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**Interrogating Microfinance Performance beyond Products, Clients and the Environment. Insights from the work of BRAC in Tanzania**

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# Interrogating Microfinance Performance beyond Products, Clients and the Environment

## Insights from the work of BRAC in Tanzania

### Abstract

*The performance of microfinance organisations can depend upon many factors. Current research emphasizes factors pertaining to clients, products, or broader environments. But researchers have paid less attention to the workings and internal systems of microfinance organisations. We explore how variation in performance within an organisation can alter the consequences of loans and their popularity among clients and potential clients. We illustrate with data from BRAC in Tanzania, where the arrival and rapid expansion of BRAC's microfinance programme provides an apposite case study.*

**Keywords: Microfinance; BRAC; Tanzania; Organisational performance**

### Introduction

We argue in this paper that more attention to the performance of staff and organisational systems within microfinance institutions could improve our learning about the effectiveness of microfinance. These aspects of microfinance are, we feel, under-studied. The vast majority of research on microfinance concerns either the effectiveness of the *products* offered to clients, or the *qualities of the clients* themselves (their poverty and needs), or focuses on the make up of the broader economic and regulatory *environment*. Organisational performance, i.e. the ability of microfinance institutions to achieve their objectives, is commonly understood as a function of these parameters.

These issues can tell us little, however, about the variable performance within microfinance organisations themselves. We argue that this restricted focus limits our understanding of how and why microfinance can work or fail. For microfinance is not just a product delivered to poor people in particular places. The work of microfinance institutions is performed on the ground and enacted by complex organisations.

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3 An analogy of a play may be helpful here. For we know that the audience (clients), stage  
4 (environment) and the quality of the dialogue and plot (products) are all important elements  
5 in a good performance. But so too are the actors, producers and directors (staff members).  
6 Because they have not been sufficiently prominent in debates thus far, we do not know  
7 enough about life inside these organisations. As Copstake et al (2016) find, 'throwing light  
8 on the institutional diversity of microfinance requires an exploratory and inductive approach  
9 to research that avoids imposing a deterministic and universal framework of inexorable  
10 inclusion on different country-level experiences' (page 209-201). It is important to recognise  
11 that despite the voluminous body of research on microfinance we do not understand how well  
12 different microfinance organisations can deliver the objectives they seek because of the way  
13 they function as organisations. We know too little about the interactions between staff and  
14 their management, the interactions between staff and clients, and the way in which clients use  
15 and shape these practices to their purposes.

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25 We address this issue through a detailed study of the work of BRAC in Tanzania. This makes  
26 a good case study because BRAC is one of the world's largest and most eminent  
27 microfinance organisations. It has recently expanded its operations into five African countries  
28 (Liberia, Tanzania, Uganda, South Sudan and Sierra Leone). Its size and diversity make it a  
29 good place to explore the importance of internal organizational differences in microfinance  
30 delivery.

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37 We first examine the existing literature to demonstrate the current neglect of the approach and  
38 method we are advocating. Emphasising the important of organisational systems, behaviour  
39 and heterogeneity may seem trite or banal. Unfortunately, as we will show, a sizeable element  
40 of microfinance research is in fact founded on the assumption that such issues matter less  
41 than products and client targeting tools. We then outline BRAC's history and relevance to our  
42 argument. We demonstrate that staff performance within the organisation matters a great deal  
43 for the success of the organisation's products and that this is reflected in varied branch  
44 performance. We conclude with reflections on the more general significance of this case  
45 study for understanding microfinance globally.

### **Attention to Organisational Systems and Behaviour in Microfinance Literature**

The deployment of the performance framework in international development was promoted in the late 1990s by donor agencies to enhance accountability and effectiveness in the delivery of Overseas Development Assistance. Since then, a new public management approach to administration was developed to help create systems that deliver value for money donor (Minogue, 2001). Performance, as a concept and a practice has been applied to public, private and third sector organizations alike. From the upsurge in attention to results derived an increased interest in impact assessments. Logically, this provided strong incentives for organizations to consider performance a key driver for management systems and organizational structures design. As a result an ever-expanding body of research focuses on assessing microfinance institutions' performance with regards to their impact on poverty (Aoki and Pradhan, 2013; Attanasio *et al.*, 2015; Banerjee *et al.*, 2014; Copestake *et al.*, 2005; Duvendack *et al.*, 2011; Imai and Azam, 2012; Maitrot and Niño-Zarazúa, 2017; Shahriar, 2012; van Rooyen *et al.*, 2012).

Organizational performance in this literature typically refers to the things organisations achieve. Common conceptualizations of performance revolve around assessments that rely on restricted sets of indicators. The double bottom-line mission of microfinance was translated into indicators reflecting the operational and transactional costs of lending to the poor and the number and size of loans disbursed, characterising the organisations' social mission or breadth and depth of outreach (Schreiner, 2002). These indicators are often translated into targets that microfinance staff members would be incentivised to realise (Ledgerwood and Gibson, 2013; Ledgerwood and White, 2006).

Yet these approaches do not adequately scrutinise the systems that are designed to support microfinance organisations to deliver their institutional missions. Attention to organisational performance, has not, rather oddly, examined *how* these organisations actually perform their work. It has instead focussed almost exclusively on *the results* of that performance. Performance in this context has been narrowly defined to refer to achievements'

It is easy to see why this has occurred. The relative ease of accessing organisational level data, combined with the econometric analyses that these data lend themselves to, suffice to

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3 satisfy many of the economists who work in this field. Disciplinary divisions ensure that it is  
4 possible for such studies to prosper as the insights built from these methods and sources grow  
5 within particular sub-fields.  
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9 However we are not satisfied with this state of affairs. This paper is motivated by the insight  
10 that organisational design and dynamics can often explain a considerable amount of the  
11 variance in these achievements. Organizational systems and behaviour are still largely  
12 neglected in many studies and particular genres of study (Copestake *et al.*, 2016). In fact,  
13 variations in internal organizational systems and functioning remain largely absent from the  
14 explanatory frameworks that generally consider *products*, *client group* and *environment* as  
15 key performance drivers (Agier and Szafarzy, 2010; Ahmad, 2002, 2003; Dixon *et al.*, 2007;  
16 Goetz, 2001; Goetz, 1996; Labie *et al.*, 2009; Ledgerwood and Gibson, 2013; Schreiner,  
17 2002; van den Berg *et al.*, 2015)  
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25 Microfinance product design and services offered are commonly considered key determinants  
26 of loan up-take and outreach (Ledgerwood and Gibson, 2013; Ledgerwood and White, 2006).  
27 Many find that changes in the nature and terms of the financial products affect the poverty-  
28 alleviation potential of microfinance. The most common variables featuring in the changeable  
29 modalities of products include the size of loans, a compulsory or voluntary savings  
30 component, variations in repayment schedules, trainings on financial literacy,  
31 business/entrepreneurship training (Rusina *et al.*, 2015), interest rates, individual or group-  
32 based and flexibility (Meyer, 2002).  
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40 A different body of research argues that it is the type of clients which microfinance  
41 organisations recruit and work with that determine performance. Studies from this school  
42 focus on how clients' gender, age, formal educational level, socio-economic status, level of  
43 asset endowment, level of physical ability and degree of business experience determine their  
44 borrowing behaviour and loan use (Banerjee *et al.*, 2015; Beisland and Mersland, 2012;  
45 Boehe and Barin Cruz, 2013; Makina and Malobola, 2004).  
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51 Additionally, some studies aim to assess how environmental elements can affect microfinance  
52 performance. The most common variables considered important for performance here include  
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3 the macro-economic context within which MFIs operate (Ahlin *et al.*, 2011), whether  
4 organizations are operating in rural or urban settings, the degree of regulation and, of course,  
5 competition (Cull *et al.*, 2011; Kar and Swain, 2014)  
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9 An increasingly large body of literature has started considering governance as a driver of  
10 performance (Galema *et al.*, 2012; Hartarska, 2005; Mersland and Strøm, 2008). Within this  
11 strand of the literature the type of institution in terms of for profit/not-for-profit status  
12 (Tchakoute-Tchuigoua, 2010), religious affiliation (Djan and Mersland, 2017), composition  
13 of governance board (Mori *et al.*, 2015) and ownership structure (Mersland and Strøm, 2008)  
14 are identified as determining elements for organizational performance.  
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20 However divergent their conclusions, these works are united by the fact that they do not  
21 consider the influence of the organisational systems and behaviours themselves on outreach.  
22 Indeed, much of the epistemic programme of research into microfinance would find it  
23 difficult to do so given current resources. The large comparative databases of different  
24 microfinance institutions that are the foundations of so many studies do not capture well  
25 heterogeneity within organisations.<sup>1</sup> Institutional characteristics drawing analysts' attention  
26 are the number of office, personnel, loan officers and assets. These data cannot capture the  
27 role of staff interactions and staff-client interactions, or the variety in quality and  
28 consequences of these interactions, and how these shape performance.  
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37 This omission would not matter if these interactions and internal variety were irrelevant. Yet  
38 various debates within microfinance scholarship strongly suggest that such internal aspects  
39 matter for understanding how microfinance works. A global survey (360 interviewees in 79  
40 countries) of the microfinance sector suggests that internal, and client-facing relations, are  
41 important (Lascelles and Mendelson, 2012). The survey listed corporate governance and  
42 management quality as the second and third most significant problems facing the sector. Risk  
43 management and client management were the sixth and seventh most important problems.  
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50 In academic literature the need to understand organisational systems internal workings is  
51 demonstrated in part by the few studies that have explored this subject directly. On social  
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55 <sup>1</sup> eg [www.mixmarket.org](http://www.mixmarket.org)

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3 policy, the seminal work of Lipsky (1980) was among the first to consider and conceptualise  
4 administrators' discretionary power. He explored the capacity for administrators' behaviours  
5 to skew the distribution of resources and determine organisational performance and policy  
6 outcomes as a response to resource constraints, workload pressures, policy ambiguities and  
7 relations with clients. The work of Feldman and Khademian (2000), Howard-Grenville  
8 (2005) and Pentland *et al.* (2012) explores how discipline, participation and routine shape  
9 individual staff behaviours and their influence on results.  
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16 Maitrot's (2014) comparative study of two microfinance organisations in Bangladesh  
17 explored the relationships between organisational structures and systems and microfinance  
18 impact. She used interviews with credit officers, managers and clients, as well as participant  
19 observation and household surveys, to explore how embedded organisational practices in  
20 competitive environments shaped the nature of the relationship between organisations and  
21 clients, including the lending patterns of field officers, and clients' borrowing behaviour and  
22 well-being (Maitrot, forthcoming). She makes analytical linkages between specific  
23 management practices and organisational structures that foster processes and relations that are  
24 conducive to predatory lending and encourage the exploitation of unequal gender relations  
25 within households.  
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34 Her findings add weight to a growing body of microfinance scholarship that, since the 2000s,  
35 has started to recognise loan officers as key intermediaries between microfinance institutions  
36 and their clients (Goetz, 2001; Ahmad, 2002; Siwale, 2013; Siwale and Ritchie, 2011).  
37 Studies found that their gender, age, educational background and behaviours determine the  
38 nature of microfinance's impacts on clients (Agier and Szafarzy, 2010, 2003; Dixon *et al.*,  
39 2007; Goetz, 1996; Kar, 2013; Labie *et al.*, 2009; van den Berg *et al.*, 2015). Staff  
40 incentives and motivation are increasingly recognised as critical for quality products to fit the  
41 unpredictable reality of clients' lives (Simanowitz and Knotts, 2015). Other studies explore  
42 how variation in loan officer behaviour can be a determining factor for variations in branch  
43 performance. Canales has observed contrasting tendencies in loan officer behaviour, with  
44 some acting as rule-enforcers, and others as rule-benders (Canales, 2011, 2014). Interestingly  
45 good performance of different branches within the same organisation hinges not on having  
46 good rule-enforcers, but rather the right mix of both (*ibid*). This allows, Canales argues, for  
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3 the tensions within microfinance - to both standardize products and respond to clients' needs  
4 on the ground.  
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8 Collectively these works strongly point to the need for a greater and deeper understanding of  
9 the links between organisational systems and branch outreach and interaction with clients. To  
10 these insights we would advocate that we need more understanding of how loan officers are  
11 managed (Simanowitz and Knotts, 2015). We know that loan officer performance matters for  
12 the experience of clients and consequences of the loan. It follows also that the management of  
13 that performance will be important. There has been less writing on that topic, and this is part  
14 of the contribution of this paper.  
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21 More generally, however, in much microfinance scholarship variations in the quality and  
22 performance of MFIs are rarely explained by their internal organisational performance,  
23 whether this be the work of loan officers or of their managers. Yet, this internal variation may  
24 be significant enough to obscure the effects of better-designed contractual or incentive  
25 structures, as well as of environmental effects. We contend that it would be useful to spend  
26 more time exploring the internal organisational systems and behaviour of microfinance  
27 institutions. Approaching research into microfinance with the assumption that the  
28 organisations and their systems are homogeneous could be a mistake.  
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36 The aim of this paper is to address this analytical gap and to refine existing conceptualisation  
37 of organisational performance. To make the case that internal organisational systems and  
38 behaviour matter for explaining organisational practices and performance we use a study of  
39 BRAC's microfinance work in Tanzania. BRAC's case is unusual, as we will document  
40 below, for the rapidity of the change it has experienced and the differences between Tanzania  
41 and its usual arenas in Bangladesh. This growth brings into sharper relief the importance of  
42 understanding every-day practices within organisations that are continually having to cope  
43 with different forms of change. We explore the implications of these perspectives for  
44 understanding the efficacy and consequences of microfinance lending in our final sections.  
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## 51 **Methods**

