverse sources of financial support from private investors and commercial lending

Pressure on reputation with limited awareness of social performance and tools

MFIs standardise and scale-up their activities prioritising financial performance (cost-efficiency)

Rigid financial target-based management and low-costs operations

Competitive, cost-efficient MFIs

Low added social value for clients

HIGH FINANCIAL PERFORMANCE

LOW SOCIAL PERFORMANCE

Source: the author
8.4 Conclusion

This chapter showed how the gap between the expectations, theory, promoted image and experiences of microfinance can benefit a number of stakeholders encouraging and incentivising its commercial expansion and for whom the lack of field-grounded and strong substantial empirical evidence of positive impact does not seem to alter their confidence in the sector. Advocates of commercial microfinance pressure MFIs into using financial indicators to evidence their efficiency and get international recognition from investors whose interests are often to invest at low-risk for high financial returns. Converging interests of clients, credit officers and donors in meeting the financial targets create a silent practice drift exacerbating information asymmetries among them. The market-based approach to microfinance enables MFIs to perform well financially but often lack financial incentives to focus on social performance. The lack of accurate information about the social performance of MFIs transformed microfinance into what is termed here an iceberg industry. The metaphor of an iceberg is used to emphasis the contrast between what is and what is not known about the microfinance industry. What is not known represents a risk for the 3,652 MFIs composing the industry and the 205.3 million clients they serve (Reed and Maes, 2012).

Figure 8-6 illustrates the metaphor of an iceberg to represent how the visible part of the microfinance industry is only a small part of the actual industry, the tip of the iceberg. Above the waterline, positive discourses on women’s entrepreneurship, empowerment and poverty reduction publicised through the media affirm the neoliberal myth of microfinance. Under the water-line, the invisible part of the iceberg are the difficulties faced in developing accurate social impact assessments, the commercial and social trade-offs and the

333 The iceberg metaphor was used in social science to depict unseen social processes shadowed by only a small portion of the whole issue which is visible.
evidence of impact of microfinance on poor clients, the bulk of evidence on MFIs malpractices and abuses, institutional coercive culture, clients' disempowerment, over-indebtedness, multiple client-ship and debt-circles. Arguably, the intertwinement of commercial and political interests with this development initiative biases the published evidence of microfinance (Barry, 2012).
**Figure 8-6: The microfinance iceberg industry**

Visible

• Strong public relations and public figures supporting positive microfinance claims
• Cost-efficient poverty reduction initiative
• Good reported financial performance and outreach
  • Expanding commercial market

Invisible

• Weak evidence of sustainable positive financial and social impacts on poor clients (sections 2.2, 6.1 and 6.2)
• Poor screening and follow-up procedure (sections 6.1 and 6.2, chapter 7 and section 8.1)
• Little investment in productive IGA (chapter 6 and section 8.1)
• Women’s coping tactics and pressures (chapter 6)
• Over-indebtedness and multiple client-ship (sections 6.2 and 8.3)
• Loan officers and fieldworkers’ distress, misbehaviours and abuses (sections 6.1, 6.2 and chapter 7)
• Poor monitoring of social performance in the field (section 8.2)
• Discriminatory client selection practices: micro-collaterals (sections 6.2 and 8.2)

Source: the author
9. **Conclusion**

This research analysed the vulnerabilities of Bangladeshi rural livelihoods and investigated how microfinance affects them in a way that attempts to counter methodological weaknesses common to studies conducted in this sector. The findings add to the empirical evidence of earlier work by Rogaly (1996), Goetz and Sen Gupta (1996), Hulme and Mosley (1996), Montgomery et al. (1996), Rutherford (1999), Weber (2001), Fernando (2004a), Copestake (2005) and Collins et al. (2009). The conclusions drawn here return to the research objectives addressing them one at a time.

1- To examine the livelihoods, capitals and strategies of rural populations in Modhupur.

Chapter five conceptualised rural livelihoods as highly present-biased with vulnerabilities which constrain households from pursuing forward-looking livelihood strategies. It showed how vulnerabilities narrow households’ vision of their livelihood strategies by absorbing their energy and savings, and pushing them to use short-term coping tactics (Matul, 2009, Barrientos, 2007) (section 5.2.2). The capacity of households to cope with shocks and events and mitigate risks associated with them depend on their initial capital endowment (Hulme and Mosley, 1996). Rural households manage low and irregular earnings to meet basic daily needs (rudiments) to face life-cycle events (the predictables) and cope with the unexpected (Collins et al., 2009, Rutherford, 1999). Resource adaptation and mobilisation tactics available to poor rural households are limited and can have long-term repercussions on their well-being (section 5.2.3). This research demonstrated the importance of owning productive material assets (particularly livestock and land) and having access to social capital to build financial resilience.

2- To understand rural households’ perceptions of microfinance and MFIs
Chapter six examined diverse client experiences of microfinance in rural Bangladesh. Quantitative data analysis showed that there is no systematic relationship between MFI client-ship and livelihood improvements (section 6.1.1). The number of loans per household, the length of client ship and the total amount borrowed have no systematic positive implications on households’ well-being and longer-term financial resilience. This is explained by the fact that generally the decision, control and management of microfinance loans are taken by males (brothers, husbands, father-in-law) (Ali and Hatta, 2012, Swain and Wallentin, 2009, Garikipati, 2008, Holvoet, 2006, Ahmed et al., 2001), who often fail to invest in income generating activities (Roodman, 2011, Roodman and Morduch, 2009, Goetz, 2001) (section 6.1.2).

To persuade vulnerable households to take more and larger loans and ensure kisti repayment, fieldworkers use informal malpractices (mis-targeting, loan hard selling, micro-collateral, abusive behaviour, section 6.2.1) which often have negative long-term repercussions for households, especially the vulnerable poor (coping tactics, over-indebtedness and multiple client-ship, debt circle, distress and community marginalisation, section 6.2.2) (Schicks, 2013b, Schicks, 2013a). Some of the malpractices reported by clients and former-clients echo with reported MFIs’ practices after the Andhra Pradesh crisis (Ghate, 2007, Kumar, 2012).

3- To identify the organisational structures and systems associated with social performance in rural Bangladesh.

It is important to recognise the impact that standardised credit-based products cannot have on the poorest. There are practical implications to the arguments presented in this thesis for MFIs’ social performance. Earlier chapters provided evidence that microfinance can go wrong for the poorest (chapter six), analysed how and why this can be the case (chapters seven and eight) and finds evidence that commercial microfinance can benefit the near-poor (section 6.1) whilst failing to benefit the poorest. For a minority of households for whom solely financial constraints stop them from investing in an income generating activity, and for whom other types of constraints can be overcome, a minimalist approach to microfinance can be suitable (Bhatt and Tang, 2001). The majority
of vulnerable rural households, however, experience multiple shocks which hamper their effort to pursue a sustainable livelihood strategy with microfinance which can exacerbate existing vulnerabilities (patronage, gender, and debts) (section 8.2). Given this, this thesis argues for a more welfarist approach to microfinance when targeting the poorest, whilst questioning its financially sustainability. Building on ethnographies of ASA and PDBF, and in line with other studies, I argue that for those households, the positive impact of microfinance could be improved if MFIs could afford to provide more flexible financial products through officers that are appropriately incentivised (Collins et al., 2009, Rutherford, 2009b, Matin et al., 2002).

The pursuit of growth or profit influences the management of socio-financial trade-offs. The larger MFIs become, the more clients they reach, and the more financially efficient and profitable they can be. In ASA the pursuit of financial performance negatively affect social achievements and cause a practice drift in the field. Given that ASA policy-makers develop organisational structures, management systems (target-based management, staff incentives and penalties) to avoid corruption, fraud and achieve high financial performance, fieldworkers have little capacity and incentive to ensure the achievement of the MFI’s social mission. Some authors recognise those risks of dis-alignment between mission and practice due to commercial or financial pressures (Assefa et al., 2013, Cull et al., 2007, Fernando, 2003, Woller, 2002a, 2002b). Loan officers are encouraged to systematically pressure and discipline borrowers using informal malpractices. When it becomes systematic MFIs are no longer social development actors but partially exploitative large-scale businesses operating at a micro-level.

The analysis of PDBF’s achievements questions the achievability and the viability of high social and financial performance. Its scale of operations and reliance on external funding allows it to be flexible and to pursue social performance through costly management practices (adequate clients selection and follow-up procedures, regular field staff training and meetings and systematic clients training (on income generating activities) and consultative decision-making process) and organisational structures (two employee-based
bodies). These, according to the analysis presented in chapters seven and eight generate high social performance outcomes. It helps clients to start an income generating activity with their loans and better manage it which lower the risks of them using coping tactics to repay their *kisti* and is therefore more likely to lead to financial resilience. This could be a desirable microfinance model if the financial limitations and risks (for the MFI) were not so high.

Microfinance’s outcomes heavily depend on social and interpersonal skills of fieldworkers, more so than in most businesses or financial institutions. The role human resources play in the management of social performance is critical. MFIs often choose to delegate the management of the socio-financial trade-offs to loan officers because it can be more cost-effective than implementing complex branch structures to manage it. Employees, however, generally look to maximise their own welfare sometimes to the detriment of their MFIs’ mission, unless incentives and/or rules encourage otherwise (Aubert et al., 2009, Baktiar, 2008). Ensuring that employees aim to achieve the social mission of microfinance is challenging and unless the importance of social performance is explicitly recognised by MFIs’ policy-makers it can be difficult to achieve. Staff recruitment procedures and training can, to some extent, influence staff well-being which, it is argued, is crucial for MFI’s social and financial performances (Labie et al., 2009, Dixon and Siwale, 2007). Limited financial resources often push senior managers to neglect staff training by reducing the number of training days, or by finding structures that allow the reduction of training costs (ASA’s “*one-teaches-one*” system for example) which can lead to loan officers targeting clients regardless of their capacity or intention to invest in an income generating activity. Managing fieldworkers via adequate organisational structures are crucial to enforce do-no-harm standards (Nahapiet and Ghoshal, 1998). Like reported in Bhusal (2010) MFIs officers’ values and behaviour in large-scale MFIs in Bangladesh transformed from those of “good social mediators” into those of repayment collectors pursuing personal interests through coercive discipline, public humiliation, fear, asset confiscation, conflict and micro-collateral.
In line with other studies, the evidence gathered indicates that for poor borrowers to make productive use of their loans and generate sufficient benefits to improve their well-being and repay loans, they need more than just rigid credit (Dichter, 1996:262). When designed according to context-specific needs (depending on the geographical location, level of education, living conditions, livelihoods, season etc.) training can encourage and help clients to invest and run an income generating activity in a manner which ensures regular earnings on one side and guarantee their long-term repayment capacities on the other. Evidence collected for example indicates that flexible *kisti*, more time before the first *kisti* repayment, and formal procedure to help clients quit their MFI\(^{334}\) would better suit the financial needs and capacities of the poor and mitigate the risks of temporary default and the destructive tactics which lead to impoverishment and long-term indebtedness. The body of evidence examined also questions the feasibility and affordability of such a *welfarist* approach to microfinance under competitive conditions (high costs client and staff training and sophisticated management information systems incur\(^{335}\)).

