Low Income Lives

The strange neglect of diversity within microfinance institutions

A summary of work by Nicola Banks, Dan Brockington, David Hulme and Mathilde Maitrot

One of the vices of poverty is not being able to access that little bit of extra money when you need it. An opportunity comes up, such as a job interview, or a useful animal you can buy, but you do not have the savings to make the best use of it. The inevitable happens, such as relatives getting married, and you cannot contribute to the celebration expenses. A tragedy strikes, such as illness, and you cannot raise the funds to deal with it. Your capacity to cope with these problems is complicated further by the fact that, given your low income, you tend to be over-exposed to them. Alternatively, a little bit of extra money can ease the expenses of being poor.

The poorest families pay to save money, they pay more for basic goods as they only purchase in small quantities, and they pay exorbitantly high interest rates on loans, often over 100% interest. Yet whether for major events or everyday needs, part of the condition of being poor (as the research on financial diaries shows) is simply not having the liquidity—the disposable cash that you need—when you need it.

Microfinance was intended to be revolutionary because it promised to tackle exactly this. Poor people would be able to access funds in the form of small lump sums because they could call upon their friends and relatives, who knew their risk profile rather intimately, to act as guarantors. They could then invest these loans in different small business projects, or else in just the easing the day-to-day grind of getting by. The crises of liquidity could become surmountable.

However, that promise of microfinance remains unfulfilled in two respects. First, in terms of its operation, it does not necessarily reach the very poor families. These are, after all, the riskiest groups to lend to. It is all too easy for microfinance groups to support loans to their richer members and exclude the poorest. Gradually, over time, microfinance lending groups can themselves exclude poorer families—and the loan officers who run the group and managers of those loan officers allow that to happen.

On the other hand, the counter-veiling tendency is that microfinance companies face severe pressures to increase the number of clients on their portfolio and make a profit. This means focusing on microcredit rather than savings and aggressively selling loans to the wrong people who take on debt they are unable to cope with properly. This is particularly apparent when loans are made only to women, which is a common practice in many instances. These women are encouraged (or forced) by male relatives to take the loans, then forced to hand the money over to men who have no intention of repaying. Once again, this practice is overseen by loan officers and driven by incentives and governance by microfinance managers.

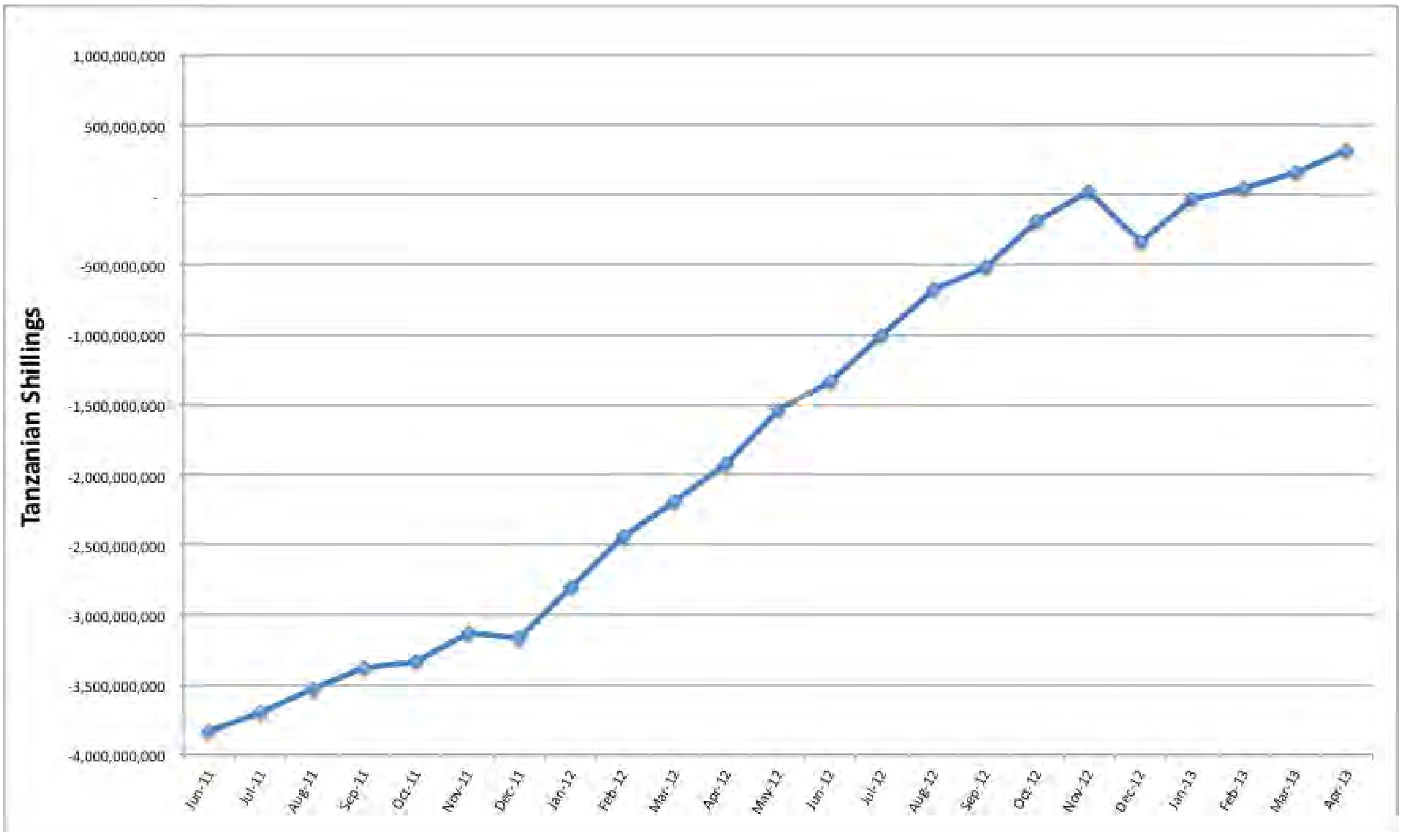
Another way of putting these points is that the performance of microfinance staff must matter a great deal for the success of the organization and the implementation of its policies. We hope that you are thoroughly unimpressed by this point. It should be plainly obvious. The importance of “HR” and staff management was discovered decades ago. One of the reasons why management and business schools prosper around the globe is because good leadership of companies, and the people who work in them, is critical. Employees matter for organizational performance.