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3 This study fits well the model of an ‘exploratory and inductive approach’ that Copestake and  
4 colleagues (2016) called for, and that we mentioned above. The research we report here  
5 evolved as the nature of the problem we were exploring shifted and became more visible. We  
6 have sought, as we learnt more about the case, to glean more insights and uncover more data.  
7 But we must warn readers that the picture this generates and analysis that we can support is  
8 far from complete. We do not have enough data adequately to test all the hypotheses we  
9 would like to examine. This is normal for inductive qualitative research – it generates  
10 hypotheses that can then be tested using robust study designs and large n samples. The  
11 slightly unusual aspect of this study is that we were able to obtain a tantalising set of  
12 quantitative data that allowed us to begin testing some of the ideas we were generating. The  
13 key word here, however, is ‘tantalising’. We have more insights than one would normally  
14 expect, but still not a complete picture. In this sense this is a decidedly inductive and  
15 exploratory piece of work for which it was not possible to determine in advance the  
16 quantitative data that ought to be collected.  
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27 Our research did not begin as an exploration of organisational systems. It started off as an  
28 ethnographic study of BRAC in Tanzania with a view to explaining its successful launch and  
29 rise in the country. However, as the study progressed, a number of challenges to BRAC’s  
30 work became apparent, and its successes more qualified. Late in the study limited quantitative  
31 data on branch performance, and more limited human resources data became available which  
32 gave material insights into these problems. We have therefore combined insights from  
33 interviews with clients and staff with quantitative data in the account below, using a mixed  
34 methods approach (Schevyns 2003).  
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42 Following Maitrot (2014) our qualitative methods use a mixture of participant observation,  
43 focus group discussions and interviews with clients and staff. That work took place over 8  
44 months in 2012-13, as part of a longer stay (13 months) by Author 1 in Tanzania. During that  
45 time Author 1 worked on this research project on BRAC as well as joining a different,  
46 smaller, non-NGO based peer-lending group (in which members contribute to a central fund  
47 which they then loan to each other), and learning about money-lending practices in the area  
48 where s/he was living and conducting other socio-economic surveys.  
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3 To explore BRAC's work Author 1, and his/her research assistants, attended meetings of 20  
4 microfinance groups in four regions in Tanzania with over 470 clients. Each group was  
5 visited on at least three separate occasions, with participant observation at the meetings  
6 allowing Author 1 to observe group dynamics and client-staff interactions. We then spoke to  
7 clients individually (292 of them) to learn about the history of their loans. These interviews  
8 examined what use clients had made of loans, what difference this use had made to their lives  
9 and livelihoods, the history of their businesses more generally and any alternative sources of  
10 finance available. All interviews and participant observation was conducted in Swahili in  
11 which Author 1 and his/her research assistants were fluent.  
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19 We interviewed 42 BRAC employees across the hierarchy of its microfinance operations.<sup>2</sup>  
20 These comprised 24 junior staff (8 credit officers and 18 branch monitors); four branch level  
21 staff (managers and accountants); two area managers; two regional managers; and nine senior  
22 staff working in the country office in Dar es Salaam. Interviews covered current and former  
23 roles in the organisation (all branch managers and monitors had formerly served as credit  
24 officers). We discussed the way each role needed to be performed to be done effectively, the  
25 challenges of the role, and, for Bangladeshi interviewees, the differences they noticed  
26 between microfinance operations in Tanzania and in Bangladesh. Again interviews with  
27 Tanzanian staff were conducted by Author 1 in Swahili; and with Bangladeshi staff in  
28 English.  
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37 Interviewing the 18 branch monitors was important as their worked covered all of BRAC's  
38 branches in Tanzania. This allowed us to compare findings from our study regions more  
39 broadly across the country. Interviews were not recorded or transcribed as informants were  
40 more comfortable with the interviewer writing notes as we talked. Interview notes were kept  
41 as part of a field diary that also highlighted the key themes that emerged over the course of  
42 the research. This was discussed with Author 4 at periodic intervals to guide the research  
43 progress.  
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53 <sup>2</sup> BRAC microfinance offices are composed of branches run by branch managers, with three to seven branches  
54 run by area managers, and areas clustered into regions run by regional managers.  
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3 In the final weeks of the research, after much of the ethnographic work was complete, a  
4 record of monthly branch level reports from April 2011 to April 2013 was made available to  
5 Author 1. This database provides records of borrower numbers, loan size, branch surpluses  
6 and deficits, loan write-offs and other technical information required by managers to ensure  
7 the financial health of their organisation. We have used these data to examine trends in  
8 surplus and borrower numbers. We were also able to examine human resources records for 15  
9 months from January 2012 to April 2013 to learn of trends in staff retention, resignation and  
10 lay-off.  
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17 These data allowed us to understand how well branches were performing, in terms of their  
18 financial robustness, and to explore initial relationships between financial performance  
19 indicators and staff retention. We also used the branch level reports to undertake a cluster  
20 analysis based on seven variables: Expenditure, Income Surplus, Age, Average Loan Size,  
21 Borrower Numbers and Average Loan Write-Off. These variables were chosen because they  
22 are key indicators of a branch's financial robustness and helped us to understand the sorts of  
23 variety that different branches displayed.  
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30 Finally an important part of this exercise has also been sharing and discussing findings with  
31 BRAC staff in Dar es Salaam and Uganda. Author 1 circulated a written report to the  
32 organisation (on which this paper is based) and presented the same in person to the country  
33 headquarters in June 2013 and at a further meeting in April 2014. We also circulated initial  
34 findings in an IDPM working paper (Brockington and Banks 2014). BRAC feedback then,  
35 and by email afterwards, has been useful in helping us to understand these data.  
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### 42 **BRAC in Tanzania – multiple stories, not a single growth narrative**

43 BRAC is the world's largest NGO, and one of the most successful. Formed just over forty  
44 years ago it has contributed to remarkable economic and social improvements in Bangladesh.  
45 It employs 100,000 people there in diverse programmes that include education programmes,  
46 microfinance, disaster relief, public health, a University and numerous commercial  
47 enterprises. It has, since 2002, expanded its operations, becoming an international NGO and  
48 operating development and microcredit programmes in other parts of the world, notably in  
49 Africa where it has offices in Liberia, Sierra Leone, South Sudan, Uganda and Tanzania  
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3 (Hossain and Sengupta, 2009). It has been declared to be the best NGO in the world in 2016  
4 and 2017 by *NGO Advisor*.<sup>3</sup>  
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8 Central to this success story has been BRAC's role in the revolution of microfinance;  
9 microfinance also constitutes a key element of its operations overseas. At the time of our  
10 research BRAC offered two products in Tanzania – larger loans to small and medium sized  
11 enterprises (which we did not study), and small loans (\$50 initially, several hundred dollars  
12 after several successful loans) to women (and only women) who were organized into lending  
13 groups of about 30 clients per group. These groups were the focus of our investigation. The  
14 clients in each groups guarantee each other's loans, which are paid back over 48 weeks.  
15 Interest rates were 24% (simple interest). A small proportion of loans is retained as a security  
16 deposit by BRAC and only returned to the client when they finally leave the organisation.  
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24 BRAC initially identifies clients through a vigorous and thorough procedure of canvassing  
25 potential clients through door-to-door surveys. This process produced the microfinance client  
26 groups of women who were prepared to act as guarantors of each other's loans. As is standard  
27 in microfinance, if a group member defaulted then their loan was to be paid by their fellow  
28 group members.  
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34 There are many microfinance organisations in Tanzania but BRAC stands out for the size of  
35 its operations and the speed with which it has grown. This is simply an order of magnitude  
36 bigger than the Tanzanian norm. Most microfinance operations peak at around 25,000  
37 members. But BRAC had established over 7,600 borrower groups with a total of over  
38 125,000 members and nearly 100,000 active borrowers at the time of this research. More than  
39 that, however, is the speed with which it has grown. For BRAC has only been operating in  
40 Tanzania since 2005, yet had been able to rapidly establish 112 branches across the country  
41 by 2010. It had 10 branches in 2006; 41 by 2007; 68 by 2008 and 105 by 2009. Financial  
42 operations are now in surplus, that is returns from loans exceed loans made (Figure 1A). This  
43 is all the more remarkable because this growth was achieved at a time when microfinance  
44 growth was, nationally, static. Research by the Financial Sector Deepening Trust shows that  
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55 <sup>3</sup> <http://www.brac.net/component/k2/item/1010-brac-ranked-number-one-ngo-two-years-in-a-row>

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3 access to microfinance grew from just 4.4% of the population to 4.5% between 2009 and  
4 2013 (Financial Sector Deepening Trust, 2013).  
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8 This picture of healthy growth nationally, is, however, misleading. There is not one story to  
9 tell about BRAC's history of microfinance in Tanzania, but many. The first element of this  
10 variable performance is visible by plotting the surplus of each branch against its age (Figure  
11 1B). This shows that as branches age, they tend to become less profitable after 5 years.  
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16 To explore trends in performance with age we undertook a cluster analysis. This identified  
17 three groups of branches that we named Strong, Young, and Weak branches. Their  
18 characteristics are shown in Table 2 and can be summarized thus:  
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22 Strong branches: thriving membership. They constitute 26% of branches but account  
23 for 81% of BRAC's microfinance surplus.  
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27 Young branches: going steady. These do generally create a surplus, but do not display  
28 dramatic returns. These account for 39% of branches and 17% of surplus.  
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32 Weak branches: often making a loss and losing members. These are also, generally, the  
33 oldest branches in the organisation. These branches make up 35% all branches but  
34 account for just 2% of surplus.  
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38 We can see that these different groups demonstrated dramatically different trends in average  
39 monthly surplus and borrower numbers when plotted against the age of the branch. All  
40 branches started from similar levels of surplus, but the Strong groups rose dramatically and  
41 maintained their performance (Figure 2). The Young groups never took off in the same way,  
42 demonstrating much gentler levels of growth. They never made a loss, but their levels of  
43 surplus were much lower. Finally the performance of the Weak groups was much more  
44 erratic, and often in the red.  
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51 The presence of these different clusters means that it is not merely the age of a branch that  
52 determines its success, as Figure 1B suggests. Rather other variables must be at work. This is  
53 most clearly visible in years 3.8 - 4.9 of their existence. At that point the strong branches are  
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3 maintaining healthy surpluses, the weaker branches have already begun to decline, and the  
4 young branches are maintaining a steady, if small profit.  
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### 9 **The surprise of the weak branches**

