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Microfinance Program Intervention: A Paradigm Shift

Dr. Mohammad Badruddozza Mia
Assistant Professor, Department of Management, School of Business and Economics,
United International University, Dhaka, Bangladesh
Dr. Magnus Ramage
Senior Lecturer, Department of Information Systems, School of Computing and Communications,
Open University Milton Keynes, United Kingdom

Abstract:
Microfinance is a development program that aims to improve the economic and social life of people live in poverty. In terms of outreach, microfinance is one of the largest poverty interventions that reach millions of individuals and their families around the world. Besides recognitions for its claimed development potentials, microfinance has been facing strong criticism on the outcome of the program. Since inception, the approach of intervention of microfinance has changed overtime resulting changes in the outcomes of this development program. This paper identifies the genesis and trajectory of microfinance, changes in philosophy and approach of intervention, and the impact of the changes on development outcome and sustainability of the program. With a critical analysis on development philosophy and approach of intervention and implications of the changes, this paper concludes with a set of recommendations for achieving the objectives of this development program.

Keywords: *Microfinance intervention, development outcome, impact of change*

1. Introduction

Since time immemorial, a significant proportion of word population has always been subject to extreme poverty. Alleviating poverty is still the prime concern of world policy makers, and hence, addressing the problem of world poverty has been set as the first and foremost agenda of Sustainable Development Goals (UN, 2015).Microfinance program has been used as one of the poverty addressing development programs around the developing world for a considerable period of time. Different philanthropists such as Jonathan Swift, Rabindranath Tagore, Akhtar Hamid Khan and Prof Mohammad Yunus strived to alleviate extreme poverty using micro-credit at different parts of the world. Currently, the microfinance program is covering a significant proportion of world population, especially in the developing world(Reed, 2015). Because of it claimed recognition, the United Nations proclaimed the year 2005 as the International Year of Microcredit, and the Nobel Peace Prize for 2006 was awarded to microfinance sector. However, beside recognitions, microfinance program intervention has been facing strong criticism on its effectiveness for sustainable poverty alleviation(Ahmad, 2002; Chavan and Ramakumar, 2002; Karim, 2008; Bateman, 2010).

Because of the perceived importance of microfinance in development arena, a discourse on the economic and social impacts of microfinance intervention has been going on for a long period of time. However, a dearth of studies on microfinance management perspectives is there although the social and economic impacts of this development program largely depend on its intervention management. The intervention of microfinance program has been changed significantly overtime. Changes occurred in its development philosophy and the process of intervention resulting significant impacts on different aspects of the program and its development outcomes. This paper identifies the genesis, changes in intervention, contexts in which the changes occur, and the consequences of the changes on the development outcome of the program.

2. Microfinance: Concept and Objective

Microfinance is a development program that provides small amounts of credit to the economically and socially marginalized people, in most cases to the women. The overall belief behind the concept of microfinance is that, using this credit, the borrowing households are enabled to break out the cycle of poverty through creation of self-employment, and that social development will take place within the borrowing community through the process of microfinance program intervention (Yunus and Jolis, 1998). Unlike traditional lending systems, microfinance does not require documentary or physical collateral from the borrower against credit. Instead, microfinance is based on trust, social-collateral(other borrowing members of the community collectively provide assurance for the credit)and the use of intensive monitoring and supervision mechanisms. Poverty is a cycle where several facets are interrelated. Poverty blocks all sorts of social development, and, without social development, poverty persists or recurs (Yunus and Jolis, 1998). In an economic sense, people who are in poverty are literally handicapped; they cannot move in the absence of start-up capital, and cannot use their non-financial resources, if they have any. They cannot access to the formal financial service providers as they do not have any documentary collateral to get the starting capital. They remain excluded from the market and cannot break out of the cycle of poverty. Smith (1776) stated, "Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficult thing is to get that little" (p. 111). Microfinance programs are designed to provide this 'little capital' as a 'micro-credit' to the people in poverty, along with maintaining a process of awareness-building and social development so that they can break out of the vicious cycle of poverty in a sustainable way (Yunus and Jolis, 1998). Microfinance is a 'semi-formal' financial service in between formal financial institutes and informal moneylenders, and is dedicated to the unbanked people to grant their right of access to finance (World Bank, 1997; Yunus and Jolis, 1998).

