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Models of Social Enterprise?

Microfinance Organisations as Promoters of Decent Work in Central Asia

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Models of Social Enterprise?

Microfinance Organisations as Promoters of Decent Work in Central Asia

Volume 1

Robin Gravesteijn

A thesis submitted for the degree of Doctor of Philosophy (PhD)

University of Bath
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Abstract

In simultaneously pursuing commercial and social goals, specialist microfinance organisations (MFOs) are leading examples of social enterprises working in development. Yet evidence of the feasibility of such ‘double bottom line’ management is limited. The thesis takes a comparative case study approach to investigating the dynamics of a social enterprise model of microfinance, with particular emphasis on its role in promoting employment related goals. Case study material consists primarily of the experience of two Central Asian MFOs that participated in an action research project ‘Microfinance for Decent Work’ implemented by the International Labour Organisation (ILO). Data was obtained through participant observation, staff interviews, client level surveys, and it also includes reflective practice arising from my participation in the ILO project as a consultant to both MFOs between 2008 and 2012. The findings are mixed. One of the MFOs was more strongly internally motivated to achieve social goals, and was more successful in implementing SPM initiatives. The other was motivated more by the goal to demonstrate social performance to external stakeholders, and was less responsive to the evidence generated. The thesis also illustrates both path dependence in the evolution of social performance management, and the limited capacity of external agencies such as the ILO to influence the institutionalisation of development management within MFOs.

Abbreviations

CG	Comparison Group
DAC	Development Assistance Committee
M	Middle Manager and Coordinators
MDG	Millennium Development Goals
MFO	Microfinance Organisation
NABWT	National Association Business Women Tajikistan
NIE	New Institutional Economics
PBM	Performance Based Management
RCT	Randomized Controlled Trials
SME	Small Medium Enterprise
SLO	Senior Loan Officer
SM	Senior Manager
SMM	Shared Mental Model
SPM	Social Performance Management
SPTF	Social Performance Task Force
TG	Treatment Group

Models of Social Enterprise?

Microfinance Organisations as Promoters of Decent Work in Central Asia

Chapter I. Introduction

1.1. Microfinance and Performance Management

Microfinance has often sparked the interest of people for being a “commercial” as well as a “development” intervention. Some views of performance-based management (PBM) of Microfinance Organisations (MFOs) focus primarily on creating sustainable commercial microfinance and see the development impact as a secondary objective (Robinson 2001; Von Pishke 1991; Seibel 1996; Rhyne 2001). Others focus on generating social impacts for the microfinance clients and find achieving financial sustainability less important (see Hulme and Mosely 1996; Wood and Sharif 1997). The latter includes a more radical group of authors who argue microfinance is harmful for clients (e.g. Dichter 2005; Bateman and Chang 2009). A variety of authors examined both perspectives (Woller et al 1999; Dunford 2000; Mayoux 2000; Rhyne 2001; Robinson 2001; Nissanke 2002; van Maanen 2004; Seibel et al. 2002; Kabeer 2008).

In the last decade, a third perspective became popular, namely what may be labelled as “social enterprise”. This is the idea that it is feasible and desirable to pursue social and financial goals simultaneously (Dunford 2001; 2003; Yunus 2007). In microfinance this view is embodied in the Microcredit Summit Campaign that believes it is possible for MFOs to be financially sustainable and alleviate poverty (Daley Harris 2002; 2009; Simanowitz and Walter 2002:3-5&22). It is also embraced by the Social Performance Task Force that promotes social performance management (SPM) as a way to reach both client and MFO sustainability objectives (SPTF 2008:2012). SPM looks at the entire process by which impact is created and is a deliberate shift towards institutionalising social performance assessments and practices into the routine operations of MFOs (Copestake et al 2005: 4; Hashemi 2007:3; Simanowitz and Walter 2002; Imp-Act 2004; 2005). Thus social enterprises differ from commercial organisations in that they manage social objectives for their clients, but they also differ from developmental organisations in that they are concerned with their own financial sustainability (see Navajas et al 2000:335; Dees and Anderson 2006 cited in Lehner 2012:39; Copestake 2007). However, despite the increasing popularity of this perspective there is limited evidence of the feasibility of such “double bottom line management”.

Although there is a reasonably standardized system of accounting to verify financial sustainability (e.g. Yaron 1992; Yaron et al. 1994; CGAP 1993), there is a substantial debate about how to measure social performance at the client level sufficiently reliably. Part of the debate involves whether to use quantitative (Duflo et al 2007; Karlan and Goldberg 2007), qualitative, or mixed methodologies to evaluate results (Barnes et al. 2001; Nelson et al 2004). Another part concerns how to keep these performance appraisals cost-effective (Imp-Act 2004; Barnes et al. 2001:7; Duflo et al. 2007:30-41; Dunn 2008). A third discussion surrounds how the assessments themselves may lead to better performance management (Copestake and Simanowitz 2002; Karlan and Goldberg 2007).

Social and financial performance management may generate synergies because client level assessments could stimulate organisational learning and inform ways to foster product innovation (Imp-Act 2004; 2005; Copestake et al 2005). Implementing SPM activities could even create a “business case” or “win-win” situation for clients and MFOs. However, in other cases, tensions arise in the allocation of resources and multi-tasking of goals (Schmidt and Tschach, 2001:22; Armendariz and Morduch, 2007: 266-267). Organisations that pursue double bottom line management may also be subject to the risk of mission drift (Christen 2001; Copestake 2007; Mersland and Strom 2007).

From a broader perspective, the issue of institutionalizing social goals into organisational structures is part of a wider discussion in development management. On the one hand, “New development management” proposes PBM with development goals is desirable and effective (Binnendijk 2000; 2001; Meier 2003; Brinkerhof 2008; Thomas and Mohan 2007; ILO 2008). However, the “Critical Development Management” school argues this is merely a way for Western development agencies to do social engineering (Cooke and Dar 2009:1-3). An open question is who drives the process of development management, donors or local agencies (Hulme 2007; Brinkerhof 2008; Cooke and Dar 2009:1-3).

The new institutional economics (NIE) and related fields also examine the dynamics of PBM in organisations (Kim 1993; Denzau and North 1994; North 1992; 2005; Boettke et al. 2008; Argyris and Schon 1996; Senge 2006). I focus on one part of this literature, namely Denzau and North’s (1994) notion of shared mental models (SMMs), which describes how institutional change cannot be separated from the way staff in organisations think and embed this thinking into organisational structures. In applying this theoretical concept, I will identify the above-mentioned perspectives of PBM in microfinance as “business first”, “development first”, and “social enterprise” SMMs (See Chapter II). Moreover, I also address the related problem of how to institutionalize a new way of thinking about SPM within MFOs.

1.2. MFOs and Decent Work

This thesis is about how far MFOs as a form of social enterprise incorporate social goals related to *decent work* for clients into their PBM. Since 1999, the International Labour Organisation (ILO) has used the umbrella concept of *decent work* to support its political agenda, incorporating it into the Millennium Development Goals (MDGs) in 2005 (ILO 2007, March; 2008c; 2008e). It argued microfinance was making a strong contribution to decent work because it facilitates small investments in (self) employment and job creation, it can help the poor to manage risks through, savings, micro-insurance and emergency loans (ILO 2005:1). At the same time, the Labour Organisation recognized there was limited evidence of impacts of microfinance. Studies found positive effects on work quantity, but showed very mixed results on the quality of the employment generated (e.g. Sebstad and Chen 1996; Hulme and Mosley 1996; Balkenhol 2007).

The ILO Social Finance Programme suggested MFOs might be encouraged to intervene in certain decent work aspects such as job creation, child labour, formalisation, association of workers, risk management and social protection, over-indebtedness, working conditions and women's empowerment (ILO 2007, Dec, see Chapter III). In 2008, it started a large "Microfinance for Decent Work action research project" to investigate whether microfinance companies can address some of these aspects (ILO 2007, Dec: ILO 2009, Feb). 22 MFOs in various parts of the world conducted a diagnostic survey that assessed decent work aspects among their borrowers. From 2009 to 2012, 16 MFOs tested new ways of working by launching a pilot experiment and client level assessment in one specific decent work aspect (see Chapter III).

I participated in the overall project and supported the selection of partner-organisations, the design of the assessments, and data analysis. At the same time, I decided to conduct a parallel academic research analysing how microfinance companies managed their pilot experiments. More specifically, I worked with two MFOs located in Central Asia. Bai Tushum in Kyrgyzstan had job creation for clients in its mission statement. The company launched a separate department for SME lending, with the objective to create more jobs among microfinance borrowers. We conducted a client level assessment using longitudinal data (see Chapter VI). IMON in Tajikistan pursued the objective of women's entrepreneurship. The company launched a start-up loan and entrepreneurship training package for women with the aim of improving women's empowerment and entrepreneurship. We conducted a quasi-experimental impact assessment using longitudinal data (see Chapter VII).

This research draws from the ILO "Microfinance for Decent Work" project. It reports on the findings for the two MFOs and reflects critically on the effect of the pilot assessments on their practices of performance-based management. The thesis goes beyond social performance *measurement* and

assesses social performance *management*. It looks at how the MFOs managed the pilot experiment and used data outcomes for improvement of development practices. My participation raised one particular reflective question, namely could the ILO as an external agency (along with myself as an external consultant) have a sustained effect on the MFOs' performance management. Or to what degree could the shared mental model (SMM) of the MFOs be influenced by the ILO and its decent work agenda?

This thesis aims to bring back to the literature a better understanding of how you can assess development goals within a social enterprise in practice. How those goals are managed as part of double bottom line management. And subsequently, following the concept of SMMs proposed by Denzau and North (1994) what can be learned about the dynamics of PBM of social enterprises from their response to the ILO sponsored pilot assessment.

1.3. Research Questions

The central research question is:

How do microfinance organisations incorporate social goals into their performance management, with particular reference to ILO's "decent work" agenda in a Central Asian context?

I assess this at three levels, namely social performance assessment, double bottom line management, and changes in PBM over time:

Feasibility of Social Performance Assessment in Practice

The entry point for addressing this question was an opportunity provided by the ILO to participate in an action research program. An initial subset of questions concern how the selected MFOs responded to this:

1. What determined the willingness and capacity of the MFOs to carry out the decent work assessment at the outset of the pilot in 2009?
2. What other initiatives were undertaken by the MFOs in PBM from 2009 to 2012?
3. How did the MFOs manage their decent work pilot assessments?
4. What did they find out as empirical outcomes?

Feasibility of Double Bottom Line Management in Practice

This experience enabled me to inquire into performance management practices of MFOs more generally, beyond the ILO pilot assessment. Subsidiary questions include:

5. How did the MFOs act on the empirical findings to improve development practice?
6. What capacity does this reveal in the organisations for SPM?
7. What does this reveal about the sustainability of management of social goals. Is there a business case for managing employment related goals at client and MFO level?
8. What tensions were observed in financial and social performance management?

Influence of the ILO pilot on changes in PBM of MFOs.

In addition to gaining insights into practices and culture of the MFOs, I hope to gain a better understanding of how the pilot changed over time and whether PBM could be influenced by external agencies. Subsidiary questions here include:

9. To what extent did performance management practices of the MFOs change over the period 2009 to 2012?
10. To what extent can an external agency such as the ILO influence the performance management practices of the organisations?

1.4. Research Scope and Limitations

1.4.1. Method

The thesis uses an interpretivist epistemology and action research methodology. It conducts a comparative analysis of two case study MFOs in Central Asia. The methodology uses the opportunity I had as a participant observer during the ILO project, to analyse PBM practices of the microfinance companies. The research questions follow an action learning cycle (see Kim 1993:5; Argyris and Schon 1996; Senge 2006; Huczynski and Buchanan 2007:567) and look at how the MFOs managed their pilot assessment, and how they responded to the empirical findings in terms of new activities, learning and reality checks. Finally, I am interested to observe how this learning feeds back into wider organisational systems.

I use a mixture of quantitative and qualitative data collected at the level of the client and the microfinance company. Social performance outcomes were measured through surveys that tracked employment outcomes of clients. To inquire deeper into performance management practices, I

conducted semi-structured interviews with field staff and senior managers in the two case study MFOs. I also interviewed senior managers from other leading MFOs in Central Asia to gain an understanding of the wider operating environment. Primary data were supplemented with secondary data such as rating and annual reports. Lastly, I made participant observations throughout the project. I am very grateful for the valuable feedback and support of respondents given throughout the research (see more in Chapter IV).

Because of my direct involvement in the project, I will reflect on my agency as part of action research inquiry (Argyris and Schon 1996: ch2; Reason and Bradbury 2008:3-4; Reason and McArdle 2007; Senge 2006:176-187). One strength of the approach is that I was able to work for a longer period with the companies by conducting multiple field visits. I collected a rich set of data, allowing me to observe processes within the MFOs relating to organizational culture. A limitation was that the decent work pilots were never fully under my control, although I was responsible for a significant part of the client assessment methodology. Second, I became part of the action, an insider, creating a danger that results and analysis would become biased. Section 4.5 will give a more detailed overview on how the methodology itself evolved.

1.4.2. Scope

This is a case study based thesis and I could only research a limited number of social enterprises in-depth. The two organisations that I investigated are not representative of the industry as a whole. However both studies are interesting examples of leading MFOs in Central Asia. They pursued a double bottom line management and wanted to experiment with SPM initiatives. Central Asia is a particularly suitable region to look at the institutionalization of employment related objectives as few client level assessments were conducted in Kyrgyzstan (e.g. Ngo 2008) and Tajikistan (e.g. Burkle 2009).

In the microfinance literature, only a few studies take both the perspective of the client and the MFO into account when assessing performance (e.g. Karlan and Valdivia 2006). Few studies have explored how MFOs act on client level evaluations (e.g. Imp-Act 2004). No study engaged over a longer period to see how staff experienced the process of doing social performance assessment. A lot has been written about microfinance since its rapid expansion in the mid-1990s. While some authors argue microfinance contributes towards achieving the MDGs (Dunford 2006:22; Daley Harris 2009; Littlefield et al 2003:2; Simanowitz and Walter 2002), others feel it is no panacea for development (Armendariz and Murdoch 2007:4; Banerjee et al 2009). This thesis contributes to this debate by exploring two case studies.

This research may be viewed as a relevant case study of new development management (e.g. Brinkerhof 2008) and social enterprise (Lehner 2012:54; Nichols and Young 2006). Both sets of literature emphasize a strong need for more longitudinal studies that show attention to local contexts (Brinkerhof 2008; Lehner 2012:13; Austin 2006:16).

In this thesis, I define microfinance as financial services for poor and low-income clients¹ and MFOs as the financial organisations that offer these products to them.² I will use the abbreviation PBM for “performance based management” and SPM for “social performance management”.

The study focuses on microfinance and employment. The ILO is of course active on many other fronts, but these are beyond the scope of this research. Second, although the research builds on data from the ILO project, it does not apply the same methodology. For example, discussions on impact assessment and econometric methodologies are kept deliberately brief as this thesis looks at the actual usage of data as part of SPM.

1.5. Outline

Chapter II describes concepts of PBM of MFOs and starts with a literature review of new development management (Section 2.2). Section 2.3 then discusses the concept of SMMs, after which I inductively identify three SMMs for PBM in microfinance, namely business first (Section 2.4), development first (Section 2.5) and social enterprise (Section 2.6).

Chapter III is a contextual chapter that introduces the ILO’s decent work agenda and the Microfinance for Decent Work project. It starts by describing the history of the ILO and the concept of decent work (Section 3.2). How does decent work apply to microfinance? What would the SMMs depicted in Chapter II say about employment outcomes of microfinance? What role can the ILO play in promoting the shared mental model of social enterprise (Section 3.3)? After discussing these issues, I then describe the ILO project, its objectives and planning (Section 3.4). Section 3.5 presents the outcomes of the diagnostic phase.

Chapter IV explains my own action research methodology as well as how it differs from that of the ILO project. It reviews the strengths and limitations of the method by comparing experimental research and action research (Section 4.2). It then sets out the conceptual framework (Section 4.3) and

¹ <http://www.microfinancegateway.org/>, accessed April 2013

² In literature on microfinance they are often referred to as Microfinance Institution (MFI). However given that “institution” in NIE has a somewhat different meaning, I use the term microfinance organisation.

the methods of data collection (Section 4.4). Section 4.5, reflects on my own agency as an action researcher.

Chapter V is a contextual chapter introducing the MFOs in Kyrgyzstan and Tajikistan at the outset of the pilot assessment in 2009. It briefly sketches the macro-economic, social and political environment in the Central Asian states (Section 5.2). It then describes the case studies of Bai Tushum (Section 5.3) and IMON (Section 5.4). Section 5.5 conducts a comparative analysis of the two MFOs before the implementation of the pilot.

I then turn to the results for Bai Tushum in Kyrgyzstan in Chapter VI and IMON in Tajikistan in Chapter VII. For each case study, I describe the pilot assessment design (Sections 6.2 and 7.2), its implementation (Sections 6.3 and 7.3), the empirical findings (Sections 6.4 and 7.4), and follow-up actions (Sections 6.5 and 7.5), and what this revealed for the capacity of the MFO to do SPM (Section 6.6 and 7.6). Chapter VIII offers a comparative analysis of both case studies at the end of the pilot assessment and discusses lessons learned from them in relation to the literature. This is set out in three Sections for social performance assessment (Section 8.2), for double bottom line management (Section 8.3) and for changes in performance management in relation to the ILO pilot (Section 8.4). Section 8.5 reflects on key results and identifies areas for further research.

Chapter II. Performance Management in Microfinance

2.1. Introduction

This chapter presents an overview of the literature on performance-based management (PBM) with a development goal, with specific reference to microfinance organisations (MFOs). Section 2.2 links PBM to the idea of new development management. Section 2.3 explores the concept of shared mental models (SMM), along with associated ideas in New Institutional Economics and Organisational Development Theory. The purpose of doing so is to develop a conceptual framework with which to distinguish traditions of PBM within MFOs and to analyse how these change over time. I then apply the concept of SMMs to literature on PBM of MFOs by inductively identifying three SMMs, namely “business first” (Section 2.4), “development first” (Section 2.5) and “social enterprise” (Section 2.6). Each model differs in its understanding of tensions and synergies between social and financial performance goals. Section 2.7 concludes.

2.2. Performance Management and New Development Management

PBM in the development sector has been known under different names. It emerged in the 1960s in the form of “public sector management”, and moved in the 1970s to “management by objectives” and more recently to “results-based management” as identified by the Development Assistance Committee (DAC). In the last decade, PBM became increasingly popular in the development sector as a response to the need for greater transparency and accountability in the use of public resources as well as a requirement of the development sector to align to the Millennium Development Goals (Meier 2003:1-6). In addition, there was a shift towards recognizing that the private sector could play potential role in reaching development objectives through public-private partnerships, corporate social responsibility, and the growth of the so-called “social enterprise” sector (Brinkerhoff 2008).

In a technocratic sense, performance or results-based management is “a broad set of management systems that aims at changing the way an agency conducts its business operations” (Binnendijk 2001:4). In many cases, organisations have engaged in such systems, but do not call it PBM as such. It normally starts with setting up a strategic plan, with objectives and targets that are explicit and monitored to see whether an organisation is on track (Binnendijk 2001). In this context, performance assessment is “the process an organization follows to objectively measure how well its stated objectives are met”. It includes the design of indicators and completion of data collection, analysis and reporting (Binnendijk 2000:6). Performance management is broader and entails the actual usage of

data for management decision-making, “implying it becomes integrated into key management systems and processes of the organization” (Binnendijk 2000:7).

Meier (2003:6) and Binnendijk (2000:6-7) describe two main drivers for doing PBM in the development sector, namely to generate organisational learning on how to reach development goals more effectively, and to improve accountability to external stakeholders through performance reporting. It often uses a result chain to distinguish inputs of resources and activities, outputs, outcomes and impacts. In doing so, it makes objectives explicit as they should be intended, measurable and feasible to accomplish (ILO 2008:1-3&24; Meier 2003). Such development planning is most effective in organisations with a culture oriented towards achieving results (Meier 2003).

Another set of literature challenges such “technocratic” thinking in development management. Thomas and Mohan (2007) argue that although PBM within private agencies is already complex as it involves having to make decisions based on uncertainty and incomplete information; PBM by development agencies is even more complex because it aims to reach goals that are external to the agencies themselves and subject to value-based conflicts. Development management is not just the implementation of tools and interventions that seek to make programs more effective, it is also a normative concept that involves building social values and norms into the management of all operations of the organisation (Thomas and Mohan 2007:9-10).

Brinkerhoff (2008) points out that development management, in contrast to other types of PBM, tries to achieve political agendas and uses goals that carry a particular set of normative values. As such, it is not an ideologically neutral exercise and there is a need to think about how organisations institutionalize development values. An open question remains whether donors allow local visions to prevail, or impose their views and blueprints (Brinkerhoff 2008:989-991&994). Such external development interventions may only succeed if plans adapt to local contexts and are able to motivate local agents (Brinkerhoff 2008:996). Hulme (2007) evaluates the MDGs from a development management perspective and notices that “at times the ideas of human development and results-based management are pursued but, when they challenge the interests of powerful groups or nations, they are removed from the agenda and their principles are compromised or assiduously avoided” (Hulme 2007:1). Developed nations rarely sign up for explicit objectives, but they require developing countries to do so (Hulme 2007:18). Therefore, PBM can be imposed through donor-recipient’s power relationships.

Sanderson (2001) argues PBM should not be externally imposed because it increases the risk that it will lead to bureaucracy and becomes a mechanical process in which the ability to manipulate targets improves rather than the capacity to enhance performance. PBM can only succeed if it is driven from

within the organisation, only then it might function as a catalyst for positive change (Sanderson 2001:309). Thomas and Mohan (2007:12) fear a technocratic “problem solving” approach by outside consultants that have limited knowledge on how to improve development practices. Roth (2008) feels that when performance standards focus on measurable outputs, they overlook other important factors such as organizational processes, external factors and unintended effects. The development of broader metrics and feedback processes enhances organizational learning (Roth 2008:478-479). Nichols and Young (2006: xvii-viii) stress that performance assessment of development goals is often conducted mainly to attract new funding sources rather than in a genuine bid to improve the internal operations and systems of development agencies. They consider this a missed opportunity to “improve” development practice.

The ‘critical development management’ school goes even further and argues that PBM is managerial because it imposes a certain management model that advocates hierarchy and power. PBM for development is for them a form of social engineering by Western development agencies. The very idea of development management is rejected and should be deconstructed, it forms a way for donor agencies to control organisations in the South (Cooke and Dar 2009:1-3). By focusing on PBM within relatively autonomous MFOs, and by examining the potential of external agencies to influence but not to dictate how these work, this thesis sets out from a more reformist and less radical position towards the development industry.

2.3. Shared Mental Models

In this section, I broaden the discussion by drawing on ideas taken from the New Institutional Economics (NIE) literature (Section 2.3.1). Particularly I describe the concepts of mental models (2.3.2) and how they can be shared (2.3.3). I link these to similar concepts from management to consider how shared mental models might change in organisations (2.3.4). I then describe methods to identify them in organisations (2.3.5). After this, I depict three SMMs of PBM in microfinance (2.3.6).

2.3.1. New Institutional Economics

New institutional economics (NIE) analyses economic systems by drawing not only from economic theory but also from history, sociology and organisational studies. It views economic performance and change as a humanly designed process that takes place at the micro, meso and macro level. NIE extends across a wide range of theories such as organisational theory, transaction costs theory, incentive economics, behavioural science and evolutionary economics (Wolfgang and Streit 1998:38; North 1992; Arthur 1994; Magnusson 1994; Denzau and North 1994; North 2005; Kasper and Streit 1998; Williamson 1988; Boschma et al., 2002; Boettke, Coyne et al 2008). NIE overlaps with related

theories of organisational development (OD) and learning in that both describe processes by which firms deal with innovation, learning and change, in relation to their performance goals and structures (Cummings 2008: xv; Argyris and Schon 1996: xvii & 181-182; Senge 2006; Huczynsk and Buchanan 2007).

NIE rejects the assumption of neoclassical economics that actors make rational choices and instead emphasizes the premise of bounded rationality because people often act based upon incomplete and unreliable information. Although economic actors strive to maximize performance, they reach *at best* sub-optimal outcomes because they are limited in information, knowledge, foresight, skill and time. Information is costly to collect, and our capacity to process it is limited (Boschma et al 2002: Ch3; North 1992:8; Denzau and North 1994:1-8; Williamson 1988).

The second assumption of NIE is that agents are opportunistic, meaning they are subject to “a deep condition of self-interest seeking that contemplates guile” and includes shirking and cheating on contractual terms etc. Promises of economic actors to behave responsibly have limited credibility and this makes human relationships less predictable (Williamson, 1988:67-68). The assumptions of bounded rationality and opportunism underlie most incentive and transaction costs theory. However, they still have difficulties explaining why economic actors may have social motives (Osterloh and Frey 2000; Frey and Jegen 2000), build social capital or trust (e.g. Dasgupta 1998; McAslan 2002:139-142; Nooteboom 2000), or relate to a shared organisational identity (e.g. Akerlof and Kranton 2005), or ideology (Denzau and North 1994).

North (2005) emphasizes a third assumption, namely a non-ergodic environment, in which economic change is a continuous process and there is a great deal of uncertainty about the environment. Under such conditions, the historical and socio-cultural context matter in economic systems and theory. He emphasizes that rather than using only abstract or rational logic, actors use pattern based reasoning; thinking is based on generalizing separate contextual events into historical and cultural patterns (North 2005:21&25& Denzau and North 1994:13). Actors learn by induction through experience from previous choices and outcomes, trial and error and routine decision-making (Denzau and North 1994: 11, Holland et al 1986). Under such circumstances, the actual performance outcomes may be very different from the intended target (North 1994:366).

Under these three assumptions, “reality” is never fully known and by definition too complex for an individual person to fully comprehend. Nevertheless humans do develop and share an understanding of what “reality” looks like based on their experiences, alongside a normative model of what “reality should be like” (North 2005:2; Denzau and North 1994:4). These limited learning or belief systems are often referred to as mental models.

While the literature on NIE is highly heterogeneous, and this deserves recognition, the concept of shared mental models (SMMs) is particularly useful for this thesis as one approach that may help explain how development management takes place within organisations. It emphasizes that ways of managing development cannot be separated from the way staff in the organisation think and institutionalize this thinking into the organisational structure. The concept is also central to the way this thesis understands organisational change, including change in performance management systems of MFOs. PBM systems can be viewed themselves as shared mental models identifying how a system organises itself so it has some basis for action under conditions of fundamental uncertainty in outcomes (Holland et al. 1996:3-5).

2.3.2. *Mental Models*

Under conditions of bounded rationality in a non-ergodic world, the actual world is complex and can *at best* be approximated by empirical data (Richards 2001: 259-261). Because information is costly and time consuming to process, economic actors deliberately simplify reality through their mental models and base their decisions on a certain level of ignorance. Denzau and North (1994:4) define mental models as value-laden “*internal representations that individual cognitive systems create to interpret the environment*”. Usually they are identified in relation to some desired performance goals (Denzau and North 1994:13; North 1994: 363). Mental models underpin all human-designed institutions, the formal rules and informal norms that shape organisations and their environment (North 2005: 59, 1990, Denzau and North 1994). The concept resonates strongly with the idea of a mindset, but one that is embedded in a socioeconomic and historical context and that evolves over time.

“Mental models represent a person’s [limited] view of the world, including explicit and implicit understandings” (Kim 1993:4). They are more than a collection of experiences and memories, they include our personal management of new data and how we collect, filter, retain, discard and use information. They are learning and belief systems that do not only help us to understand the world we see, but also severely limit our understanding as some things we see do not make sense for our mental model and therefore are not accepted. They then limit us to familiar ways of thinking and acting. Problems also arise when we take our mental models for granted as if they were a reality; we then undertake actions based on weak or untested assumptions. Indeed mental models contain implicit knowledge that is often not properly tested or made explicit (Kim 1993:4-5; Senge 2006: ch9: 164).

In this context, explicit knowledge is formal in nature and can be easily shared and communicated. This as opposed to implicit or “tacit” knowledge, which is derived from experience and routines.

Implicit knowledge is often highly informal, specific to individuals, and difficult to transfer from one person to another or to apply into other contexts. It is more difficult to measure and incentivize because it is more process oriented. Implicit knowledge transfer requires regular interactions, coordination and sharing of experiences (Huczynski and Buchanan 2007:128:129; Osterloh and Frey 2000; Frey and Jegen 2000). Nonetheless, implicit knowledge is important for companies because it is “encapsulated” or embedded in products and services, routine operations (Osterloh and Frey 2000:545) and organisational culture (Nooteboom 2000; Cameron 2008). It makes a company “unique” and therefore forms an important basis for its comparative advantage (Cameron 2008; Osterloh and Frey 2000:544).

2.3.3. Shared Mental Models

Mental models are not just in the minds of individuals but arise in a social context. That is they are shared to some degree among individuals either consciously or sub-consciously. These “shared mental models” evolve over time and are embedded in an environment. For example, a performance management system within an organisation may be viewed as a shared mental model. When mental models are shared they form a source of stability in systems that improve collective action, communication and coordination among actors. They build shared understanding and interpretation that leads to faster decision-making (North 1992: 20; Denzau and North 1994: 4; Mathieu et al. 2000; Richards 2001:262). However, at the same time SMMs may be a source of collective bias, path dependency and institutional lock-in (North 1992:11-12; Holland et al 1996; Denzau and North 1994). In strongly closed mental models there may be less ability for individuals to change actions, outcomes, and strategies because the organisational and institutional framework constrain them from doing so. Moreover, actors who have different mental models are more prone to compete and come into conflict over resources, rules, norms and beliefs of what constitutes “good performance” (Denzau and North 1994:11-12).³

³ The concept of SMMs overlaps with other concepts of social sciences such as paradigms, schools of thought, discourse, ideologies and cultures. A general point is that multiple SMMs can co-evolve over time. This is for example where they differ from Kuhn’s (1970) notion of “paradigm” and “normal science”, which tends to be more dominant and revolutionary. It also differs somewhat from “schools of thought”, which are more temporary (Kuhn 1970:10&16-19; Denzau and North 1994:25). SMMs may use a (sub-conscious) discourse (Richards 2001; North 2005: 20), but is broader than “a set of meanings, metaphors, representations, images, stories, statements, and so on” (Burr 1995:31-32). Ideology can be a SMM as it is a knowledge structure summarizing normative political ideas (Richards 2001: 261-262). SMMs resonate with the idea of organisational memory but is more dynamic and includes how to obtain, discard and filter new information (Kim 1993:4). It most strongly resonates with notions such as a collective mind-set (e.g. Goldsworthy, 1988: 508) or culture

As explained in Section 2.3.2 mental models are largely based on pattern-based reasoning, and embedded in a historical and cultural context. At institutional level, this is referred to as path dependency, “the way by which institutions and beliefs derived in the past influence present choices” (North 2005: 21; North 1994:364; Denzau and North: 22). The sustainability and survival of organisations depend on the prevailing institutional framework and this limits the scope for new actions (North 2005:64). Path dependency constraints changes in PBM and makes them incremental rather than radical. It can even lead to institutional lock-in, meaning a bias towards short-term incremental changes at the expense of more profitable long-term innovation because of the high risks, switching costs, and change in status quo associated with fundamental new ways of working. It threatens the innovative capacity and sustainability of companies, because they cannot diverge from an inferior path of development (Arthur 1994: 10-13; Magnusson 1994:34-35; Shapiro & Varian 1999:11-12; Boschma et al. 2002:45-48). A closely related term is co-evolution implying that the socioeconomic, geographic and political environment matters because organisations are interdependent with their environment (Boschma et al 2002:42-47; Denzau and North 1994:20).

More broadly, SMMs underpin all institutions in society - the explicit (formal) rules and implicit (informal) norms designed by humans, constraining human interaction and determining “the way the game is played” in economic systems. SMMs are internal manifestations of institutions and “while evident in the formal rules of society, [they are] most clearly articulated in the informal institutions” (North 2005:48-49; North 1992:10). For example, societal culture can be defined as an accumulation of formal rules, informal norms and individual mental models prevalent within a social group (North 2005:6).

Nooteboom (2000:92-93) distinguishes between micro and macro institutions. For example, individual firms are constrained by “macro-economic institutions” such as “societal culture” that are largely external, but they have “micro-institutions” such as “organisational culture” that are internal and within their control. Cameron’s (2008:431) emphasizes most staff in companies are unaware of their organisational culture, which “refers to the taken for granted values, underlying assumptions, expectations, and definitions that characterize organisations and their members.” Thus, one way of viewing organisational culture is as an accumulation of SMMs within an organisation.

(Cameron 2008:431), but emphasizes these are embedded in a social and historical context. Mental models are less structured and can be shared among people who have not met each other.

2.3.4. Dynamics of SMMs of organisations

How do these SMMs evolve under internal and external influences (North 2005:164-165)? Is it possible for companies to change their dominant SMM? NIE literature is very limited in addressing these questions (Haase et al 2007:1), but some work has been done on institutional change (Denzau and North 1994; North 2005; Boettke et al 2008; Nooteboom 2000:93) and organisational learning and development (Argyris and Schon 1996; Senge 2006; Kim 1993).

Dynamics of SMMs in NIE

Denzau and North (1994:7) hypothesize that changes in mental models are influenced by at least three factors. The first is complexity, how far away is new knowledge from the prevailing SMM in order for it to become accepted. The second is the motivation of actors to pursue their goal. The third is the quality and frequency of information, because feeding back “good information is essential to improving the mental models” (Denzau and North 1994:8-10). North (1992; 1994:366; 2005:59&63) further stresses it is much easier to change formal [explicit] rules than informal [implicit] norms and shared belief systems [i.e. read SMM], which is the key to explaining path dependency. Path dependency makes institutional changes incremental. Only careful exogenous support can bring about path-breaking institutional changes in SMMs (North 1992:12 &25; North 2005:164-165).

Boettke, Coyne et al. (2008) argue that exogenous (or foreign) institutions are unlikely to bring about sustained development because they are too far afield of the “Metis”⁴, which may be described as the localised SMM underpinning “endogenous” (or local) institutions. Exogenous institutions can change economic systems, but it is likely that the local SMMs and institutions will adapt their interventions. Institutions are more likely to stick when they are supported by endogenous drivers for change, because they then are based on implicit and local knowledge, customs and values. Boettke et al., (2008) do not place a value judgement on whether endogenous drivers improve performance, but instead argue endogenously driven institutions are more likely to generate sustainable changes and innovation.

Boschma et al., (2002: Ch4: 55-59) and Arthur (1994) argue individual firms have little control over the creation of path-breaking innovations. Most innovations are incremental, meaning they are small adaptations to existing products, routines, or modes of thinking. Few innovations entail completely new ways of working and thinking. Under the influence of path dependence, companies are normally not motivated to do radical innovations because they imply high switching costs, change the status

⁴ “Metis” emphasizes local or implicit knowledge through experiential and practice-based learning “it includes skills, culture, norms and conventions, which are shaped by the experiences of the individual” (Boettke et al 2008:38).

quo, and often reduce the economic value of existing production processes. Even if there is motivation to do R&D, it occurs with great uncertainty about outcomes. Innovations occur by chance, or through spill overs from other organisations. They depend on a broader macro-economic institutional framework, which is largely exogenous to individual organisations.

Dynamics in SMMs and Organisational Learning

The organisational learning and development literatures incorporate the idea that sustained path breaking “institutional change” is possible particularly for micro-institutions such as an organisational culture (Denzau and North 1994: 3-4; Kim 1993; Argyris and Schon 1996; Senge 2006; Noteboom 2000; Argyris 2008).

Kim (1993), Senge (2006) and Argyris and Schon (1996) view SMMs as the learning and change systems of organisations. Organisations are considered capable of learning because they offer an institutional system within which individuals, think, act and transfer knowledge, which in turn can result in group knowledge (Argyris and Schon 1996:7-8; 244: ch1&9). Kim (1993:1) views learning as “the process through which individual learning becomes embedded in an organization’s memory and structure” and this process takes place through SMMs.

This thesis accepts the premise that organisations can learn, but similar to Kim (1993) recognizes that learning within a company should not be separated from the way members in the organisation think and embed this thinking into the organisational structure.⁵ However, if organisations may learn, then what type of learning is considered productive?

Argyris and Schon (1996: ix-xx & 3-4:21-22) express the need for productive double loop learning as opposed to defensive single loop learning. Single loop learning leads to temporary or incremental changes in the performance of organizational tasks, but it does not change the implicit values, norms and performance standards in the organisation. Single loop learning alone is not sustainable because it is unlikely to work under conditions of conflict, threat and embarrassment (Argyris and Schon: 1996, 245-249). For example, members in a company may accept convenient truths but avoid acting on ‘reality checks’ which challenge the dominant PBM systems. Actors do not change their theories-in-use, a term that overlaps strongly with that of a shared mental model (Argyris and Schon 1996; Senge 2006).

⁵ The term organisational learning needs to be treated carefully because it is subject to anthropomorphism. Can companies literally know, remember, think or learn like an individual (Kim 1993; Argyris and Schon 1996: ch1&9? Individual knowledge does not always result into organisational knowledge and vice versa. (Kim 1993:9&11)

In contrast, double loop learning changes the shared mental model of an organisation because it changes implicit values and “building block assumptions” through which an organisation defines its PBM. It requires a transfer of implicit knowledge, in such a way that it “becomes embedded in the images of the organization held either in its members’ minds, maps, memories and programs” (p16). Double loop learning requires an inquiry into the organization’s capacity to do assessments (Argyris and Schon 1996:22:26-27). It may also lead to improvements of the organization’s capacity to learn, sometimes referred to as “learning how to learn”. To achieve double loop learning is far from easy since there is always an interaction between new and dominant modes of thinking. Although single loop learning is common, organisations that have *only* double loop learning are extremely rare and resemble the normative notion of “the learning organization” (Argyris and Schon 1996:282-284 and Senge’s 2006:13-15).

Several writers on organisational learning are sceptical that organisations are capable to generate double loop learning that changes the SMM. For example, Kunda (1992 cited in Argyris and Schon 1996:194) challenges Senge’s notion of the “learning organisation” by asserting that there is no such company in practice. Managers tend to base their decisions on their own ideologies and belief systems. March and Olsen (1989:322-323&335 cited in Argyris and Schon 1996:197) underline experiential knowledge generation may lead to “superstitious learning” and “erroneous inferences”, which are far from productive learning. Argyris and Schon (1996) describe defensive reasoning and routines, a frequently occurring form of single loop learning. Staff in a company avoid saying what they really think to avoid situations of conflict, embarrassment and threat. Even worse, defensive routines can be deeply ingrained into the company culture itself, leading to a lack of dialogue and critical reflection among staff, which in turn reduce innovation (Argyris 2008:54). Cameron (2008:437) recognizes that “changing organisational culture is very difficult, not only because culture is largely unrecognized but because once set, commonly shared interpretations, values and patterns are difficult to modify.”

To summarize, organisational and institutional learning that changes the SMM incrementally or temporarily is labelled by various authors as “single loop, defensive learning” (Argyris and Schon 2006:3-4:21-22), “limited or reactive learning” (Senge 2006:13-15), “operational learning” (Kim 1993:3). Denzau and North (1994:13) describe this as “learning which preserves the categories and concepts [of mental models]”. These definitions overlap with notions used in NIE such as “incremental innovation” (Boschma et al 2002), “path dependent change” and “lock –in” (North 1992:25; North 1994:364; North 2005:21; Arthur 1994: 10-13). The same authors refer to the more sustainable organisational change as “double loop learning”, “productive learning”, “generative learning”, “conceptual learning”, “radical innovation”, or “reversing path dependency”. Denzau and North (1994:13) described this as learning that “may strengthen the initial categories and [shared

mental] models or that may lead to its modification.” These types of changes require a change in institutional values, “belief systems” or “building block assumptions” on which the PBM is based. However, following the idea of path dependence, doing so implies high switching costs and requires a change in the status quo.

I propose to label these first types as changes “within” the SMM [i.e. single loop learning], and the second type as changes that “broaden” or “modify” the SMM [i.e. double loop learning]. Within this synthesis, it should be clear that each author discusses the issue of change at different levels of abstraction (e.g. macro or micro-economic institutions) and historical time paths (e.g. decades or days). Following the reasoning of Nooteboom (2000, see p19), this thesis focuses on the SMMs and institutions that guide PBM at the level of the organisation, but I allow for the possibility that organisations themselves are also constrained by country and even global level institutions.

What factors then drive changes “within the SMM” [single loop] as opposed to “modifying or broadening the SMMs” [double loop] and can managers influence this? Senge’s (2006) learning organisation starts from the premises that firms have a great degree of internal control and should stimulate the internal commitment of staff to generate the best performance outcomes. Staff who are intrinsically motivated are more likely to invest in their own capacity, competences and creativity. In addition, it is important for managers to set an open environment that allows for dialogue through critical reflection (Senge 2006:129-162; Argyris and Schon 1996:23-25).

Some work has been done on intrinsic and extrinsic motivational system that can create productive organisational learning. Intrinsic motivation occurs when staff enjoy doing an activity, however extrinsic motivation is output-oriented and imposed by outside actors through monetary incentive schemes (Osterloh and Frey 2000:539). Although classical economics informs us that stronger monetary incentive schemes will lead to better performance, Osterloh and Frey (2002) and Frey and Jegen (2000)’s work, demonstrates that managers cannot stimulate productive organisational learning by using *only* monetary incentive schemes. Intrinsic motivational schemes can increase participation and coordination among staff. They work best in situations where efforts of people are not clearly linked to organisational outcomes. Monetary incentive schemes can even be in tension with intrinsic motivation, thereby reducing performance. For example, bonus systems may create a target driven culture, where the resources to achieve targets crowd out resources needed to generate creative thinking necessary to find new ways of working (Osterloh and Frey 2002:540-541). Staff may feel monetary incentives are merely used as a control mechanism (Frey and Jegen 2000:9). Monetary incentive schemes may result in multi-task problems where workers pursue the goals that are well-rewarded, but underperform on tasks that are poorly rewarded. They then achieve the measurable

explicit targets, but ignore more implicit goals and processes (Osterloh and Frey 2000:540; Akerlof and Kranton 2005:11).

Osterloh and Frey (2000) argued intrinsic motivational schemes such as training activities and internal learning system are more useful for stimulating implicit knowledge transfer. Extrinsic motivational schemes such as monetary incentives is mainly useful for the transfer of explicit knowledge (Osterloh and Frey 2000).

As a summary of this review Table 1 gives an overview of the literature on SMMs. While most of these authors seem to concur that changing an organisation's SMMs is far from easy (Argyris and Schon 1996), arguably most of the macro-economic institutional literature (North 2005; Boetke et al 2008; Boschma et al 2002; Arthur 1994) is even more sceptical about the possibility for one organisation to create sustainable institutional change. Aside from this, there is a debate whether changes in PBM are driven by internal or external factors.

Table 1 Literature Overview on SMM

Author	Literature Group*	Using the term of (S)MM	Level of development**	Description of learning and change that broadens or modify the SMM	Description of learning and change within the SMM.	Factors influencing dynamics of SMM
Denzau and North 1994	NIE	Yes	Macro	Learning that strengthens or modifies initial categories	Learning that preserves categories and concepts"	Influenced by (internal and external) motivation, information and complexity. All are limited and it is unlikely to radically change SMMs.
North 1992; North 2005	NIE	Yes MM and "belief system"	Macro	Changes that break path dependency	Adaptive change or path dependent change	Path breaking change is beyond the control of individual organisation in the context of fundamental uncertainty. Exogenous support is required.
Boettke et al 2008	NIE	No ("Institutions" and "Metis")	Macro	Institutional "stickiness"	Lack of institutional "stickiness".	Endogenous drivers of change are dominant for institutional change. Exogenous support is unlikely to work.
Boschma et al 2002	NIE	No (Institutions)	Macro. Meso Micro	Radical innovation	Incremental Innovation.	Change occurs largely beyond the control of individual organisation and depends on sectoral or macro-economic framework.
Kim 1993	OL & OD	Yes	Micro	Conceptual Learning	Operational learning	No statements about what factors influence SMM.
Argyris and Schon 1996	OL & OD	No, "Espoused theories and Theories-in-use."	Micro	Double loop learning	Single loop learning	Intrinsic motivation and an open organisational environment can generate productive learning.
Senge 2006	OL & OD	Yes	Micro	Generative learning	Reactive learning	"Internal commitment "and an open organisational environment generates productive learning. External compliance is unlikely to yield good performance. It leads to target driven cultures.
Osterloh and Frey 2000	NIE	No (implicit and explicit knowledge transfer)	Micro	"Creativity"	"Repetition"	They do not have a clearly defined type of learning or change. However, they argue "intrinsic motivation" can be superior to monetary incentive schemes in implicit knowledge transfer.

** OL is organisational Learning, OD is organisational Development, NIE New institutional Economics

* "Micro" concerns SMM at the levels of organisations, teams and individuals. "Macro" includes SMM at the levels of ideologies, worldviews, or societal culture.

2.3.5. Identifying SMMs

SMMs is somewhat of a meta concept that can be applied at micro- and macro- level. The challenge is how to identify them as by their very nature they are highly implicit (e.g. Kim 1993, Denzau and North 1996; North 2004; Haase 2007:1). There is some evidence on how SMMs function, but this often draws from experiments on team-based learning conducted in controlled environments, rather than "real life" conditions of developing country contexts (Holland et al 1996; Richards 2001;

Mathieu 2000; Denzau and North 1994). NIE and OD use inductively identified methods to operationalize them.

At a macro level SMMs are identified according to shared mind-sets, ideological belief systems, or worldviews (North 2005; Haase et al 2007). They encompass a set of normative ideas, values and goals, as well as shared interpretations of history and agenda's for practical action (Denzau and North 1994; North 1994:363). Copestake (2008) based on Denzau and North (1994) draws on this to identify SMMs in development studies, arguing that SMMs are more likely to persist if these normative, historical and practical aspects are mutually consistent. The normative dimension embodies an ethical view of what constitutes development, as it *should be*, for instance a vision of development embedded in a broader ideology. The historical dimension, reflects a particular way of understanding the world and interpreting how it changes. Third, the practical dimension is concerned with how development *could be* improved through practices and action. The practical component is always *constrained*; to accomplish all development goals at the same time is impossible. Resources are scarce, implying making tough choices about what sets of goals and activities to pursue (Copestake 2008:578). I will use this framework for the literature review in the remainder of this chapter (see Section 2.3.6).

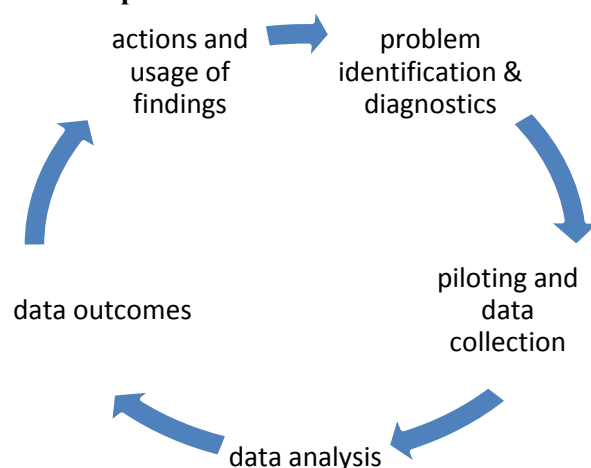
At a micro-level, action research methods have been proposed by management theorist to identify SMMs within organisations. As a starting point they look at shared perspectives and understandings of members in organisations such as values and informal norms, next to more explicit knowledge such as formal procedures, policies and reports (Dick 1993; Woodhouse 2007:160-161; Thomas and Mohan 2007; Cameron 2008). To assess implicit values it is useful to understand "building block assumptions" (Holland et al 1996) or "belief systems" (North 2004; Kim 1993) underlying PBM. This may require some form of qualitative or mixed method assessment such as semi-structured interviews or dialogues to assess underlying processes (Woodhouse 2007). One method to test whether perspectives are shared is convergent interviewing (Dick 1993:18-19), overlapping pieces of data mentioned by several respondents are kept and information unique to one person is in principle discarded. Another related method is to triangulate a variety of data sources to assess diverging and shared perspectives (Dick 1993:17; Atkinson and Hammersley 1994:250-253; Woodhouse 2007:169-170).

Argyris and Schon (1996:92-94) identify SMMs by looking at differences between explicit understanding or what people "say they do" and their implicit understanding, the actual "theory-in-use". A simple method uses a table where in one column actors write what they communicated in a given situation and in another column, what they really thought at the time. By making implicit behaviour more explicit, actors can reflect on gaps between them. For example they can become more conscious of their pattern-based reasoning and generalisations (Argyris and Schon 1996:79; Senge 2006:173-183; Denzau and North 1994:14; North 1994:363).

Senge (2006) further advocates the need for organisations to reflect on tensions between what they preach as a vision and what they practice. A related method is the “tension-framework”, companies are rated on a set of tensions with the idea of becoming more conscious of trade-offs and synergies between PBM practices (Cameron and Quin et al 2005; Cameron 2008). For example, Cameron (2008: 430-432) and Cameron and Quin et al (2005: 15-19)’s competing value framework maps organizational culture according to two core management tensions, first, the degree to which it is ‘inward looking’ with focus on internal learning systems and capabilities, or ‘outward looking’ with focus on the external competitive environment and opportunities.⁶ Second, the degree that the organization operates with ‘dynamic, flexible and adaptable systems’, or with ‘static, standardized systems focusing on stability and control’.

To identify SMMs of organisations may require some form of double loop learning experiment to change building block assumptions and values of PBM systems (Kim 1993; Argyris and Schon 1996: Senge 2006; Huczynski and Buchanan 2007). One widely used model is the action research feedback loop (see Huczynski and Buchanan 2007:567-568; Kim 1993:5; Lewin 1947 cited in Dick 1993). Figure 1 illustrates an example, experimentation starts with the process of problem diagnosis and analysis, followed by experimentation, data collection, data analysis and dissemination of results, which in turn feeds back into findings for new cycled learning. At minimum two such cycles are needed to generate double loop learning (Huczynski and Buchanan 2007:567-568 &128; Argyris and Schon 1996).

Figure 1 Feedback Loop



⁶ Inward looking organisations resonate with a focus on internal capabilities, integration of processes, cohesions and harmonization of internal systems and culture. All concern elements located within the boundaries of the organisation. At the other end of the spectrum, Outward looking companies resonate with a focus on competitive position and growth, competition for market share and distinction from rivals (Cameron and Quin et al 2005: 15-19).

See e.g. Kim 1993:5, Huczynski and Buchanan (2007:567:568)

The feedback loop assumes knowledge generation takes place in isolation of the wider organisation and its external environment. Several authors (e.g. Kim 1993:5 and Haase et al 2007) warn that although new knowledge could modify the SMM of the organisations, the opposite can also occur, the SMM of the organisation can discard the new knowledge. Therefore, in addition to looking at how cycled learning takes place several authors argue it is desirable to assess wider institutional and organisational systems (Argyris and Schon 1996; Senge 2006; Kim 1993; Dick 1993:53).

Although there is some agreement, about what broad aspects to look at to assess “wider organisational systems”, there are no common qualitative or quantitative methods. For example, Cameron (2008:434) assesses performance standards, criteria of success, strategic emphasis, human resource management, leadership and bonding mechanisms. However, Senge (2006) and Argyris and Schon (1996) look amongst others at the processes of testing, cycled learning, performance assessment, staff motivation, behavioural systems. A more serious challenge is that the OD and NIE methods are not contextual for MFOs and their development management practices. One explanation for this variety of methods and indicators is that NIE, OD and action research literatures start from the premise that knowledge is to a large degree context-specific, implicit and inductive. By definition there is no one way of doing research and this makes it important that researchers keep an open mental model and reflect on their choices in methodology (Dick 1994:14-15; Argyris and Schon 1996: ch2, Reason and McArdle 2007; Reason & Bradbury 2008). I will return to this issue in discussion of my own primary research in Chapter IV.

2.3.6. *Identifying Shared Mental Models in Microfinance*

Having elaborated these concepts, the remainder of this chapter applies the concept of SMM not to individual organisations, but to the secondary literature on PBM in microfinance. Echoing Copestake (2008) and Denzau and North (1994, see p26), SMMs are inductively identified according to interlinked positive, normative and practical dimensions.

The remainder of the chapter aims to understand strategic planning of MFOs and microfinance as a global phenomenon since the early 1990s. I argue that this literature can be usefully organised in terms of three inductively identified SMMs in microfinance, which I call *the business first*, (Section 2.4) *development first* (Section 2.5) and *social enterprise* (Section 2.6). An overview of the models is

provided in Table 2. Each SMM has its own way of looking at the world in a normative, historical and practical dimension.⁷

Table 2 Shared Mental Models in Microfinance

<i>Dimension</i>	<i>Business first</i>	<i>Development first</i>	Social enterprise
Normative or ethical	Sustainable financial development first: human development is secondary.	Human development first, financial development is secondary	Sustainable development through balanced and simultaneous pursuit of human and financial development.
Interpretation of history	Capitalism as an engine for growth delivered primarily by private enterprise.	Public service as a response to deprivations arising from capitalism.	Part of a tradition of managed capitalism “with a human face.”
Practice	Sustainable and commercial microfinance. Primarily market-led	Raise productive capacities of people through a mix of services, including microfinance. State and/or NGO funding are needed.	Synthesis of public and private sector strategies and skills: whether integrated within one organisation or through partnerships.
Wider Literature	- Washington consensus - Mainstream economics, neo-liberalism.	- “New York or Geneva consensus” - Basic needs and capability approach - Social development perspective.	- “Post-Washington consensus” - Social enterprise - Corporate social responsibility - NIE, OD -New development management

Source: see also Gravesteyn and Copestake 2010:5100, Microfinance and Social Performance.

What I refer to as “business first” advocates commercial microfinance and broadly resonates with neo-liberal “Washington consensus” (Stiglitz 1998a;1998b). In doing so, it draws from wider economic theories (e.g. Stiglitz Weisz 1981; Schumpeter 1950). It is broadly what other authors have identified as “sound business school approach”, “minimalist approach”, “financial system approach”, “sustainability camp”, “traditional business approach”, “institutionist paradigm”, “financial sustainability paradigm”, “sustainability first”, and “Ohio school of thought” (See Woller et al 1999; Dunford 2000; Mayoux 2000; Rhyne 2001; Robinson 2001; van Maanen 2004; Seibel et al. 2002; Kabeer 2008). What I refer to as “development first” SMM has been labelled by the same authors as “development school”, “integrationist approach”, “poverty lending approach”, “poverty camp”, and “traditional social service”, “welfarist paradigm”, “poverty alleviation paradigm”, “poverty first”. It draws from a wider literature of a “New York consensus” that includes capability (e.g. Sen 1999; ILO 2008c) and basic needs approaches (Maslow 1946; Standing 2008; ILO 2008b; Kabeer 2008:13-14).

The third mental model is “social enterprise” and resonates with the idea of double bottom line performance management (Dunford 2000; Yunus 2007; Imp-Act 2005; Copestake et al 2005). It draws from theories of OD, NIE and new development management (see Section 2.2), as well as

⁷ The remainder sections are based on (Gravesteyn and Copestake 2010).

social enterprise and entrepreneurship (e.g. Dees et al 1998; Borzaga and Defourny 2001; Austin et al 2006; Nichols 2006: xiv; Nichols and Young 2006; Yunus 2007; Lehner 2012), corporate social responsibility (GRI 2008) and sustainable development (WCED 1988:17). It may be viewed as part of a yet to be defined “Post-Washington consensus” (Stiglitz 1998a,1998b).

The SMMs outlined here are of course themselves deliberate attempts to simplify a complex reality, however I argue this is still useful to help understand tensions that continue to characterize strategic thinking in the microfinance sector. They provide a plurality of views on PBM in microfinance. Of course views of authors may change as well, for example Hulme and Mosley’s (1996) is listed under the “development first” grouping, but did not neglect sustainability issues. A later publication of Arun and Hulme (2008) states the commercialized approach to microfinance was to some degree successful.

Before discussing the differences between the SMMs, it will be good to stress their commonalities. All three have their own normative idea of what constitutes “good development” and what paths MFOs should walk in trying to achieve this. All stress the importance of capital for economic development and recognize that financial markets work far from perfect, although they disagree on the specific type of market failure (van Maanen 2004, Hulme and Mosley 1996, Copestake 1996). Thus, each mental model draws from its own set of theories and ideologies and are based on very little overall evidence. This may be explained by the heterogeneity of microfinance in local contexts, technical and practical difficulties to attribute social impacts and the danger of generalization of development outcomes. In addition, each mental model uses its own discourse; for example, advocates of commercial microfinance would use terms like “the entrepreneur”, “customers” and “market segments”. In contrast, advocates of developmental approaches use words such as “poor”, “beneficiaries” and “pro-poor targeting” (Seibel 1996:5 ch1). Following the SMM framework this may be viewed in the context of bounded rationality and fundamental uncertainty (see p16), implying people rely on very limited evidence and shared belief systems.

2.4. Business First

2.4.1. Historical and Positive Dimension

The “business first SMM” emerged in the late 1980s and advocates a commercial approach to microfinance. It formed a critical response to the failure of several state led development finance agencies (Robinson 2001:126, Von Pischke 1991). Government sponsored development finance organisations offered credit under terms designed by the supplier and its donors rather than market demand. They conditioned loans to target the agricultural sector and poor people, but in order to reach

the quotas they actually disbursed to wealthy clients (Von Pischke 1991: Seibel 1996:51). They paid little attention to screening and monitoring of the client's debt capacity (Von Pischke 1991: ch12-14). Political lending exacerbated problems with subsidized loans triggering rent seeking and corruption (Von Pischke 1991: 60-61&379).

With products at subsidized interest rates the development banks suffered heavy losses. There was no incentive for product and process innovation. Savings mobilisation and equity were almost completely ignored as potential products (Von Pischke 1991: Ch5). Non-commercial development finance organisations that charged subsidized interest rates undermined formal and informal financial markets through unfair market competition (Schneider et al 1997:32).

Seibel sets out a critical report for the traditional supply-led approach of the 1980s: The government led development finance organisations “have neither reached the rural and urban masses nor achieved growth. They bypassed national resource mobilisation, ignored non-formal finance, undermined the viability of financial institutions and jeopardized the evolution of a differentiated financial system” (Seibel 1996: IX). The World Bank as important donor of the microfinance industry supported these views by stating, “subsidized credit does not lead to superior firm-level performance and the provision of finance in weak investment climates is ineffective” (World Bank 2002:39 in Nissanke 2002:7).

These documented development failures coordinated various authors who had a shared understanding of commercial market-led approaches to development finance. Several identified themselves as the Ohio School of Thought, an alignment in thinking of the Ohio State University's agricultural development finance department and the Frankfurt School of Finance and Management. The World Bank and CGAP – a World Bank affiliated think-tank formed in 1995 to promote sustainable microfinance- also supported these views. Several former (Wall Street) bankers and Pro-Credit Holding Group also advocated commercial microfinance. From a broader perspective “business first” is aligned with the “Washington consensus” (Stiglitz, 1998a; 1998b) and resonates with neo-liberal thinking. The authors often draw from a wider set of mainstream economic literature that includes neo-classical economics, transaction cost economics and finance studies. Authors who I would label as broadly supporting business first include Yaron (1992), Yaron et al (1994), Von Pishke (1991), Robinson (2001), Rhyne (2001) and Seibel et al. (1996), several of them are associated with the Ohio school. “Best practice” MFOs that supported the perspective are Bank Rayat Indonesia (Robinson 2001), Bancosol in Bolivia (Rhyne 2001) and Pro-credit (Von Pischke 1991).

2.4.2. Normative Dimension

“Business first” prioritizes financial sustainability and views social impact as a secondary goal. Only commercial microfinance makes massive scale poverty alleviation feasible. Financial sustainability is

a mean, not an end, to achieve poverty alleviation. The approach aims to overcome market failures by seeking sustainable innovative finance and serving niche markets.