10 What could explain this variation? In the first instance it is important to point out that the  
11 weaknesses visible in so many branches is surprising. BRAC is a good microfinance  
12 organisation. It is highly experienced and its operations work at a scale few can emulate.  
13 Moreover our research into clients' views of BRAC showed many positive responses to the  
14 impacts that it had made. It was clear that it should succeed, and for several reasons.  
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20 First, BRAC faced little competition. Most other microfinance organisations target larger  
21 businesses or government employees. Interviewees we spoke to were, with two exceptions,  
22 unable to name other organisations that they could have got loans of this sort from. They did  
23 not earn the salaries that other companies then required, but they were operating small  
24 businesses that needed the liquidity BRAC loans provided. They also mentioned that BRAC's  
25 assiduous local surveys of loan needs and awareness raising of their products had helped to  
26 grow demand as the organisation was establishing itself.  
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34 Second, it has targeted the right people. Products have been aimed at existing businesswomen  
35 who were, before BRAC arrived, excluded from the financial services they required. Of the  
36 292 clients we interviewed, 272 had put their loans into an existing business of some sort  
37 (such as charcoal sales, chicken rearing, clothing sales, grocery stores, tea shops, tailoring,  
38 bars and vegetable shops as well as agriculture). Only 40 clients used the loans to invest in  
39 entirely new businesses (and half of these already had other businesses). Selling a financial  
40 product to women who were already running successful businesses reduced the risk that  
41 BRAC exposed itself to.  
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48 Another aspect of the healthy fit between the clients and the product is that these clients are  
49 also relatively wealthy compared to most Tanzanians. We compared wealth rankings of three  
50 villages where BRAC was working with wealth rankings of its clients (Table 1). This shows  
51 that the poorest two groups were not represented at all in BRAC's client groups, and the  
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3 wealthier asset owning groups are disproportionately represented. This quantitative survey  
4 was backed up with a series of more informal conversations with clients and former clients  
5 during Author 1's 13 month stay that again suggest that BRAC has been able to tap into a  
6 group of more effective and relatively wealthy business women. Again, avoiding the poorest  
7 Tanzanians reduced risk and should have made the business model robust.  
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12 Finally BRAC should succeed because the products being offered suit clients' needs. We  
13 cannot determine what difference these loans have made to levels of poverty. But we can  
14 report that most clients we spoke to valued the services offered. The widespread sentiment  
15 was that the loans provided a useful service that had helped to grow businesses and provide  
16 liquidity. Clients repeatedly told us that '*imenisaidia sana*' (it has helped me a great deal) and  
17 gave examples of growing and creating new businesses, paying school fees and coping with  
18 unexpected accidents, misfortune and illness.  
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25 A measure of the success of BRAC and the popularity of its loans is the penchant for multiple  
26 loans that a number of clients developed. Some members of borrowing groups would 'sell'  
27 their loan-taking ability to other group members. Woman A would take the loan, but will give  
28 it to woman B (for a small sum). This benefits both the woman who uses the money, and her  
29 colleague. It is a relatively painless way of providing a favour. For those taking the extra  
30 loans this behaviour allows them to access a loan commensurate with their business needs  
31 and circumvent the tiresomely small loans that BRAC's microfinance programme offers even  
32 to well-established customers.  
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40 Indeed in some cases these were not simple transactions. Woman B may in fact also be taking  
41 loans in the name of women C, D and E. Author 1's observations suggest that this practice  
42 was widespread and could account for between 10 and 25% of all loans in some groups  
43 (while absent in others). It is quite possible, therefore, that multiple loans are making a  
44 significant contribution to the current levels of surplus.  
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50 Multiple loans increases the risk of default and it is not allowed by BRAC. However the  
51 incentives to allow multiple loans reach right down to the roots of the organisation. It was  
52 clear from this research that credit officers are aware of it and turn a blind eye. After all it  
53 helped them to meet their targets, and they could use the prohibitions against multiple loans  
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3 as a means of extracting payment (called ‘thanks’ money, on which more below). Branch  
4 managers (all themselves former credit officers) will have been well aware that it could be  
5 happening, but must be careful that they are not too zealous in their attempts to expose it. For it  
6 would necessitate considerable disciplinary action and make it harder for them to reach their  
7 loan quotas.  
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12 In summary, then, BRAC in Tanzania targeted a group of relatively wealthy and active  
13 business-savvy women. BRAC loans have fed into a pre-existing economic infrastructure (i.e.  
14 client businesses) that made them quickly productive. These clients, and their businesses, are  
15 less vulnerable to the risks and misfortunes of poverty than the poorest Tanzanians.<sup>4</sup> BRAC  
16 was selling these products in the face of little, if any, competition. Significant minorities of  
17 clients were likely seeking multiple loans. And BRAC has the backing of a highly  
18 experienced international microfinance infrastructure. What could go wrong with such an  
19 arrangement?  
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### 27 **Explaining Weakness**

28 Driving the differences in surplus reported above are the borrower numbers. The health of a  
29 branch is highly dependent upon the number of active borrowers. Most obviously, without  
30 borrowers, there can be no returns on loans, no profit to the organisation. But there are two  
31 further dynamics that make borrower numbers particularly important.  
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37 On the one hand the dynamics of loan groups make borrower numbers highly sensitive to any  
38 problems. If one person defaults in a group of 20 the others have to pay back that person’s  
39 loan instalments. That load –(one person’s weekly repayments) can be relatively easily spread  
40 around. But if three people default, or five, then the costs of staying on in the groups can  
41 rapidly become excessive and it can collapse. Declines in branches can be dramatic if the  
42 groups that underpin it dissipate.  
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52 <sup>4</sup> For BRAC staff we spoke to who had worked in Bangladesh, the vigour of women’s businesses was the main  
53 difference between microfinance in Tanzania and Bangladesh. As one senior manager put it, in Bangladesh only  
54 10% of clients might have their own business – the money is put into businesses operated by male relatives – but  
55 in Tanzania all of the clients have their own businesses.

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3 On the other hand profit is much more easily sustained from larger numbers of borrowers,  
4 above a certain minimum, because of the economies of scale that the branch enjoys (Figure  
5 3). A group of 30 has few more financial costs than a group of 25, but could return a 20%  
6 increase in revenues. Thus borrower numbers drive virtuous (and vicious) circles in  
7 microfinance. Similarly a loan officer visiting three loan groups in a morning could relatively  
8 easily add a fourth to her rota.  
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13 The changes in borrower numbers plainly drove the variations we have reported above.  
14 Figure 4 shows that the Strong groups undertook, and sustained, a healthy rise in borrower  
15 numbers during the first 4.5 years of their life. Thereafter they declined, but not to an extent  
16 which threatens surplus. The Young groups in contrast never took off in the same way. They  
17 had, on average, just 68% of the membership numbers of the strong groups, and generally  
18 fewer than 900 members. The Weak branches started well, with a rapid rise in numbers but  
19 that soon began to decline quickly, and thereafter more slowly, with numbers hovering  
20 around 700 in the last months of the data records.  
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28 BRAC has grown therefore because it was increasing the number of borrowers, and that  
29 number has grown because BRAC was opening new branches. But BRAC was not  
30 necessarily keeping these borrowers in all branches. The crucial question we have to answer  
31 therefore is: what could be precluding clients from taking up successful and desirable  
32 products? And why could this only be happening in some branches and not others? Why do  
33 some branches do so well and others so badly?  
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40 It is important to note there that the traditional triptych of causes (products, clients,  
41 environment) that have been used to explain microfinance institutions' performance is not  
42 satisfactory here. There is no variation in the product offered between different branches; so  
43 this cannot explain any difference. Nor are the clients particularly different across the  
44 branches. All are Tanzanian business women seeking loans not otherwise accessible to them.  
45 Almost all, in our surveys, were also relatively wealthy. Nor can geography or environment  
46 explain the problems. BRAC has set up branches in the more prosperous growth poles of the  
47 country, and only in urban centres of a sufficiently large size to sustain a large number of  
48 potential clients. Dar es Salaam has clearly proven a difficult environment for BRAC to work  
49 in, as 14 of 15 branches there are weak. Perhaps this sort of urban conglomeration might be  
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3 make easier for clients to abscond and disappear. Yet other urban centres in Tanzania's other  
4 large towns (Mwanza Mbeya and Arusha) are also plenty large enough for such problems,  
5 and yet do not demonstrate such difficulties (only 8 of 21 are weak, and 8 are strong).  
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9 The exploratory nature of this research project means we cannot, definitively, exclude these  
10 mechanisms. A different study design would be required that sampled systematically across  
11 the country and across different sorts of branches (weak, young and strong). We could not do  
12 this because the data that produced these categories only became available at the end of our  
13 time.  
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19 However, in the spirit of exploratory inductive research, we contend that the variation is  
20 likely to derive from a different source than the usual triptych. The causes of this variation lie  
21 in the differential response of branch, area and regional managers in coping with a number of  
22 challenges in administering loans. There are a number of generic issues that they have to  
23 control and cope with, lest clients are deterred from renewing loans, or driven to leave the  
24 organisation. Our suggestion is that the way staff, and through them the problems we list  
25 below, *are managed* will be fundamental to explaining the success or failure of branches.  
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32 First there are language barriers. BRAC's rapid expansion had left it with an interesting  
33 demography in its employees at the time of this research. All credit officers were Tanzanian  
34 women. So, too, were all monitoring staff and branch managers (both are recruited from the  
35 credit officers). At the other end of the scale, almost all higher level management, including  
36 all but six of the 24 area managers, were, (at the time of this research), Bangladeshi men. The  
37 expansion of the client base had been faster than the training and capacity building of  
38 Tanzanian staff to take on senior positions within BRAC's structure.<sup>5</sup>  
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45 This situation meant that at the time that the research was conducted, hardly any of BRAC  
46 Tanzania's Bangladeshi staff spoke Swahili well enough to talk to their clients. Instead these  
47 staff - the vast majority of all area managers and all of the regional managers - were  
48 dependent upon their credit officers and branch managers to understand their clients.  
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54 <sup>5</sup> This attribute has since been transformed by recent staff changes that took place after the field research was  
55 completed, as we will discuss later.

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3 Bangladeshi and Tanzanian staff would talk in English, which was problematic because of the  
4 frequently low levels of English among all concerned. As a result of these language barriers,  
5 Bangladeshi area and regional managers faced significant challenges. It was difficult for them  
6 to listen to or understand their clients' needs and problems.  
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11 Second, there were widespread complaints about the behaviour of the credit officers from  
12 clients. Problems included extracting illicit 'thanks money' from clients in return for  
13 renewing loans; stealing money; taking loans out in clients' names and then running off;  
14 making it difficult for clients to take back the security deposit<sup>6</sup>; and, finding numerous ways  
15 of extorting funds from clients. These reflected problems of staff probity and capacity that  
16 are reported across the sector in Tanzania.<sup>7</sup>  
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22 Interviews with both senior and junior staff confirmed many of the problems of which their  
23 clients complained. Junior staff told Author 1 about the 'thanks money' they extracted. They  
24 could not hide the fact that their colleagues had absconded with clients' (and sometimes  
25 fellow credit officers') money. And many credit officers were quite clear that it was standard  
26 practice to make it difficult for clients to leave BRAC by making it harder for them to pick up  
27 their security deposit.<sup>8</sup>  
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33 Area and regional managers we interviewed (then all Bangladeshi) also complained about the  
34 weaknesses of their junior colleagues but expressed it in a slightly different idiom. Their  
35 complaint was about the probity and quality of their junior Tanzanian colleagues, particularly  
36 in comparison to their equivalent staff in Bangladesh. Tanzanian colleagues were frequently  
37 said to be not as 'serious' about their jobs as equivalent staff in Bangladesh. Their work ethic  
38 was said to be weaker, they were not committed to BRAC as an organisation, and they were  
39 less trustworthy.  
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51 <sup>6</sup> The security deposit constituted part of the loan and was returned to clients when they left the organisation.

52 <sup>7</sup> The work of the Financial Sector Deepening Trust of Tanzania, makes plain that there are significant  
53 challenges with respect to staff quality and probity that afflict all organisations. Sosthenes pers. comm. (CEO of  
54 Financial Sector Deepening Trust) June 2013.

55 <sup>8</sup> This used to be a major issue in BRAC's Bangladeshi programmes in the 1990s and 2000s.

