

# **Microfinance's practice drift: branches and clients at risk- Evidence from Bangladesh**

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# Presentation Outline

- Brief presentation of new institutional theories used in microfinance
- Brief introduction to the microfinance market in the study area, Bangladesh
- Brief presentation of ASA
- Methodology and data analysis
- Key findings
- Discussion and conclusion

**Challenge: 15 minutes**

# MFIs: Institutional potential and operational conundrums ?

- Hybrid institutions (Labie, 2001, Campion, 1999b) with double bottom-line (de Aghion and Morduch, 2005, Morduch, 2000a)
- Commercialization process and competition in microfinance
- Social mission and performance?
- The risk of “mission drift ” (Woller, 2002, Copestake, 2007)
- Microfinance’s moral compass (Hulme and Maitrot, 2014)

# In Bangladesh

- Commonly seen as the “birthplace of microfinance”
- Resilient growth in the sector despite scandals (MRA 2013)
- Segmented and “crowded” market (Mahmoud et al., 2010)

<b>Particulars</b>	<b>June, 2009</b>	<b>June,2010</b>	<b>June, 2011</b>	<b>June, 2012</b>	<b>June, 2013</b>
No. of Licensed NGO-MFIs	419	516	576	590	649*
No of Branches	16,851	17,252	18,066	17,977	14,674
No. of Employees	107,175	109,597	111,828	108,654	110,734
No. of Clients (Million)	24.85	25.28	26.08	24.64	24.60
No. of borrowers (Million)	18.89	19.21	20.65	19.31	19.27
Amount of Loan Outstanding (BDT. Million )	143,134.03	145,022.66	1,73,797.60	211,283	257,010
Amount of Savings (BDT. Million)	50,610.04	51,362.93	63,304.44	75,206	93,990

\*Total Licensed NGO-MFIs was 698 but only 649 submitted MIS report.

# Methodology

Objective: To understand **how** organizational structures and management systems channel social performance

Fieldwork conducted in 2010-2011 in rural Bangladesh

- Community ethnography
- Rapid community survey (500 households)
- Two institutional ethnographies
- Credit officers survey

# ASA

“operational simplicity and massive scale with a vision unmatched in its clarity and relentlessness” (Rutherford, 2009)

- Recovery rate: 99.83 percent, June 2011
- Within 10 y: number of active borrowers multiplied > 3.5 times
- Cumulative loan disbursement: Tk.481,381 million (US\$ 6,326 million) and outstanding loan amount: Tk.44,972 million (US\$ 591 million) in 2011 (MixMarket, 2013).
- Won The Financial Times and International Finance Corporation 'Banking at the Bottom of the Pyramid-2008'
- Nominated as:
  - the world's leading MFI by MIX report in 2005
  - the world's best MFI by Forbes magazine in 2007

“We are the lowest cost microfinance provider in the world [...] we are the MacDonald’s of microfinance. We operate through standardisation and decentralisation.

MacDonald’s provides cheap and affordable models. We provide microfinance.”

Shafiqul Haque Choudhury,

- Centralized policy-making institution (*ASA Manual*)
- Decentralized financially self-sustaining branches
- Decentralized staff training (*one teaches one*)
- Financial targets at the regional, district, branch and individual level

Result in minimal administrative and operational costs, financial efficiency and **impressive financial discipline across the institution**

# Credit officers' tale

- Recruitment targets
- Repayment targets
- Zero-delay & zero-tolerance

*“The organisation asks for 100percent guaranty of the instalments. If we cannot get an instalment then we suffer mental punishments and we are fined. And if needed as a punishment we face a transfer.”*

## Prioritization of financial performance through:

- Strong incentive mechanisms
  - Strong sanctions
- 76percent of ASA loan officers reported being motivated by the fear of “*punishment*” and exclusion in case of bad results



# Malpractices commonly reported

- Poor client selection (low repayment capacity, no business or IGA)  
“Banks [MFIs] give money to everyone, they don’t worry about helping anymore; they only care about interest and repayments”.  
*“taka dai khali, taka nei... ar kicchu nai”*
- Threats, abuses and humiliations (clients’ well-being is given little/no consideration)  
*“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 how she is managing the money and where from.”*  
>76% of loan officers report coming back to the office after 8pm, 51percent after 10pm  
“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.”
- Loan hard-selling (using men, often- the “good wife” syndrome)
- Savings withdrawal
- Confiscation of assets
- Micro-collateral
- Credit officers repay *kisti* (24%)

# Reflections and Conclusion

ASA is one of the most famous examples of a commercialised approach to microfinance- and a non-profit NGO)

Magnitude and significance of practices? this is beyond ASA

Malpractices question:

- Capacity of commercial MFIs to deliver social performance (sufficient incentive for institutions to do so?)
- Without sufficient social performance monitoring:
  - Empowerment effect?
  - Vulnerability reducing impact?
  - Poverty impact?
- Sufficient external regulation

Thank you for your attention