4- To relate findings to wider literature and debates regarding microfinance’s management

The “halo” of the microfinance label protects MFIs from being held accountable for their social impacts and results. Apart from RCTs, statistical

\(^{334}\) There is evidence that clients who want to stop borrowing often face pressures from loan officers who pressure them (over-lending, cutting savings, and intimidation) to remain active borrowers.

\(^{335}\) Some studies found that the provision of non-financial services besides financial products has a positive impact on repayments (Godquin, 2004), suggesting that integrated approach to microfinance can enhance MFIs’ social and financial performances (Godquin, 2004; Dichter, 1996).
studies mostly fall short of providing robust evidence; they may prove a negative or positive correlation but say nothing about causation. RCTs show little evidence of positive impact of microfinance on livelihood dimensions of the poor (Roodman, 2011, Roodman and Morduch, 2009). The community study and MFIs analysis contribute to addressing a knowledge gap in understanding how and where things can go wrong.

The move towards the commercialisation of global microfinance serves multiple interests. Since 2009, the on-going global financial crisis has given further reasons for the international community and scholars to question the added social value of microfinance (Lapenu and De Bruyne, 2008, Doligez and Lapenu, 2006, Jacquand, 2005, Copestake, 2004, Pawlak and Matul, 2003) and reconsider common assumptions regarding financial risk management. One major lesson to be learnt is that credit-supported businesses, activities and consumption are risky as we also know from experiences in the industrialised world. Given this, and arguments made here regarding the debt circles of the poorest, it could be argued that the commercial development of microfinance could lead to a similar crisis at a micro-level for the economies of the poor. To stop that from happening, interest caps and the rehabilitation of state-owned banks for development are being considered by the governments of Benin, Bolivia, Nicaragua and Ecuador (Bédécarrats et al., 2012b, Bédécarrats et al., 2012a).

Development partners and private investors often use financial performance and financial indicators as performance evaluation criteria (Bhatt and Tang, 2001). Relying only on such indicators replicate the errors made by the financial sector in relying on indicators that did not reflect the underlying risk and stability of investment and the impacts of finance on the real economy. The analysis of the global microfinance industry and the ethnographies of the two MFIs help understand why stakeholders within the microfinance industry need to re-assess MFIs’ activities and achievements. The regular demand for financial information during the last decades may however have over-emphasised the need for MFIs’ standardisation at low-costs to such an extent that social performance has suffered. The focus for evaluating microfinance
has long been placed on MFIs’ outreach to poor clients because of their tendency to exclude the poorest (Hulme, 2000). Social performance and impact assessments, it was thought, could help improve MFI’s performance.

Does microfinance work globally? Answers to this question require reconsidering what the ultimate objective is and whether it refers to the achievement of its financial mission or social objectives. The industry successfully extended banking and financial services to the rural poor. The rural poor in Bangladesh have an almost routine access to microfinance services supplied by MFIs more than they have access to basic public services (health, security, education, electricity, water, roads, information and so on) (Rutherford, 2009b). MFIs’ strong institutional capacities and outreach to the poor can partly indicate an element of success for the industry. Nevertheless, when the social mission of microfinance is considered, its poverty alleviation impact and the success of the industry are less evident. Different households use microfinance differently according to numerous internal (education, household income earners, age, experience, gender, skills, household’s structure, capital endowment) (Hulme and Mosley, 1996) and external factors (vulnerabilities to shocks and events, market opportunities) which are a means to achieve their purpose. Given that there are different types of rural livelihoods and different financial needs (Matin et al., 2002, Carney, 1999), rural households are characterised by heterogeneous financial behaviours and capacities to adapt to microfinance services and products. All clients cannot benefit from access to financial products in the same way. It is the responsibility of MFIs to ensure that the social costs of microfinance are limited (or ideally non-existent). The author concludes that microfinance can increase better-off poor households’ capacity and opportunities to cope with shocks and mitigate risks. Careful considerations that go beyond commercial and business-like assessments need to be made.

5- To use empirical findings to promote improved systems and structures for MFIs to achieve better social performance.
The social impacts of microfinance largely depend on the capacity of MFIs to select households that have capacities to invest and to run an income generating activity sustainably whilst timely repaying their loans without having to compromise their well-being. Beyond financial products, MFIs’ management systems, organisational structures and working cultures are determinants for overcoming information asymmetries, and selecting, training, and following-up on clients’ income generating activities to help them build financial resilience (without increasing their debt). In practice, in some commercial MFIs the pursuit of cost efficiency can create tensions with these social objectives (Copestake, 2007).

Therefore, the author argues that instead of giving loans to the poorest that are often used for consumption, MFIs by indirectly supporting the development of income generating activities and the development of resilient businesses and local sources of employment in rural areas could justifiably shift their focus towards the working near-poor and indirectly contribute to improving the well-being of the poorest. Stable and reliable wages could have a better impact on the poor well-being than loans (as it is delivered at present).

What’s wrong with microfinance? Firstly, microfinance is a liability-based intervention delivered by institutions that face dilemmas of scale and flexibility which can threaten its relevance for poverty reduction (Armendáriz and Morduch, 2005, de Aghion and Morduch, 2005). When the theories of microfinance meet the complexities of rural livelihoods, the gaps identified can generate significant social costs. Reductionist theories about the financial needs of the poor to improve their livelihoods ignore multiple causes and consequences of poverty and vulnerabilities which are at least as important as the lack of financial capital. MFI loans, like informal lending, often create strong financial liabilities amongst the poor that can foster coercion instead of solidarity and empowerment. Using clients’ social capital might be useful for MFIs to reduce transactional costs and overcome information asymmetries (financial performance), but can negatively affect their social performance.
Secondly, the evidence presented highlights how microfinance is often used to cover consumption needs rather than support businesses, “consumption smoothing” emerges as the key argument for microfinance (Hulme and Mosley, 1996). Whilst microfinance can help the working poor mitigate risks and vulnerabilities, it can also encourage poorer and more vulnerable households to use loans as a substitute of income (when they are not working, disabled or ill) for other consumption purposes (dowry, food, house, land or debt). Loan dependency for consumption purposes (fuelled by over-indebtedness and multiple client-ship) increases the vulnerability of clients and can lead to high risk livelihoods strategies.

Thirdly, the commercialisation of the industry provided strong incentives for MFIs to consider their financial needs over clients’ interests because market forces reward financial performance and efficiency but, without effective social performance frameworks, do not always encourage practices that benefit poorer clients (Doligez and Lapenu, 2006, de Aghion and Morduch, 2005). A market-based approach to microfinance can endorse minimal staff training, weak client screening procedures, hard-selling, a lack of productive investments, abusive behaviours, forced repayment, discriminatory procedures, multiple client-ship and over-indebtedness if they contribute to improving MFIs’ financial performance. Gaps between the public discourse on microfinance and actual outcomes emerge in the field under the form of a practice drift. When the effectiveness of commercial MFIs in reducing households’ vulnerability and poverty is not ensured, the relevance of MFIs as development actors can be questioned.

Fourthly, whilst most impact studies over-emphasise the positive or negative social impact of microfinance on the poor, only a few intend to investigate the dynamics between institutions, clients, and impact. The author believes that it is worth going beyond assessment to understand social impact in order to improve it. By raising these issues, I hope that this work inspires others to study microfinance as a vision, a tool, a discourse, and as a global iceberg industry.
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## 11. APPENDIXES

### A: Status of MDGs in Bangladesh

<table>
<thead>
<tr>
<th>Goal 1: Eradicate Extreme Poverty and Hunger</th>
<th>Base year 1990-95</th>
<th>2000-02</th>
<th>Current 2005-10</th>
<th>Target 2015</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>TARGET 1: Halve by 2015 the proportion of people living below the poverty line</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty headcount ration (2010)</td>
<td>59</td>
<td>50</td>
<td>31.5</td>
<td>29</td>
<td>On Track</td>
</tr>
<tr>
<td>Poverty Gap Ratio (2010)</td>
<td>17</td>
<td>13</td>
<td>6.5</td>
<td>8</td>
<td>Goal Met</td>
</tr>
<tr>
<td><strong>TARGET 2: Halve by 2015 the proportion of people who suffer from hunger</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Prevalence of child malnutrition (% of children &lt;5)</td>
<td>68</td>
<td>51</td>
<td>45</td>
<td>33</td>
<td>Off Track</td>
</tr>
<tr>
<td>Population below minimum level of dietary energy consumption</td>
<td>28</td>
<td>…</td>
<td>20</td>
<td>14</td>
<td>On Track</td>
</tr>
<tr>
<td><strong>Goal 2: Achieve Universal Primary Education</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net enrolment ratio in primary education</td>
<td>61</td>
<td>83</td>
<td>91</td>
<td>100</td>
<td>On Track</td>
</tr>
<tr>
<td>Percentage of cohort reaching grade 5 (%)</td>
<td>43</td>
<td>…</td>
<td>55</td>
<td>100</td>
<td>Needs attention</td>
</tr>
<tr>
<td>Adult literacy rate</td>
<td>37</td>
<td>39</td>
<td>58</td>
<td>--</td>
<td>Needs attention</td>
</tr>
<tr>
<td><strong>Goal 3: Promote Gender Equality and Empower Women</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ratio of girls to boys in primary and secondary education (%)</td>
<td>77</td>
<td>104</td>
<td>106</td>
<td>100</td>
<td>Achieved</td>
</tr>
<tr>
<td>Ratio of girls to boys in tertiary education (%)</td>
<td>37</td>
<td>32</td>
<td>32</td>
<td>100</td>
<td>Needs attention</td>
</tr>
<tr>
<td>Ratio of literate females to males (% of 20-24)</td>
<td>65</td>
<td>77</td>
<td>85</td>
<td>100</td>
<td>Needs attention</td>
</tr>
<tr>
<td>Share of women employed in the non-agricultural sector (%)</td>
<td>19</td>
<td>…</td>
<td>25</td>
<td>50</td>
<td>Needs attention</td>
</tr>
<tr>
<td>Goal 4: Reduce child mortality</td>
<td>Goal will probably be met</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>--------------------------------</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TARGET 5: REDUCE BY TWO THIRDS BY 2015 THE UNDER 5 MORTALITY RATE</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Under 5 Mortality Rate (per 1000)</td>
<td>146</td>
<td>82</td>
<td>54</td>
<td>50</td>
<td>On Track</td>
</tr>
<tr>
<td>Infant Mortality Rate (per 1000 live births)</td>
<td>92</td>
<td>56</td>
<td>41</td>
<td>31</td>
<td>On Track</td>
</tr>
<tr>
<td>Immunization, measles (% of children &lt;12 mth)</td>
<td>54</td>
<td>69</td>
<td>82</td>
<td>100</td>
<td>On Track</td>
</tr>
<tr>
<td><strong>Goal 5: Improve Maternal Health</strong></td>
<td>Goal will probably be met</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TARGET 6: REDUCE BY THREE QUARTERS, BY 2015, THE MATERNAL MORTALITY RATIO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Maternal Mortality Ratio (per 100,000 live births)</td>
<td>574</td>
<td>400</td>
<td>194</td>
<td>143</td>
<td>On Track</td>
</tr>
<tr>
<td>Births attended by skilled health staff (% of total)</td>
<td>5</td>
<td>12</td>
<td>24</td>
<td>50</td>
<td>Needs attention</td>
</tr>
<tr>
<td><strong>Goal 6: Combat HIV/AIDS, malaria and other diseases</strong></td>
<td>Goal will probably be met</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TARGET 7: HAVE HALTED BY 2015 AND BEGIN TO reverse the spread of HIV/AIDS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contraceptive Prevalence Rate (% of women 15-49)</td>
<td>40</td>
<td>…</td>
<td>60</td>
<td>72</td>
<td>Needs attention</td>
</tr>
<tr>
<td><strong>TARGET 8: HAVE HALTED BY 2015 AND BEGIN TO reverse the incidence of malaria and other major diseases</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deaths of malaria per 100,000 population</td>
<td>1.4</td>
<td>…</td>
<td>0.4</td>
<td>0.0</td>
<td>Needs attention</td>
</tr>
<tr>
<td>Incidence of tuberculosis (100,000 people)</td>
<td>264</td>
<td>233</td>
<td>225</td>
<td>Halving</td>
<td>Needs attention</td>
</tr>
<tr>
<td>Tuberculosis cases detected under DOTS (%)</td>
<td>21</td>
<td>34</td>
<td>74</td>
<td>75</td>
<td>On Track</td>
</tr>
<tr>
<td><strong>Goal 7: Ensure Environmental Sustainability</strong></td>
<td>Goal will probably be met</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>TARGET 9: INTEGRATE THE PRINCIPLES OF SUSTAINABLE DEVELOPMENT INTO COUNTRY POLICIES AND REVERSE THE LOSS OF ENVIRONMENTAL RESOURCES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Productive forest area (%) (70% tree density)</td>
<td>9</td>
<td>10</td>
<td>13</td>
<td>20</td>
<td>Needs Attention</td>
</tr>
<tr>
<td>Consumption of ozone depleting CFCs (per capita tonnes)</td>
<td>195.5</td>
<td>0.0</td>
<td>128</td>
<td>0</td>
<td>Needs Attention</td>
</tr>
<tr>
<td>Proportion of terrestrial and marine areas protected</td>
<td>1.6</td>
<td>--</td>
<td>1.7/0.5</td>
<td>5.0</td>
<td>Needs attention</td>
</tr>
<tr>
<td>CO2 emissions (tonnes per capita)</td>
<td>0.1</td>
<td>0.2</td>
<td>0.3</td>
<td>…</td>
<td>Needs attention</td>
</tr>
</tbody>
</table>
**TARGET 10: HALVE, BY 2015, THE PROPORTION OF PEOPLE WITHOUT SUSTAINABLE ACCESS TO SAFE DRINKING WATER AND SANITATION**

