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ORIGINAL ARTICLE

Interrogating Microfinance Performance Beyond Products, Clients and the Environment: Insights From the Work of BRAC in Tanzania

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

Résumé La performance des organisations de microfinance peut dépendre de nombreux facteurs. La recherche actuelle met l'accent sur les facteurs relatifs aux clients, aux produits ou aux environnements plus vastes. Mais les chercheurs ont accordé moins d'attention au fonctionnement et aux systèmes internes des organisations de microfinance. Nous explorons comment la variation de performance au sein d'une organisation peut modifier les résultats des prêts ainsi que leur popularité auprès des clients et des clients potentiels. Nous illustrons avec les données de BRAC en Tan-

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zanie, où l'arrivée et l'expansion rapide du programme de microfinance de BRAC fournit une étude de cas pertinente.

Keywords Microfinance · BRAC · Tanzania · Organisational performance

Introduction

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

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

An analogy of a play may be helpful here. We know that the audience (clients), stage (environment) and the quality of the dialogue and plot (products) are all important elements in a good performance, but so too are the actors, producers and directors (staff members). Because they have not been sufficiently prominent in debates thus far, we do not know enough about life inside these organisations. As Copestake et al. (2016) found, 'throwing light on the institutional diversity of microfinance requires an exploratory and inductive approach to research that avoids imposing a deterministic and universal framework of inexorable inclusion on different country-level experiences' (pp. 209–210). It is important to recognise that, despite the voluminous body of research on microfinance, we do not understand how well different microfinance organisations can deliver the objectives they seek because of the way they function as organisations. We know too little about the interactions between staff and their management, the interactions between staff and their clients, and the way in which clients use and shape these practices to their purposes.

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

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

Attention to Organisational Systems and Behaviour in Microfinance Literature

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

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

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

It is easy to see why this has occurred. The relative ease of accessing organisational level data, combined with the econometric analyses to which these data lend themselves, suffice to satisfy many of the economists who work in this field. Disciplinary divisions ensure that it is possible for such studies to prosper as the insights built from these methods and sources grow within particular sub-fields.

However, we are not satisfied with this state of affairs. This paper is motivated by the insight into organisational design and dynamics that can often explain a considerable amount of the variance in these achievements. Organizational systems and behaviour are still largely neglected in many studies and particular genres of study (Copestake et al. 2016). In fact, variations in internal organizational systems and functioning remain largely absent from the explanatory frameworks that generally consider *products*, *client group* and *environment* as key performance drivers (Agier and Szafarzy 2010; Ahmad 2002, 2003; Dixon et al. 2007; Goetz 2001, 1996; Labie et al. 2009; Ledgerwood and Gibson 2013; Schreiner 2002; van den Berg et al. 2015)

Microfinance product design and services offered are commonly considered key determinants of loan uptake and outreach (Ledgerwood and Gibson 2013; Ledgerwood and White 2006). Many find that changes in the nature and terms of the financial products affect the poverty-alleviation potential of microfinance. The most common variables featuring in the changeable modalities of products include the size of loans, a compulsory or voluntary savings component, variations in repayment schedules, training on financial literacy, business/entrepreneurship training (Rusinà et al. 2015), interest rates, individual or group-based, and flexibility (Meyer 2002).

A different body of research argues that it is the type of clients which microfinance organisations recruit and work with that determines performance. Studies from this school focus on how clients' gender, age, formal educational level, socio-economic status, level of asset endowment, level of physical ability and degree of business experience determine their borrowing behaviour and loan use (Banerjee et al. 2015; Beisland and Mersland 2012; Boehe and Barin Cruz 2013; Makina and Malobola 2004).

Additionally, some studies aim to assess how environmental elements can affect microfinance performance. The most common variables considered important for performance here include the macro-economic context within which Micro-Finance Institutions (MFIs) operate (Ahlin et al. 2011), whether organizations are operating in rural or urban settings, the degree of regulation and, of course, competition (Cull et al. 2011; Kar and Swain 2014)

An increasingly large body of literature has started to consider governance as a driver of performance (Galema et al. 2012; Hartarska 2005; Mersland and Strøm 2008). Within this strand of the literature, the type of institution in terms of for-profit/not-for-profit status (Tchakoute-Tchuigoua 2010), religious affiliation (Djan and Mersland 2017), composition of governance boards (Mori et al. 2015) and ownership structure (Mersland and Strøm 2008) are identified as determining elements for organizational performance.

However divergent their conclusions, these works are united by the fact that they do not consider the influence of the organisational systems and behaviours themselves on outreach. Indeed, much of the epistemic programme of research into microfinance would find it difficult to do so given current resources. The large comparative databases of different MFIs that are the foundations of so many studies do not capture well the heterogeneity within organisations.[1] Institutional characteristics

[1] eg www.mixmarket.org.

drawing analysts' attention are the number of office, personnel, loan officers and assets. These data cannot capture the role of staff interactions and staff–client interactions, nor the variety in quality and consequences of these interactions, nor how these shape performance.

This omission would not matter if these interactions and internal variety were irrelevant. Yet various debates within microfinance scholarship strongly suggest that such internal aspects matter for the understanding of how microfinance works. A global survey (360 interviewees in 79 countries) of the microfinance sector suggests that internal, and client-facing relationships, are important (Lascelles and Mendelson 2012). The survey listed corporate governance and management quality as the second and third most significant problems facing the sector. Risk management and client management were the sixth and seventh most important problems.