As stated by Yaron (1992) and Yaron et al (1994), sustainability implies that the microfinance company still survives after the inflow of subsidies dries up. It is important because clients need to know that an MFO will survive in the years to come and provides them stable access to financial services. Furthermore, there are not enough grants available to support the worldwide demand with subsidised financial services (Robinson 2001). Drawing from the wider literature, financial markets need to be sustainable because they are key support sectors in the rest of the economy (Merton and Bodie 1995: ch1). Although there is still discussion on how to measure sustainability (Yaron 1992; 1994) and efficiency (Gibbons and Meehan 2000: 8), this research will mainly use the standardized indicators accepted by CGAP such as operational self-sufficiency (CGAP 2003).

Development as described by Von Pischke (1991) is mainly achieved when innovation creates an outward shift to the frontier of the formal financial market by creating market niches. Market niches in turn attract other competitors which will reduce interest rates, and this in turn stimulates economic actors to innovate and reduce costs for end-borrowers. This view draws from Schumpeter's (1950:83) notion of "creative destruction"⁸ (Von Pischke 1991: 226).

MFOs should be measuring success solely according to financial performance standards such as portfolio quality and growth, earnings, repayment and sustainability (Von Pischke 1991:313). They should serve market demand and not focus on agricultural or poverty targeting (Von Pischke 1991:227). "Business first" promotes a global financial inclusion agenda (Rhyne 2001; Robinson 2001; Helms 2006).

As argued by Robinson (2001) commercial microfinance addresses market failures of information asymmetries of adverse selection and moral hazard as described by the credit-rationing model of Stiglitz and Weiss (1981). Microfinance uses group guarantees to substitute social for physical collateral and it offers clients larger loans when borrowers build good repayment records (Robinson 2001:Ch5). Commercial microfinance breaks the monopolistic market power of informal local moneylenders since increased competition is forcing them to reduce interest rates charged to end-borrowers (Von Pischke 1991: ch8; Robinson 2001: 30-33&ch6).

Organisational sustainability is important to sustain the trust of clients in the microfinance system (Von Pischke 1991; Zeller and Meyer 2002: ch1: 7). Sustainable organisations also have access to

⁸ Schumpeter (1950:83-84) views capitalism as a revolutionary process in which markets and business cycles are created and destroyed by new markets and business cycles through radical innovations. These processes are desirable to improve long-term economic performance.

cheaper commercial funding because they mobilise savings and tap into capital markets, which allows them to grow at a much faster pace. Such funding is needed because there are not enough subsidies in the world to provide global financial inclusion (Robinson 2001: ch. 1).

This results in an important feature of “business first” microfinance, in order to reach as many customers as possible, it offers standardized minimalist financial services to create economies of scale (Seibel 1996: IX). Only if there is a “business case” will MFOs promote non-financial or social services such as business development training and financial education schemes (Schneider et al 1997: 13-14), however normally costly extra services should be avoided.

2.4.3. Practical Dimension

SMMs may evolve through learning and reality checks. Later Sections will describe some of the criticisms on “business first” approaches, but it is good to point out that the models also slowly evolves. One mandate of commercial microfinance is financial inclusion for all; but how many people exactly are excluded from formal banking services. In 2004, CGAP guesstimated up to 600 million people were served with active savings and lending accounts, even though there is a potential demand of up to 3 billion people (Helms 2006:6; CGAP 2004:13-14). Honohan (2007: 8) estimated a much higher 1.46 billion people accessed financial services (Honohan, 2007). Under the simplistic assumption that every person in the world needs a bank account and a loan there is still a large untapped demand for microfinance.

Other studies challenged the assumption that competition reduces interest rates (Gibbons and Meehan 2000), or that MFOs charge lower interest rates compared to informal money lenders (Rosenberg 2009). CGAP (2008:4) found that many private investors in microfinance seek a social return on their investments. Following the mental model framework, these studies provided “reality checks” for commercial microfinance. Nonetheless, building block assumptions with regard to financial inclusion, minimalist services and competition were rarely challenged in the overall outcomes. In the context of fundamental uncertainty, limited evidence was taken for granted and formed the basis for new shared understandings.

2.5. Development First

We now turn to the development first mental model that partly arose as a critical reaction to commercial microfinance.

2.5.1. *Historical and Positive Dimension*

In 1996, Hulme and Mosley (1996) published “Finance Against Poverty” which documented several impact assessments that challenged some of the building block assumptions of “business first” microfinance. A stream of criticism on commercial microfinance followed (Wood and Sharif 1997; Weber 2001; Nissanke 2002; Dichter 2005; Fernando et al 2006; Bateman and Chang 2009). Unlike the “business first”, those authors who supported the development approach were not organised into a formal body.

Hulme and Mosley (1996) showed that it is possible to reach the poor and be sustainable, but there are tensions at the levels of the client, the MFO and the donor. First, poorer clients have relatively less development impact than richer clients. Second, financial organisations that serve the economically active poor make more profits than those who serve the hard-core poor. Third, a poverty-focused strategy implies more risk and a lower return on investment. Their conclusion therefore was that liberalisation as stated by the business first model is in itself not enough, more is needed to achieve social development for clients (Hulme and Mosley 1996:204-206).

Also what has been labelled as “business first” neglected wider social impacts, for example on income and employment of clients and their households, instead they were often assumed, or considered too difficult and costly to measure (Hulme and Mosley 1996:200; Wood and Sharif 1997:36). Wood and Sharif (1997: 375-378) argued one should not only look at the sustainability of the MFO, but also at the sustainability and economic security of the client.

Various authors feared that the World Bank and donors imposed MFOs, especially NGOs, to become sustainable in too short a time span and that this would go at the expense of social goals (Wood and Sharif 1997:35; Nissanke 2002). To impose the goal of sustainable microfinance to MFOs was in itself a paradox because donors themselves were under no such constraint (Hulme and Mosley 1996: 78&178).

Minimalist microfinance services also did not raise the productive capacity of clients sufficiently or even led clients to pursue similar work activities creating market saturation. Above all, a minimalist approach was not what the poor needed (Wood and Sharif 1997: 371-379). There is no one-size-fit-all approach and replication of models should be handled carefully. Hulme and Mosley (1996: 7) make up a clear report for the Ohio school of thought by stating; it “would convict it of idealising the informal financial sector, of ignoring externalities, and of failing to produce data concerning the social rate of return and the poverty impact of the institution” (Hulme and Mosley 1996: 7).

2.5.2. Normative Dimension

“Development first” emphasizes MFOs should fulfil an important social function. From a broader perspective, this model draws from the “New York consensus” based on the United Nations principles and NGO concerns of poverty alleviation. It draws from a wider literature of human capability (e.g. Sen 1999; ILO 2008c) and basic needs approaches (e.g. Maslow 1946; Standing 2008; ILO 2008e; Kabeer 2008:13-14), in which poverty is based on multiple deprivations and lack of capabilities. Several authors highlight minimalist microfinance services are insufficient to improve client level performance (Hulme and Mosley 1996; Wood and Sharif 1997; Nissanke 2002).

From a broader political perspective, microfinance is viewed as a neo-liberal political tool that continues the Washington consensus (Weber 2001; Bateman and Chang 2009:24-27). The idea of trying to create capitalism with a “human face”, while not challenging the fundamentals of capitalism itself, may be dangerous and can severely undermine other routes to development. For example, it may extract precious resources from other development management such as genuine political struggle, advocacy and development of labour unions (Weber 2001:3). It also drains macro-economic development and social capital (Bateman and Chang 2009). Weber (2001) and Bateman and Chang (2009) argue microfinance undermines social protection of the state by supporting privatisation and financial sector liberalisation. At the same time it offers neo-liberals a convenient opportunity for window dressing by showing that their practices address social goals (Bateman and Chang 2009:24-27).

Dichter (2005) fears the propaganda of the microfinance movement to sustain its own hypes and beliefs, leading every development agency to engage in it. The Microcredit Summit in 1997 and the microcredit year of 2005 were important lobby activities to support this belief system. Some feminist writers have been weary of the potential of microfinance for development because it may disempower women into fundamentally exploitative working relationships (Mayoux 2000). Fernando et al (2006:7) mention microfinance facilitates the belief that empowerment of women can be done through capitalism, however, in reality it has failed to fulfil this promise.

2.5.3. *Practical Dimension*

“Development first” emphasizes PBM of MFOs should become more socially oriented. First, MFOs should target poor clients (e.g. van Maanen 2004). Second, a much longer time span for financial sustainability is acceptable, for example, Hulme and Mosley (1996:178) suggest a period of at least 15 to 25 years. Grants are justified as subsidized financial services may create spill-over effects to other parts of the economy (Hulme and Mosley 1996: 70). Third, in order to raise capabilities, alleviate poverty, and secure basic needs, MFOs may provide a wide range of non-financial or social services. These are mainly basic health, education, social safety net programs and business development services often referred to as microfinance plus (Wood and Sharif 1997: 57&372-373; Velasco et al 2005). It is also good practice to promote localised savings and credit unions (Bateman and Chang 2009), small-scale NGO programs and successful state-led finance programs (Nissanke 2002). Views that are more radical see a need for alternative institutions such as cash transfers (Bateman and Chang 2009) or even argue to terminate microfinance programs (Weber 2001).

When viewed from the perspective of the business first SMM the ideas of development first are short-sightedly unsustainable. They fear that altruistic development ideas would pull microfinance back into inefficient state-led development lending. Unsustainable microfinance (plus) would be able to reach let’s say *at best* millions of people but it is unrealistic to think it could create world-wide outreach to billions of people in need of it (Robinson 2001). Only when there would be a business case for offering such social innovations should MFOs adapt such products. Although the growth of microfinance flourished and its popularity heightened, as evidenced for example by Muhammed Yunus’ Noble peace price in 2006, the debates about the means and ends of microfinance reached an impasse. This partly resulted in increased popularity for a third mental model, namely that of “social enterprise”.

2.6. **Social Enterprise**

2.6.1. *Historical dimension*

The social enterprise SMM in microfinance emerged in the late 1990s, partly in response to reach a consensus between the development and commercial views as well as trying to transcend them into an even broader mental model. It attempted to map the differences between pursuing financial and social goals more clearly from a management perspective.

It draws implicitly from a wider literature of management studies that includes development management, institutional economics and organizational learning (see Section 2.2), social enterprise and entrepreneurship (Dees et al 1998; Borzaga and Defourny 2001; Austin et al 2006; Nichols 2006:xiv; Yunus 2007; Lehner 2012)⁹ and corporate social responsibility (e.g. GRI 2008). As such it resonates with views on sustainable development (WCED 1988:17) and advocates double or triple bottom line management which focuses on “People, Planet, Profit”. From a broader perspective the SMM can be seen in context of the somewhat ill-defined “post-Washington consensus” (Stiglitz 1998a: 15-16, 1998b: 33).¹⁰ The social enterprise SMM links microfinance outcomes to the PBM structure of the Millennium Development Goals and advocates public-private partnerships. Two campaigns that actively promoted social enterprise principles are the Microcredit Summit Campaign (Daley Harris 2002;2009) and the Social Performance Task Force (SPTF 2008:2012).

Authors related to these campaigns were critical on some of the assumptions of commercial microfinance. Gibbons and Meehan (2000:8&20-21) argued MFOs are often monopolists that are active in markets with little competition and therefore they have little incentive to become efficient and innovative. Simanowitz and Walter (2002:42-47) state few poor people are real entrepreneurs with risk-taking behaviour and many cope with great vulnerability. Dunford (2000) feels MFOs should be more transparent in their PBM, commercial microfinance should not receive subsidy funding, while development models should aim to alleviate poverty and use the subsidies effectively.

Several “best practice” MFOs were reported to reach both social goals of poverty outreach and financial sustainability such as the Grameen Bank in Bangladesh (Yunus 2007), SEF in South Africa, (Imp-Act 2004) and Crecer in Bolivia (Dunford 2001; Simanowitz and Walter 2002). CGAP (1995) showed that there is no negative correlation between financial sustainability, average loan size and number of clients. Recent studies using regression analysis on larger samples demonstrated that there is no negative relation between depth of outreach and operational self-sufficiency (Gravesteyn 2005; Cull et al. 2006; Mersland et al 2007). Dunford (2000), who was among the first to use the term social enterprise in microfinance, argued entrepreneurship training and microfinance services can be bundled at little additional cost.

⁹ “Social Enterprise” is a new and distinctive school of thought that lacks a clear theoretical underpinning and is inter-disciplinary (Austin et al 2006:1; Lehner 2012:54-55; Borzaga and Defourny 2001). They include organisations “that demonstrates some element of sociality, innovation, and market orientation”. The field focuses on those organisations that pursue double bottom line performance management (Nichols 2006:xvii; Yunus 2007). Lehner (2012:1) argues social entrepreneurship is itself is highly *value-laden*” and “socially constructed.

¹⁰ The Post-Washington consensus was a plea to move beyond neo-liberalist approaches by focusing on broader development goals such as “sustainable development”, “pro-poor”, “pro-employment” and equitable growth. It also pleaded to apply development management and institutional theory into development policy (Stiglitz 1998b).

Some of these views led to a belief that it is both feasible and desirable to pursue financial and social goals simultaneously as double bottom line management creates synergies between them (Yunus 2007; Dunford 2000; 2002; 2003;2006; Woller et al. 1999; Daley Harris 2002; 2009; Imp-Act 2004).

2.6.2. Normative Dimension

Social enterprises are organisations that claim to pursue two sets of goals, namely goals set around the sustainability of the organisation or more narrowly defined as financial sustainability and social goals set around the sustainability of their clients. Thus, they differ from commercial organisations because they pursue social objectives, but they also differ from developmental institutions in that they are concerned with their own sustainability (Yunus 2007). Clearly, there is a spectrum here because an MFO can have either minimalistic or extensive social and financial goals (Navajas et al 2000:335; Dees and Anderson 2006 in Lehner 2012:39).

Navajas et al (2000: 335) set out a systematic terminology of social performance and distinguish between extent, depth, scope and length of outreach. Extent of outreach is quantitative outreach and looks at the number of people served by the microfinance program. Depth looks at the socioeconomic background of the clients including their poverty level. Scope refers to the set of financial services offered such as savings, insurance, and also non-financial services such as health, education and business development services. Length is the institution's financial sustainability (Navajas et al 2000).

Zeller and Meyer elaborate there is a tension between financial sustainability, outreach (breadth and depth), and broader welfare impacts, creating opportunities for public-private partnerships (Zeller and Meyer 2002:5). An example is the NABARD Self Help Group linkage model in India, it emphasized a collaboration between commercial banks and the NGO sector with each type of organisation focusing on its own comparative advantage (Zeller 2001; Padhi 2004; Gravestijn 2005). Other partnership models include upgrading clients from NGO programs by moving them from soft loans or cash transfers into more sustainable microcredit programs (Hashemi and Rosenberg 2006).

However, the social enterprise model goes beyond acknowledging the feasibility of double bottom line management; rather it also reflects the strong normative belief that social and financial goals *should be* managed in tandem. The Microcredit Summit Campaign that tracks the contribution of microcredit to the Millennium Development Goals embodied this belief system. It was founded on the building block assumption that it is possible for MFOs to alleviate poverty and reach financial sustainability (Simanowitz and Walter 2002:3-5&22; Daley Harris 2009).

Noble peace prize winner Muhammad Yunus (2007:32), in his book, *creating a world without poverty*, goes even further by addressing the idealistic concept of “the social business”. “A Social business has a social goal, it pays no dividends, it sells products at prices that make it self-sustaining. Any profits that is made is being reinvested either into the company to help improve its social performance, finance expansion and do more good for the world” (Yunus 2007:XVI). Social business involves a variety of activities such as microfinance, production factories, agricultural cooperatives etc. The concept dates back as early as capitalism itself. For example, in the Mid-19th century social entrepreneurship was visible in the savings and credit cooperatives of Friedrich Wilhelm Raiffeisen (e.g. described in Van Maanen 2004) and the family enterprise of Robert Owen. (e.g. described in Polanyi 1957: 257-258).

Early work on SPM was done by the Imp-Act consortium (1998-2005), the book “Money with a Mission” argued “outreach and impact of MFOs on poverty is generally positive but highly variable, leaving scope for substantial improvement” (Copestake et al 2005: 205). Tensions and synergies between social and financial goals occurred mainly as a management issue. Emphasis was placed on the institutionalization of social performance assessments and its effect on organisational learning (Copestake et al 2005: 7: 179&207-208). The development of SPM system should consist of three components: first, one needs to prepare a strategic plan that includes a clear social mission and objectives in combination with an indication of the impact pathways. Second, routine monitoring and assessment of the strategy needs to take place. Third, SPM needs to be institutionalised, implying a need to create an organisational culture of impact (Imp-Act 2005: 11-41). Thus SPM as it “should be”, implies that data collected is used effectively for management decision-making, leading to organisational learning and innovation via feedback loops. This resonates with wider literature of new development management and NIE described in Section 2.2.

What then constituted a good “social performance” is something that was negotiated by the Social Performance Task Force (SPTF 2008;2012), a loose consortium of various actors that aimed to reach consensus and negotiated the framework to measure social performance sector-wide. In 2005, various organisations, including donors, investors, rating agencies and capacity builders, banks, and MFOs formed the Social Performance Task Force. It included over a 150 agencies (Hashemi 2007). After several years of negotiation they agreed on a common definition:

[1] “ *Social Performance is the effective translation of an [MFO]’s social goals into practice*” ...

[2] “*in line with accepted social values these include sustainably serving increasing numbers of poor and excluded people, improving the quality and appropriateness of financial services, improving the economic and social conditions of clients, and ensuring social responsibility to clients, employees and the community they serve*” (Hashemi 2007:3).

Part [1] refers to translating the normative social mission into action, emphasizing the importance of “practicing what you preach” (Hashemi 2007:1, Imp-Act 2005).¹¹ Part [2] relates to reasonably acceptable social values and norms and was mainly incorporated because of the preferences of donors and investors to conduct benchmarking on social indicators and report progress on the Millennium Development Goals.

2.6.3. Practical Dimension

SPM then looks at the entire organisational process by which impact is created and is a deliberate shift away from ad-hoc assessments towards ways of institutionalising social performance assessments within the routine operations of MFOs (Copestake et al 2005: 4; Imp-Act 2005; Hashemi 2007:3). Thus, social enterprises need to balance costs and usefulness of the assessments itself. Among others managers need to ask themselves what their optimal level of ignorance is; how much information is needed to take certain management decisions to improve MFO practices (Copestake 2002:14)? Besides having an explicit social mission and strategy it is necessary to have internal processes and systems in place to do routine monitoring of outputs, outcomes and impacts. “Outputs” are the activities of the microfinance agencies including offering loans, deposits, training services etc. “Outcomes” include monitoring of outreach at the start of the loan and tracking of changes in client lives over time. The latter may be divided into factual changes in client outcomes and “impacts” which is the possibility to establish the “counterfactual”, namely whether the changes in client lives can be attributed to the intervention of the MFO or whether it was caused by other factors (SPTF 2008).

There has been considerable debate as to whether impact measurement is a desirable step to improve development practice. Several advocates of SPM argued that impact assessment when done as an ad hoc activity is unlikely to lead to sustained improvements in development management (Simanowitz and Copestake 2005 in Copestake et al. 2005:212). Although it is important to know whether MFOs achieve impact, the question of impact evaluation is effectively last in line for the institutionalization of assessments. Rather it is more desirable to focus on social mission, strategy, outputs and monitoring of outreach because these are within the control of the MFO.

Impact assessments are viewed as costly compared to other simpler assessments, for instance because it uses relatively large sample sizes. This has led authors to do mixed methods of quantitative and qualitative studies (see for instance, Barnes et al 2001:7; Marr 2001; Nelson et al 2004; Imp-Act 2004; Dunn 2008). Second, there are technical challenges in impact measurement, particularly in the selection of a good control group. Even if the evaluation has a strong internal validity with few

¹¹ This resonates with ideas of Senge (2006); Argyris and Schon(1996) who call attention to the importance of becoming aware of tensions between mission and organisational practices.

potential estimation biases, it is still questionable whether the results apply to other geographical contexts and periods in time (see Coleman 2001:133). Lastly, rigorous impact assessments require more capacity from an MFO in terms of experience and knowledge. Impact assessments are often heavily funded by donor agencies and implemented by external consultants with the aim to make objective evaluations. However, social audits and ratings can also externally review SPM practices and are much cheaper. Rather than using only impact evaluation, advocates of SPM prefer a variety of quantitative and qualitative assessments (Simanowitz and Walter 2002; Copestake et al. 2005; Simanowitz 2007).

Recently, advocates of the Poverty Action Lab have argued that impact assessment can lead to sustained improvements in development management. Since 2003, the Poverty Action Lab has used randomized controlled sampling (RCT) methodology to measure impacts of pilot interventions for clients and MFOs (see for example, Ashraf and Karlan 2005; Karlan and Valdivia 2006;2009;2011 March; Karlan and Goldberg 2007; Duflo et al 2007, Jan; Banerjee, Duflo et al 2009, May). These studies are able to control for selection bias because they randomize clients into treatment and control groups. Selection bias occurs when possible differences between control and treatment groups can be attributed to pre-existing differences of the two groups rather than the intervention (Duflo et al 2007:5). To the degree that differences are caused by observable indicators they may be controlled for through econometric techniques, but this is often done insufficiently particularly in relation to unobserved factors influencing causality. RCTs have become popular among donors and policy makers because they can quantify whether an intervention worked or not and this feeds back into policy decision making. (Karlan and Goldberg 2007c:8).

Karlan and Goldberg (2008) highlight there can be a win-win proposition for policy makers who can use the assessment as a public good with the aim to replicate successful interventions into other contexts and MFOs that use it to improve their own operations. Although some RCTs studies were costly, they argued the high costs were justified since up-scaling interventions without knowing impact outcomes is “risky for lenders”, because “inferences about the benefits of changes evaluated in such a manner can be misleading.” Knowing whether an intervention works can therefore be less costly in the long run as it avoids scaling up ineffective pilots (Karlan and Goldberg 2007:8). This implicitly assumes that management decisions related to up-scaling interventions are determined by the impact outcomes and not by other factors that influence managers such as political ideologies, values, and perceptions.

In order to generate a business case for social performance the microfinance (plus) intervention should benefit the client and the MFO. In one of the first RCTs done in microfinance, Karlan and Valdivia (2006; 2009; 2011 March) show such win-win situation for integrated business development services,

an entrepreneurship training reduced customer exit by 4% indicating improved customer satisfaction. The study found positive effects of entrepreneurship training on business practices and self-employment, but no effects on formalization of businesses, business start-up and women's empowerment (Karlan and Valdivia 2009:15&24-25).

It is argued social and financial performance goals are in synergy in the areas of market research and customer retention. The cost of screening a retained borrower tends to be lower than for new borrowers because the transaction costs decrease for follow-up loan cycles as records of repayment and other information are revealed. Likewise, high client exit results in substantial financial losses and indicate products are not meeting the needs of clients (Hulme et al 1999: 22, Churchill and Halpern 2001; Copestake 2002; Pagura 2004; Microsave 2005).

Other benefits of SPM may include improved brand reputation, staff motivation, innovation and organisational learning, and risk management (Copestake et al 2005:218; Imp-Act 2005: 8). The intuitive reasoning for these win-win situations often rests on the "building block" idea that products and services should be tailored to the needs of clients and that "the success of a microfinance provider is closely linked to the success of its clients" (Imp-Act 2004: 2). For example, four case studies showed the low costs of social performance monitoring resulted in significant economic benefits such as reduced dropout rates, improved product and services, increased mobilization of savings and new loans taken by clients. However the studies were not representative for the Imp-Act program or the microfinance sector (Imp-Act 2004: 7; Copestake 2005:198-203).

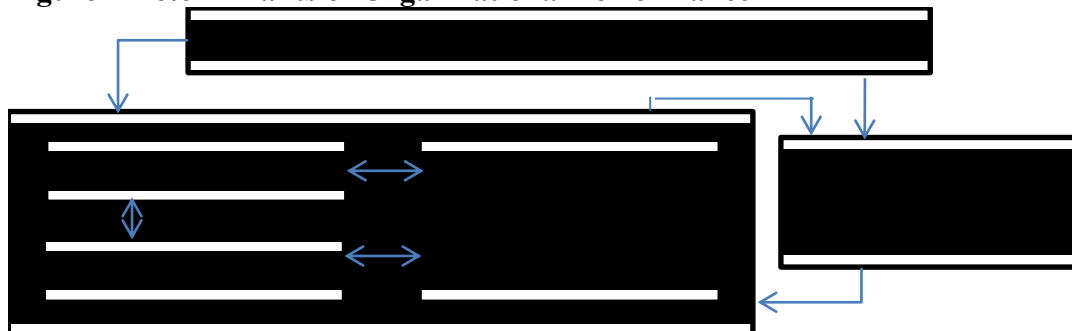
But beyond these potential benefits, balanced PBM may create a multi-task problem at organisational level because financial goals are more observable and measurable when compared to social goals (Schmidt and Tschach, 2001:22; Armendariz de Aghion and Morduch, 2007: 266-267). Management needs to carefully balance multiple objectives even though the correlation between efforts and outputs is often much stronger for financial when compared to social performance. Furthermore the correlations between the client and company performance outcomes are often negative, e.g. the time spend on achieving financial goals goes at the expense of the time spend on achieving social performance. Therefore, with monetary incentive schemes a smart loan officer would pursue the observable financial goals first (Armendariz de Aghion and Morduch, 2007: ch10: 266-267). This resonates with the organisational learning literature of Osterloh and Frey (2002) and Frey and Jegen (2000), see p23, who identify multitask tensions between intrinsic and extrinsic motivational schemes.

At organisational level, double bottom line management can increase the risk of harmful mission drift in the context of transformation from NGOs to commercial banks (Christen 2001; Mersland and Strom 2007). Copestake (2007) highlights MFOs are path dependent, when an organization with a

social enterprise strategy would only achieve financial performance but not social performance, this could be seen as a temporary mission failure. However, when it does not allocate resources towards social goals, mission drift occurs that is unintended and can even happen subconsciously. Even worse, the drift may result into lock-in were the MFO may be unable to control the process of commercialisation (Copestake 2007). The case of Compartamos is seen as an example; for-profit investors demanded high returns on equity above 50% per annum. As a result, the company was charging exorbitantly high interest rates of 99% per annum, creating high costs for clients (Rosenberg 2007).

Based on the Imp-Act consortium study, Copestake et al. (2005: 160& 174) opens up the black box of social enterprise MFOs. He suggests that the capacity to engage in SPM depends on how well it fits into the wider organizational systems and local contexts. As shown in Figure 2, he starts with a description of mission, vision and goals of the organization. Furthermore, the organization is embedded in its economic, geographical and political operating environment and has relationships with external stakeholders particularly its investors and donors. It then describes the organisational capacity and culture, which includes human resource capacity, incentive systems, capacity to innovate and change management. These determinants influence social and financial performance and change the organization (Copestake et al 2005: 158). This system diagram overlaps with wider literature of organisational learning and NIE looking at PBM in organisational systems (see Section 2.3.5, p28; Kim 1993; Argyris and Schon 1996; Cameron 2008:434; Senge 2006; Thomas and Mohan 2007).

Figure 2 Determinants of Organizational Performance



Source: Adapted from Copestake et al 2005:160, Money with a Mission.

Copestake (2005:176) subsequently argues the challenge for MFOs is to strike the right balance in a wide range of constructive tensions in double bottom line management. Managers need to make difficult choices based on limited and timely information relating to mission and vision, relationships, operating environment and organisational capacity and culture. This perspective takes the starting point that there is no “blue print”, or standard set of decisions to enhance social performance. Rather it views tensions between social and financial performance as “constructive” and argues it is important to become more conscious of them to be more effective in PBM (Copestake 2005:160). This framework overlaps with tension frameworks described earlier, (see p27, Section 2.3.5, Cameron

2008; Cameron and Quin 2005; Senge 2006), but is more specific in that it applies to the context of SPM in MFOs. But Copestake (2005) goes further in arguing that balanced performance management is the desirable “blue print” because managers need to stay away from extreme positions. Moreover, he makes no attempt to explain why so many tensions are identified, and not less as for example done by Cameron et al. (2008) and Cameron, Quin et al. (2005).

Table 3 Social Performance Management Dilemma

	Tensions	Extreme position	Balanced	Opposite Extreme Tension
Mission and Vision	Mission	Dominant financial perspective- neglect of social mission	Social mission constrained by financial realism	Social mission is unsustainable due to lack of financial realism
	Growth Strategy	Growth orientation at the expense of staff motivation and quality of service, leading to high staff and client turnover	Growth subject to minimum standards of service quality for staff and clients	Limited scale of activity, possibly undermining sustainability
External Relationships & Ownership	Relationship with Investors and other funders	Stable, open-ended, co-dependent	Diverse, long term and focused on enhancing MFO autonomy	Fragmented, uncertain, fashion driven and insecure
Operating Environment	Ambition to the external environment	Attempts to work in environment that are too difficult relative to the MFO's capacity, or to achieve too much too quickly	Strategy strikes an appropriate balance between challenge and internal capacity	Social performance limited by the reluctance to push into new markets. Excessive caution or conservatism in planning.
	Relationship with other MFOs	Fierce competition and mutual suspicion	Flexible mix of collaboration and competition	Complacent and insular closed networks
	Public Relations	Aggressive self-promotion, rhetoric outstripping reality	Public relations effort in line with actual and potential performance	Lack of publicity limits development of external relations.
Organisational Capacity and Culture	Board Composition	Dominant specialist microfinance perspective – insular view and danger of herd effects	Tension between pursuit of best practice within microfinance and wider perspectives	Dominant “generalist” perspective – failure to learn from best practice within microfinance
	Human Resources	Bias towards rewarding high qualifications and outside experience	Blend between qualifications and experience; internally promoted and externally recruited staff.	Bias towards rewarding practical field experience and loyalty.
	Structure	Rigid central control, completely subordinate field staff	Continuous monitoring and review of scope for decentralization of decision-making	[No control with danger of] Inadequate financial discipline. Low staff productivity and high risk of fraud.
	Organisational communication*	Rigid contracts and enforcement. Weak vertical and horizontal communication	Culture of listening and consultation within a strong framework of work discipline	Weak job specification. Staff overly distracted from core tasks by diverse initiatives
	Change management	Refusal or inability to contemplate changes to original model and management practices	Culture of organizational learning tempered by careful change management	Proliferation of new innovation and pilot projects often led by funding opportunities.
Product Design	Rigid adherence to one or two standard products	Cautious product diversification informed by careful research	Highly diversified product range, with and without tie-ups and with flexible terms	
Targeting Methods	No targeting of any kinds limits social performance	Flexible and low-cost (self-) targeting, especially area based, plus outcome monitoring	Rigid pro-poor targeting, risks stigmatizing clients and can limit growth	
R&D & Social performance assessment	Part-time activity with ad hoc support from consultants.	Specialist unit integrated with routine monitoring and strong feedback loop.	Specialist staff isolated from operational staff working mostly for board and donors	

Adapted from Copestake (2005:176)

** Copestake labels this organisational culture, but since organisational culture is broader (see sec 2.2.), I label this as “organisational communication.”*

*** Note, external relationships and operating environment are somewhat overlapping constructs.*

2.7. Conclusion

This chapter described ways of thinking about development management. It started with the premises that development management is framed by SMMs of actors and organisations, which led to a discussion of SMMs underpinning different types of PBM in microfinance. Three SMMs were inductively identified, namely business first, development first and social enterprise, each with a normative, historical and practical component and each drawing from a wider set of theories and ideologies.

Social enterprise is the model that will be critically examined in this thesis, it rests on the *belief* that double bottom line management is feasible and desirable as synergies may be created in pursuing the financial and social goals simultaneously (Dunford 2006; Yunus 2007). SPM initiatives for MFOs are said to improve financial performance by fostering innovation and organisational learning and through better understanding of clients (Copestake et al 2005:218; Imp-Act 2004: 8). However, at the same time, there are management tensions (Copestake 2005:176), including multi-task problems in the allocation of resources (Armendariz and Murdoch 2007), and the risk of mission drift (Christen 2001; Copestake 2007; Mersland and Strom 2007). Despite its popular appeal as a vision of “capitalism with a human face”, there is little empirical evidence and good case studies on whether the social enterprise model is effective in practice. As was described by “business first” and “development first” there are strong views that you don’t mix goals, it is better for organisations to focus on either profit or socially oriented objectives and combining client and company objectives actually leads to confusion and a lack of efficiency which can undermine performance in both domains. So, there is a real empirical question here that I can try to answer through this research. At its core, this thesis will test the feasibility of social enterprises. How feasible is it in practice for MFOs to combine both goals or to what extent do they fail, reaching only one set of goals or neither.

In order to enquire into this we have to dive deeper into the SMM of social enterprise by investigating case studies at the MFO-level itself, including its dynamics, management tensions and synergies. As described in Section 2.3.5 an open question is what exact metrics to look for when assessing the wider “organisational SMM”, “system” or “culture”. Many frameworks both overlap and diverge. The frameworks presented in Figure 2 and Table 3 overlap with other NIE and OD literature (p28) but were applied to “social enterprise” MFOs participating in the Imp-Act Consortium Research. They offer an entry point to assess double bottom line management in microfinance companies. I will return to this point in Chapter IV, after having introduced the wider ILO study, which formed the opportunity to investigate two social enterprises more closely.

Chapter III. Decent Work and Microfinance

3.1. Introduction

This chapter describes decent work and its application to microfinance. Section 3.2 sketches the concept of decent work and how it is historically embedded in the ILO. Section 3.3 shows how it applies to microfinance according to the Labour Organisation. What would the SMMs identified in Chapter II state about the social impacts of microfinance on employment. What role does the ILO play in supporting these SMMs? Section 3.4 introduces the Microfinance for Decent Work project implemented by the Social Finance Programme over the period 2008 to 2012. I will outline its objectives, actors and planning, as well as my personal involvement in the project. Section 3.5 describes the first phase of the action research and presents outcomes of the diagnostic survey conducted from Nov 2008 to February 2009. I will use the outcomes to challenge some of the perspectives of the SMMs identified in the previous chapter.

The focus of this PhD will be on the application of employment in microfinance. The ILO is of course active on many other fronts including labour policy formulation, regulation of labour standards and rights at work, globalisation, social security through formal government agencies, labour statistics etc. Although this deserves recognition, it will not be the scope of this research. Within the broader concept of decent work, the thesis will focus on job creation and women's empowerment and entrepreneurship because the case study MFOs chose to address these decent work aspects (see Chapter VI and Chapter VII).

3.2. Decent Work and the ILO

At its inception in 1919, the ILO formed a Polanyistic view of society (Standing 2008:355; Polanyi 1957:26), aiming to protect labour from the hands of Wall street liberalistic excesses and following the principle that "labour is not a commodity". Treating labour as a product to be traded in markets would undermine capitalism itself because it would not be socially acceptable and therefore make laissez faire capitalism politically unsustainable (Polanyi:1957). As such in the first 40 years of existence, the International Labour Organisation functioned mainly as an agency that developed labour standards and stood for national welfare capitalism through social dialogue as practiced in many Western European countries (Swepston 1999:36-38; Standing 2008:356, ILO 2008c:13; Deacon et al 1997).

The principle of social dialogue lies at the heart of the ILO. It is the only UN institution that has a governance based on tripartism, a dialogue between employers, employees and the government (Swepton 1999:36-38; ILO 2008e). Tripartism is a model “in which standard employees would be treated decently and protected, in return for their accepting the employers’ ‘right to manage’ and their ‘right’ to make and retain profits” (Standing 2008:356, and also ILO 2008e). The ILO had to represent and reach consensus between many competing views of labour market and welfare models. Such perspectives have been labelled by a variety of authors as formalised liberal welfare states, corporate welfare states, social democratic welfare states (Esping-Andersen 1990:26-29; Gradus, Hospers et al 2000; Hall and Sokice 2002), productive welfare regimes liberal-informal regimes and informal security regimes (Wood and Gough et al. 2004; Wood 2007). With such a diversity of welfare models, in which labour unions, governments and employer organisations all play different roles, and have different levels of interests, power and values, it is difficult to reach agreements (Deacon et al 1997). The ILO supports the wider principle of social dialogue between competing views on labour markets and functions as a broker in the development of formal labour standards and policy.

In the 1970s, the ILO broadened its agenda by incorporating the informal sector into its mandate as well as related concepts of gender equality and basic needs approaches (Standing 2008; ILO 2008e; ILO 2008c; Kabeer 2008:13-14). It recognized that informal routes to the development of labour markets were important because in most developing countries urbanization was increasing informality, and the percentage of working population associated in unions was generally smaller than 15% and declining (Ghai 2002). It was difficult to estimate how large the informal sector was, because official labour statistics neglected a lot of the self-employment in microenterprises and non-paid workers, often women (Aliber 2002; Kabeer 2008:29-31; Samal 2008:ch1). Informal work activities tended to be small scale, unprotected by labour law and un-taxed, but beyond these shared characteristics they were highly heterogeneous.

The ILO established the term “informal sector” together with the term “working poor”, emphasizing poor people are often not unemployed, but “underemployed”, working in small scale activities, with little government protection, regulation and remuneration (Rakowski 1994:15). It opened up a new mandate for the Labour Organisation to intervene in; the working poor consisted of millions of workers including many women and self-employed workers. The ILO’s approach acknowledged that the informal sector generated employment at a faster pace than the formal sector (ILO 1972:5 in Rakowski 1994). The informal sector offered income-generating activities during times of crises and a way for the working poor to “survive” (Rakowski 1994: ch3). The ILO promoted a social democratic reformist agenda, and implemented technical training and formalisation strategies for microenterprises (Bromley 1990:338 in Rakowski 1994: Ch3: 33; Moser 1994:18).

Rakowski (1994) identifies four approaches to the informal sector, namely the above-mentioned approach of the ILO, a neo-Marxist approach, the neo-liberal legalist approach and microenterprise approach. The first two identified important roles for the state in formalization, the latter two argued to reduce state intervention. The neo-Marxist school used dependency theory relating to power and the casualization of labour to explain how the capitalist elite exploited the working poor in absence of strong governments (Rakowski 1994: ch3; Portes 1994: ch 7). This in stark contrast to the neo-liberal legalist approach that was based on the views of De Soto; informality was seen as a response of the working poor to the failure of the state. They “escaped” to the informal sector to reduce the costs of taxes, bureaucracy and corruption. The desired policy response was to reduce regulation (Rakowski 1994: 39-40 based on De Soto 1988:29-31). The microenterprise perspective, embraced microfinance and business training as a route for small scale businesses to create self-help and empowerment. It became popular among aid agencies, who felt informal activities might be a cost-effective in creating social and economic development (Rakowski 1994:Ch3:31-34:45).

The Washington consensus dominated development aid in the 1980s. It offered neo-liberal policy packages promoted by the US, IMF, WTO and World Bank enforcing liberalization, privatization and macro-economic stabilization (Stiglitz 1998a:9:1998b). Deacon et al (1997:47) and Swepston (1999: 195-205) emphasized it strongly affected the ILO which was not anymore the main multilateral player in labour market policy and received competition from the neo-liberal models. For example, after the collapse of the Soviet Union in the 1990s, the World Bank almost completely ignored the ILO in implementing labour market reforms in the new nation states (Deacon et al 1997:197-199). This forced the Labour Organisation to be more convincing in the debates on its relevance for development practice. It needed to go beyond moral views of human development (Deacon et al 1997). At the end of the 1990s, the ILO was again in need of a revival of its political development agenda also in context of a Post-Washington consensus such as public-private partnerships, social enterprise and corporate social responsibility, and the Millennium Development Goals (see Section 2.3.6, p29).

Since 1999, the ILO has used the umbrella concept of *decent work* to support its political agenda, and it became incorporated into the MDGs in 2005 (ILO 2007; ILO 2008e:11; UNSD 2008). It defines decent work as “*creating opportunities for women and men to obtain decent and productive work in conditions of freedom, equity, security and human dignity*”. What may be labelled as the objective of decent work is to establish “*productive work in which rights are protected, which generates an adequate income, with adequate social protection and with access to income-generating opportunities*” (ILO Thesaurus Database; Anker et al. 2002:1-3; Ghai 2002: ILO 2005; UN 2006). In this context “decent” means “adequate” or “acceptable” work and it is specifically concerned with the most vulnerable and poorest (Anker et al. 2002:3; ILO 2004: 289). Decent work strongly builds upon the core pillars of the ILO, employment creation and enterprise development, social protection,

standards and rights at work and governance and social dialogue (Ghai 2002; ILO2007). It draws from the seven core labour conventions that form the Fundamental Principles and Rights at work, including freedom of association and collective bargaining, the elimination of forced labour, the abolition of the worst forms of child labour, and the elimination of discrimination regarding employment and occupation (Swepston 1999:37; Ghai 2002:2; ILO 2008b; ILOLEX database). The opposite of decent work are decent work deficits, which come in the form of unemployment and underemployment, poor quality and unproductive jobs, unsafe work and insecure income, rights that are denied and gender inequality (ILO Thesaurus database; ILO 2006).

Decent work is an umbrella concept, a basket of topics related to quality of employment. It was created out of the need for policy coherence across the UN and other multilateral agencies, in the context of the Post-Washington consensus. Echoing Hulme's work on the MDGs (2007), decent work is a convenient discourse for communicating the ILO's normative political agenda of human rights to the outside world, but on the other hand, by not defining explicit objectives, the ILO also avoided having to be fully accountable for achieving "decent work for all by 2025". Ghai (2002:2) argues that the term decent work has greater resonance with the public and is an attractive way to communicate traditional labour conventions. Standing (2008) applauds the use of the term "work" because it is broader than "labour" and includes unpaid informal labourers. However he finds the term decent intrinsically vague and fears it has limited operational usefulness (Standing 2008). Others have a need for a clear evaluative framework with indicators to measure decent work aspects (e.g. Anker et al. 2002; ILO 2004 ch11: 289 on economic security; ILO 2008b, April on decent working hours; ILO 2008d, April on child labour). This has proven to be difficult because decent work is continuously moulded by social dialogue and tripartism, which makes it impossible to reach a synthesis that satisfies all stakeholders. The paradox is that a universally accepted definition of decent work is not possible and even contradicts the idea of social dialogue.

3.3. The ILO, Decent Work Aspects and Microfinance

Having described the decent work agenda, I now discuss the role the ILO plays in the microfinance sector (Section 3.3.1), followed by a brief overview of literature on impacts of microfinance on entrepreneurship and job creation (Section 3.3.2). I then return to the role the ILO could play in the microfinance sector from the perspectives of the three SMMs identified in chapter two (Section 3.3.3).

3.3.1. *The ILO and Microfinance*

The ILO mainly intervenes in the labour market, while financial sector development is more the arena of the World Bank and IMF. However, because the financial markets affect the labour markets and microfinance can create employment, there is a role to play for the ILO in microfinance. With the incorporation of the informal sector into the mandate in the 1970s (see Section 3.2) and the increased popularity of microfinance interventions in the informal sector in the 1990s (see Section 2.4-2.6), microfinance became an area of interest (ILO 1998; ILO 2007, March).

In 1999, the ILO started a Social Finance Programme as part of the employment department, its goals is to “use financial instruments to promote Decent Work”.¹² “The Programme addresses three major goals: reducing vulnerability and increasing access to risk management tools, creating jobs through enterprise development, and making financial policies more employment-sensitive.”¹³ In 2005, the Governing Body adopted a policy on microfinance for decent work recognizing microfinance as an effective strategy to help advance decent work goals (ILO 2007, March:1). Microfinance is believed to contribute to decent work, “by providing opportunities for small investments in self-employment and job creation. And, through emergency loans, micro-savings and micro-insurance, it provides the means for people to manage risks” (ILO2005:1). Among key objectives of the program were to do action research on innovations related to market failures and monitor their costs and benefits (ILO 2007, March:2).

In 2008, the Social Finance Programme started the “Microfinance for Decent Work Project” as a way to promote the decent work agenda among MFOs. The project aimed to bring about changes in microfinance methodology to improve the decent work aspects. The working team identified decent work aspects or deficits that intersected with microfinance to be:

- Productive employment for clients and job creation for their workers
- Child labour
- Formalisation of the work activity of the client
- Association of workers
- Risk management and social protection
- Over-indebtedness and bonded labour
- Working conditions
- Women Empowerment

¹² In this context, social finance promotes sustainable finance with an employment related social objective.

¹³ See ILO social finance programme: http://www.ilo.org/employment/Areasofwork/lang--en/WCMS_DOC_EMP_ARE_SFN_EN , accessed Nov 2010

These aspects were inductively identified by Social Finance Programme based on the seven core conventions and a review of impact assessments and employment related innovations in microfinance (See Balkenhol 2007; ILO 2007, Dec; ILO 2009 for an extensive review). When I started working as a consultant for the project the eight items were already chosen. In my opinion, this list is both broad and relevant enough for MFOs.¹⁴ Before I will describe the ILO project in more detail (Section 3.4), I will first give a brief overview of existing literature on microfinance and employment effects.

3.3.2. *Microfinance, Employment and entrepreneurship*

Most reviews find microfinance has a positive effect on work quantity by increasing self-employment for the microfinance borrowers, but at the same time question the quality of employment generated (Sebstad and Chen 1996; Hulme and Mosley 1996; Armendariz and Morduch 2007:4; Balkenhol 2007; Banerjee and Duflo 2009, Feb; Crepon et al 2011). Outcomes depend on how one defines employment, does one include wage, family, and daily workers (Balkenhol 2007).

Another question is whether microfinance generates employment *beyond* the borrower. Studies done in the 1990s emphasized microfinance creates mainly family labour. Job creation was skewed towards a relatively small number of microfinance users (Sebstad and Chen 1996, Hulme and Mosley 1996:102-104; Khandor 2003). Hulme and Mosley 1996 (103-104) find microfinance mainly increased working time, there was little increase in productivity for most borrowers. Also external factors such as market and livelihood opportunities influenced employment outcomes and these were largely beyond the control of MFOs. Some studies recognized microcredit reduced vulnerability by diversifying income-generating activities (Sebstad and Chen 1996).

Recent studies also show mixed results with Burkle (2009) finding positive effects on job creation in Tajikistan, while Banerjee and Duflo (2009, May) found small negative effects in South India. The ideal model in which financial services upgrade clients from having a family owned microenterprises to a job creating SME is not verified empirically (Emran et al 2006:3; Balkenhol 2007:10).

Impacts can be highly heterogenic, for example, Imai and Arun (2008) used propensity score matching and found that access to microfinance in India decreased poverty for microfinance borrowers as measured by a multi-dimensional index that included employment quality and assets. While in urban areas access to finance was effective in reducing poverty, in rural areas access to loans for production activities were mainly effective. Effects also differed among poor and moderately poor borrowers.

¹⁴ Arguably, one aspect missing in the context of Central Asian microfinance was worker migration and remittances transfer. They were left out for practical purposes since not all decent work aspects could be addressed and choices needed to be made.

It is believed that microfinance may empower women borrowers because it gives them opportunities to earn income. Women may then gain more respect, confidence and control over decision-making. However, microfinance may also be disempowering women, when they take the loan but other family members control it, or when loans or new business activities increase household conflicts (Fernando et al 2006:6-7). Early studies suffering from selection bias showed microfinance improves empowerment outcomes (Cheston 2002; Khandker 2003; Kabeer 2005). However, later studies using RCTs found access to microfinance increased self-employment, but there was no effect on business start-up and empowerment outcomes (Banerjee, Duflo et al 2007; Crepon et al 2011). Another group of authors argues microfinance has limited impact on women's empowerment because it does not change society-wide gender norms and instead works within what is culturally acceptable (Johnson 2003; Mayoux 2000; Cheston 2002:29; Ngo 2008:42), or even enforces prevailing gender norms (Fernando et al 2006:6-7).

Some authors researched the idea that entrepreneurship trainings in combination with microfinance may improve women's entrepreneurship and empowerment. Kevane (1996:2-4) detects increased business expansion, earnings and capacity for women, but does not have a control group to see what would have happened in the absence of training interventions. Dunford (2001:9-11) finds no effects on women's control over household decision-making. The first RCT was done by Karlan and Valdivia (2006;2009:15&24-25) who found positive effects of entrepreneurship training on business practices and self-employment for both men and women, but no effects were observed on formalization of businesses, business start-up and empowerment (see Section 2.6, p41) .

Nevertheless studies are difficult to compare because they apply to different contexts and use different metrics (e.g. Balkenhol 2007). So to what extent do MFOs promote quality of work for clients and embrace a decent work agenda? The argument advanced in this section echoes the work of Copestake's (2008:578) on well-being and development, namely that understanding the role of microfinance in promoting decent work is better served by referencing "to the existence of multiple mental models than by attempting to proceed to an all embracing synthesis".

3.3.3. Microfinance and Decent Work from the perspectives of SMMs

What role does the ILO play for MFOs and vice versa? Debates about decent work aspects such as child labour, over-indebtedness, women's empowerment, job creation are often value laden. Different mental models depicted in chapter II, will observe the impact of microfinance on employment quality differently in the context of limited evidence and lack of generalizable results. The ILO may have a different role to play for each of them.

Business first

From a “Business first” perspective MFOs are unlikely to embrace the decent work agenda for several reasons: first, the decent work agenda should not go at the expense of increasing access to finance and building strong sustainable financial institutions. Decent work is problematically holistic; it is not the core business of financial companies to intervene in labour markets (see Section 2.4). Second, decent work interventions increase the operating costs of MFOs, but it is unclear how it is benefiting them and whether it can be sustained in the context of market competition. Third, the ILO and its “managed capitalism” does not resonate with the neo-liberal ideology, it constrains the freedom of enterprise and tends to favour regulation of labour markets over de-regulation of financial markets. For “business first” a simplistic agenda would be sufficient, for example looking at increases in incomes and employment opportunities for microfinance clients.

However, for several supporters of commercial microfinance there is a paradox; despite that no evidence is provided or testing is done, they simply assume microfinance creates good quality employment as a normative belief. For example, Robinson (2001:37) states; “[*minimalist*] *Microfinance matters, because it increases the options and the self-confidence of poor households by helping them to expand their enterprises and add others, to decrease risk, to smooth consumption, to obtain higher returns on investment, ... [to] increase their productivity and incomes, ... to escape or decrease exploitation by the locally powerful, and to conduct their business with dignity. The quality of their lives improves. Children are sent to school, and child labor decreases. And housing and health improve. In addition, the economically active poor who are able to expand their economic activities often create jobs for others; among those who gain employment in this way are some of the extremely poor*” (Robinson 2001:37; see also Helms 2006:32-33 for a somewhat similar perspective). Von Pishke (1990:41) claims “Finance is social”, thereby ignoring any possible negative effects of microfinance on the quality of employment of the client.

As described in the Section 3.2, (p46), the historical role of the ILO has been against neo-liberal business models. While the ILO is not an anti-capitalist or a neo-Marxist institution, it does view that labour market regulation is necessary for development. The labour organisation differs from the business first perspectives of the World Bank and CGAP (see Section 2.4, p31), in that has less trust in the functioning of laissez fair markets and sees stronger distributional consequences of market failures in the financial sector (ILO 2007, March:1-2). Nowadays, the ILO does embrace market-adapted approaches to decent work. For example, in the mid-1990s it recognized that microfinance funds should apply market interest rates and microfinance providers should seek institutional sustainability (ILO 1998:2).

Development first

“Development first” is likely to embrace the decent work agenda because it starts from the premises that there is a need for microfinance plus, social services and public policy to improve the quality of employment and productive capacities of clients (see Section 2.5). Minimalist microcredit as advocated by the neo-liberalistic perspectives cannot create good quality employment. At best it creates work activities at the bottom of the barrel (Dichter 2005) and there is a danger that it can create decent work deficits such as disempowerment of women (Fernando et al 2006), over-indebtedness, or clientelism, a form of bonded labour (Wood 2004; 2007; Bateman and Chang 2009:9). Views that are more radical argue that only the power of the state and the labour unions create good quality employment and that microfinance may actually undermine the creation of such institutions (Weber 2001; Bateman and Chang 2009). For example, Bateman and Chan (2009:11) suggest microfinance may sustain decent work deficits because it *“helps to precipitate a decline in incomes, wages, profits, and working/life conditions in many localities in the developing and transition countries”*. However, a paradox is that they provide no evidence in support of this strong statement.

Early microfinance policies of the ILO were perhaps more of a development first nature, focusing on social aspects such as prevention of over-indebtedness, and subsidized targeting of vulnerable groups such as migrant, young or poor workers (ILO 1998:1-14). The ILO (1998) recognized it could play a role in cooperative development for self-help organisations, village banks, and savings and credit unions. Thus the Labour Organisation could play an important role for the development first model.

Social Enterprise

There may be a particular set of social enterprise MFOs sharing the ILO’s concern for decent work deficits in the labour market (see Section 2.6). Particularly, MFOs that have a mission related to employment may resonate with the decent work agenda. The ILO’s agenda could also be attractive if addressing employment aspects for clients improves customer satisfaction and retention, organisational image, product development, marketing or mitigates harmful mission drift.

In April 2008, at the outset of the project the Social Performance Taskforce did not promote the decent work agenda. Most MFOs did not use the term “decent work” explicitly. Some of them addressed decent work aspects implicitly with mission statements relating to entrepreneurship, job creation, women’s empowerment, child labour and vulnerability. Other aspects such as working conditions and formalization may be part of specific interventions.

At the same time, many microfinance networks and investors claimed to improve the quality and quantity of employment through microfinance. FINCA and Opportunity International had job creation

explicitly in their mission statement. World Vision and Plan International aimed to reduce child labour. Women's World Banking and Grameen Foundation tried to address women's empowerment. Among microfinance investors, Oikocredit aimed to promote empowerment of the poor and disadvantaged with focus on women, as well as attention to employment generation and cooperative development. Triodos believed microfinance "*enables businesses to grow, generates income and jobs, thereby reducing poverty*". Blue Orchard improved quality of life through microfinance enterprise activities, claiming experience shows that "*even very modest loans generate huge business productivity gains and contribute to both job creation and better family living standards*". These donors and investors claimed to have a concern for the quality of employment of end-borrowers, especially in a normative context (source websites, accessed March 2009).¹⁵

Although the commercial microfinance model may adopt at best a minimal decent work agenda, the development first model could embrace it. The question is whether MFOs can function as a social enterprise that promotes decent work aspects in a sustainable fashion. Historically the ILO has played the strongest role in the development first mental model and rejected business first thinking. The role it plays for the social enterprise model is ambiguous, as a mode of social enterprise microfinance may be criticised for disguising but not fundamentally challenging capitalist excess. On the other hand, MFOs also offer an additional agency through which the ILO could seek to execute its role, particularly in relation to informal activity where trade union activity is irrelevant and state regulation is weak.

3.4. The Microfinance for Decent Work Project

Section 3.1 to 3.3 showed the decent work agenda of ILO may be compatible with SPM agendas of several MFOs. Can they function as a social enterprise promoting decent work related aspects in a sustainable fashion? In 2008, the ILO Social Finance Program started an action research looking into this aspect. I will now describe objectives, time line and phases of the ILO project. I became actively involved in the project since April 2008.

¹⁵ Sources:

Finca International: http://www.finca.org/site/c.erKPI2PCIoE/b.2603941/k.BBB2/Mission_and_Vision.htm

Opportunity International: <http://www.opportunity.org/Page.aspx?pid=779>

Women World Banking: <http://www.swwb.org/mission-vision>

Grameen Foundation: <http://www.grameenfoundation.org/who-we-are>

Oikocredit: <http://www.oikocredit.org/en/who-we-are/mission-and-values>

Triodos http://www.triodos.com/com/international_funds/microfinance/spec_microfinance_funds/46181/

Blue Orchard: <http://www.blueorchard.com/jahia/Jahia/pid/341>,

All accessed March 2009.

3.4.1. Objectives

The main goal of the project was to “accompany a selected number of [MFOs] that want to address decent work deficits” (ILO 2007, Dec:27). This was to be done by piloting new ways of working¹⁶ in the areas of targeting, marketing, product design and diversification, delivery channels, bundling of financial and non-financial services and external partnerships. “In some instances there is likely to be a business case, in others not, but the benefits for society as a whole may warrant public policy support or incentives” (ILO 2007, Dec: 7 & 27). The project was considered to be an *action research* because it aimed to bring about a change in the methodologies of MFOs to improve decent work aspects for their clients (ILO 2007, Dec: 27). It used a diagnostic and experimental phase that could trigger learning for the MFOs. It started from the premise that an innovation in the microfinance methodology is required to improve decent work aspects.

The research aimed to:

- “generate knowledge about the effects of changes in the microfinance methodology on specific decent work outcomes”;
- “demonstrate the business case and its limitation;
- design incentives and generally build human and institutional capacity to create a permanent and sustainable basis for constant pro Decent Work innovations in MFOs;
- inform and advise social partners” (ILO 2007, Dec:19).

Also the project had an underlying political agenda to promote decent work in the microfinance sector, for example for those MFOs that resonated with decent work aspects. It intended to open a dialogue between labor market and financial market institutions and within the ILO itself.

3.4.2. Activities and timeline

The research was implemented in the following phases:

- Selection of MFOs ; March-June 2008
- Phase I: Diagnostic Survey of Decent Work Aspects ; June 2008- Feb 2009 (See Section 3.5)
- Phase II: Decent Work Pilot Assessment; May 2009- June 2012 (See Chapter V-Chapter VII)

I will now describe each phase in more detail.

¹⁶ In this context, new ways of working meant creating products and services that were innovative for the MFOs (even though they may have been implemented elsewhere).

Selection of MFOs

Applications were distributed selectively within the ILO and Oikocredit network to over 150 MFOs. We distributed the expression of interest forms to larger organisations that met certain predefined criteria such as a minimum of 10.000 borrowers, five years of operations, operational self-sufficiency and at least four branches. This was done because an overall aim was to select financial organisations that were large enough to be able to innovate with new ways of working.

In May 2009, approximately 60 MFOs expressed interest in addressing decent work issues for clients. Out of this sample of applications we selected 22 MFOs for the diagnostic phase based on their established social mission relating to decent work goals, their interest in decent work aspects, their commitment to innovate and originality of their proposal. There were a limited number of participants per continent, with only two places in Eastern Europe and Central Asia. Table 4 shows the MFOs completing the diagnostic phase and in bold the sub-sample implementing the pilot assessment. They were among the larger MFOs in their respective markets and had social missions relating to employment or entrepreneurship goals.

For example, both Central Asian companies were financially sustainable and had a social objectives relating to a decent work aspects, namely job creation for Bai Tushum and entrepreneurship of women for IMON. IMON's mission was to “ promote economic development in Tajikistan, assist in increasing the quality of life and economic development in the country through providing sustainable access to finance for economically active people in Tajikistan”. The company was founded by the National Business Association of Women in Tajikistan and had the social objective to improve women entrepreneurship and empowerment. Bai Tushum's mission was to contribute to “sustainable development of Kyrgyz economy, prosperity of society and improvement of living standards through provision of financial services to different sectors of agriculture, medium-size, and small businesses.” They pursued a social objective of employment creation for clients, particularly through its financing of small and medium sized businesses. Thus, for this thesis I accept these two companies to be case studies of social enterprise MFOs based on the criteria that they claimed to pursue a double bottom line of financial and social goals (see more in Sections 5.3-5.5).

The region of Central Asia was interesting for the PhD because several MFOs had employment and business creation as part of their mission statement and therefore may resonate with a decent work agenda. MFOs in Central Asia were believed to resonate with employment goals of job creation and enterprise development because historically they were targeting higher market segments of small and medium enterprise with larger loan sizes. The markets were young and in an expansion phase with several of the MFOs having reached financial sustainability. Few social performance assessments were done in this region (Ngo 2008, June; Burkle 2009, Feb). The ILO project offered an opportunity

for the two case study companies, to experiment with SPM activities and improve employment outcomes for clients.