| Proportion of urban population with access to safe drinking water | 98.8 | 82.0 | 99.9 | 100 | On Track |
| Proportion of rural population with access to safe drinking water | 93.1 | 172.0 | 79 | 96.5 | Needs attention |
| Proportion of urban population with access to sanitary latrines | 56.2 | 56.0 | 88.0 | 100 | On Track |
| Proportion of rural population with access to sanitary latrines | 15.3 | 29.0 | 85.0 | 90 | On Track |

**TARGET 11: BY 2020, HAVE ACHIEVE A SIGNIFICANT IMPROVEMENT IN THE LIVES OF AT LEAST 100 MILLION SLUM DWELLERS**

| Proportion of households with access to secure tenure | … | … | 36.4 | … | Insuffi. data |

Goal 8: Develop a Global Partnership for Development

Goal will probably be met

**TARGET 12: DEVELOP AND IMPLEMENT STRATEGIES FOR DECENT AND PRODUCTIVE WORK FOR YOUTH**

| Youth unemployment rate (% of total labour force 15-24) | 2.9 | 8.0 | 13.4 | … | Needs attention |

**TARGET 13: MAKE AVAILABLE THE BENEFITS OF NEW TECHNOLOGIES, ESPECIALLY INFORMATION AND COMMUNICATION**

| Fixed line and mobile telephones (% people) | 0.2 | 1.3 | 13.6 | 50 | On Track |
| Internet users (% people) | … | 0.2 | 3.4 | … | Insuffi. data |

Source: UNDP (2009), HIES (2010)
B: The fieldwork’s timeframe
C: THE COMMUNITY SURVEY QUESTIONNAIRE AND CODING SHEET

Research Information Sheet for questionnaire Participants

Thank you for taking time to read this information sheet.

You are being invited to take part in a research study about whether Microfinance Institutions are able to achieve their social objectives. The purpose of this research is to examine interactions between microfinance institutions and the wider rural community of Modhupur as a case study for my doctoral research project. The main researcher, Mathilde Maitrot is working towards the achievement of a PhD in Development Studies at the University of Manchester in the United Kingdom. Before you take part in the research please read the following information carefully and do not hesitate to ask questions to the researcher if anything is not clear or if you would like additional information. Take time to decide whether or not you wish to participate.

Who will conduct the research? Mathilde Maitrot, PhD Candidate, University of Manchester

What is the aim of the research?

1- To examine the livelihoods assets and strategies of rural people in Bangladesh
2- To understand people’s perspectives towards microfinance and MFIs (from both client and non-client perspectives).
3- To identify the organisational structures and systems associated with social performance in a specific rural context.
4- To use empirical findings to promote better systems and structures for MFIs to achieve better social performance.

Why have I been chosen? You are invited to participate in a questionnaire because your knowledge and experience are valuable to the research project.
What would I be asked to do if I took part? You will be asked to complete a brief questionnaire with the researcher and her assistant, which investigates your livelihood. The process shall not exceed 1 hour.

What happens to the information collected? The information will be compared with information collected from other sources and methods. It will constitute the basis of the doctoral research project and for the researcher’s PhD thesis or other academic journal article. Quotations could be included in these documents but participants’ name and identity will not be disclosed in the thesis. Participants will be referred to in general terms, profession or official titles.

**How is confidentiality maintained?** The researcher and research assistant guarantee the confidentiality of information disclosed. Information will be anonymized as soon as possible and participants’ names and identity will be coded and stored separately on a password protected files. A careful coding and indexing system is used so that it is impossible to link information to its source. Audio recordings will be destructed as soon as relevant information has been transcribed.

**What happens if I do not want to take part or if I change my mind?** It is up to you to decide whether or not to take part. If you do decide to take part you will be given this information sheet to keep and be asked to sign a consent form. If you decide to participate you will still be free to stop the process at any time without giving a justification and without any loss or harm to yourself.

**Will I be paid for participating in the research?** There is no payment for participating in the research.
Contact for further information: PhD Researcher: Mathilde Maitrot, Telephone (Bangladesh): 0175 389 45 45, Email address: mathilde.maitrot@postgrad.manchester.ac.uk
Research Assistant: Kankhon Arafat Yaseer
If you would like to make a complaint or ask any question about the research, please contact the Head of the Research Office, Christie Building, University of Manchester, Oxford Road, Manchester M13 9PL

Informed Consent Form, if you agree to participate in the questionnaire please sign this form:

I confirm that I have read the attached information sheet on the above project and have had the opportunity to consider the information and ask questions and had these answered satisfactorily.

I understand that my participation in the study is voluntary and that I am free to withdraw at any time without giving a reason and without any detriment to myself

I agree to any data collected being shared with other researchers who are working on the same project.

I agree to the use of anonymous quotes

I agree that any data collected may be used for teaching purposes or in research publications

I agree to take part in the above project.
<table>
<thead>
<tr>
<th>Signature or initials of participant</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Name of person taking consent</td>
<td>Date</td>
</tr>
</tbody>
</table>
Identification

Date of Interview: [ ] [ ] [ ] [ ]

Name of the Respondent & ID: ..........
Name of the Household Head & ID: ............
Village: ____________________________ Interview code: [ ] [ ] [ ] [ ]

<table>
<thead>
<tr>
<th>Religion</th>
<th>Code</th>
</tr>
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<tbody>
<tr>
<td>Muslim</td>
<td>1</td>
</tr>
<tr>
<td>Hindu</td>
<td>2</td>
</tr>
<tr>
<td>Christian</td>
<td>3</td>
</tr>
<tr>
<td>Buddhist</td>
<td>4</td>
</tr>
<tr>
<td>Other[specify]</td>
<td>5</td>
</tr>
</tbody>
</table>

Household ID Number: [ ] [ ] [ ] [ ]
<table>
<thead>
<tr>
<th>I.D. Code</th>
<th>Name</th>
<th>Sex (M:1 F:2)</th>
<th>Relation to HHH (code 1)</th>
<th>Age</th>
<th>Marital Status (code 2)</th>
<th>Lit. (code 3)</th>
<th>Education (Highest class passed) (code 4)</th>
<th>Currently attending school? Y:1; N:2 N/A: 99</th>
<th>Reasons for not attending school (code 5)</th>
<th>Main occupation (code 6)</th>
<th>If no work, what is the main reason? (code 7)</th>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2. Physical assets

<table>
<thead>
<tr>
<th>Item Name</th>
<th>Asset ownership (code 8)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bicycle</td>
<td></td>
</tr>
<tr>
<td>2. Motorcycle</td>
<td></td>
</tr>
<tr>
<td>3. Rickshaw (For Own Use)</td>
<td></td>
</tr>
<tr>
<td>4. Car / microbus</td>
<td></td>
</tr>
<tr>
<td>5. Tractor</td>
<td></td>
</tr>
<tr>
<td>6. CNG</td>
<td></td>
</tr>
<tr>
<td>7. Other</td>
<td></td>
</tr>
<tr>
<td>8. Electricity</td>
<td></td>
</tr>
<tr>
<td>9. Water point</td>
<td></td>
</tr>
<tr>
<td>10. Gas</td>
<td></td>
</tr>
<tr>
<td>11. Mobile phone</td>
<td></td>
</tr>
<tr>
<td>12. Other</td>
<td></td>
</tr>
<tr>
<td>13. Radio</td>
<td></td>
</tr>
<tr>
<td>14. TV (B/W)</td>
<td></td>
</tr>
<tr>
<td>15. TV color</td>
<td></td>
</tr>
<tr>
<td>16. CD player</td>
<td></td>
</tr>
<tr>
<td>17. Refrigerator</td>
<td></td>
</tr>
<tr>
<td>18. Electric/gas cooker</td>
<td></td>
</tr>
<tr>
<td>19. Standing fan</td>
<td></td>
</tr>
<tr>
<td>20. Ceiling fan</td>
<td></td>
</tr>
<tr>
<td>21. This house</td>
<td></td>
</tr>
<tr>
<td>22. Other house or accommodation</td>
<td></td>
</tr>
<tr>
<td>23. Land (in acres)</td>
<td></td>
</tr>
<tr>
<td>24. Pond</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Housing condition (pers.obs.)</td>
</tr>
<tr>
<td>---</td>
<td>-------------------------------</td>
</tr>
<tr>
<td>1</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td></td>
</tr>
</tbody>
</table>
3. Social capital, financial capital and human capital

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Percept.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>How would you describe the village as compared to other surrounding villages? (code 13)</td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>How many weddings have you been invited to in the past 6 months</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>I generally trust my neighbours (code 10)</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Have you been victim of assault or have you been cheated in the last year?</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>I could rely on my neighbour for valuables (code 10)</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>What is your main financial concern at the moment? (code 12)</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>In case of urgent financial need, how would mobilise the money? (code</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Compared to other households in the village, how would you describe your household? (code 9)</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>I share food with people of the village (non-relatives) very often. (code</td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>In general, do you feel like you have enough food for you and your family?</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Does your consumption of food vary according to seasonality? Yes :1</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>How do you consider you food habits and consumption as compared to other villagers? (Code 13)</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Are you/have you been member of MFI organisations? (Code 14)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>If not, why?</td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>In the last 5 years, would you say that you situation has been better (1/2) same (3/4) worse (5/6)?</td>
<td></td>
</tr>
</tbody>
</table>

Improving? Stable? Declining?