3. Microfinance: Genesis

Although the word microfinance or microcredit did not exist before the mid-1970s, the concept of helping the poor through the means of a small loan without collateral is not new. This was practiced in different parts of the world even in previous centuries in different forms, unlike the present systemised and structured version of microfinance intervention (Nath, 2004; Seibel, 2005). Instances of providing small-scale credit within the community by the members of the community, in an informal way were there under different names such as hui in China, chit fund in India, arisan and bpr in Indonesia, paluwagan in the Philippines, and esusu in Nigeria, West Africa and Caribbean Islands, to name but a few examples (Seibel, 2005). Movements of providing financial support among the poor in the form of collateral-free credit also existed in Europe. Particularly noteworthy were the credit union initiated by author Jonathan Swift in Ireland in 1720 and covered about 20% of Irish households, and the thrift society initiated by Friedrich Wilhelm Raiffeisen in Germany. The thrift society started in 1778 and was followed by the Sparkasse, Darlehnskassen-Vereine and Raiffeisenkassen movements that finally tuned into banking law in 1934 because of the gradual increase in coverage and for the needs of regulation (Seibel, 2003).

In Bangladesh, the practice of helping the poor to build sustainable livelihoods in agriculture and self-employment through collateral-free loans was established before the era of Muhammad Yunus and Grameen Bank. During the early 1900s, poet Rabindranath Tagore used to provide collateral-free small loans to the poor farmers in the Patisher area of Naogaon district and the Shilaidaha estate of Kustia districtas a philanthropic activity (Nath, 2004). In the early 1960s, a famous civil service officer and social scientist Akhtar Hameed Khan practiced it in the Comilla district, and founded the Pakistan Academy for Rural Development (now Bangladesh Academy for Rural Development - BARD). The initiative is known as the Comilla Model or the Comilla Approach within the literature of development studies. In the mid-1970s, Kazi Faruque Ahmod, the founder of Proshika started providing collateral-free credit integrating with other development programs to the rural poor in some parts of Bangladesh. Concurrently, Sir Fazle Hossain Abed, the founder of BRAC also transformed his relief program into collateral-free credit (BRAC, 2009). These efforts were informal, casual, unstructured and non-systemised. However, both development organisations eventually transformed their informal practices into a structured and systemised version of the lending process. During late 1970s Muhammad Yunus conducted an action research in Zobra village near Chittagong University as a response to the intense poverty around him (Yunus and Jolis, 1998). As a result of this successful experiment, Muhammad Yunus was inspired to aim to alleviate world poverty using his model, and he coined the term microcredit. He built the Grameen Bank in the early 1980s to implement his model across the country, and started spreading out the model throughout the world. The present version of microfinance around the world is mostly the replication of that model. With the success of Grameen Bank and the campaign of Muhammad Yunus, along with some other activists and world leaders, microfinance is now a well-known development program, and one of the largest poverty interventions in the world (Ahmed and Hakim, 2004; Reed, 2015).

4. Methodology

The study has been conducted on six microfinance providing organizations namely ASA, BRAC, DBS, SJK, TMSS and UDDIPON of Bangladesh. The organizations were selected for the study considering some basic characteristics so that they represent the microfinance organisations of the country. The criteria include 1) size of the organisation, 2) type of organisation, that is, whether the organisation implements microfinance exclusively or implements microfinance and other development programs, 3) the location (urban or rural) of the head office, and 4) working area.