Table 4 MFOs in ILO Project

Africa	Asia	Latin America	ECA
PRIDE Uganda	AMK Cambodia	Confianza Peru	Bai Tushum Kyrgyzstan
NYESIGIO Mali	Vision Fund Cambodia	Bancovelo Honduras	IMON Tajikistan
RCPB Burkina Faso	NWTF Philippines	FDL Nicaragua	
LAPO Nigeria	ESAF India		
Tamweelcom Jordan	BASIX India		
ABA Egypt	NRSP Pakistan		
Al Amana Morocco	TYM Vietnam		
Enda inter-arabe Tunisia	XAC Bank Mongolia		
	BMT Indonesia		

** In bold are the 16 MFOs involved in the 2nd phase*

Phase I: Diagnostic Survey

Phase one included a diagnostic survey for each MFO aiming to provide a snapshot of the decent work aspects of microfinance clients and their workers (see p50). Each MFO conducted the same survey of 53 questions for a random sample of 200 borrowers. The survey-results aimed to increase awareness of the MFO staff on decent work deficits, thereby feeding back into the design of the pilot assessment for phase II of the project. The Social Finance Programme including myself did the analysis. We presented key results to each MFO in a separate report. In February 2009 a workshop was organised in Geneva where all the MFOs participated and a synthesis report was presented (ILO 2009, unpublished work). Section 3.5 will present some of the outcomes of the diagnostic survey.

Phase II: Decent Work Pilot Assessment

Phase two intended for 16 MFOs to come up with their own pilot to address a decent work aspect chosen by them, (see p50). They could engage in loop learning in a similar way as demonstrated in Figure 1 (see p27). It included doing problem diagnosis, pilot design, pilot implementation, data collection, and outcome reporting, this in turn may lead to follow-up actions and learning. Most MFOs wanted to conduct research in client risk management (8) followed by child labour (3), formalisation (2) and working conditions (2) The case studies in Central Asia were unique to the project because they intended to address job creation and women's empowerment and entrepreneurship. The pilots of Bai Tushum and IMON will be described in detail in Chapter VI and Chapter VII.

To assess whether the pilot worked or not, each of the MFO conducted an impact assessment at client level to track decent work outcomes over time. Different quantitative studies were designed for each

organisation including different surveys, sampling, experimental methodology. However all the assessments aimed to use a treatment and comparison group design with a baseline survey and several follow-up surveys over a two-year period. This was required to maintain comparability in methodologies and be able to demonstrate impact measurement, but also because it was a formal requirement of the ILO and its donor agency to use the studies as a public good.¹⁷ In summary, the project intended to have MFOs engage in two rounds of experimentation in order to improve the awareness and practices of MFOs relating to decent work of their borrowers.

3.4.3. *Actors involved*

There were three types of actors for this thesis, namely the ILO, the two Central Asian MFOs and myself as a researcher and consultant. The ILO functioned as the umbrella organisation in the overall project, funding the cost of data collection, offering technical support and supervising the data analysis and outcome reporting. The MFOs designed and managed their pilot assessments and organized data collection. They set up a project team of senior managers.

As an ILO consultant, I supported in the selection of MFOs and the design of the methodology for the pilot assessments. The task included designing and field-testing surveys, training staff in administering the survey, preparing data entry forms, advising on methodological design, conducting empirical analysis of outcomes, writing reports and other smaller tasks. At the same time, I also had a role as an academic researcher to analyse how the MFO managed the pilot assessment and to assess the interaction between the MFOs, the ILO and myself. Section 4.5 will give a more detailed overview on how these three actors interacted and how the methodology of my PhD co-evolved with the ILO project.

3.5. **Decent work outcomes observed through diagnostic phase**

Having described the project planning, this Section shows the findings of the diagnostic survey. I will first discuss the process of data collection (3.5.1) and then turn to the decent work outcomes (3.5.2.), which offers reality checks for the SMMs identified in Chapter II (3.5.3).

¹⁷ For more information, see http://www.ilo.org/employment/WCMS_168044/lang--en/index.htm, accessed Feb 2013

3.5.1. Process of data collection

I was part of the team based in Geneva that developed the diagnostic survey in the first half of 2008 during my 5 months detachment at the ILO and I helped implement the questionnaire in the two Central Asian MFOs.

The first challenge encountered by the team was how to incorporate so many topics into one survey. We reduced the questionnaire from 87 to 53 questions with the final survey taking approximately 40 minutes to conduct. A second challenge was to apply one tool in 20 different countries for 22 different organisations. Some questions did not work in specific contexts. For example, in Kyrgyzstan it was not polite to ask people about payment of taxes. In other cultures child labour or gender were sensitive topics. A third challenge was to develop a toolkit rather than a tool. Designing the questions was relatively easy, but implementing the questionnaire in the field required training, guidance (notes), data entry forms, survey testing etc. In almost all cases, senior loan officers or staff from marketing and social performance department conducted the interviews. Although MFO-staff had experience in dealing with clients, they were not always used to doing social interviews.

Table 5 presents information on sample size and costs of conducting the survey. For Bai Tushum we took a random sample of all branches. For IMON we excluded the Southern branches because it was difficult to reach their clients during the winter. The sample was representative for the Northern and Central Branches only. Total gross costs of conducting the diagnostic survey were respectively US\$ 5,363 for Bai Tushum and US\$ 6,918 for IMON. Worldwide 4,748 clients were interviewed of which 63% female and 40% lived in the rural areas. The microfinance clients had an average loan size of US\$1,197. When compared to the other MFOs, Bai Tushum and IMON were more rurally oriented, targeted fewer female clients and were positioned up-market offering larger loan sizes.

Table 5 Sample Overview and Costs

	<i>IMON</i>	<i>Bai Tushum</i>	<i>All 22 MFOs (ILO 2009)</i>
% Rural Clients	53%	56%	40%
% Female Clients	55%	45%	63%
Average Loan Size in US\$	\$2,226	\$2,589	\$1,197
Gross Costs of survey implementation	\$6,918	\$5,363	N/A
Sample Selection	4 Branches in the North	All Branches	Almost always all branches
Clients Interviewed	200	200	4.748

Source: ILO 2009, Feb

3.5.2. Decent Work Outcomes

Table 6 shows some of the outcomes per decent work aspect for all 22 MFOs and specifically for IMON and Bai Tushum (see p63). I will reflect on the empirical outcomes by drawing from wider literature on microfinance and quality and employment (see Section 3.3.2).

Approximately 90% of the microfinance clients were self-employed with some of them having several work activities. Each borrower employed on average 1.6 workers in addition to him- or herself. For the two Central Asian MFOs this average was skewed towards a small number of entrepreneurs, which is a finding similar to Sebstad and Chen (1996:9&iii) and Hulme and Mosley (1996: 103-104). The survey found a relatively high number of family workers among Bai Tushum (87%) and IMON borrowers (49%), most of them were unpaid. The “household enterprise” seemed to be a reality for most of the microfinance borrowers, who employed few wageworkers (Sebstad, Neil et al 1995; Sebstad and Chen 1996; ILO 2009:3).

Approximately 5% of the clients had children working in their enterprise. Often these children were from their own family (67%). Most respondents stated children did attend school. Finding working children among microfinance clients was not a surprise given earlier studies of Wydick (1999), Guarcello et al (2002), Hazarika and Sarangi (2008).

The degree of formalization of entrepreneurship varied substantially. 96% of the clients had ID-Cards because this was often a requirement to receive a microfinance loan. However, less than half of them used income and expenditure books (42%), had registered their businesses (46%) and paid taxes (41%). For the two central Asian MFOs the degree of formalization was much higher when compared to other regions.

Only 27% of the self-employed clients and 6% of their workers were associated in some sort of business association, labour union, or cooperative. In many cases clients were not aware of the existence of such institutions or did not see how it could benefit them. Almost all self-employed clients reported to negotiate wages upfront and pay salaries on time, but only 39% offered social benefits to their workers. Often this was done through informal mechanisms such as personal lending (17%) and offering money (13%), rather than through formal channels such as paid vacation (4%), pensions (2%), or maternity leave (1%) (ILO 2009:13).

In terms of risk management, approximately 43% of the borrowers experienced a large unforeseen expense in the last 12 months. Frequently cited contingencies were health expenses, housing repairs and social events such as funerals and weddings. In most cases, clients used savings to cover large unforeseen expenses. Few clients had access to insurance products (ILO 2009:12). Results signalled

some borrowers may be prone to over-indebtedness as 16% of the clients had one late payment and 14% experienced difficulties in repaying their loan.

In terms of occupational safety and health at work, the survey found that 11% of the microfinance clients witnessed an injury in the last 12 months. In several cases, clients lost working days because of the injuries. 23% of the enterprises did not have sanitation near their workplace. 28% of the microfinance borrowers reported to have insufficient lighting, heating or ventilation at their workplace. For example, in Tajikistan and Kyrgyzstan many clients reported a lack of heating systems.

In terms of gender equality, women less often decided about the usage of loans by themselves when compared to men. This finding resonates with that of Johnson (2003).

Table 6 Decent Work Outcomes of Diagnostic Survey

		IMON Tajikistan	Bai Tushum Kyrgyzstan	All 22 MFOs (ILO 2009)
Job Creation and Productive Employment	% self-employed clients	99%	78%	90%
	Average no of workers for self-employed clients	1.4	2.4	1.6
	% of wage workers in total workers of clients	39%	12%	
	% of family workers in total workers of clients	49%	87%	
	% of daily laborers in total workers	6%	1%	
	% of total apprentices in total workers of clients	7%	0%	
	% of family workers that were unpaid	79%	95%	
Child labour	% of clients with working children	5%	6%	5%
	<i>Of which</i> family members of the client	43%	81%	67%
	<i>Of which</i> % of children that go to school full time	66%	59%	50%
Formalisation	% clients with ID-Card	99%	100%	96%
	% clients with income and expenditure books	77%	47%	42%
	% clients with business registration	65%	91%	46%
	% of clients who pay taxes	73%	93%	41%
Association	% of self-employed clients affiliated to association	2%	41%	27%
	<i>% clients who state there is no association</i>	64%	14%	70%
	<i>% of clients that have workers that are associated</i>	0%	5%	6%
Risk Management and Social Protection	% of clients with large unforeseen expenses	50%	53%	43%
	<i>Of which</i> % of clients that covers unforeseen expenses with savings	71%	42%	57%
Over-indebtedness	% clients who state they have difficulties to repay their loan	10%	14%	14%
	% of clients who have one late payment for the loan (of 1 day or more)	41%	17%	16%
Working Conditions	% of Clients that witnessed a working injury in the last 12 months	7%	7%	11%
	% of clients working that have insufficient light, heating and/or ventilation.	66%	30%	28%
	% of clients working that do not have sanitation at their workplace	15%	24%	23%
Gender Equality	% men deciding themselves about usage of the loan	94%	57%	
	% of women deciding themselves about the usage of the loan	88%	39%	
Sample Size	Number of clients interviewed	200	200	4.748

Source: ILO 2009, Feb

3.5.3. Reflection on Empirical Outcomes

Although the survey did not measure impacts of microfinance on decent work outcomes, it may be used to reflect on the normative dimensions of “business first” and “development first”. Several commercial microfinance advocates assume good employment quality among microfinance clients, however they offer little evidence and testing for it (e.g. Robinson 2001:37; Helms 2006:32-33, see p53). The diagnostic survey indicated employment in micro-financed enterprises often concerns unpaid family labour with few wage employees. In the context of gender equality, men were more likely to decide about the use of the loan by themselves compared to women. Several clients were experiencing unforeseen expenses, being subject to vulnerability and few of them had formal social protection or insurance. Several faced difficulties to repay their loans, indicating it is too simplistic to assume “finance is social” with no negative effects on borrowers (Von Pischke 1991:42).

Development first embraces the decent work agenda in several ways. One group states microfinance plus products are needed to capacitate borrowers. The second more radical thinking states decent work cannot be accomplished through microfinance, only the power of the state, labour unions and associations can create good quality employment (Weber 2001; Bateman and Chang 2010). For the latter group the survey showed several reality checks. Few clients were member of labour unions and business associations because they were unaware of the existence of such institutions or did not see how the membership could benefit them. Few clients received formal social protection, questioning whether they had access to public policy institutions. The degree of formalization of the businesses varied with less than half of the clients paying taxes, keeping income records, or having registered their business.

In the absence of formal state and labor institutions, and giving the reality checks placed with the “business first” and “development first” SMMs, the ILO may seek to execute its agenda of decent work through modes of social enterprise.

3.6. Prospect of the Social Enterprise Model and Decent Work?

Building on the SMM depicted in Chapter II, this chapter argued that historically the ILO’s role in microfinance has been to embrace the development first and oppose neo-liberal thinking, but the role it plays for social enterprise is ambiguous. On the one hand, MFOs that function as social enterprises may offer the ILO an additional agency to execute its role, particularly in relation to informal activity where trade unions are absent and state regulation is weak. On the other hand, as a model of social

enterprise, microfinance may be criticised for disguising and not fundamentally challenging capitalist excess.

The decent work agenda may be interesting for social enterprise MFOs that pursue social objectives related to the decent work aspects. The ILO project offered several of them an opportunity to pilot new ways of working and conduct a social performance assessment, which in turn may yield improvements in double bottom line management.

The ILO started the action research project to promote the decent work agenda within the microfinance sector, aiming to assess whether MFOs can improve decent work outcomes for clients and whether this is done in a sustainable fashion. Further, it wanted to see if it could improve the MFOs institutional capacity to address decent work aspects (ILO 2007, Dec:19). At the end of the project, the ILO has to state to what extent it is achieving its own normative agenda in practice. Relating this to the wider new development management and SMM literature described in Chapter II, could the ILO and myself have a sustained effect on the MFOs to do their PBM better? Or, to frame this into the context of institutionalising a new way of thinking into an organisation, to what degree can the SMM of the social enterprise MFOs be influenced by the ILO and its decent work agenda?

Chapter IV. Methodology

4.1. Introduction

Chapter II explored concepts of PBM within the context of development practice including the literature of new development management. It then applied the concept of SMMs to PBM in microfinance by identifying three SMMs. The feasibility of pursuing double bottom line management within the social enterprise model was found to be supported by little empirical evidence and case studies, hence justifying the focus of this thesis: to bring back to the literature a better understanding of how development goals are institutionalized within MFOs operating as social enterprises.

Chapter III explored how the concept of decent work interlinks with microfinance and how the ILO may relate to the three SMMs. I argued the role the ILO can play in the social enterprise SMM is ambiguous. Although the Labour Organisation supports microfinance for creating employment opportunities in the informal sector, it questions whether microfinance companies improve decent work outcomes for clients. The ILO project aimed to see to what degree MFOs promote decent work aspects for their clients. It did this by offering a selected number of them the opportunity to trial new ways of working through a pilot assessment.

This chapter explains my “own action research” methodology, and elaborates how it differs from that of the ILO project. Section 4.2 reviews the strengths and limitations of action inquiry by comparing it with experimental research. Section 4.3 shows the conceptual framework at three levels, namely social performance assessment, double bottom line management and changes in performance management over time in relation the pilot. Section 4.4 shows the methodology of data collection at each of the levels. Section 4.5 examines my own mental model as an action researcher and critically reflects on first, second, and third person action research including my own agency, research ethics, development of the methodology, and the claims to validity.

4.2. Choice of Participatory Action Research

I will now describe action research methodology (4.2.1), its strengths and limitations (4.2.2) and implications for the methodology of this thesis (4.2.3).

4.2.1. Action Research

Action research, organizational learning and development are closely related fields. They combine theory and practice and draw from similar normative and methodological principles such as

participatory development, enquiry into human behaviour, and self-reflection of researchers on their agency (Reason and McArdle 2007:7). Action research can be viewed as a “model of organisational development that involves the feedback of findings [to participants] from interventions to help design and implement further improvements” (Huczynski and Buchanan 2007:567). It aims to generate applied knowledge that can improve organisational operations. It functions as a cooperative inquiry that involves consultant and members of the organisation in joint and cycled learning (Huczynski and Buchanan 2007:567-568). As described in Figure 1 (p27), studies often use cycled or system thinking.

Action researchers emphasize the importance for scientists and practitioners to critically reflect on their own mental models and agency in relation to their research (see Section 2.3.5, p25-28, see Atkinson and Hammersely 1994:248; Argyris and Schon 1996; Reason and Torbert 2001; Reason and Bradbury 2008:3-4&7; Reason and McArdle 2007:1-4;7). Argyris and Schon (1996:xxiii & Ch2:45) argue for the importance of reflective methodologies for scientists who place themselves inside the situation they study and consequently must also study themselves. The relationship between practitioner and researcher is not simply one where the practitioner applies knowledge that the researcher provides, rather inquiry combines mental reasoning and action (Argyris and Schon 1996:30-31). As described in in Section 2.3.5 (p26), Argyris and Schon (1996) and Senge (2006) developed methods to reflect on mental models of researchers. A related method emerged from ethnography, namely participant observation which are observations carried out “when the researcher is playing an established participant role in the scene studied” (Atkinson and Hammersely 1994:248).

An action inquiry itself is not static and evolves over time (Reason and Torbert 2001; Reason and Bradbury 2008:3-4&7; Reason and McArdle 2007:1-4; 7). Reason and Torbert (2001) and Reason and McArdle (2007) make a distinction between first-, second and third-person inquiry. The first-person inquiry addresses the ability of the researcher to be aware of his own agency and to make choices transparent to stakeholders in the assessment. The second-person research includes cooperative inquiry through joint studies and dissemination of outcomes to other stakeholders. The third person action science seeks to create wider institutional change and feeds back lessons learned into the wider literature (Reason and McArdle 2007:7-18; Reason and Bradbury, 2008:xxv-xxvi,8&19). Attention needs to be given to all three levels.

4.2.2. Advantages and Disadvantages of Action Research

There are several advantages and disadvantages of using an action inquiry. I will highlight some of these by comparing action research with positivist experimental research. Tensions arise in choice between multiple or single experiments, responsive or replicable experiments, qualitative and quantitative methodology, generating locally contextual or globally generalizable knowledge, participation as an insider or detachment as an outsider (see Table 7).

Supporters of action inquiry emphasize that even though experimental science rigorously assesses single experiments, an action study is more responsive using multiple experiments that are allowed to evolve and adapt to practical contextual requirements (Dick 1993 and Argyris and Schon 1996:39-41). Choices in methodology need to be made concerning claims to internal and external validity. Drawing on Shadish et al (2002: 464-468), the “internal validity” may be described as the knowledge claims to causality that can be derived within a single experiment. The “external validity” is the extent to which pilot results can be generalized and replicated into other settings, across space and time.

Admirers of experimental science view randomized controlled sampling as the best method to establish causality because it controls for selection bias and can objectively claim whether an intervention was successful (Duflo 2007; Goldberg and Karlan 2007; Shadish et al 2002). Karlan and Goldberg (2007:8, see p40) argued a high internal validity of impact assessment can lead to the scaling up of interventions into other institutions and within other contexts (Karlan and Goldberg 2007). Although several action researchers agree that their approach does not meet up to positivist empirical standards, they say their data collection methods are part of a fundamentally different philosophy of science that should not be validated by empirical standards alone (Dick 1993: Reason and Bradbury 2008). Internal validity does not imply external validity because multiple experiments are needed (Dick 1993; Senge 2006:77). Dick (1993:32) confronts the theoretical idea that impact assessment methodology is in itself a single experiment in which no learning takes place during the implementation of the assessment. In addition, the ability of people to act does not just depend on statistical outcomes, but on values and belief systems (Reason 2008) or SMMs (see Section 2.3).

Action research deliberately sacrifices some of its capacity to generalize to create more localized and contextual knowledge, but an experimental methodology seeks generalisable results even at the expense of local relevance. Kirk and Miller (1986 in Dick 1993:46) state qualitative data generated through action inquiry can have a stronger validity since the study takes place under real life conditions and not in a laboratory environment. Others note the importance of participation of practitioners in the inquiry as a way to make them more committed and motivated to action. This in turn improves data quality and the likelihood that stakeholders act on the findings of the research (Argyris and Schon 1996 ch2).

Atkinson and Hammersley’s (1994:250-253) work on participant observation sees a need for researchers to become insiders because it allows them to assess implicit knowledge such as people’s behaviour and activities, rather than focus only on explicit knowledge. However, they also warn there is no guarantee that the informants speak “organizational truths”, so it is important to triangulate data (Atkinson and Hammersley 1994:250-253). Argyris and Schon (1996: ch2) agree and point out that

frequent participation can lead to the transfer of implicit knowledge or “theories-in-use”, because they are better observed by insiders than complete outsiders. Such implicit knowledge transfer is needed to create the second loop learning that can modify the SMMs of actors. Devine (2006; 2009) illustrates with two ethnographic case studies how pro-active participation in an NGO program in Bangladesh and a cooperative development program in India allowed him to identify underlying informal processes and institutional constraints that strongly affected the social performance of the organisations. Others also applaud action research as a way to improve the scientist’s own understanding (Atkinson’s and Hammersley 1994; Reason and Torbert 2001; Swantz 2008). For example, participating in studies may be ethically satisfactory for the investigator (Dick 1993:47; Reason and Bradbury 2008). However, as a consequence the researcher must critically examine his or her own human bias.

The last difference rests in the assessment methods; while experimental methods such as RCTs use quantitative data with large sample sizes (e.g. Duflo et al 2007), a cycled learning approach can be qualitative or a mixture of quantitative and qualitative (e.g. Reason and Bradbury 2008).

Table 7 Action Research vs. Experimental Research

Action research	Experimental Research (RCT)
Multiple Experiments	Single Experiment
Flexible and Responsive approach	Standardized approach
Attention to external validity	Highest form of internal validity
Locally contextualized knowledge	Globally generalizable knowledge
Insider, participation and subjective reflection of actors	Outsider, detachment of agency and objectivity
Qualitative, often smaller sample sizes	Quantitative, large sample sizes
Implicit and Explicit Knowledge	Focus on Explicit Knowledge

4.2.3. Implications for the Methodology

From a normative perspective, I chose to apply an action research methodology because the aim of my PhD thesis is to contribute both to academic research and development practice. I follow here the argument of Argyris and Schon (1996) that researchers interested in learning and innovation processes ought to take an academic interest in studying how practitioners make the inquiry and how the research contributes to learning processes.

An action inquiry is also more suitable given that the performance assessment itself is an outcome of a negotiation between several stakeholders including myself, the ILO and the two MFOs (see Section 3.4, p59). The ILO project formed an opportunity for me as a researcher to work with two MFOs over a long period gaining access to primary data at client and MFO level. It allowed the MFOs to engage

in cycled learning, see Section 3.4.2 (p58), which in turn allowed me to inquire deeper into MFO practices and examine to what degree the social enterprise MFOs could realistically incorporate social goals into their PBM (see Section 2.7). As will be discussed further in section 4.5, over time, I found myself taking a more detached perspective of my consultancy work to do positivist impact assessment, towards a more interpretivist thesis. This included reflecting more deeply into MFO practices, to what degree they could realistically incorporate social goals into their PBM and how far the ILO could influence this through the pilot project.

This thesis goes beyond performance assessment by looking at the process by which data is used and the pilot is managed with aim to improve organisational performance. More generally, evidence on the relationship between SPM and organisational learning and institutional change is lacking. Action research methodology is more suitable to explore such analysis because it can be more contextualized, using a mixture of qualitative and quantitative data analysis. In particular, I am interested to observe how the MFOs manage cycled learning; whether they are responsive to the pilot assessment outcomes (see Figure 1, p27 in Section 2.2), and ultimately, how the results feed back into the dominant SMMs of the organisations to inform performance management (Kim 1993; Haase 2007; Denzau and North 1994).

4.3. Methodology

The conceptual framework of the thesis can be represented as a set of Russian dolls moving from specific into general concepts: the inner and most specific doll concerns the practical feasibility of social performance assessment (level 1). The second doll is concerned with the practical feasibility of double bottom line management in MFOs (level 1+2). This includes the extent to which the social performance evaluation was put to use to improve development practice. The third doll is concerned with institutional changes in PBM in relation to the pilot assessment. This is viewed through the framework of institutional change to the SMMs of the MFOs (level 1+2+3). One relevant reflective question here is whether PBM of social enterprise MFOs can be changed by external agencies such as the ILO or whether changes are driven by internal factors. A set of Russian dolls provide a rough metaphor for how the three levels of research fit into each other. Social performance assessment (level 1) is nested within the overall PBM practices of MFOs (level 1+2). However, these practices are not static, but subject to internal and external influences (level 1+2+3).

Figure 3 below shows the three levels of the research questions.

1. **Feasibility of Social Performance Assessment in Practice**
2. **Feasibility of Double Bottom Line Management for MFOs in Practice**
3. **Influence of the ILO on changes in Performance Management of MFOs**

Figure 3 Three levels of Research Questions

The central research question can be stated as follows:

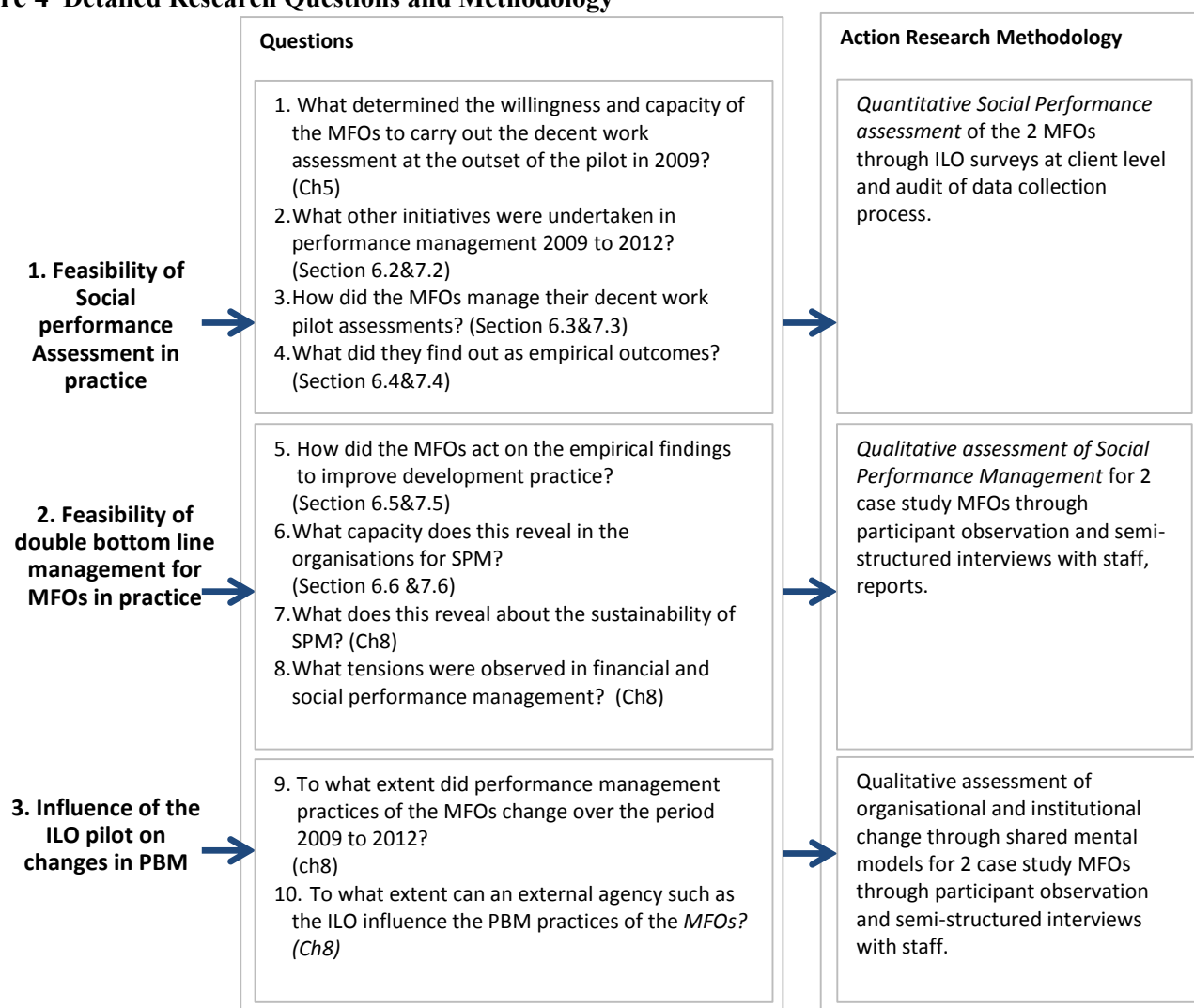
How do microfinance organisations incorporate social goals into their performance management, with particular reference to ILO's "decent work" agenda in a Central Asian context?

Figure 4 elaborates on

Figure 3 by setting out the main and subsidiary research questions already introduced in Section 1.3 as well as the data collection methods.

The thesis is an action research within the "ILO action research", consisting of an inquiry at different levels; first, there is the decent work pilot assessment for the two Central Asian MFOs. This inquiry generated quantitative performance data at client level from a set of surveys conducted. I was involved in a cooperative inquiry and the methodology was partly negotiated between the ILO, the MFOs, and myself. Second, there is my own inquiry based on qualitative data collected at the level of the two MFOs. This assesses particularly the capacity of the MFOs to engage in social performance assessment and double bottom line management. This inquiry was completely under my control. I conducted 42 semi-structured interviews with staff and senior managers working in the two case study organisations. An additional 19 interviews were conducted with senior managers of other MFOs to help understand the local environment. Data also came from secondary sources and was supplemented by participant observations. Third, there is an inquiry into the first two inquiries, namely a critical examination of my own mental model and my relationship with the ILO and MFOs.

Figure 4 Detailed Research Questions and Methodology



4.4. Data Collection

This Section discusses the methods employed for data collection at three levels of analysis.

4.4.1. Feasibility of Social Performance Assessment - Level 1

To enquire into the feasibility of social performance assessment, I rely on the quantitative survey as well as a qualitative audit on the data collection processes. I will keep this brief, as Chapters VI and VII provide more details.

I designed the questionnaires based on a cooperative inquiry that involved the project teams of the microfinance companies and the ILO. Both MFOs set up a project team with senior staff managing the pilot studies. Different surveys were designed for each of them, including different methods of sampling and performance metrics. I have attached the surveys in the Appendix.

Following the pilot proposal, I discussed with the project team the main topics to be included in the survey. At several workshops I asked the project team members to identify key performance indicators. I then designed a list of up to 60 questions based on the diagnostic survey and a variety of microfinance literature (Johnson 2003:265; Pagura 2004; Nelson et al 2004; Microsave 2005; Mel et al 2009; Banerjee and Duflo 2009; Karlan and Valdivia 2009). The project teams narrowed down the questionnaire to a maximum of 35 questions and an estimated survey time of 30 minutes. We did several rounds of testing to adapt the survey to the local context. Senior staff administered the questionnaires and received training from the marketing department, the ILO staff member and myself. We agreed interviews should be conducted at the client's workplace or home. For practical reasons loan officers could survey their own clients.

Both MFOs conducted a baseline survey and two follow-up surveys. We intended to do an impact assessment to measure the effect of the pilot on employment outcomes. The assessment included a treatment and comparison group using the difference-in-difference methodology. Bai Tushum interviewed 1440 borrowers looking amongst others at job creation in client enterprises. IMON surveyed 905 women, looking primarily at women's empowerment and entrepreneurship. After each survey round, I checked data quality and interviewed MFO staff to see how they experienced the data collection process. Once the data corrections were made, I analysed the survey data and submitted key variable reports to the project teams, showing key performance outcomes.

Rather than showing all empirical outcomes, which is beyond the scope of this research, Sections 6.4 and 7.4 focus on key indicators used by the MFOs as a basis for action or learning. Sometimes I show outcomes to illustrate inaction of the MFOs. A full overview of the outcomes will be published by the ILO and is available upon request (ILO 2013a, ILO 2013b, forthcoming).

4.4.2. Feasibility of Double bottom line Performance Management- Level 1+2

To assess the feasibility of SPM in practice, I mainly rely on semi-structured interviews with staff as part of my own inquiry. To supplement this data, I made participant observations during a variety of events such as workshops, trainings, meetings, email-correspondence, and informal conversations. In addition, I used a set of secondary data sources such as annual reports, social rating reports and data from Mix Market and Oikocredit. The analysis was done at the outset of the pilot assessment in 2009 (Chapter V), during the implementation (Dec 2009-June 2012), and at the end in 2012 (Chapter VI-Chapter VIII).

I will first examine the capacity of the MFOs to engage in SPM in 2009 (see Chapter V) by using the system diagram of Copestake et al (2005:160) presented in Figure 2, (p43). It offers a framework that

was applied to social enterprise MFOs during the Imp-Act action research and is using somewhat overlapping set of indicators as other frameworks identified in Section 2.3.5, (p28). The capacity of an MFO to do SPM depends on how well it fits into wider organizational systems and local contexts, specifically mission and vision, ownership and external relationships, operating environment, organisational capacity and culture.

I then inquire into the management of the pilot assessments of Bai Tushum (Chapter VI) and IMON (Chapter VII), by looking at how the MFOs managed cycled learning over the period 2009-2012 (Huczynski and Buchanan 2007:567; Kim 1993:5, see Figure 1, p27 in Section 2.2). This includes looking at pilot design, pilot implementation, assessment strategy, data collection, data analysis, empirical findings, and learning and actions in relation to the results. Social performance assessment is considered institutionalised when it forms a routine and integrated activity, part of the core operations of the MFO. The key aspect concerns how data is collected, shared and used as a basis for action (Copestake et al 2005:179; see also Section 2.6.3, p39).

In addition, as part of double bottom line management I am interested to see how the MFOs manage tensions and synergies between social and financial performance goals. To assess synergies I look at the benefits of the pilot assessments for the MFO in terms of cost-effectiveness, customer satisfaction and scaling up of the intervention. To assess PBM tensions, I draw from the tension framework of Copestake (2005:175-176), presented in Table 3 (p44). I identify a set of constructive management tensions in financial and social performance based on the findings of the two case studies. Chapter VIII then compares findings of the studies for each of the research questions and describes lessons learned from them.

4.4.3. Influences of the ILO Pilot on Performance Management - Level 1+2+3

To assess changes in PBM in relation to the ILO pilot, I rely on the same sources of data as described previously. What I want to outline here in more detail, is how I apply SMMs as a framework. Instead of assessing holistically how members in the organisations “think”, my intention is more modest. I want to see whether the pilot triggered new ways of working within the MFOs in relation to SPM, and whether these were sustained or temporary.

The thesis uses an interpretivist as opposed to a positivist epistemology (see Section 4.2). Both MFOs are highly complex, and as an observer, I cannot capture the full realities of all stakeholders of the organisation, but I can contribute to an understanding of those realities. I do this by drawing from Denzau and North (1994)’s concept of SMMs, to see how the pilot assessment informed the dominant

SMM of the organisation. The SMM framework is useful in thinking about the issue of institutionalizing new ways of thinking into an organisational structure and culture.

Building on Section 2.3.4 (see p22), it may be viewed there are two broad types of learning that can occur in SPM. The first is “within mental model learning” [i.e. single loop learning], this means learning takes place in an incremental way, but does not change the dominant PBM (Argyris and Schon 2006:3-4:21-22; Senge 2006:13-15; Kim 1993:3; Boschma et al 2002; Denzau and North 1994:13; North 1992; 12). The second type was described as “broadening” or “modifying” of the dominant SMM [i.e. double loop learning]; new data leads to more fundamental and sustained institutional change for the organisations including new ways of working. This requires a change in perceptions of stakeholders with regard to “building block assumptions” and institutional values and beliefs relating to social performance. I will assess organisational and institutional change in relation to the project teams’ expected performance at the outset of the project in 2009.

The case studies may also feed back into a wider discussion of what drives institutional change in PBM of organisations, internal or external factors (see Section 2.3, p25; Boschma et al 2002; North 1992, 1994; Denzau and North 1994, Boettke et al. 2008). Moreover, this feeds back into wider discussion in new development management (see Section 2.2, p14, Hulme 2007a&b; Brinkerhoff 2008; Sanderson 2001; Thomas and Mohan 2007; Nichols and Young 2006), by examining the extent to which an external development agency such as the ILO can influence the performance management of the MFOs.

A challenge in applying SMMs as a framework is how to identify them because by their very nature they are highly implicit (e.g. Kim 1993, see Section 2.3.5). It would be ambitious to claim it is possible to understand the implicit assumptions of all the stakeholders involved in this research. As described in Section 4.2, in order to assess implicit values and norms it is desirable for the researcher to have regular interaction with research participants because it allows for implicit knowledge transfer (Atkinson and Hammersley 1994:250-253). For this study, I use a qualitative approach, conducting several semi-structured interviews and dialogues with practitioners. They may bring some implicit understandings to the surface. By following the two organisations over a period of four years (2008-2012), I was able to have regular interaction with staff. I became closely involved with the organisations allowing me to receive good quality data and understanding.

Building on Section 2.3.5, in order to identify the SMMs of performance management of the MFOs, I will look at the “building blocks assumptions” (Holland et al 1996) or shared “belief systems” (Kim 1993; North 2004) with regard to social performance outcomes of the company. Particularly they concern shared implicit values, perspectives and norms held by staff and management, in addition to

explicit rules and knowledge such as reports, information on the website etc. I used semi-structured interviews to identify shared perspectives of staff (Dick 1993; Woodhouse 2007:160-161; Thomas and Mohan 2007; Cameron 2008). I started with open questions and used additional probing questions to ask for further clarification. Semi-structured interviews allow questions to be modified to data generated in earlier interviews, which in turn allow researchers to drill deeper into more implicit organisational knowledge and understanding (Woodhouse 2007; Dick 1993).

Data from the interviews were analysed in three ways, first the interview contained similar open questions asked to each respondent. These questions were analysed in an excel sheet. Second, topics that seemed relevant for respondents would be coded after the interviews using NVIVO or colour coding. The method taken for data analysis is based on convergent interviewing of Dick (1993:18-19) and triangulation (Dick 1993:17; Atkinson and Hammersley 1994:250-253). Convergent interviewing uses Venn Diagrams to identify overlapping pieces of information and perspectives mentioned by several respondents. If two or more persons share a perspective, the information is kept, but information that is unique to only one person is in principle discarded. Later interviews can then inquire deeper into the “shared perspectives” by finding diverging or converging views. For example, it was useful to test whether the perspectives of senior managers were aligned with the views of field level staff. Responses are presented in footnotes to group common views. Furthermore, in this method the data collected in later cycles are superior to data collected earlier in the process (Dick 1993:18-19; 40-42).

After analysis of primary data, an extra round of analysis followed using secondary data to further triangulate the qualitative findings. This included using social rating reports, annual reports, websites, Mix Market and Oikocredit data.

In addition, after each round of interviewing, my key findings were discussed with management or the marketing department as a way to further triangulate data. Both microfinance companies were sent several outcomes reports and I shared Chapters VI and VII with senior management.

For this methodology to work, it is important that I have an open mental model as a researcher and inquire into my own agency (see Section 4.2). I will apply self-reflection methods of Argyris and Schon (1996) and Senge (2006) in Section 4.5. Based on Reason and McArdle (2007:13-18) and Reason & Bradbury (2008) I apply the distinction between first, second and third person action research discussed earlier (p67).

4.4.4. *Semi-structured Interviews*

The semi-structured interviews with staff were done at several points in time. All interviewed staff engaged in the pilot implementation and assessment. In the remaining chapters, I will use abbreviations of SLO to indicate “senior loan officers”, “M” for middle managers and coordinators and “SM” for senior managers.

I modified the interview questions over time. I started with questions on motivation, development values and awareness of the pilot design. Later interviews focused on pilot implementation, data collection, data dissemination and learning. Open questions guiding the interviews included:

- What motivated you to come and work for the MFO?
- What is the mission statement of the organisation? What is women's empowerment/ job creation for clients?
- What is the microfinance for decent work pilot?
- Were the survey questions clear and easily understood? Were clients able and willing to answer the questions? Did you manage to interview all clients?
- Were you given sufficient time to conduct the interviews? Were you given remuneration for doing the interviews?
- Did you find it useful to conduct interviews/ implement the pilot?
- Name three things you liked about doing the interview. Name three things you did not like about doing the interviews.
- Name three things you like about the decent work pilot product. Name three things you do not like about the decent work pilot product.
- Did you use any of the information that came out of the interviews for your daily work? If so, what?
- Are results from the baseline survey shared with you? When? And what information?
- What surprised you about the findings?

I conducted the interviews in the branches and often in the presence of a staff member of the MFO who translated responses from Russian into English. Sometimes, I edited responses to improve the translation, as much as possible I tried to keep the wording of the interviewees, trying to ensure it represents their perspective.

Bai Tushum Interviews

For Bai Tushum 20 social in-depth interviews were conducted with a non-random sample of 12 staff members. They included senior loan officers, underwriters and branch managers. Several of them

were interviewed multiple times (see Table 8). Collectively, these interviewers conducted 22% of the client surveys (788 out of 3659). They engaged in different activities related to conducting client interviews (8) and coordinating the pilot assessment (3). 9 out of 11 staff received interview training at baseline survey from the ILO and myself. Additional in-house trainings were organised before each survey by the project team. They worked for the head office (4), Bishkek (4), Naryn (2), Batken (1), Karakol (1) and Talas provinces (1). Because the interviews took place at the head office, the sample does not represent all branches. There is an overrepresentation for the Bishkek branch and an underrepresentation from the Osh and Jalalabad provinces. Separate semi-structured interviews were done on three occasions with the CEO (Oct 2009, July 2011, Oct 2011) and multiple interviews with staff of the marketing department.

Table 8 Semi-structured Interviews with Bai Tushum Staff

ID	Branch	(Highest) Job Function	Year	Role in the Pilot
M 1	Head office	Manager Marketing	May 2009	Coordinator & project team leader
SLO 2abc	Bishkek	Senior Loan expert	May 2009 Feb 2010 Jan 2011	Interviewer
SLO 3	Bishkek	Senior Loan expert	May 2009	Interviewer
SLO 4	Naryn Branch	Senior Loan expert later Branch Manager	May 2009	Interviewer
SLO 5ab	Bishkek, Dordoi	Senior loan expert	Feb 2010 Jan 2011	Interviewer
SLO 6	Naryn	Senior Loan expert	Jan 2011	Interviewer
LO 7	Talas	Loan expert	Jan 2011	Interviewer
SLO 8	Karakol Branch	Senior Loan expert	Jan 2011	Interviewer
SLO 9	Bishkek	Senior Loan expert	Jan 2011	Interviewer
M 10abc	Head office	PR manager	May 2009 Jan 2011 Aug 2011	Coordinator
M 11ab	Head office	Marketing Manager	Jan 2011 Aug 2011	Coordinator
SM 12abc	Head office	CEO	Oct 2009, July 2011 Oct 2011	N/A

* SM is Senior Manager, M is Middle Manager, SLO is Senior Loan Officer.

IMON interviews

For IMON, 22 social in-depth interviews were conducted with a non-random sample of 17 staff members (see Table 9). Collectively they completed 25% of the interviews (426 interviews at first follow-up survey out of 1695). Staff interviewed conducted a variety of activities related to the pilot product such as doing client interviews (11), implementing the entrepreneurship trainings (5), and coordinating the assessment (4). Half of them received interview training at baseline survey from the

ILO, the other half received in-house training from IMON. Staff worked in the headquarters in Khudjand (8), Northern branch of Istaravchan (3), and the areas surrounding the capital Dushanbe, (Dushanbe 1, Rudaki 2 and Ghisar 3). In terms of gender norms these regions represent a mixture of relatively modern (Dushanbe, Khudjand) and highly conservative norms (Rudaki, Istaravchan). No interviews were conducted with staff from the Southern branches bordering Afghanistan. Interviews were conducted with 6 male and 8 female staff. Separate interviews and dialogues took place with the CEO (1) and the regional manager (2) and a senior manager of the NABWT (1) (see Table 10).

Table 9 Semi-structured Interviews with IMON Staff

ID	Branch	(Highest) Job Function	Year	Role in the Pilot
M 1abc	Khudjand	Marketing Manager	Sep 2009 & Jan 2011 & July 2011	Project Manager Coordinator Interviewer
M 2	Khudjand	PR manager	Sep 2009	Interviewer
SLO 3	Rudaki	Loan expert	July 2011	Interviewer
SLO 4	Rudaki	Loan expert	July 2011	Interviewer
SLO 5	Dushanbe	Loan expert	July 2011	interviewer
SLO 6	Ghisar	Loan expert	July 2011	Interviewer
SLO 7	Ghisar	Loan expert	July 2011	Interviewer
M 8ab	Ghisar	Sub-office Manager	Sep 2009 July 2011	Interviewer
M 9	Khudjand	Business Development manager	July 2011	Coordinator & Trainer
M 10	Khudjand	HR coordinator	July 2011	Trainer
SM 11	Khudjand	HR manager	July 2011	Trainer
M 12	Istaravchan	Specialist Operations	July 2011	Interviewer
SLO 13	Istaravchan	Loan expert	July 2011	Interviewer and Trainer
M 14	Istaravchan	loan manager department assistant.	July 2011	Interviewer and Trainer
SM 15	Khudjand	Marketing Manager NABWT	July 2011	Coordinator/ Project Leader
SM 16ab	Khudjand	Regional Manager/ Credit Manager	Oct 2009 July 2011	Coordinator/ Project Leader
SM17ab	Khudjand	CEO	Oct 2009 July 2011	

* SM is Senior Manager, M is Middle Manager, SLO is Senior Loan Officer.

Interviews with MFO's Managers

To get a better understanding of the wider operating environment in which Bai Tushum and IMON were active, a total of 19 interviews were conducted with 10 senior managers of other leading Central Asian MFOs, in 2009 and in 2011 (see Table 10). The semi-structured interviews provided data on initiatives undertaken in SPM by other MFOs in the sector. They also helped to understand the socioeconomic and political context and institutional norms of the Central Asian microfinance sector.

Topics discussed in 2009 included SPM, initiatives in decent work and the financial crises. A second round of interviewing took place in 2011 and assessed what SPM initiatives were implemented since 2009.

Table 10 Interviews with MFO's Managers

Organisation	Country	Type of Organisation	Senior Manager	Interviewed
Finca Kyrgyzstan	Kyrgyzstan	MFO	Finance Manager	Oct 2009 July 2011
Kompanion	Kyrgyzstan	MFO	Chair person of the board Social Business Manager	Oct 2009 July 2011
First Microcredit Company	Kyrgyzstan	MFO	CEO	Oct 2009 July 2011
ABN	Kyrgyzstan	Credit Union.	Chairman	Oct 2009 July 2011
Frontiers	Kyrgyzstan	Wholesale funder	CEO	Oct 2009 July 2011
Arvand/ Microinvest	Tajikistan	MFO	CEO/Board Member Business Development Manager	Oct 2009 July 2011
Finca Tajikistan	Tajikistan	MFO	Operations Manager CEO	Oct 2009 July 2011
HUMO	Tajikistan	MFO	CEO Investment Officer	Oct 2009 July 2011
First Microcredit Bank	Tajikistan	MFO	CEO	Oct 2009 July 2011
Oxus	Tajikistan	MFO	CEO	July 2011

4.4.5. *Time line of Activities*

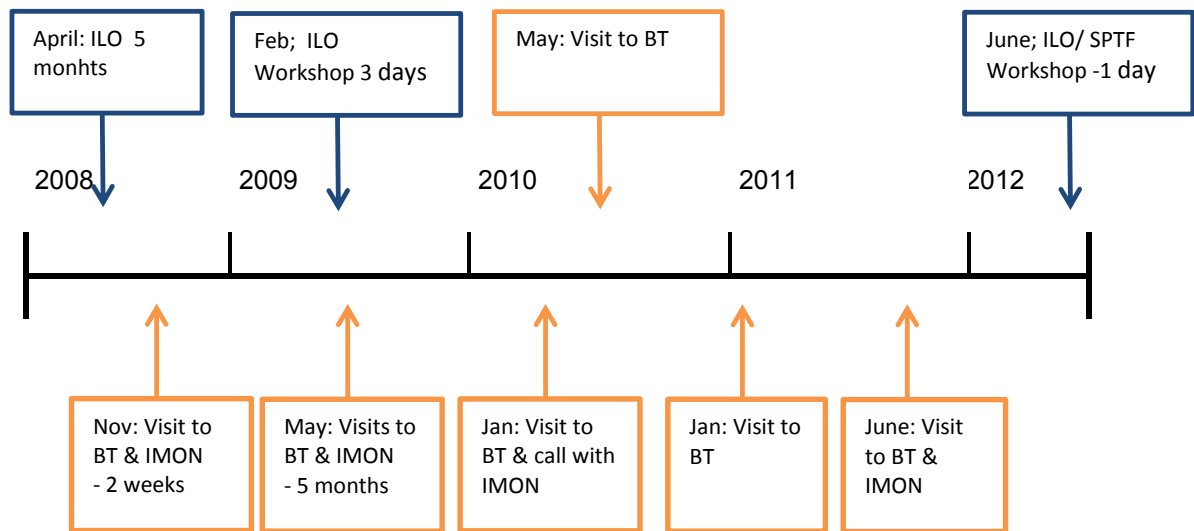
Figure 5 shows a time line of activities for fieldwork conducted in Central Asia. A total of 10 months of field work was conducted in Central Asia with regular visits to the MFOs. IMON was visited 4 times (Nov 2008; Aug -Sep 2009; July 2011) and Bai Tushum 6 times (Nov 2008; April-Sep 2009; Jan 2010; May 2010; Jan 2011; July 2011). In addition, reporting, emailing, Skype calls and informal meetings took place.

From April 2008 to August 2008, I worked at the ILO in Geneva to support the design of the diagnostic tool and selection of the MFOs. In Nov 2008, I visited the two MFOs in Central Asia to support in the implementation of the diagnostic tool, followed by a workshop at the ILO in February 2009 where the MFOs participated.

From April 2009 to September 2009, I supported Bai Tushum and IMON in implementing the baseline survey and methodological design for the assessment. During five months, Bai Tushum was visited several times and IMON was visited twice in Tajikistan and once at a conference in Kyrgyzstan. I had several personal meetings with Bai Tushum staff during the period 2010 to 2011.

This also because it is more convenient for me to travel to Kyrgyzstan as my family in-law resides in Bishkek. Skype calls took place during this period with the marketing department of IMON. In July 2011, I made field trips to IMON and Bai Tushum to assess the process of implementation and organisational learning. In June 2012 there was a closing workshop in Jordan held at the SPTF conference where I met with project managers of the two MFOs.

Figure 5 Time Line of Field Work



4.5. Reflection on Action Research

Having described the methodology of data collection at each of the three levels, this Section will reflect on first, second, and third person action research drawing from Reason and Mc-Ardle (2007) and Reason and Bradbury (2008). For this thesis, I consider first person action research as the inquiry into my own agency, second person action research as my participation in the joint ILO project, and third person action research as reflection on how the PhD feeds back into wider literature.

Self-reflection was done through a logbook, travel reports and correspondences made with participants from July 2007 to July 2013. I use the methodology for self-reflection based on Argyris and Schon (1996:79) and Senge (2006) described in Section 2.3.5, (p26). It uses a simple table illustrated below that describes in one column what I explicitly communicated and did at the time, and in the second column my implicit thinking that I wrote down in my logbook. The reflection is an ex-post assessment of the mismatch between what I was thinking and what I communicated with the aim to become more conscious of some of the tensions between my role as a PhD researcher and my role as a consultant working on the ILO project.

Table 11 Self-reflection on Mismatch Explicit and Implicit Understanding

	What I said during that time Explicit understanding	What I'm thinking/ thoughts and feelings unsaid (drawing from logbook) Implicit understanding	Ex post Reflection / need for further inquiry. Mismatch between the two
Personal objectives and research interests Mid 2007	After University, I wanted to conduct a part-time PhD research after gaining working experience, building on my Master thesis.	Although I was indeed very happy to start the PhD research, my job in Oikocredit as analyst was not challenging enough.	I do not regret this action, although, the PhD did bring over 5 years of challenges.

**full table is available upon request*

4.5.1. First Person Action Research

As part of first person action research, I focus on my role as a practitioner in microfinance and doctoral researcher. In particular my own personal objectives and learning interests, my own learning in relation to these objectives and my beliefs in microfinance as a “social enterprise”, as well as a further reflection on how the methodology evolved over time.

Personal Objectives and Interests

After graduating from University, my personal ambition was to do a PhD research that could build on my master thesis on trade-offs between outreach and sustainability in microfinance. During this study, I became fascinated by the interaction and relationship between human development and financial sustainability. After having worked for two years in microfinance for Rabobank Foundation and Oikocredit, I wanted to conduct further academic research. I was motivated to do this study because I like the process of learning and at the same time felt I was not challenged enough working as an analyst for Oikocredit.

Mid 2007, I had discussed with my employer to conduct a research on SPM in relation to financial performance. In August 2007, I attended a training session on microfinance and decent work organized by the ILO and they offered me an opportunity to participate in the project. I found decent work aspects an interesting topic that was a relatively unexplored area for research. But also participation in the ILO project provided necessary funding resources to conduct the PhD and brought opportunity to work for a multi-lateral agency. By being part of this wider project, I was under the assumption that I could contribute to development practice. My participation was useful for the ILO since they needed a consultant who could support in survey design and data analysis for several years and who was interested in writing a publication.

Personal Learning

When I was reviewing my logbook, I found it embarrassing to see what little awareness I had about certain topics when starting the study. The PhD has created a lot of personal learning and significant “reality checks”, but they were not always easy and sometimes very painful. While I had explored a significant amount of literature in microfinance until 2008, I also began to discover that there was a self-selection bias in this literature, in that few of it actually challenged microfinance itself. Also as a practitioner working for a microfinance investment fund Oikocredit, I never needed to challenge the idea of microfinance as a development intervention. At a certain stage, this created a personal bias or belief that microfinance (plus) is a potential way forward rather than backward for microfinance clients. It is important when conducting an inquiry to distance from such weak inferences.

Although I initially wanted to improve my knowledge in microfinance, the main knowledge areas that I found interesting to explore were employment related topics such as job creation, gender, vulnerability and child labour. I also become more interested in wider literature related to organisational learning, action research, performance and impact assessment, development management and philosophy. I revived and improved my knowledge about institutional learning, evolutionary economics and development science. Thus, while I was trying to challenge myself in my work in microfinance, I actually found it more beneficial to challenge myself in areas outside of microfinance.

I realized that in the past I mainly conducted research for myself, rather than disseminating the findings to external audiences. In several cases, I ended up providing each stakeholder their own specific document. I had to make considerable steps towards writing publications and external reports. Some of the critical feedback I received was that the reports were too technical and not concise. One tension I found myself to be in is how to balance transparency and openness to other actors and at the same time be concise in the message. I am also still struggling with a poor writing style.

A significant limitation in the research process was the language barrier. In four years, I did not manage to learn enough Russian to communicate with MFO-staff in the local language. Within both MFOs there were senior staff specifically CEOs and marketing department who spoke English moderately well. Interviews with loan officers had to be conducted with a translator.

Tensions in Combining the PhD Research with work

As a participant observer, I needed to balance my own engagement with the MFO staff with the need to remain detached in order to claim objectivity. I found it relatively easy to detach myself from “research outcomes”, but it was challenging to detach myself from “study processes”. There is a danger in action research that one is trying to control the situation too much, even though the

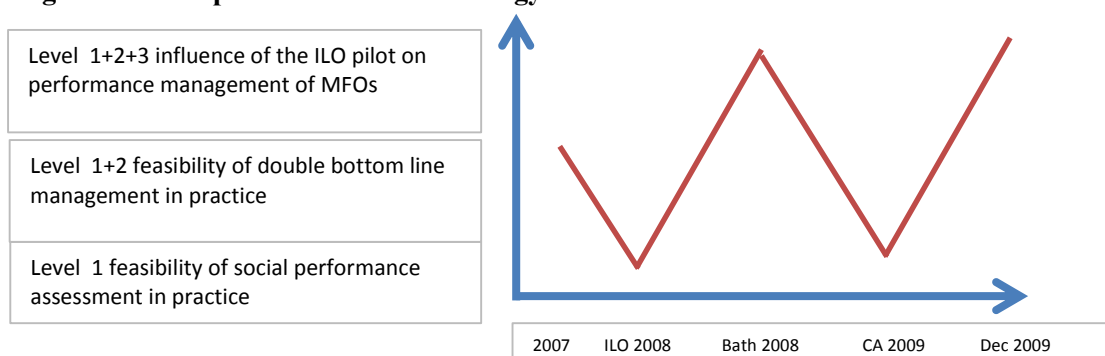
organisation should remain owner of the project. Micro-management should be avoided. Other times I felt I was not engaging enough, for example, when there were delays in data submission.

One of the most challenging tensions was to multi-task activities between my study, work and family life. At the start, I hoped that the time spent on the ILO project would overlap with time spent on my thesis. However, in reality handling the two case studies implied a lot of extra work. Second, there was a mismatch in planning especially when short-term assignments for work had priority over longer-term PhD assignments. Third, it was not always possible to plan and achieve deadlines as there were several actors involved in this research including, two MFOs, the ILO and Oikocredit. For example, when data was submitted later by the MFOs, it became difficult to cope with other work assignments. However, there was no greater multi-task challenge than combining a family life with a PhD life. When my son was born, it proved extremely challenging to devote time to research. The PhD thesis was not anymore the top priority in life.

Figure 6 illustrates that over time the methodology of the PhD itself evolved. It experienced tensions between what I wanted to research at an abstract level (level 3), and what I could practically do at the level of microfinance organisations (Level 1 and 2). Even though the study started with the intention to investigate SPM (2007), this was only feasible if I could do some sort of client level assessment that aimed to improve development practice. By participating in the ILO project, I had a great opportunity to move from the topic of social performance assessment into the area of social performance management.

However, as will be described further under second person action research, in some cases I did not know exactly what I was getting into. Participation meant having to accept some loss of control on the methodology used for client level assessment. From a positivist perspective it can be argued that for a PhD thesis, it is optimal to have full control over the research methodology. However, in my case the client level assessment was negotiated by various actors and also constrained by what was practically feasible. This required the PhD thesis to become an action research in the ILO action research. I still support my choice to participate in the ILO project, because it allowed me to gain access to a richer set of qualitative data at the level of the organisations as well as improve my understanding of how client level assessment were managed. The implication was that this thesis moved from a positivist methodology of impact assessment into an interpretivist methodology of studying the social performance activities of organisations.

Figure 6 Development of the Methodology



4.5.2. 2nd Person Action research

As part of second person action research, I will look at my own relationship with the staff from the MFOs and the ILO as part of research ethics and negotiation over the methodology. The next Section will also describe how the methodology evolved.

Negotiation and Evolution of the Methodology

The methodologies applied for the social performance assessments are an outcome of what was desirable for the ILO, the MFOs and myself, and what was practically possible for the MFOs given their capacity. The ILO Social Finance Program and myself as researcher initially wanted to assess impact of the microfinance pilots on decent work outcomes. This would need to be done by including a control group in the design and ideally use randomized controlled trials. However for both MFOs there was quite a lot of discussion on how to practically assess “impacts” with a control group and randomized trial (more on this in Chapters VI and VII). I was confronted in a number of cases with a dilemma to follow what is methodologically desirable for my “PhD” on social performance management and what was desirable for the ILO pilot project.

To avoid this tension it was important upfront to be clear that the methodology of my “PhD” should and need not be similar to the methodology of the “ILO project”. As a consultant, I was mainly involved in survey design, sampling, staff training, data analysis, feedback of results. However, I had little influence over the design of the decent work pilot itself. This was mainly discussed between the project teams of the two MFOs and the ILO. I was confronted to think about what the most interesting story for a PhD would be. Is this an academic research about the survey outcomes or is it about the process by which the organisations (struggle to) manage to collect and use data for social performance management? I made the explicit choice for the second. While the ILO was mainly interested in data

outcomes, for my thesis it was more interesting to make participant observation of social performance management and audit of the process of data collection and usage.

The ILO project may be viewed as an action research because it aimed to bring about changes development practices of the MFOs (see Section 3.4.1, p56). It aimed to do this through cycled learning using a diagnostic and experimental phase (see Section 3.4.2). However contrary to action research characteristics described in Section 4.2, the methodology was mainly quantitative raising a question to what degree an agenda of impact assessment matches the agenda and capacity of the MFOs? As will be further described in Chapter VI and Chapter VII, the ILO and myself as a researcher needed to balance our own positivist ideas of finding rigorous “proof” for decent work theories with the MFO’s capacity to conduct social performance assessment and management in a complex environment.