1 2 3 4 5 6
Personal summary observations on questionnaires

Time now:

How easy was it to establish rapport?  1  2  3  4  5

Were there any problems, interruption or distraction?

Did the interview schedule work well?

Any particular reaction from the participant regarding specific themes of the questionnaire?

Improvement for next time?

Participant availability for:   IDI?   FGD ?

Communication of research findings? YES / NO
<table>
<thead>
<tr>
<th>Code 1- relationship with HHH</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Household head</td>
<td>1</td>
<td>Married</td>
</tr>
<tr>
<td>Husband/wife</td>
<td>2</td>
<td>Widow/widower</td>
</tr>
<tr>
<td>Son/daughter</td>
<td>3</td>
<td>Divorced</td>
</tr>
<tr>
<td>Brother/sister</td>
<td>4</td>
<td>Separated/Deserted</td>
</tr>
<tr>
<td>Father/mother</td>
<td>5</td>
<td></td>
</tr>
<tr>
<td>Father-in-law/mother-in-law</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td>Daughter/son-in-law</td>
<td>7</td>
<td></td>
</tr>
<tr>
<td>Brother/Sister-in-law</td>
<td>8</td>
<td></td>
</tr>
<tr>
<td>grand son/daughter</td>
<td>9</td>
<td></td>
</tr>
<tr>
<td>Niece/Nephew</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>Other relative</td>
<td>11</td>
<td></td>
</tr>
<tr>
<td>Lodging master</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Permanent servant</td>
<td>13</td>
<td></td>
</tr>
<tr>
<td>Other Non relative</td>
<td>14</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Code 2- Marital status code</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Unmarried (never married)</td>
<td>1</td>
<td>BA/BSC honors</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Code 3 - Literacy</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cannot read and write</td>
<td>1</td>
<td>Can not afford tuition fees</td>
</tr>
<tr>
<td>Can sign only</td>
<td>2</td>
<td>Not able to buy school dress</td>
</tr>
<tr>
<td>Can read only</td>
<td>3</td>
<td>Cannot bear expenses</td>
</tr>
<tr>
<td>Can read and write</td>
<td>4</td>
<td>Disabled</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Code 4- Education</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Appeared in the SSC/Dakhil exam</td>
<td>55</td>
<td>Needed for own farming</td>
</tr>
<tr>
<td>Completed SSC/Dakhil</td>
<td>10</td>
<td>Worked elsewhere to earn</td>
</tr>
<tr>
<td>HSC/Alim Candidate</td>
<td>11</td>
<td>No school/school is too far away</td>
</tr>
<tr>
<td>Completed Higher Secondary</td>
<td>12</td>
<td>Didn’t want to send girls to coeducation school</td>
</tr>
<tr>
<td>BA/BSC/Fajil Candidate</td>
<td>13</td>
<td>Did not want to go to school</td>
</tr>
<tr>
<td>BA/BSC/Fajil pass</td>
<td>14</td>
<td>Did not get admitted</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Code 5-Reasons for stopping going or not going to school</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Can not afford tuition fees</td>
<td>1</td>
</tr>
<tr>
<td>Not able to buy school dress</td>
<td>2</td>
</tr>
<tr>
<td>Cannot bear expenses</td>
<td>3</td>
</tr>
<tr>
<td>Disabled</td>
<td>4</td>
</tr>
<tr>
<td>Needed for own farming</td>
<td>5</td>
</tr>
<tr>
<td>Worked elsewhere to earn</td>
<td>6</td>
</tr>
<tr>
<td>No school/school is too far away</td>
<td>7</td>
</tr>
<tr>
<td>Didn’t want to send girls to coeducation school</td>
<td>8</td>
</tr>
<tr>
<td>Did not want to go to school</td>
<td>9</td>
</tr>
<tr>
<td>Did not get admitted</td>
<td>10</td>
</tr>
<tr>
<td>Got married</td>
<td>11</td>
</tr>
</tbody>
</table>
### School Environment
- Not safe: 12
- Boys tease girls/ don’t like girls: 13
- Follow other trainings: 14
- Other: 15

### Code 6-Occupation Wage lab. 6.1

<table>
<thead>
<tr>
<th>Code 6.1</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agricultural day labour</td>
</tr>
<tr>
<td>2</td>
<td>Factory worker</td>
</tr>
<tr>
<td>3</td>
<td>Transport worker</td>
</tr>
<tr>
<td>4</td>
<td>Construction labour</td>
</tr>
<tr>
<td>5</td>
<td>Earth work labour</td>
</tr>
<tr>
<td>6</td>
<td>Sweeper</td>
</tr>
<tr>
<td>7</td>
<td>Other wage labour</td>
</tr>
</tbody>
</table>

#### Self-employed Low Qual--

<table>
<thead>
<tr>
<th>Code 6.2</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Rickshaw/van pulling/CNG driver</td>
</tr>
<tr>
<td>2</td>
<td>Tailor/seamstress</td>
</tr>
<tr>
<td>3</td>
<td>Potter</td>
</tr>
<tr>
<td>4</td>
<td>Blacksmith</td>
</tr>
<tr>
<td>5</td>
<td>Hair cutter</td>
</tr>
<tr>
<td>6</td>
<td>Cobbler</td>
</tr>
<tr>
<td>7</td>
<td>Clothes washer</td>
</tr>
<tr>
<td>8</td>
<td>Repairman</td>
</tr>
<tr>
<td>9</td>
<td>Beggar</td>
</tr>
<tr>
<td>10</td>
<td>Mechanic</td>
</tr>
<tr>
<td>11</td>
<td>Carpenter/Mason</td>
</tr>
<tr>
<td>12</td>
<td>Plumber/Electrician</td>
</tr>
<tr>
<td>13</td>
<td>Midwife</td>
</tr>
<tr>
<td>14</td>
<td>Other Self-employed</td>
</tr>
<tr>
<td>15</td>
<td>Farming/ livestock production</td>
</tr>
<tr>
<td>16</td>
<td>Working own farm</td>
</tr>
<tr>
<td>17</td>
<td>Share cropper/tenant</td>
</tr>
<tr>
<td>18</td>
<td>Raising fish/ fish pond</td>
</tr>
<tr>
<td>19</td>
<td>Raising livestock</td>
</tr>
<tr>
<td>20</td>
<td>Other self-employed farming</td>
</tr>
</tbody>
</table>

### Salaried worker –

<table>
<thead>
<tr>
<th>Code 6.5</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Government/pastoral</td>
</tr>
<tr>
<td>2</td>
<td>Private enterprise</td>
</tr>
<tr>
<td>3</td>
<td>Maid servant</td>
</tr>
<tr>
<td>4</td>
<td>Teacher (prim/sec school)</td>
</tr>
<tr>
<td>5</td>
<td>Teacher (college/university)</td>
</tr>
<tr>
<td>6</td>
<td>NGO worker</td>
</tr>
<tr>
<td>7</td>
<td>Other salaried worker</td>
</tr>
</tbody>
</table>

### Production –

<table>
<thead>
<tr>
<th>Code 6.6</th>
<th>Occupation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Food Processing</td>
</tr>
<tr>
<td>2</td>
<td>Small industry</td>
</tr>
</tbody>
</table>
Handicrafts 3
Other production 4
Self-employed High Qual–Contractor 6.7 1
Doctor/Engineer 2
Herbal doctor/Kabiraj 3
Lawyer/deed writer/Moktar 4
House tutor 5
Religious leader (Imam/ Muazzem /Khadem/Purohit) 6
Other 7
Volunteering 6.8

Code 7- Reasons for not working
Sick 1
Vacation 2
Hartal 3
Taking care of household matters 4
Taking care of family members 5
Does not work but looks for a job 6
Only studied (student) 7
Too young (not student) 8
Too old/retired 9
Home/house work (incl. servant) 10
Disabled/invalid 11
Don’t need to 12
Just moved in the village 13
Other (specify) 14

Code 8- Asset ownership
Owned by the household 1
Shared for free 2
Rented property of someone else 3
Co-owned with non-members of HH 4
None 5
Other specify 6

Code 9 – Perception scale
The richest 1
Amongst the richest 2
A little richer than average 3
Amongst the average 4
A little below average 5
Amongst the poorest 6
The poorest 7
No opinion 8

Code 10- Likert scale
Strongly agree 1
Partially agree 2
Neutral 3
Partially disagree 4
Strongly disagree 5
No opinion 6
### Code 11 - Source of cash

<table>
<thead>
<tr>
<th>Source of Cash</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Own cash</td>
<td>1</td>
</tr>
<tr>
<td>Selling assets</td>
<td>2</td>
</tr>
<tr>
<td>Extra work</td>
<td>3</td>
</tr>
<tr>
<td>Loan from NGO</td>
<td>4</td>
</tr>
<tr>
<td>Loan from a Bank</td>
<td>5</td>
</tr>
<tr>
<td>Loan from MFI</td>
<td>6</td>
</tr>
<tr>
<td>Borrowing from family</td>
<td>7</td>
</tr>
<tr>
<td>Borrowing from neighbours</td>
<td>8</td>
</tr>
<tr>
<td>Other specify</td>
<td>9</td>
</tr>
</tbody>
</table>

### Code 12 - Financial concern

<table>
<thead>
<tr>
<th>Financial Concern</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>1</td>
</tr>
<tr>
<td>Education</td>
<td>2</td>
</tr>
<tr>
<td>Dowry</td>
<td>3</td>
</tr>
<tr>
<td>Medical care</td>
<td>4</td>
</tr>
<tr>
<td>Migration</td>
<td>5</td>
</tr>
<tr>
<td>Asset acquisition</td>
<td>6</td>
</tr>
</tbody>
</table>

### Code 13 - Perception scale

<table>
<thead>
<tr>
<th>Perception Scale</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Amongst the best</td>
<td>1</td>
</tr>
<tr>
<td>A little better than average</td>
<td>2</td>
</tr>
<tr>
<td>Amongst the average</td>
<td>3</td>
</tr>
<tr>
<td>A little below average</td>
<td>4</td>
</tr>
<tr>
<td>Amongst the worst</td>
<td>5</td>
</tr>
<tr>
<td>No opinion</td>
<td>6</td>
</tr>
</tbody>
</table>