Microfinance Organisation	Type of Organisation	Size of Organisation	Location of Head Office	Working Area
ASA	Only microfinance	Large	Dhaka	Countrywide covering rural and urban areas
BRAC	Multi programme	Very large	Dhaka	Countrywide covering rural and urban areas
DBS	Only microfinance	Small	Meherpur (a district town in West)	Mostly rural
SJK	Only microfinance	Small	Perojpur (a district town in South)	Mostly rural
TMSS	Multi programme	Medium	Bogura (a district town in North)	Rural and Urban
UDDIPA	Multi Programme	Medium	Dhaka	Rural and Urban

Table 1: The Organizations Selected for the Study

Organisation	Semi-structured Interview	Focus Group	Field Visit
ASA	12	4	3
BRAC	13	3	3
DBS	4	2	2
SJK	4	2	2
TMSS	8	3	3
UDDIPON	9	4	3
Total for 6 cases	50	18	16
PKSF (Apex funding body)	5	-	-
MRA (Regulatory authority)	3	-	-

Table 2: Method of Data Collection

In addition to the microfinance organizations selected for the study, as Table 2 shows that a number of semi-structured interviews were conducted with the staff members of PKSF, the apex funding body and MRA Microcredit Regulatory Authority of Bangladesh. The semi-structured interviews and Focus Group Discussions were conducted with the employees of different levels of the organizations with a non-positivistic epistemological stance. Using the information collected from the organizations and their working areas a descriptive account of changes is presented in the paper in a chronological manner.

5. Development Philosophy: A Paradigm Shift

When microfinance was introduced, the staff members of the microfinance providing organisations mostly had a philanthropic mind-set as the followers of their philanthropic pioneering leaders. Many of them did not even perceive working in microfinance as a job; rather they used to work as development activists with a volunteering mind-set in an informal organisational setting, following the principle-based approach (Lovett et al, 1999, Sama and Shoaf, 2005). They used to work upholding the strong belief of economic and social development for the poor from the organic organisational structure in a contingency management environment (Burns and Stalker, 1966; Scott, 1981). Over time, microfinance became popular, with both growing demand from the borrowers side and a growing interest of national and international policy makers throughout the 1980s. In the early 1990s a rapid growth of microfinance began as a result of the policy campaign of development leaders and the enormous financial support from international development agencies and donors. The existing microfinance organisations expanded rapidly, and a huge number of new organisations began covering the target community on an incremental manner (CDF, 1998). The norms of microfinance organisations started to change. A transformation of microfinance organisations began to take effect from the informal principle-based, contingency management towards a more formal, rule-based, classical management approach (Taylor, 1911, Weber, 1947; Lovett et el. 1999; Sama and Shoaf, 2008). This was due to various factors such as growing competition, the desire for sustainability and the motive of profitability. The ideology and the norms of human resources started changing from the sense of development activists towards the sense of service holder; from the flexible principle-based working practice towards a hard-and-fast rule-based working captivity, from getting satisfaction from helping the poor towards getting satisfaction from the money of the job.

6. Approach of Intervention: A Paradigm Shift

After a long gap, during mid-1970s microfinance started its new journey in Bangladesh with the initiatives of Kazi Faruque Ahmod of Proshika, Fazle Hossain Abed of BRAC and later Muhammad Yunus of Grameen Bank. The approach of interventions of Proshika and BRAC was non-systemized and informal, integrated with other development programs such as health, education, agriculture and relief works that the organizations were implementing after the liberation war of 1971. Later in the late-1970s, through conducting an action research with the target community, Mohammed Yunus systemized the approach of microfinance intervention based on the principles of collectivism (Yunus and Jolis, 1998).In this approach, all the activities of program intervention used to take place in groups of borrowing members formed with the help of microfinance providing organization at borrowers' community level. The groups were consist of about 20 members with homogeneous economic and social profiles and the group was divided into 4-5 sub-groups on different socio-economic aspects such as education, health, agriculture and gender depending on the development needs of the community. The group used to hold weekly meetings in presence of microfinance staff member assigned to the group and discussed different social and economic issues relevant to development of the group members. The group members used the learning from the discussion in their lives. The group members used to recite different discipline related slogans such as Sixteen Decisions(discipline and development related decisions) of Grameen Bank and perform activities related to their development. In this meeting they used to formulate and propose microfinance projects for themselves with social collateral (other borrowing members of the group collectively provide assurance for the credit). In presence of the staff member of microfinance organization they used to collect weekly or fortnightly credit and savings instalments in the meeting and the social and economic activities of each member is monitored and facilitated by other members. In this process, the transparency of the projects and the regularity of credit and savings instalments were ensured, and the whole process helped the social development of the community. Basically, without social development, the economic development of the borrowing households does not take place or persist (Anderson et al., 2002; Feigenberg et al., 2010). During that time many microfinance providing organizations in country and abroad followed this approach. In addition to this group-based approach, some organizations such as BRAC and Proshika added their other development programs with the same community in an integrated manner to make the intervention more effective.