One strength of the methodological approach is that through my participation in the ILO action project, I gained access to the two organisations over a longer period. The ILO project intended to trigger SPM initiatives in the MFOs. At the same time it formed an opportunity for the MFOs to demonstrate their capacity for social performance management through having some of their resource constraints reduced. Second, participating in the ILO project allowed me to look at technical and practical problems related to the question of how to assess social performance. Third, my participation allowed me to investigate in-depth the implicit organisational structures and culture of the organisations, which would be hard to observe as an outsider. Assessing implicit organisational culture and learning is done better with regular personal contact and trust from people within the organisations. On the other hand, a weakness is that I could become potentially biased as a participant observer and that I couldn’t always control the client level assessment methodology.

Relationship with Sponsors

I am grateful to both sponsors for supporting this PhD thesis. They offered not just financial support, but also the opportunity to engage in a joint action research that aimed to improve development practice.

Interestingly, I observed a different culture between Oikocredit – as a social ethical investor - and the ILO, as multilateral and political agency. I found Oikocredit to be much more demanding and intervening at the outset of the PhD research, when compared to the ILO that had a longer term and more research oriented perspective. At the outset, Oikocredit requested clear planning and budgeting, publications on a shorter notice and influence in study design and choice of partners. They initially intended to use the project to demonstrate to their members MFO’s capacity to “do social good”, and

requested me to come up with “popularized publications”. The ILO’s planning was more flexible, but not necessarily better organized. For example, in 2008 planning was delayed by several months due to a reorganization. At the same time, there was also limited communication between Oikocredit and the ILO and most of it I had to facilitate. At times, I felt like a broker between Social Finance Programme and Oikocredit that needed to please both parties and found this a frustrating process. It was not up to me to make management decisions on behalf of both organisations.

Research Ethics in Relationship with MFOs

I am grateful for the open relationship that I had with the staff of both microfinance companies. At the outset, I introduced myself to them both as an ILO consultant and as a PhD researcher. I informed them that I would use the pilot assessment in order to examine the social performance outcomes and practices of the companies. Although I became an insider in the MFO, I never considered myself a member of the project team.

Although I feel I have not deceived anybody during the research process, there were constructive tensions in it. One potential conflict of interest occurred during the selection of MFOs by the ILO Social Finance Program in 2008. My wife who was also working for Oikocredit, supported in the dissemination of the ILO applications to the Central Asian MFOs. Thus, I already knew several of the participants in the research and was eager to do research in Central Asia. It was important to be open about this at the start of the selection, also to avoid any possible conflicts. In the end, the manager of the ILO’s Social Finance Programme made the final decision on the selection of MFOs.

A second potential conflict in ethics is that my thesis deviated from the cooperative inquiry done with the MFOs. My action research findings may conflict with the views of fellow participants. MFO staff may or may not appreciate it, when I am critically reflecting on their operations. To mitigate this tension, at the outset I informed the MFO managers that I was doing a research on SPM processes in their company and that I used data generated from the ILO project and staff interviews for my PhD research. After each round of interviewing, I shared the feedback of staff with the senior managers in the companies. Often a project team member was present when I conducted the staff interviews. In addition, I did formal outcome reporting and communicated data checks to the project teams. Each MFO received key variable reports for the baseline and first follow-up survey, and a final report was circulated at the end of the research (ILO 2013a; 2013b forthcoming).

However, although outcomes were shared proactively, at the same time, it proved impossible to give a full informed consent of how my thesis developed over time. This made it important also to share chapters VI and VII at the end of the thesis. I find it important to keep the MFOs in the loop before

publishing results into external journals. As of September 2013, the CEO of IMON responded positively to chapter by e-mail and was open to use it for any publication. The CEO of BT did not respond formally, but agreed informally to the use of the chapter for this thesis. In addition, I informed her on several occasions during the research period of key findings of the inquiry (e.g. CEO meeting Oct 2011, June 2013).

In doing the analysis, I found it helpful to distinguish between the direct communications of MFO staff and my own personal reflection on it. This aimed to bring forward as much as possible their perspectives. At first, I felt particularly uncomfortable analysing personal items such as e-mails or informal conversations. This mainly because when I was writing these e-mails, I did not realize they could form such a useful source of data. Analysing this data systematically in NVIVO brought a richer understanding.

For the client level surveys care was taken to maintain research ethics. MFO staff were offered a training in interview ethics as part of their training in surveying techniques. Each client was asked an informed consent before participating in the questionnaire. The introduction also mentioned the duration of the survey and that data was held confidential and collected for research purposes only. In addition, both MFOs offered for gifts to clients before starting the interview.

During survey testing, I observed a tension between length of the interview and the quality of the data given by respondents. For example, several clients working in urban markets started to rush through the questions at the end of the interview. As a result, we decided to reduce the surveying time for the baseline to 30 minutes and a maximum of 35 questions per client. Follow-up surveys were even shorter.

4.5.3. 3rd Person Action research

As part of third person action research, I will focus on internal and external validity and describe how the thesis can feed back lessons learned to the wider literature. Validity implies there should be sufficient evidence to support claims and ensure they are not based on inconsistencies and gaps in reasoning or methodology (Argyris 2008:53). Drawing on Shadish et al (2002: 464-468) case studies by definition cannot claim external statistical validity for other contexts. I do not make the claim that the two organisations that I studied in detail were representative of the industry as a whole.

The aims of the thesis are more modest, namely to provide two case studies that bring understanding into SPM processes. Lessons learned from them may apply to some degree to other microfinance practices. Since the microfinance companies are market leaders in their respective countries, it is

likely that the research findings may be more applicable to medium and large MFOs. In addition, it may be relevant for Central Asian MFOs as well as MFOs participating in the ILO project. By researching microfinance companies in neighbouring Central Asian countries, the study can explore commonalities and differences between the two organisations.

I aim to feed back lessons learned into the broader literature of SPM in microfinance. As described in Section 1.4.2, the study is unique because few studies take both client and MFO perspectives into account when assessing performance management (e.g. Karlan and Valdivia's 2006). Few studies have explored how MFOs act on client level assessments (e.g. Imp-Act 2004). This study combines the views of managers and front line staff and takes an in-depth look into MFOs over a longer period. The thesis also provides an empirical case study relevant for wider literature of the new development management (e.g. Brinkerhof 2008) and social enterprise (Lehner 2012:54; Nichols and Young 2006 Austin 2006:16).

4.6. Conclusions

The methodology of this thesis is based on the opportunity I had as a researcher to participate in a number of pilot projects initiated by the ILO. It gave me an entry point in the two MFOs and an opportunity through the pilots to observe, not only - whether the pilot worked -, but also how empirical findings fed back into the double bottom line management of the MFOs.

As described the study itself evolved as it became an action research within the broader ILO action research. My data is not just the data that the organisations generated at the client level and the MFO level, but it is also my own participant observant operations of how the MFOs responded to the pilot assessments. It raised on particular reflective question, namely could the ILO as an external agency and myself as an external consultant have a sustained effect on the MFOs' performance management. Or to place this in the context of embedding a new way of thinking into an organisation, to what degree can the dominant SMM of the MFOs be influenced by the ILO and its decent work agenda.

Chapter V discusses microfinance in Kyrgyzstan and Tajikistan and examines the capacity of the two MFOs to engage in social performance management at the outset of the pilot. Chapter VI and Chapter VII describe respectively the case study of Bai Tushum in Kyrgyzstan and IMON in Tajikistan. Chapter VIII compares the empirical results and outcomes for organisational learning for the two MFOs. It then turns to a broader discussion of the practicality of the social enterprise model.

Chapter V. Capacity of MFO to engage in SPM

5.1. Introduction

This chapter describes the capacity of the two Central Asian MFOs to conduct SPM at the outset of the pilot in 2009. Section 5.2 introduces the state of the microfinance sector in the two countries. I then describe Bai Tushum (Section 5.3) and IMON (Section 5.4), using the framework of Copestake et al (2005:160) discussed in Chapter II (see p43). It emphasizes that the capacity to engage in SPM depends on how well it fits into wider organizational systems and local contexts. Section 5.5 presents a comparative analysis of the MFOs at the outset of the pilot.

5.2. Central Asia

This Section introduces the macro-economic environment of Tajikistan and Kyrgyzstan (Section 5.2.1), and the microfinance sectors in the two countries (Section 5.2.2).

5.2.1. *Macroeconomic Context*

With the implosion of the Soviet Union (1990-1991), the new independent states started violently with an outbreak of civil war in Tajikistan and ethnic conflicts in Kyrgyzstan. Kyrgyzstan, Tajikistan and Uzbekistan divided territorial borders, but until today, these borders remain cross-cultural with many people from different ethnic background (Uzbek, Kyrgyz and Tajik) living within the borders of other countries (Shozimov et al 2011a; 2011b 278). As generalized by Shozimov et al (2011b: Ch12:279-288) the Kyrgyz culture is historically more nomadic, the Tajik more agrarian and the Uzbek a mixture of the two. While many Tajik identify themselves with Islam, pan-Iranism and Afghan culture, Kyrgyz people often identify themselves more in terms of their nationality and family is one of the strongest institutions. In Kyrgyzstan the main language is Russian, followed by Kyrgyz which evolved out of Turkish language. Tajik language is much closer to Persian. The “Central Asian region” is far from homogenous and characterized by strong cultural differences and many conflicts between neighbouring countries over access to land, electricity and water as well as ethnic conflicts within the countries (Shozimov et al 2011a; 2011b 278-288).

The Tajik civil war followed immediately after the collapse of the Sovjet Union in 1991 and lasted until 1997. Approximately 50,000 people died, many more were left homeless or migrated (Shozimov et al 2011a: 188; Beshimov et al 2011:215). The Northern front received support from Uzbekistan and

Russia, while the Southern front received support from *Muhajhideen* fighters in Afghanistan. After the war, Rakhmonov came into power and since 1998 there has been a fragile peace under his authoritarian rule. The political system remains unstable with a high potential for conflict, particularly in the South where Taliban are located (Beshimov et al 2011:216-217).

The Kyrgyz political system was also fragile and traditionally has been governed by several family regimes. Under the rule of Akayev, from 1991 to 2005, Kyrgyzstan followed a more liberal political regime than other Central Asian states. There was a stronger international civil society than in other countries, relatively more ethnic tolerance and free press, but also a high level of corruption (Beshimov et al 2011:210). Kyrgyzstan adopted several recommendations of the “Washington Consensus” of the IMF and World Bank in the first days of independence. When the regime changed to the Bakiyev family in 2005, the country continued this course becoming a member of the WTO in 2008 (Zokirov and Umarov 2011:233). Therefore, the private sector in Kyrgyzstan is relatively liberalised compared to Tajikistan, where Rakhmonov did not want to privatise the economic system.

The Kyrgyz political system is however far from stable, as shown during the recent political crisis. On April 7 2010, riots broke out in Bishkek and Talas and the opposition overthrew the Bakiyev government. One month later violent clashes occurred between the sympathizers of the Bakiyev regime and the interim government creating mass disorder in Southern cities of Osh, Batken, Jalalabad. It was followed by interethnic conflict in Southern Kyrgyzstan in June. Authorities estimated that more than 2000 people died and “Hundreds of thousands of people, mainly ethnic Uzbeks fled their homes in the wake of the conflict” (Central Asian Times Dec 2010:2-3¹⁸; see also ADB, IMF, World Bank 2010 July:9). As an MFO manager argued the crisis was not just about ethnicity rather, “the driving factor behind the crisis was crime” (CEO FMCC Oct 2011). There was an increase of inflation, reduction in employment in particular tourism and agriculture. Trade flows distorted because of closure of the borders with Kazakhstan and Uzbekistan. One of the largest banks, AUB, went bankrupt after a run on deposits (ADB, IMF, World Bank, 2010 July: 19).

Table 12 explores several macro- and socioeconomic indicators. In 2009, both states were amongst the most corrupt countries in the world according to Transparency International. Corruption is embedded in all levels of society in Central Asia, including the government, militia and judicial system, education system and corporations. Some of the major sources of corruption include drug trafficking from the Afghan war and large-scale money laundering (Beshimov et al 2011:226; Bobokulov 2011:379).

¹⁸ www.timesofcentralasia.com, accessed Nov 2011

The World Bank classifies both states as low-income countries. Income poverty is especially widespread in the Southern and rural parts of Tajikistan and Kyrgyzstan. As one MFO manager expressed “In Kyrgyzstan poverty looks a bit different, [it is] less obvious and hidden from public sight” (Manager Kompanion July 2011). Poor people may own assets such as a house or land, but often they were obtained during the post-Soviet privatisation. Many houses are in a weak condition as people lack the income to maintain them (participant observation). Life expectancy in both countries is low. Healthcare is publicly available but not always of good quality. Most people are able to read and write and completed secondary or tertiary education (see Table 12). However, highly skilled professions such as doctors, accountants, and teachers tend to earn low wages (Participant observation). Mountains cover more than 75% of the territory of both countries and most people live in the river valleys, which tend to be highly populated. The majority of the population live in rural areas. Agriculture employs 60% of the workforce in Tajikistan and 52% in Kyrgyzstan (Zokirov and Umarov 2011:241).

Tajikistan and to lesser degree Kyrgyzstan score low on the list of countries to do business (World Bank and IFC, 2011:21) As one Tajik MFO manager highlighted “entrepreneurship is ‘the missing gene’...” “There is no entrepreneurial history, a good environment for setting up a business..” (CEO 1MFB, Oct 2009).

Both economies strongly depend on remittances inflow from migrant workers in Russia and Kazakhstan (see Table 12). As one manager in IMON indicated, remittances may well contribute more to household incomes than microfinance: “the total remittances in the country are 1,5 Billion US\$, while the combined microfinance portfolios of all [Tajik] MFOs are only a fraction of this amount” (M16a 2009, Oct). The latest household census estimated that 14% of the Kyrgyz and 37% of the Tajik households have one or members working abroad. These migrant workers were predominantly male and from rural areas. They often left the country at a young age because of low wages and a lack of employment opportunities. In some provinces in Tajikistan, more than 70% of the working-age males work abroad. Often men leave immediately after getting married, while the wife stays behind and resides with the family-in-law. The social cost is high, as many families have no male household head for years and divorce rates are among the highest in the world (ILO 2010:5: Bobokolov 2011:381; Zokirov and Umarov 2011:246).

What role does the ILO play in both countries? As discussed in Chapter III, (p48) in the period after independence (1989-2012), the ILO was almost completely ignored by the World Bank in labour market reforms in the former Soviet Union countries (Deacon et al 1997:197-199). It remained a relatively small multilateral player in Central Asia with one representative in each country and general support of its regional office in Moscow. Key areas for intervention in Kyrgyzstan were employment

creation, working conditions and reduction of decent work deficits in the informal economy (ILO 2006). In Tajikistan, intervention areas included promoting employment opportunities for men and women, returning migrant workers, increasing the capacity of associations and improving the working conditions and social protection for workers (ILO 2011, Feb). The pilot assessments of IMON aiming to promote women's entrepreneurship and Bai Tushum aiming to promote job creation fitted well under the decent work country programs of the ILO.

Table 12 Macro-economic Indicators

		Kyrgyzstan	Year	Tajikistan	Year
Geography	Population size in Millions*	5.3	2009	7.5	2009
Income Poverty	GNI Per Capita * (Atlas Method in US\$)	860	2009	650	2009
	% Population below National Poverty Line*	32%	2009	47%	2009
	% Population below \$1.25 a day at PPP*	6%	2009	7%	2009
	% Population below \$2 a day at PPP*	22%	2009	28%	2009
Social	Human Development Index	0.59	2009	0.57	2009
	Human Development Index Ranking	109	2009	112	2009
	% Literacy Rate*	99%	2009	100%	2010
	Life expectancy in years*	69	2009	67	2009
Macro-Economic	Inflation consumer price index	6.8%	2009	6.5%	2009
	Corruption Index **	1.9	2009	2.0	2009
	% of firms identifying corruption as a major constraint***	59%	2009	38%	2008
	% of firms experiencing at least one bribe payment request***	43%	2009	38%	2008
	Remittances as % of GDP *	24%	2009	49%	2009
	% population above 15 taking loan from a financial institution in the past year****	11%	2011	5%	2011
	% population above 15 that saved at a financial institution in the past year (% age 15+)****	1%	2011	0%	2011

* Sources, IMF World Economic Outlook, World Bank, UNSTAT for social indicators, **Transparency International, *** World Bank enterprise surveys **** Worldbank financial inclusion database ¹⁹

5.2.2. Microfinance in Central Asia and the idea of social performance

Microfinance made its introduction in the two Central Asian countries after the civil war in Tajikistan and Kyrgyzstan in 1999 as part of disaster relief programs of international NGOs. As described by one MFO manager, many programs started with a focus on social goals such as poverty reduction and

¹⁹ <http://data.worldbank.org/country/kyrgyz-republic> , accessed Oct 2011
http://www.transparency.org/policy_research/surveys_indices/cpi/2010/results , accessed Oct 2011
<http://hdrstats.undp.org/en/countries/profiles/TJK.html> , accessed Oct 2011
<http://www.enterprisesurveys.org/Research#0--eastern-europe-central-asia--> . accessed July 2012.
<http://datatopics.worldbank.org/financialinclusion/country/tajikistan> , accessed July 2012

employment creation. They used a combination of cash transfers and credit as part of wider development programs. From 2001-2005 the development programs expanded into large microfinance programs, (CEO Oxus, June 2011) , and from 2006 to 2008 microfinance organisations mainly focused on financial sustainability (CEO Oxus Oct 2009; CEO HUMO Oct 2009; Microfinanza 2010.)

The two markets were relatively young and predominantly credit based. Only a small percentage of the population in both countries had taken loans, namely 11% in Kyrgyzstan and 5% in Tajikistan (see Table 12 above). The six largest MFOs in Kyrgyzstan had a combined portfolio of US\$ 144 million, compared to US\$ 67 Million in Tajikistan (Mix Market data of 2009). The Kyrgyz microfinance market was partly larger because it opened up to outside investors in 2005, which was three years earlier than the Tajik microfinance sector. In 2009, most MFOs had not yet developed saving and insurance products because the regulatory environment made it unattractive to do so (First Microfinance Bank 2009; FMCC 2011). There was no strong savings culture among clients and the MFO staff (as cited by managers from FMFB 2009; HUMO 2011; Arvand 2009; Finca Kyrgyzstan 2009; BT, M11ab 2011).²⁰ For example, less than 1% of the adult population saved money in a financial institution. Two MFOs (1MFB and ABN) offered savings; others had plans to start offering deposit products in the next years (i.e. Bai Tushum, Arvand, Finca Kyrgyzstan, IMON).

Table 13 shows an overview of social mission statements of the MFOs and their founding organisations. All MFOs remained connected with the international NGOs that founded them as part of their development programs. ACDI VOCA started Bai Tushum and Frontiers in Kyrgyzstan and ARVAND in Tajikistan. Mercy Corps set up Kompanion (Kyrgyzstan) and IMON International (Tajikistan). Other financial institutions were set up by the Aga Khan foundation, Care International, ACTED and Finca International.

MFOs claimed to have social objectives of contributing to client business growth (12 out of 12) and employment creation (11 out of 12). Most MFOs in Tajikistan (except HUMO and Finca) had a social objective of promoting women's empowerment. Several MFOs wanted to start-up new enterprises for clients (Kompanion, Finca Kyrgyzstan, Finca Tajikistan, HUMO, 1stMFB and IMON).

²⁰ - "In 1997 four banks collapsed due to risky credit operations. People lost their savings....."
- "Bishkek infrastructure for savings is not yet developed" and there is no proper mindset towards marketing of savings" - Finance Manager, Finca Kyrgyzstan, Oct 2009-
- "People do not trust banks when it comes to savings" - 1st MFB, Tajikistan-
- "there is a need for financial literacy programs to boost the culture of savings" and
"The problem here is that even the employees do not save." - CEO Arvand, Tajikistan Oct 2009
"It is more difficult in Kyrgyzstan to develop savings, because of the social communistic period. Because of the default of many of the banks" - Chairman ABN credit Union July 2011

Table 13 Mission Statements

a) Kyrgyz MFOs		
MFO	Social Mission Statement	Founding NGO
Bai Tushum	To be a reliable financial partner contributing to the economic development of the Kyrgyz Republic through the delivery of microfinance services in rural and urban areas, that lead to increased employment and meets the interests of its clients and investors	ACDI VOCA
Finca Kyrgyzstan	To provide financial services to the world's lowest-income entrepreneurs so they can create jobs, build assets and improve their standard of living.	Finca International
Kompanion	To be the leading community development financial institution in Kyrgyzstan. Kompanion supports the strengthening and growth of communities by offering development products and services to entrepreneurs and individuals.	Mercy Corps
Frontiers	To support and foster development of sustainable and transparent financial institutions through provision of best financial solutions, which strive to create employment and improve general welfare of communities.	ACDI VOCA
First Microcredit Company	To reduce poverty, diminish the vulnerability of poor populations and alleviate economic and social exclusion.	Aga Khan Foundation
ABN Credit Union	To provide access to innovative financial services for rural people	Members
b) Tajik MFOs		
MFO	Social Mission Statement	Founder
IMON	To promote economic development in Tajikistan, assist in increasing the quality of life and economic development in the country through providing sustainable access to finance for economically active people in Tajikistan.	Mercy Corps
First Microfinance Bank	To reduce poverty, diminish the vulnerability of poor populations and alleviate economic and social exclusion.	Aga Khan Foundation
Arvand Micro-invest	To strengthen the economic base of the low-income households in Tajikistan through increased access to credit services for entrepreneurial activities in urban and surrounding areas.	ACDI VOCA
HUMO	To assist the development of the microfinance industry in the country by rendering accessible, accredited lending services to micro and small businesses in Tajikistan contributing to the overall development of the country's economy.	CARE International
Oxus Tajikistan	To provide microfinance to vulnerable communities and small entrepreneurs in order to alleviate poverty, create sustainable livelihoods and contribute to the development of the country.	ACTED
Finca Tajikistan	To provide financial services to the world's lowest-income entrepreneurs so they can create jobs, build assets and improve their standard of living.	Finca International

Source: Mix Market and Oikocredit as of December 2009

SPM was introduced as a formal concept at a conference in Tajikistan organised by the national microfinance association AMFOT, in November 2008. I participated in one workshop on SPM held by the Micro Finance Centre and Oikocredit. During the first round of interviews in 2009, few MFO managers explicitly used the discourse 'social performance management'. During the interviews, all managers mentioned that social goals were relevant to their organisations. For example as the chairman of one credit union mentioned, "it is only since 2008 that we heard about social performance, but we have been doing it since a long time ago" (Chairman, ABN Credit Union, Oct

2009).²¹ However, it was questionable to what degree microfinance agencies actually implemented these performance goals in practice. Particularly also because several MFO Managers mentioned to have focused predominantly on financial performance management since 2005.

5.3. The Case of Bai Tushum

Having introduced microfinance in Central Asia, I now describe the organisational determinants for Bai Tushum and highlight to what degree employment goals were incorporated into performance management at the outset of the pilot. I will start with the company's history (5.3.1), followed by its social mission (5.3.2), ownership and external relations (5.3.3), operating environment, (5.3.3) and organisational capacity and culture (5.3.5), and finally what this entailed for the capacity to do SPM at the outset of the pilot (5.3.6). Section 5.4 will follow the same structure for the case study of IMON.

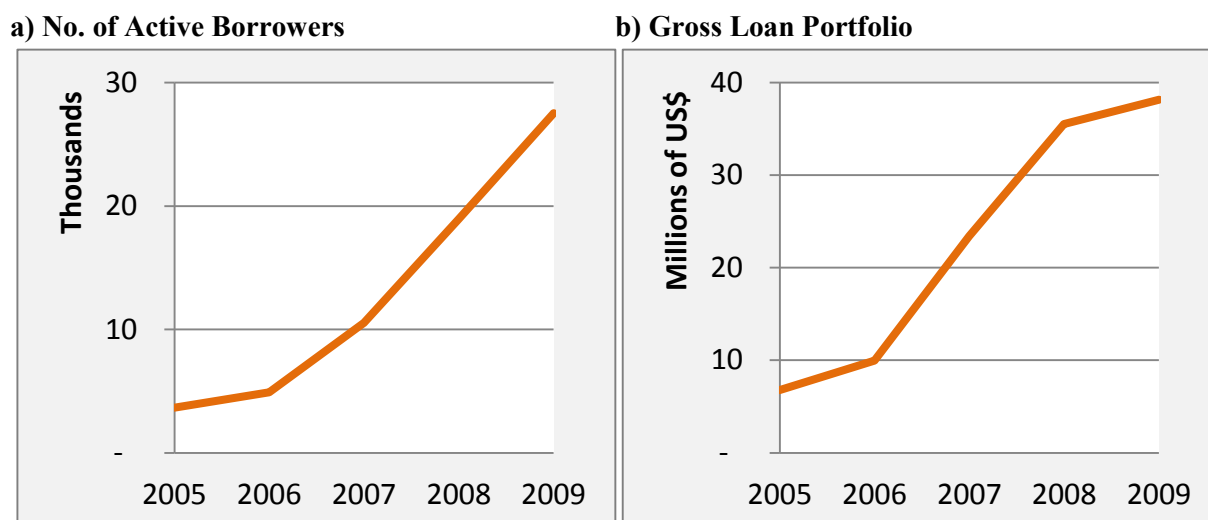
5.3.1. History

Bai Tushum which translates 'great harvest' in Kyrgyz, originated out of an agricultural development program of ACDI VOCA and CARITAS in 1997.²² The company started in 2000 out of a merger of several microfinance programs and it transformed into a commercial microcredit company in 2009. In 2008, it applied for a deposit-taking license to transform into a commercial bank. With a rapid growth in terms of number of active borrowers, the company became one of the market leaders (see Figure 7). In time, the portfolio shifted from horticulture into livestock and trade for small enterprises (CEO Bai Tushum Oct 2011). The MFO had a strong financial performance receiving a good A+ rating for from Microfinanza in 2005, followed by a reasonable BBB in 2008 (Bai Tushum 2006; Mix Market).

²¹ - We "first function as a bank, second as a social institution."... "The two are not in friction, but are not comfortably coexisting either."- CEO First Microfinance Bank 2009
- "I have to proudly say Finca is based solely on a social mission." - Finca Tajikistan Oct 2011
- "The founders of the organisation request both financial and social performance." - CEO Arvand Oct 2009
- "We are doing social performance in the sense that we state that consumption loans are socially unwanted. We are doing consumption loans in the sense of education." - CEO FMCC July 2011
- From 2001-2005 the development programs expanded into large MF programs"... "The period 2006 to 2008 was less focused on social responsibility. We needed to look at sustainability"- CEO Oxus, June 2011. In 2010 the company conducted a social rating to inquire where its stands on its social performance management.

²² www.baitushum.kg/en/about, accessed 9-11-2011

Figure 7 Growth of Bai Tushum



5.3.2. Mission and Vision

In 2009, the mission of Bai Tushum was revised by featuring employment more prominently (see Table 13, p95). As highlighted by the CEO: “The mission has been changed to specify more who uses the loans, how we work and what we offer. Key words are job creation, SME and microfinance, rural areas and self-employment. Job creation was selected because the history of Bai Tushum consists of individual lending for seasonal and permanent jobs.” (CEO BT Oct 2009). For Bai Tushum the main client level objectives were employment, business growth and agricultural development. Employment in this context meant, “to go beyond self-employment of clients. It should also look at permanent jobs or seasonal income; protection of jobs, paying taxes, informal economy“...“With job creation we mean mostly wage workers, but to a certain extent self-employment is also job-creation.” (CEO BT Oct 2009) The CEO’s perspective on job creation was close to the ILO standards in that she emphasised wage employment. As Bai Tushum offered larger loans to more formalized enterprises staff believed it contributed to SME finance and job creation more strongly than other MFOs. For example, “Bai Tushum estimated that for every US\$ 250 in loans one job position was created” (CEO Bai Tushum Feb 2009).

The business plan for 2008 to 2012 mainly related to factors such as the expansion of the portfolio, offering more products and services, and reducing interest rates. There were no explicit objectives related to job creation or SME finance (M-Cril 2009:4). The MFO planned to grow at around 24% per annum in the loan portfolio and 14% per annum in the number of borrowers over the period 2009 to 2013 (M-Cril 2009:4). However, “in September 2009 the loan portfolio decreased. For the whole year, the planned growth was 58%, but the actual growth was 19%” (Oct 2009 CEO Bai Tushum). The company lowered its growth targets because of the financial and economic crises (Oikocredit Ept, July 2010:7).

5.3.3. *Ownership and External relationships*

In 2009, Bai Tushum's shareholders included the foundation Bai Tushum (72%) which was based on funds of ACIDI VOCA, Triple Jump (15%) and staff (13%) (Source Oikocredit EPT 2010, Section II.1). Managers had a significant ownership in the company. Although Bai Tushum received some technical support from ACIDI VOCA, it had become financially independent from its founder. The company was searching for new investors in order to complete its transformation into a bank. It received loans from all major microfinance investment vehicles as well as international development finance organisations such as the EBRD and the IFC.

5.3.4. *Operating Environment*

The company's management tended to place a strong emphasis on the external environment as it expected a strong increase in competition and pressure from regulators. There was the perception that "Today the competition is getting tougher, and the micro finance market attracts not only micro-financing organisations, but also the banks of Kyrgyzstan... their strategies are targeted at our clients," (Bai Tushum Pilot Proposal 2009:5). The CEO feared commercial microfinance could be harmful for clients, but the only way to mitigate this in an environment of strong competition was through external regulation. "Today people consider microfinance a profitable business. Most think only in terms of profits. One new small privately owned MFO in Kyrgyzstan started to lend daily loans and refinancing debts. There is no control on such non-correct MFOs. Some [people] raised this issue with the Central Bank, and tried to make sure that they increase the minimum capital requirements. Otherwise [these MFOs] will grow as mushrooms" (CEO Bai Tushum Oct 2009). Management experienced "a problem from competitors who lend to their clients, despite knowledge of high existing debt levels" (M-Cyril 2009, June: 9). At the same time as articulated in the rating report "The most immediate priority for the board is to ensure financial sustainability over the next three years, during which severe competition is expected from banks [moving into microfinance]. [Furthering] outreach and lowering the cost of funds are the top priorities" (M-Cril 2009, June). So the response to the increased competition seemed to deepen the commercial approach.

Bai Tushum is one of the four MFOs that worked nationwide (Kompanion, Finca, Mobulak). Figure 8 shows the location of the branches and sub-offices that functioned as the loan delivery and collection points. The company was mainly targeting SMEs and rural areas, because financial inclusion was limited for these market segments. Most loans were designated for agricultural and trade activities and the majority of borrowers lived in rural areas (88%).

Figure 8 Geographical Presence of Bai Tushum



Source: Bai Tushum (2009)

Bai Tushum was the third largest MFO in the country in terms of the number of active borrowers and the loan portfolio (see Table 14). Operational sustainability and portfolio quality were strong for all MFOs. The company had relatively high average loan sizes partly because it offered individual loans, while competitors focused more on group lending.

Table 14 Financial Performance and Size of MFOs as of December 2009

	Loan Portfolio in Millions of US\$	Active borrowers	Operational self sufficiency	Portfolio at risk 30 days	Return on assets	Average Staff Salary /GNI per capita	Number of Staff	Average Loan Size in US\$
Bai Tushum	38,1	27,526	130%	2.7%	5%	11.2	294	1,014
FINCA Kyrgyzstan	53,0	108,102	129%	0.6%	7%	7.8	846	352
Kompanion	30,2	99,385	114%	0.6%	4%	9	835	224
Mol Bulak	10,9	27,644	110%	0.7%	3%	5.6	329	N/A
1st MCC	8,9	11,987	105%	2.0%	1%	5.7	164	526
ABN Credit Union	2,6	1,143	207%	2%	16%	N/A	N/A	1,138

Source Mix Market and Oikocredit Database data as of December 2009, www.mixmarket.org, access Nov 2011

The Kyrgyz microfinance sector was in tension with government officials with regard to political interests in the sector. Starting 2005, president Bakiyev privatised banks into the ownership of his family. In 2008, a large MFO network was rejected market entry; rumours said it was because it refused to pay a bribe. In February 2010, the Bakiyev government tried to launch a microfinance fund

with the AUB Bank. However, several microfinance practitioners felt it was a vehicle for money laundering and an attempt to undermine the market by offering subsidized interest rates. After the political crisis, it turned out that the regime had private stakes in the AUB bank (ADB et al 2010). Upon several occasions, politicians and politically organised groups wanted to set an interest rate cap with the aim to reduce over-indebtedness, and with an agenda to gain votes for the upcoming elections (Central Asian times 2011).²³ The political crises in June 2010, discussed earlier (Section 5.2, p91) was an external factor that influenced the sustainability of clients as well as the MFO (see more in Section 6.3). The events indicated to me that politicians wanted to build up stakes in the growing microfinance sector, MFOs in turn often avoided the dialogue with government institutions.

Bai Tushum's management was highly concerned about the potential pressure from regulators stating that "currently there are political attacks from parliamentarians who are asking whether microfinance is being conducted in the right and correct way" (CEO Bai Tushum Oct 2009).

5.3.5. *Organisational capacity and culture*

The main motivation for staff to work for Bai Tushum was personal skill development and career making²⁴, and good working conditions including salary²⁵. They seemed to work not out of philanthropy or wider social goals but more because it was good for their career path. For example, one loan officer pointed out Bai Tushum is a "well developing competitive company" and it provides "advantages for the career path" (SLO6, Jan 2011). Staff interviewed had a background in economics, finance and business administration. Many of them had worked for other MFOs or banks. Indeed, as indicated in the rating report (M-Cril 2009, June: 7) the staff hiring process deliberately recruited qualified and experienced staff from the Kyrgyz financial sector.

²³ Times of Central Asia, Victor Winner, (2011, July 21) "Kyrgyzstan's microfinance sector continues to grow"

²⁴ - "this was a foreign and international company." - SLO2a, May 2009

- "I was just promoted from Senior Loan officer to Sub-office Manager." She had higher education in economics and over 5 years of experience." - SLO4, May 2009

- "I was Interested in microfinance and lending. [The] "professionalism of working here" and [that it is a] "most developing company." - SLO5, Oct 2010

- "In the past I worked for [a] bank in remote regions. I came to Bai Tushum for the 'career path' and wanted to be manager." - SLO7, Jan 2011

- She has been working for 8 years and came from the banking sector. "Bai Tushum is a company which develops personal skills. BT is the place for high skilled specialist." - SLO9, Jan 2011

²⁵ - "BT offered higher salary." - SLO7, Jan 2011

- "I was working for Finca for seven years and heard from colleagues that Bai Tushum is a good company with good working conditions for Karakol"[including salaries]. - SLO8, Jan 2011

In 2008, a record number of 105 new staff members were hired and as of December 2009, there were 294 staff members working for Bai Tushum. Staff retention was 78%, indicating employees were loyal to the company (Mix Market 2009; Bai Tushum proposal July 2009:10). There seemed to be a strong work ethics. For example, I found staff in Bai Tushum to work more often overtime than IMON. Staff did not complain much about working extra.

Compared to other Kyrgyz financial companies, salaries and bonuses in Bai Tushum were relatively high and competitive. Incentive systems such as staff and branch-based bonuses were mainly geared towards financial performance such as disbursements and portfolio quality. The average salary in Bai Tushum was 11.2 times GNI per capita of Kyrgyzstan, compared to 7.7 for other Kyrgyz MFOs, as of 2009 (see Table 14, p99). In addition, several staff held shares in the company. When disbursement and portfolio targets were reached, bonuses could vary from 1/3rd of regular salary for administrative staff up to two times the regular salary for loan officers. In addition, as part of career development, staff were promoted regularly by management into new job functions (M-Cril 2009, June: 7).

There was recognition that “SPM is a gap in the training program. As loan officers with experience have all graduated towards the higher positions. Staff in the field needs to be trained on SPM” (CEO Bai Tushum Oct 2009). Other soft incentives systems included team-building activities such as semi-annual staff retreats, collective lunches, birthday celebrations, sports and the companies support to charity events.

The board composition predominantly consisted of Kyrgyz people with a strong background in banking and accountancy. For example, the CEO had a strong background in accountancy and finance. In 2009, social performance was not featured on the agenda of board meetings. For example, there was no reporting on social indicators to the board (M-Cril 2009, June:1).

In 2008, Bai Tushum set up a marketing department with two staff members who had the responsibilities for marketing, PR and social performance. The marketing manager previously worked for a commercial bank and was experienced in market research and staff training, but she lacked experience in client level assessment. The main social performance assessments conducted by the department were the diagnostic tool and a customer satisfaction survey.

According to procedures, loan officers needed to collect client level data for monitoring at least at the start and end of the loan contract. The management information system tracked basic indicators such as the percentage female and rural borrowers, type of work activity by sector, income and assets. Bai Tushum monitored only two indicators related to job creation, namely seasonal and permanent employment.

Delving deeper into the dataset revealed weaknesses in data processing; first there were significant data gaps, for example employment indicators were not collected for several loan products. Several indicators such as assets and employment were not stored in a client database and only available for the branch or sub-office levels. Second, data was unaudited and this most likely reduced its quality. For example, as shown in Table 15, a first analysis conducted by the new marketing department showed that most clients exited the microfinance program because they did not need credit or were in default on their debt. However, as will be shown in Chapter VI, the outcomes for the ILO survey showed a different picture. Weak data may have led to incorrect decision-making, and this in turn may have led to weak product improvements. Third, some of the client level data such as asset and income data were captured to measure the loan collateral and repayment capacity rather than to monitor the client's welfare. No reports were readily available that tracked client level outcomes or changes in outreach of the portfolio. Also it took quite some effort to extract the dataset from the information system.

Overall, my first impression was that the institutionalisation of client level data in the management information system was very weak (participant observations made while analysing data in the management information system, Aug 2009). My participant observations were triangulated by other sources such as the social rating report that highlighted weaknesses in client level monitoring. Data on employment was sometimes based on the client's business plan rather than the actual size of the enterprise (M-Cril 2009, June:8). As mentioned in the rating report, "after loan disbursement, the clients are not visited by the Credit Specialists except in the event of default" (M-Cril 2009, June:11). The CEO of Bai Tushum admitted client level monitoring was considered a weakness of the company (CEO BT, Oct 2009).

Table 15 Reasons for Client Exit

	%
Did not need a loan, resting clients	61%
Late payment	19%
High interest rates	4%
Borrowed from another bank	2%
Terms and conditions of loan	1%
Other	14%
Total	100%

Bai Tushum analysis of customer exit (Aug 2009) see M-Cril (2009:16)

The company offered a set of six loan products with flexible product features including loan amount, repayment period and maturity as well as individual and group loans. Product pricing was standardized and fixed for all loan products at 27%. The company had a loose targeting of customers. For example, there were no special products for enterprises aiming to stimulate job creation.

5.3.6. *Social Performance Management*

What capacity did this reveal for SPM at the outset of the pilot? SPM for Bai Tushum was very ad hoc. Staff incentive systems were not geared towards employment goals for clients. Very few client level assessments were conducted and staff in general did not have experience in doing social performance assessment. Client level monitoring was not systematic and data collected by loan officers was under-utilized and un-audited. As part of its participation in the ILO project, Bai Tushum changed its mission to highlight its potential role in creating jobs for clients' enterprises. For the next years, the CEO had a variety of plans, including the launch of an SME department, incorporation of social performance indicators into a new management information system, and implementation of a client loyalty campaign (CEO BT, Oct 2009).

How did the SPM of Bai Tushum compare to that of the other Kyrgyz MFOs? None of the Kyrgyz MFO managers explicitly referred to decent work as part of their PBM, but several managers reported to pursue employment creation (3 MFOs), entrepreneurship (2), welfare building (1) and vulnerability (1). The microfinance agencies claimed to pursue social objectives of employment creation (5 MFOs) and business expansion for the clients (6 MFOs).

Only Finca Kyrgyzstan conducted a social performance assessment on employment outcomes. They found that "each client creates approximately 0,7 jobs. This means 107.000 self-employed [clients] plus 70% is almost 180,000 jobs created" (Finance Manager, Finca Kyrgyzstan Oct 2009). The manager's definition of job creation was much broader than that of Bai Tushum and included self-employment of the client as well as wage workers and family and daily labour in the enterprises.²⁶ He had not read the report, and had not shared it with staff, or other internal and external stakeholders. He admitted, "the people at Finca International are more concerned with social, maybe they will have a social performance department there, here we are more concerned with operations" (Finance Manager, Finca Kyrgyzstan Oct 2009). The Finca assessment did not result in organisational action. This led me to question to what extent social performance in Bai Tushum was part of the internal operations, or was it done for external reporting?

The CEO's of Kompanion and Frontiers identified job creation in terms of the number of workers in enterprises of clients; they did not distinguish between unpaid family and paid wage labour. They

²⁶ -"If a person receives a loan from us that is employment creation. [And] Family employment can be seen as a partnership with the personal client." - Finance Manager, Finca Kyrgyzstan, Oct 2009

were sceptical about the potential of microfinance to contribute to job creation.²⁷ As mentioned by the CEO of Kompanion (July 2011), “I don’t think microfinance really creates employment... It helps an entrepreneur to be stable. Many poor would like to have a job”...“Being an entrepreneur is very difficult.” These different and conflicting perspectives raised another important question, how could it be explained that several MFOs in the same market context believe microfinance generate jobs while others do not?

Table 16 provides one explanation; it shows that similar to Bai Tushum, SPM practices of other Kyrgyz MFOs were also in an initial stage. None of the microfinance companies conducted a social audit or rating or geared staff incentive systems towards client level goals. All MFOs tracked basic social performance indicators in their management information systems such as the percentage female and rural clients, income and assets and sectoral work activity of the client, but few of them tracked employment indicators. Although MFOs had marketing or business development departments, they did not have staff that could devote their fulltime attention to client level assessments. SPM practices remained limited to customer satisfaction surveys and product development. It was questionable to what degree Kyrgyz MFOs and Bai Tushum in particular, were reaching their development objective of employment creation. I will leave this finding for now and turn to the description of IMON International.

Table 16 SPM Practices of Kyrgyz MFOs

MFO	Staff for SPM	Social Rating	Social Audits	Staff incentive systems	Product Development	Survey of Customer Satisfaction	Client Protection Principles
Bai Tushum	No	No	No	No	Yes	Yes	Yes
Finca Kyrgyzstan	No	No	No	No	Yes	Yes	Yes
Kompanion	No	No	No	No	Yes	Yes	Yes
Frontiers	No	No	No	No	No	Yes	Yes
1 st MCC	No	No	No	No	No	Yes	No
ABN	No	No	No	No	Yes	Yes	No

Source: Interviews with MFI senior Managers

²⁷ -“There is a proportion of microfinance agencies that create jobs, but this is mainly seasonal jobs. ...Microfinance does not create jobs, but improves the life opportunities for people that are self-employed..” - CEO Frontiers, July 2011.

- “Microfinance does contribute to employment in Kyrgyzstan but it is difficult to say how much. Mostly it does so in trade and related activities, family farming and construction.” – CEO FMCC Kyrgyzstan July 2011

5.4. The Case of IMON

5.4.1. History

In the midst of the Tajik civil war, the National Association of Business Women Tajikistan (NABWT) was founded as a non-commercial organisation, in 1995. The member based organisation aimed to expand economic rights and opportunities of women in the labour market, promoting women's access to resources, education, and develop their market skills. It implemented advocacy projects, and lobbied for the rights and interests of women entrepreneurs.²⁸ In 1999, the NABWT launched a microcredit program in Tajikistan, together with support of Mercy Corps, aiming to reduce poverty, create new jobs and support micro entrepreneurs. 'IMON' which translates as 'Faith' in Tajik, evolved out of this program in 2005 (NABWT 2005). In 2008, it transformed into the microcredit credit company. The company received an 'A-' in 2007 and 'A' in 2009 from Microfinanza, implying a strong financial performance with a stable outlook.²⁹

From 2005 to 2008, the growth in the number of borrowers of IMON was much stronger than the growth in the number of women trained by the NABWT, this because lending operations were financially sustainable (See Figure 9 a+b). Although in ten years the NABWT trained approximately 5000 women (NABWT 2005), scaling up programs was challenging because they depended on scarce grant funding from donors. In 2009, the NABWT was small in comparison with IMON, having only two regular staff and 380 members. Many of its staff had started working for IMON. The association continued offering entrepreneurship training, but separately from IMON and for only a very small portion of the IMON borrowers.

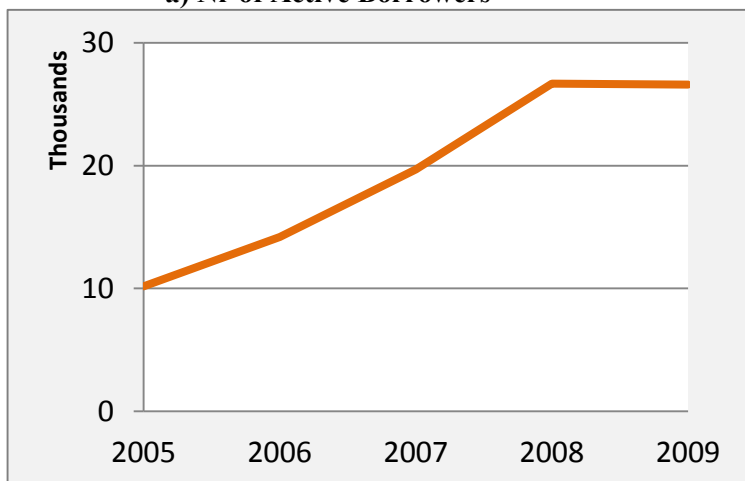
In parallel, with rapid growth in terms of the number of borrowers served and portfolio expansion, female targeting reduced substantially from 100% in 2003 to 38% women borrowers in 2010 (see Figure 9 c). This reduction was observed for nearly all Tajik MFOs. This declining trend indicated something was happening to microfinance's outreach to women (see more Section 7.3).

²⁸ <http://www.nabwt.tj/> accessed Nov 2011.

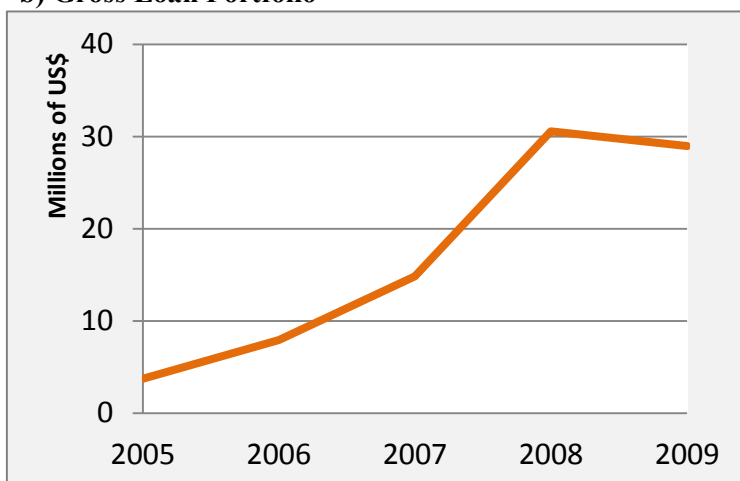
²⁹ www.mixmarket.org accessed Feb 2012

Figure 9 Growth of IMON

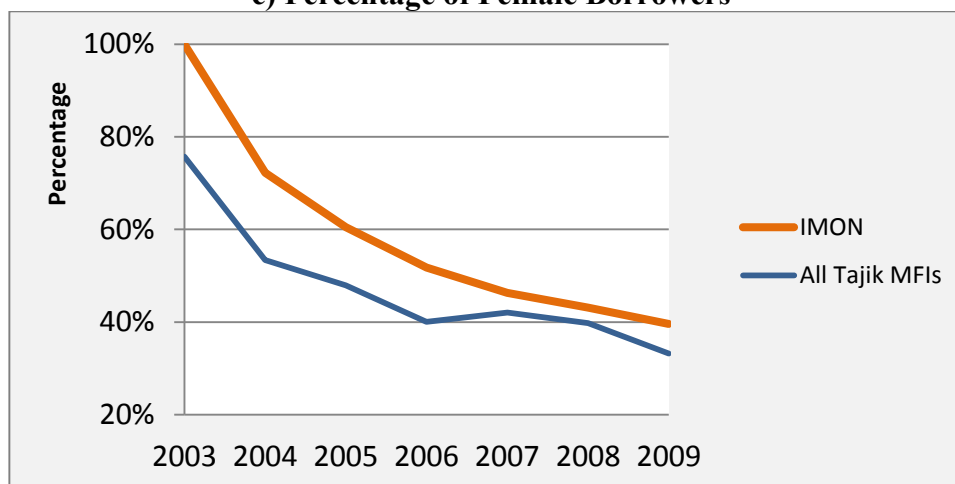
a) Nr of Active Borrowers



b) Gross Loan Portfolio



c) Percentage of Female Borrowers



Source: based on data from the Mix Market, www.mixmarket.org

5.4.2. Mission and Vision

IMON’s mission was to promote economic development and quality of life (see Table 13). The MFO had a diverse set of client level objectives such as women’s empowerment and gender, entrepreneurship and employment creation. As described in the business plan, the company aimed to be a “profitable, socially oriented, and transparent institution ... with strong focus on corporate values, ethics, gender and customer care” (Microfinanza 2010:12).

It initially aimed to grow the loan portfolio by 35% per annum from 2009 to 2012 (Oikocredit 2011: Ept 13), but because of the global financial crises the growth target for 2009 was lowered to zero growth. After 2010, the aim was to grow up to 56,000 borrowers by the end of 2013 (Microfinanza

2012:12&21). IMON aimed to strengthen existing branches and sub-offices, transform into a micro-deposit company offering savings services, and implement payment terminals such as ATMs. The strategy aimed to balance financial performance with implicit social goals relating to gender and female targeting (Microfinanza 2010:12).

The CEO viewed, “Tajik women would be empowered if they can participate in the decision making, whether it is in the family, community, workplace. Empowerment comes with access to resources, financial property and material resources. [It concerns] both husband and wife since we are talking about gender empowerment.” It meant “women participation at the “boss level” (CEO, Oct 2011). However, at the same time, she felt that “in the last ten years, women’s entrepreneurship has suffered from larger male-managed enterprises dominating Tajik sectors. The government has given little attention to the position of women in the household.” (CEO, Sep 2009). Women’s entrepreneurship decreased and entrepreneurship had become a male dominated activity. The dropping percentage female borrowers in the portfolio illustrated this (see Figure 9c). Although gender and association formed a priority, these were only “addressed by the NABWT, the roots of IMON” (SM16ab, Oct 2009). The reduction of women borrowers in the portfolio and the limited capacity of the NABWT formed two of the reasons to participate in the ILO pilot (see more in Section 7.3).

5.4.3. External relationships and Ownership

In 2009, the NABWT (45%), Mercy Corps (45%), and MEDA (10%) owned the company’s shares. Thus, the business association had a strong ownership in the company (Microfinanza 2010:6). Although legally separated, the NABWT was located in the same building as IMON and many of the managers of the MFO had worked in the association (Microfinanza 2010:17 and participant observation). Nearly all international microfinance investment vehicles were lending to IMON as well as international development finance organisations such as the IFC and EBRD.

5.4.4. Operating Environment

Compared to Bai Tushum’s management, IMON paid less attention to the external environment and focused more on its internal practices. “Competition with the other MFOs is of lesser concern to IMON” (Microfinanza 2009:9). Partly this was because the Tajik market was less competitive (see Section 5.2), but it also had to do with the organisational culture in the company, which is described in Section 5.3.5.

The microfinance sector in Tajikistan was less competitive and not so much under the radar of government officials when compared to Kyrgyzstan. For example, USAID, IFC and ADB had lobbied

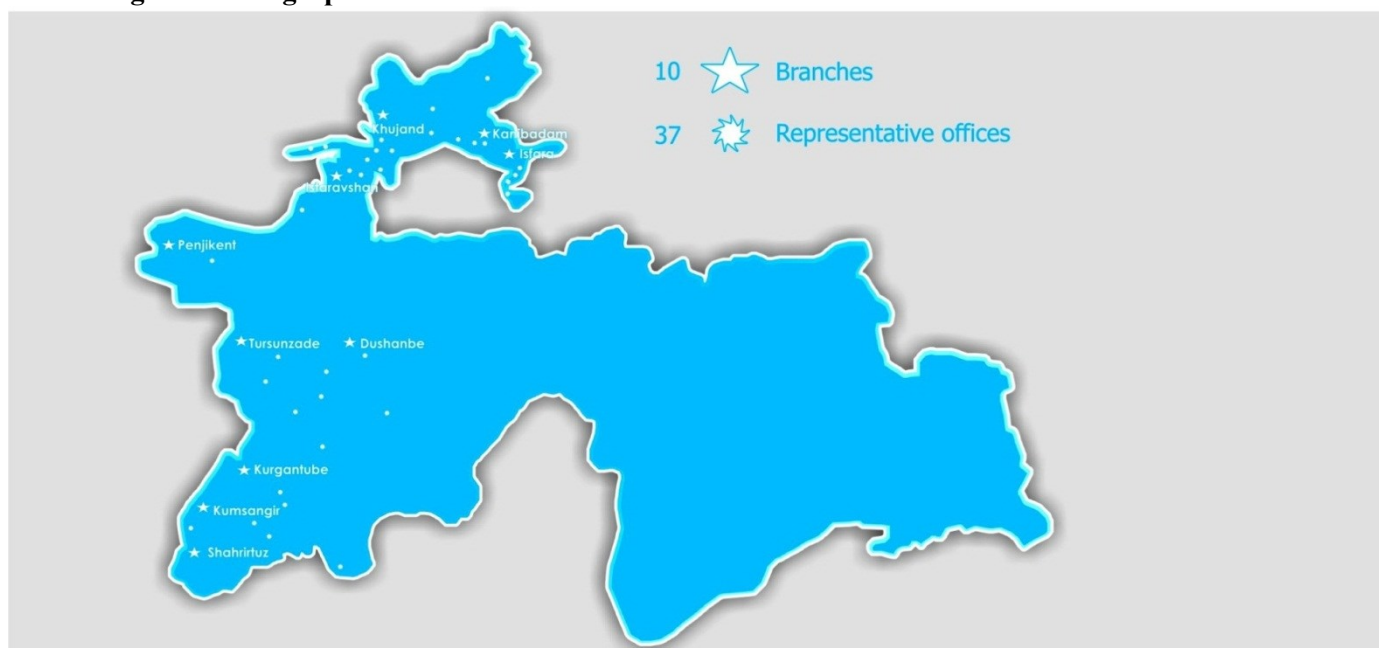
for a new microfinance law that allowed MFOs to transform into banks, however the government did not want to liberalise the banking sector (Microfinanza 2009:7).

IMON lobbied proactively through the NABWT with policy institutions such as the ministry. It also maintained relationships with local village heads and local municipalities. The CEO was concerned with the public policy institutions in relation to women entrepreneurship. She showed me several papers on women's empowerment in Tajikistan and mentioned, "There is a national strategy about women participation and gender equality. However, we [as Tajik persons] are still in the beginning of the pyramid of gender education. We are talking not doing. Although the documents look fine on the surface... [when digging deeper into the data] it turns out that schooling of girls and women drops, and that the overall education levels drops. So we need special programs for women" (CEO IMON July 2011).

In 2009, IMON had 10 branches and sub-offices and 33 field offices (see Figure 10 below). The company was mainly active in the Southern region of Katlon, the regions surrounding Dushanbe and the Northern Ferghana Valley. IMON's management made the decision to keep the head office in the Northern city of Khudjand, rather than the capital of Dushanbe, partly because its loan portfolio was concentrated (>60%) in the Northern Ferghana Valley. Staff viewed the Northern regions of Istaravchan, Isfara, and the Southern regions of Kyrgantube and Shartuuz as regions with more traditional gender norms (Focus group discussion, Sept 2009). The MFO was not active in the Ravshat Valley, a remote and mountainous region in East-Tajikistan that has strong traditional Islamic and gender norms.

IMON's targeting did not have an explicit poverty focus. Around 28% of the borrowers lived below the national poverty line when compared to 47% for the entire country. Female clients were more often living below the national poverty line (33%) when compared to male clients (28%).

Figure 10 Geographical Presence of IMON



Source: IMON Annual report 2010.

The company was the largest MFO in term of number of staff and active clients. It had a relatively high operational self-sufficiency and profitability with good portfolio quality (see Table 17).

Table 17 Performance Indicators of MFOs

	Gross Loan Portfolio in Millions of US\$	Active Borrowers	Number of Staff	Operational self sufficiency	Portfolio at risk of 30 days	Return on assets	Average Staff Salary/GNI per capita	% Female Borrowers	% of Female staff
IMON	29,0	26,602	358	149%	5%	7%	7.7	40%	36%
FMFB	20,5	11,546	417	63%	7%	-7%	8.8	26%	19%
Arvand	4,1	7,896	156	139%	3%	3%	3.1	42%	N/A
HUMO	3,3	7,750	159	134%	12%	7%	6.3	37%	30%
OXUS	5,4	6,581	167	94%	9%	-2%	5.7	35%	N/A
FINCA Tajikistan	5,0	23,662	223	99%	4%	-2%	10	34%	29%

Source: Mix Market as of December 2009, www.mixmarket.org, accessed Nov 2011.

5.4.5. Organisational capacity and culture

The main motivation for staff to work for IMON was the companies' support for clients³⁰, its reputation as a leading and transparent organisation³¹, and working conditions.³² For example, one staff member mentioned, "IMON had a good reputation and is a leading MFO. I was asked to work for other MFOs but wanted to stay part of the IMON team" (M12, July 2011). One senior manager said, "I liked IMON because of its social projects, it really can help for people" (SM5, July 2011). All employees had university degrees, they had a diverse educational background and experience. Staff had previously worked for NGOs, government institutions, universities and affiliated organisations such as Mercy Corps and the NABWT. Few staff had worked for banks. Employees received extensive in-house training, for example, a security guard and former borrower were trained internally to become credit officers.

IMON had a strong human resource department with five women working on staff recruitment. Staff often referred to the strong selection procedures.³³ IMON had 358 employees, making it the second largest MFO in the country, as of 2009. Although only 36% of staff were women, 62% of the managers were female. The company had a high employee retention of 87%, particularly for management (94%). Staff and especially management had worked for a long period in the company (Mix Market 2009; Pilot Proposal IMON June 2009).

³⁰ - She started to work for the NABWT and "I liked the mission and saw how they work and I came to their hiring process...." - M11, July 2011

- He had worked 5 Years with Mercy Corps. ... "IMON is a people's organisation". - SLO13, July 2011

- "She was a business women that started up her business with a loan from IMON"... "After taking a loan from IMON, she educated and advertised IMON loans to others." - SLO3, July 2011

- He first worked in Mercy Corps and started out as a security guard. After this he became an expert in administration in IMON. "Our organisation tried to work with women". - SLO5, July 2011

- "IMON supported people who did not work and help them to protect them socially". - SLO6, July 2011

³¹ - "Before this I was working in a public organisation and before that the association of women" ... "I knew IMON and had information about them and a good cooperation with them." She worked previously as external consultant and now as manager - M9, July 2011

- Before working for IMON, she was a teacher of physics, mathematics.... "I wanted to work for IMON because it was a leader in the microfinance market, and everybody knows IMON."- M10, July 2011

- "What I like in IMON is that people don't give a bribe, the transparency and the work climate". - M5, July 2011.

- "Before IMON she worked in government institutions," and NABWT. "IMON is a transparent place"- SLO14, July 2011.

³² - "She wanted to improve her knowledge and earn money." - SLO7, July 2011

- "He worked before in the agrobank and wanted to start working in IMON as a loan expert because of the higher salary advertised."- SLO4, July 2011

³³ After people were selected for the job application, "... We then make a shortlist, and now according to our new procedure for each position we have a different testing system... Based on the test we prepare a shortlist We call the top 50% and will invite them. Loan experts then can analyse their communication skills." - SM11, July 2011

Compared to Bai Tushum salaries and bonuses of loan officers were much lower. The average salary in IMON was 7.7 times GNI per capita of Tajikistan, compared to 6.7 for other Tajik MFOs, as of 2009 (see Table 17, p109). Staff bonuses were mainly geared towards financial performance specifically growth in portfolio, portfolio quality, and the number of borrowers. In addition, customer retention was part of the staff incentive system. There were no client-based targets related to gender and women's entrepreneurship (Microfinanza 2010:14).