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3 However interviews with the credit officers also threw more light on why they might not  
4 value their jobs with BRAC particularly highly. Credit officers complained of low levels of  
5 job satisfaction, low pay and stressful conditions. Some have had to make up shortfalls in  
6 loan repayments from their own salary – and it was frequently reported that their salary is  
7 forcibly deducted to cover overdue payments. They are shouted at in public and before clients  
8 by managers, which is not culturally acceptable in Tanzania; it offended all Tanzanians,  
9 clients and staff alike. Author 1 has witnessed clients comforting their (corrupt) credit officers  
10 after they had been shouted at.  
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17 These two problems, of language and staff management, compounded each other in ways that  
18 impaired dealings with clients, as two incidents illustrate. One was related by a monitoring  
19 officer who described an area manager speaking to a group of clients, with the credit officer  
20 translating. When the clients asked the credit officer what the manager had been saying she  
21 replied that he was saying that clients were not to delay when paying ‘thanks money’. The  
22 second case reported was that of a client who repeatedly tried, and failed, to leave BRAC and  
23 have her security deposit returned to her. In the end she disappeared for some time, leaving  
24 her security deposit. On her return she was asked (in Swahili) by the credit officer whether  
25 she wanted to take out a new loan. ‘No’, she replied (in English) ‘I have been improving my  
26 English. I want to speak to the Area Manager so that I can get my security deposit back’.<sup>9</sup>  
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35 But these difficulties are not just the source of awkward anecdotes. Our contention is that  
36 they represent a key human resource management problem that appears to be driving some of  
37 the reasons of failure and success. This is visible in the quantitative data.  
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42 Managing staff well such to limit dismissals and boost retention is important for branch  
43 achievements (Figure 5). Higher rates of dismissal and lower rates of retention are associated  
44 with poor branch performance, both in terms of surplus and borrower numbers.<sup>10</sup> It is also  
45 plain that there is a positive correlation between branches where credit officers perform well,  
46 and borrower numbers (Figure 6). This figure shows that it is not just that strong branches  
47 have more borrowers (which is already established) but also that credit officers from stronger  
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52 <sup>9</sup> This was relayed to Author 1 by the credit officer who had been obstructing the client’s attempts to regain the  
53 security deposit.

54 <sup>10</sup> Retention rates appear to us relatively low, and dismissal rates rather high.

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3 branches are more likely to improve their borrower numbers over time than those from  
4 weaker and younger branches. Indeed those at weaker branches see their borrower numbers  
5 decline despite increasing collective loan officer experience across the branch.  
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9 The final indication of the role of staff management and language barriers in branch  
10 performance is that there is an intriguing difference in the performance of the few Tanzanian  
11 Area Managers, and their Bangladeshi counterparts. We divided the three groups of branches  
12 (Strong, Weak and Young) by the nationality of the area manager to produce five subgroups  
13 (Figure 10).  
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19 The Strong group can be split into two: a really strong collection run by Bangladeshi  
20 managers which slightly outperforms another strong group of branches run by  
21 Tanzanian area managers.  
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25 The Weak group also divides into two, with a Tanzanian area manager doing better in  
26 terms of numbers but worse in terms of surplus than the Bangladeshi Area Managers.  
27 Note that there is only one Tanzanian area manager in this group.  
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32 The Young group remains unchanged. All are supervised by Bangladeshi area  
33 managers.  
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37 Most of the good branches were in fact run in areas managed by Tanzanian managers (16 of  
38 the 29) and, nearly 75% of branches in areas run by Tanzanian managers were Strong (Table  
39 2 final columns). This suggests that staff performance at the branch level is not merely a  
40 function of the branch manager and her loan officers alone but also of higher-level structures  
41 and oversight and the *management* of the performance of these junior officers.  
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### 46 **Unpacking performance research**

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48 The design of our study prohibits a more robust testing of the importance of human resource  
49 management for branch performance. We began this research as an exploration of BRAC's  
50 apparent success. The quantitative data showing the variation in branch achievements were  
51 only revealed as fieldwork concluded. The serendipitous nature of this research precludes us  
52 from offering definitive explanations as to the variation in BRAC's performance. A different  
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3 study design, which explores differences between a sample of branches selected across  
4 different varieties of performance would be required robustly to test the contention we have  
5 just made. Nevertheless on the balance of evidence present here we argue that locating the  
6 explanation in staff performance - and management of that performance - is much more likely  
7 to explain the variation we have reported than differences in products, clients or environment.  
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12 But the more important point is that our findings suggest that the factors used to understand  
13 and measure performance in microfinance need to be revised. Without re-considering how  
14 organisational systems shape performance we might be missing an important opportunity to  
15 make microfinance work better and for more people. The design of the product offered to  
16 clients, the qualities of the clients themselves, and the environments in which microfinance  
17 organisations operate are not the only variables that matter when understanding the  
18 consequences of microfinance.  
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26 Much research on microfinance tends not to focus on the organisational behaviour of the  
27 institutions providing the loans. To use an analogy, much current analyses liken loans to  
28 products delivered by post. They are merely delivered, and hence it is logical to see what  
29 clients do with the product and the environments in which they work. Who the postwoman is,  
30 and how she is managed, is immaterial to most people's enjoyment of their post. But we do  
31 not feel that this strategy of making the postwoman disappear is helpful. This is why we  
32 prefer the analogy of a play. Every actor will tell you that the audience (clients), stage  
33 (environment) and the quality of the dialogue and plot (products) are all important elements  
34 in any good performance. But the same actor is also likely to insist that the actors' work, as  
35 well as their stage direction and production, also matter a great deal. They have been not been  
36 sufficiently prominent in debates thus far. We do not think that BRAC's experience in  
37 Tanzania can be properly understood without appreciating the varied performance within the  
38 organisation and the role of middle management in directing that performance. We suggest  
39 that this may be true in numerous other microfinance organisations.  
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50 The relative lack of attention to organisational heterogeneity could be an important weakness  
51 in microfinance research. The current swathe of randomized controlled trials (RCTs) hinge on  
52 robust designs that can construct sufficiently large samples to explore the impact of  
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3 explanatory variables. However if important explanatory variables are omitted then RCTs  
4 may be poorly designed. It follows that, if organisational heterogeneity has not been  
5 adequately factored into RCTs, so therefore their power will be reduced. It also means that, in  
6 order properly to cope with organisational variety, RCTs will become larger and yet more  
7 expensive.  
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12 Research into microfinance will become more useful to the microfinance organisations  
13 themselves if it engages with the realities of life and work inside these organisations.  
14 Research which engages with the working practices and cultures of microfinance institutions  
15 is likely to be more useful and practical than work which does not. If organisations are to  
16 learn from themselves (Korten, 1980), then this will require some appreciation of their  
17 internal variety.  
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24 Changes in the composition of the staff presents an opportunity to re-examine the influence of  
25 staffing on organisational systems. In August 2013, just as this research was completing,  
26 there was a change in the country leadership of BRAC. This was quickly followed by a  
27 restructuring of the microfinance programme, the 24 areas were re-organised into 28, the 8  
28 regions into 10, (the number of branches remained unchanged). Thereafter a much more rapid  
29 programme of appointing Tanzanian area managers was put into place. Whereas in mid 2013,  
30 6 of 24 area managers were Tanzanian (25%), 24 out of 28 (86%) were Tanzanian by July  
31 2014. A further 20 new area managers are trained up ready to fill vacancies should they arise.  
32 Whereas there were once no regional managers who were Tanzanian, now two out of ten are.  
33 Moreover five of the ten regional accountants are Tanzanian (up from zero). There are also  
34 new Swahili language learning requirements and courses in place for Bangladeshi staff.  
35 These might have implications for branches' financial performance and outreach.  
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### 45 **Conclusion**

46 The growth of BRAC's microfinance programme has been remarkably fast and has reached  
47 several times as many women in a few years as most other, if not all other, microfinance  
48 programmes in Tanzania. Moreover, our data suggest that the products it is offering are  
49 welcomed by most of the clients it recruits. BRAC's loans have enabled the women we  
50 interviewed to grow businesses, educate their children and cope with unexpected misfortune.  
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4 However, it is not simply a story of straightforward growth. One cannot understand BRAC's  
5 microfinance programme in Tanzania unless one appreciates the diversity of performance  
6 displayed across different branches and in different regions. BRAC has not just been  
7 unleashing economic opportunities for Tanzanian women (although it has been doing that). It  
8 is also learning how to operate microfinance programmes in Tanzania and how to manage  
9 Tanzanian staff in the procedures and systems of its organisation.  
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16 The broader implication of this process is that many other microfinance organisations and  
17 institutions are also in the process of learning about how to learn from and respond to their  
18 changing environments. As suggested by Simanowitz and Knotts (2015, p. 10) organisations  
19 need to critically reflect on the 'reality gaps' between the hard scalable systems put in place  
20 and the realities of their interaction with clients' lives. 'Standing still' and ignoring the need  
21 for adaptation can presents real dangers for microfinance organisations and for their clients  
22 (Simanowitz and Knotts, 2015). Moreover we should expect that all microfinance  
23 organisations are coping with some sorts of change all the time. At the very least, if they  
24 succeed, then their clients should be getting richer, which will introduce new sets of demands.  
25 And this is before we consider changes to the economic environment, legislation, competition  
26 and the myriad other elements at work (Cull *et al.*, 2011).  
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35 BRAC provides a dramatic example of such learning. Other organisations may be well placed  
36 to learn from its experience and adaptive culture. It set up an entire organisation delivering  
37 services developed in Bangladesh in a new country where the operating environments, and  
38 language, were different from its previous experience. In doing so, it has rapidly become the  
39 largest microfinance provider in Tanzania, and alongside its other programmes reaches  
40 hundreds of thousands of families. Our findings here may highlight the problems this  
41 institutional transfer has faced culturally and linguistically, but also emphasise the steps in  
42 reorganisation and staff deployment that BRAC have taken to try to remedy these. Without a  
43 culture of institutional learning, the potential for identifying and responding to such problems  
44 in a timely fashion is much less likely.  
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3 We believe that it is important for scholarship about microfinance to address the deficit of  
4 research into the character and variety of behaviours *within* microfinance organisations. As  
5 our study finds, internal patterns of behaviours, and the management of that behaviour, have  
6 an important bearing on the success of the products offered to clients by determining the use  
7 and the potential impact of these products on their lives. We have sought to demonstrate that  
8 understanding this variety can be crucial to understanding the conditions and performance of  
9 microfinance programmes. The challenge now is how systematically to incorporate  
10 organizational variety into publically accessible databases so researchers can explore  
11 organisational performance in relation to subtle aspects of management systems and  
12 processes. Failing to address this knowledge deficit, resulting from multiple silo-ed  
13 disciplinary interests in microfinance, risks keeping the means of ensuring and enhancing  
14 social and financial performance concealed.  
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**Table 1: Wealth Groups of BRAC clients in Tanzania**

Wealth Group	Wealth Group Characteristics	Clients (%) N = 428	Comparator Villages (%) N = 1,315
1	Immensely Rich; Knows no barriers; has cars, lorries etc	0	2
2	Very Rich; Many cattle and much land; may own a tractor but not a lorry. Has businesses and land in towns	0	3
3	Rich; Employs casual labour. Has several businesses and land.	10	3
4	Owens their own house and business, some land, can employ casual labour occasionally.	72	44
5	Some income earning assets (house / shop / business); does not employ labourers; rarely performs casual labour	18	31
6	Poor; depends on casual labour work for daily needs; few if any livestock or assets.	0	10
7	Extremely poor; Unable to get work easily; suffering from alcoholism and / or illness.	0	6

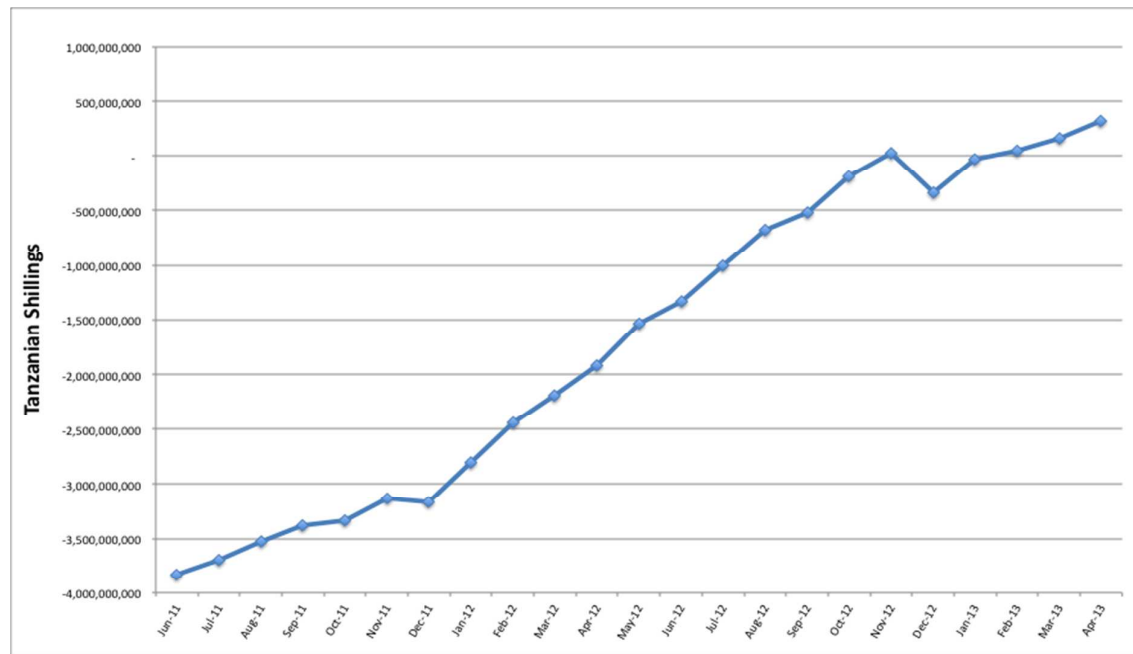
Wealth categorisations follow Loiske (1995). The villages are located in the district where the bulk (12) of the microfinance groups came from. Rankings were conducted through participatory ranking exercises with village officials backed up by selected home visits.