Yet if our previous paragraph was unsurprising and banal, it makes the persistent absence of research into performance within microfinance organizations rather strange. While there are some authors who explore this topic, it is not a popular one in the microfinance literature. Indeed, much of the microfinance research industry is founded on the assumption that organizations are homogenous and can be treated as single entities. Researchers instead concentrate on the three axes of difference that have dominated research up until this point: the nature of the clients, the broader economic and regulatory environment that surrounds them and the sorts of loans, or products offered.

We think that more attention is needed on the work and performance of microfinance staff in microfinance research. An analogy of a play may be helpful here. Any actor will tell you that the audience (clients), stage (environment), the quality of the dialogue, and the plot (products) are all important elements in any good performance. Yet the same actor is also likely to insist that the actors’ own work (the organization’s staff), as well as their stage direction and production (the organization management) also matter a great deal. We do not think that enough attention has been given to the variation of performance within organizations in the microfinance community.

We have recently published a paper that illustrates the central importance of understanding the diversity of organizational performance. We studied the success of the Bangladesh-based NGO, BRAC’s microfinance scheme in Tanzania. BRAC is the largest and one of the most successful NGOs in the world and has recently set up operations in a number of African countries. On the surface, the microfinance scheme in Tanzania has been phenomenally successful, lending to tens of thousands of Tanzanian women. It had rapidly become the largest organization of its kind in the country (as the graph below shows), at a time when most other microfinance organizations in the country were not growing. We wanted to understand why.