### Code 14 - MFI membership:

<table>
<thead>
<tr>
<th>MFI membership</th>
<th>Code</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current-client</td>
<td>1</td>
</tr>
<tr>
<td>Former-client</td>
<td>2</td>
</tr>
<tr>
<td>Non-client</td>
<td>3</td>
</tr>
</tbody>
</table>
## D: Villages’ Employment Variables - Detailed

<table>
<thead>
<tr>
<th>Income earner/Household per village</th>
<th>169/129</th>
<th>130/92</th>
<th>179/147</th>
<th>202/122</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage Labour</td>
<td>27.8%</td>
<td>24.6%</td>
<td>21.2%</td>
<td>6%</td>
</tr>
<tr>
<td></td>
<td>47</td>
<td>32</td>
<td>38</td>
<td>12</td>
</tr>
<tr>
<td>Agricultural day labour</td>
<td>27.6%</td>
<td>12.5%</td>
<td>63%</td>
<td>16.6%</td>
</tr>
<tr>
<td></td>
<td>13</td>
<td>4</td>
<td>24</td>
<td>2</td>
</tr>
<tr>
<td>Factory worker</td>
<td>15%</td>
<td>3%</td>
<td>5.2%</td>
<td>25%</td>
</tr>
<tr>
<td></td>
<td>7</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Transport worker</td>
<td>13%</td>
<td>6.1%</td>
<td>10.5%</td>
<td>NIL</td>
</tr>
<tr>
<td></td>
<td>6</td>
<td>2</td>
<td>4</td>
<td>NIL</td>
</tr>
<tr>
<td>Construction labour</td>
<td>35%</td>
<td>50%</td>
<td>2.7%</td>
<td>8.3%</td>
</tr>
<tr>
<td></td>
<td>16</td>
<td>16</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Earth work labour</td>
<td>6.3%</td>
<td>25%</td>
<td>18.5%</td>
<td>41.6%</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>8</td>
<td>7</td>
<td>5</td>
</tr>
<tr>
<td>Sweeper</td>
<td>4.2%</td>
<td>3%</td>
<td>NIL</td>
<td>8.3%</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Self-employed Low Qualification</td>
<td>26%</td>
<td>24.6%</td>
<td>24.6%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Qualification</td>
<td>44</td>
<td>32</td>
<td>44</td>
<td>24</td>
</tr>
<tr>
<td>Rickshaw/ van puller</td>
<td>60%</td>
<td>60%</td>
<td>40%</td>
<td>16.6%</td>
</tr>
<tr>
<td></td>
<td>25</td>
<td>19</td>
<td>17</td>
<td>4</td>
</tr>
<tr>
<td>Tailor/seamstress</td>
<td>11%</td>
<td>NIL</td>
<td>13.7%</td>
<td>16.6%</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>NIL</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>Potter</td>
<td>6%</td>
<td>NIL</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>NIL</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Blacksmith</td>
<td>6%</td>
<td>NIL</td>
<td>4%</td>
<td>NIL</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>NIL</td>
<td>2</td>
<td>NIL</td>
</tr>
<tr>
<td>Hair cutter</td>
<td>NIL</td>
<td>NIL</td>
<td>8%</td>
<td>NIL</td>
</tr>
<tr>
<td></td>
<td>NIL</td>
<td>NIL</td>
<td>4</td>
<td>NIL</td>
</tr>
<tr>
<td>Cobbler</td>
<td>NIL</td>
<td>NIL</td>
<td>2%</td>
<td>4%</td>
</tr>
<tr>
<td>Profession</td>
<td>NIL</td>
<td>NIL</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>------------------------------------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Clothes washer</td>
<td>NIL</td>
<td>3%</td>
<td>NIL</td>
<td>4%</td>
</tr>
<tr>
<td>Repairman</td>
<td>6%</td>
<td>6%</td>
<td>2%</td>
<td>13%</td>
</tr>
<tr>
<td>Beggar</td>
<td>3%</td>
<td>NIL</td>
<td>7%</td>
<td>NIL</td>
</tr>
<tr>
<td>Mechanic</td>
<td>NIL</td>
<td>NIL</td>
<td>4%</td>
<td>16.4%</td>
</tr>
<tr>
<td>Carpenter/Mason</td>
<td>4%</td>
<td>3%</td>
<td>11.3%</td>
<td>4%</td>
</tr>
<tr>
<td>Plumber/Electrician</td>
<td>NIL</td>
<td>3%</td>
<td>NIL</td>
<td>NIL</td>
</tr>
<tr>
<td>Painter</td>
<td>2%</td>
<td>22%</td>
<td>5%</td>
<td>13%</td>
</tr>
<tr>
<td>Confectionary</td>
<td>NIL</td>
<td>3%</td>
<td>NIL</td>
<td>NIL</td>
</tr>
<tr>
<td>Farming and Livestock</td>
<td>20.7%</td>
<td>29.2%</td>
<td>26.8%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Working own farm</td>
<td>58%</td>
<td>74%</td>
<td>77%</td>
<td>50%</td>
</tr>
<tr>
<td>Share cropper/tenant</td>
<td>26%</td>
<td>15.8%</td>
<td>8.3%</td>
<td>25%</td>
</tr>
<tr>
<td>Raising fish/fish pond</td>
<td>2.8%</td>
<td>8%</td>
<td>4%</td>
<td>NIL</td>
</tr>
<tr>
<td>Raising livestock</td>
<td>12.5%</td>
<td>2%</td>
<td>10.6%</td>
<td>25%</td>
</tr>
<tr>
<td>Trade</td>
<td>6.5%</td>
<td>11.5%</td>
<td>6.7%</td>
<td>7%</td>
</tr>
<tr>
<td>Category</td>
<td>11</td>
<td>15</td>
<td>12</td>
<td>14</td>
</tr>
<tr>
<td>--------------------------------------------</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Small trader (&lt;5000 Tk)</td>
<td>45%</td>
<td>33%</td>
<td>16.2%</td>
<td>50%</td>
</tr>
<tr>
<td>Medium trader (5000-10000Tk)</td>
<td>9%</td>
<td>47%</td>
<td>8.3%</td>
<td>43%</td>
</tr>
<tr>
<td>Large trader (&gt;1,000,000 Tk)</td>
<td>36%</td>
<td>20%</td>
<td>41.7%</td>
<td>7%</td>
</tr>
<tr>
<td>Fish Trader</td>
<td>9%</td>
<td>NIL</td>
<td>33.5%</td>
<td>NIL</td>
</tr>
<tr>
<td>Salaried worker</td>
<td>8.3%</td>
<td>5.4%</td>
<td>12.3%</td>
<td>47%</td>
</tr>
<tr>
<td>Government</td>
<td>14.2%</td>
<td>14.3%</td>
<td>9%</td>
<td>3%</td>
</tr>
<tr>
<td>Private enterprise</td>
<td>14.2%</td>
<td>28.5%</td>
<td>64.5%</td>
<td>80%</td>
</tr>
<tr>
<td>Maid servant</td>
<td>36%</td>
<td>57.2%</td>
<td>NIL</td>
<td>3.1%</td>
</tr>
<tr>
<td>Teacher (prim/sec school)</td>
<td>7%</td>
<td>NIL</td>
<td>NIL</td>
<td>4.2%</td>
</tr>
<tr>
<td>Teacher (college/university)</td>
<td>7%</td>
<td>NIL</td>
<td>14%</td>
<td>3.2%</td>
</tr>
<tr>
<td>NGO worker</td>
<td>7%</td>
<td>NIL</td>
<td>4.5%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Bus Driver</td>
<td>14.5%</td>
<td>NIL</td>
<td>NIL</td>
<td>NIL</td>
</tr>
<tr>
<td>Cricket Player</td>
<td>NIL</td>
<td>NIL</td>
<td>NIL</td>
<td>1%</td>
</tr>
</tbody>
</table>

336 Monthly sales in taka
<table>
<thead>
<tr>
<th></th>
<th>10%</th>
<th>2.3%</th>
<th>5%</th>
<th>12.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Production</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>17</td>
<td>3</td>
<td>9</td>
<td>25</td>
</tr>
<tr>
<td><strong>Food Processing</strong></td>
<td>11.7</td>
<td>33.3</td>
<td>22.2</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td><strong>Small industry</strong></td>
<td>65%</td>
<td>66.6</td>
<td>55.5</td>
<td>88</td>
</tr>
<tr>
<td></td>
<td>11</td>
<td>2</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td><strong>Handicrafts</strong></td>
<td>23.3</td>
<td>NIL</td>
<td>22.2</td>
<td>NIL</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>NIL</td>
<td>2</td>
<td>NIL</td>
</tr>
<tr>
<td><strong>Self-employed High</strong></td>
<td>0.5%</td>
<td>1.5%</td>
<td>3.3%</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Qualification</strong></td>
<td>1</td>
<td>2</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td><strong>Contractor</strong></td>
<td>NIL</td>
<td>NIL</td>
<td>16.6</td>
<td>NIL</td>
</tr>
<tr>
<td></td>
<td>NIL</td>
<td>NIL</td>
<td>1</td>
<td>NIL</td>
</tr>
<tr>
<td><strong>Doctor/Engineer</strong></td>
<td>NIL</td>
<td>NIL</td>
<td>16.6</td>
<td>33.3</td>
</tr>
<tr>
<td></td>
<td>NIL</td>
<td>NIL</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Herbal doctor/Kabiraj</strong></td>
<td>100%</td>
<td>NIL</td>
<td>50%</td>
<td>16.6%</td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>NIL</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td><strong>Religious leader</strong></td>
<td>NIL</td>
<td>100%</td>
<td>16.6</td>
<td>50%</td>
</tr>
<tr>
<td>(Imam/Muazzem/Khadem/Purohit)</td>
<td></td>
<td></td>
<td></td>
<td>431</td>
</tr>
</tbody>
</table>
E: Example of Interview Transcript: 03IDIFC009

The extract below is a short example of the in-depth interview transcript with a former-client of microfinance (Respondent) and her husband (Respondent 2).

Interviewer: From which institution did you borrow your very first loan?
Respondent: I loaned it from ASA.
Interviewer: How did you go to ASA?
Respondent: I put my house on mortgage.
Interviewer: Why ASA when there were so many other institutions?
Respondent: I sold off some land, and bought some new land, I started putting up a house there, and I was short of money. So I needed to go to ASA. Then we went to ASA and borrowed a loan of Tk.5000 (Tk.9000 says another person in the background).
Interviewer: But why did you approach ASA?
Respondent: Because of financial crisis.
Interviewer: But why did you choose ASA over Grameen or BRAC?
Respondent: Because our backs were on the wall and due to unavailability of loan from other sources.
Interviewer: Why were the other sources unavailable?
Respondent: Because we could not manage admittance due to lack of space.
Interviewer: How many years ago did this happen?
Respondent: 3 years ago.
Interviewer: For how long have you been borrowing? Or have you paid it off?
Respondent: I have repaid most of it but just a small portion is still outstanding. The amount is around Tk.12,000.
Interviewer: How much did you loan the last time? And when was that?
Respondent: It has been around 2 and a half months and the amount was Tk.6,000.