**Table 2: Summary Statistics of Branch Cluster Performances**

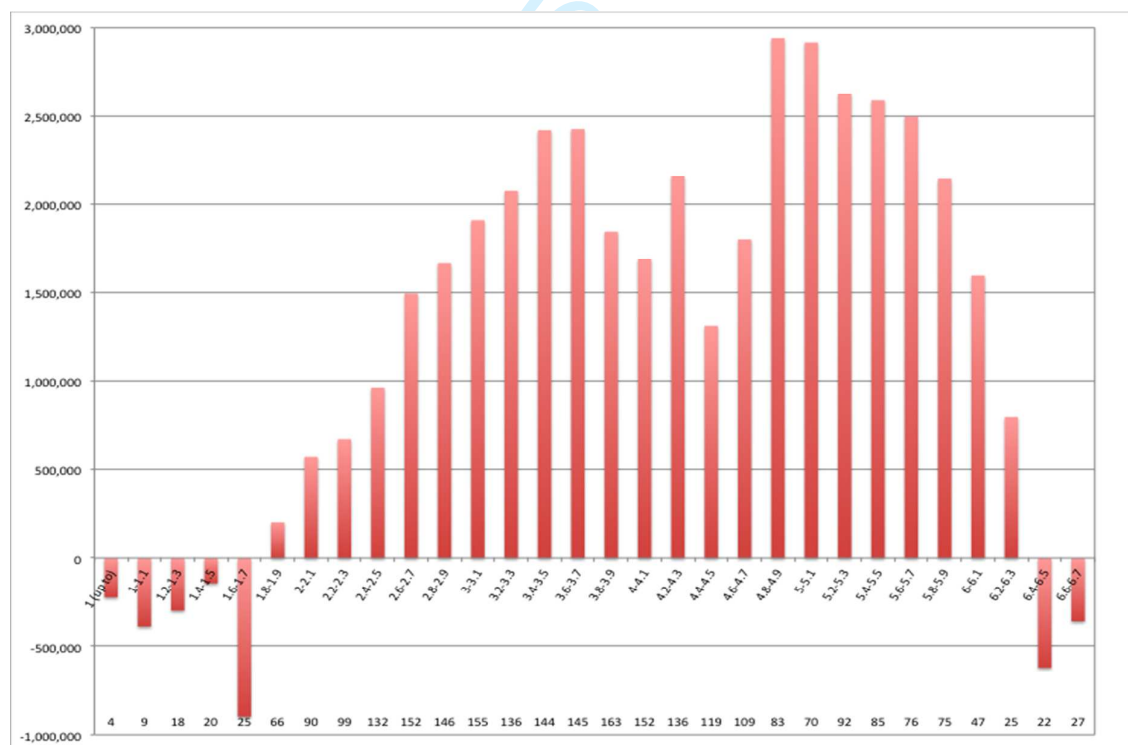
Group	Mean Age	Mean Monthly Surplus	Mean no. of Borrowers	No of Branches	Bangaldeshi Area Managers	Tanzanian Area Managers
Weak	4.8	12,215,576	816	28	26	2
Strong	4.0	145,924,254	1,374	32	12	20
Young	3.0	26,670,395	843	45	45	0
<b>Total</b>				<b>105</b>	<b>83</b>	<b>23</b>

The exchange rate at the time of the research was approximately \$US1: 1,700 Tanzanian Shillings.

**Figure 1: Surplus from BRAC microfinance loans: A Cumulative over time across BRAC as a whole and B: Average per branch according to branch age.**

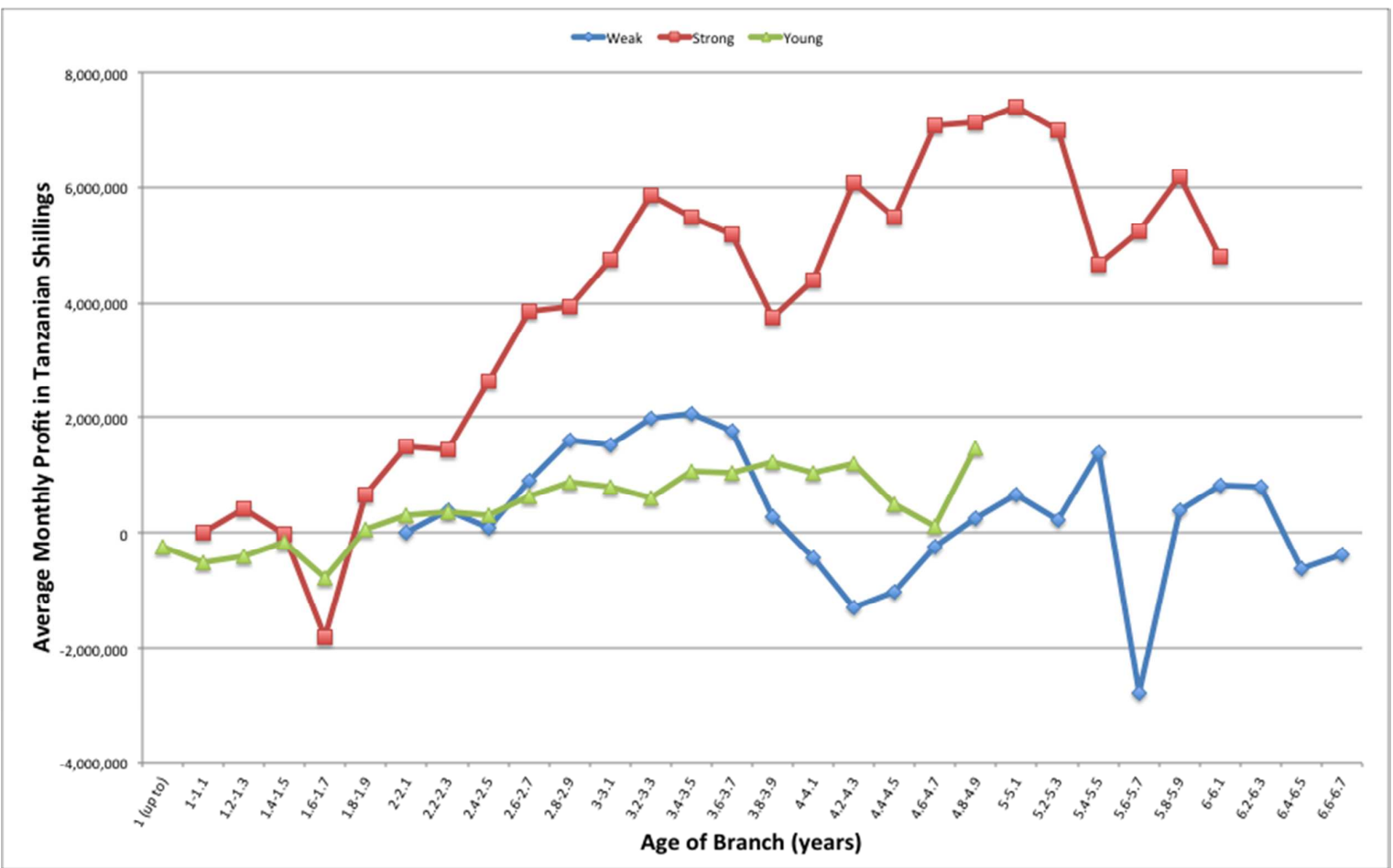


The dips in surplus every December reflecting the annual write-off of bad debts that can accrue. The exchange rate at the time of the research was approximately \$US1: 1,700 Tanzanian Shillings.



Note this graph excludes Zanzibar whose data are unusual because of a large write off of bad debt. The x axis shows branch age in years, the numbers along the base of the graph shows the number of data points in each category.

Figure 2: Average Monthly Surplus of Weak, Strong and Young Branches



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

Figure 3: Monthly administrative costs per borrower for each branch plotted against the number of borrowers