During early-1980s Mohammed Yunus started implementing his model of microfinance intervention through Grameen Bank in Bangladesh and started campaign to spread out the needs of microfinance for alleviating word poverty.With charismatic personality and support from world leaders, Muhammed Yunus moved forward with his campaign across the world, and resulted with a rapid and unprecedented coverage of microfinance by thousands of organizations in country and abroad. He was immensely recognized for his achievements with world famous awards including Noble Prize for 2006. However, the campaign was mostly on the benefits of microfinance and inspiring donors and organizations to start microfinance for bigger coverage. He did not pay attention on the controlling mechanism and regulatory framework of this highly distributed collateral-free credit system with the less aware community. As a result, a substantial coverage has been achieved by a large number of organizations but the microfinance program has become a mess and lost its development characteristics.

Since early-1990s a huge number of microfinance organizations started establishing throughout the country with the help of donor money and funding from PKSF, the apex finding body established by the government of Bangladesh with strong persuasion of Mohammed Yunus and financial support from donor agencies. In an uncontrolled environment, most of the organizations started operating microfinance mainly for maximizing their profits ignoring the fundamental development objectives of the program. The microfinance intervention has been characterized as below.

- The notion of collectivism is abolished: In microfinance has replaced its basic foundation of intervention called collectivism with individualism. Most of the microfinance organizations still form borrowers' groups before starting microfinance operation with them, but almost no organization maintain borrowers' group at field level. They provide loan to individual borrower and collect loan and savings instalments from the individual borrower. The group and sub-group leaders are not in place, and the group meeting does not take place where different social development issues were discussed and social collateral for the loans used to be formed.
- Abnormal interest rate: Because of the absence of proper monitoring and regulatory framework microfinance organizations charge much higher interest rate than that of in the formal financial sector, what many of the unware borrowers do not even understand. They start collecting principle and interest amounts just from the next week of loan disbursement on a regular basis, and hence the actual interest rate becomes much higher than the tolled one. Interest rate includes all operational cost, loan loss, profit and even capital formation for the microfinance organization for expanding the program in new areas, which in reality, cannot be earned to cover this cost of capital (interest on capital)from any economic enterprise run with the microfinance loan.
- Ignoring the importance of development-need assessment: As per fundamental development belief of microfinance intervention, every individual targeted community people should be assessed the development needs of the individual, and on the basis of the findings of this assessment the individuals with similar development needs should bring under economic and/or social development process. Without development needs assessment, microfinance intervention is limited to only giving loans and collecting loan instalments which are not helpful in bringing sustainable development for the community it serves. Microfinance intervention is largely deviated from this development approach.
- Lending without project feasibility: As per the procedure of microfinance intervention, before providing loan against an income generating project the microfinance organization must go through an assessment of the feasibility of the proposed projects. In practice, assessing the feasibility of the proposed project hardly happens. Rather, the microfinance organization looks at other source(s) of income of the borrowing households and assess whether the borrower would be able to repay the loan with interest from other source(s) of household income.
- Supply-driven microfinance: In principle, microfinance intervention should be demand-driven. It needs to be provided as per demand of the borrower. Because of the pressure of reaching the disbursement targets,in most cases microfinance providing staff members insist to take loan instead of placing demand for loan from the receiver's side.
- Borrower overlapping: Borrower overlapping with over-indebted credits is a common phenomenon in microfinance arena. One borrower takes credits from more than one microfinance providing organization hiding the information of previously taken current credit(s). It usually happens because of strong competition among the microfinance organizations working in the same area, and hence the continuous pressure for achieving disbursement targets from the upper layers of the organizational structure.
- The notion of poverty-outreachis ignored: Although the fundamental objective of microfinance is to alleviate poverty, most of the microfinance organizations have the tendency of avoiding very poor households in providing microfinance services. They fear that the very poor households would not be able to repay the instalments of the credits. They look for households with comparatively higher income expecting better loan recovery avoiding the objective of poverty-outreach of this poverty alleviating program.