There were a set of softer staff incentive systems such as scholarships and staff training. Scholarships were popular among staff and training and coaching were at the heart of the organisational culture. New loan officers conducted a course of four weeks, which included an introduction to the institution's history, mission and ethical values. Training for loan officers were done on a quarterly basis and included client protection principles (Microfinanza 2010:14&19). Thus, IMON had a balanced mixture of hard and soft incentive systems.

I found offices open and spacious working environments, they had large corridors, meeting rooms and places for staff and client training. Offices had sufficient place to relax during break hours. At the headquarter team-building activities were conducted including staff retreats, collective lunches and playing sports such as table tennis, football and fitness.

Board members had a diverse background of political, social sciences, and economics. For example, the CEO and director of NABWT were on the board and were specialists in gender studies. The board seemed to have social performance on its agenda. In 2009 "it was decided to do the required social reporting. For example, percentage female clients, children less than 18, average loan size, average jobs created. The board of directors requests information on the indicators for every quarter" (SM16a, IMON Oct 2009). Two out of five board members were female. Most of the current senior managers had been with IMON since its inception in 1999 and were former teachers or workers of the NABWT. The reason why many of them ended up working for IMON was because they were among the highest skilled personnel available in the labour market and there was no established banking sector after the Tajik Civil War (Microfinanza 2010:17). As a consequence, many staff were schooled in-house becoming loan officers and credit managers. Trainers and managers of the NABWT have higher economic education and several worked as tutors in higher learning institutions (NABWT 2005:16). Most staff especially in the Northern branches had studied at one university, which was considered among the best educational institutions in the country.

The marketing department was set up in 2005 and contained three staff members. No staff member was able to devote fulltime to client level assessments and this activity needed to be combined with

marketing and public relations activities. The NABWT and the marketing department had conducted several qualitative assessments of women’s entrepreneurship (Makkavmova 2006). IMON also cooperated in a study done by GTZ (e.g. Burkle 2010) and conducted the ILO diagnostic survey (see Section 3.5). The management information system tracked basic indicators including the percentage of female and rural borrowers, work activity of clients per sector, incomes, assets, employment, formalisation and business practices. Data was of reasonable quality and could be used for the sampling of clients for the ILO pilot assessment. Staff reported basic outreach indicators in a quarterly newsletter. It was possible for branch managers and other staff to access social performance data (participant observation).

The marketing department conducted regular client satisfaction and exit surveys. Customer retention rates were very low (54%), and better for female and urban borrowers. Key reasons mentioned by borrowers for leaving the program were migration, business closure, seasonality and moving to a competitor.

Table 18 Borrower Retention Rate

	2008
All clients	54%
Female clients	78%
Rural	50%
Urban	61%

Source: Pilot proposal IMON (23-06-2009: 6)

** Net customer retention rate = (Number of active clients at the beginning of the period + number of new clients during the period – the number of active clients at the end of the period.) / Number of active clients at the beginning of the period. A resting period of 6 months is taken.*

The company offered six loan products with flexible product features including loan amount, period, pricing. It offered group and individual loans. IMON engaged in product development such as leasing. While tracking indicators on client outreach, the organization had a somewhat loose targeting of customers. Particularly there were no special products for women or with the objective to support women’s empowerment and gender.

5.4.6. Social Performance Management

What does this reveal for the capacity to do SPM at the outset of the pilot? SPM for IMON was in a starting phase. Staff incentive systems were not geared towards women’s entrepreneurship and empowerment. The MFO did monitor several client level indicators and conducted client level assessments on women’s entrepreneurship and customer satisfaction. The board showed attention to social performance. Several managers and staff had worked for development programs and learning institutions. The company had a number of plans to improve its SPM as part of an overall action plan

that included its participation in the ILO project, implementation of the client protection principles and conducting a social rating (SM16 Oct 2009).

So how does the SPM of IMON compare to other Tajik MFOs? None of the 6 MFOs had social mission statements that explicitly referred to decent work aspects, but several resonated to aspects such as business and entrepreneurship (three MFOs), broader economic development (four MFOs) and reduced vulnerability (two MFOs). Five MFOs had a social objective of employment creation and four MFOs intended to improve women's empowerment.

With regard to this last goal, IMON's CEO identified empowerment in terms of control over household decision-making and access to resources. This performance standard was similar to that mentioned by the MFO managers of ARVAND and HUMO.³⁴ HUMO launched a start-up loan with training, with the support of GIZ. Although it aimed to promote women's entrepreneurship, management decided to target both men and women because they experienced a lack of demand (CEO HUMO Oct 2009).

Indeed as was shown in Figure 9c, (p106) there was a reduction in female targeting for Tajik MFOs. I asked senior managers what could explain the decline. Shared perspectives on external factors included an overall decrease in women's entrepreneurship observed as part of changing cultural and religious norms.³⁵ This included "local culture and mentality" (CEO Finca Tajikistan July 2011). Another manager argued the dependency of women on remittances reduced their need to be self-employed (see also Section 5.2.1, p92).³⁶

³⁴ - "If a women's decision does not depend on somebody else decision, she is more empowered. [Although] women do make most of the work, men make the decision to take the loan or not." – CEO, Arvand, July 2011
- "Women's empowerment is when a woman can go out of the home, when she can study and get an education; when she can feed her family and bring money to the home and spent it on her needs; when a woman is not dependent on her husband and of men ; when she has a strong business." - Investment Officer, HUMO, July 2011
- "We see a contrasting situation women who are not even allowed to touch money, but also women who do not share money with their husbands" – CEO, Finca Tajikistan, July 2011

³⁵ - Tajik microfinance is moving towards the rural areas and this is more conservative. In the cities there is more trade activity often conducted by women. For example, the percentage of women clients dropped for the livestock loan." -CEO Arvand July 2011-
- "The family is analysed as a borrower rather than the client." –CEO Arvand Oct 2009
- Within the traditional perspectives of men "women are often not employed and women culturally cannot be used for social networking because the man do not always accept this" - CEO, 1stMFB July 2011.
- "it may also be a function of the social regression experienced after the collapse of the former Sovjet Union including labour migration, deterioration of social protection , and reduction in education" - CEO, 1stMFB July 2011.
- "Women do not engage in business, this is mostly men."- SM16a IMON Oct 2009.

³⁶ - "IMON has witnessed higher dropout rates for female clients that receive remittances. It may be caused by the fact that they have less need for capital.- SM16a IMON Oct 2009.

Internal factors mentioned by MFO-managers included that products were not geared towards women's demand. The high proportion of male loan officers made it more difficult to serve women in a Tajik gender context.³⁷ Finally, several women did not meet loan requirements because they did not own collateral or did not register their business.³⁸

This raised an interesting question, were products and services of microfinance companies sufficiently customized towards women entrepreneurship? Table 19 shows SPM initiatives of Tajik MFOs were also in their initial stage. None of the MFOs had conducted a social audit or rating or geared staff incentive systems towards client level goals. All microfinance agencies tracked basic social performance indicators in their management systems such as percentage female and rural clients, income and assets, and work activity by sector. However, few of them (IMON, Arvand, and HUMO) tracked employment and entrepreneurship indicators. Most MFOs carried out customer satisfaction surveys and product development, but none of them had a full-time staff member working on social performance.

Table 19 SPM Practices of Tajik MFOs

MFO	Staff for SPM	Social Rating	Social Audits	Staff incentive systems	Product Development	Survey of Customer Satisfaction	Endorsed Client Protection Principles
IMON	No	No	No	No	Yes	Yes	Yes
1stMFB Bank	No	Yes	No	No	Yes	Yes*	Yes
Arvand Micro-invest	No	No	No	No	Yes	Yes	Yes
HUMO	No	No	No	No	No	No	Yes
Finca Tajikistan	No	No	No	No	Yes	Yes	Yes

* *but admitted this to be weak*

³⁷ - "None of the products are geared towards women." – CEO Avand Oct 2011 -
 - "Perhaps it is the structuring of the credit department. If I look at who work for us it is mainly men. ... we only have four products, that do not meet the needs of women." - CEO Finca Tajikistan Oct 2011
 - "Two years ago we had conducted a gender assessment. The more I thought about it some of the findings are a function of geography. Female loan officers are not in the Rasht Valley. Better target gender numbers can be obtained in Khudjand and Dushanbe." - CEO, 1stMFB Oct 2011.
 - "We do not have any women's empowerment activities." - Oxus CEO Tajikistan Oct 2011

³⁸ - "the loan is managed by the women, but legally signed by the men." - CEO HUMO Oct 2009
 - "Women cannot get easily a valid passport and ID card, which form a requirement for the loan." - CEO HUMO Oct 2009
 - "The collateral belongs to the men." [And] "family mentality related in Muslim culture in which the men decides" – SM16a IMON Oct 2009
 - Men are "more likely to pay taxes, have a passport and ID card. When men have this available the loan is more likely to be taken in name of the husband." -- CEO Arvand, Oct 2009

5.5. Comparing the Case Studies in 2009

At the outset of the pilot, the two case study MFOs were in their initial stage of implementing SPM initiatives. They featured several characteristics of social enterprises (see Section 2.6). Both microfinance companies claimed to pursue double bottom line management with an employment related goal at the client level. Bai Tushum was aiming for job creation particularly in the higher market segment. IMON was pursuing women's entrepreneurship because this was historically and culturally important for people in the organisation. Both companies were monitoring explicit strategic objectives for financial sustainability and growth, but they lacked clear social objectives. Both organisations were market leaders showing good financial performance and portfolio quality. They each had ambitious growth targets and lowered their expectations during the global financial crisis (see Section 5.3.2 and 5.4.2). They each were part of a wider market that was young and dynamic (see Section 5.2.2).

However, the main differences between the two organisations seemed to be in their organizational culture, human resource capacity and their attitude towards the external environment. Following the work of Cameron (2008) and Cameron, Quin et al (2005) on organizational culture (see Section 2.2, p27) Bai Tushum in my perspective had an outward looking organisational culture in the sense that the competitive and political environment were highly relevant for its PBM. IMON had an inward looking culture in the sense that internal learning and human resource systems were very important (see Sections 5.3.4 and 5.4.4).

The differences between the two companies may be partly explained by the wider operating environment in which the MFOs were embedded. For example, the Kyrgyz microfinance market was more competitive and political compared to the Tajik microfinance market. Nevertheless, this was also to a large degree explained by organisational culture itself, specifically how management *perceived* and *valued* the external environment.³⁹

I would perceive Bai Tushum more as a banking culture with senior managers and board having substantial experience in finance. The human resource department recruited experienced staff from the wider financial sector. The company offered relatively high salaries with good bonuses. Staff in the company was motivated by career development and working conditions including remuneration. In stark contrast, IMON had a board and management team with a diverse background varying from public institutions such as universities, NGOs, banks and in particular the NABWT. The board

³⁹ To support this statement further, it is relevant to recognize not all Kyrgyz MFOs were outward looking, or not all Tajik MFOs were inward looking. For example, the Kyrgyz company Kompanion was inward looking, despite being active in the more competitive Kyrgyz environment. In line with Cameron's (2008) work on organisational culture there can be different organisational institutions within the same market context.

showed attention to social performance of the company. IMON recruited top graduate students and staff from various organisations, offering a combination of soft and hard incentive packages with lower bonuses than Bai Tushum but strong internal learning programs. Staff in IMON were motivated by the support the company gave to clients and its reputation as a transparent and leading organisation in Tajikistan (see Section 5.3.5 and 5.4.5). Therefore, Bai Tushum seemed to have a more competitive banking culture, while IMON was characterised by a culture of integration with focus on human development.

Both organisations were offering a small set of credit products with some flexible conditions. They had a marketing department engaging in customer satisfaction surveys and product development. However, IMON had more experience with client level assessments than Bai Tushum; as evidenced by the quality of customer satisfaction assessments and social performance data in the management information systems (Section 5.3.5, p101 and 5.4.5, p111).

How did the capacity to do SPM compare to other MFOs in the Central Asian microfinance markets? Social objectives and performance standards varied across microfinance agencies. Some defined employment generation loosely as increasing self-employment for clients. Others defined it more strongly as improving the number of wage workers in enterprises. Senior managers of the Tajik MFOs were describing women's empowerment normatively, but also recognized a declining trend of women's entrepreneurship. Few microfinance agencies tracked formalised indicators and metrics to accompany their social objectives. Financial performance and growth targets dominated staff incentive systems. The MFOs did not conduct social audits and only one company had completed a social rating. I found the more "systematic" aspect of SPM to be product development, marketing and customer satisfaction assessment (Section 5.3.6. and 5.4.6).

Chapter VI. Bai Tushum Pilot

6.1. Introduction

Having discussed the MFOs and their capacity to do social performance management at the outset of the pilot, I will now describe the pilot of Bai Tushum. I will do this following the questions posed in Chapter IV, (see Figure 4 p72). Section 6.2 explains the pilot design and its broader aims in relation to performance management of the MFO. What determined the willingness to take up the opportunity provided by the ILO? Section 6.3 describes the assessment strategy at the outset of the project as well as how the organisation actually managed pilot implementation and assessment. Section 6.4 reports key performance outcomes relevant for the organisation. Section 6.5 presents the main organisational learning in relation to the empirical results. Section 6.6 makes concluding remarks about the capacity of the MFO to do SPM at the end of the pilot.

6.2. Description of the Pilot

In January 2009, Bai Tushum's project team submitted several ideas for a pilot experiment including launching an SME lending department, customer loyalty campaign, financial education project, collective bargaining project for farmers, and monitoring of indicators to detect job creation. Several of these ideas related to the existing plans of management described in Section 5.3 (p103). Initially, Bai Tushum wanted to implement all five ideas, but the ILO requested the project team to be selective and the plan for an SME department was presented in the summer of 2009 (pilot proposal, June 2009, April 2009; presentation of the CEO in Geneva in February 2009)

This plan was chosen partly because the diagnostic survey conducted in 2008 confirmed that the microenterprises supported by Bai Tushum were relatively large and formalised and employing a relatively high number of wage workers (see Section 3.5, Table 6, p63).⁴⁰ But it was also based on an existing plan of the company to offer more SME lending services to clients. Small and medium enterprise finance was viewed to be an important niche market for the company (see Section 5.3, p 97-98), but product delivery and pricing was similar for most of the loans (see p102).

⁴⁰ 78% of the clients of Bai Tushum were self-employed. Most of them (89%) had one or more workers in their enterprise. The average number of workers per self-employed client was 2.4, much higher compared to other MFOs. The majority of the workers were family workers (87%). Only 12% of the workers were wage workers.

The pilot entailed a re-organisation of the credit process and delivery system within the company by establishing a separate department for SME- and micro-lending. The product modifications included a change in loan pricing, lowering of the documentation requirements and a lengthening of the loan period. In addition, senior staff members would deliver the new SME loans (Pilot summary Oct 2009). The main expectation was that the new delivery mechanism of SME lending could generate employment for microfinance clients, job creation for their workers and improved customer satisfaction. In this context, microloans were defined as loans below US\$ 5000, while SME loans were higher than US\$5000 (Pilot summary Oct 2009; Pilot proposal July 2009:1&5).

To ‘causally’ link intended changes to outcomes, several staff in the organisation used an implicit assumption, namely that (easier access to) larger loans would create more jobs and better serve the SME segment. “As a result of all innovations offered by our company we expect creation or maintenance of jobs by clients through simplification of access to financing. In turn creation of jobs is closely connected with the development of small and medium-sized business in the country” (Pilot proposal 23-04-2009). The CEO mentioned in support that in the past, “Bai Tushum estimated that for every \$250 US in loans one job position was created” (CEO, Feb 2009). As was described in Section 5.3.2 (p97), there was a historical belief that individual loans contributed to the renewed mission of job creation (CEO Oct 2009). This ‘shared perspective’, that larger individual loans invested in the SME sector would have more growth potential for job creation was triangulated during several interviews and focus groups discussions throughout the pilot period.⁴¹ Several managers and other staff seemed to believe the company had a positive social performance of job creation through its lending activities.

An underlying agenda of Bai Tushum was to incorporate employment related indicators into the management information system (Pilot proposal 2009:1&5&9; CEO Oct 2009, see also Section 5.3.5, p102). “After completion of the survey this program will give us possibility to review constantly jobs creation impact” (Pilot Proposal June 2009). The expectation of the pilot for the CEO was to “firstly to improve the company itself. “ Second, “To make clients also wake up, [because some of them have] employees working without security and social support. The project could be used to educate the clients.” Third, “in a competitive environment the institutional image becomes important” (CEO, Oct 2009).

⁴¹ - The intended causal effect is that; “faster disbursement procedures which are more suitable for the clients, lead to more disbursement of loans, leading to more jobs created by micro-enterprises”. – CEO, Feb 2011
- "An investment of 300 US\$ dollar they say create one job. " - M11, Aug 2011
- There is a strong belief in the training group that large loan amounts create more jobs. For example, one attendant mentioned, “that loans above 50,000 KGS create the more permanent job”. Another person that “the sum of the loan is higher, the more jobs are created”. - Participant observations June 2011 during training on data analysis
- It was believed that the SME sector had more growth potential because “through the division specific attention will be given to clients with growth potential” (Pilot proposal, June 2009).

In 2009, the willingness to formalise SPM seemed mainly external to the company. The CEO mentioned, “We started social performance because the political dimension in Kyrgyzstan requires information on it.” ...“The political environment in Kyrgyzstan requests the collection of information on job creation. Currently there are political attacks from parliamentarians, who are asking whether microfinance is being conducted in the right and correct way” (CEO BT, Oct 2009). As described in Section 5.3.4 (p100), the company was concerned about the potential pressure from regulation. Furthermore, “Social performance is good for the institutional image.” Bai Tushum is a “commercial organisation with a social mission, but in practice we do very little and focus mostly on financial performance such as portfolio at risk.Social Performance should be taken very seriously” (CEO Bai Tushum Oct 2009). Thus, the ILO project allowed Bai Tushum to demonstrate job creation to external stakeholders such as politicians and to improve its institutional image.

The project team developed the pilot with a strong business mindset since there was a need for Bai Tushum to improve competitiveness and restructure business operations. “Today the competition is getting tougher, and micro financing markets attract not only micro-financing organisations, but also [the] banks of Kyrgyzstan” (Pilot proposal 2009:5-6). The project team wrote to the ILO that “unambiguously we can claim that [after pilot implementation] the operational expenses will be reduced, especially in serving SME clients, and this will allow us to reduce the interest rate” (Proposal, July 2009:4). The pilot may “expand opportunities for the client and for the company” (Project proposal, April 2009:2). The business perspective influenced the pilot assessment. The project team preferred to implement the pilot with a great deal of flexibility and selectivity. For example, the team wanted to launch the SME loans in the stronger branches, for new contracts and only if clients and staff agreed to the new delivery channels (Pilot proposal July 2009:7; Discussions with the project team in Sep 2009). The focus on external competition and regulatory environment signalled further to me that the company had an outward looking organisational culture (see Sections 5.3.4, p102 and 5.5).

A project team was set up to implement the pilot. It consisted of middle and senior managers from the departments of marketing and credit operations. To ensure commitment from other staff, the project team planned to provide regular training (Pilot proposal July 2009:10). The average cost per interview was estimated to be around US\$ 15. Taking into account travel and preparation, the overall time per interview was estimated to be about one hour. The total project financing was budgeted at US\$ 267,230. Bai Tushum covered 60% of the costs, particularly the implementation of the SME department. The ILO sponsored the remaining 40%, specifically the costs for doing the social performance assessment. For the MFO itself the budget was relatively small because it was only 0,6% of the overall annual revenue.

The ILO project was the company's largest initiative in SPM, but the MFO wanted to engage also in other activities such as a social rating, social audit and customer loyalty campaign (see Section 5.3.6, 103). As discussed in Section 5.3, over the same period the company also wanted to attract new investors, maintain portfolio quality and growth and transform into a commercial bank that could mobilize deposits.

6.3. Implementation of Pilot Assessment

I will now describe the assessment strategy at the outset (6.3.1), followed by what was actually implemented (6.3.2) and assessed (6.3.3). The Section focuses on the process of data collection as experienced by people in the organisation. I placed methodological details of statistics and regressions in the appendix.⁴²

6.3.1. *The initial Assessment Strategy in 2009*

Although the ILO wanted to do an impact assessment through the assignment of control branches in the evaluation, Bai Tushum's project team preferred to do a simpler before-after-analysis without a control group. Management wanted to maintain flexibility to modify or adapt the pilot. Having this option was important for the MFO because it affected the core business of credit delivery. Furthermore, management wanted to be able to scale-up or stop the pilot, in case there were strong changes in the external environment. For example in case it experienced increased market competition or costs of capital (discussion on methodology report, submitted to Bai Tushum, Aug 2009). The ILO staff member and myself argued that without comparison group it would be difficult to test whether the same outcomes would have happened if the pilot had not been implemented. The ILO staff insisted on using a control group because they had to justify the methodology to their sponsor and keep it aligned with the other MFOs that participated in the project (see Section 3.4.2, p58). At a meeting in September 2009 with the ILO staff member, the project team and myself, we agreed to keep a set of control branches. However, there was a tension between the views of the ILO and the MFO on whether to do a single experimental design or allow for a more responsive experimentation.

At the outset of the pilot implementation, the MFO was not just interested in knowing whether the pilot worked, but also how and for whom it worked. The key questions were; "What percentage of micro enterprise clients are growth oriented? Did microfinance contribute to job creation, and if so, how? What is the quality of the jobs created? ...What are the reasons [that] the business has not hired

⁴² Several Tables and Graphs in section 6.3 and 6.4. and Appendix I formed the basis for a report (ILO 2013a, forthcoming).

more employees” (Proposal June 2009)? I will now discuss the implementation process and then come back to these points.

Sample Size and Dates of Data Collection

As part of Bai Tushum’s broader agenda of incorporating social performance indicators into the management systems (see page 118), it was important for the project team to have a sample that could represent the entire portfolio of the company. In agreement with the project team, we used a stratified sample of 1440 active borrowers, by selecting 40 clients randomly for each sub office. Only clients with individual and production loans were included in the sample because they may have more potential to create jobs. This sample covered most of Bai Tushum’s portfolio outstanding (77%) and active clients (45%). The plan was to undertake five surveys with the baseline survey to be conducted in November 2009, and follow-up surveys every six months.

Key Social Performance Indicators and Survey

The initial survey contained over 25 indicators related to the client’s household, work activity, income and assets, workers in the enterprises of clients, and customer satisfaction. “Job creation” was defined according to the ILO standards as changes in the number of waged workers. Testing of the survey revealed clients did not always distinguish between daily labour and wage employment. Family members who were “helping out” in the enterprise were not always considered workers. Thus clients were asked “How many people work for you in your business?” and “In addition, how many people help out in your business?” After identifying the total number of workers in the enterprise, a table was completed with basic characteristics for each worker including a classification for wage, family or daily worker and apprentices. By asking several questions, the responses could be triangulated.

Customer satisfaction was measured through open and closed questions assessing the willingness to take a new loan, reasons for client exit, and perceptions of the strengths and weakness of Bai Tushum’s services.

6.3.2. *Management of the Pilot Implementation*

Having discussed how we intended to do the pilot assessment, I now describe how the pilot was actually implemented. After a relatively successful baseline survey, the pilot experienced considerable delays with several components being carried out at different periods and under different conditions than initially agreed.

The biggest challenge in launching the pilot assessment according to the project team was the Kyrgyz political crisis (Report June 2011; Jordan workshop, June 2012). The “difficult political and economic situation in Kyrgyzstan (events in April, 2010, June 2010)”, led to a reduction in demand and reduced loan portfolio growth from 21% in 2009 to 8% in 2010. Management felt there was a need to be responsive to the competitive environment (Report April 2011). The political crises in June 2010, discussed earlier (Section 5.2, p91) affected the sustainability of clients as well as the MFO (see more in Section 6.3). Several clients, especially in the South of Kyrgyzstan, were affected directly because their assets were stolen or destroyed, while others were affected more indirectly “through a decrease of the economic activity in the region and slack of trade in the markets “ (Email correspondence Bai Tushum 26-06-2010). Staff observed contraction of the trade and transport related to closure of the borders in 2010.⁴³ There was increased volatility in price-levels and reduction in demand for goods.⁴⁴ Income and assets were reported to decline for some borrowers, and one staff member cited an increase in migration.⁴⁵ The crisis generated a great degree of uncertainty in the short term for both social and financial performance.⁴⁶ It delayed and strongly influenced the pilot implementation.

There were also internal challenges in carrying out the pilot; while the project team was intended to work as a close group, in practice it seemed to consist of two sub-groups namely the marketing department involved with the social performance assessment and the credit department involved with the implementation of the pilot. At the start of the project, before the crises, I found the project team did not meet up frequently and the two groups did not always communicate effectively. The marketing

43 - “trading was stopped” - SLO2c Jan 2011

-“ There was a border closure so a lot of import and export stopped to China. Kazak tourists usually visit Naryn“ [but did not do so this year] - SLO6, Jan 2011

- “Most of the traders suffered after the closing of the borders. This may not have been a problem for agriculture. For transport, it was a problem.” Also prices went up. - SLO7, Jan 2011

- “Traders suffered much. In November the situation has been stabilized. Income decreased much. Also assets were affected.” - SLO9, Jan 2011

44 - The political crises led to an “increase of prices for foodstuffs, a decrease of activity in trade sector, the difficult situation in Osh, a reduction of demand, a restructuring of loans, difficult economic and political situation” (Bai Tushum report April 2011).

-“Crises influenced the prices. Potato prices decreased much. For all of the clients there was the selling price of animals.” - SLO8, Jan 2011

- “It was very difficult the crisis has affected clients severely.” - SLO9, Jan 2011

45 “A lot of clients lost their business.”... “Some migrated and worked in Kazakstan, Russia.” - SLO5b, Jan 2011

46 - “It should be noted that in connection with recent political and tragic events in Osh and Jalalabad regions a large number of customers are now in a difficult situation which does not allow many to pay off debts.

Definitely the situation in a country strongly influenced the efficiency and profitability of clients businesses, and hence on their assets and has a result on [the creation of] jobs.” - Email project team, June 2010

- Some clients are “afraid of the loan” given the current unrests in Kyrgyzstan, they are not sure if they can repay them. -M11, Jan 2011

manager had written the pilot proposal, but with little involvement of other team members.⁴⁷ Over the period June 2009 to Oct 2009, I had several meetings with team members, but few of them were with a complete team. Staff would often run in and out of meetings. Because of staff turnover, the project team changed its leader three times over the period 2009 to 2011. It led to additional miscommunication.⁴⁸ The sub-groups seemed unaware of each other's activities. For example, when the marketing manager went on leave of absence in June 2010, the new project team leader was not informed that exit clients needed to be interviewed. Likewise, the marketing department was unaware of what exact changes in the credit delivery system were implemented (Participant observation interview M10b, Jan 2011; Participant observation email May 2011).

The limited time to participate in the project team was one of the key reasons that the project team became increasingly ineffective. For senior and middle management, attracting investors, transforming into a bank and maintaining portfolio quality and growth were priorities, and these went at the expense of time spent on the pilot (see Section 5.3). These tensions were exacerbated by the political crises when the management of the company was under pressure to sustain financial performance.

During interviews in February 2010 and Jan 2011, I found that staff could not explain to me clearly what the pilot was about. Each staff member had a somewhat different response often unrelated to the new SME delivery system.⁴⁹ The institutionalization of the pilot seemed very weak, the staff didn't seem aware of the basic content of the pilot. So what had happened?

⁴⁷ The Marketing manager designed the decent work innovation proposal mostly by herself. The CEO and the operational manager also looked at the proposal. The Pilot test team did not meet up frequently to discuss it - M1, May 2009.

- "When the innovation proposal was presented I didn't understand the feasibility" [of the pilot] "As I wasn't the person who makes the decision I didn't address this to management". "Job creation [as a goal] is ok, but through what channels [is it achieved]". "Not by making changes through the credit process. Perhaps through other processes." - M10c, Aug 2011

- "We don't create the decisions, but we provide information to the management team." - M11b Aug 2011

⁴⁸ - "when the manager was absent, the project was transmitted to the new team leader. ...[But], the new team leader did not know anything. He asked me for updates ...but I did not know." - M10c Aug 2011

- The manager informed the new project leader that exit-clients did not need to be interviewed. However, I had never mentioned this. In principle all exit clients needed to be interviewed or at minimum a random sample. - participant observation made during discussion with project team leader Jan 2011.

- The new staff member was not briefed properly. For example, the staff member didn't know about the methodology of the study and what the sample represents. I spent quite some time explaining the methodology - Participant observation, M11, Aug 2011.

⁴⁹ - The pilot "Needs to develop the business, the client turns to the microfinance as a more convenient way to get money." The staff member has a limited view on the innovation; the PR manager had to then explain what the pilot was. - SLO5b, Jan 2011.

- When "Microfinance is being disbursed and the population creates jobs." - SLO6, Jan 2011

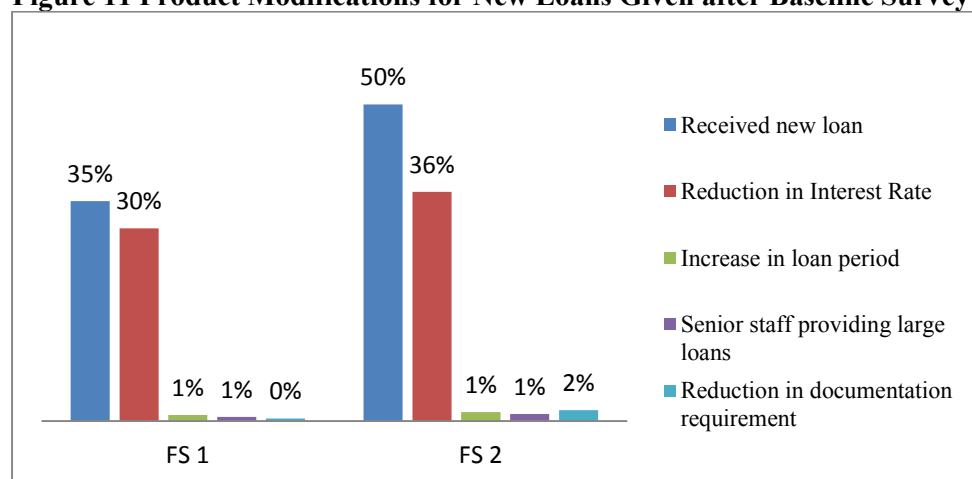
- "People take loans on doing business and field husbandry and they live on this money." - SLO7, Jan 2011

After further probing it was clear he did not know what the pilot was - Participant observation.

- "it means microfinance loans help people to create jobs, assets and incomes" - SLO8, Jan 2011

A series of challenges were taking place. In Jan 2011, I met up with the project team and it turned out the pilot was implemented in all branches, including those that were supposed to function as a control group. The team felt it had to treat the control group because of the political crises and the resulting reduction in loan demand and increased cost of funds (Interim report April 2011; Report Jan 2011; Marketing Coordinator Aug 2011).⁵⁰ Second, changes to the delivery mechanism at client level were generally small. Although several changes took place at organisational level including hiring of new credit managers and underwriters, and division of staff into a micro and SME department, few changes were made to product features (presentation Jan 2011, team leader). Since the baseline, 50% of the clients in the sample received a new loan and 36% received a lower interest rate (see Figure 11). The innovation entailed a small increase in the average loan amount (US\$ 203) and a small decrease in interest rates (31% to 29%). Changes such as lengthening loan period, delivery of loans by senior staff, and reduction in documentation requirements were made for a very small percentage of the sample. The CEO agreed there was “not too much innovation in this sense” [at client level] (CEO Feb 2011).

Figure 11 Product Modifications for New Loans Given after Baseline Survey



Source ILO 2013a, forthcoming

With small modifications in the delivery of loans to clients as well as the absence of a control group it was difficult to relate the innovation to social performance outcomes. The ILO Social Finance Programme then decided to cancel the fourth and fifth follow-up survey, because it was impossible to measure the impact of the pilot. Faced with the changes in pilot implementation, we mediated how to modify the assessment.

⁵⁰ “I think it was not a good decision to divide control and treatment branches. The environment in Kyrgyzstan is always changing. At the time of the baseline survey, we could divide the branches, but after the revolution prices increases, the demand was very low, and our company should try to realize [its] plans. The company had to treat the control group because of the changing environment.” – M11, Aug 2011
 - She admitted in many of these cases both groups were treated because BT had different priorities, specifically “because of lack of growth”, which was 17% before the crisis and only 7% after the crisis.– CEO, Feb 2011

6.3.3. Management of the Social Performance Assessment

In agreement with the ILO, we decided to do a simpler social performance assessment using the data already collected. I prepared a general report for the second follow-up survey and asked Bai Tushum's management what other questions they were interested in exploring? In November 2011, the project team described it wanted to assess the following questions:

- “- Whether we can compare the growth of job creation between the micro and SME
- Which industries and what regions more rapidly create jobs?
- Exit clients - how many jobs were created?
- Seasonal job creation - was there any change during the study?...
- Is there some effect from the pilot, especially in job creation and employment and its dynamics by SME and microfinance clients” (Excerpt email Nov 2011 of the project team's feedback on second follow-up survey report).

In addition, I realized that testing the implicit assumption held by Bai Tushum staff that larger loans created more jobs was important, because it formed a building block for the performance management of the MFO (see Section 6.2, p118). I explored basic correlations, to see whether the extra loan amount contributed to changes in the number of wage workers in clients' enterprises. Results do not show causal relationships as for this some sort of control group would be required. Due to cancellation of the fourth and fifth survey, I will use only data for a 12-month period. During this period, the Kyrgyz economy suffered from a political crisis in June. (See appendix I for specification of the model).

Dropout

Because of the political crises, the ILO, Bai Tushum and I, decided to exclude four sub-offices in South Kyrgyzstan from the sample because it was dangerous for staff to conduct interviews in these areas due to violence. Cancelling the interviews reduced the total sample size from 1440 to 1283 clients (see Table 20). For the first follow-up survey, there was a high dropout rate because of the political crises, but also because of internal factors relating to data management. The project team leader went on leave and did not inform the new project manager that exit clients needed to be interviewed.

Table 20 Sample Compliance

	<i>Baseline Nov 2009</i>	<i>First follow-up Survey I June 2010</i>	<i>Second Follow-up survey Nov 2010</i>
Interviews complete	1283	992	1226
Total sample	1283	1283	1283
% Response rate	100%	77%	96%

**excluding 4 cancelled sub-offices*

Data Quality

After submission of baseline data I found discrepancies in employment measurements for 18% of the sample (Baseline Data check 15-03-2010). After I communicated the errors, the marketing department decided to do extra trainings with staff on interview techniques for new survey rounds. Although most errors were corrected, sometimes it was impossible to go back to the clients and recollect the information. However, data quality for the indicator improved for the first follow-up survey as only 1% of the sample contained errors. Several staff mentioned it was difficult for clients to estimate net income and assets.⁵¹ It was also difficult for clients to estimate their working time because they did not always separate their time spent on household activities from that of their work activities.⁵² Indeed, I found several errors in these data when checking it.

Staff found the questions in the survey clear and comprehensible.⁵³ However, it was difficult to translate some of the definitions used in the questions into a language understandable for clients.⁵⁴ As one manager highlighted, the "questionnaire have specific terms. When loan officers ask clients they

⁵¹ - "People are afraid to provide information on net income for taxes". [Also] "it was difficult for rural clients to calculate net income". - SLO9, Jan 2011.

- "Net income is not a good indicator for agriculture, as... clients sometimes take assets into the net income. Assets are clearer indicators for impact, specifically welfare status. " - M10b,M10c, Jan 2011
- "Assets ... [and] Net profits are sometimes created in the minds of people." - M11a, Aug 2011

⁵² - "One problem in data collection is that household work is also seen as part of the normal work hours." - M10b,M10c, project team leader, Jan 2011

- "For working time, clients answer the whole day or 24 hours" - , because they did not separate their work lives from their household lives – SLO9, Jan 2011

⁵³ - The "Questions were easily understandable."- SLO7, Jan 2011

- "All respondents answered willingly, some wanted not to answer questions honestly." - SLO6, Jan 2011

- "If you ask them clearly then clients also understand." [The] "first set of interviews is difficult, but after that it becomes more easy." SLO8, Jan 2011

- "Clients are eager to answer the questions. I tried to make the interview a flowing conversation." - SLO 9, Jan 2011

- However, one mentioned; "I cannot be sure if all clients told the truth."... "The people from the rural areas are more honest" - SLO2b, Feb 2010

⁵⁴ - "One client did not understand the questions." - SLO2b Feb 2010

- "The questionnaire is difficult."... "Some questions do not work and we need a better translation for the client". M10b, M10c, Jan 2011

have to give definitions and apply the terms as this is restricted data collection.” (M10c, Aug 2011). This meant having to deviate from the explicit survey language and provide additional clarifications to clients. Another challenge was that there is a “time limit for clients”, especially “in workplaces clients are often busy” (SLO2b, Jan 2011).⁵⁵

Experiences and Learning by Staff

Conducting interviews was considered by the senior managers to be part of the “regular work” of loan officers. However, this view was not shared by the staff (Participant observation diagnostic tool May 2009). They found it challenging to make time available to do data collection and multi-task this with their regular job. “I worked four extra weekend days for two weeks” ... “I had no other choice than to do the interviews, [but] they were difficult to manage with the current tasks” (SLO5a, Feb 2010). Especially in November there was a strong demand for loans and interviews were often conducted outside of regular working time making surveys unpopular among staff (Discussions with Marketing department Jan 2011).⁵⁶

During the feedback rounds with interviewers, it became clear staff didn’t appreciate having to do interviews during extra hours, while not receiving any additional payment. So it was decided to implement a bonus system for loan officers financed through the ILO budget. The first bonus was however lower than expected.⁵⁷ The complaint was fed back by loan officers to management and the bonus was increased to a satisfactory level.⁵⁸

⁵⁵ - "The questionnaire can be shorter." SLO7, Jan 2011

⁵⁶ - “ I Worked in over-time on interviews,” - SLO3, May 2009

- “ Not sufficient time.” The second follow-up survey was conducted in the weekends. For the first follow-up survey there was sufficient time. - SLO 2c, Jan 2011

- “For the first Follow-up survey, I had the opportunity to interview during the workday. For the second follow-up survey I had to visit in the weekends. “ - SLO7, Jan 2011

-“Clients in the rural areas were visited in the weekend.” - SLO9, Jan 2011

-“From November to December there is sufficient time but there is a high pressure to fulfill the disbursements [target]. She worked 2 weekends”.- SLO5b, Jan 2011

- “Normal, no problem. For Baseline survey... this was a substantial caseload...he interviewed almost 100 clients in the weekends. However, in the summer he managed to conduct the interviews during the normal working day.” - SLO8, Jan 2011

- "For loan officers it was also difficult. It was a trouble for them to find the client. They complained to us. They worked often in the weekends. " – M10c, Aug 2011

⁵⁷ - “The surveys are also a stimulus to get a bonus, but “What offended him was that the bonus was less than expected”. Due to taxes and social funds the bonus was 38% lower. SLO2b, Feb 2010

-She felt she “did not receive enough bonus. The bonus was less than expected. “ - SLO5a, Feb 2010

⁵⁸ -“Yes, the bonus is sufficient now.” - SLO 2c, Jan 2011

- Remuneration is “Normal I have no complaints.” SLO9, Jan 2011

All interviewers found it a useful for their work to conduct the surveys, but they also said it had not changed their way of working substantially. I asked what aspects they liked about doing the interviews. For several staff it was an important opportunity to interact with the clients in their workplaces and houses. One mentioned she had “Interviewed rural clients and found this useful because she normally works with urban clients, [making it possible] “to be maximally close to the clients”. [And] “see their real business environment” (SLO 4, May 2009).⁵⁹ Others used interviews to monitor the borrowers’ deb capacity and risks⁶⁰, cross check information on customers⁶¹, and rethink products offered to them.⁶² Many were interested in the welfare and work activities of clients including the jobs created by their enterprises.⁶³ For example, one loan officer mentioned "I now pay special attention to social portraits of clients. How many children work, how many workers. ..." "I was surprised that many clients worked abroad in Russia and Kazakhstan". (SLO2a, Feb 2010). Another mentioned that it was "useful to see the structure of the businesses, the exit clients, the income and assets and the sum of loans as I work for the credit committee." (SLO7, Jan 2011). As monitoring of clients was identified as a weakness in the company (see 5.3.5, p 102), being able to interact with clients after loan disbursement was considered a valuable and useful experience by staff.

⁵⁹ - "I get acquainted with clients of other loan officers." – SLO5b, Feb 2010

- “talking to different clients”, meant using “different approaches”. He had to behave in different ways to interpreted different clients. - SLO8, Jan 2011

- “To be able to visit the clients in rural areas” – SLO9, Jan 2011

⁶⁰ - "He could use the interviews to visit the clients who had difficulties repaying the loan." - SLO2a, Feb 2010

- "The fact that it allows to monitor and analyses my clients and assessment of the risk." - SLO5a, Jan 2011

- [He checks] “if the client can repay a loan, when he analyzes every six months”. – SLO 6, Jan 2011

- It is "Normal, part of monitoring of clients"- SLO7, Jan 2011

⁶¹ - To "crosscheck analysis of assets and incomes." - SLO7 Jan 2011

- He “made some analysis for himself. As credit manager it was his responsibility to look at what loans are disbursed and he also looked at assets and incomes of clients. He was crosschecking the information” - SLO8, Jan 2011

- “when clients took loans they told some information on assets, that did not fit [match] with the information of the loan officers.” – SLO9, Jan 2011

⁶² - “I uses the information while assessing the real situation to see if to disburse or not.” ... As member of the credit committee, he could use the information “when the client comes for another loan.” – SLO 6, Jan 2011

- “ I invited exit clients and told them about the decrease of interest rates”.... [and checked] "Did we disburse enough to this client... For example we found out that several clients had enough income to take up more loans." - SLO7, Jan 2011

- “They provide information to decrease the interest rates and lengthen the terms of the loan.” – SLO9, Jan 2011

⁶³ - "It is useful to get to know welfare condition of clients, and whether clients will return to Bai Tushum for a follow up loan" She was surprised to find some "very rich clients that earned more than 1 Million US\$"...

"Interesting aspect is that more clients hire workers to produce domestically"... “Most of the clients worked for 15 hours per day." - SLO 5b, Feb 2010

- He observed “What the work of the client is” and “What is their incomes”.... -SLO8, Jan 2011

- She liked the " engagement with the main workers of clients" - SLO5a, Jan 2011

- He “Made some analysis for himself. Did they help to improve clients’ lives?” – SLO 6, Jan 2011

Another form of learning is that loan officers were trained in assessing client satisfaction and job creation. This was not only a result of the ILO project, but also an internal recognition that SPM was a gap in the training program (CEO Oct 2009, see p101, Section 5.3.5). When I conducted the training for interviewers in September 2009, I found many staff were not aware of the mission statement of the company and there were discussions in the group about what constitutes a “good job”.⁶⁴ In 2011, during the staff interviews, I observed staff to have a more common understanding of what the company meant with job creation and they were more familiar with the mission statement.⁶⁵

Staff in the marketing department felt the project created “new experiences and skills, especially on social performance and what companies should do in order to manage it.” She liked that, “all loan officers understood trends in social performance management and liked to be part of the project.” And that she observed “what incomes and assets clients have and what results they achieved” (M10c, Aug 2011). Another manager mentioned, “the project is close to our mission, it allows us to see changes in income, assets and job creation.” [Second] “we now know about the methodology of how we implemented the project. And we know how to do social performance analysis and organize other surveys. For example the client exit study.” It was a “good experience to help organize a professional survey” (M11a, Aug 2011).

However, at the same time they mentioned they had little time to learn, “There are only two persons and we have a lot of other stuff to do. It is difficult to spend time“... “We managed of course but not in-depth” (M10c, Aug 2011). At operational level, the marketing department was responsible for public relations, marketing and social performance assessments. It included a set of activities as diverse as being responsible for the branding, organizing festivals, conducting the social rating, attending conferences, conducting client exit surveys and accompanying the pilot project.

Despite suffering from a multi-task problem, both managers never asked the CEO for additional human resources. At the same time, the CEO was convinced that “SPM for one person is too much” (CEO BT July 2011). After feeding back this information two staff members were added within three months. The company changed the marketing department into a business development department.

⁶⁴ E.g. “A worker that receives money ” - SLO2b Feb 2010

⁶⁵ First “Jobs are the main part of our lives”, they should have, “Good salary and safety in working conditions.” – SLO2c, Jan 2011
- “A job is when somebody who works for somebody and gives money in terms of some agreement.”- SLO5, Jan 2011
- “It means when the client comes to BT and takes a loan for improving incomes, assets and does not have own resources. He needs to hire outside workers. The person should not be from within the household member and [employment] for longer period.” – SLO 6, Jan 2011
- “a worker with a salary payment” – SLO7, Jan 2011
- “Somebody who is paid a salary for some service... and works for a longer period or permanent ” – SLO 8, Jan 2011
- “If it will be paid work, it is job creation, and if there is a contract.” - SLO 9, Jan 2011

The new head of the department was placed on the executive committee (Bai Tushum 2011, Annual report).

6.4. Empirical Findings

Having described the implementation of the pilot, I will now turn to the empirical findings of the assessment as presented to Bai Tushum in four reports (baseline, first and second follow-up survey and final report). I focus on indicators for job creation and customer satisfaction, because these were found most important by staff. Other indicators such as net income, assets and working time are not shown because data quality was perceived weak and the MFO did not act on these findings.

Customer Satisfaction

As of November 2009, the key positive aspects of Bai Tushum's lending services according to clients were the repayment schedule, application time of the loan, and customer service (see Table 21a-c). The main weaknesses were high interest rates, and that no discounts were given to loyal customers. In the Aravan sub-office customers complained about the lack of nearby cashier-points to make payments. Although management considered faster and simpler disbursement procedures and higher loan amounts as reasons to implement the pilot, the clients were actually satisfied about these product features (see 6.2, p118). Also after the implementation of the new delivery system customer satisfaction did not improve for clients that received the loans via the new loan delivery system.

Table 21 Customer Satisfaction in Nov 2009

a) Three Key Strengths of Bai Tushum

	<i>% of total clients</i>
Repayment schedule,	48%
Loan application time	43%
Customer Service, (Staff competence , ethics)	38%
Total Observations	1440

b) Three Key Weaknesses of Bai Tushum

	<i>% of total clients</i>
Interest rates too high	56%
Loan period	7%
Difficulty to make a payment / long queue at the desk	6%
Value added Taxes on interest rates	6%
Total Observations	1440

c) Satisfaction per Product Feature

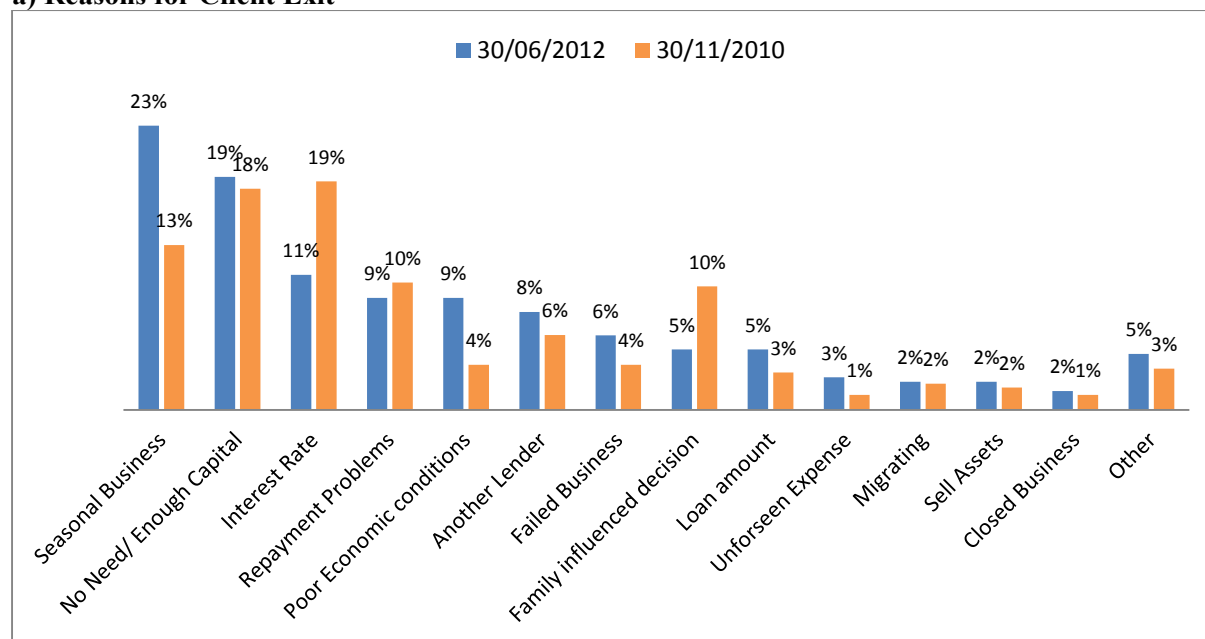
	<i>Very Good</i>	<i>Normal</i>	<i>Bad</i>	<i>Very Bad</i>	<i>Total</i>
Loan Period	23%	67%	10%	0%	100%
Loan Amount	19%	68%	12%	1%	100%
Customer Services	39%	59%	2%	0%	100%
Interest Rates	4%	32%	52%	12%	100%
Loan application time	30%	61%	7%	2%	100%

1400 observations

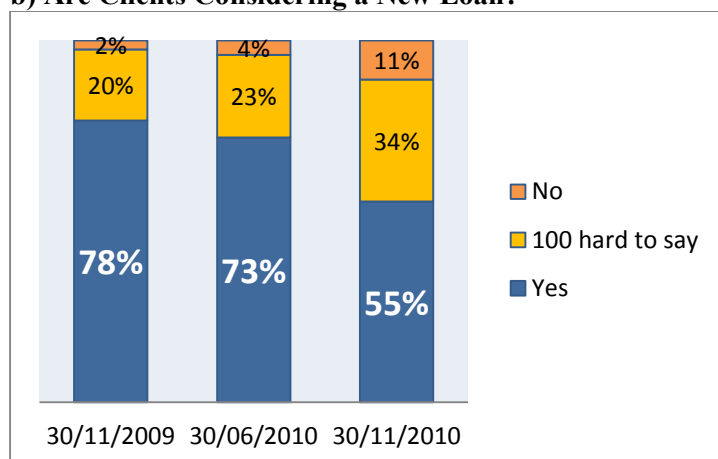
A high number of 28% of the clients (359) exited the program over the 12-month period. Earlier satisfaction surveys showed most clients exited because they did not need a loan anymore or were in default (see, Section 5.3.5, p102). However this assessment found additional reasons for customer exit such as dissatisfaction about interest rates, clients borrowing from competitors, and poor economic conditions and business failure (see Figure 12). The percentage of clients willing to take new loans reduced from 78% in Nov 2009 to 55% in Nov 2010. Only 21% of the exit clients wanted to take a new loan compared to 67% for active borrowers.

Figure 12 Customer Exit and Retention

a) Reasons for Client Exit



b) Are Clients Considering a New Loan?

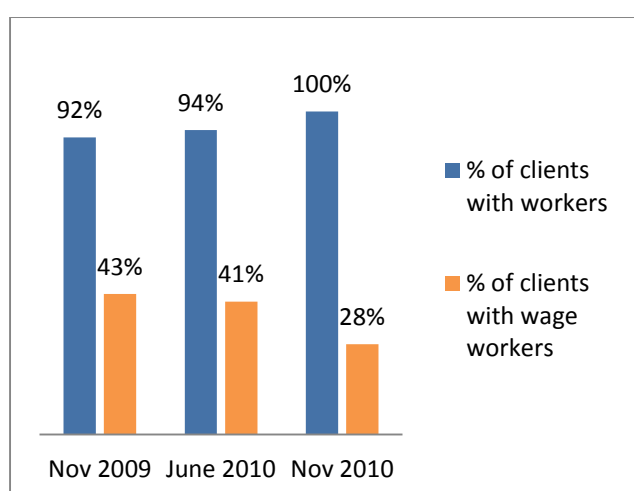


Job Creation

As shown in Figure 13, an increasing percentage of clients started to employ workers, namely from 92% in Nov 2009 to almost 100% in Nov 2010. However, less than half of them employed wage workers and there was a reduction over time from 43% to 28%. Also most of the clients' enterprises were small, with a few employing more than five wage workers (5% in Nov 2009 and 3% in Nov 2010). Thus, it was questionable to what degree the company was actually targeting SMEs as opposed to micro-enterprises. The company defined 'SME' as companies receiving loans above US\$ 5000, which comprised 14% of the sample (see p18). Alternative classifications based on national legislation also showed few SME borrowers in the sample.

Figure 13 Size of Enterprise

a) % Clients with Workers and Wage workers



b) % SME Clients various classifications

	Loan Amount	Turnover *	Employment **
Micro enterprise	86%	83%	99%
SME	14%	17%	2%
Total Sample	100%	100%	100%

* SME based on turnover (sales of assets) above KGS 150 for production and agriculture and KGS 230,000 for trade and services.

** SME are companies with more than 7 wage workers for production and services and more than 15 wage workers for trade and services.

Figure 14 shows a reduction in the average number of workers per client from 4.7 to 3.6 over the 12-month period. The decline differed per type of employment; while there was a reduction in wage and daily workers, the number of family workers remained stable.

Figure 14 Average Number of Workers

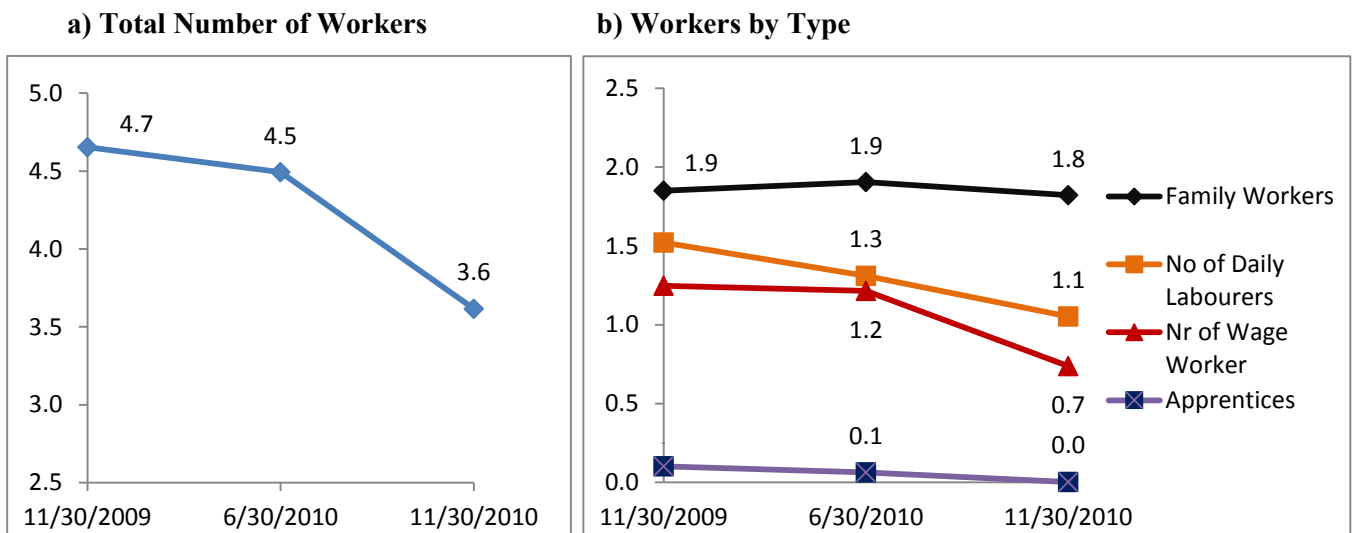
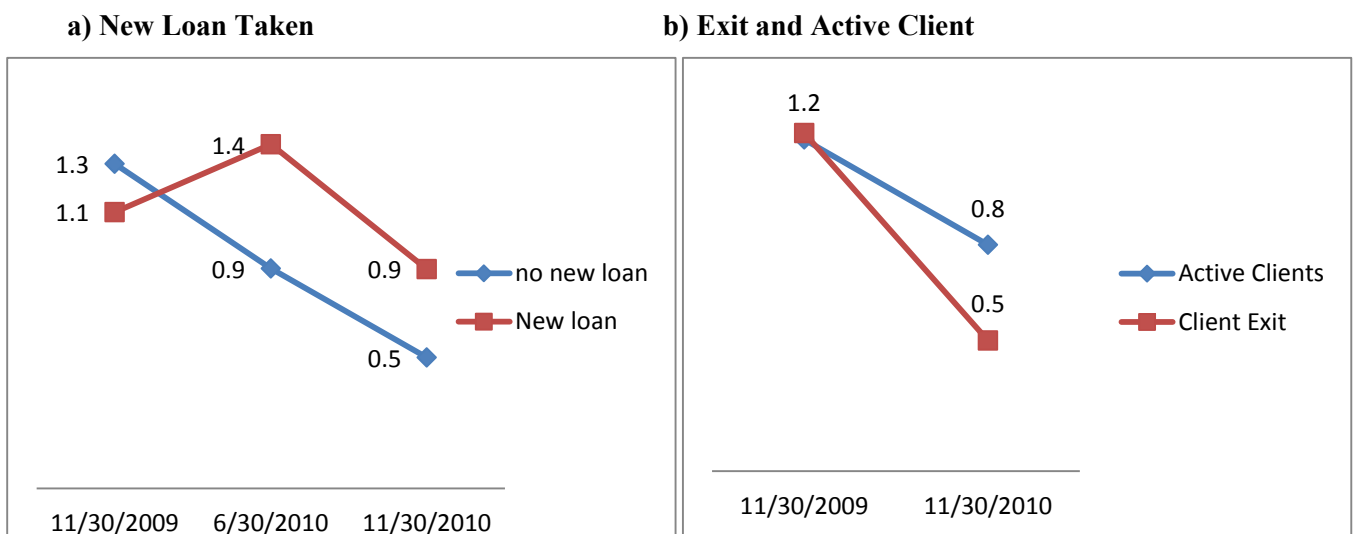
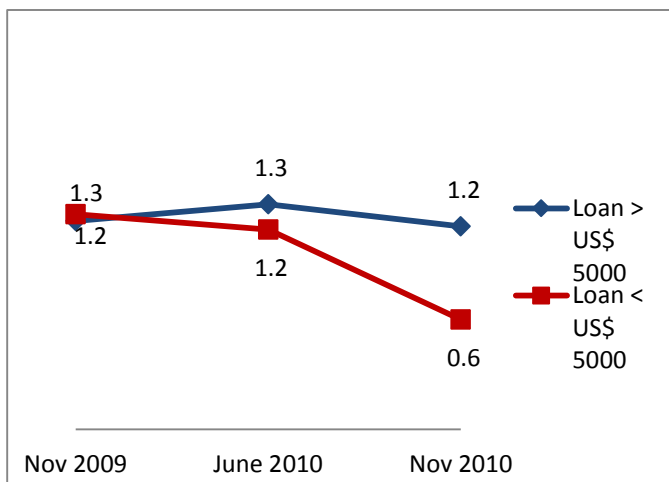


Figure 15 shows the decline in the number of wageworkers was less strong for clients receiving new loans when compared to those who did not. Also there was a stronger decrease in employment for exiting clients when compared to clients who remained active borrowers. Changes in number of wage workers employed were more stable for SMEs than compared to microenterprises (see Figure 15c and d). For agriculture, trade and services there were declines in job creation. However, for production activities there was a strong increase.