Interviewer: What did you do with the money?

Respondent: I spent it on renovating the house.
<table>
<thead>
<tr>
<th>Code</th>
<th>Type of qualitative tool</th>
<th>Date</th>
<th>Studied village</th>
<th>Place</th>
</tr>
</thead>
<tbody>
<tr>
<td>01IDIFC004</td>
<td>In-depth interview</td>
<td>20/02/2011</td>
<td>Phamillia</td>
<td>At the respondent’s house- Molida with her husband Zoshim</td>
</tr>
<tr>
<td>01IDIFC005</td>
<td>In-depth interview</td>
<td>21/02/2011</td>
<td>Phamillia</td>
<td>At the respondent’s house - Shufiya Khatun with her husband Abdul Baker</td>
</tr>
<tr>
<td>01IDIFC006</td>
<td>In-depth interview</td>
<td>21/02/2011</td>
<td>Phamillia</td>
<td>At the respondent’s house - Parveen</td>
</tr>
<tr>
<td>01FGCCSD04</td>
<td>Focus group with stable and declining current-clients</td>
<td>22/02/2011</td>
<td>Phamillia</td>
<td>Farida Anuwara Fateema Taslima Asma Saleha Molida Begum</td>
</tr>
<tr>
<td>01FGCC103</td>
<td>Focus group with improving current-clients</td>
<td>23/02/2011</td>
<td>Phamillia</td>
<td>Momeena Akter Sabera Khatun Saleha Md. Riyaz Uddin Sharifa Bugum Rashida</td>
</tr>
<tr>
<td>02IDIFC001</td>
<td>In-depth interview</td>
<td>17/02/2011</td>
<td>Rickshapoor</td>
<td>At the respondent’s house - Aklima</td>
</tr>
<tr>
<td>02IDIFC002</td>
<td>In-depth interview</td>
<td>17/02/2011</td>
<td>Rickshapoor</td>
<td>At the respondent’s house – Hazera</td>
</tr>
<tr>
<td>02IDIFC003</td>
<td>In-depth interview</td>
<td>18/02/2011</td>
<td>Rickshapoor</td>
<td>At the respondent’s house - Monika</td>
</tr>
<tr>
<td>Code</td>
<td>Type</td>
<td>Date</td>
<td>Location</td>
<td>Participants</td>
</tr>
<tr>
<td>--------------</td>
<td>-----------------------</td>
<td>------------</td>
<td>-----------------------------------------</td>
<td>------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>02FGCCSD03</td>
<td>Focus group</td>
<td>19/02/2011</td>
<td>Rickshapoor Nazma</td>
<td>Jomila, Monowara Begum, Jomila, Shundori, Malika</td>
</tr>
<tr>
<td>02FGCCI01</td>
<td>Focus group</td>
<td>19/02/2011</td>
<td>Rickshapoor Khodeza</td>
<td>Ayesha, Khadeeza, Moksed Ali (Khadeeza’s husband), Kobita, Firoza</td>
</tr>
<tr>
<td>03IDIFC007</td>
<td>In-depth interview</td>
<td>27/02/2011</td>
<td>Bhaatbag S</td>
<td>At the respondent’s house - abera Khatun</td>
</tr>
<tr>
<td>03IDIFC008</td>
<td>In-depth interview</td>
<td>28/02/2011</td>
<td>Bhaatbag</td>
<td>At the respondent’s house - Kohinur and her husband Johir Ali</td>
</tr>
<tr>
<td>03IDIFC009</td>
<td>In-depth interview</td>
<td>27/02/2011</td>
<td>Bhaatbag</td>
<td>At the respondent’s house - Shahana and her husband Saifiul Islam Nowser</td>
</tr>
<tr>
<td>03FGCCSD05</td>
<td>Focus group</td>
<td>01/03/2011</td>
<td>Bhaatbag</td>
<td>Nazma, Jomila, Sabina Begum, Firoja</td>
</tr>
<tr>
<td>03FGCCI06</td>
<td>Focus group</td>
<td>01/03/2011</td>
<td>Bhaatbag</td>
<td>Ayesha</td>
</tr>
</tbody>
</table>
| with improving current-clients | Muneera  
|                             | Laila Begum  
|                             | Shameema |
Thank you for taking time to read this information sheet.

**What would I be asked to do if I took part?** You will be asked to take part by filling up this questionnaire designed by the researcher and her assistant. It involves answering questions about your work experience of microfinance. The process will exceed 30 minutes.

**What happens to the information collected?** Information collected remains confidential at all times. The researcher and research assistant guarantee that information will be anonymised and participants identity will be coded and stored separately to ensure confidentiality. It is impossible to link information to the source of information. The information will be compared with information collected from other sources and methods to constitute the basis of my doctoral research project, PhD thesis or other academic journal article. Participants will be referred to in general terms, profession or official titles.

**What happens if I do not want to take part or if I change my mind?** You are always free to stop the process without giving a justification and without any loss or harm to yourself. It is up to you to decide whether or not to take part. If you take part you will be given this sheet and be asked to sign the consent form.

Signature or initials of participant:
Consent for participants to be interviewed:
I _______________________________ have checked that the respondent:

- agrees to be interviewed by the researcher
- agrees be available for a further interview if required
- understands names and identifying details (e.g. village name) will be changed and access to transcripts will be restricted to the researcher and supervisor to protect his/her identity from being made public
- understands that participation is voluntary and that he/she can choose not to participate in part or all of the project, and can withdraw at any stage of the project without being disadvantaged in any way

Signed (interviewer):
Date:

The name of my institution:

My position in the organisation:

My age: ......

How long have you worked for this institution? ....

How many clients have you got?

How many villages do you work in?

Usually, at what time do you start working in the morning?

Generally at what time do you finish?

How often do you have staff meetings?
<table>
<thead>
<tr>
<th>Questions and possible answers</th>
<th>Strongly disagree</th>
<th>Slightly disagree</th>
<th>Slightly agree</th>
<th>Strongly agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Decision - making processes are characterised by directives, orders and instructions that come down from higher levels</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 Decision - making processes are characterised by decisions being made close to the point of action, by the people on the spot</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3 Decision - making processes are characterised by the use of consensus decision-making methods to gain acceptance and support for decisions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4 The Office treats me like “hands” whose time and energy are at the disposal of persons at higher levels in the hierarchy</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5 The Office treats me like “employees” whose time and energy are purchased through a contract, with rights and obligations on both sides</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6 The Office treats me like “associates” who are mutually committed to the achievement of a common purpose.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7 The Office treats me like “family” or “friends” who like being together and who try to support one another.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>People get fired very often in the organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>People get angry often in the organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>People argue a lot within the organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Relationships between work colleagues are generally competitive.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Relationships between work groups or departments are generally characterised by indifference.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Relationships between work groups or departments are generally co-operative when they need to achieve common goals</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Relationships between work groups or departments are generally friendly and my colleagues are helpful</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>I am expected to recruit a lot of new clients</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>I am expected to recruit poor client</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>I am expected to help my client get better life</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>I am expected to make sure clients repay their loans every week</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>I am motivated towards my work because we get rewards and bonuses if we</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>I am motivated towards my work because if I do not get good result I get punished or excluded</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>I am motivated towards my work because I personally feel very loyal to my boss and the organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>I am motivated towards my work because I know I can get a promotion within the organisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>I am motivated towards my work because I want to achieve better results than my colleagues.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>I am motivated towards my work because I want to help my clients improving their situation</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>25</td>
<td>I feel emotionally attached to my organisation.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>I feel pressure concerning my personal performances</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>I feel like our branch is in competition with other branches</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>28</td>
<td>I observe that credit is helping people to get out of poverty</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>I am convinced that my manager is committed to help people</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>I would quit my job if I would get another proposition</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>31</td>
<td>I feel like I have too much work to do</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>I am stressed about being fired</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>I talk about my problems with my work colleagues</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>34</td>
<td>I trust my colleagues</td>
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<td>35</td>
<td>I am satisfied with my salary</td>
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<td>36</td>
<td>My clients are poor</td>
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<td>37</td>
<td>My clients are struggling hard to survive.</td>
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<td>38</td>
<td>I do not tolerate any delay in the repayment</td>
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<td>39</td>
<td>When my clients cannot repay, I get into trouble</td>
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<tr>
<td>40</td>
<td>My clients are lazy</td>
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<td>41</td>
<td>My clients lie to me very often</td>
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<td>42</td>
<td>I feel our client do not understand the concept of credit</td>
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<td>43</td>
<td>I think our organisation should train our clients</td>
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<td>44</td>
<td>Most of the time my clients cannot repay</td>
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<td>45</td>
<td>I argue with my clients often</td>
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<td>46</td>
<td>I had to threaten some of my clients to make them repay</td>
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<td>47</td>
<td>I find it difficult to collect the money from borrowers</td>
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<td>48</td>
<td>I wish I could decide more about how to do my job</td>
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<td>49</td>
<td>I sometimes explain my clients how to manage their money</td>
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<td>50</td>
<td>I sometimes pay my clients’ instalments</td>
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<td>51</td>
<td>I fear punishment from my boss</td>
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<td>52</td>
<td>I would prefer more freedom and autonomy in my job</td>
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<td>53</td>
<td>I get financial rewards if my personal performances are good</td>
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<td>54</td>
<td>I am stressed about my personal performances</td>
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<td>55</td>
<td>I feel like things should change in my organisation</td>
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<tr>
<td>56</td>
<td>I think I do not have enough knowledge and competence to do my job properly</td>
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<td>57</td>
<td>Employees receive adequate coaching and supervision</td>
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<td>58</td>
<td>We have the proper equipment and technology to do our jobs well</td>
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<td>59</td>
<td>We have enough time to do our jobs well.</td>
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<td>60</td>
<td>Management and employees talk openly about work issues</td>
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<tr>
<td></td>
<td>People working in my organisation are stressed</td>
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<tr>
<td>61</td>
<td>My boss treats me with respect</td>
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<td>62</td>
<td>My boss understand the difficulties of my job</td>
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<td>63</td>
<td>My institution has a strong commitment to quality</td>
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<td>64</td>
<td>I feel good doing my job</td>
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<td>65</td>
<td>I think my manager does not understand my clients’ problems</td>
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<td>66</td>
<td>I wish my manager would listen to me more</td>
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<td>67</td>
<td>My boss understands when, sometimes, I cannot get all the repayment back</td>
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<tr>
<td>68</td>
<td>I feel that small loan are helping people getting richer</td>
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<tr>
<td>69</td>
<td>When my clients complain are not happy I report it to my boss</td>
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</tbody>
</table>
1- When you cannot get repayment from some clients, what is the reaction from your colleagues, from your institution, and what could be the consequences for you?

2- Why do you think some people can benefit from microfinance and some cannot?