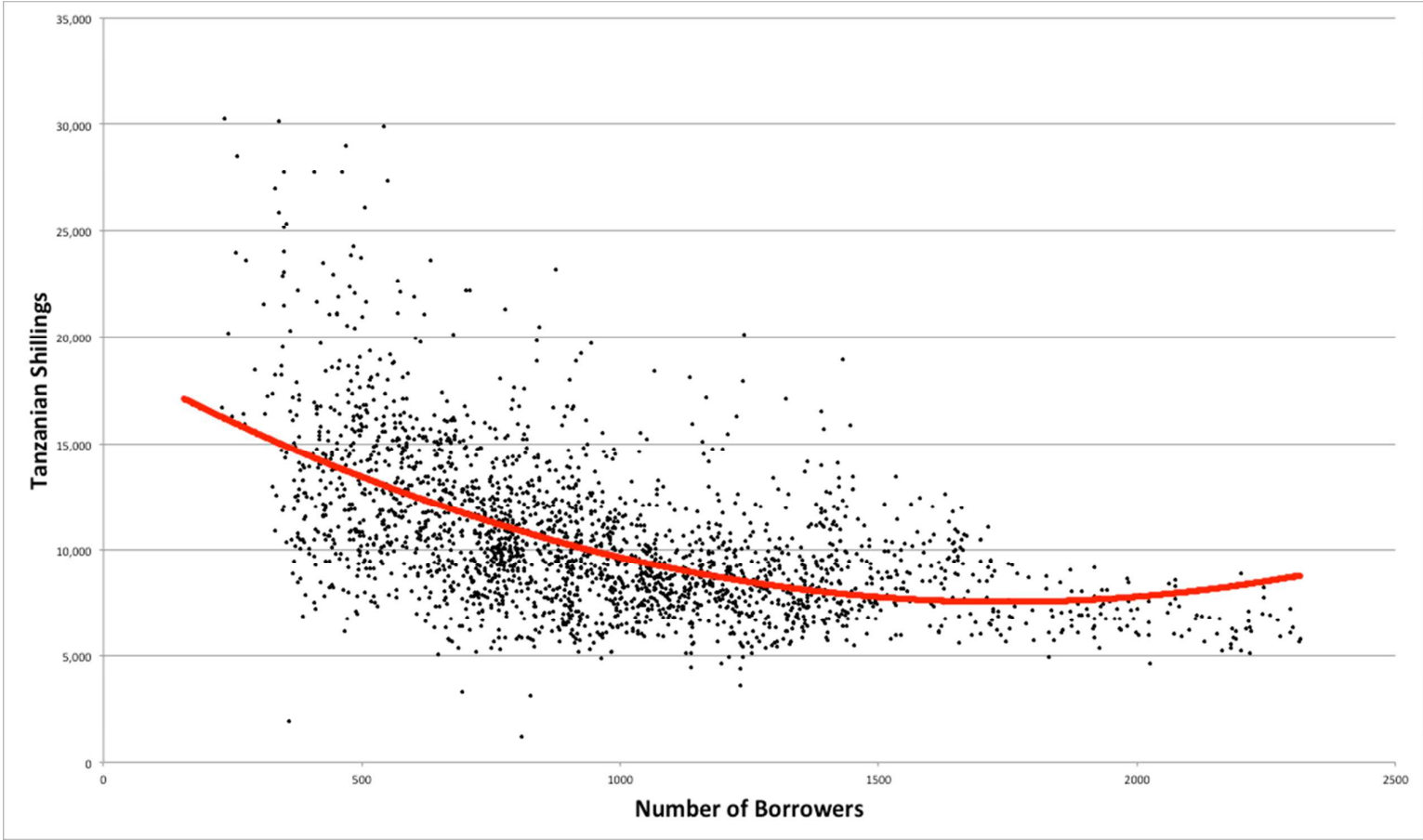
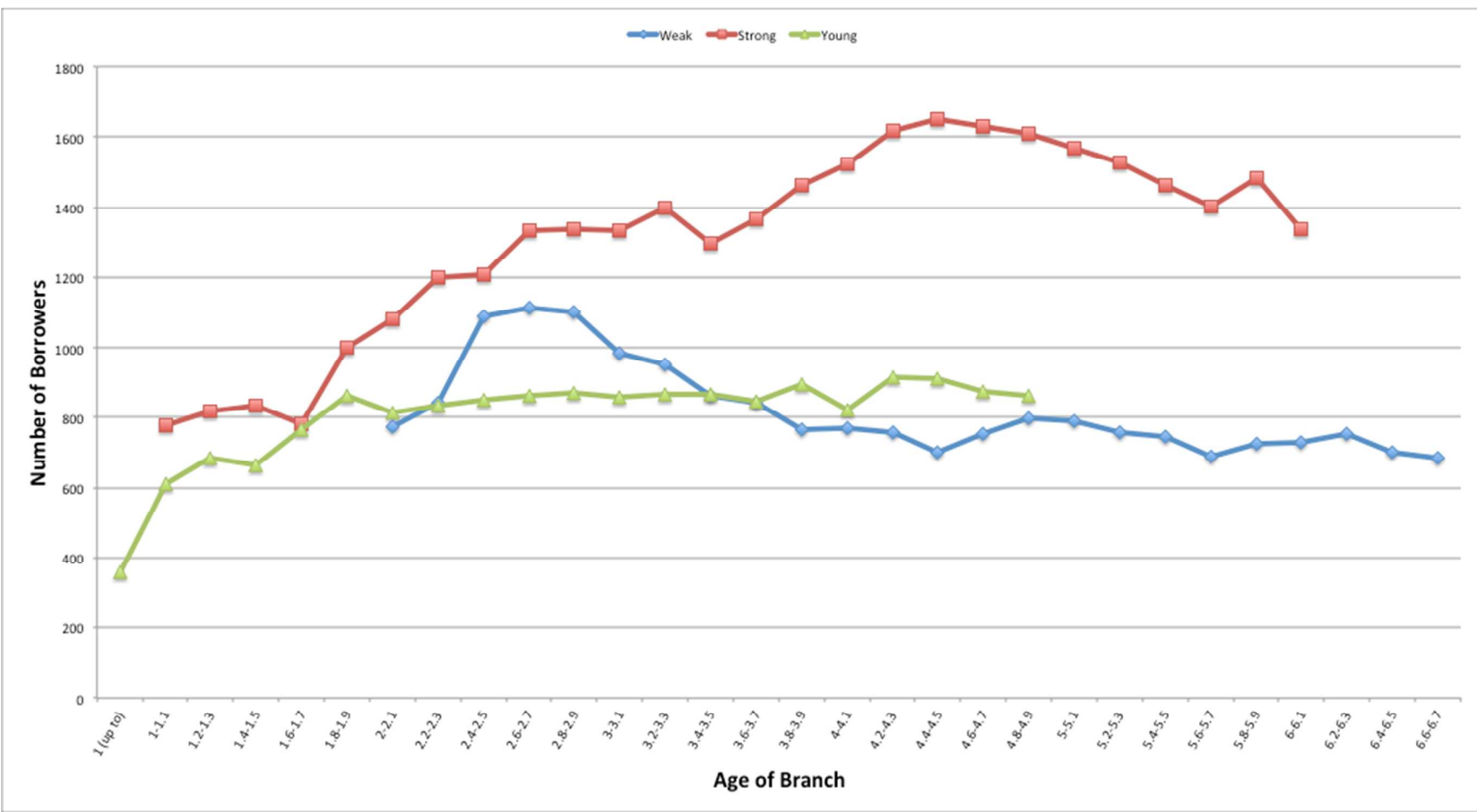
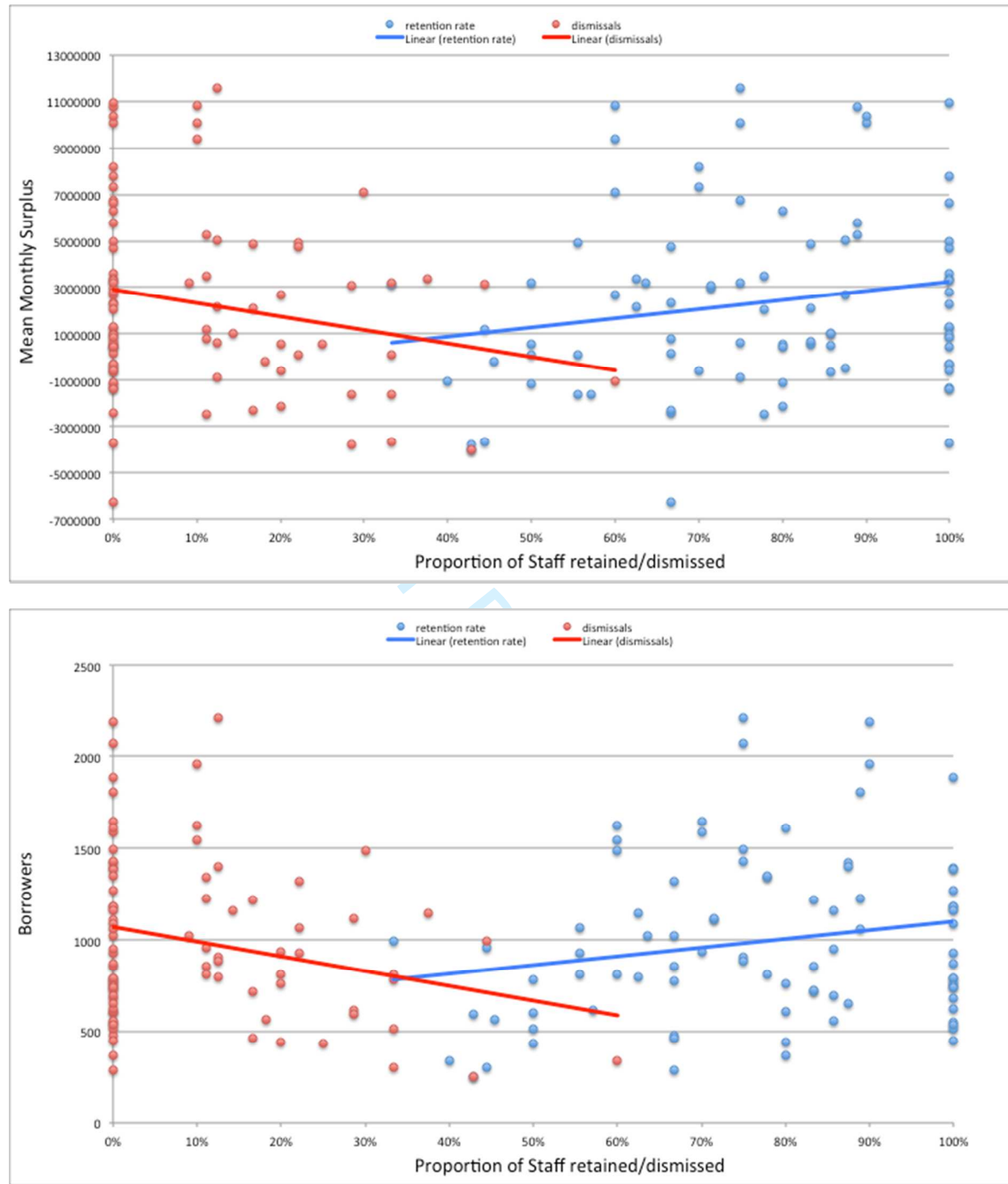


Figure 4: Average Monthly Borrower numbers in Branch Groups



An ANOVA regression analysis found that the number of borrowers explains 84% of the variance in surplus over time (p<0.001; df= 111; F = 473.478).

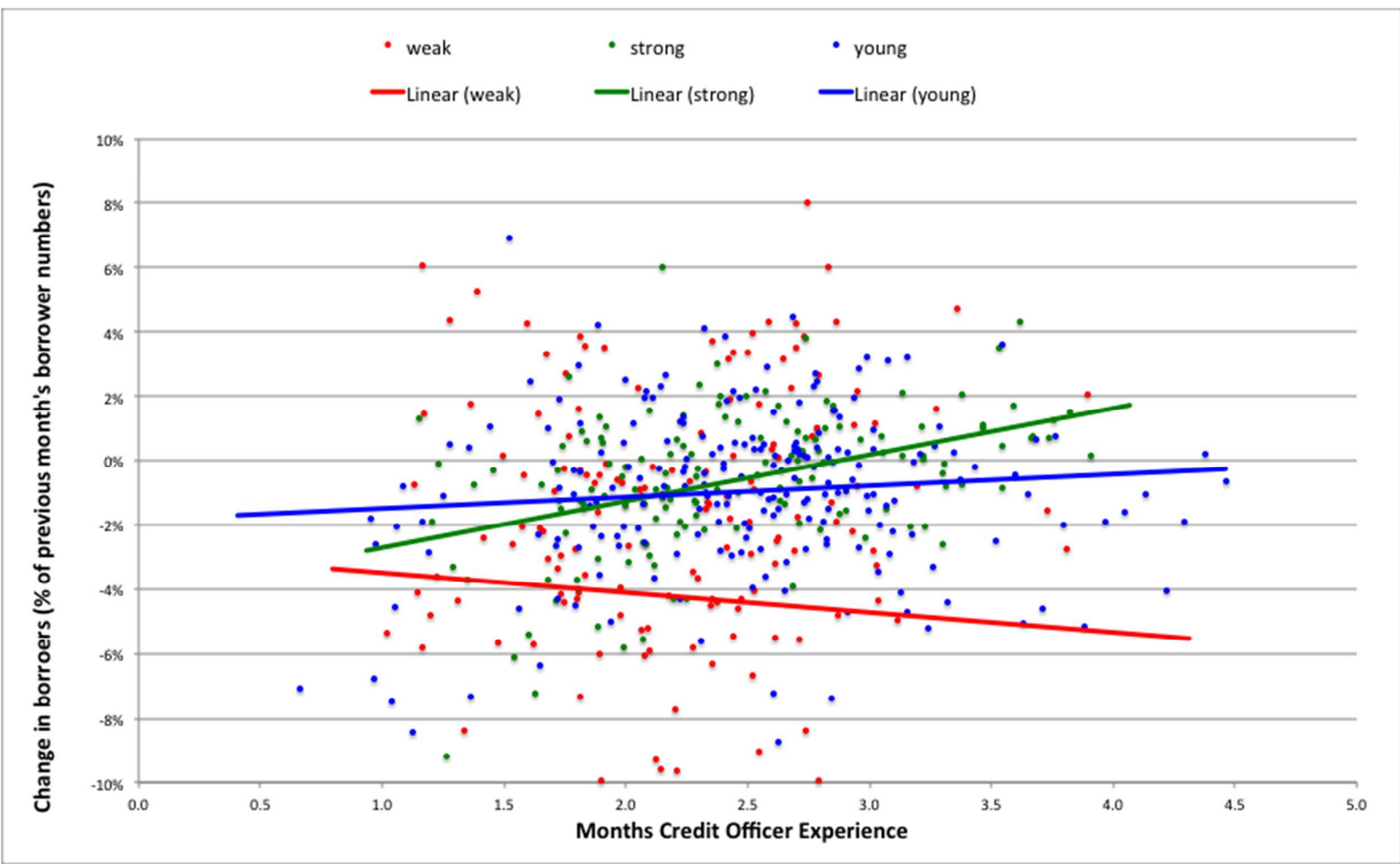
**Figure 5: Dismissals and Retention Rate (Jan 2012-Apr 2013) plotted against A. Surplus and B. Borrowers**



Each data point represents one month's data for one branch.