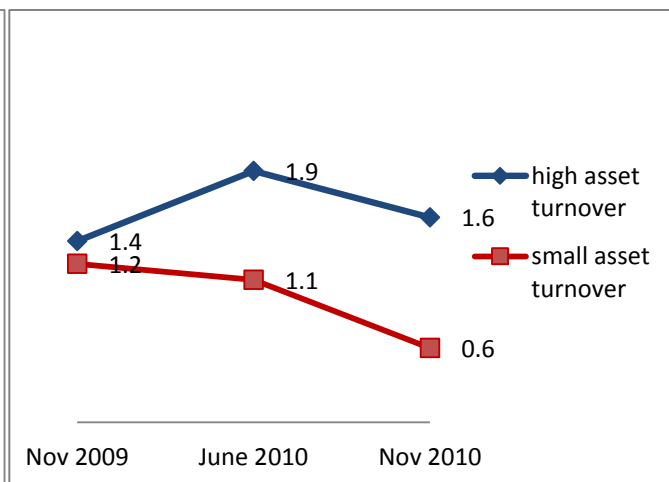
Figure 15 Average Number of Wage Workers



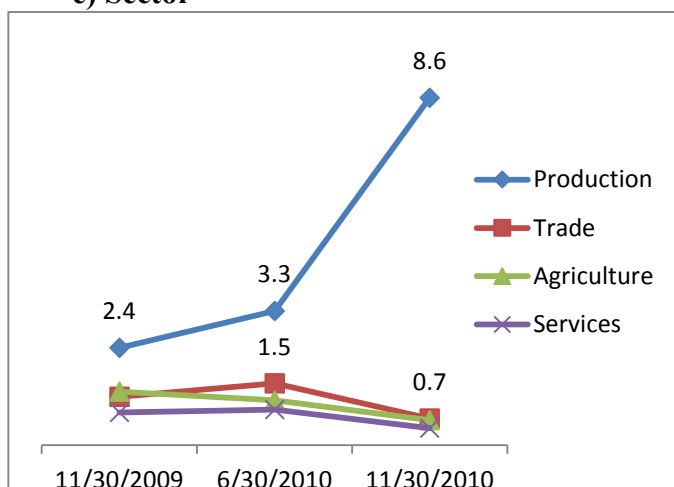
c) SME Classified by Loan Amount



d) SME classified by Asset Turnover



e) Sector

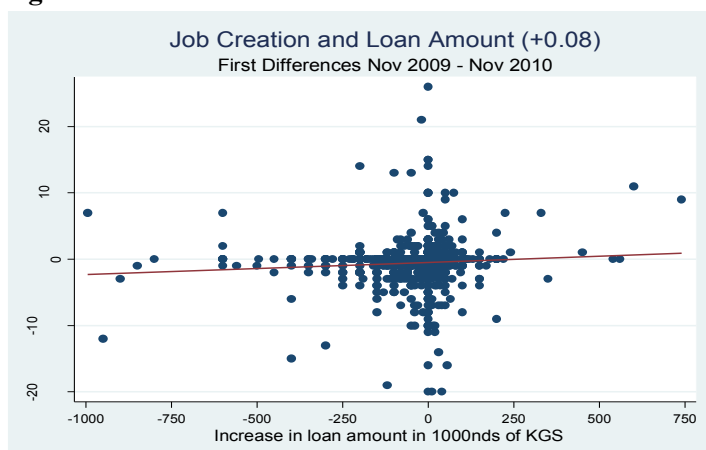


f) Loan Amount

Range Loan Amount in KGS	Average Nr of Wage Workers per client
0-49999	1.1
50,000-99,999	0.9
100,000-149999	1.1
150,000-200000	1.0
>200000	1.3
<i>Full sample</i>	

Figure 16 explores a simple correlation plot between changes in loan amount and job creation, it does not control for other variables that may be influential in determining job creation. There is a small weakly significant correlation (+0.08, significant at 10% confidence level, see appendix I). A simple OLS regression estimated that every additional KGS 100,000 (US\$ 2,298) of extra loan sum created only 0.09 job positions. Thus there was hardly any loan size effect and it was much less than what Bai Tushum had estimated in the past (US\$250 for every additional job, see p118). After controlling for several variables such as branch type and clients' characteristics, the effect became insignificant. Other variables seemed more influential in determining job creation such as the type of sector (production activities) and region. Clients exiting the program experienced a reduction in job creation. (See the Appendix for the full model).

Figure 16 Correlation Loan Amount and Job Creation



6.5. Organizational Learning in Relation to the Results

Before investigating how the MFO acted on the empirical findings, we first need to establish how proactively the outcome reports were disseminated. Reports were sent to the project team members, but not all members had read them. Outcomes were presented on two occasions to the management team and at the regular staff trainings. However, during interviews, most staff could not mention any key findings from the presentation. For example, one loan officer mentioned “The economic analysis was not shared by the marketing department” (SLO7, Jan 2011).⁶⁶ Although several staff mentioned to be interested to hear about the results, they did not have access to the reports.⁶⁷ The marketing department had spent no time on disseminating outcomes to the field staff, partly because they were busy with other responsibilities (see p129).

During my interviews, I found that two branches set up informal working groups that reflected on experiences gained when conducting the surveys. The groups talked about customer satisfaction and client characteristics, including the potential of clients to create jobs. The marketing department had no awareness of these working groups. So while possibly interesting survey results didn’t go downstream from senior management to loan officers, other potentially interesting knowledge

⁶⁶ - “I cannot remember” the results. SLO9, Jan 2011

- He did not see the baseline survey report, SLO2c, Jan 2011

-“I should see the results to refresh my memory” And “I had read the reports and forgot. The baseline survey was presented for the management team and send to the branches.” Staff is now send some information in a quarterly newsletter - M10c Aug-11

- What results of the project have surprised you so far? “Can’t Answer”.- M11a, Aug 2011

⁶⁷ - The information was not shared with her. She would be “Interested in getting some information on positive changes. Changes made in the lives of clients and businesses.” -SLO5b, Jan 2011

- He did not receive the report and baseline survey information. I asked him what questions are you interested in? “What is the overall job creation. And in what season is there strong job creation ” - SLO8, Jan 2011

including lessons learned by loan officers also didn't travel upstream in the organization (see also p128 on lessons learned by loan officers).

Outcome reports were shared with external stakeholders specifically investors and the social rating agency (Credit manager 11b Jan 2011; M-Cril 2009).⁶⁸ Politicians did not receive the report, despite being seen as an important target group at the start of the project.

The assessment led to several lessons learned in the area of customer satisfaction. Even though at the outset management felt the loan processing time to be slow, feedback from clients showed this was one of the stronger aspects of Bai Tushum's loan delivery. In one specific area, a new office was opened, because customers complained about the access to finance (see p130). The marketing department found it could improve loan delivery through simpler means than what was originally designed in the pilot proposal.

Second, the finding that customers complained about interest rates (p130, Table 21), led management to lower interest rates for new loans by 2% on average. "Marketing discounts on interest rates were given to retained customers"... "However, the campaign stopped in September 2010 because of the increased costs of funding, [in relation to the Kyrgyz political crises]" (M10b, Jan 2011; M11b, Jan 2011). Thus, the customer loyalty campaign was not a lasting organizational change.

At a presentation that I gave in August 2011, senior managers were surprised that customer satisfaction decreased over time and that exit clients were not inclined to take up new loans (see Figure 12). The variety of reasons for client exit made management interested to explore more data and we decided to do a training on data analysis for customer satisfaction and employment measurement. The project team realized "in the past management had never compared performance outcomes between active and exit clients" (Report, Nov 2011). Second, the company launched a large-scale client satisfaction survey covering over 2000 clients, in 2011. An external agency administered the survey because management did not want to burden staff. The surveys allowed the company to have a better view on customer satisfaction (Bai Tushum, annual report Dec 2011). However, despite increased insight in the quality of services to improve customer satisfaction, not many concrete actions were undertaken.

As discussed in Section 6.2, staff shared the assumption that larger loans created more jobs. However, my analysis suggested there was no relationship between loan size and job creation. Instead, the

⁶⁸ - The project team leader highlighted "investors are send the report and M-Crill also used it." – Discussion between myself and project team leader, Jan 2011

- The "wage work information was used"... "We used it when we complete the questionnaire for investors and when investors are doing the due diligence, speak about the results with other investors."- M11a, Aug 2011

-"External parties are shared the information." - M10c, Aug 2011

surveys found a reduction in wage employment generated by clients' enterprises and hardly any correlation between changes in loan size and job creation. When presenting results to the management team, I asked what could have caused the reduction in wage employment (see Figure 14, p133). The result caused commotion and there was a strong reaction particularly from the CEO (Aug 2011) "in any other year if we would conduct the survey we would have positive job creation, but in this year of crises we have negative growth"... "A lot of clients migrated and this was the likely reason for the decline in jobs" (CEO July 2011). Other managers mentioned other factors could be responsible such as the reduction in trade, closure of borders and increased inflation. The first reaction was to explain the results as being caused by external factors rather than internal processes related to Bai Tushum's activities and services (notes workshop, July 2011).

Likewise when we prepared Figure 15 f, (p133), together with staff at training in data analysis, it took considerable time for the group to agree there was no apparent relationship between loan amount and job creation. After accepting the evidence other assumptions surfaced, some staff said job creation depended on sector, region, seasonality, gender. During the training each of these assumptions were tested.

Several months later, the CEO mentioned it would be good to identify and target job-promoting companies such as SMEs and production activities (CEO Oct-2011; Bai Tushum 2011:22-24), see Figure 15e, (p133). In addition, the social rating and the ILO pilot revealed, "the social mission is fine, but the monitoring system is not well established."... "There is no monitoring after the loan disbursement." (CEO July 2011). This included incorporating employment indicators into the monitoring and loan screening systems (M11b July 2011; CEO July 2011, see Section 6.2).

Perhaps the strongest form of learning was that the company became more modest about its capacity to create jobs. It was a reality check that "organizational changes are not easily correlated with [client level] outcomes" (Discussion workshop in Jordan, CEO, M11, Board member, June 2012).

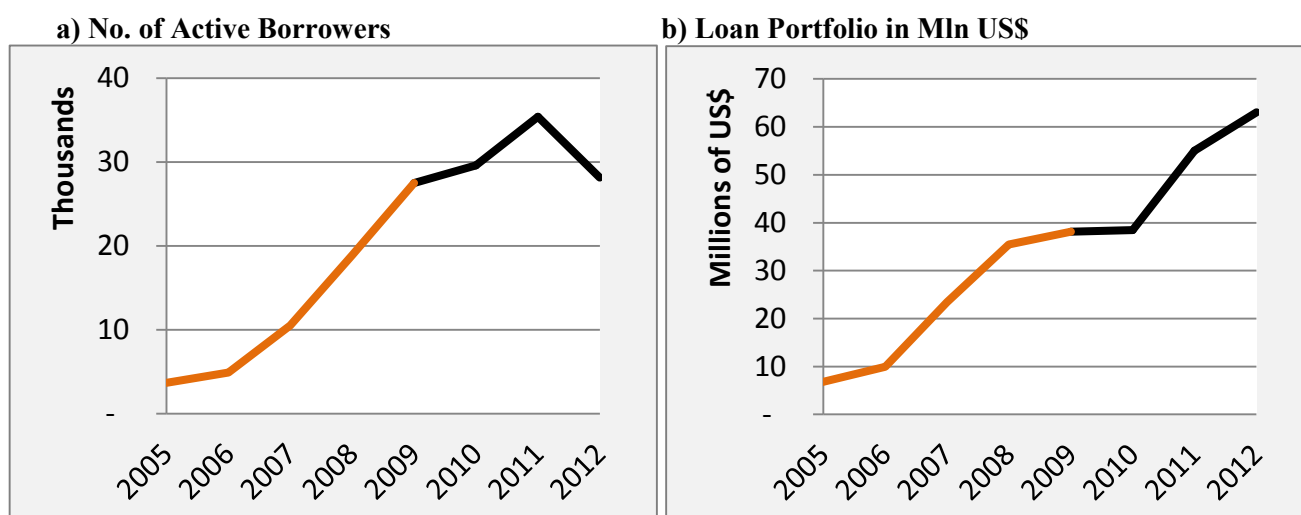
Having to deal with the new reality, a new problem arose. The MFO now had no positive evidence to demonstrate job creation to the public policy makers (see Section 6.2, p119). Rather than saying in the annual report that most clients didn't create any jobs in this year, Bai Tushum opportunistically came up with a new estimate that "each USD 700 provide self-employment for the clients" (Bai Tushum 2011:24). I will leave it up to the reader to judge whether this is conscious 'mission marketing' or lowering of standards in line with new reality checks, but it is clear the company as a social enterprise did not want to communicate any form of mission failure to the external environment.

Implementing social performance initiatives had their costs and benefits. The CEO (July 2011) considered the main benefits of social performance management to be, first improvement of “quality of services we can provide to our clients”, [second] “it creates motivation for staff performance”, [Third], “customer satisfaction”. The main costs related to human resources and the costs of data collection, specifically “The surveying time [particularly that] loan officers also need to dedicate their time.” [And the] “data audit, as without this we cannot have the right picture” CEO (July 2011). Indeed one key learning from the process was that more human resource capacity was required to implement the pilot assessment (see p129).

As described at the outset management of the company expected the project to be a sustainable intervention (see Section 6.2, p119). However, in hindsight I would even say the pilot was never allowed to fail financially. Management decided to upscale the pilot after the baseline survey and before the first report was drafted. The company continued the pilot long after the ILO’s funding ran out (Feedback Chairman of the Board, Marketing Manager; June 2012, Jordan conference). The company adapted the pilot further by incorporating a microloan, SME and Corporate department offering more services at the front line (Feedback CEO, Chairman of the Board, Marketing Manager; June 2012, Jordan conference), but these changes were not based on the results of the assessment. It is likely the pilot would have been implemented even without the ILO project, but the assessment offered some value for the company to experiment with employment and other client level indicators.

Over the period 2009 to 2012, the MFO remained financially strong; it achieved reasonable return on assets, operational self-sufficiency and portfolio at risk, despite experiencing a political crisis (see Figure 17). The growth in the loan portfolio continued in 2011 and as of December 2012, the company was reasonably on track with its ambitious growth planning (see 5.3.2., p97). New investors came on board in September 2011 and the company transformed into a bank allowing it to mobilize deposits. Over the period 2009 to 2012, managing the political crises, attracting investors, transforming into a deposit taking institution and maintaining portfolio quality and growth were key strategic priorities. The figure illustrates the loan portfolio grew much faster than the number of borrowers implying an increase in average loan size. Indeed, there was a strong increase in average loan size from 1,553 US\$ in 2011 to 2,380 US\$ in 2012, but whether this had created new jobs remained doubtful.

Figure 17 Growth of Bai Tushum



c) Financial Performance Bai Tushum

	Dec 2009	Dec 2012	Nominal Change
Number of borrowers	27,526	28,162	+636
Gross loan portfolio Mln US\$	38.1	63**	+24.9
Return on Assets	5.1%	0.8%	-4.3%
Operational Self-Sufficiency	130%	105%	-25%
Operational expenses/assets	7.3%	9.1%	+1.6%
Portfolio at Risk 30	2.7%	1.8%	-0.9%

* Source Mix Market accessed 8-02-2013 and 11-08-2013.

6.6. Concluding Remarks on Capacity for SPM

Despite that several initiatives were undertaken, the capacity to do SPM remained limited and had not improved much from 2009 to June 2012. The lack of capacity to conduct client level assessment, particularly evidenced by the multi-task problem that staff experienced in combining their regular work activities with the pilot activities (see p122, p127), and limited time of staff for reflection (p129), led for an organization that had difficulties pursuing double bottom line management.

When the assessment challenged the idea of mission achievement, it seemed management considered this a temporary setback. It continued operations under the assumption that next year results would be more positive under better external circumstances. However, there were limited organisational systems in place to ensure such job creation could be detected in the future, making the MFO in my view vulnerable to mission drift. The assessment revealed that job creation was based on an organisational belief system rather than empirical findings or actual organizational activities.

When I asked the CEO at the end of the data collection (June 2011) what the reasons were to engage in SPM, she mentioned: “First for ourselves” ... “how to benefit the client and the company”, ... “to improve services and client satisfaction as part of corporate social responsibility. And to support today’s government and officials” (CEO Bai Tushum, June 2011) In addition, “We want to do social performance, not just because it’s fashion, but to improve services and systemize it” (CEO Bai Tushum, Oct 2011). Thus over time the external driver to support political agencies and improve institutional image remained, but a more internally driven agenda in the area of customer satisfaction may emerge.

Chapter VII. IMON Pilot

7.1. Introduction

This chapter will describe the pilot of IMON International and in doing so follows the same structure as the previous Chapter. Section 7.2 explains the pilot design and its broader aims in relation to SPM. Section 7.3 discusses the pilot implementation and management. Section 7.4 reports the key performance outcomes relevant for the organisation. Section 7.5 presents the main organisational learning in relation to empirical results. Section 7.6 makes concluding remarks about the capacity of the MFO to do SPM at the end of the pilot.

7.2. Description of the Pilot

The main findings of the diagnostic survey as described by IMON's project team, were that the majority of clients lacked entrepreneurial skills, suffered from bad working conditions, had informal work activities and no membership in associations (Pilot proposal February 2011). Particularly, IMON found it a reality check that very few clients were aware of the NABWT (National Association for Business Women in Tajikistan).⁶⁹ IMON presented ideas relating to entrepreneurship, formalization and working conditions, namely "Increasing of the level of education and training of [of women]... [moving] clients from informal sector into formal one and ensuring support from the side of the government; [and] creating of favorable conditions of work and new jobs" (Pilot proposal, 2009 Feb). The ILO requested IMON to be selective and the project team came up with the idea of piloting a start-up loan and entrepreneurship training for women.

This idea was not new to the organisation. In 2007, the MFO had tested such a product with support from GTZ. This project showed there was a strong demand for start-up loans, but the pilot was considered unsuccessful because the training was very technical and many women did not start their business. "I think really after finishing the training the women were frightened, the materials were very technical and it was not interesting for women because they didn't understand anything from the training" (M1b, July 2011). Out of 80 women attending the training sessions, only 20% took a loan from IMON (Discussions with the project team Nov 2008, Aug and Oct 2009). Key challenges were how make the product attractive for women. And second, how to integrate non-financial services into the lending program.

⁶⁹ For example, only 2% of the clients were members of an association. And 64% of the clients even claimed there is no association in Tajikistan.

The pilot then became launching a women’s entrepreneurship training - the ILO GET AHEAD module - followed by start-up capital, with the aim to improve women’s empowerment and entrepreneurship. The training package would be offered in partnership with the NABWT. In October 2009, an ILO consultant provided a training of trainers for 17 staff of the NABWT and IMON. The GET AHEAD module was chosen because of its strong gender component (Pilot proposal 23-06-2009: 4). The module encourages joint learning for women based on real life experiences. It is a participatory training which involves basic marketing, bookkeeping and business planning (Bauer et al 2008:1-2). Training materials were adjusted with IMON and NABWT staff to the context of Tajik microfinance. For example, the training duration was shortened from 5 days to 4 days because IMON staff expected women may not attend a full working week. The module included a set of mandatory and voluntary sessions that could be further adapted by the trainer to the needs of a group. As discussed among the project team, the ILO and myself, the training was aiming to improve the entrepreneurial skill, confidence and practices of women, and not necessarily only to start a completely new work activity (Participant observation, focus group discussion 2009; training of interviewers; methodology report Sep 2009).

A counselling meeting took place to select women who would be eligible and interested in both the loan and training. After completion of the training sessions, women could submit a business plan and would be offered start-up capital. This entailed an individual loan up to US\$ 7000 with similar conditions and eligibility criteria as other IMON loans, except that women would not need to have a business. Table 22 summarizes the terms and conditions of the loan.

Table 22 Start-up Loan Product

Methodology	Individual
Currency	TJK and Indexed to US\$
Min Interest Rate	28-32% (For Indexed Loans)
Max Interest Rate	38-42% (For loans in TJS)
Fees	0-1.5%
Min amount	100 US\$
Max loan amount	US\$ 7000
Collateral	Guarantee, movable property, real estate, jewellery

* Adapted from *Microfinanza (2010, July)*.

IMON had wider social objectives for the pilot to mitigate social mission drift by improving their understanding of women’s demand for financial and non-financial services, female targeting, and by supporting women’s business activities (Innovation proposal 2009:2; Pilot summary Sep 2009; Focus group discussion Sep 2009). This was viewed to be part of an overall trend in Tajikistan of declining women’s entrepreneurship in the country (CEO, July 2009), see p107-108. As shown in Section 5.4

(Figure 9, p106) there was a sharp reduction in female borrowers over time for IMON as well as other Tajik MFOs. “In 2008 IMON was transformed into the commercial structure as a microlending organization. Offering financial services was the priority. Our organization goes only, how to say, in commercial directions and our social direction was lost. We saw a reduction in the women clients.... During this period we saw that the number of women in our portfolio dropping. And we wanted to find out new ideas and new areas of attracting new women clients (M1c, July 2011). As such “gender formed a big priority” (SM16a, July 2009), the project formed a response to a shared view that the company was drifting from its mission.

Another reason to implement the pilot was to revive the link between IMON and the NABWT. As described in Section 5.4, (p105-105) compared to IMON, the NABWT had become a relatively small organization and by 2009, it had only 380 members. The aim was to strengthen the capacity of the business association and to “encourage [IMON] clients to become NABWT members” (Pilot proposal 2009 June: 1).

The main motivation to capacitate the NABWT seemed to be the historical importance of women’s business association for the management in IMON. As described in Section 5.4.5 (p110), most of the senior managers in the company started their career in the association. It was also a shareholder and co-founder of the MFO (Microfinanza 2010:17, see p107). Staff felt connected with the association, being described by one of them as “the roots of IMON” (SM 16a, Oct 2009). As mentioned by a manager of NABWT (SM15, Aug 2011), “[IMON] Staff should be aware of the association as it is part of the history of the organization..... It is important for staff to know the story of the association.” This does not mean that external stakeholders didn’t matter, after all the NABWT’ mission was to lobby with political institutions (see p105). But the dominant driver to increase cooperation between the two organisations seemed to come from internal rather than external factors. It also supported the idea that IMON had an inward looking organisational culture (see Section 5.4.4, p107 to Section 5.5, p115).

For IMON the expectation for financial performance was less ambitious when compared to Bai Tushum. “This innovation is not financially profitable for IMON, but has a more social nature. Through this innovation we expect to improve the economic situation of our clients and increase their enterprise and gender literacy..., IMON considers that probably after two years of successful implementation of the innovation, the operations under this new package should reach financial stability” (Pilot proposal, June 2009: 12-13).

The project team consisted of staff from several departments including the marketing manager, the head of NABWT, the regional manager and deputy CEO (IMON pilot proposal June 2009:7&14-15).

Costs of surveying based were estimated to be US\$20 per woman. The cost of the was estimated at US\$39 per participant. For participants the training was free of charge. The team estimated the total project financing at US\$ 173,976. The ILO financed 40% of the costs and sponsored the social performance assessment and 36 entrepreneurship trainings. IMON contributed 60% of the funds, which included managing a start-up loan fund of US\$ 100,000, and financing 11 training sessions. For the company the budget was relatively small, consisting of 0,5% of the annual revenue. IMON's management seemed committed to the project as it invested financial and human resources and the start-up loan itself was viewed to be a relatively risky intervention for the organisation.

At the outset in 2009, the ILO project was the largest initiative in social performance management, but the company also wanted to adopt client protection principles and conduct a social audit and rating (SM16a, Oct 2009, see p112). Furthermore, in terms of financial objectives, the MFO wanted to transform into a microcredit deposit agency and maintain portfolio quality and growth targets (see p112, Section 5.4.2).

7.3. Implementation of Pilot Assessment

Having described the pilot design, I will now describe the assessment strategy at the outset, (7.3.1) followed by a description of what was actually implemented (7.3.2) and assessed (7.3.3).⁷⁰

7.3.1. The Initial Assessment Strategy in 2009

The assessment aimed to identify women's demand for loans and non-financial services. What factors were important for women to apply for start-up capital and implement their business idea. Second, we aimed to assess the effects of the training on women's empowerment and entrepreneurship. We expected that the training sessions would have a stronger impact for those participants receiving training and loans, when compared to those who only received the training (pilot summary 2009).

For the ILO and myself the question of impact was relevant in order to understand whether the product had its desired social effects. The ILO needed to keep the methodology in line with the other MFOs and had to justify it to their donor agency. The degree to which impact measurement was relevant for IMON is described later in this chapter, but similar to Bai Tushum we had to deal with several practical limitations and tensions between impact assessment methodology and pilot implementation.

⁷⁰ Several Tables and Graphs in section 7.3 and 7.4. and Appendix II formed the basis for a report (ILO 2013b, forthcoming).

The first constraint was that given the human resource capacity of IMON it was not practically feasible to implement the marketing campaign, training and interviews within several weeks. The project team expected that in a period of six months up to 512 women could be trained across the country of which up to 300 could take the loan (IMON sampling note 2011; pilot proposal 2009). Rolling out the product meant deviating from an ideal impact design where measurement is done at similar points in time (e.g. every six months). The project team insisted on gradually implementing the pilot.

In ideal impact measurement, which the ILO and myself initially preferred, we would randomly select half of the training applicants into a treatment group and the other half into a control group to minimize selection bias. However, this raised some practical problems for IMON, first the company would need to find a sufficient number of women interested in the product in order to reach the required sample size of 745 to 1145 people. At this stage in the research, we didn't know exactly how many women would be interested in the product and the project team highlighted it had limited human resources to conduct interviews.

Second, we had discussions about how ethical it was to randomize women into start-up loan products. As I explained to the project manager one view holds that when there is more demand than placement for the pilot, it is highly ethical, as every person that applies for the product has an equal chance of receiving it. Another view stresses it is unethical to offer participants a product and then (de-) select them by lottery.⁷¹ This perspective highlights that development practice does not take place in a laboratory setting. For IMON's project manager it was important to support women who were highly interested in setting up a business. Also the start-up loan was perceived to be a risky product for both the clients as well as the MFO. So IMON's project manager did not want to randomize control and treatment group because it was considered impractical and unethical, and both myself and the ILO representative agreed to this (notes from a meeting 11-09-2009, Bishkek conference). To drop the control group was not an option for the ILO. So, given these constraints, the ILO, the project team and me, opted for the more practical solution of matching the comparison group to existing first time borrowers. In the absence of randomized controlled sampling, the impact estimates would be subject to a selection bias.

Sample Size and Dates of Data Collection

For every client that received training – the treatment group – an existing female borrower was matched into a comparison group using the management information system. All women in the

⁷¹ To my knowledge the only RCT for start-up businesses is Mel et al (2009), but they research cash transfers not loans and this is less risky for end-beneficiaries.

comparison group had entered the program in January 2009 and were new first time borrowers. We intended to match clients on branch, age category, marital status and highest level of education.⁷² Up to 512 women would be in the treatment group, of which the project team expected that around 59% would take a loan. Up to 400 existing female borrowers who were already self-employed could be selected as a comparison group. We aimed to conduct a baseline survey before the training and three follow-up surveys to be conducted every six months.

Key Social Performance Indicators and Survey

The survey contained over 23 indicators related to the client's household, business and work activities, association, entrepreneurial skills and customer satisfaction. Key performance indicators interesting for the project team related to the demand and barriers to business start-up, women's entrepreneurship and empowerment, and the business case of the pilot. We adapted a list of survey questions from a variety of literature on entrepreneurship and empowerment (Johnson 2003:265; Nelson et al 2004; Banerjee 2009; Karlan and Valdivia 2006; 2009) as well as the ILO tools such as the diagnostic survey (see Section 3.5). Staff reduced the draft survey to a core set of questions and we tested it in the field upon several occasions.

We had considerable discussion about how to measure "entrepreneurship" and we agreed to use several metrics. It was relatively easy to track whether women started their business ideas, but it was more complex to detect whether women improved their "entrepreneurial skills". In an attempt to measure this, we decided to use self-assessment tools in combination with looking at several business practices. I will come back to some of these indicators later when discussing issues of data quality.

We agreed that one definition of empowerment is "the process of women to boost their confidence, improve control over decision making and bargaining power and perceptions of possibilities in the household" (adapted from Mayoux 2000: 17). Women who were married were asked, 'who decides about the use of a certain expense in the household?' (Adapted from Johnson 2003: 265). For analysis, I designed three indexes relating to control in the household decision-making over small expenses (i.e. food, clothes, school fees and health expenses), large expenses (i.e. the purchase of a car, real estate and large business expenses) and financial services and earnings (i.e. loans, savings, earnings and

⁷² These indicators were chosen as matching variables as they were easily measurable and likely correlated with empowerment and entrepreneurship outcomes. (See for example for further reading, Heckman et al. 1997; Djankov et al. 2008).

In trying to reduce selection bias further, we asked women in the comparison group; whether they would have liked to participate in entrepreneurship training when they started their business. We only selected women who said 'Yes', if they reported 'no', we did not select her for the comparison group.

working time).⁷³ We had discussions with the project team on whether it was better to select only female interviewers as this may reduce the response bias for women empowerment outcomes.⁷⁴ Based on recommendations of the CEO (2009) we selected both male and female senior staff with good communicative skills. Staff conducted the interviews in the first language of the interviewees, either Tajik, Uzbek or Russian. Female staff (74%) conducted the majority of interviews. Women were interviewed alone and not in the presence of their spouse in 97% of the cases. I attempted to control for differences in interview setting in the final estimations if needed.

To measure the business case for the start-up loan we looked at the actual cost of training, the percentage of participants taking the loan, and customer exit and satisfaction.

7.3.2. Management of the Pilot Implementation

Having described the initial assessment strategy, I now turn to the pilot implementation. The project team divided the tasks, the marketing department coordinated data collection, the credit management department disbursed start-up loans and the NABWT offered entrepreneurship trainings. The team changed its leader three times, from the Southern Branch Manager (2009), to the marketing manager (2010) and the business development manager (2011), but team leaders seemed to transfer their tasks properly. Management kept oversight of the process of implementation as part of an overall action plan for incorporating social performance management into the operations of the MFO.

In January 2011, objectives with regard to female targeting were incorporated into staff incentive systems, in relation to the feedback from the social rating report. First, “the number of female clients should not be less than 50% by the end of next year. Second, in 2011 every branch has to disburse no less than 100 start-up loans.” (M1b, Jan 2011). Bonuses were given “for disbursement of rural, women, agriculture and small loans” (SM 16b, credit manager, July 2011). Staff interviewed seemed aware of the targets because they were part of their bonus systems.⁷⁵

⁷³ Based on exploratory factor analysis, a women’s empowerment index was computed on the basis of questions 11 to 20. The variables were recoded into 0-10 scale and missing values were taken out.

Index 1: Earnings and Financial Services use (Q17+Q18+Q19+Q20)/Maximum score

Index 2: Small expenses (Q11,12,13)/Maximum score

Index 3: Large expenses (Q14+Q15)/Maximum score

A score of 0 would indicate the husband has sole responsibility; 20 the husband major and wife minor responsibility; 60 if equal responsibility; 80 if wife major and husband minor; 100 if Wife sole responsibility.

⁷⁴ For example studies have shown that matching gender can lead to a substantial reduction of human bias (Karlan and Zinman 2007).

⁷⁵ - “The social audit and rating translated into an action plan.”... “Staff bonuses are now based on social criteria... First for number of start-up loans. Second, loan given to women. Third loans below a certain amount of money. ...-”IMON included start-up loan disbursement into their bonus system" [to ensure rolling out the pilot]. - M1b, Jan 2011.

In August 2010, the human resource department implemented a gender policy for staff that included “special focus to women’s empowerment and a high percentage of female staff” (M1b, Jan 2011). “The goal is to have 50% of the staff to be female” (SM11, July 2011). The policy meant, “If screening shows women and men are [equally] suitable then we will try to hire women” (SM11, July 2011). The HR Manager also reflected on gendered barriers in loan delivery systems: “Sometimes [clients] say the job of loan experts is not one for women, but then they understand that we work a lot with women [loan experts]” (SM11, July 2011). Nonetheless, when conducting the training for interviewers in October 2009, I observed strong gender norms of staff members.

The project team implemented a qualitative reporting system for trainers to feed back results of the entrepreneurship training. “After every training we provide a report to the Business Development Manager and first deputy of the general director, who is also director of NABWT.” ...”They look for the effectiveness of the training. [For example it shows], “How many of the women took the actual loan?.... “We explain the organisation of the training. We explain the participants what ideas they had and came up..... At the end of the training did she change here opinion? Does she have new ideas? What could be improved and be done better?” (M10, July 2011). Other feedback systems introduced for staff included incorporating social performance in the training program, special awards for branches, distributing an IMON newsletter and test knowledge of staff on social performance (SM 16b, July 2011⁷⁶; SM17b, July 2011). Thus, a mixture of hard and soft staff incentive systems was implemented.

Staff had a good awareness of the pilot and implemented it according to the initial plan (Participant observation, Aug 2011). Each branch was marketing the product for two weeks using television, radio, newspapers and advertisement channels. They organized counselling meetings to see whether women were eligible for a start-up loan. The screening process would be similar to a normal loan except that women did not need to submit a business plan. After forming a group of 12, the training could start at the branches or head quarter. The training took four consecutive days. After completion of the training women may decide to start-up their business and apply for the loan. The actual loan pick-up rate for the treatment group was 57%, (slightly lower than the expected rate of 59%). Although the project

- “In August 2010 social strategic plan was made and the percentage of female clients is part of this plan.” - SM11, July 2011

- For employees of branches there is a social bonus and there are indicators for making new workplaces. “ When twelve participants take a start-up loan then employees can get the bonus. This is why everybody is interested in this. - M10, July 2011.

76 - “We include social performance in the training program” – (Credit Manager, SM16b, July 2011)

- Every six months we test branch and staff knowledge through on-line assessment. [We] “put in social impact and indicators in addition to the loan analysis.” (Credit Manager, SM16b, July 2011)

team expected to train up to 512 in six months, the company managed to train 486 women in nine months.

The three months delay in implementation had consequences for the assessment as the data collection needed to be finished in December 2011. Because of this, the ILO, IMON and I, decided to reduce the number of follow-up surveys from three to two (email April 2010). Instead of conducting an extra client level survey, the project team asked to use the remainder of the budget to finance 36 additional trainings. The ILO agreed to this because it contributed to the continuation of the pilot (email correspondences, April-June 2010).

Trainers were positive about the training module; they found it participatory and non- technical as well as sufficiently flexible to be adapted to the needs of the group. One trainer mentioned “The modules are very interesting ... it is in easy language. It is a good philosophy. First it is games, then it is fun and participatory. It was very interesting for [the women]. They all participated in these games, they all laughed and gave information about gender” (M10, July 2011).⁷⁷ Several trainers reported participants liked the training.⁷⁸ Some of them experienced positive effects for clients relating to the training.⁷⁹ For example, one manager said, “Many of the women were explaining that they can exchange their opinions and experiences”.... “Our training was very useful, because many [women] before never got out of their houses, they didn’t do another work, just the housework.” (M10, July 2011) Other staff said they themselves learned from offering the trainings to clients.⁸⁰ For example, one trainer mentioned, “I learned a lot from case studies, just how women start a business. How they become an entrepreneur and how they work under difficult economic situations.”... “It helps you to understand the competences of the experienced entrepreneurs.” (SM11, July 2011).

77 - “I really like the material that was implemented by the ILO. The training is more sensitive and practical for village women.... “The training process is more game playing, more understandable for women in rural Tajikistan. It was not technical.” - M1c, July 2011

- Good training objective, and it is interactive which is good. [I liked the] “Role playing game. Good, simple information for rural areas.”... “Easy understandable for clients and easy for trainers.” – SLO 13, July 2011

- For example one staff member liked that “ we have a large selection of exercises but then it is up to us to make a selection.” - SM11, July 2011.

78 - “I speak with the women after the training and many say thank you, I didn’t know how to do planning and analyses”. [Second, trainings are successful when] we see that all participants stay for the training, -SM11, July 2011.

- “Most of the clients liked the training.” - SLO3, July 2011

79 - “After training it is explained that women and men have equal rights. They can work, they can study, ..they had questions and received answers.” ... “After training women understand how to sell and put prices on products. They understand how to calculate expenses...and what is the net profit.”... - M10, July 2011

- The women learn from other women, and share experiences. ..[For example, in one exercise] one person will mention the problem and another person will provide an answer.” - SM11, July 2011.

80 - “I had a chance to talk with the people. It was good for me.”...[And it was] “Good for the women clients to receive certificates from IMON”. - M14, July 2011

On the other hand, there were barriers in launching the product. First, several participants complained about the duration of the training because it was difficult for them to attend four consecutive days.⁸¹ Staff wanted to shorten the training to make it more attractive for women to participate. One senior loan officer argued this would reduce the effects of the training because there is less time for participants to prepare a business plan (SLO13, July 2011). As mentioned by a senior manager, “We have to analyse if we can shorten it and do mainly the basis of the training. Maybe for a shorter period and then after that have somebody [follow up and] analyse the proposals“ (SM11, July 2011). Second, in some regions there was a low frequency of trainings because of insufficient demand or lack of available trainers.⁸² Low training frequency resulted in a waiting period and in turn delayed the loan application time.⁸³

Third, there seemed barriers related to gender norms in Tajikistan; “The mentality is that it is difficult for women to start their own work and some of the members said it is difficult to pay back (M9, July 2011). Another staff member highlighted “women work at home... [because of] the Islamic influence and influences from the husband and the father” (SLO 7, July 2011). Sometimes the mindset in Tajikistan was that “start-up business is not the women’s job” (M1c, June 2012). Moreover, women often needed permission from their husband to join the training.⁸⁴ Several staff recommended it

81 - “Participants and me did not like the period and duration of training. Because I work here and I can’t be off my main work for so long. We want to make it shorter.” - M10, July 2011
- “The clients did not like that it is a four day training. They would say I have a business and can we make a four-day training.” – SM11, July 2011
- “Sometimes it was difficult to organize a group.”... [Second] “Because all women are housewife they have to take care of the children. This caused problems when their children were sick and had to go to hospitals. Some women would always be late, or feel uncomfortable during the training because they worried about their children.” - M14, July 2011
- “A training of 3-4 days is very long for women.” ... “Instead of four days, provide a two day training. [Because] Women are very busy and should be in the home to take care of the children.” ... - SLO 6, July 2011
- She would recommend to: “To reduce the nr of days to 2 days or reduce the nr of hours per day.” We can use more trainers.” –SLO7, July 2011
- “We could do the training for 2 days if the loan officers would follow up with the individual plans.”- M9, July 2011

82 - “To train more trainers would be more effective. Some regions have no or only one trainer.”- M10, July 2011

83 - “The disbursement takes too long.” -SLO 5, July 2011.
- “Groups selection of 4-5 women would be easier”...For most of the clients it takes too much time to provide the loans.... “Most of the women who apply for training go to another organization.” – SLO 3 July 2011.

84 - “Both wife and husband are curious about the product and training participation... The husband would be checking if the wife participated.” - M14, July 2011
- As pointed out by a trainer “women prefer to have their husbands to come to the training. [However at the same time] “many women don’t like to sit down and talk about gender in the presence of their husbands.” - SM11, July 2011

would be good to include the husband in the training or to develop a product for men.⁸⁵ In the Istaravchan branch that was successful in disbursing start-up loans, staff deliberately promoted the product to both the husband and the wife as a way “to encourage the women“(M14, July 2011).

A related challenge was that women lacked proper documentation requirements for the loan. Several women, especially in the Southern branches had expired passports that sometimes dated from the Soviet Union. “They don’t apply for a new passport because they fear fines from the government and tax inspectors for not having a good registration” (SLO 6, July 2011).⁸⁶ It appeared to be part of a wider issue that formalisation itself was gendered. One manager said women cannot go to the government institutions without their husbands’ support. “Women cannot work without the men’s protection.” ... “because in our government in some higher places especially work only men.” (M8, July 2011). One key challenge in product implementation was how to involve the local municipality in the launch of the product (M1, June 2012). I will come back to these points in the Section 7.5.

7.3.3. *Management of the Social Performance Assessment*

Having described the challenges in pilot assessment implementation, I will now describe the actual assessment starting with the sampling, data quality and experience of the process of implementation.

Sampling and Matching

At baseline survey treatment and comparison groups were somewhat similar [i.e. *not* statistically *different*] for several indicators, namely empowerment, nationality, educational level of woman and spouse, region, type of income sources, husband and spouse working, spouse migration, level of awareness of the NABWT, and several business practices.

However, as shown in Table 23, there were also strong statistical differences between the two groups. For example, the treatment group included wage employed and unemployed women, while the comparison group mainly consisted of self-employed female clients. A higher portion of registered

⁸⁵ - “Why can we sometimes not take also the men into the group”. - SLO 5, July 2011

- “Many men are interested in the start-up loan.” - SLO 6, July 2011.

- “Many men also like to have a start-up loan and ask us why we don’t offer a start-up loan for men.... Maybe we will prepare a start-up loan for men.”- SM11, July 2011

⁸⁶ “to have an easier documentation procedure.”... - SLO6, July 2011

- “If women don’t have a passport they cannot get the loan.” - M9, July 2011

- “Several women had only copies of their Soviet passport, not a new passport.” The costs to get a new passport from the municipality is only 15 US\$, but the problem is that they fear punishment from the government or tax inspectors for not having a good registration. – SLO6, July 2011.

- “Most of the women want to start right now.” [But] “many lack documentation, photos, do not pay taxes, and need to pay to rent a place. Women are scared because of these conditions and it increases the cost to participate. Also most clients work part-time, yet a full time business is a requirement of IMON” – SLO 3, July 2011.

businesses and years of entrepreneurship experience in the comparison group further evidenced it. In some regions it was not possible to complete the matching on age because there weren't enough young women in IMON's customer base. The comparison group was more rural, slightly younger and less often married.

For analysis, I compared women who received training and were offered a loan (TG) with a comparison group (CG) of female borrowers that did not receive entrepreneurship training. We will then make a distinction between TG1, who received only training but did not access the loan, and TG2, who received the training and accessed the loan. It is expected that the TG2 is more comparable to the CG because women in both groups have entrepreneurship activities. I will show the changes in performance indicators over time.

Further econometric analysis was conducted using a difference-in-difference model with control variables (see Appendix). I do not claim that the DiD estimators generated causal effects because there may have been other (unobserved) factors instead of the training that caused differences in the outcomes of the two groups. For example, the comparison and treatment groups may have experienced different trends that could not be fully controlled for.

Table 23 Differences Between TG and CG at Baseline Survey

	<i>TG</i>	<i>TG1</i>	<i>TG2</i>	<i>CG</i>
Description	New female IMON clients that want to start-up a business	Of which training only	Of which training & loan	1 st time female borrowers that have a business and received a loan after Jan 2009
% Self-employment	54%	50%	58%	99%
Average Age	36	35	36	37 years
Average years of business experience	4,7	4,2	4,9	6,7 years
% Married	65%	59%	70%	76%
% Rural	54%	50%	57%	41%
Sample size	487	212	275	418

Dropouts

The biggest challenge in interviewing according to the marketing manager was that it was difficult to find interviewees. Especially it was problematic to interview the groups of women who did not start a business, or who exited the IMON loan program (M1, June 2012).⁸⁷ Indeed, dropout was not random,

⁸⁷ - "client exit, migration was a big challenge when we organized the interview process. Especially it takes much big time to search the clients." - M1c, July 2011.

- "Find it difficult to find clients." - M12, July 2011.

- "It was hard to find clients and it takes time to find them." - M14, July 2011

for example, it was much higher for TG1 (50% compliance rate), compared to TG2 (85% compliance rate). As shown in Table 24, this explains why at the second follow-up survey drop out is higher for the treatment group (70%) than the comparison group (75%). Given the dropouts, I estimated performance outcomes both on the full sample of completed interviews (904 at base line and 652 at second follow-up survey) and for the survivor sample (652 at baseline and 652 at second follow-up survey). Often this influenced the magnitude of impacts but not their direction.

For the second follow-up survey, interviews for the TG were completed two months later than interviews for the CG. Controlling for the month in which the interview was conducted changed the magnitude of the impact estimates, but not its (positive or negative) direction.

Table 24 Compliance of Interviews

	<i>Total</i>	<i>Treatment Group</i>		<i>Comparison Group</i>		<i>Dates of Data collection</i>
	<i>N</i>	<i>N</i>	<i>N%</i>	<i>N</i>	<i>N%</i>	
Baseline	904	486	100%	418	100%	Oct 2009-April 2010
Follow-up Survey I	791	423	87%	368	88%	May-Dec 2010
Follow-up Survey II	652	340	70%	312	75%	Jan 2011-Oct 2011

Data Quality

Most staff found the questions in the survey clear and understandable⁸⁸, nonetheless several mentioned it took a lot patience for both themselves and the clients to complete the interviews. As one loan officer highlighted, “most of the clients are not educated and I had to explain a lot” (SLO4, July 2011). Another said, “Maybe some clients can’t answer, or don’t understand it, but they say “yes” or “no”.... “We needed a lot of patience and understanding to explain” (SLO7, July 2011). In addition, several clients did not always have time to do the interviews and did not like to answer the same questions every six months.⁸⁹ This meant staff had to deviate from the survey language.

Not all questions in the survey worked well. Surprisingly, at baseline survey women in the training group self-reported stronger entrepreneurial skills than the comparison group even though they had less business experience. Staff highlighted training participants may have showed a too optimistic

⁸⁸ - “the interview was good and it was relaxed. Women answered to all of the questions. No problems with the questions.” - SLO6, July 2011.

- “The survey starts with simple questions.” - SLO13, July 2011.

- “Small questionnaire, but it has very good information.” - SLO5, July 2011

⁸⁹ - Clients "don't like the same question every 6 months". - SLO3, July 2011

- Sometimes “women feel this questions is repeated.” [Second], women “don't like it because of time.” - M8b, July 2011.

- “It takes for the clients half an hour of their time. Before we conducted focus group discussions, which is more interactive women feel more comfortable” - SLO13, July 2011

picture because they did not want to appear weak entrepreneurs.⁹⁰ Also some questions were difficult to answer for training participants who did not own a business.⁹¹ It was also difficult for interviewees to estimate net income.⁹² Indeed, at baseline, 21% of the sample did not report their net income and the question was not taken up in the final analysis. Therefore, despite testing the survey, several performance indicators could not be tracked over time and others needed to be dropped from the assessment.

At the outset, we decided that men could interview women (see Section 7.3.1, p147), however in August 2011 the majority of interviewers reflected that it is better for data quality to have female interviewers.⁹³ Sometimes the husband needed to be informed because they were suspicious of the interviews.⁹⁴ In a small number of cases, there were incidents when husbands were weary of their wives being interviewed by another man.

⁹⁰ - “Entrepreneurial skills questions (Questions 30 and 33) for the treatment group was not clearly understood.” ... “And may not be a correct response”.... other interviewers also mentioned it is difficult to assess entrepreneurial skills. The problem may be , “women want to look more great that they are. Don’t want to share the weaknesses at any time.” - M1b, Jan 2011

⁹¹ - The question on business planning women don’t understand if they do not have an enterprise.” - SLO3, July 2011
- “For example on business planning was difficult to understand because women never thought about it.” - SLO13, July 2011

⁹² - “Sometimes it is difficult to answer net income, women know it is better or worse than last month. But they don’t know how to calculate.” - M12, July 2011
- “Net income can be hard to estimate.” - SLO4, July 2011

⁹³ - “For us men it was very hard to conduct interviews with the women. When I call some women do not feel comfortable. We always tried to conduct such interviews with women, if not we searched into ways how to make the interview comfortable... But in some parts we did the interviews by men because the gender situation in these regions is very bad. So it was also one challenge in interviewing was the questions of gender.” - M1c, July 2011
- “Sometimes the Marketing Manager asked us to call to women. In Tajikistan it is not the tradition for women to talk to other men. From that time, we decided that for the research it is better if it is women and women.” - SM11, July 2011
- It was also difficult for men to interview women. [The norm is] “I am the man, I have the rule, when a woman interviews a woman it is easier. Because most woman are ashamed for men.” – SLO4, July 2011
- “There was one case where he wanted to do an interview, but the husband was drunk. He conducted the interview on a different day.” - SLO13, July 2011

⁹⁴ - “We had such situation that we called to the husband and it was quite hard to organise the interviews with the women that [just] got married”...”Some even said that if you come to my house my husband will beat me. And in this situation we just marked the questionnaire that the woman doesn’t agree with the interview.”... “I came across this 6-8 times because the group of women that were getting married was quite high in our TG.” - M1c, July 2011.
- When I go to a client house, the neighborhood is curious and the interviewee felt bad” - SLO3, July 2011.
- “Most of the time the husband is angry or disagrees. The husband won’t let [women] take the loan. The husband would do it only if he could benefit, but most of the time he said we can’t do a loan.” - SLO4, July 2011
- “During the interviews the husband thinks that were are looking if women are pursing loans after training.” - M9 July 2011

Experiences and Learning by Staff

Staff felt they were given sufficient time to administer the surveys and conduct trainings.⁹⁵ In one branch staff had to work on weekends.⁹⁶ Interviewers were satisfied with the bonus.⁹⁷ Partly because the pilot and interviews were implemented on a rolling basis, staff could combine it with their routine activities.

However, the marketing manager mentioned; “I feel that my time when I worked with the project, it was not enough. We have many different tasks to do. ... I only coordinated the process. I did not have the time to go very depth into the project.... I was in the project not 100 percent, but about 60 percent” (M1c, July 2011). In particular, for the marketing department it seemed difficult to combine the responsibilities of public relations, marketing and managing the assessment.

Staff interviewed (10 out of 10) found it useful to conduct trainings and interviews and many felt it had changed their regular way of working. Several appreciated the support given to women to help them to set up a business. Others felt doing the trainings and interviews helped their understanding of women’s entrepreneurship and customer satisfaction because it generated feedback from the clients.⁹⁸ For example, one loan officer mentioned, “it is useful to understand the needs for training for women.

⁹⁵ - She was able to do this during the daily work. - SLO3 July 2011

- He did not work in the weekends, sometimes he needed to work extra hours - SLO4, July 2011

⁹⁶ - I was " mainly using weekends to work and conduct a lot of the interviews." ... " less than 5 times I had to work on Saturday." [or she would come earlier to work and use the extra hour of work at the end of the day for the interviewing.] - M12, July 2011

-“Sometimes it was difficult and we had to work extra on Saturdays.”...”Two Times it happened that I worked on Saturday until 12:00.” - SLO13, July 2011

- 3-4 weekends she had to work. - M14, July 2011

⁹⁷ - “She received the payment. At baseline 5 TJS for TG and 7 TJS for control group. For the second follow-up survey she will receive 7 TJS for TG and 7 for CG”. - M12, July 2011

- “It would be a good encouragement to increase the training fee because given trainings is very energetic work. I conduct the trainings from Friday to Sunday.” - SLO13 July 2011

- “We had so many clients coming in that it affects our salaries positively. - M14, July 2011

⁹⁸ - “He now knows about the strong, medium and weak clients.” – SLO4, July 2011

-[It was interesting to see] "The large need for money. The first loan cycle the loan is a problem and for clients from second loan cycles the loan is less of a problem. " – SLO5, July 2011

-She heard “Good Words about services in the organisation.” – SLO 6, July 2011

- “some questions, the persons starts to think about and gets interested in the trainings. For example they were more interested in the other trainings of NABWT.” ... [And later in the interview] “My experience from Mercy Corps is that it is important to have trainings and researches. This to provide information for people to receive new loans and see how it affects their economic development... This makes me learn a lot of microfinance..” - SLO13, July 2011

-“Several control group clients were also interested to receive trainings.” - M14, July 2011

- “It’s good to understand ..why clients are going to other organisations. Interviews in general are an opportunity to talk to clients.”- M14, Mohira, July 2011

They included accounting, taxes and business planning” (SLO7, July 2011). Another said, “we found information about the social status of women and their changes... For what are women spending money. How do they manage expenses, who manages the expenses. [Also] How they understand the loan and what they would like to change in it.... [And to see whether] women can take initiatives into their own hands [as entrepreneurs]”. ... "It is very good for us because we understand the view of women who like to work and who have a business" (M8, July 2011). Some staff found it important that female targeting increased their bonuses.⁹⁹ Another loan officer “liked the training in interviewing” (SLO 6, July 2011). Others used questions and interview techniques from the survey to screen new clients.¹⁰⁰ One manager found it “nice to meet the clients. “ because her job didn’t require much client level interaction (M12, July 2011).

All staff interviewed (10 out of 10) could accurately describe the mission statement of the company. Several had a normative perspective on empowerment, they highlighted women should become independent, confident and have control over decision-making.¹⁰¹ Others mentioned the practical barriers and norms constraining women’s empowerment and entrepreneurship. Particularly women lacked access to education and employment opportunities. There were perceptions in Tajikistan that

⁹⁹ - It is good for our work to. "...For example we have bonuses for women targeting, so it’s good for us to understand also the need for women. Because it is for our work and the results also lead to a bonus. " - M8b, July 2011

- She like “bonuses are offered “ to her. - M12, July 2011

¹⁰⁰ - “He uses some of the questions for the clients. When they come to the office.” [and apply for a new loan] SLO4, Rudaki

- [He liked] the questions on the business planning, women’s empowerment, and income sources for the household."I also use some questions a lot when working. Sometimes when we introduce ourselves with the customers we now observe better their character. The interview questions and techniques are helpful here. "Q6 we use for daily work, Q10-Q20 who control the household income. Q33 on entrepreneurial skills."- SLO5, July 2011

- “We used some of the questions in the screening process.” [For example,] “additional sources of income of family. “ - SLO7, July 2011

- Clients can get a loan on the basis of the information in the survey. - SLO3, July 2011

¹⁰¹ - “Women empowerment is about the level of decision-making of women and their self-confidence in the household.” - M1b, Jan 2011.

- “Knowledge is power. When a woman is not doing housework, but works for herself, she will be empowered. [Many Tajik] women work just for her husband and children and do all work as homework. It is because of that that IMON is looking for a start-up of business so they can make their life better and do what they like to do”. - M10, July 2011

- “In Tajikistan the best woman entrepreneur is one which is economically independent. She has no problems in understanding with the family and husband. ... She plans for the future and she needs to understand basic economics, costs and revenue. And of course she would need good communication and system and effective route with other systems, partners, competition.” - SM11, July 2011.

- Some women are very confident. Some are more attached to the family so the financial decisions are made in the family. The women who live on their own are more confident. - M12, July 2011.

men and women in practice do not have equal rights.¹⁰² Staff had a good awareness of the pilot and gender aspects (participant observation, Aug 2011).

Because of positive feedback from staff, the project team decided to continue trainings after the baseline survey (email 2010). “According to the results of conducted trainings we have received a good feedback as on the part of clients as well as on the part of trainers and have seen efficiency and usefulness of these trainings. At this stage of the project and analysing new demand from new women clients, we do not wish to stop on our achievements and we plan to actively to promote “GET Ahead” trainings and correspondingly to finance new women clients by ‘Start-up’ loan product.“After the end of the [ILO] project IMON plans annually to conduct a minimum of 90 trainings” (Project team leader e-mail June 2010).¹⁰³ In other words, the company decided to scale-up the program.

In July 2011, additional staff was hired for the marketing department (from 2 to 4 persons) and the NABWT (from 2 to 5 persons). IMON launched a new business development service and recruited a manager that coordinated the trainings. Although the initial plan was to conduct training sessions through external consultants hired by the NABWT, management decided to institutionalize training capacity within IMON. As highlighted by the BDS manager “All trainers are now in-house trainers” (M9, July 2011). The company designated an own fund of US\$ 35,000 for conducting the trainings (M1d, July 2012). Furthermore, with completion of a new head office and the enlargement of other branches IMON opened new training facilities.

¹⁰² - "There are no employment opportunities for women that want to work." - SLO3 July 2011

- Most of the ladies want to work and study, but their husbands don't let them. "The husband won't let them take the loan. The husband would do it only if he could benefit, but most of the time he said we can't do a loan. "....

- SLO4, July 2011

- "It is part of our tradition that women are lower than men... In Tajikistan we have few women who are educated and know about their rights. In the villages, few women can study. They are in the lower status...

“women have to take care of the children” is the mentality - SLO6, July 2011

She thinks that women first should be educated - SLO7, July 2011

- “if women don't know about the rights then it is comfortable for some men”- M8b, July 2011

- “Today many young boys work outside of Tajikistan and a large number of women live without their husband. When women marry, they start their marriage often with financial problems. This can cause divorces and all kind of social problems, because the family-in-law spent so much money on the wedding, they start to use wife as a toy.... Empowerment will take time.” - M8b, July 2011

¹⁰³ - This was also triangulated with the marketing manager who mentioned: “We have continued this project without the support and funds of the ILO. So it means for us that IMON sees the good direction of the work in this project. We see the real source of women attracting and education during this program.” - M1c, July 2011

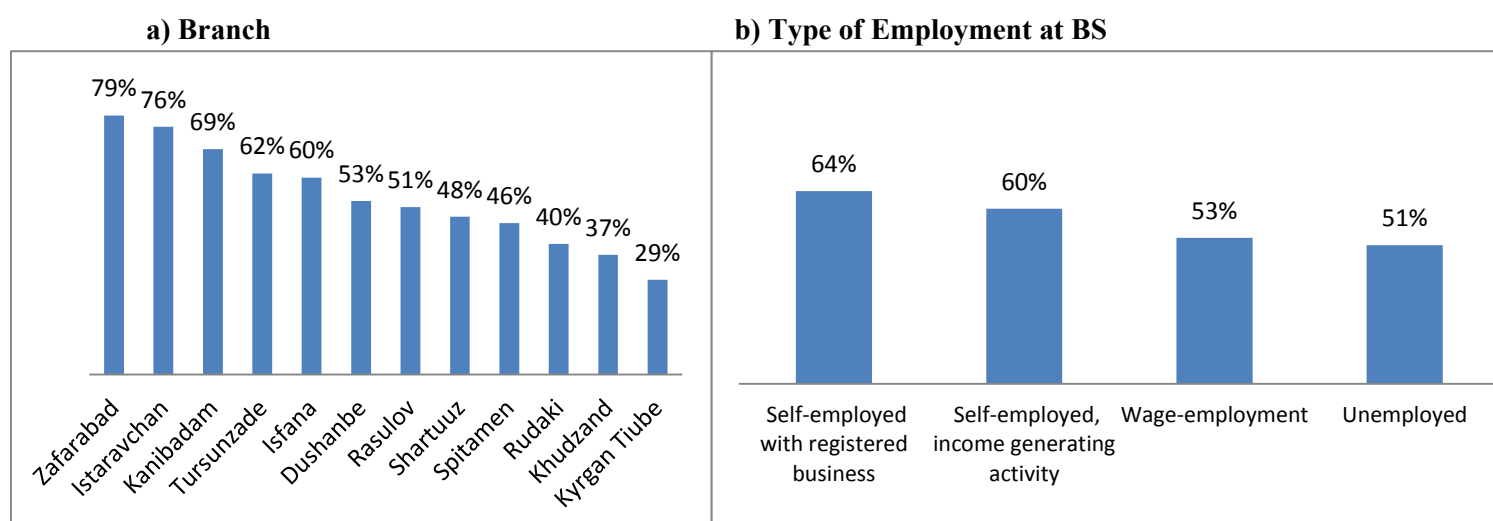
7.4. Empirical Findings

I will now turn to results as presented to IMON in three reports, namely baseline, first follow-up survey and final report. I focus on the demand for financial and non-financial services, women's entrepreneurship and empowerment and the business case of the pilot, because these were found most important for the MFO. More results are published elsewhere (ILO 2013b forthcoming).

Demand of Financial and Non-Financial Services

At the second follow-up survey, the percentage of women in the treatment group receiving a loan was 57%. The loan pick-up rate varied substantially per branch, for example, Istaravchan, Zafarabad, Kanibadam and Tursunzade were relatively successful in disbursing loans compared to other areas. Women with a registered business at base line were more likely to take the loan (see Figure 18 below).