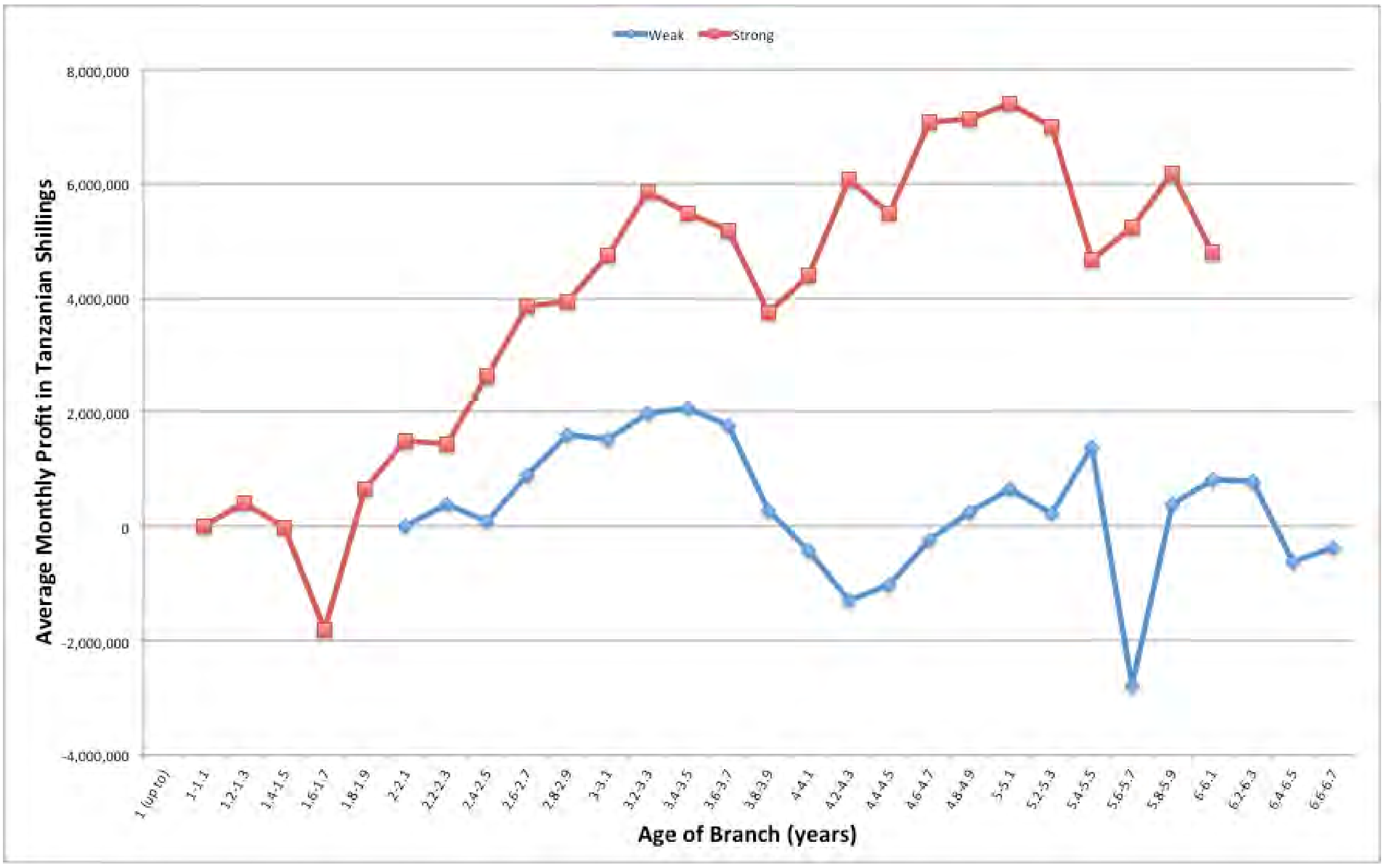
Cumulative surplus from BRAC microfinance loans



The dips in surplus every December reflect the annual write-off of bad debts that can accrue. The exchange rate at the time of the research was approximately USD 1 : TZS 1,700.

However, we came to realize that there was not, in fact, a single story about that organization, rather there were several. Branch performance varied considerably (as the next graph shows), and seemed to reflect the influence of strong or weak area managers. This indicates that BRAC seems to have been good at winning clients but not necessarily at retaining them. This in itself was strange, as many of the senior staff marveled at the business acumen of their Tanzanian clients. Yet too many microfinance groups were disintegrating and saw staff leaving. We felt that this reflected processes of institutional learning that BRAC and its (mostly Bangladeshi) senior management had to go through to understand how to operate in Tanzania and to work with and promote Tanzanian staff. Shortly after our work was completed, there was a complete overhaul of the upper levels of management with many more Tanzanian staff promoted and trained for promotion. We suspect that this will make it easier for BRAC to perform better in the country.

Average monthly surplus of weak (n=28) and strong (n=32) branches over time

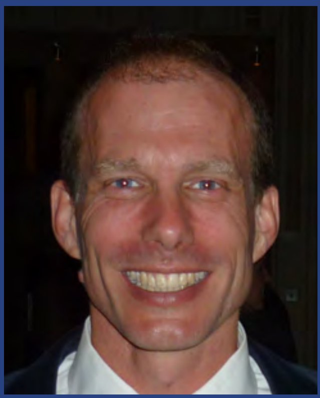


The dip in surplus in Weak groups at 5.6 years is due to a write-off of bad debt in the Zanzibar branches.