3- Write 1 positive aspect about your institution (one thing you like about it) and 1 negative aspect (one thing you dislike).
H: Credit officers questionnaire in Bangla

আপনার মূলাবান সময় দেওয়ার জন্য আপনাকে ধন্যবাদ। যদি আমি এই সমীক্ষায় অংশগ্রহণ করি তবে আমাকে কি করতে হবে? আপনার এই গবেষণা পত্রটি পড়ে পূরণ করতে হবে। এটি পূরোপূরি দৃঢ় রূপ বিষয়ে আপনার কর্ম অভিজ্ঞতা সম্পর্কিত। এটি পূরণ করতে আপনার সর্বোচ্চ আধারনা লাগতে পারে।

সংগ্রহীত তথ্য কি করা হবে?

সংগ্রহীত সকল তথ্যই গোপনীয়। গবেষক সংগ্রহীত তথ্যের গোপনীয়তার দায় বহন করবেন। কারণ পক্ষেই তথ্যের সূচি সম্পন্ন নয়। তথ্যগুলো অন্যান্য সংগ্রহীত তথ্যের সাথে তুলনামূলক আলোচনায় গুরুত্বপূর্ণ ভূমিকা রাখবে, বিভিন্ন লেখা ও দ্বারিতে এই সকল তথ্য ব্যবহৃত হবে, কোথায় তথ্যের উল্লেখ থাকবে উৎসের নয়।

আমি অংশগ্রহণ করতে নাচাইলে কি হবে? এটা সম্পূর্ণ আপনার ব্যক্তিগত ব্যাপার, অংশগ্রহণ করা বা না করা আপনার ব্যক্তিগত ব্যাপার। যদি আপনি সম্মত হন তবে আপনাকে একটি পূর্ণীয় কাগজ দেওয়া হবে।

অংশগ্রহকারীর সম্মান

নিশ্চিত করা গেছে যে, অংশগ্রহকারী:
- গবেষকের সাক্ষাৎকার দিতে সম্মত
- ভবিষ্যতে দরকার হলে পুনঃসাক্ষাৎকার দিতে সম্মত
- তার সকল গোপনীয়তা রক্ষাকার হবে এবং গবেষক ও তার গবেষণা প্রধান ছাড়া কেউই তার পরিচয় জানবেন
- জ্যাব্যবহার যে এই অংশগ্রহণ পূর্ববর্তী যেহেতু এবং সাক্ষাৎ এবং যে কোন সময় পরিভাষা যোগ্য। সাক্ষাৎকারপ্রণালীর স্বাধীনতা সর্বসম্মত প্রবন্ধ যোগ্য।

স্বাক্ষর

(গবেষক)
ভারিষ্ঠ:

প্রতিষ্ঠানের নাম:

ঃঃঃঃঃ:

ব্যবসাতে:

এই প্রতিষ্ঠানের আপনি কত বছর থাকতে অঞ্চল আছেন?....

আপনার সদস্য সংখ্যা কত?
আপনি কতগুলো প্রামে কাজ করেন?
সাধারণত, সকালে কখন আপনি কাজ শুরু করেন?
আর কখন শেষ করেন?
আপনাদের স্ট্যাফে মিটিং কতদিন পরদিন হয়?
<table>
<thead>
<tr>
<th>প্রশ্ন ও সংবাদ উত্তর</th>
<th>সম্পূর্ণ অমত</th>
<th>খাবিকটা অমত</th>
<th>খাবিকটা একমত</th>
<th>সম্পূর্ণ একমত</th>
</tr>
</thead>
<tbody>
<tr>
<td>প্রতিষ্ঠানের নাম:</td>
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<td>কেলিগদের মধ্য প্রতিযোগিতা মূলক সম্পর্ক বিদ্যমান</td>
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<td>13</td>
<td>ডিপার্টমেন্ট ও কর্মকর্তাদের মধ্যে পথপাত্র দৃষ্টিতে বলে কিছু নেই</td>
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<td>14</td>
<td>ডিপার্টমেন্ট ও কর্মকর্তাদের মধ্যে সহযোগিতা মূলক সম্পর্ক বিদ্যমান</td>
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<td>ডিপার্টমেন্ট ও কর্মকর্তাদের মধ্যে শক্তিশালী সম্পর্ক বিদ্যমান</td>
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<td>16</td>
<td>আমার কাজ হল যত বেশি সময় সদয় যোগাড় করা</td>
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<td>আমার কাজ হল যত বেশি সময় শ্রেষ্ঠ সদয় যোগাড় করা</td>
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<td>18</td>
<td>আমার, আমার সদস্যদের জীবন উন্নয়নে সহায় করার কথা</td>
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<td>আমার কাজ হল প্রতি সময়ের করিয়ে নিম্ন করা</td>
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<td>আমি আমার কাজের প্রতি একনিষ্ঠ কেননা ফলস্বরূপে আমি বোল্স পাব</td>
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<td>21</td>
<td>আমি আমার কাজের প্রতি একনিষ্ঠ কেননা ফলস্বরূপে আমার বাদ পড়ার বা শাস্ত্র সমৃদ্ধি হওয়ার সময় না হয়</td>
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<td>আমি আমার কাজের প্রতি একনিষ্ঠ কেননা আমি আমার কাজের প্রতি দায়বদ্ধ</td>
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<td>আমি আমার কাজের প্রতি একনিষ্ঠ কেননা ফলস্বরূপে আমার প্রমোশন আটকে থেকে পারে</td>
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<td>আমি আমার কাজের প্রতি একনিষ্ঠ কেননা আমি আমার সহকর্মীদের চেয়ে ভাল করতে চাই</td>
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<td>নম্বর</td>
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<td>আমি আমার কাজের প্রতি একরিষ্ট করেন। আমি চাই আমার সদস্যদের জীবনের উন্নতি হয়ে ওঠে।</td>
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<td>আমি প্রতিষ্ঠানের কাছে মানানিক ভাবে দায়বদ্ধ।</td>
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<td>27</td>
<td>আমি আমার ব্যক্তিগত পারফরমেন্স নিয়ে খুবি চিন্তিত।</td>
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<td>আমার মনে হয় আমাদের শাখাটি অন্যান্য শাখার সাথে প্রতিযোগীতার বিষয়।</td>
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<td>আমি দেখতে পাচ্ছি আপনাদের দায়িত্বের মাধ্যমে আমাদের গুরুত্ব বৃদ্ধি পেয়ে আসছে।</td>
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<td>আমার মনে হয় ম্যানেজার তার কাজের প্রতি সচেতন।</td>
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<td>31</td>
<td>আরেকটা অবাক পেল এই চাকরি আমি ছেড়ে দেব।</td>
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<td>32</td>
<td>আমার মনে হয় আমার কাজের পরিমাণ অনেক বেশি।</td>
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<td>আমি সবসময় চাকরি বাচার চেষ্টা করি।</td>
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<td>আমি আমার সহকর্মীদের সাথে আমার সমস্যা শেয়ার করি।</td>
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<td>আমি আমার সহকর্মীদের বিশ্বাস করি।</td>
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<td>36</td>
<td>আমি আমার বেতনে সন্তুষ্ট।</td>
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<td>37</td>
<td>আমার সদস্য গরিব।</td>
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<tr>
<td>38</td>
<td>আমার সদস্যদের দিন আমি দিন থাকি।</td>
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<td>No.</td>
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<td>39</td>
<td>আমি কিছুতে কোন পেরি সহ্য করতে পারি না।</td>
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<td>40</td>
<td>আমার সদস্যরা টাকা দাতে নামখালে আমি বিপদে পড়ি না।</td>
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<td>আমার সদস্যরা অলস</td>
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<td>43</td>
<td>আমার মনে হয় সদস্যরা ভুঁত বিশেষ ব্যক্তির ধরণ রাখে না।</td>
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<td>44</td>
<td>আমার মনে হয় প্রতিষ্ঠানের সদস্যদের টেনিস খেলা উচিত</td>
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<td>45</td>
<td>বেশিরভাগ সময় সদস্যরা টাকা ফেরত দিতে পারে না</td>
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<td>46</td>
<td>সদস্যদের সাথে প্রায়শই আমার বাক্স বিভিন্ন হয়</td>
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<td>47</td>
<td>মাঝে মাঝে টাকা আদায়ের জন্য তাদের হটফিতে দিতে হয়</td>
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<td>48</td>
<td>সদস্যদের কাছে টাকা সংগ্রহ করা খুবি কষ্টিগ্রস্থ কাজ</td>
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<td>49</td>
<td>আমি যদি আমার কাজের বিষয়ে আরো ব্যস্ততা হতে পারতাম</td>
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<td>আমি মাঝে মাঝে সদস্যদের টাকা ধরতের বিষয়ে পরামর্শ দেই</td>
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<td>আমাকে মাঝে মাঝে সদস্যদের কিছু দিয়ে দিতে হয়</td>
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<td>52</td>
<td>আমি আমার বসের শাহিদের ডাচ পাই</td>
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<td>53</td>
<td>আমার কাজের ব্যাপারে আমি আরো যথার্থতা আশা করি</td>
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<td>54</td>
<td>আমার ব্যক্তিগত পরিকল্পনা ভাল হলে অর্থ উপহার পাই</td>
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<td>55</td>
<td>আমি আমার ব্যক্তিগত পরিকল্পনা-এর বিষয়ে খুবি উদ্বিগ্ন থাকি</td>
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<td>56</td>
<td>আমার মনে হয় প্রতিষ্ঠানের কিছু বিষয়ে পরিবর্তন আলা জরুরী</td>
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<td>আমার মনে হয় আমার কাজ পূর্ণ সমাধান মত জ্ঞান ও যোগ্যতা কোনটাই আমার নাই</td>
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<td>58</td>
<td>কর্মচারীরা যথেষ্ট কোঁচ পায় ও নজরদারীর মধ্যে থাকে</td>
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<td>59</td>
<td>আমাদের কাজ করার জন্য প্রয়োজনীয় প্রযুক্তি ও সরঞ্জাম আমাদের আছে</td>
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<td>61</td>
<td>পরিচালক পর্যাপ্ত ও কর্মচারীরা কাজ সংক্রান্ত বিষয়ে উল্লেখ্য আলোচনা করতে পারে</td>
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<td>62</td>
<td>এই প্রতিষ্ঠানের কর্মচারীরা অবনতি গ্রহণ</td>
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<td>63</td>
<td>আমার বস আমাকে পূর্ণ সম্মান দিয়ে থাকেন</td>
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<tr>
<td>64</td>
<td>আমার বস আমার কাজের অটলতা বোঝান</td>
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<td>65</td>
<td>আমার প্রতিষ্ঠান কোঁচ লিংকের বিষয়ে কোন ছাড় দেন না</td>
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<td>66</td>
<td>আমি আমার কাজ করতে পছন্দ করি</td>
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<td>আমার মনে হয় ম্যানেজার আমার সদস্যদের সমস্যা বোঝেন না</td>
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<td>--------------------------------------------------</td>
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<tr>
<td>68</td>
<td>ম্যানেজার যদি আমার কথা একটু শুনত</td>
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<td>69</td>
<td>আমার বস বোঝেন কখন আমি সকল কিন্তু দাড়া ফেরত আসি</td>
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<td>70</td>
<td>আমার মনে হয় ঘোড় খুন মানুষকে ধনী হতে সাহায্য করছে</td>
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<tr>
<td>71</td>
<td>যখন কোন সদস্য কোন অভিযোগ করেন তখন আমি তা আমার বসকে জানাই</td>
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</table>

যখন আপনি সদস্যদের কাছ থেকে কিছু গল্প না তখন আপনার সহকর্মী এবং প্রতিষ্ঠানের কাছ থেকে কি ধরনের ব্যবহার পান এবং এর ফলাফলিতে কি ঘটে?