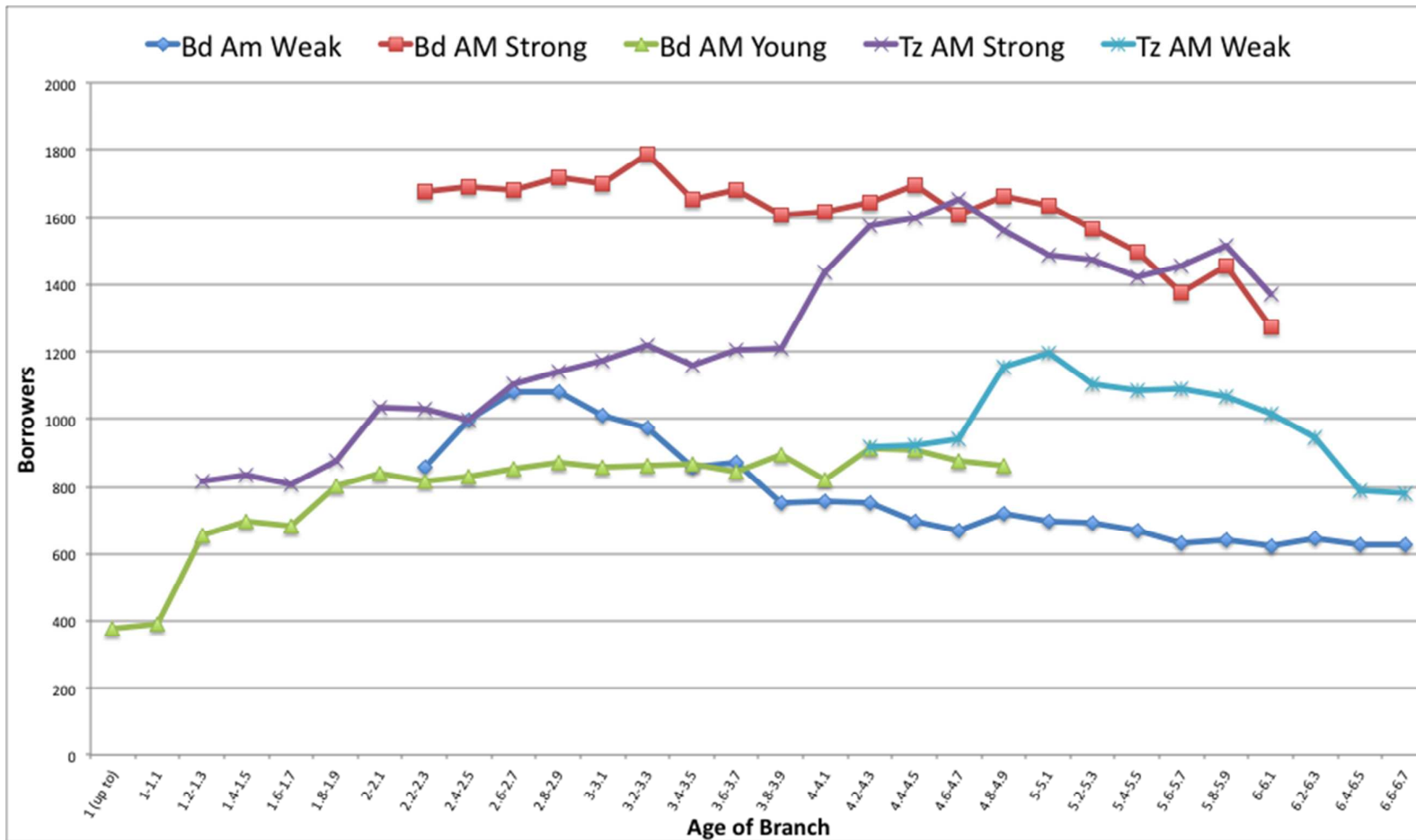


Figure 6: Average Borrower Numbers by Branch Grouping and Area Manager



Each data point represents one months data from one branch for branches aged between 3.8 and 4.9 years.

Figure 7: Average Borrower Numbers by Branch Grouping and Area Manager



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3	Comments from reviewers
4	Reviewer 1
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6	The paper argues that research into internal management processes and culture within microfinance
7	institutions has been neglected as a driver of performance outcomes, particularly when compared to research
8	that focuses on context, products and client types. It is not clear how and how systematically the literature has
9	been searched in order support this argument (see below), but I accept that there is some truth to this
10	argument, and that the point they are making is important.
11	A second strength of the paper is that the case study it develops of BRAC in Tanzania is an important and
12	one that does lend support to the argument above. One reason for a dearth of publications on internal
13	management of MFIs is that gaining access to staff and data is not easy, and they have done well to
14	overcome this.
15	First, there is a somewhat larger literature on internal performance in microfinance than the paper suggests.
16	Particularly relevant are papers on gender (e.g. going back to an early paper by Anne-Marie Goetz),
17	governance and performance related pay (e.g. see the new microfinance handbook edited by Joanna
18	Ledgerwood, and microfinance as an exemplar of social enterprise (e.g. see Anton Simanowitz). Much of the
19	literature (e.g. in Journals like Microfinance and Enterprise Development or Development in Practice) may not
20	be of the highest quality, or it may be buried in doctoral studies, and it is not necessary for the paper to
21	produce a full literature review. But I think it should elaborate on how and how systematically the literature
22	was researched, and emphasise that the gap exists particularly in the field of international development. A
23	recent paper in the Canadian Journal of Development Studies by Copestake et al. may also be useful in
24	locating the gap in relation to contrasting traditions within which microfinance research has been framed.
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32	Second, having done more to substantiate the deficit of research into internal microfinance processes, the
33	paper could usefully speculate further (e.g. as part of the conclusion) into why this might be so. Clearly
34	convenience of access to public (especially MiX data) has been a factor as has been disciplinary interest →
35	e.g. with the two combining to promote data envelope analysis of organisational efficiency in a way that
36	avoids having to engage with more subtle aspects of management process.
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43	Third, the Methods section reviews qualitative data collected, but this creates a disjuncture because much of
44	the subsequent paper is based on a series of quantitative diagrams. This can be corrected by discussing the
45	quant data also in the Methods section, as well as adding a defence of mixed methods research that
46	combines quant (with a focus on numbers and facts) with qual (with its focus on words and meaning).
47	
48	Fourth, given the prominence with which it features in the empirical analysis the findings of the cluster
49	analysis should I think also be presented more fully → e.g. listing all the variables that it handled, and critically
50	reflecting on how these were obtained and how comprehensive they were.
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Fifth, I was not fully convinced with the quick rejection of products, clients and environment as sources of variation in branch performance over time. Human resources could also be dismissed on the grounds that staff shared similar training and were deployed and redeployed Oendogenously<sup>1</sup> in response to branch characteristics. This point arises later when discussion of the correlation between area staff nationality and performance is discussed rather mechanistically, without reference to churning in postings and overlapping roles and responsibilities. Lastly, environment can affect branch performance at a very local level – e.g. it is not implausible that market and neighbourhood characteristics of Arusha East and West could contribute (partly through interaction with management factors) in explaining different performance outcomes.

Sixth, the paper currently includes an unnecessarily large number of figures and tables. Table 1 is important. Tables 2 and 3 could be merged. Table 4 could be substituted by including a few summary statistics in the text. Figure 2 is not needed because Figure 3 presents covers a similar issue in more detail (although it needs a footnote explaining how monthly surplus is defined and measured). Figure 4 is not needed can be captured in the text, as the correlation it depicts is rather obvious. Figures 5 and 6 are useful. Figures 7 and 8 are interesting, but the statistical significance of the trend lines look limited.

Finally, there is scope to at least flag up the potential relevance of the case study to wider debates within microfinance and international development more generally about scope for institutional transfer from one country context to another.

Reviewer 2

## On the Introduction and Framing:

This paper uses rich data from BRAC's microfinance program in Tanzania to make the argument that organizational factors should be explored more systematically and given much more prominence in the study of microfinance in particular and development programs in general. I am sympathetic to the authors' argument. They have clearly invested enormous time and effort in the collection of very high quality data. I think there is a clear contribution to be made here, but my biggest concern is that the authors are clearly under exploiting the amount and quality of data and are thus falling short of making as compelling (and useful) an argument as they could.

I list a series of observations and suggestions below with the hope that they will help the authors in the further development of the paper.

\* On page 2 the authors argue that most research is in fact founded on the assumption that [organizational] diversity does not matter.<sup>2</sup> This is not entirely fair. It is not that the assumption is that they don't matter, it is that net-net, they should matter less across organizations than contractual structures or client incentives, so getting the contracts right and understanding the clients was deemed more important.



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4 \* The authors then cite a renewed focus on evaluating impact on poverty alleviation - I have a few  
5 suggestions here. First, this has actually been a central focus from the origins of microfinance. Second, the  
6 research in general has traditionally suffered from a lot of problems, most recently addressed in CGAP's  
7 Graduation Program. Third, in general, one of the most important contributions of the second wave of more  
8 rigorous work on impact evaluation has been to determine that, on average, the impact of microfinance is  
9 basically zero and sometimes negative (this is mostly driven by an abundance of negative outcomes, there  
10 are obviously many individuals who benefit from the added liquidity of microfinance. My main point here is that  
11 there is no need to delve into the impact debate. From the perspective of the authors all they need to argue is  
12 that there is enormous variation in the quality and performance of MFIs across organizations that share  
13 structural, contractual, and geographic characteristics. There is also enormous variation \*within\* MFIs across  
14 their branches, even those that are geographically proximate. Often, these two sources of variation (which are  
15 often attributable to organizational factors) can be large enough to obscure the effects of better designed  
16 contractual or incentive structures, as well as of environmental effects.

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18 \* The authors on page 3 argue that we have not examined \*how\* organizations perform their work, rather we  
19 have only focused on \*the results\* - I think this is a problematic criticism because ultimately the only reason  
20 why we should care about the how is precisely because it can have a large effect on the ultimate results,  
21 correct? So, as mentioned above, I would rather motivate the paper on the grounds that organizational design  
22 and dynamics can often explain a larger variance in performance than other things.  
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37 \* On page 5 the authors argue that we need a deeper understanding of the links between organizational  
38 systems and branch outreach. I would argue that it is more than that. One of the biggest questions of  
39 microfinance impact is to ensure that the downsides are limited while the upsides are realized. Most of the  
40 contracting work does not at all look at that<as it only seeks to limit the downsides \*for the organization\* and  
41 not for clients. Organizations MUST have the systems that allow them to collect the right data, look at the  
42 right things, and balance the right tensions.  
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49 \* I agree with the authors that (page 6) the "the consequences of competition on staff behaviour is suggested  
50 in the literature, but has not yet been properly explored." The problem is that the paper does not then look at  
51 this interaction. I think the authors have some data to look at this question. If this is not the case, then they  
52 should not raise the expectation.  
53

54 \* In that same paragraph, the authors then move to the issue of mission drift. Again, the paper does not truly  
55 address it in any way, so I would not raise it as a formal question unless they plan to actually explore it in the  
56 data. it just sets expectations for the reader that are then not met.  
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3 \* One of the most important points to be made is that one reason to go beyond contracts is because the  
4 authors are talking about the difference between written rules and standards and the actual enactment of  
5 those rules and standards on the ground (e.g. look at Martha Feldman's work or Michael Lipsky's <sup>3</sup>Street  
6 Level Bureaucracy<sup>2</sup>). It is worth emphasizing, as this difference can generate important variance in outcomes.  
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8 \* Overall, I was slightly uncomfortable with the open recognition of the organization. As a general question,  
9 should the name of the organization be obscured?  
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24 \* At the same time, the authors could do more to explain the credit process of the organization - how are  
25 clients selected? How are loans granted and amounts determined? What happens when there is a  
26 delinquency or a default? Etc.

27 ## On the Data and Analyses

28 \* As mentioned in the opening comments, I was impressed by the amount of richness of the data collected by  
29 the authors. At the same time, I believe the authors could do much more to describe and exploit the data.  
30

31 \* On the description front, regarding qualitative data, there could be a much better description of what the  
32 observations and interviews focused on, how long the interviews tended to be, how many pages of data were  
33 collected and, most important, how the data were coded and analyzed. It is not at all clear to the reader how  
34 the authors handled, codified, and learned from the qualitative data and how systematic this effort was.  
35

36 \* On the quantitative side, the authors should provide a much more careful description of the data they  
37 obtained. I could only get some glimpses of what the data actually allow for by looking at the figures at the  
38 end. It seems critical to explain the contents and details of the dataset.  
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3 \* I am not sure that the data on surplus is necessary the most useful - it seems too far removed from the  
4 client experience and impact and in essence accepts as true the same assumptions that the authors criticize  
5 in the front end of the paper (e.g. that profits are a good measure of microfinance performance for clients). I  
6 would suggest that the authors look for additional measures of organizational performance that are better  
7 aligned with he customer experience.  
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22 \* That said, t is worth emphasizing that the data on branch surplus vs. age follows a more complex pattern  
23 than what table 2 and the text would suggest. It is also worth emphasizing that there seem to be a couple of  
24 outlier branches that are probably impacting the averages significantly.