Figure 18 Percentage of Loan Pick-up



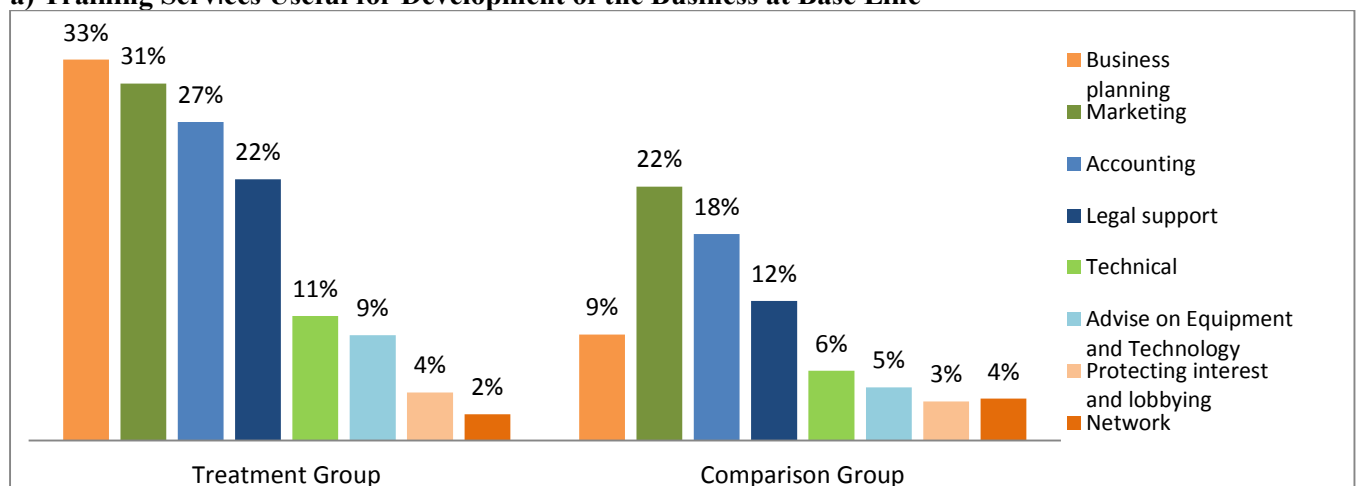
At baseline survey, almost all women in the treatment group reported to like the training (99%), however at the second follow-up survey only 258 out of 487 women (53% baseline and 62% of the repeat sample) reported to implement their business idea. Most of them (93%) did so within three months of the training. Business start-up was much higher for those who received the training and loan (83%) than those who received only the training (29%).

Women had a wide variety of business ideas before the launch of the training the most common ones related to clothing and textiles (26%) or animal and husbandry (25%). Interesting business ideas included starting an internet café, wedding salon, coffee bar, private school, catering service, textile business, jewellery shop and pharmacy.

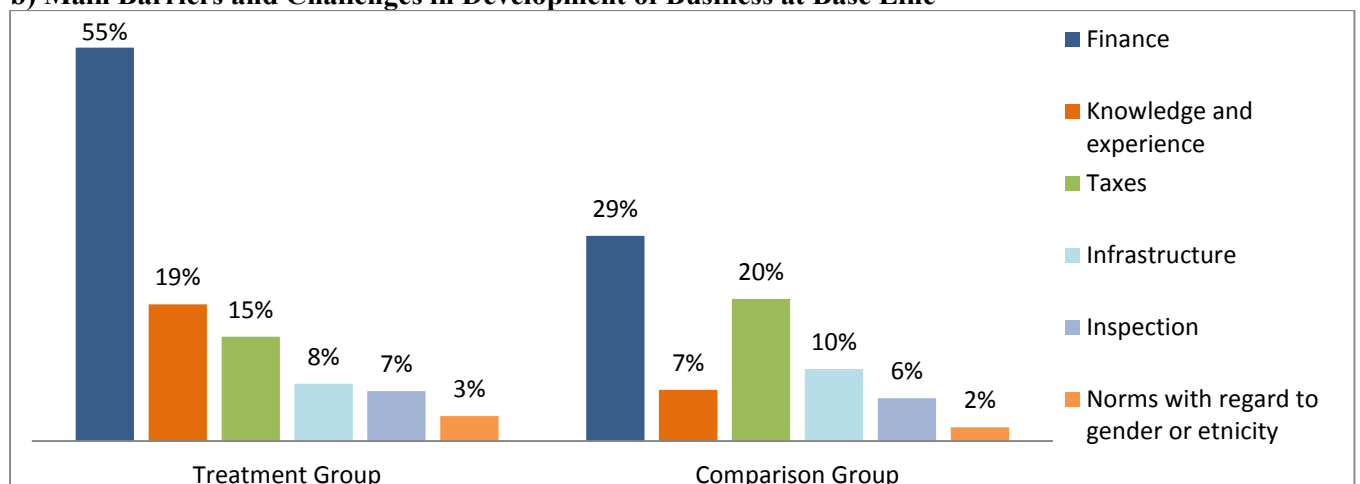
Figure 19a shows training needs were stronger for the treatment group than for the comparison group, at the baseline survey. The women were interested in training in business planning, marketing, accounting and legal support. Figure 19b illustrates barriers to entrepreneurship were access to finance, taxes and the level of business knowledge. We found barriers to finance for the treatment group reducing over time from 55% at baseline to 11% at the second follow-up survey, (while it declined from 29% to 9% for the comparison group). Also, the percentage of women viewing the lack of entrepreneurial knowledge and experience as a barrier decreased from 19% to 13% (while it stayed somewhat level for the comparison group, from 7% to 6%). As shown in Figure 19c, 158 women could not implement their idea. Reasons related to family member influence, the riskiness of the business plan, unforeseen expenses and lack of time.

Figure 19 Entrepreneurship Challenges and Barriers

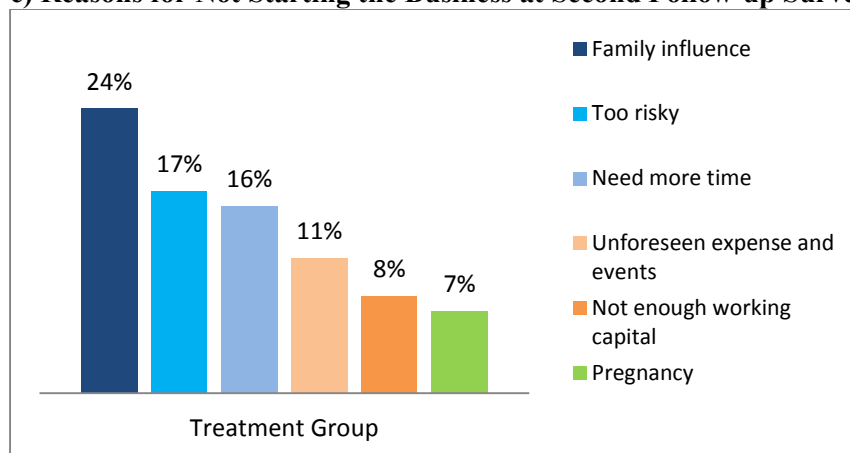
a) Training Services Useful for Development of the Business at Base Line



b) Main Barriers and Challenges in Development of Business at Base Line



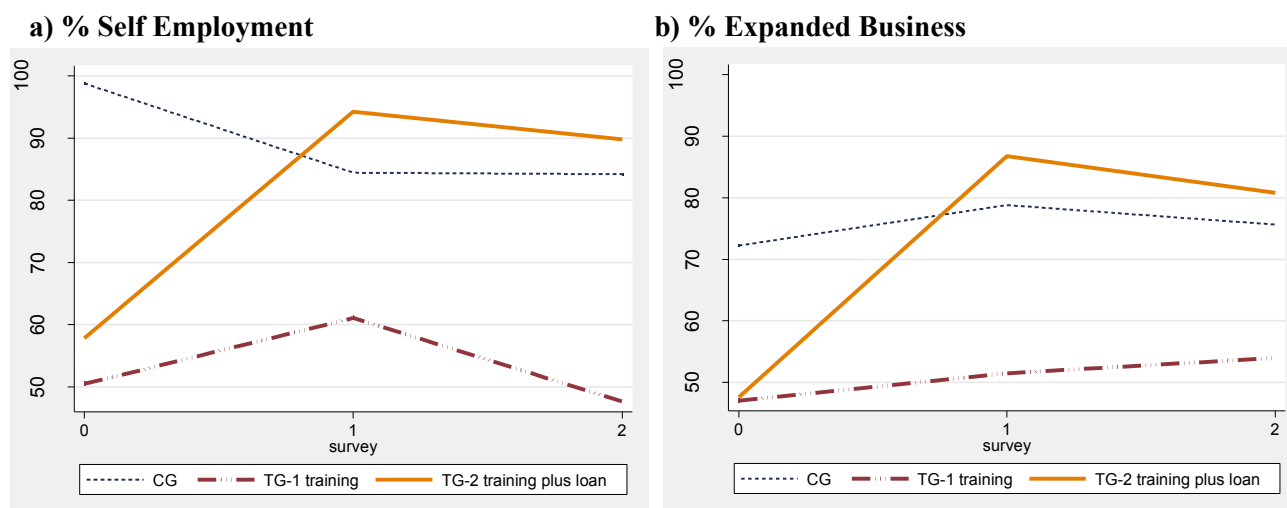
c) Reasons for Not Starting the Business at Second Follow-up Survey



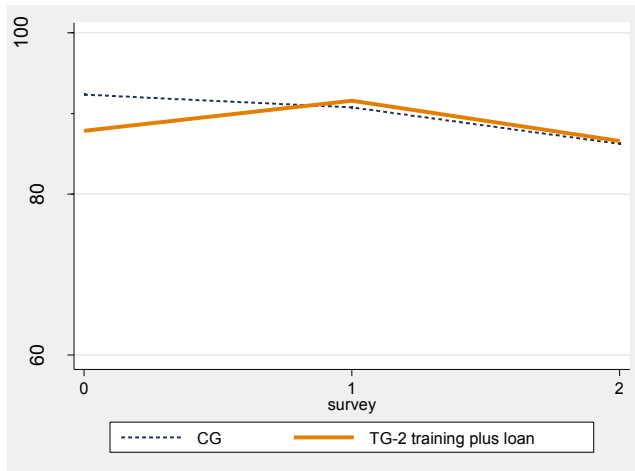
Women Entrepreneurship

Figure 20a and b show a strong increase in self-employment and business expansion, but predominantly for women who received both training and loan (TG2) and not for women who received only training (TG1). Results on entrepreneurial practices for TG2 were mixed (see Figure 20 c-d), there was an increase in business registration, awareness and usage of products of NABWT, but no effect was observed on reinvesting profits. The usage of products of the NABWT for TG2 increased from 4% at baseline to 22% at the second follow-up survey, compared to a small reduction for the comparison group from 9% to 7%.

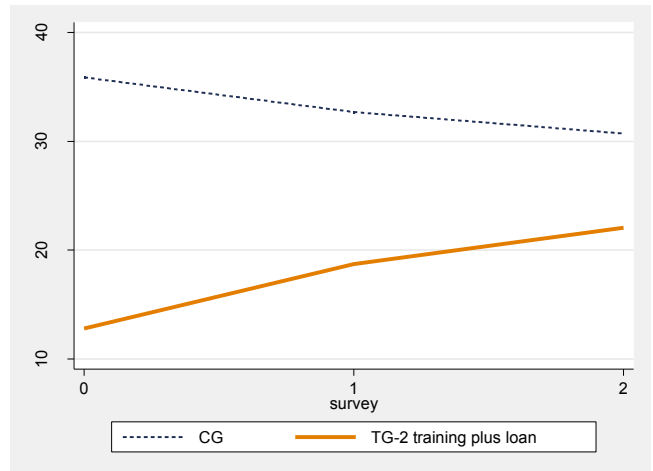
Figure 20 Women’s Self-employment and Entrepreneurship



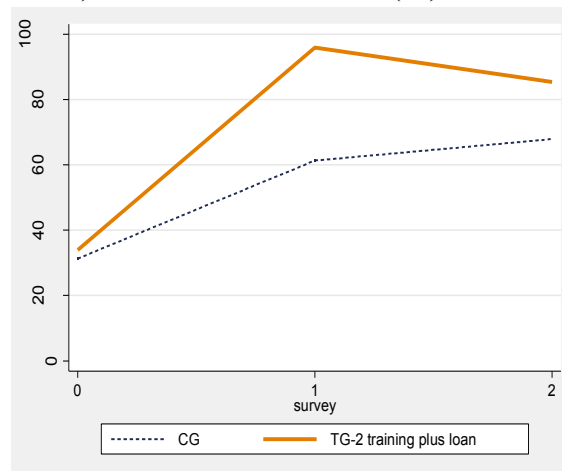
c) Reinvest Income into the Business (%)



d) Registered Business (%)



e) Awareness of NABWT (%)

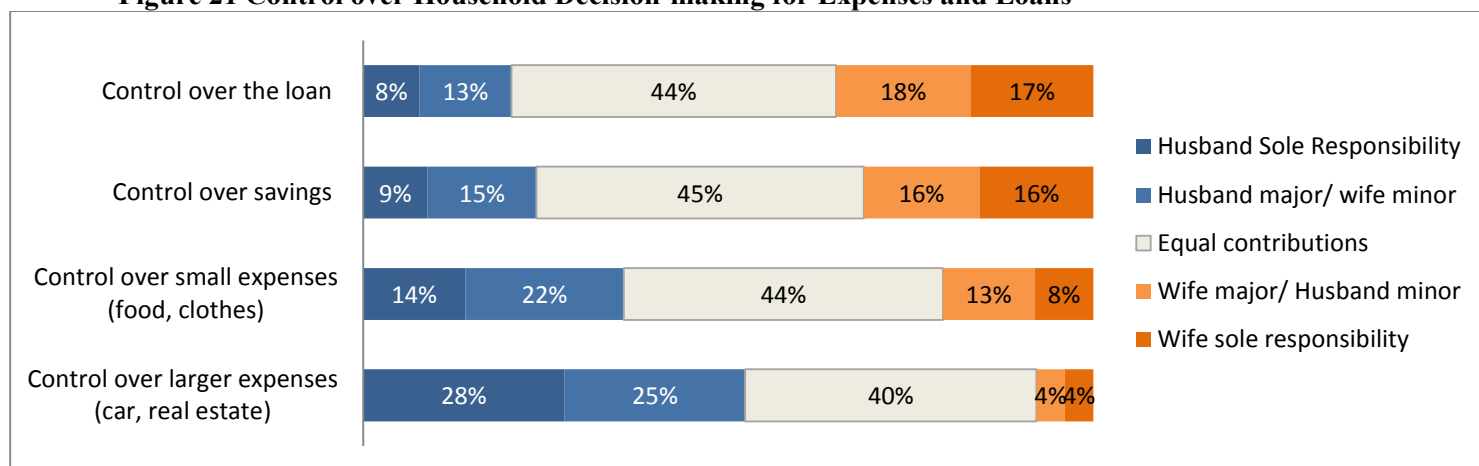


Women Empowerment

The survey asked several questions related to household decision making for small and large expenses, earnings and financial service usage. As illustrated in Figure 21, one key result is that women had more control over decisions relating to earnings and financial services, a moderate control over smaller expenses and very little control over larger expenses.¹⁰⁴ In 21% of the cases women did not control their loan.

¹⁰⁴ This resonates with Johnson (2003:293) who found that men tended to take care of large purchases and income streams, while women tended to take care of smaller household expenditure.

Figure 21 Control over Household Decision-making for Expenses and Loans



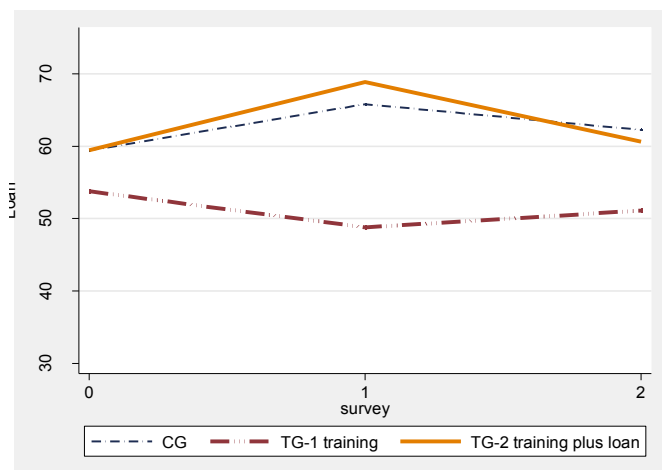
** Based on the full sample of married couples*

I computed three indexes for women’s empowerment varying from 0 (wife not in control) to 100 (wife in full control), namely control over for small expenses, large expenses, and financial services and earnings (see p146). Figure 22 shows that there was no impact of the training on women empowerment outcomes for TG2 (training plus loan), but a small negative effect for TG1 (training only). Women receiving only the training (TG1) experienced a reduction in control over household decision making for small and large expenses.

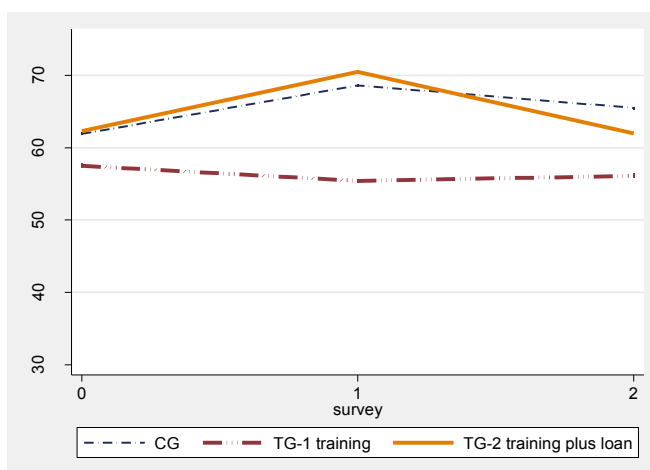
Regression analysis showed other factors were correlated with empowerment such as whether the woman lives or migrates into a rural area (small negative effect), whether the husband works abroad (small positive effect) and whether she was living in Northern Tajikistan (positive effect). The interview setting mattered, when a male loan officer interviewed a woman, she reported more positive empowerment outcomes than when she was interviewed by a female loan officer. This finding feeds back that it may be good practice to match the sex of the interviewer with that of the interviewed when doing gender studies (see Section 7.3, p147).

Figure 22 Empowerment Indexes

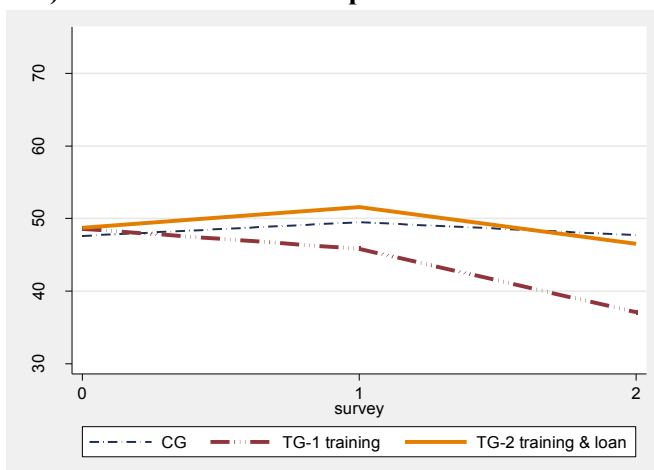
a) Control over Loan



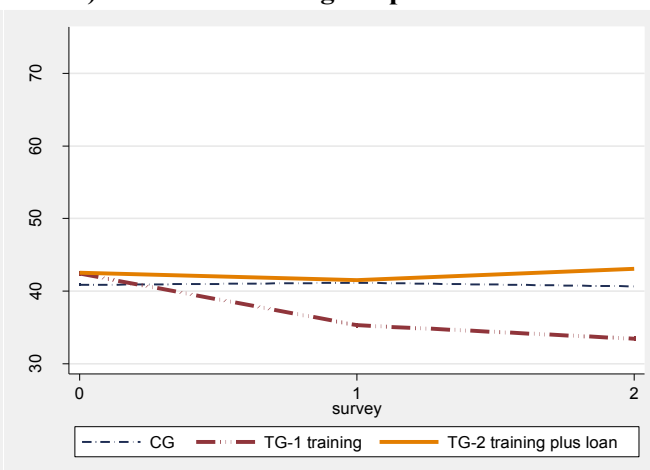
b) Control over Financial services and Earnings



c) Control over Small Expenses



d) Control over Large Expenses



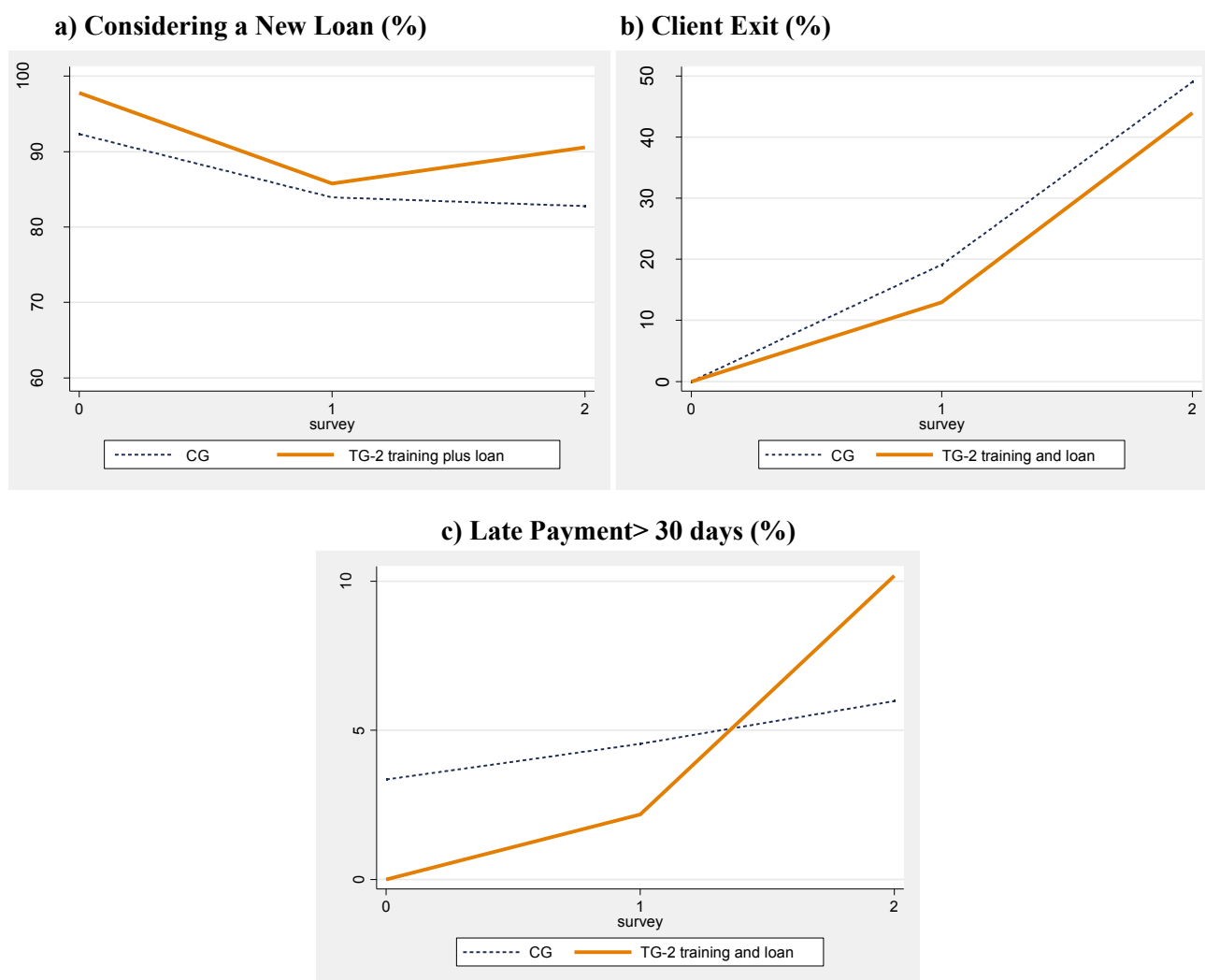
Business Case

In terms of economic benefits of the pilot I found mixed results. Women in TG2 and CG were somewhat equally interested to take a new loan after repayment. However, we found borrower exit rates for the TG2 to be lower than the comparison group. This is an important finding given high customer exit rates of 49% for the comparison group and 44% for TG2 at second follow-up survey.¹⁰⁵ The start-up loan was riskier compared to other loans in terms of the percentage of clients experiencing late payments. The training was free of charge for participants and approximately US\$ 28 marginal costs per borrower.¹⁰⁶

¹⁰⁵ This finding resonates with Karlan and Valdivia (2006, 2011 march).

¹⁰⁶ For IMON there was an average cost per training of US\$ 194. Given an average group of 12 women and a loan pickup rate of 57% this would be US\$ 28 per client. Such costs are in line with Bruegge et al (1999:6).

Figure 23 Customer Satisfaction



7.5. Organizational Learning in Relation to Results

Before describing how the organization acted on the findings of the assessment, I first need to establish how proactively results were disseminated in the organisation. Outcome reports were sent to the project team members and in particular the marketing manager was highly aware of the main findings (participant observation M1b, Jan 2011) Presentations were made for branch and other senior managers at the head office.¹⁰⁷ Results were presented at a conference in Tajikistan in the presence of the ILO, local authorities and ministry of labour.¹⁰⁸ “The conference of the ILO was nice, there was a

¹⁰⁷ "Yes, we have shared the results with all our staff at the headquarters. I shared with the directors, branch managers and top level and medium level management was introduced this report. Before the round table in Dushanbe all the staff has discussed the results." - M1c, July 2011

¹⁰⁸ - “It was huge. Up to a 100 people attended the conference.” - M10, July 2011

good presentation. There were clients who received start-up loans and there was a good sharing of experiences of clients” (SM 15 Aug 2011). However, during interviews most staff could not mention key findings of the reports. Several field level staff mentioned to be interested to hear about the results of the survey, but were not shared reports by senior management.¹⁰⁹

The assessment generated several debates and actions with regard to the demand for financial and non-financial services. It surprised the project team members to find that the start-up loan training “attracted relatively young women” (M1b, Jan 2011; also SM15 July 2011). It was interesting “to see the barriers and challenges for women in entrepreneurship.” What surprised the marketing manager was that “40% of the women could not estimate their own income levels.” [And that] “Women do not have tools for business planning.” Results showed the “type of business which is more popular for women.” and this turned out to be useful for revising the marketing strategy (M1b, Jan 2011).

In terms of women’s empowerment, the result that, “larger purchases are controlled by man led to the question how to make more effective the marketing of products such as consumption loans”.... (M1b, Jan 2011). It meant, “nowadays we understand that probably it is not so important to increase the number of women in our portfolio, but we have to think about women’s empowerment and women impact in increasing our portfolio” (M1c, July 2011). After the baseline report an internal workshop was organised that discussed whether “to increase the empowerment of women or to statistically increase the number of women in the portfolio. It was a big discussion. We did not come to the solution. We will await other reports and will see further. In my opinion, we should improve women’s empowerment” (M1c, July 2011).

Furthermore IMON found many constraints to what microfinance can do to “help our clients in their struggle with the entrepreneurship and to improve their financial education level” (M1c, July 2011). Indeed, many of the barriers mentioned by female clients (lack of knowledge, experience and problems with taxes) as well as observed by staff (lack of passports, societal and gender norms), required a different support than only microfinance services. IMON was unable to support the training needs of women through its core-activities of lending and the company itself had limited capacity and

¹⁰⁹ He was not shared the report but hoped to see “The results after the interview. I would like to get more information.” – SLO5, July 2011

- One loan expert remembered, she “read about it in the newspaper IMON distributes” – SLO 6 July 2011

- The branch director shared some of the results of the start-up loan product. “We are surprised in our branch it is not working so good, but in other regions the start-up loan packages seems to work. She is interested to know the results of the interview. – SLO7, July 2011

- He was not send the report. Some results were shared in the round table discussions. At this meeting there were representatives of the government and the ministry of labor and several clients attended this meeting. “We also provided information on project beneficiaries to other organizations such as associations.” - M8, July 2011

resources at its disposal. As a result, it was planning to work more in partnership with other agencies (CEO, SM17b, July 2011; SM16b, July 2011).¹¹⁰

Data on “client satisfaction was useful. Specifically the fact that scores were quite good for customer services and that clients were dissatisfied with the interest rates. ... IMON may try to reduce interest rates or develop special loans” (M1b, Jan 2011). However, improving customer satisfaction by lowering interest rates was in tension with the sustainability of the start-up loan and instead the company increased the interest rate by 1% to finance part of the training costs.¹¹¹ Several staff were critical about this increase and highlighted it makes it more difficult to repay the loan.¹¹²

Based on staff feedback rather than the results of the reports (see p150), other adaptations were made to the product, see Table 25 below. First, husbands or other family members were invited at the last day of the training to ensure there was sufficient support in the household to help women in starting up the business. Second, round tables and “open doors” were organized with local municipalities and clients to introduce them to IMON’s activities.¹¹³ Third, scaling up of the pilot itself increased training frequency and reduced the loan application period for women. By reducing the training from four to three days, it became easier for trainers and participants to attend. It also reduced training costs. There was a reduction in collateral requirements by allowing group guarantee schemes intended to make loans more accessible for women (M1d, June 2012; ILO 2013b, forthcoming).

¹¹⁰ - “We realize that we need to build alliances and with other institutions”. Social performance is important here... “As a bank you cannot partner with other institutions that easily.”...“We partnered with NGOs that work on agricultural loans and gender. ...Specifically we partnered with USAID on agroloans... another local NGO helps to send information on market prices informing farmers about the food price.” – SM16, July 2011

¹¹¹ - However the opposite was realized, in order to ensure “stability of this training project, from the next year we plan to put some little fees from clients to cover some costs of the project and thus to make it more stable and viable” – email SM16, June 2010

¹¹² - “The Interest rate of the start-up product should be similar to a normal loan to make it more attractive and because it is too high for women to pay back on time.” - SLO13, July 2011
The interest rate is high. “The start-up loan charges 28% and the normal loan 27%.” -SLO5, July 2011

¹¹³ - “With clients ‘open door’ we invite clients and local authorities and provide the information on some of the findings from the social reports.” -CEO, SM17b, July 2011
- “We have discussions on gender and women’s rights. We take part in a meeting in the office.Furthermore we speak with the local governments and in schools.” -SLO6, July 2011

Table 25 Modifications Made to the Pilot

Feedback from staff	Modification
Slow loan application period because of limited demand and number of trainers in several regions	Increase the frequency of trainings by up-scaling the pilot.
Gender norms of government and community bodies	Organize round tables and “open doors” before launch of the product to get buy-in from local government.
The husband wanted to be involved in women enterprise training	The husband can participate at the diploma session of the training to get support of the spouse
Women do not have collateral	Reduce collateral requirement
Women often had old and invalid passports	Support women in getting their passport.
Dissatisfaction of customers with high interest rates and loan period	Unaddressed, interest rates increased by 1% to pay for the training.

Beyond modifying the start-up loan product, the pilot had several spin off initiatives, namely the launch of new non-financial services, a project offering women new passports, and an assessment of working conditions. These initiatives were implemented through partnerships with other organisations and as part of the broader action plan to mitigate mission drift (M1b, Jan 2011). While the effectiveness of these partnerships is beyond the scope of this research, I will describe each of the projects in order to highlight one crucial point for this thesis.

Firstly, the start-up loan product triggered a need for non-financial services initiatives. “We saw the main challenges in the business development and according to this we also created the Business Development Department. So nowadays, we think about what the organisation can do against these challenges to promote women’s entrepreneurship” (M1c, July 2011). “The [ILO] project was the first step towards improving IMON’s non-financial services.... This project was very nice for us in attracting the women clients... Also after this [assessment] we have an idea to implement a new project financial education to clients.... its original idea came from the ILO program” (M1c, July 2011). As another manager mentioned “IMON now offers social products, the first was the start-up loan” (SM16b, July 2011). The company launched agricultural training services with a local NGO, financial literacy modules with Oikocredit, and client consultations with the MFC (M9, July 2011).

Second, as described in Section 7.3, (p151) during the implementation of the pilot, IMON found women had invalid passports that sometimes even dated from the former Soviet Union. As a result, the company launched the project ‘passportization of women’. “We go to the rural areas and we found out 20-30 women that don’t have a passport. We make an agreement, IMON pays the fee of the passport and we give them the passports. Two such events were held in Isafara and Kumsanghir, in total we had for more than 50 passports. The costs per passport are five US\$... We sign a letter to the authorities and pay directly to the government. If a woman would go to this authority personally, she would have to pay a large penalty” (M1c, July 2011). For IMON the initiative reduced the problem of documentation requirements, for clients it may improve formalisation.

Thirdly, because of the many entrepreneurship challenges faced by women and the experience that most of them “didn’t receive any advantage of the membership of the association”, IMON revised the strategy of the NABWT. “In the last two years NABWT had many big projects” (M1b, July 2011) and “offers more training products” (SM15, July 2011). The business association grew from 380 members in 2009 to 2.150 in 2012 (ILO, forthcoming 2013). One assessment that arose out of the revised strategy of the women’s business association was the SAFE CITY project with UNIFEM researching working conditions of clients. The NABWT “conducted some research of our markets [e.g. bazaars] ... What can the local government do to make the working conditions for women who work in the markets better? It was a big research and as a result they made different changes in working conditions in the markets” (M1c, July 2011; NABWT 2010).

Interestingly, the spin-off initiatives mentioned above related to decent work aspects of financial education, formalisation and working conditions, and this happened to be the exact same list submitted to the ILO in the initial proposal in February 2009, after completion of the diagnostic phase (see Section 7.2, p141). These ideas were considered relevant for addressing mission drift of the company. It raised a question for me would IMON would have done these projects anyway without the ILO support?

Quotes from the CEO illustrated that the ILO support may have speeded up the company plans but they were likely to be implemented anyway: “We would like to have more training on gender as a social goal. The financial resources and especially technical assistance is needed. Using only our own resources will take too much time.” (CEO SM17b, July 2011). The ILO project formed “the first step for us to return to the social business model” and tackle “mission drift” (M1c, July 2011). We “started to work on the ILO project to emphasize social performance for IMON as a commercial entity” (CEO, SM17b, July 2011). The CEO reported the budget spent on social performance had increased every year from 2009 to 2011. Her vision was that “for gender to be implemented you need more than only the product, you need several aspects including offices, staff, members. You need to think about the motivation of loan officers, special products for women, you need a revolutionary change.” For example, “we do not have many specific products for women at the moment in IMON” (CEO July 2011). She felt substantial work needed to be done before this vision could be implemented. I conclude here that the aim of the CEO was to embed gender into the routine operations of the MFO rather than simply to improve female targeting.

As reflected by the CEO (July 2011) “before we had a declaration rather than a strategy. Now it becomes part of our reports, strategic plan, information system, policy and procedures. There is no specific social performance strategic plan, but there is an action plan... There is still a gap in our

social goals and we need expertise” (CEO July 2011). So this somewhat illustrates that in 2011, the main motivation to engage in SPM remained internal to the organisation.

The CEO considered the main economic benefit of implementing SPM to be strengthening the organisational identity of the company and to build partnerships. Also “clients were offered loans, trainings, consultancy. All these things also help to deliver financial services” (CEO, July 2011). Another manager pointed out the importance of reputation “to attract social investors,” and “increase the image among public partners and government authorities.” as well as “improve loyalty of clients to the organisation” (SM 16, July 2011). Overall it was felt social performance demanded a lot of company resources; particularly “time”... [of staff]. As well as “financial costs of the management information systems” and “cost related to attract consultants” (CEO July 2011), “training and marketing” (SM 16b, July 2011). As mentioned by one senior manager, in general SPM “is not commercially attractive for IMON.” However, “We understand that without social activities in our market we cannot do more. We feel social performance should be part of our business.”... “The social activities should be integrated” (SM 16b, July 2011).

As described on page 157 in November 2009, IMON spoke of a pilot. However, in June 2010 the decision was made to scale up the pilot even before the results of the assessment were fully reported. In July 2011, the pilot was reported to be a regular product and by June 2012 adaptations were made to the product in such a way that it had become a sustainable intervention. Up to June 2012, 2,164 women were trained and 1,245 start-up loans were disbursed. By the end of 2013 the company aimed to train 1200 women and achieve a loan pickup rate of 70%. The number of trainers within IMON increased from 13 to 46.

Table 26 Scaling up the Start-up Loan Product

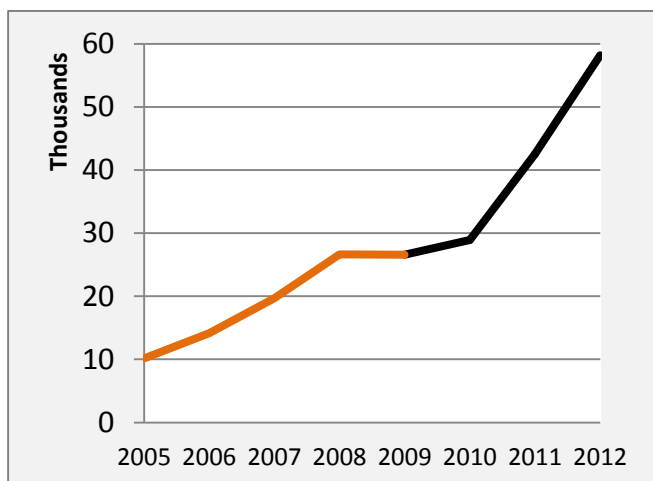
Year	Number of training participants	Number of disbursed loans	% Pickup rate
2009	149	63	42%
2010	598	365	61%
2011	901	542	60%
June-2012	516	315	61%
Total	2.164	1.285	

The start-up loan had achieved a positive net margin of 3,2% (compared to 6% on other loans) and had a low portfolio at risk 1,5% (compared to 5% for other loans). Despite, as was shown by the assessment, women’s empowerment was not achieved and for some participants was found to be negative, IMON “created” a “business case” for the pilot.

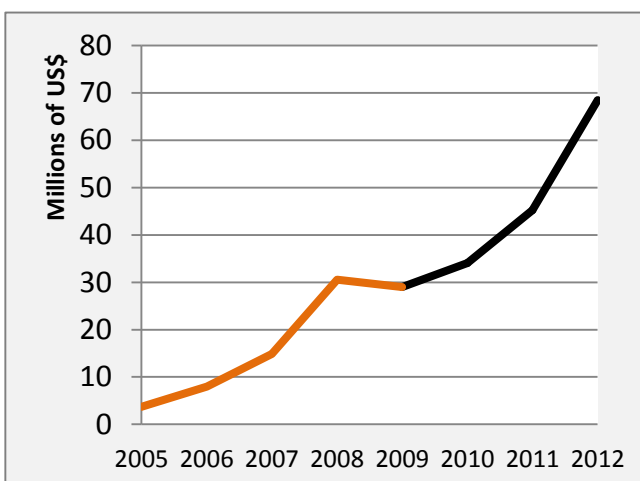
The company itself experienced strong financial performance over the period 2009 to 2012 in terms of return on assets, operational self-sufficiency and portfolio at risk (see Table 27). New investors had come on board in September 2011. IMON had almost achieved its ambitious growth plans of 35% per annum in terms of number of borrowers and gross loan portfolio (see Figure 24), but the percentage female clients had not increased.

Figure 24 Growth of IMON

a) Number of Active Borrowers



b) Loan portfolio in Mln (US\$)



c) Percentage Female Borrowers

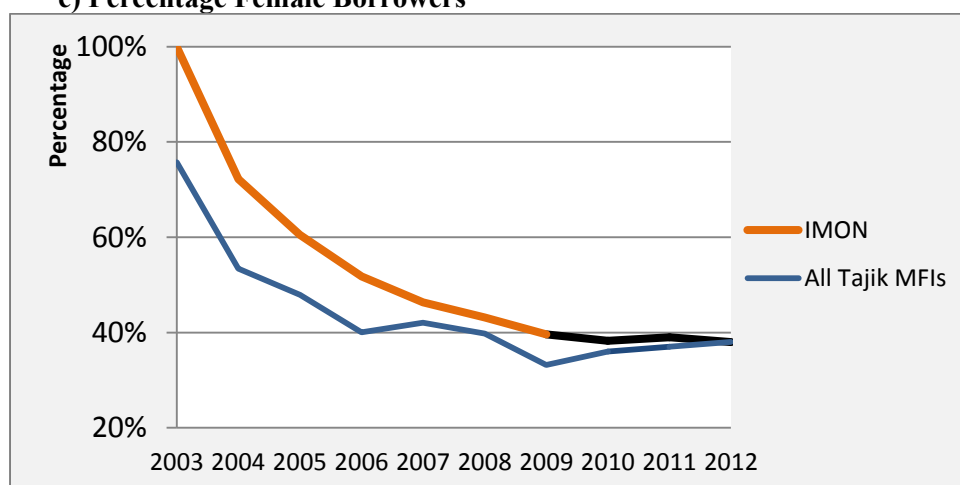


Table 27 Financial Performance Indicators IMON

Financial Indicator	Dec 2009	Dec 2012	Nominal Change
Number of borrowers	26,602	58,186	+31,584
Gross loan portfolio Mln US\$	28.9	68,4	+39.5
Return on Assets	7%	5.9%	-1.1%
Operational Self-Sufficiency	149%	137.5%	-11.5%
Operational expenses/ assets	9.7%	12.7%	+3%
Portfolio at Risk 30	4.6%	4%	-0.6%

* Source Mix Market accessed 8-02-2013 and 11-08-2013.

7.6. *Concluding Remarks on Capacity for SPM*

Overall, the capacity of the company to engage in SPM improved over the period 2009 to 2012 and the main driver to do SPM activities remained internal to the company. This view was supported by the social rating report, which gave the highest A+ rating, implying low risks of mission drift for the company (Microfinanza 2010). It was also illustrated by the CEO who mentioned, “we found that you cannot do [SPM] one time and stop. You have to do it regularly” (CEO, SM17b, July 2011). I discussed with the CEO that there is still a lack of human resources to conduct SPM given the other challenges mentioned in the previous Section. She mentioned, “at the moment we are hiring 50 new people every quarter. It is a challenge for management to transfer this knowledge to new staff. Human resources become important here. How should we integrate social performance in our departments? The management team is thinking to set up an internal task force that can monitor these aspects on a regular basis” (CEO, SM17b, July 2011).

I asked the project team leader whether he still felt there was a mission drift. He responded; “No, nowadays we have a wide window with our target clients, we have different type of products to meet their requirements, we have defined what differences we want to see in the life of our clients” (M1c, July 2011). “Previously it was mission drift in our organisation. We understand after this project that we have to come again to our mission. We understand that social responsible business is quite a good model to attract new clients. Even the risk management is better for the social business model. Nowadays we put attention not only on lending operations we seek to increase the level of education for our clients”. . . . “[The] start-up loan product was the first social product. Nowadays we have more products in the social direction” (M1c, July 2011). “For our social performance management system this project helps to define the future direction, we want to social and operationally effective.” (M1c, July 2011). Even though the pilot assessment showed limited improvements at client level particularly in terms of women’s empowerment, staff in the company felt the risk of mission drift had reduced as they were undertaking several actions.

Chapter VIII. Analysis and Conclusion

8.1. Introduction

Having described the two case studies, I now analyse the social enterprise models in terms of the feasibility of social performance assessment (Section 8.2) double bottom line management (Section 8.3) and changes in performance management in relation to the ILO project (Section 8.4). In line with Figure 4 (see Section 4.3, p72), I compare the findings from the two case studies for each of the research questions. I then discuss what lessons may be learned from them. Section 8.5 reflects on the argument as part of first, second, and third person action research (see Section 4.5). As described in Chapter I, (p8) this thesis aims to bring back to the literature a better understanding of how MFOs incorporate social goals into their PBM with reference to the ILO's decent work agenda.

8.2. Feasibility of Social Performance Assessment in Practice

I will start with a comparative analysis of the two case studies on the feasibility of social performance assessment in practice. This addresses the following set of questions; what determined the willingness and capacity of the MFOs to carry out the pilot assessment at the outset? What other activities were undertaken at the same time? How did the MFOs manage their decent work pilot assessments? What did they find in terms of outcomes? Section 8.2.2 will then reflect on the lessons learned in relation to the wider literature. Paragraphs that reflect on the findings across the two case studies are shown in italic.

8.2.1. Findings

1. What determined the willingness and capacity of the MFOs to carry out the decent work assessment at the outset of the pilot in 2009 (see Sections 6.2 and 7.2 and 5.3 to 5.5)?

For Bai Tushum the main driver for doing the pilot assessment was external to the organisation, namely to demonstrate job creation to external stakeholders specifically politicians, investors and donors. Staff implicitly assumed the organisation was achieving its social mission of job creation through its lending activities. Several staff believed that easier access to larger loans would create more jobs in clients' enterprises. It was also important for the pilot to be profitable and improve the competitive position of the company (see Section 6.2, p118).

For IMON the main driver for doing the pilot assessment was internal to the organizations' culture and values. Staff assumed the company was drifting from its social mission of promoting women's entrepreneurship and empowerment. The project team wanted to use the pilot as a way to increase capacity of its founder the NABWT and improve its linkage with IMON's lending activities. IMON's project team did not expect the pilot to become financially sustainable. Although they hoped the pilot outcomes could be useful in their relations with public policy institutions, this did not seem to be the dominant driver (see Section 7.2, p193).

Although both organisations used the ILO project as a way to drive a SPM agenda: for Bai Tushum the driver was more external to the organisation, while for IMON it was more internal. Both MFOs wanted to remain financially sustainable, although for IMON the pilot itself did not need to contribute to this.

As addressed in Section 5.5 (p115), at the outset of the pilot both MFOs considered themselves to be social enterprises that pursued double bottom line management with an employment related goal at the client level. However, I found strong differences in terms of organizational culture, human resource capacity, motivation, business thinking and their attitude towards the external environment.

2. What other initiatives were undertaken by the MFOs in PBM over the period 2009 to 2012 (see Sections 6.2 and 7.2)?

Bai Tushum launched several initiatives in SPM including the ILO pilot, a client loyalty program, a social rating and audit. Other strategic priorities were to remain financially sustainable by maintaining portfolio quality and growth, attracting new investors and transforming into a deposit taking institution (see Section 6.2, p120).

IMON launched an action plan in SPM that included the ILO pilot, implementation of client protection principles, a social rating and audit. Other strategic priorities were transforming into a deposit taking institution and maintaining portfolio quality and growth (see Section 7.2, p144).

Although the ILO pilot assessments were the largest projects in the area of SPM, the initiative had to compete with other interventions. In terms of the overall business activities and history of the companies, they were not large projects.

3. How did the MFOs manage their decent work pilot assessment (see Sections 6.3 and 7.3)?

For Bai Tushum, more than a desire to measure impact, the pilot formed an opportunity to experiment with social performance indicators and demonstrate job creation to external stakeholders. Although the ILO and I wanted to demonstrate ‘whether the pilot worked’, Bai Tushum’s project team was interested to explore ‘what enterprises were the job promoters’, and ‘why’ some were more successful than others. Rather than an impact assessment design with a comparison group, as advocated by the ILO and myself, this inclined Bai Tushum’s project team to a more adaptable and flexible methodology. During the implementation phase, the project team wanted to maintain the option to modify the pilot in case there were strong changes in the market or political environment (see Section 6.3.1, p120). When the Kyrgyz political crises broke out, the MFO incorporated the control branches into the pilot, making it impossible to measure impact. The ILO decided to shorten the number of surveys and we continued with a less rigorous assessment based on the available data (see Section 6.3, p124).

For IMON, the assessment had the objective of gaining understanding of the overall mission drift assumed by staff in the company. The project team wanted to understand women’s demand for financial and non-financial services, in addition to measuring the pilot’s effect. It aimed to improve targeting of women and support them in starting up new businesses. Demonstrating to others “whether the pilot worked” mattered less for them. They rejected a randomized controlled trial because this was considered impractical and unethical. Instead, we rolled out the pilot over a longer period to ensure there was sufficient human resource capacity to offer the trainings (see Section, p145). Given the practical constraints, we again implemented a less rigorous, but more practical methodology of matching the comparison group (see p145).

The MFOs were interested not just to know “whether” the pilot worked, but also “why”, “for whom” and “how” it could work better. Although at the outset the question of impact seemed interesting for both MFOs, it was not the only question. Both MFOs, but particularly IMON, were interested in knowing what results meant for other practices and activities in the company. There were also tensions between conducting rigorous impact assessment and maintaining flexibility in pilot implementation, and the actual assessment deviated from the planned strategy.

Bai Tushum staff found it was a challenge to collect good quality data, for example, for net income and working time. Data quality for several indicators such as job creation improved over time after communicating data errors with staff and conducting additional training for them. Moreover, the Kyrgyz political crises hampered data collection. Customer satisfaction and job creation triggered a

larger response, these indicators being both of better quality and more relevant for the company (see Section 6.3.3, p125).

IMON staff also experienced somewhat similar challenges during the data collection. Several performance indicators such as entrepreneurial skills and confidence turned out to be of weak quality. Quantitative and qualitative results hinted that empowerment outcomes depended on interview setting including the gender of the interviewer. It was hard to find certain groups of clients for the follow-up surveys, indicating dropouts were not randomly distributed across the sample. IMON acted on data relating to women's empowerment, entrepreneurship, and customer satisfaction because these were considered the most relevant indicators (see Section 7.3.3, p152).

The MFOs experienced challenges in collecting good quality data. Data errors were not random and reduced over time. There was a gradual learning on data quality and prioritization of performance metrics.

Bai Tushum' staff had to multi-task pilot implementation with their regular tasks at various levels in the organisation. The project team did not function as a unit. Senior managers had limited time to participate in the working groups and focused on other priorities including managing the political crisis, portfolio growth, and the company's transformation into a bank. These activities went at the expense of the time managers could designate to the pilot assessment. The marketing department coordinated a diverse set of tasks covering public relations, marketing, product development and social performance assessment. Management tried to motivate loan officers to administer the surveys by offering bonuses, but the field staff faced real difficulties in combining the survey activities with time spent on their regular daily work. The multi-task problems were exacerbated by the political crisis because staff came under pressure to sustain financial performance and portfolio quality (see Section 6.3.2, p121).

IMON's project team worked better as a unit. As part of a wider action plan, management implemented a balanced set of hard and soft incentive schemes. This included setting performance targets for disbursement of start-up loans and outreach to female borrowers. It further entailed the implementation of a gender policy for staff, training staff in offering the entrepreneurship module and setting up a qualitative reporting system to feed back the effectiveness of the start-up loan product (p148; p157). The marketing department combined a diverse set of tasks spanning public relations, marketing and social performance assessment, but seemed to manage this by dividing tasks and hiring additional people. Field staff felt they had sufficient time and remuneration for administering the survey and doing the trainings (see Section 7.3.2).

While both MFOs had limited human resource capacity, IMON integrated the pilot more effectively with its core-business. Other challenges in implementing the surveys related to staff motivation, training and incentive systems.

4. What did they find out as empirical outcomes (see Sections 6.4 and 7.4)?

For Bai Tushum we found no significant correlation between changes in loan size and job creation in clients' enterprises over the 12-month period. Other factors such as the level of income, type of work activity and client exit seemed to influence job creation. The pilot experiment informed the company of reasons for customer satisfaction and exit (see Section 6.4).

A limitation of the results is that the survey period covered only twelve months, during which the Kyrgyz economy suffered from the political crisis. Moreover, in the absence of a control group, the results could not causally link the new delivery system to the job creation outcomes (see p125).

IMON found that women faced many barriers to entrepreneurship. We found an increase in self-employment, business start-up and expansion, but mainly for women receiving the start-up loan and training. The assessment found mixed changes in women's business practices, including some increase in business registration and usage of services of NABWT, but no effect on reinvestment of income into the business. We found no effects on empowerment for women receiving both loans and training, but observed a small negative effect for women receiving only the training. In terms of the business case, the start-up loan was more risky for IMON, but it improved client retention (see Section 7.4).

A limitation of the results is that the matching methodology could not rule out selection bias, because the comparison and the treatment group were not statistically similar on all indicators at baseline survey and may subsequently have experienced different trends (see p151).

Both organisations did an assessment that informed them about changes in client outcomes, but that could not attribute impacts to the pilot. In general, changes in client level outcomes were minimal for both assessments.

8.2.2. Reflection on Findings

I will reflect on two related issues, namely the practical feasibility of doing social performance assessment and the desirability of doing impact evaluation from the perspectives of the MFOs.

Feasibility of Social Performance Assessment

While some of the challenges in implementing the assessment were technical such as setting up a survey and designing performance metrics, many others related to organizational processes including managing staff motivation, staff incentive systems, training, feedback of data audits and dealing with multi-task problems. The surveying activities had to become embedded into the companies' routine operations (see particularly Sections 5.3.5 and 5.4.5 and 6.3.3 and 7.3.3). Or drawing from a set of NIE and organisational learning literature (Kim 1993; Denzau and North 1994; Argyris and Schon 1996; Senge 2006), data collection processes depended on wider organisational systems and could not work in isolation from them.

The two case studies illustrated how the survey implementation itself depended on the existing routine processes in the companies, and how this in turn influenced data quality. In terms of the feasibility of doing impact measurement with MFOs more generally this is an important qualitative finding, since these routine processes are unlikely to be the same between MFOs or over time. For example, I observed a reduction in first-time reporting errors from baseline to end surveys. Also the IMON study suggests it is important to control for differences in interview setting and interviewers' characteristics because they resulted in different empowerment outcomes (see p162 and p154). This is a finding similar to Karlan and Zinman (2007). Likewise, dropouts were not randomly distributed across the sample. An impact assessment methodology would assume to some degree that these organisational processes could be controlled for or are randomly distributed across treatment and control group samples. While reduction of selection bias is used as a justification for doing RCTs (Karlan, and Goldberg 2007c; Duflo et al 2007), the two case studies indicate several biases as a result of implicit organisational processes relating to data quality that also lead to estimation errors. An open question for further research is what bias is more influential on final assessment outcomes "selection bias" (Duflo et al 2007:5), or what may be labelled as "organisational bias".

Interestingly, representatives of other MFOs that participated in the ILO project reported similar challenges while implementing the pilot assessment (see Table 4, p58) (Feedback of MFO at workshops in Jordan June 2012 and Luxembourg Nov 2012). Among the technical challenges were handling of panel data, the size of the questionnaire and staff understanding of the research method. However, most challenges related to the human resource capacity. These included the capacity of the project team leader, staff turnover, incentive schemes, need for staff training and limited time for the staff to conduct interviews. Several challenges related to implicit knowledge transfer, specifically the sensitization of the decent work pilots among the staff, the clients and the public authorities. Other challenges included communication with the external consultants, managing external shocks and difficulties in finding drop out clients (participant observations in Jordan June 2012, see also ILO

2012). An open question is whether these organisational processes receive sufficient attention in impact assessment literature.

Desirability to do Impact Assessment

A second lesson learned is that during the design phase of the assessment, myself and the ILO, were confronted with the need to balance our aspiration to do a rigorous impact assessment with the preference, capacity, and practical constraints of the MFOs. We wanted to do a randomized controlled trial to try to measure impact and inform management decision-making for MFOs. However, project teams did not want to select their treatment and control groups randomly for ethical and practical reasons. In hindsight, they had a desire to do more “business-wise” piloting. The case study of Bai Tushum shows the use of control groups might not be feasible for an MFO when experimenting in a complex environment with the core business of lending. The company could not “freeze” its “control and treatment” groups over a period of two years (see p120, p124).

At the outset of the project, I overestimated the capacity of Bai Tushum to do an impact assessment through large sample surveying. Under such circumstances, I think that the design of the assessment should have been made simpler without the use of a control group. Particularly, I think it would have been better to opt for a more gradual roll out of interviews, similar to IMON, allowing the assessment to become part of daily routine operations of the MFO. While data collection at fixed points in time leads to better impact estimates, it increased the workload for staff during the survey months because they had to do many interviews within a relatively short time span.

Having said that, the case studies resonate with Dick (1993:32) and contradict the theoretical idea that impact assessment methodology can be regarded a standardized single experiment in which no learning and process changes are allowed to take place over the assessment period (see Section 4.2, p68). From the MFO’s perspective innovation takes place through multiple experimentation with flexible and more organic piloting as advocated by Dick (1993:32), rather than through single causal experiments as advocated by supporters of RCTs (Shadish, Cook et al 2002; Karlan, and Goldberg 2007c; Duflo et al 2007).

Nonetheless, impact studies using RCTs have become increasingly popular among donor agencies.¹¹⁴ The main justification for these relatively expensive studies is that RCTs deal effectively with selection bias, making them highly rigorous in answering the question ‘was the program effective’ (e.g. Ashraf and Karlan 2005; Karlan and Valdivia 2006;2009; Karlan and Goldberg 2007; Duflo et al.

¹¹⁴ For example, as of 2013, the Poverty Action Lab conducted over 135 projects in 34 countries in microfinance and banking alone.

2007; Banerjee et al 2009, May, see p41). However, the case studies indicate this is far from the only question for the MFOs. This raises a serious issue for SPM described in Section 2.6 (p40); if the question of impact is not the only important question for MFOs, then why would impact assessments hold priority over qualitative and mixed methodologies (e.g. Barnes et al 2001; Nelson et al 2004; Imp-Act 2004; Dunn 2008,p40) that try to answer the other set of questions in ways that were desirable from the perspective of the MFOs.¹¹⁵

Karlan and Goldberg (2007:8) stress further that the high internal validity of impact assessment may lead to replications of pilots by other MFOs. However, the two case studies indicated the capacity to implement pilot assessments also depends on factors internal to the MFOs such as availability of human resources, communication in the project team, staff motivation and incentive schemes. Drawing from various NIE and OD literature these internal factors include organisational routines (Huczynski and Buchanan 2007:128-129; Osterloh and Frey 2000; Frey and Jegen 2000) and culture (Nooteboom 2000; Cameron 2008, see p17). They make it highly unlikely that implementing the same pilot into another MFOs will yield similar impact outcomes elsewhere *even* within a somewhat similar environment. For example, if the Tajik MFO Arvand had implemented the start-up loan program, it is questionable whether it would yielded similar outcomes because Arvand has a different organizational culture, motivational schemes, staff feedback systems etc. RCTs may be more suitable for pilots that can be implemented independently from internal organisational factors. For example, it may be easier to measure the impact of handing out financial literacy pamphlets than financial literacy training.

Moving back to the two case studies, this raises the question why the ILO insisted an impact assessment approach. As discussed in Section 3.4 (p58) one reason was to have some degree of comparability in methodology across the studies. The ILO wanted to avoid doing 16 completely heterogeneous studies and therefore chose for an overall methodological design, but allowing scope for variation in it. In my view, this was a good argument, but I also supported the option to be flexible: by not doing an RCT in the case of IMON, for example. Another reason was that it was necessary to feed back results to a wider audience. This included public policy institutions and donor agencies who demanded rigorous impact assessment methodologies. This is an area of constructive tension between

¹¹⁵ There is recognition on PAL's website that other assessments are better in answering multiple hypothesis, although they argue this should be done in combination with an RCT. "*At very basic level, randomized evaluation can answer the question: was the program effective? But if thoughtfully designed and implemented, it can also answer the questions, how effective was it? Were there unintended side-effects? Who benefited most? Who was harmed? Why did it work or not work? What lessons can be applied to other contexts, or if the program was scaled up? How cost effective was the program? How does it compare to other programs designed to accomplish similar goals? To answer these (just as interesting, if not more interesting) questions, the impact evaluation should be part of a larger package of evaluations and exercises*" [that includes need assessment, program theory assessment, process evaluation, impact evaluation, cost effectiveness analysis and other performance assessments].“ See <http://www.povertyactionlab.org/methodology/what-evaluation> accessed March 2013.

the ILO's agenda and the MFOs agendas. One important question is then how the assessment was used by the MFOs as a basis for action, which I will describe in the next Section.

8.3. Feasibility of Double Bottom Line Management for MFOs in Practice

How feasible was it in practice for the MFOs to combine social and financial performance management? I will first review how the MFOs acted on the empirical results of the pilot assessment in terms of new activities and knowledge, and what this revealed for the capacity to do SPM. Section 8.3.2 will then reflect on what this reveals about the sustainability of SPM and what tensions were observed in double bottom line management.