However, the main point we want to make here is that the diversity of performance within microfinance organizations matters. It has been neglected and this could cause problems later. For example, the current swathe of randomized controlled trials (RCTs) hinges on robust designs that can construct sufficiently large samples to explore the impact of explanatory variables—see here or here for interesting critiques of them. However, if important explanatory variables are omitted, then RCTs may be poorly designed. It follows that, if organizational heterogeneity has not been factored adequately into RCTs, so, therefore, their power will be reduced. It also means that RCTs will become larger and yet more expensive to cope properly with organizational variety.

This neglect of diversity also runs counter to good practice in understanding development challenges. It becomes difficult to search for the positive outliers and understand what makes them a success if our conceptual frameworks do not allow for diversity, difference, and outliers in the first place. We look forward to more explorations of diversity and heterogeneity within microfinance organizations so that the products they offer can be better delivered to the clients who need them despite the environmental challenges they face.

This blog summarises the paper ‘Interrogating Microfinance Performance beyond Products, Clients and the Environment. Insights from the work of BRAC in Tanzania.’ written by Nicola Banks, Dan Brockington, David Hulme and Mathilde Maitrot that was published in 2019 in the *European Journal of Development Research* 31(3): 339-363



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Most of Dan's research has been in Tanzania, where he has worked on livelihood change, natural resource governance, microfinance and institutional performance, however he has also worked in South Africa, Australia, New Zealand and India. His broader interests include work on global overviews of the social impacts of protected areas, media and conservation and continental-wide examinations of the work of conservation NGOs in sub-Saharan Africa.

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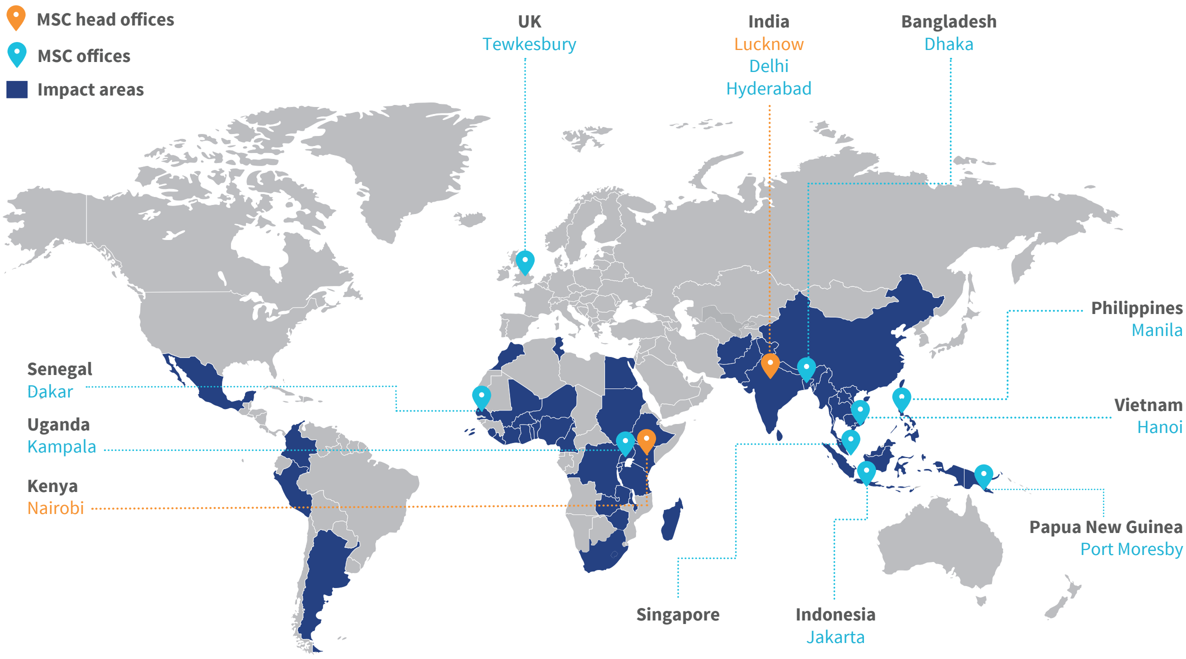

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