7. Consequences

Because of the shifting in development philosophy and approach of intervention microfinance has lost its credibility as a development program and the community it covers has been deprived from getting the expected economic and social benefits from this program. The changed philosophy and approach intervention derived microfinance from a development program to a business venture of microfinance organizations that may help making money for the microfinance providing organizations using the unaware targeted community (Bateman, 2010; Armendariz and Morduch. 2005; 2010).

A growing body of critics argue that with the present approach of intervention microfinance does not have the potentials for alleviating poverty; rather it creates and maintains poverty (Karim, 2008; Bateman, 2010; Armendariz and Morduch. 2005; 2010; Odell, 2010; Ahmad, 2002; Chavan and Ramakumar, 2002). They argue that microfinance is a hype where unaware people in poverty are used to make money. Because of the shifting discussed above it is difficult to find evidences that microfinance program alleviated poverty in a sustainable way. The cases that are shown as successes are basically new cases, the cases that have just started taking credits. On the long run the borrowers enter into a vicious cycle of credits and loss assets that they had (Bateman, 2010). Even in the Jobra village in Bangladesh where the conventional microfinance started by Mohammad Yunus is still under trapped of deep poverty. Within the environment of present development philosophy and approach of intervention, the borrower overlapping and over-indebted credit disbursements happen with information asymmetry (Akerlof, 1970), and the adverse selection and moral hazards prevails in the borrowing community creating epidemic economic and social problems.

The advocates and practitioners of microfinance claim that the microfinance intervention helps women empowerment, and because of the claimed impact microfinance has been awarded with world famous prizes. However, the antithesis about the women empowerment is also there. A growing body of critics such as Mayoux (1998), Rahaman (1999; 2002), Johnson (2000), Littlefield et al. (2003) and IFAD (2009) argue that instead of empowerment microfinance intervention rather puts women in a borrowing trap. In most cases the credits are allocated to the women of the households but the money is used by male members of the households, not by the credit receiving women. Hence, the women who receive the credit are in between credit providers and credit users with full responsibility of the credits. If the repayment is not made on time for any reason, the loan receiving women become vulnerable rather than being empowered. Observing the shifting in development philosophy, approach of intervention, and the adverse situation prevails in the society, Mohammad Yunus, the prominent promoter of microfinance asserted that 'the microfinance is not in right track' (Yunus, 2011), and a movement called 'Global Apple for Responsible Microfinance' have been launched in 2012, but not much positive changes are observed.

8. Conclusion

Microfinance has harmfully moved from its development track. It has created significant coverage especially in the developing world but lost its potentials to achieve its development objectives. Policy makers, practitioners, funding agencies and researchers of microfinance must perceive it as a development program, not asa business. It should be integrated with other social development programs, and must be implemented with a development mind-set. A development oriented reform policy should be formed for tracking back microfinance to achieve its development objectives. The reform policy should also ensure the sustainability of microfinance organizations but preventthem from the tendency of maximizing profits from the financial operations with the unaware poor borrowers. In order to implement the reform policy and keeping microfinance intervention on right track, an effective monitoring, supervision and regulatory framework both at organization and national levels should be in place in a continuing manner.

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