25 \* Would it be possible to look at drop outs, people who defaulted, or who did not do well in the program?  
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33 \* On page 11, the authors describe one of the many common "grey areas" in microfinance. It was not clear  
34 what it was adding to their argument as they only describe the practice but then do not much with it. If it is a  
35 critical issue then it deserves further exploration. For example, if the reason it is happening is that there are  
36 certain clients that "outgrow" lending limits, then why has BRAC not simply created a second class of loans  
37 for these (excellent) clients, as so many other MFIs do?  
38  
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44 \* The authors on page 13 ask "what could be precluding clients from taking up successful and desirable  
45 products? And why could this only be happening in some branches and not others?" < The right wording  
46 seems to be about growing and retaining lending groups, correct? If that is the focus, then maybe state more  
47 explicitly and focus the analysis on this more clearly?  
48

49 \* I found the dismissal of geographic and environmental factors to be too broad and unwarranted - the  
50 authors do not support this with any analysis, and in fact the little data that show geographic factors would in  
51 fact support the hypothesis that geography matters. It seems easy enough to show whether branches that are  
52 close to each other (but maybe managed by different people) perform similarly or not. One easy way would  
53 be to show that branches that are in the same "territory" and are subject to similar economic fluctuations in  
54 the local economy nonetheless perform very differently.  
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3 \* I found the argument for the nationality and gender of managers to be interesting but not at all supported by  
4 the data. Once again, there is much that the authors could do to both rigorously test the hypothesis on the  
5 data in a much more systematic way.  
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22 \* If there is a systematic relationship between these factors and important performance/client relations  
23 metrics like the <sup>3</sup>thanks money<sup>2</sup> the authors describe, then it is critical to describe this in more detail and,  
24 especially, explore variance across branches on the prevalence of this in a much more rigorous and  
25 systematic way. In addition, this probably passes through recruitment practices: are these centralized or  
26 localized? How about promotions? Can we observe employee trajectories in the firm?  
27  
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29

30 \* Throughout the paper, the authors should keep in mind that the power of the research design comes mostly  
31 from all within-organization variation. In that sense, organization-wide assertions like that on page 14 (<sup>3</sup>Credit  
32 officers complained of low levels of job satisfaction, low pay and stressful conditions<sup>2</sup>) actually move away  
33 from this empirical traction.

34 It would be much more powerful to explore (through rigorous analysis and in the text) variations within the  
35 organization on things like employee motivation, retention, promotion, etc. < based on some of the figures it  
36 seems like the authors do have the data to explore some of these dynamics, but they are currently only  
37 showing some variance in some of the figures, not exploring it systematically, and certainly not explaining it in  
38 the text.  
39  
40

41 \* In other microfinance work on organizational factors, loan officer rotations have proven to be a particularly  
42 useful source of empirical traction - can the authors explore it more systematically?  
43

44 \* When the authors look at the distribution of managers by ethnicity, etc. across branches they hint at a  
45 causal story but they do not explore the data nearly as rigorously as they could. For example, one simple  
46 alternative explanation is that better branches allow for quicker learning and therefore quicker promotion of  
47 local talent to become managers < so the causality would be reversed.  
48  
49  
50

51 \* As mentioned earlier, when exploring the figures at the end I was struck by the amount of data that are not  
52 explored and discussed in the paper and that could give much more information about organizational factors.  
53 These could include % retention of clients, average tenure of clients, average tenure of loan officers, loan  
54 officer trajectory, etc.  
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\* In addition, figure 7 would suggest that the authors also have data on voluntary departures and loan officer tenure.

\* I am not sure what figure 8 is trying to communicate. A more rigorous exploration of those data could lead to a more interesting causal hypothesis.

\* In figure 9, do the authors mean years of credit experience for loan officers?

For Peer Review Only

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3	Response from the authors
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6	Thank you for this comment, we have
7	strengthened the literature review as per the
8	suggestions below
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11	Many thanks for this comment
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15	We thank the reviewer for suggesting this change.
16	Statements about the 'gap' in the literature have
17	been nuanced and key scholarship analysing the
18	importance of understanding the behaviour of
19	actors for internal performance have been
20	acknowledged (Goetz, 1996, 2001; Ahmad 2002,
21	2003, Dixon et al, 2007, Labie et al. 2009 Siwale,
22	2013 and Lensink et al. 2015) and references to the
23	work of Copestake and Ledgerwood have been
24	added in. Changes have been made in the
25	introduction and literature review (p. 2, 3 and 5).
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32	We would like to thank the reviewer for this
33	comment which, we think, raises a valid point
34	about the nature of the research enquiry in
35	microfinance. As suggested, the conclusion now
36	raises this issue of data gathering, management
37	and access and the apparent lack of engagement
38	with questions of organisational systems of
39	performance. (pp. 21-22)
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43	We have completely rewritten the Methods
44	section to address these points.
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48	We have listed the variables and explained why
49	they were chosen
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3 We have rewritten this so that we do not so much  
4 reject this triptych as question why they alone  
5 should be the go to points. The reviewer's  
6 comments about HR and training being similar  
7 nationally are well taken, and we have refined our  
8 argument to make it clear that we are talking  
9 about the differential management of lower level  
10 HR issues that can negatively affect client  
11 experience.

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15 We have followed almost all of these suggestins.  
16 We have merged Tables 2 and 3, and we have  
17 removed figure 4. However we have kept figure 2,  
18 as its purpose is to re-interpret the graph shown in  
19 figure 1. This material is now presented in a  
20 different way and we have merged figures 1 and 2  
21 together. We have kept figures 7 and 8 (now  
22 merged) because they were interesting and made  
23 clear their limited statistical significance

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27 Thank you, this is a good point. Please see the  
28 second last paragraph of the conclusions where we  
29 highlight that BRAC can offer a relevant case for  
30 contributing to wider debates on such institutional  
31 transfers.  
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38 This is wonderful praise that we were delighted to  
39 read - the project certainly became ever more  
40 absprbing as more aspects about BRAC's work and  
41 condition became clearer. Our only concern is that  
42 the data we have may not, in fact yield the insights  
43 you are looking for because they are not complete  
44 enough. We have tried to manage readers'  
45 expectations in the revised version.  
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49 Thanks, a good point and we have rewritten this  
50 text to reflect this point.  
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3 Thanks for these suggestions we have re-written  
4 the text here to take on these arguments  
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18 We used the useful wording of suggested by the  
19 reviewer and re-phrased as follows: 'What  
20 motivates the paper is that organizational design  
21 and dynamics can often explain a larger variance in  
22 how performance is enforced by actors and why  
23 than other things . Organizational systems and  
24 behaviour are still largely neglected in many  
25 studies and particular genres of study (Copestake  
26 et al., 2016). In fact, variations in internal  
27 organizational systems and functioning remain  
28 largely absent from the explanatory impact  
29 framework, which generally consider products,  
30 client group and environment as key 'performance'  
31 (aka results) drivers.'  
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37 This is an excellent point but one we feel may be  
38 beyond the scope of our paper. This point is about  
39 the empirical data that branches collect to monitor  
40 their performance and remain focussed on their  
41 social objectives. It takes us into territory that we  
42 cannot really cover in a paper which is about the  
43 importance of understanding how middle level  
44 management affects the internal variation of an  
45 organisation's performance.  
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49 The mention of how commercialisation affects  
50 staff behaviour has been deleted  
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53 References to the mission drift have been deleted.  
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3 We found this suggestion really useful and have  
4 writtten in both the authors suggested  
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8 This issue had been raised by the editor when the  
9 paper was first submitted and before it was  
10 reviewed. This paper derives from a working paper  
11 which is in the pubic domain and which has been  
12 shared with the organisation concerned. It would  
13 be difficult to conceal the organisation at this  
14 stage. Moreover there is a great deal within this  
15 paper that puts BRAC in a good light, specifically  
16 the welcome consequences of its loans for its  
17 clients and its rapid transformation of the senior  
18 and middle management after 2013.  
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23 We have added a pargraph which explains this  
24 information.  
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31 These requests matched those of the first reviewer  
32 and we have substantially re-written the methods.  
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36 We have provided more detail such that any figure  
37 or table we present uses information that has  
38 already been signalled in the methods.  
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3 We looked for information about clients leaving  
4 BRAC - which is the best record of dissatisfaction,  
5 but found these were kept in long-hand at branch  
6 level which made collecting systematic data  
7 difficult. The reviewer is quite right that surplus is a  
8 poor way of capturing client experience, but it is a  
9 good indicator of whether clients are coming back  
10 for more loans, or choosing to leave (often by  
11 defaulting). Moreover our point in this paper is not  
12 necessarily to capture all of client experience but  
13 to demonstrate that within organisational  
14 performance needs to be examined more carefully.  
15 Surplus suffices to make this point  
16  
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22 We have redone this analysis to exclude the  
23 Zanzibar outliers  
24

25 As per the last comment but one we tried to do  
26 this, but it was not possible to gather systematic  
27 data about drop outs. Information on returned  
28 security deposits is problematic because of the  
29 practices of delaying and making it difficult to  
30 return these deposits.  
31  
32

33 We cannot explain why BRAC has not been more  
34 adventurous in the loans it has offered clients, but  
35 our point in mentioning these multiple loans is  
36 simply to say that BRAC has found a way of tapping  
37 a ready market. It is, for obvious reasons, difficult  
38 to research multiple loan taking, but we would like  
39 to keep this detail in because it shows how clients  
40 are responding to BRAC's presence and rules.  
41  
42  
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44 Thanks - a good point and we have changed the  
45 wording accordingly.  
46  
47

48 Reviewer 1 also raised this point and we have re-  
49 written this section to be narrower and more  
50 warranted.  
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3 The reviewer is right that this hypothesis could be  
4 tested more systematically, but it was beyond the  
5 scope of this exploratory research to do so. Indeed  
6 it should be possible to test mutiple hypotheses  
7 about loan officer performance, management,  
8 geography, clients and products, but, remarkably,  
9 we do not know of many studies which have tried  
10 to do so. The purpose of this paper is to say this  
11 must be done - and this reviewer's eagerness that  
12 we do so is in that sense really pleasing. They get  
13 it! But please do not ask us to do so in this paper  
14 because, much to our frustration, we cannot and it  
15 would be a shame to fault the paper for making  
16 too compelling a case  
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22 Again the reviewer is absolutely correct, but this is  
23 beyond the scope of this paper. We do not have  
24 promotions data or employee trajectories. Thanks  
25 money is a shady practice and very difficult to  
26 investigate systemmatically.  
27  
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30 This was a really useful point and helped us to  
31 highlight that we are focussing on the *differential*  
32 *management* of generic problems. As we  
33 explained above we do not have the detailed HR  
34 data to explore employee motivation and  
35 promotion. Our retention data cover only a 15  
36 month period, and, as reviewer 1 observed this is  
37 interesting but weak statistically.  
38  
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41 Unfortunately the HR database just has joining and  
42 leaving data, not change in postings  
43

44 Again, rigorous testing of this hypothesis is not  
45 possible for us and we have made that clear in the  
46 text. The reviewers suggested mechanism would  
47 not apply as area managers are not appointed  
48 from within their area, but allocated to postings as  
49 they become available.  
50

51 Unfortunately we do not have much of these data.  
52 We don't have information on loan officer  
53 trajectories, or on percentage retention of clients  
54 or their average tenure.  
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There is some information on the number of microfinance employees leaving of their own accord (76) as opposed to 21 who were sacked. But there are also 17 employees for whom this sacking/choice is unclear and 55 of those who left gave no communication. Or, to put this a different way, there is not much more robust data we can glean from this. Our point is simply that levels of employee satisfaction appear low and this is associated with poor branch performance. We think the data we have presented suffice to make the point we are trying to here.

We have merged this figure with figure 7

Yes loan officers not credit officers we have changed the title of this figure