আপনার কি মনে হয় সূক্ষ্ম খুন ফি কারো জন্য ভাল আর কারো জন্য খারাপ ফসল বয়ে আলে?

আপনার প্রতিষ্ঠান সম্পর্কে একটি ভাল ও একটি খারাপ মন্তব্য করুন।
<table>
<thead>
<tr>
<th>Code</th>
<th>MFI</th>
<th>Date</th>
<th>Respondent’s Position</th>
</tr>
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<tbody>
<tr>
<td>KIASA001</td>
<td>ASA</td>
<td>25/04/2011</td>
<td>Regional Manager</td>
</tr>
<tr>
<td>KIASA002</td>
<td>ASA</td>
<td>25/04/2011</td>
<td>Branch Manager</td>
</tr>
<tr>
<td>KIASA003</td>
<td>ASA</td>
<td>28/04/2011</td>
<td>Branch Manager (re-visiting KIASA002)</td>
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<tr>
<td>KIASA004</td>
<td>ASA</td>
<td>03/05/2011</td>
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<tr>
<td>KIASA005</td>
<td>ASA</td>
<td>06/05/2011</td>
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<tr>
<td>KIASA006</td>
<td>ASA</td>
<td>07/05/2011</td>
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</tr>
<tr>
<td>KIASA007</td>
<td>ASA</td>
<td>09/05/2011</td>
<td>Branch Manager (re-visiting KIASA004)</td>
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<tr>
<td>KIASA008</td>
<td>ASA</td>
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<td>KIASA009</td>
<td>ASA</td>
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<td>KIASA010</td>
<td>ASA</td>
<td>14/06/2011</td>
<td>District Manager</td>
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<td>KIASA012</td>
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<td>15/06/2011</td>
<td>Executive Vice President of ASA</td>
</tr>
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<td>KIPD011</td>
<td>PDBF</td>
<td>30/04/2011</td>
<td>Branch Manager</td>
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<tr>
<td>KIPD013</td>
<td>PDBF</td>
<td>01/05/2011</td>
<td>Branch Manager (re-visit KIPD011)</td>
</tr>
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<td>KIPD014</td>
<td>PDBF</td>
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<td>KIPD016</td>
<td>PDBF</td>
<td>16/05/2011</td>
<td>Managing director</td>
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<td>KIPD017</td>
<td>PDBF</td>
<td>18/05/2011</td>
<td>Managing director</td>
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<td>KIPD019</td>
<td>PDBF</td>
<td>23/05/2012</td>
<td>Managing director and human resource manager</td>
</tr>
<tr>
<td>PDRM02</td>
<td>PDBF</td>
<td>18/05/2011</td>
<td>Human resource manager</td>
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<tr>
<td>PDHRM21</td>
<td>PDBF</td>
<td>01/06/2011</td>
<td>Human resource manager</td>
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<tr>
<td>Percentage of respondents agreeing with the statement</td>
<td>ASA</td>
<td>PDBF</td>
<td></td>
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<tr>
<td>-----------------------------------------------------</td>
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</tr>
<tr>
<td>1 Decision – making processes are characterised by directives, orders and instructions that come down from higher levels</td>
<td>85.7</td>
<td>86.6</td>
<td></td>
</tr>
<tr>
<td>2 Decision – making processes are characterised by decisions being made close to the point of action, by the people on the spot</td>
<td>76</td>
<td>80</td>
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</tr>
<tr>
<td>3 Decision - making processes are characterised by the use of consensus decision - making methods to gain acceptance and support for decisions</td>
<td>71.4</td>
<td>66.6</td>
<td></td>
</tr>
<tr>
<td>4 The Office treats me like “hands” whose time and energy are at the disposal of persons at higher levels in the hierarchy</td>
<td>57</td>
<td>60</td>
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</tr>
<tr>
<td>5 The Office treats me like “employees” whose time and energy are purchased through a contract, with rights and obligations on both sides</td>
<td>62</td>
<td>33.3</td>
<td></td>
</tr>
<tr>
<td>6 The Office treats me like “associates” who are mutually committed to the achievement of a common purpose.</td>
<td>95.2</td>
<td>93.3</td>
<td></td>
</tr>
<tr>
<td>7 The Office treats me like “family” or “friends” who like being together and who try to support one another.</td>
<td>81</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>8 People get fired very often in the organisation</td>
<td>52.4</td>
<td>6.6</td>
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<tr>
<td>9 People get angry often in the organisation</td>
<td>24</td>
<td>0</td>
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<tr>
<td>10 People argue a lot within the organisation</td>
<td>28.6</td>
<td>0</td>
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<tr>
<td>11 Relationships between work colleagues are generally competitive.</td>
<td>71.4</td>
<td>73.3</td>
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</tr>
<tr>
<td>12 Relationships between work groups or departments are generally characterised by indifference.</td>
<td>57</td>
<td>80</td>
<td></td>
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<tr>
<td>13 Relationships between work groups or departments are generally co-operative when they need to achieve common goals</td>
<td>85.7</td>
<td>86.6</td>
<td></td>
</tr>
<tr>
<td>14 Relationships between work groups or departments are generally friendly and my colleagues are helpful</td>
<td>66.6</td>
<td>86.6</td>
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<tr>
<td>15 I am expected to recruit a lot of new clients</td>
<td>76</td>
<td>86.6</td>
<td></td>
</tr>
<tr>
<td>16 I am expected to recruit poor client</td>
<td>57</td>
<td>86.6</td>
<td></td>
</tr>
<tr>
<td>17 I am expected to help my client get better life</td>
<td>85.7</td>
<td>100</td>
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<tr>
<td>18 I am expected to make sure clients repay their loans every week</td>
<td>85.7</td>
<td>86.6</td>
<td></td>
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<tr>
<td>19 I am motivated towards my work because we get rewards and bonuses if we achieve good results</td>
<td>47.6</td>
<td>60</td>
<td></td>
</tr>
<tr>
<td>20 I am motivated towards my work because if I do not get good result I get punished or excluded</td>
<td>76</td>
<td>40</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I am motivated towards my work because I personally feel very loyal to my boss and the organisation</td>
<td>95.2</td>
<td>100</td>
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<tr>
<td>---</td>
<td>----------------------------------------------------------------------------------------------------------------</td>
<td>------</td>
<td>-----</td>
</tr>
<tr>
<td>22</td>
<td>I am motivated towards my work because I know I can get a promotion within the organisation</td>
<td>76</td>
<td>93.3</td>
</tr>
<tr>
<td>23</td>
<td>I am motivated towards my work because I want to achieve better results than my colleagues.</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>24</td>
<td>I am motivated towards my work because I want to help my clients improving their situation</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>25</td>
<td>I feel emotionally attached to my organisation.</td>
<td>52.4</td>
<td>60</td>
</tr>
<tr>
<td>26</td>
<td>I feel pressure concerning my personal performances</td>
<td>52.4</td>
<td>73.3</td>
</tr>
<tr>
<td>27</td>
<td>I feel like our branch is in competition with other branches</td>
<td>71.4</td>
<td>100</td>
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<tr>
<td>28</td>
<td>I observe that credit is helping people to get out of poverty</td>
<td>81</td>
<td>100</td>
</tr>
<tr>
<td>29</td>
<td>I am convinced that my manager is committed to help people</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>30</td>
<td>I would quit my job if I would get another proposition</td>
<td>57</td>
<td>60</td>
</tr>
<tr>
<td>31</td>
<td>I feel like I have too much work to do</td>
<td>47.6</td>
<td>86.6</td>
</tr>
<tr>
<td>32</td>
<td>I am stressed about being fired</td>
<td>38</td>
<td>13.3</td>
</tr>
<tr>
<td>33</td>
<td>I talk about my problems with my work colleagues</td>
<td>95.2</td>
<td>100</td>
</tr>
<tr>
<td>34</td>
<td>I trust my colleagues</td>
<td>95.2</td>
<td>100</td>
</tr>
<tr>
<td>35</td>
<td>I am satisfied with my salary</td>
<td>57</td>
<td>60</td>
</tr>
<tr>
<td>36</td>
<td>My clients are poor</td>
<td>90.4</td>
<td>80</td>
</tr>
<tr>
<td>37</td>
<td>My clients are struggling hard to survive.</td>
<td>71.4</td>
<td>80</td>
</tr>
<tr>
<td>38</td>
<td>I do not tolerate any delay in the repayment</td>
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<td>26.6</td>
</tr>
<tr>
<td>39</td>
<td>When my clients cannot repay, I get into trouble</td>
<td>62</td>
<td>100</td>
</tr>
<tr>
<td>40</td>
<td>My clients are lazy</td>
<td>33.3</td>
<td>13.3</td>
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<td>41</td>
<td>My clients lie to me very often</td>
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<td>42</td>
<td>I feel our client do not understand the concept of credit</td>
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<td>43</td>
<td>I think our organisation should train our clients</td>
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<td>Most of the time my clients cannot repay</td>
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<td>I argue with my clients often</td>
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<td>46</td>
<td>I had to threaten some of my clients to make them repay</td>
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<td>I find it difficult to collect the money from borrowers</td>
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<td>I wish I could decide more about how to do my job</td>
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<td>I sometimes explain my clients how to manage their money</td>
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<td>I sometimes pay my clients’ installments</td>
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<td>I would prefer more freedom and autonomy in my job</td>
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<td>I get financial rewards if my personal performances are good</td>
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<td>I get financial rewards if my personal performances are good</td>
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<td>I feel like things should change in my organisation</td>
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<td>I think I do not have enough knowledge and competence to do my job properly</td>
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<td>Employees receive adequate coaching and supervision</td>
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<td>We have the proper equipment and technology to do our jobs well</td>
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<td>61</td>
<td>We have enough time to do our jobs well</td>
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<td>62</td>
<td>We have the proper equipment and technology to do our jobs well</td>
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<td>Management and employees talk openly about work issues</td>
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<td>66</td>
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<tr>
<td>67</td>
<td>My boss understand the difficulties of my job</td>
<td>52.4</td>
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<tr>
<td>68</td>
<td>My institution has a strong commitment to quality</td>
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<td>69</td>
<td>I feel good doing my job</td>
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<td>70</td>
<td>I feel that small loan are helping people getting richer</td>
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<td>71</td>
<td>When my clients complain are not happy I report it to my boss</td>
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### K: ASA Loan Officers Codes

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<th>time pm</th>
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**L: PDBF VILLAGE ORGANISERS’ CODES**

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<th>No. clients</th>
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