8.3.1. Findings

5. How did the MFOs act on the empirical findings to improve development practice (see Sections 6.5 and 7.5)?

For Bai Tushum, factors other than loan size were found to influence job creation in clients' enterprises. The management team considered the results to be a "temporary mission failure" rather than a "mission drift". They believed that job creation outcomes would improve after the political crisis. Perhaps the strongest form of learning was that senior management became more modest about Bai Tushum's capacity to create jobs. In addition, the MFO incorporated some of the job creation questions into its information system. The pilot also improved the company's understanding of the quality of customer satisfaction and led to a new survey (see p136).

Staff seemed to learn mostly from the direct experience of doing the assessment, rather than from the outcome reports. Field staff reported that doing the interviews was a useful experience, but it did not change their regular way of working. They viewed the assessment as an opportunity to interact with clients. Loan officers used it as a way to monitor the debt capacity of the borrower and rethink the products offered to them (see p128). Although field staff learned some possibly valuable lessons for the organization, they often did not transfer this knowledge to senior management. Likewise, even though field staff were interested in the outcomes, this information was not shared by the project team. Staff in turn provided limited feedback on the multi-task problem to the management team. When I informed the CEO, additional staff was hired. Management learned that they lacked human resource capacity to implement social performance interventions (see Section 6.5 and p129).

For IMON, the assessment reports generated additional understanding into barriers to women's entrepreneurship and the need for financial and non-financial services. Understanding more about the work activities and business types of women informed the marketing strategy. The reality check that 21% of the women had little control over their loan led to an internal debate on whether to increase the percentage of female borrowers or to promote women's empowerment (p165).

However, the main form of learning for IMON also seemed to come from doing the pilot and from staff experience. Field staff found it useful to do interviews and training and reported it changed their regular way of working. Several felt it improved their understanding of women's entrepreneurship and customer satisfaction. Others used the survey questions for screening of new clients (see p155). Challenges reported by staff in pilot implementation led to modifications of the start-up loan. Product changes included a shortening of the training duration, a reduction in documentation required and the involvement of family and local municipalities in product delivery. IMON seemed to have strong staff feedback mechanisms through regular qualitative reporting and staff training. In July 2011, management decided to do the training in-house leading to investments in human resources, training facilities and the start of a business development services department. The pilot led to new initiatives relating to financial literacy, formalization and working conditions. Having limited capacity to address the various training needs, IMON decided to work in partnership with other development agencies. Also the capacity of the NABWT improved as evidenced by an increase in membership and staff (see Section 7.5, p166).

For both MFOs, the main learning for staff came from the process of doing the assessment, rather than through reading the outcome reports. Evidencing this is that several new activities started before the dissemination of the results of the reports. Challenges and experiences of IMON staff were fed back to management, prompting modification to the pilot and new activities. For Bai Tushum the feedback loops were more limited.

At the outset, the project team of Bai Tushum expected the new credit delivery system to be profitable and improve the competitive position of the company. After the baseline survey, the pilot was implemented in all branches and effectively scaled up before management knew its social performance outcomes. As the pilot concerned a change in the core business of the company, it had to become a sustainable intervention. However, we found no correlation between job creation and loan volume, indicating little social performance outcomes (see Section 6.5, p138).

In contrast, IMON's project team did not expect the pilot to become a financially sustainable intervention. In June 2010, management decided to scale up the pilot before knowing the social performance outcomes of the assessment. In July 2011, the pilot turned into a regular product and as

of June 2012, it became a sustainable intervention. However, the outcome report showed the training did not improve women's empowerment (see Section 7.5, p169).

Both organisations scaled-up their pilots, but the decision to do so was made before social performance outcomes were formally reported and seemed to be based on experiential learning.

Bai Tushum remained financially sustainable accomplishing its planned portfolio growth over the period 2009 to 2012. The CEO considered the main benefits of SPM to be improved staff motivation, quality of services and customer satisfaction. The main costs came in terms of human resources (see Section 6.5, p138).

IMON remained financially sustainable and achieved its targeted portfolio growth over the period 2009 to 2012. The CEO considered the main economic benefits of SPM to be strengthening the organizational identity, building partnerships and supporting in the delivery of financial services. The main costs came in terms of human resources (see Section 7.5, p169).

Both organisations also achieved their financial performance targets. There seemed to be a “business case” for the pilot, but not necessarily a “social case”.

6. What capacity does this reveal in the organisations for social performance management (see Sections 6.6 and 7.6)?

Despite several initiatives, Bai Tushum's capacity to do SPM did not improve much from 2009 to 2012. In my view the organisation was vulnerable to mission drift. The main reason it pursued an employment creation goal remained external. One area of social performance that received more attention from management was customer satisfaction. However, instead of building more capacity to do better assessments, the marketing department decided to outsource the survey (see Section 6.6).

In contrast, the capacity of IMON to engage in SPM did improve over the period 2009 to 2012. Staff increased their awareness of barriers to women's entrepreneurship and undertook actions trying to reduce some of them. The project reported to be the first step in a return to the social business model and supported further embedding of gender into the operations of the MFO. Managers felt the risk of mission drift reduced (see Section 7.6). This view was supported by an external social rating report that gave IMON a strong social rating (Microfinanza 2010).

Over the period June 2009 to June 2012, the capacity to do SPM had improved for IMON, but not so much for Bai Tushum.

8.3.2. *Reflection on Findings*

I will now discuss what these findings may reveal about the sustainability of management of social goals in the MFOs. I will then analyse what factors contributed to the different outcomes in the companies by conducting comparative analysis of tensions in double bottom line management.

7. What does this reveal about the sustainability of SPM (see Sections 6.6 and 7.6)?

A key finding is that both MFOs (gradually) modified their decent work pilots into interventions that were sustainable and scaled up, even though the external evaluation reports showed the client outcomes were minimal. Both MFOs created a “business case” for the pilot, without demonstrating a clear “social case”.

How this happened may be illustrated by drawing from the concept of path dependency (Denzau and North 1994:22; North 2005:21; North 1994:364, and Copestake 2007, see Section 2.3, p19). First, the pilot itself could be viewed as path dependent, because it involved fixed investments or sunk costs. Both MFOs experienced costs and time spent in preparation of the pilot, doing staff training, generating staff awareness, pilot implementation etc. For example, for Bai Tushum such investments included the costs of dividing the credit department into a microloan and SME department. For IMON, fixed costs entailed the costs of setting up the start-up loan portfolio and training. Given these investments, some of which had positive organisational payoffs; it was unlikely that the project would be fully terminated, even if the desired social goals were not fully achieved.

More importantly, the new SPM initiatives may be viewed as having mutated gradually into the prevailing PBM of the company. The pilot itself co-evolved with other processes in the MFO and could not be seen in isolation from the overall organisational systems and culture (Boschma et al 2002:42-47; Denzau and North 1994:20). The pilot assessments ultimately were moulded to fit the dominant PBM of the companies, which as discussed in Section 5.5, was oriented towards financial goals. For Bai Tushum the pilot was not allowed to lose money from the outset. While for IMON the pilot was gradually made sustainable by increasing interest rates and reducing training days. As part of their own survival strategy of working in competitive markets, both MFOs prioritized sustainability and growth performance. The MFOs seemed constrained in their SPM by their own prior goals of maintaining financial sustainability. As such, I would view the double bottom line management for the case studies as combining financial and social objectives, but on the condition that financial sustainability for the pilots were not compromised in the medium term. I will return to this in Section 8.5.

The fact that both MFOs scaled-up their pilots before the outcome reports were known raises the question of whether managers based PBM decision-making on formal reporting, or on other factors. I will build here on the discussion in Section 8.2.2, (p180), as well as the debate in microfinance to what extent impact evaluation is useful for management decision-making (see Section 2.6, p40). Although advocates of SPM practices (e.g. Copestake et al. 2005:212) argue that impact assessment as an ad hoc activity is unlikely to lead to sustained improvements in development management, Karlan and Goldberg (2007) argue impact evaluation does result in better management decision-making. RCTs are justified because not knowing impact is “risky for lenders” and may result in scaling up ineffective pilots (Karlan and Goldberg 2007:8). Although the idea that impact assessment leads to management decision making is correct under the assumption of rational decision-making, it seemed challenged in practice by the two case studies. Innovation in the MFOs took place in a more organic way and seemed based on a mixture of multiple experimentation, experiential learning as well as ad hoc decision-making.

Interestingly, this does not imply the findings agree with Copestake and Simanowitz (2005:212) and Copestake et al (2005). Particularly, both case studies emphasize “learning by experiencing” the client level assessment rather than learning through more formal outcome reporting. For IMON, doing an impact evaluation as an ad hoc activity resulted in several improvements in their capacity to do assessments at the client level. It further led to intended and unintended spin-off activities in relation to the pilot. This resonates with Denzau and North (1994:366, see p16) as well as Roth (2008:478-479, p15) who emphasize that the “unintended” effects and discoveries *are at least* as important for performance management as “the intended” ones. That most learning of staff seemed to come from doing and experiencing the pilot assessment further illustrates the importance of path dependency in PBM (North 2005:21&25& Denzau and North 1994:13).

8. What tensions were observed in financial and social performance management?

I will now identify factors explaining differences in the capacity of the two MFOs to do SPM. Drawing from Copestake (2005:175-176 see Section 2.6) and building on the comparative analysis in Section 5.5, (p115), I position the MFOs on a set of management tensions relating to mission and ownership, operating environment and organisational capacity and culture (See Chapter V). In the context of limited information and scarce resources, managers need to make a variety of decisions within a multiple set of tensions. I identify these trade-offs based on the empirical findings of the two case studies and also by applying literature on management tensions to social enterprise models (Copestake 2005:175-176; Denzau and North’s 1994; Frey and Osterloh 2000; Senge 2006:129-162; Cameron’s 2008, see Section 2.2, p27).

For analytical purposes, Table 28 on page 189, maps activities of the companies associated with pulling resources towards business first strategies in the left column, perspectives that resonate with pulling resources towards development first strategies in the right column, and activities associated with social enterprise in the middle. Rather than claiming any of these perspectives are superior in terms of actual performance outcomes, the idea is to map to what degree the MFOs operated as a social enterprise. The Table analyses the wider performance management tensions in the companies, not only those that occurred during the implementation of the pilot. I will describe how the two MFOs were situated in these PBM tensions, and whether I observed changes over the period 2009 to June 2012.

As described in Sections 8.2 and 8.3, one tension I observed was a multi-task problem for the management and field staff. How to balance resources spent on the objectives of financial sustainability at the MFO level with social objectives at the client level (see Osterloh and Frey 2000:540; Frey and Jegen 2000; see p23; Armendariz and Murdoch 2007: ch10:266-267, see p42). Both MFOs expressed a strong commitment to remain financially sustainable and grow their portfolio. However, the MFOs monitored mainly financial objectives, the social objectives were less formalised and depended on implicit assumptions held by staff (see Section 5.5, p115). At the outset, Bai Tushum seemed to have a stronger banking culture compared to IMON that focused on human development. IMON's management gave more attention to the social mission, while for Bai Tushum's management it stayed somewhat similar over the period 2009 to 2012.

There was a tension for the MFOs to balance quantitative growth in the loan portfolio with more qualitative growth in organisational processes to build development values into performance management.¹¹⁶ This draws from Copestake (2005:175-176) as well as Thomas and Mohan (2007) who view development management as a qualitative process that involves building development values into organisations and not only focus on quantitative performance. Both MFOs managed to accomplish ambitious quantitative growth targets over the three-year period. However, IMON also strengthened its process management as part of an overall action plan to mitigate mission drift in the company. It included a redesign of staff incentive systems, staff training and product development. Bai Tushum managed to accomplish its transformation into a bank. There was a strong internal drive of management and other shareholders to become a commercial bank and substantial resources were

¹¹⁶ These tensions were also observed for other MFOs in Central Asia:

- One realization was that "The company is growing too large. So we have many branches and you can't do it anymore under my control"... "We opened up branches and suboffices in markets and conducted training for credit officers. All of them are from villages and they do not have financial education"- Chairman, ABN Credit Union, Oct 2011

- "We tried to go for a wide range of products and but maybe we did not have the human resources to grow that fast. The potential of an institution needs to grow as fast as human resources" this specifically refers to middle management. - CEO, Arvand, Oct 2009

- "we are funding money like crazy"... "we got to identify what percentage of over-indebtedness is there". - Finance Manager, Finca Kyrgyzstan, Oct 2009

designated to the transformation. Arguably, some of those resources went at the direct expense of the implementation of the ILO pilot. As such, I would say that IMON's PBM became more aligned with the idea of social enterprise, while Bai Tushum's perspective remained predominantly geared towards commercial banking with a corporate social responsibility component.

With regard to the way staff perceived the external environment, there was a tension between having an "inward looking" or an "outward looking" PBM. This follows the work of Cameron (2008) and Cameron, Quin et al. (2005) on organisational culture (see p27). The MFOs differed substantially on this; Bai Tushum had an outward looking organisational culture in that it found the competitive and political environment relevant for its own PBM, while IMON was described as an inward looking company that focused on integration and internal learning systems (see Section 5.5, p115). The way the organisations perceived the external environment did not change much from 2009 to 2012. In terms of the political environment, while Bai Tushum did not achieve its primary objective of informing politicians of their contribution to job creation, IMON managed to organize round tables with the ministry and local municipalities to raise awareness of the start-up loan product.

I observed a set of tensions in human resource management. Similar to Copestake (2005:175-176) there was a trade-off between recruitment and experience of staff with a banking background, as observed in Bai Tushum, and staff with a development and social sector background, as observed more for IMON. However, beyond this, the organisations also seemed to differ in terms of staff motivation, incentive schemes and organizational culture (see Section 5.5, p115).

Bai Tushum staff reported to be motivated by building strong career paths and having good working conditions and salaries. However, IMON staff was more motivated by the shared goals of the company such as support for clients and the company's reputation as a transparent and a leading organisation in Tajikistan.

The differences in staff motivation seemed to relate to differences in incentive schemes. At the outset, bonus systems in both companies were mainly geared towards financial performance (see Sections 5.3.5. and 5.4.5). Bai Tushum's recruitment system offered strong extrinsic motivational schemes through competitive salaries and good bonuses, in combination with rapid internal promotions to new job functions. This was done deliberately to hire and retain employees with good banking and microfinance experience. IMON had a mixture of intrinsic and extrinsic motivation schemes that combined reasonable salaries with strong internal learning systems. The latter aimed to integrate staff into the organizational culture. During the pilot implementation phase both MFOs implemented a mixture of extrinsic (e.g. bonuses for interviewers) and intrinsic motivational schemes (e.g. staff training) to do the social performance assessment. However, IMON in particular implemented a more

balanced set of extrinsic and intrinsic incentive schemes that aimed to stimulate staff's attention to social performance and went beyond the pilot practices. Following Osterloh and Frey (2000) and Frey and Jegen (2000), it is questionable whether using only extrinsic incentive systems would be effective in stimulating social performance objectives because measurement systems are weaker and objectives are more implicit and value-laden than financial performance goals. Thus, there appears to be a tension in using intrinsic or extrinsic motivation schemes in promoting SPM (see Section 2.3.4, p23).

At the outset, as part of the organisational culture, the management of Bai Tushum assumed the company was delivering on its social mission of job creation. However, IMON's management had a more open mind-set and accepted the idea that the company might not be delivering on its social mission. Equally important, staff discussed openly their ideas on women entrepreneurship and empowerment within the organisation. As such, I observed a tension between having an open organisational culture, in which it was possible to challenge and dialogue about social performance, and a more closed culture, in which shared assumptions on mission achievement were either not tested properly or simply taken for granted. In the latter case, challenging shared assumptions may go against the status quo or "building block" assumptions of PBM and are therefore seen as undesirable or simply not needed. I will return to this last tension as part of the overall argument, which resonates with thinking around SMMs (Denzau and North 1994; Senge 2006:129-162; Argyris and Schon 1996).

Similar to Copestake (2005:166), I observed tensions between standardization and flexibility in product design, delivery and targeting. At the outset, both companies had six types of credit products with somewhat standardized delivery channels and flexibility for clients to adjust product features (see Section 5.5, p116). Bai Tushum started to offer deposit products, over the period 2009 to 2012, and this explains why the arrow points to the right. However, as part of the ILO pilot assessment, only modest changes were made in credit delivery of the company (see p124). Credit delivery remained based on the assumption that larger loans would target the SME segment leading to the creation of jobs. IMON started to offer several non-financial services and diversified its credit offer with three new loan products (see p167).

For both marketing departments there were tensions between, on the one hand, doing public relations and marketing, and on the other hand, spending time on social performance assessment and product development (see p175). Both marketing departments were under-staffed and had limited capacity to engage in all these tasks. To mitigate this problem, both MFOs set up departments for business development services. The MFOs also needed to decide whether to internalize assessments or

outsource them to external consultants or research agencies.¹¹⁷ At the outset of the pilot IMON had conducted several assessments together with the NABWT, while Bai Tushum did not conduct many social performance assessments. IMON continued to internalize its assessments including a survey on financial literacy and working conditions. In contrast, Bai Tushum outsourced its customer satisfaction survey.¹¹⁸

117 - This tension also occurred for other MFIs in Central Asia, for example the senior manager of First Microfinance Bank preferred to institutionalize the client level assessment and mentioned “we prefer not to use consultants“... there are “Too many consultants, it becomes an industry in its own right. “, - CEO FMFB, July 2011).

- While the senior manager from Finca Kyrgyzstan argued the opposite and emphasized “Loan officers are not experts in data collection, it is not their job”...”loan officers may be subjective” [Staff are busy] "they got other important issues". [and] "they may fill out the surveys themselves. ". - Finance Manager, Finca Kyrgyzstan, July 2011

118 Other MFOs in the ILO project faced a similar dilemma's; ESAF and NRSP reported to keep assessments in-house as it was considered useful for learning of staff, while PRIDE outsourced the assessment as it was considered too time consuming (presentation of 3 MFOs at the European Microfinance Platform in Luxembourg in November 2012,

Table 28 Performance Management Tensions in IMON and Bai Tushum

Management Tensions	Business first view (BF)	1 BF	2	3 Social Enterprise	4	5 DF	Development first view (DF)
Mission and Vision	Mission	1. Attention to pursuing financial sustainability and growth of the portfolio.		BT IMON →			Attention to the social mission. (e.g. wider impacts at the client level).
	Growth	2. Attention to quantitative financial growth targets (expansion of branches, commercialization and portfolio growth)		BT IMON →			Attention to control over more qualitative internal processes that build development values (Staff capacitation and learning, quality of monitoring and inventing new ways of working.)
Operating Environment	Ambition to the external environment	3. The organisation is outward looking organisation with a focus on competitive position and the external environment.	BT			IMON	The organisation is inward looking with focus on integration.
Organisational capacity and culture	Organisational culture and human resources	4. Staff (recruited) are experienced in microfinance and banking.	BT		IMON		Staff (recruited) are experienced in development and social work.
		5. Extrinsic motivational schemes (high salaries, bonuses and rapid internal promotions) Hiring outside employment from outside labour market with good expertise	BT	IMON →			Intrinsic motivational schemes, such as internal opportunities, training, and staff capacitation, hiring recent graduates, training of trainers.
	Product Design & Delivery methods	6. Strong shared assumptions held in the organization about social performance.	BT			IMON	Dialogue and open culture with the possibility to challenge shared assumptions on social performance
		7. Organisation has standardized products, delivery mechanisms and targeting policies with the aim to lower costs.		BT & IMON →			Organisation has diversified products with flexible delivery mechanisms and targeting with the aim to tailor to the needs of clients.
	Market Research and Social Performance Assessment	8. Spending time on marketing and PR. 9. Outsource Social performance assessment		BT	IMON →		Spending time on social performance assessment and product development
			← BT	IMON →		Insource social performance assessment.	

* Note the Table represents an analysis of the PBM of the entire organisation, not just the pilot assessment.

Several tensions that I observed were somewhat similar to those identified during the Imp-Act Consortium Action Research (Copestake et al 2005:175-176), namely those relating to mission, growth strategy, targeting methods, product development, experience and recruitment of staff (i.e. tension 1,2,4,7,8,9 in Table 28). Interestingly, as shown by the arrows, several of them tended to

change over the period 2009 to 2012. Managers in the MFO may be able to influence several of these aspects in a relatively short time span.

However, I also observed a set of different and perhaps new tensions in the areas of staff motivation and organisational culture and in particular the shared assumptions held by staff with regard to the external environment and social performance outcomes of the company (i.e. tensions 3,5,6 in Table 28). Interestingly, as shown by the arrows, several of these tensions did not tend to change over the period 2009 to 2012. They relate to more implicit institutional factors that are internal to the organisational culture (Huyczinsky and Buchanan 2007:128-129; Osterloh and Frey 2000; Frey and Jegen 2000, Nooteboom 2000; Cameron 2008, see p17). Managers may have less direct influence on them in the short term, although they may be able to influence these aspects in the long term. These implicit organisational institutions may be viewed as more path dependent (Denzau and North 1994:22; North 2005:21; North 1994:364, and Copestake 2007, see Section 2.3, p19). Nonetheless, organisational culture and staff perception and motivation did influence the way the pilot was managed and implemented. Furthermore as an external agency the ILO and myself as a consultant, had limited influence on them.

Currently the literature on SPM in microfinance is predominantly focused on strategic planning and objectives, products and services, management information systems and assessment methodology. To my knowledge, there is little literature in microfinance on behavioural systems such as staff motivation, motivational schemes and organisational culture. Social rating agencies and auditors such as Microfinance, M-Cril and CERISE, barely look at the issue of organisational culture and shared staff perceptions as part of their overall assessment. The Social Performance Standards (SPTF 2012) that provides SPM process standards for MFOs, also largely ignores implicit organisational cultures and motivational factors (see for more discussion 8.5.3). Nonetheless, these factors seemed important for the development management of both MFOs. I will come back to this when I return to the overall argument on changes in PBM.

8.4. Influence of the ILO pilot on changes in Performance Management

This Section will further review changes in PBM of the two MFOs in relation to the ILO pilot. It draws from the concept of SMMs (Denzau and North 1994) as one way to reflect whether the ILO pilot “modified” or “broadened” the dominant SMM of the MFOs [i.e. double loop learning]. Or alternatively, whether changes were incremental and temporary following existing patterns of thinking that stay “within” the dominant SMM [single loop learning], see Section 4.4.3, (p75) and Section

2.3.4, (p23). In doing so, I will focus on the “building block assumptions” and shared institutional values and beliefs held by staff towards social performance. Second, the concept of SMMs is useful to reflect to what degree the ILO could influence the SMM of the MFOs.

8.4.1. Findings

9. To what extent did performance management practices of MFOs change over the period 2009 to 2012 (see Sections 6.5-6.6 and 7.5-7.6)?

For Bai Tushum, I did not observe much change in the SMM of the organisation or what may be described as “within mental model” learning. At the outset in 2009, several staff shared the assumption that the organisation was achieving its social mission of job creation as illustrated by the view that larger loans led to more job creation in enterprises of clients. When this assumption was challenged by the assessment, the reaction of management was that it was a temporary mission failure. Few actions were undertaken in relation to job creation, for example, the MFO did not invest more resources to try to achieve better outcomes. Senior management seemed to become more modest about the capacity to create jobs through lending services. However, in the annual report the company communicated only positive outcomes by lowering the performance standard, indicating it was important to demonstrate good results to the outside environment.

While the company had a normative social objective of job creation, in practice I would say, it was more commercially oriented and staff implicitly assumed lending operations continued to contribute to job creation (see Section 6.5, p137). The company’s SPM seemed constrained by its performance management of maintaining financial sustainability and portfolio growth (p138).

In 2009, IMON staff shared the assumption that the organization was drifting from its social mission of promoting women’s entrepreneurship and empowerment. I observed a mixture of “within” SMM learning and “broadening” of the SMM. I experienced a broadening of the SMM in the sense that staff became more aware of gender constraints for women entrepreneurs. There was an improved capacity to do gender interventions for both IMON and NABWT. The organisation undertook several actions with the aim to reduce mission drift and to become more balanced in its PBM, (see the analysis Table 28). However, at the same time, I observed “within mental model” learning because the company’s SPM initiatives remained constrained by the other objectives of reaching sustainability and growth. Despite that, the assessment showed no improvement in women’s empowerment, IMON gradually adapted the start-up loan product into a sustainable intervention by downscaling training duration and increasing interest rates (see Section 7.5, p164-171). A non-sustainable product was not a possible outcome.

In my perspective, IMON managed to broaden its SMM, while Bai Tushum did not. SPM initiatives were constrained by the financial performance objectives such as maintaining sustainability and growth, requiring SPM activities to become financially sustainable.

10. To what extent did an external agency as the ILO influence the performance management practices of the MFOs (see Sections 6.5 and 7.5)?

I have argued that the Bai Tushum pilot would likely have been implemented even without the ILO project because already at the outset the organisation intended to scale-up the pilot. Doing the pilot offered some value for the company by allowing it to experiment with employment related indicators and demonstrating results to external stakeholders (see Section 6.5, p138).

For IMON, I argued that although the ILO project may have speeded up social performance initiatives, it is again likely the company would have moved ahead with non-financial services products without the ILO's support. Nonetheless, as reported by the CEO, the ILO offered relevant technical support such as the training module and performance assessment. Managers reported that the pilot functioned as a first activity in addressing mission drift, (see Section 7.5, p168).

The ILO may offer technical support to MFOs such as setting up a survey and providing training modules. However, as an external agency, it had limited influence on the functioning of both MFOs. Particularly, there was little influence on more internal processes in the partner organisations including, for example, staff motivation, incentive schemes, staff and client feedback systems, organisational culture and multi-task problems.

8.4.2. Reflection on the Findings

I will now turn to the overall argument of the thesis, after which I will reflect on the premises and reasoning underpinning it, as well as its implications.

This thesis is on performance management of social enterprise models for MFOs. It assesses to what degree this model is *feasible in practice* in terms of incorporation of social performance assessment, double bottom line management and changes in performance management. Among one of the main differences between the two case studies was that at the outset for Bai Tushum the driver to do social performance assessment was relatively external to the organisation, namely to demonstrate job creation to external stakeholders specifically politicians, investors and donors. However, for IMON the driver to do the assessment was more internal to the company, namely to reaffirm the organisation's culture and historically embedded values, and to address social mission drift assumed

by staff in the company. Both organisations managed to inform themselves about client outcomes and received reality checks through doing the assessment. Pilot implementation was strongly constrained by the MFOs objective of trying to achieve financial sustainability and growth. PBM in both MFOs was strongly driven by financial performance objectives. Both MFOs scaled up their pilots and created a “business case” for it, although arguably the reports showed there was a minimal social case. For both MFOs learning seemed to come through implicit knowledge through doing the assessment and staff experience, rather than from explicit outcome reports. However, while IMON managed to enhance its capacity to do social performance management in terms of new activities, Bai Tushum did less so. Bai Tushum considered the assessment outcomes to be a temporary reality check, but for IMON it created more sustained changes in practices and perspectives of staff within the organisation. In my observation, IMON managed to create some “broadening” of its SMM by becoming more balanced in its performance management, while for Bai Tushum I observed predominantly within-mental model learning. The external influence of the ILO on performance management was limited, although for IMON reported the ILO support to speed up organisational change.

I argue that social performance management in social enterprises that is based on internal drivers is stronger in bringing about sustained organisational change than SPM driven by external drivers. External agencies such as the ILO can influence organisational change, but they are constrained by internal organisational values and institutions.

The MFO that had an internal driver to start the pilot (IMON) was more open to the idea of mission drift, while the case study MFO that was driven by more external factors (BT) was less open to the idea of mission drift as it needed to communicate positive performance outcomes to the external environment. In turn, the capacity to do social performance management was a function of the willingness to introduce social performance assessment into the organisations. For IMON there was a real need to build capacity for social performance management as staff in the organisation felt it was important to address mission drift. For the MFO with more external drivers (BT) there was no strong need to build internal capacity for doing assessment on job creation because they were not doing the evaluation for their own operations and activities. Instead, they acted on areas such as customer satisfaction because this was important for their PBM.

The reasoning behind the argument resonates and draws from a set of NIE literature that emphasizes the importance of “intrinsic motivation” (Osterloh and Frey 2000), “internal commitment” (Senge 2006) or “endogenous drivers” (Boettke, Coyne 2008 et al) for creating sustained organisational and institutional change (see Section 2.3.4, P25). Although these literatures are at different levels of abstraction, they argue that when an organisation’s PBM is driven by internal factors, they will be more committed to invest resources, build capacity and ownership (Frey and Osterloh 2000; Senge

2006, see p23). They are also more likely to institutionalize practices in ways that stick with local actors (Boettke, Coyne 2008 et al). When internally motivated, SMMs of the organisation may also be more open to learn from reality checks, and act on results (Denzau and North 1994:8-10; Senge 2006).

The argument further resonates with a set of development management literature described in Section 2.2,(p14), that points out externally imposed development management is unlikely to prevail, either because blue prints are not suitable for local contexts, unable to motivate local agents (Brinkerhof 2008:989-991), or too technocratic (Hulme 2007b; Sanderson 2001:309; Thomas and Mohan 2007:12). Likewise, the results of the thesis are sceptical about possible successes for development management that is more technocratic in nature (Binnendijk 1999; Meier 2003; ILO 2008a, see p13). In contrast, findings also do not resonate with the ideas of Cooke and Dar (2008, see p15) as effectively there was very little “social engineering” - the ILO ultimately had limited power over internal MFO practices.

8.5. Reflection on the Argument

I will now reflect on the argument as part of first, second and third person action research based on Reason and Mc-Ardle (2007) and Reason and Bradbury (2008) (see Section 4.5 p81).

8.5.1. First person Action Research

As part of first person action research, I will reflect on my personal learning, key premises of the argument and my choice to use the methodology of SMM.

Personal Learning

The key personal reflection is that myself and the ILO, did not have much influence on the functioning of the MFOs partners. In my view, we were simply not powerful enough to incept the idea of decent work into the SMMs of the MFOs. For BT, the “reality checks” of the assessment led to temporary changes in organisational practices. For IMON the support speeded up the SPM initiatives, and while these changes seemed sustainable, the organisation wanted to address its mission drift anyway because it was important for staff in the company. In reality, my contribution seemed marginal. I designed the survey, conducted data analysis and interacted with staff. However, without having much influence on more internal processes such as organisational culture, staff motivation, and staff feedback systems there were limited changes in SPM that the ILO staff and I could influence as external consultants.

This reality check was initially a painful learning experience for me; it was in tension with my own normative perspective since as a practitioner I do want to influence development practices (see Section 4.5: p82). An example of external support given by me that was of limited use for the MFO's management decision-making were the outcome reports. Although staff needed timely information looking at a variety of questions, the reports mainly tested the effectiveness of the pilot by comparing treatment and control groups. We disseminated reports to the MFOs several months after the surveys were conducted, because it took a significant amount of time to complete them. On a more positive note, I felt positive about the various unintended practices that the MFOs launched without me having much influence on it. For Bai Tushum this included improving customer satisfaction surveying and for IMON this included several spin off activities in non-financial services, working conditions and formalisation.

Bounded Rationality

The argument relies on a set of premises. As described in Section 2.3 (p16), the first set of premises surround bounded rationality and fundamental uncertainty that form building block assumptions of the concept of mental models. This implies a world where managers in social enterprises try to achieve the best possible social and financial outcomes, but there is a significant cost of information, a great degree of uncertainty in reaching performance, intended and unintended outcomes as well as limited feedback systems and knowledge transfer among actors. There will always be constructive tensions between the normative dimension, and reality, which is path dependent.

Second, the argument rests on a strong analytical distinction between internal and external drivers of organisational change, whereas within these extremes it is possible to argue that they represent poles along a spectrum. This is similar to Frey and Jegen (2000:5) who highlight difficulties to determine exactly which part of motivation is extrinsic and intrinsic. They recognize both forms of motivation are needed for organisational performance; however using only extrinsic incentive systems is unlikely to yield good performance outcomes. It further overlaps with Cameron (2008) and Cameron and Quinn et al. (2005)'s view that many companies are either "inward" or "outward looking" looking, but within this tension the level of magnitude may vary. The argument resonates with Boettke et al (2008) who accept the idea that organisations may partly adapt some exogenously imposed institutions if they are accepted by endogenous institutions. IMON exemplified this by using the ILO project as a way to speed up internal action plans for SPM.

Although the distinction between internal and external drivers is a deliberate attempt to simplify a complex reality, I argue this is still useful analytically to help understand different types of motivation. For example, Bai Tushum staff reported to be motivated by career making, salary and working conditions. This in contrast to IMON staff who were motivated by the company's support to clients and feeling part of a transparent and leading organisation (see Section 5.5, 115). The first

associates more clearly with monetary motivation, while the second with internal commitment and feeling part of a shared identity or culture.

Limitation in Methodology of Identifying SMMs

A limitation of using the concept of SMMs as a methodological framework is that mental models are themselves highly implicit. Even with close involvement of the researcher, it is by definition complex to understand and to generalise about how actors make decisions (Kim 1993:4). This is because implicit knowledge is difficult to transfer from actors to the researcher (Kim 1993:4; Osterloh and Frey 2000; Cameron 2008, see p17). Nonetheless, I am reasonably confident that it was not the formal reports that led to changes in performance management because “decision-makers” were often unaware of results and even made the “decisions” before the outcome reports were drafted. Managers in both MFOs decided to scale up their pilots before the social performance outcomes were reported to them. This also made logical sense, as managers could not “freeze” product roll out and await final results of the report after two years.

Furthermore, *what* actions were undertaken by the MFOs, were easier to observe than *why* those activities were undertaken.¹¹⁹ In some cases, staff did link the ILO assessment and the follow-up activities. In other cases, staff activities took place even before the ILO interventions, so it was clear they were not a direct result of the ILO activities. Data on why activities were undertaken could be triangulated with information gained from other interviews and sources to check credibility. In other cases, following the SMM framework (Denzau and North 1994) the actions may also have been based on a mixture of the ILO pilot, other interventions, existing beliefs and experiences and ad-hoc decisions.

Trying to identify SMMs in development management was challenging because the concept is highly abstract (Denzau and North 2005; Haase et al 2007). As recognized in Section 2.3, (p25), while there is some evidence from the field of psychology on how mental models function in practice this evidence is in itself limited and researchers use different inductive methods to identify them (Holland et al 1996; Richard 2001). It is important to recognize that with limited empirical underpinning, (see e.g. Richards 2001:259-260; Denzau and North 1994; North 2005), the idea of SMMs is itself a philosophically and socially constructed concept. Anything we see, or fail to see, can be identified by researchers as a mental model (ideologies, cause-and-effects models, worldviews, linguistic communication, schema's and analogies), making the concept seemingly vague.

¹¹⁹ It was not possible to *attribute* the ILO pilot assessment to a specific action, but it was possible to observe whether the pilot *contributed* or *linked* to new actions and ideas. Whether those activities would have been implemented even without the ILO pilot assessment was not possible to detect.

I started to understand the practical value of “SMMs” better by reading the more practitioner-based publications such as Kim (1993) and Argyris and Schon (1996) and Senge (2006), and by challenging belief systems as part of personal experiential learning. I believe the concept is still useful as a way for researchers to try to understand the social world around them. In addition, the concept is useful for explaining development management, particularly as a framework for how development values are embedded in the performance management of social enterprises.

Nonetheless, “SMM” is not microfinance related discourse, and in doing the fieldwork, I deliberately avoided the use of the term (see chapters 6 and 7). Instead, I was using notions such as ‘organisational culture’, or ‘mind-set’, or ‘challenging our assumptions’, which was more user-friendly discourse than the term ‘mental model’ or ‘belief system’. Nonetheless, the concept has a value for this thesis because it forms one way of explaining different (shared) perspectives of actors that are often implicit.

Furthermore, when I started the literature review I inductively identified three SMMs in microfinance based on the existing literature and wider ideological belief systems (see Chapter II). This was done at a high level of abstraction, and within this, I tried to inquire more deeply into the SMM of social enterprise. However, in opening the black box, I gradually discovered the complexities and diversity of SPM practices. Chapter V to Chapter VII illustrated the heterogeneity in double bottom line approaches more clearly. It also revealed that both MFOs were quite commercially focused. I do feel it is still justified to label Bai Tushum and IMON as “social enterprises” since both MFOs normatively pursued financial and social goals (see p57 in Section 3.4 and p115 Section 5.5). I will return to this point in Section 8.5.3 as part of the reflection on wider literature.

By applying the concept of SMMs as a framework, I was able to link the macro with micro analysis. Initially, I found SMMs to be a meta-concept that was difficult to apply to the level of the microfinance companies because various literature is at a macro-level looking at ideological belief system, worldviews, etc. (see Table 1, p25 in Section 2.3.4). I applied these ‘macro-SMMs’ in Chapter II and III to the literature review of microfinance by inductively identifying a development first, business first and social enterprise SMMs. Nonetheless as shown by the two case studies, reality was more complex. For example, Table 28 (p189), illustrates this by showing a spectrum between social and financial performance management tensions.¹²⁰ I also found a large set of literature on ‘micro-SMMs’ in the fields of organisational development and action research (Kim 1993; Cameron 2008; Senge 2006; Argyris and Schon 1996). As described in Section 4.4.3 (p75), I applied this body

¹²⁰ As described Section 2.3.6 (see p28), the division in three models was itself a deliberate attempt to simplify a complex reality. Nonetheless, it was still defensible to classify only three models because it illustrated a plurality of views in performance management in microfinance. Several other authors have used somewhat similar classifications (Woller et al 1999; Dunford 2000; Mayoux 2000; Rhyne 2001; Robinson 2001; van Maanen 2004; Seibel et al 2002; Kabeer 2008).

of literature in Chapter V to Chapter VII by looking at the norms and perspectives of staff, the organisational culture of the microfinance companies and organisational learning.

Limitation of my Action Research Method

In an ideal action research setting, I would use a cycled learning approach adjusting the client-level questionnaire after each round of surveying based on the empirical findings and practical realities in the data collection. However, under the joint methodology of the ILO, the survey questions were kept similar over time to be able to track changes in client outcomes with quantitative data.¹²¹ I do feel my choice for action research is defensible because of my own inquiry into the broader ILO study (see 4.2.3). I have used my own qualitative data collection assessing changes in the PBM of the MFOs. This data collection was adjusted using a cycled learning approach to improve my understanding as a researcher.

Chapter 6 and 7 illustrated how the MFO staff experienced the pilot implementation by using a ‘double learning loop’ of diagnostic (sec 3.5.), pilot design (Sections 6.2 and 7.3), pilot implementation, assessment strategy, data collection, data analysis (Section 6.3 and 7.3), empirical findings (Sections 6.4 and 7.4) and follow-up activities (Section 6.5 and 7.5.). While in theory I could have described more cycles, for example by explaining loop learning after each separate survey round, in practice this would require more fieldwork and complicate the comparative case study analysis.

8.5.2. Second Person Action Research – Lessons for the ILO

What lessons can be learned for the ILO? I will address this by looking at the main objectives set by the Social Finance Program at the outset, namely to generate knowledge about decent work outcomes and costs, to build capacity in the MFOs for piloting and to promote the decent work agenda within the microfinance sector, see Section 3.4 (p56).

Decent Work Outcomes

The pilot assessments generated sufficient knowledge about decent work aspects of job creation and women’s empowerment to inform the SMM’s of the MFO with new client level information. However, we did not manage to generate rigorous impact assessment results (see also ILO 2012, June: 9-13).

¹²¹ One exception here is that the surveys were shortened after each round of surveying by deleting questions that were not subject to change or which generated weak data quality.

Leaving aside the methodological limitations of the studies, we found the “averaged” changes in client outcomes were minimal for both pilot assessments. For Bai Tushum, the empirical findings resonated with Sebstad and Chen (1996) and Hulme and Mosley (1996). They found that few microfinance clients owned SMEs with wageworkers and that loan size is weakly correlated with job creation (see Section 3.3.2). Given the short time span and lack of control group, the ILO wanted to do further piloting in this decent work aspect. The IMON pilot study indicated the entrepreneurship training and start-up loan had positive effects on self-employment and business start-up, no effect on women’s empowerment, and mixed effects on business practices. Other studies looking at the impact of entrepreneurship training (Karlan and Valdivia (2006;2009:15&24-25; Kevane 1996:2-4; Dunford 2001:9-11) and access to microcredit (Banerjee, Duflo et al 2007; Crepon et al 2011) also show very mixed results (see Section 3.3.2, p52). The ILO considered the IMON study sufficient evidence and did not plan additional studies.

However, as described earlier (p179), it remains doubtful whether other MFOs would yield similar results when implementing start-up loan products or SME loan delivery systems, because they work in different contexts and have different organisational processes.¹²² The external validity of findings remains questionable.

Impact assessments have often been applauded by researchers as a way to objectively make inferences for public policy making (Karlan and Goldberg 2007; Duflo et al 2007). While both MFOs were interested in the business case, it was questionable how useful the public policy case perspective was for them. Particularly, the question remains whether MFOs that are externally driven to do SPM are interested in sharing negative results of client level assessments with their external environment. The case of Bai Tushum is interesting here, as the MFO lowered its decent work standard from job creation to self-employment, as a way to communicate positive results to external stakeholders. For IMON sharing negative findings was less of a problem as they were more inward looking and did not feel pressured by the political environment.

The case studies illustrated staff in the financial companies did not base decisions to scale-up the pilot on impact assessment results. An open question for further research is whether politicians would base such policy on formal impact assessment reports or whether they would use ideology, experiential learning and ad hoc decision making.

¹²² For example, the HUMO start-up loan described in section 5.4.6, (p111) was a somewhat similar start-up loan on the surface. However it used a different training module, loan product, target group and implementation area. Being a smaller financial company, HUMO invested less human resources into launching the product. The MFO was unable to scale-up the program, disbursing only 70 loans and training only 7 trainers, over the period 2009 to 2012. For example, this is much less than the 1.285 loans disbursed by IMON.

Build Institutional Capacity in MFOs

In terms of the ILO's objective of building human and organisational capacity to do continuous decent work piloting, this thesis finds its role as initiator of SPM is limited. This does not imply that the Labour Organisation has absolutely no role to play in partnerships; for example, it may offer technical assistance among those MFOs that have an internal driver for SPM. The case study of IMON showed that external support of the ILO may speed up internal action plans to improve the capacity for SPM. This is consistent with Boettke et al (2008), who accept that organisations may partly adapt some exogenously imposed institutions if they resonate with endogenous institutions. While the ILO may offer technical assistance modules or expertise, given its own budgetary constraints, it is unlikely to continuously fund improvements in institutional capacity. One plausible option is to do simpler and cheaper assessments and allocate more funds to direct technical support.

Second, if MFO staff learn through multiple experimentations, then perhaps from the outset we should have allocated more resources towards doing joint reflection and analysis, rather than "independent" outcome reporting. The initial idea was to offer an objective outside view to the MFOs, and also to reduce the burden of staff to do data analysis. Doing joint evaluation likely implies simplifying the assessment method because it is doubtful that staff would have had capacity to do longitudinal studies. It also means management has to allow staff to reflect on the joint analysis.

Third, the ILO should partner with MFOs that are internally committed to SPM. Efforts need to be made to screen for organisational commitment and culture. "Buy-in" or motivation of staff and management was recognized at the closing workshop by most MFO managers to be one of the main challenges in piloting (ILO 2012:15, June conference report). However, "buy-in" is in itself hard to detect and a proper screening needs to be done through personal conversation, rather than formal applications. A starting point would be to see whether the organisation is internally or externally driven to do SPM. For example, MFOs that want to address mission drift on certain decent work aspects may be more like-minded to build capacity for piloting, when compared to a financial company that wants to build image. And even if internally driven to do SPM, the MFOs may have other strategic priorities that need to be taken into account, such as achieving financial performance.

Promote the Decent Work Agenda

In terms of the usefulness for the ILO to promote its decent work agenda through MFOs, we did not find the pilots creating strong negative employment outcomes for the clients as suggested by the radical "development first" perspectives of Weber (2001), Dichter (2005) and Bateman and Chan (2009), see Section 3.3.3, (p53). For example, unlike Weber (2001) who argues that MFOs may undermine associations and right to organise, the case study of IMON showed it can also support

business association. Likewise both pilot assessments refute anecdotal views of “business first”, that MFOs may strongly improve decent work aspects of job creation and empowerment (Robinson 2001:37; Von Pischke 1991:41, see p54). For example, the Bai Tushum case study exemplified that simply offering loans is not enough to create jobs. Within these two extreme perspectives, an overall finding was that the pilots had limited influence on job creation and women’s empowerment.

The ILO may play an important normative role for social enterprise MFOs. Drawing from Ghai (2002:2), Section 3.2, by being part of the MDGs, decent work may be seen as an easier way to communicate to the microfinance sector than traditional labour conventions. Within the Social Performance Taskforce, the ILO Social Finance Program may fill a considerable gap and function as an alternative to more minimal and Neo-liberal views of how to pursue financial inclusion that dominate thinking of CGAP and the World Bank (see p32). For example, while in 2008, the SPTF showed little attention to the decent work agenda (SPTF 2008), in 2010 it was incorporated in the social performance standards as a guidance for human resource policies of MFOs and for establishing basic performance indicators for employment reporting (SPTF 2012). This in a somewhat similar way as it has done in the area of corporate social responsibility (e.g. IFC 2006; GRI 2008).

However, it is questionable whether this normative perspective might translate into development practice. The rigour and motivation to track clients’ decent work outcomes strongly vary across MFOs and depend on their organisational cultures, rather than the influence of the ILO itself. The ILO can aim to promote its agenda by collaborating with MFOs that are internally driven to improve decent work aspects for clients. However, working in partnership with MFOs that are internally committed by no means guarantees positive employment outcomes. After all, both case studies indicated client level changes were minimal. The findings merely illustrate that an external agency such as the ILO may have limited influence on PBM of MFOs when its agenda does not resonate with that of people working in the financial companies.

Other factors also matter. For example, both organisations seemed constrained in promoting employment outcomes for clients by the complex environments that they worked in (see for example Sections 5.3.4 and 5.4.4).¹²³ Both MFOs were also constrained by internal factors in decent work piloting including their own organisational goals of maintaining financial sustainability and growth. Being active in a complex environment and having to survive in it left for a limited agency to influence employment outcomes of clients (Denzau and North 1994:22; North 2005:21; North 1994:364, and Copestake 2007, see Section 2.3, p19).

¹²³ For Bai Tushum, this was illustrated by the Kyrgyz political crises affecting the implementation of the pilot experiment. For IMON this was illustrated by societal gender norms constraining implementation of the start-up loan program.

In terms of development practice, while the historical role of the ILO has been to set normative labour standards, perhaps the ILO could function as an auditor of social enterprise practices. Another role may be to document and share knowledge about how decent work piloting was carried out in other contexts. A last area is that the ILO may offer diagnostics and technical support to social businesses that are internally driven to implement such practices, but that lack the expertise to do so.

8.5.3. Third person Action Research

As part of third person action research, I will reflect on the argument's claims to external validity and its implications for wider literature.

As described in Section 4.5 (p88), this is a case study analysis that by definition lacks external validity in a statistical sense (Shadish et al 2002: 464-468). However, lessons learned particularly on the processes of doing the assessments may apply to other contexts, for example to larger MFOs, and MFOs working Central Asia. The argument can be further tested in different settings; it may be interesting to see whether the pilot implementation and outcomes would be very different if carried out in other organisations. Lessons learned from the two case studies can also challenge some of the literature of microfinance, social enterprise and development management.

Recently the idea of social enterprise (Yunus 2007; Dunford 2006) has become increasingly popular alongside the idea of social entrepreneurship (Dees et al 1998; Borzaga and Defourny 2001; Austin et al 2006; Nichols 2006:xiv; Lehner 2012), corporate social responsibility (e.g. GRI 2008) and sustainable development (WCED 1988:17). It has also sparked the interest of governments in light of an ill-defined Post Washington consensus, and in the context of the MDGs, new development management and public private partnerships (see Section 2.6). During the global financial crises from 2008 to 2013, social enterprises also seemed to become popular in the political context of financial austerity measures and budget cuts on development aid because they promote “cost-effective” and “efficient” forms of sustainable development through private enterprise.

For example, the European Commission has recently set up a fund of EUR 300 million to promote social business thinking particularly for investments in microfinance.¹²⁴ In 2013, the Dutch government was launching a social business fund of EUR 750 million in the context of austerity measures. As of December 2012, assets of MIVs invested in MFOs reached a total portfolio of

¹²⁴ The fund was launched because, it was considered “inefficient to provide development aid through governments”, [and that] “in general there is major interest in private sector development in the OECD”...“Private sector and low profit funds can solve social problems that cannot be solved by the public sector” - Ulrich Grabenwarter from European Investment Fund, Luxembourg European Microfinance Platform, Nov 2012).

US\$ 6,3 Billion, growing at fast rates between 10-25% per annum over the period December 2008 to 2012. It has also become a profitable industry (Symbiotics 2013). Some of this funding is private, but many investments were made through donor and public money, particularly from development finance agencies such as the World Bank, IFC, EIF, EBRD, FMO, KfW etc. CGAP (2013:4) considers it “*an opportunity to leverage private investments into solving development goals (particularly as aid budgets are under pressure).*”

If the two case studies are relevant examples for the microfinance sector then it generates several interesting lessons learned for the feasibility of double bottom line management. As described in Section 8.2, data collection (for quantitative) social performance measurements through client level assessment seemed less institutionalized compared to financial performance assessment at the level of the organisation (see p177). Second, in terms of double bottom line management, both MFOs seemed to combine financial and social objectives, but on the condition that financial sustainability for the pilots were not compromised in the medium term, in spite of the fact that changes in client outcomes were minimal (see p183). Thus, based on the two case studies, social enterprise as preached by Yunus (2007), Dunford (2000), Daley Haris (2002; 2009; see Section 2.6.2, p38) is not delivering on its normative promise in practice in terms of SPM. Social enterprises may achieve their financial goals better than their social goals. Perhaps we should call it “single-and-a-half” rather than “double” bottom line management! Within this spectrum, Bai Tushum functioned more like a commercial company that espouses corporate social responsibility (see p139), while IMON was more balanced (see p171).

According to Yunus (2007:22) “The social business works as any other type of business “but its underlying objective – and the criterion by which it should be evaluated – is to create social benefits for those whose lives it touches.... A social business is cause-driven rather than profit driven, with the potential to act as a change agent for the world.” He continues by advocating that the “social enterprise does not rely on charity, a social business has to recover its costs by charging a price or a fee for its services (Yunus 2007:22). However, while the case studies confirmed sustainable organisations may not be highly profit driven, not all social enterprises are cause driven either as illustrated by the case study of Bai Tushum. Further, limited systems were in place to evaluate the “social benefits for those whose lives it touches”. The two case studies show the limitations of social enterprises in pursuing “human capitalism”, and indicate that in practice MFOs may be more capitalistic than Yunus (2007:22) claims.

This raises an important question about the role the ILO may play in the social enterprise SMM (see Section 3.6, p64); if social enterprise MFOs are in practice closer to achieving their financial goals rather than their development goals, the implication may be that MFOs have a limited role to play in

promoting decent work aspects for clients. The case study of IMON is interesting as it was given an A+ rating in SPM, indicating it is one of the sector's "*best practice*" organisations (see p171, Section 6.6). However, the social performance assessment showed limited effects of the pilot on women's empowerment and revealed gender constraints and barriers to women's entrepreneurship that were not easily handled through microfinance operations. The case study of Bai Tushum enforced the need to be cautious in viewing MFOs as effective vehicles for job creation.

Steering SPM Practices and Standards

A question is to what degree social enterprises may effectively be steered by other external development agencies such as donors, investors and the Social Performance Taskforce (SPTF). In June 2012 at a conference in Jordan, the SPTF endorsed a minimum set of 98 essential process standards on SPM for MFOs that pursue double bottom line goals. "Meeting the standards signifies an institution has strong social performance management practices" (SPTF 2012:7; 8-10).

However, the case study MFOs had a limited capacity to integrate SPM practices into their operations. Instead, SPM processes had to be multi-tasked with other objectives of growth and financial sustainability and were moulded by financial objectives. It is questionable whether these two case study organisations, which are among the largest MFOs in Central Asia, would be able to implement these 98 practices. While impact assessment methodology was criticized in this chapter for ignoring internal organizational processes, the Social Performance Taskforce (SPTF) standards more recently seem subject to comparable limitations.

They "respond to an industry concern that the sector has lost focus on their clients" and MFOs were mainly concerned with financial sustainability (SPTF 2012:8). Although the case study results subscribe this is a valid concern, as client outcomes were limited, it is unlikely that the SPTF standards themselves as an external institution will contribute to more rigorous performance management practices for clients. They themselves form a danger of increasing outside pressure from donors and investors on MFOs to comply with the reporting of standardized indicators and "best practices". For example, there has been increased pressure among investors to set social performance covenants in lending and equity contracts. The push may also be exemplified by campaigns set up by donors such as the Client Protection Principles certification, PPI certification, donor-driven social ratings, and awards like "Truelift", "seal of excellence", or "S.T.A.R." Drawing from literature on development management, such as Hulme (2007b), Sanderson (2001:309) and Thomas and Mohan (2007:12, see Section 2.2, p14), SPM seems at risk of becoming a technocratic system of "ticking of boxes" trying to comply with donor and investor driven standards (see Section 2.2). Likewise, drawing from Brinkerhof 2008 (989-991, p14) it is questionable whether such blue prints are then

suitable for local contexts and able to motivate local agents. Moreover, the standards themselves pay little attention to organisational culture and motivation (see p190), because these are implicit processes that are not easy to report on. The SPTF standards may be overwhelming for many MFO and the resources it may require to “comply” with all 98 best practice standards could even undermine their capacity to adopt a more client-centred approach.

This thesis suggests that the donor and investor community will have to downscale their expectations for double bottom line management in promoting goals such as job creation, women’s empowerment, quality of employment (see Section 3.3.3, p54). With that should also come a reality check that they themselves may have limited control over social enterprises. For example, two campaigns that can be more realistic about microfinance practices are the Microcredit Summit Campaign (Daley Harris 2002; 2009) and the Social Performance Task Force (SPTF 2008:2012, see Section 2.6), which embody the belief that double bottom line management is both effective and desirable. An open question for further research is whether investors and donors are motivated to downscale their objectives, given that they have political and financial stakes in the microfinance sector. Another issue to explore further is whether donors and investors practice what they preach in terms of double bottom line management.¹²⁵

Second, following the case study findings social enterprise MFOs willing to pursue double bottom line management may need to become more aware of their (limited) capacity and commitment to do SPM. This includes reflecting on whether development practices are in line with normative aims. Specifically, whether in the context of pursuing double bottom line management, organisations are allocating sufficient resources towards a multiple set of goals. One way to do this is by making SPM more ‘tension seeking’ – by emphasizing more trade-offs between social and financial performance goals, rather than focusing on ‘best practices’ or ‘win-win’ situations. There is also scope for more reflection from practitioners on their belief systems.¹²⁶ Chapter II discussed that “social enterprise” may be based on a convenient belief that social and financial goals create synergies. As such it is then

¹²⁵ For example, several MFO managers remarked investors do not even look at SPM in their due diligence. -“investors only “looked at the coefficients and the balance sheet. One investor said, “We never read the social rating report.”- CEO ABN Oct 2011
- “Most investors look at the financial aspects. There is a drive towards financial sustainability, which is set in by investors. [For example,] One of the investors told me that interest rate is lower than the competition. He then asked why don’t you increase your interest rates” - CEO Oxus Tajikistan Oct 2011. This frustrated the CEO.
- An “external (social) rating is not needed because investors and donors do not base their judgement on ratings.”-Finca Kyrgyzstan Oct 2011
-Another mentioned “SPM could attract investors” - Investment officer, HUMO Oct 2011.

¹²⁶ This is an area for further research, but some interesting work has been done recently. For example, Lehner (2012:1) finds that social entrepreneurs often implicitly assume that philanthropy is an inefficient form of development aid, and that companies can steer innovation proactively, and that self-help interventions such as microfinance and fair trade are more cost-effective forms of development (Lehner 2012).

a convenient way of looking at the world for various microfinance actors such as donors including the ILO, investors, commercial banks and policy makers. However, the two case studies indicated social enterprise MFOs may be subject to path dependence as they are constrained by their own trying financial performance or survival within the wider operating environment.

More research is needed in these areas particularly also looking at the linkage between social performance assessment and organisational and institutional change in MFOs. The result that loan officers and other staff learned from doing the assessment raises an important question on how to transfer implicit knowledge on social performance within MFOs. This research used “outcome reports.” and “PowerPoint presentations” for the two case studies to disseminate analysis. An interesting area for follow-up research would be to see whether social media could play a more prominent role in SPM: the use of video clips of client interviews to generate reflection among managers, for example. The research indicates it may be important for staff in MFOs to have regular interactions with clients because this can generate useful experiential learning. But it also finds significant scope for improvement in knowledge management that translates client feedback into routine operations of MFOs.

Prospects of Social enterprise from the Perspective of the SMMs

How are the prospects for the social enterprise SMM viewed from the perspective of the other SMMs described in Chapters II and III? When viewed from a business first perspective (Robinson 2001; Von Pishke 1991; Von Pishke et al 2008, see Section 2.4) the main risk of balancing social and financial goals is that competition will undermine any goal other than profits and growth. Commercial microfinance is simply the more cost-effective model. It may be feasible to offer “hundreds” of start-up and SME loans, but ultimately, both decent work interventions needed to become sustainable in order to be accepted by the MFOs. Likewise, the case studies illustrate many technical and practical problems arising in doing social performance assessment, including issues of attribution, measurement and implementation costs.

When viewed from the development first SMM (see Section 2.5), “social enterprise” is built on the impossible yet convenient belief that microfinance generates social and financial performance. Such beliefs form easy window-dressing opportunities for opportunistic capitalists who pretend to care about human development (Fernando 2006:205-208; Weber 2001). SPM is nothing more than a “PR-puff” driven by organisational image building (e.g. see Bateman and Chang 2009:23; Dicther 2005). Microfinance companies may promote decent work aspects mainly as a form of corporate social responsibility to build an image. They may use it to boost staff morale. However, it is doubtful that this will be in the best interest of clients. The findings also illustrate that both MFOs generated limited

employment outcomes at client level. A wider range of financial and non-financial services (e.g. Hulme & Mosely 1996, Wood and Sharif 1997, Nissanke 2002) as well as government support (Ditcher 2005; Fernando et al 2007; Bateman and Chang 2009), are needed to reach wider social impacts. “Social enterprise” may undermine better ways of doing development since it lures precious resources away from more meaningful “development first” interventions such as social protection or cash transfers.¹²⁷

Social enterprise advocates may respond that it is still better to have normative ambitions to achieve a double bottom line, even if in practice the two goals are more difficult to manage, measure and accomplish. There is a risk that normative social goals will be downplayed, leaving only a financial inclusion agenda for business first MFOs. They may also contest the wider relevance of the findings of this thesis by arguing that the institutionalisation of social performance requires decades rather than years, or that the two case studies are highly context specific exceptions to norms elsewhere. They could even question whether the case studies were genuine “social enterprise models”, despite the explicit claims of both MFOs to be pursuing twin objectives.

Further Research on Decent Work and Sustainable Development

An even broader question is whether we can achieve the MDG of decent work and simultaneously generate economic development. While a full assessment of the feasibility of sustainable development is clearly beyond the scope of this research, the two case studies bring forward ideas for further research. The case studies indicate managing the goals of sustainable human and financial development is complex and challenging. It may be interesting to do similar research on other social enterprise activities such as fair trade, cooperative development, health and education. It may also be interesting to do extra case studies comparing different types of organisations such as commercial banks, social enterprise and NGOs on their PBM and organisational drivers. The case studies indicate that in the context of path dependency and co-evolution, the capacity of social businesses in promoting sustainable human development may be highly constrained by their own survival in a wider environment. More research is welcome identifying constraints and boundaries of double bottom line management.

¹²⁷ Whether social enterprises may crowd out development aid and private donations during times of austerity measures was beyond the scope of this research, but this forms an interesting area for further research (e.g. see Borzaga and Defourny 2001 for an interesting paper).

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