In academic literature, the need to understand organisational systems internal workings is demonstrated in part by the few studies that have explored this subject directly. On social policy, the seminal work of Lipsky (1980) was among the first to consider and conceptualise administrators' discretionary power. He explored the capacity for administrators' behaviours to skew the distribution of resources and determine organisational performance and policy outcomes as a response to resource constraints, workload pressures, policy ambiguities and relationships with clients. The work of Feldman and Khademian (2000), Howard-Grenville (2005) and Pentland et al. (2012) has explored how discipline, participation and routine shape individual staff behaviours and their influence on results.

Maitrot's (2014) comparative study of two microfinance organisations in Bangladesh explored the relationships between organisational structures and systems and microfinance impact. She used interviews with credit officers, managers and clients, as well as participant observation and household surveys, to explore how embedded organisational practices in competitive environments shaped the nature of the relationship between organisations and clients, including the lending patterns of field officers and clients' borrowing behaviour and well-being (Maitrot 2018). She makes analytical linkages between specific management practices and organisational structures that foster processes and relationships that are conducive to predatory lending and encourage the exploitation of unequal gender relationships within households.

Her findings add weight to a growing body of microfinance scholarship that, since the 2000s, has started to recognise loan officers as key intermediaries between microfinance institutions and their clients (Goetz 2001; Ahmad 2002; Siwale 2013; Siwale and Ritchie 2011). Studies have found that their gender, age, educational background and behaviours determine the nature of microfinance's impacts on clients (Agier and Szafarzy 2010; Dixon et al. 2007; Goetz 1996; Kar 2013; Labie et al. 2009; van den Berg et al. 2015). Staff incentives and motivation are increasingly recognised as critical for quality products to fit the unpredictable reality of clients' lives (Simanowitz and Knotts 2015). Other studies have explored how variation in loan officer behaviour can be a determining factor for variations in branch performance. Canales has observed contrasting tendencies in loan officer behaviour, with some acting as rule-enforcers, and others as rule-benders (Canales 2011, 2014). Interestingly, good performance of different branches within the same organisation hinges not on having good rule-enforcers but rather the right mix of both. This allows, Canales argues, for the tensions within microfinance to both standardize products and respond to clients' needs on the ground.

Collectively, these works strongly point to the need for a greater and deeper understanding of the links between organisational systems and branch outreach and interaction with clients. To these insights, we would advocate that we need more understanding of how loan officers are managed (Simanowitz and Knotts 2015). We know that loan officer performance matters for the experience of clients and consequences of the loan, thus if also follows that the management of that performance will be important. There has been less writing on that topic, and this is part of the contribution of this paper.

More generally, however, in much microfinance scholarship, variations in the quality and performance of MFIs are rarely explained by their internal organisational performance, whether this be the work of loan officers or of their managers. Yet, this internal variation may be significant enough to obscure the effects of better-designed contractual or incentive structures, as well as of environmental effects. We contend that it would be useful to spend more time exploring the internal organisational systems and behaviour of microfinance institutions. Approaching research into microfinance with the assumption that the organisations and their systems are homogeneous could be a mistake.

The aim of this paper is to address this analytical gap and to refine existing conceptualisation of organisational performance. To make the case that internal organisational systems and behaviour matter for explaining organisational practices and performance, we use a study of BRAC's microfinance work in Tanzania. BRAC's case is unusual, as we will document below, for the rapidity of the change it has experienced and the differences between Tanzania and its usual arenas in Bangladesh. This growth brings into sharper relief the importance of understanding everyday practices within organisations that are continually having to cope with different forms of change. In our final sections, we explore the implications of these perspectives for understanding the efficacy and consequences of microfinance lending.

Methods

This study fits well to the model of an 'exploratory and inductive approach' that Copestake and colleagues (2016) called for, and that we mentioned above. The research we report here evolved as the nature of the problem we were exploring shifted and became more visible. We have sought, as we learnt more about the case, to glean more insights and uncover more data. However, we must warn readers that the picture this generates and the analysis that we can support is far from complete. We do not have enough data adequately to test all the hypotheses we would like to examine. This is normal for inductive qualitative research—it generates hypotheses that can then be tested using robust study designs and large *n* samples. The slightly unusual aspect of this study is that we were able to obtain a tantilising set of quantitative data that allowed us to begin testing some of the ideas we were generating. The key word here, however, is 'tantalising'. We have more insights than one would normally expect, but still not a complete picture. In this sense, this is a decidedly inductive and exploratory piece of work for which it was not possible to determine in advance the quantitative data that ought to be collected.

Our research did not begin as an exploration of organisational systems. It started off as an ethnographic study of BRAC in Tanzania with a view to explaining its successful launch and rise in the country. However, as the study progressed, a number of challenges to BRAC's work became apparent and its successes more qualified. Late in the study, limited quantitative data on branch performance, and more limited human resources data, became available which gave material insights into these problems. We have therefore combined insights from interviews with clients and staff with quantitative data in the account below, using a mixed methods approach (Schevyns 2003).

Following Maitrot (2014), our qualitative methods use a mixture of participant observation, focus group discussions and interviews with clients and staff. That work took place over 8 months in 2012–2013, as part of a longer stay (13 months) by author D. Brockington in Tanzania. During that time, Brockington worked on this research project on BRAC as well as joining a different, smaller, non-NGO-based peer-lending group (in which members contribute to a central fund which they then loan to each other), and learning about money-lending practices in the area where he was living and conducting other socio-economic surveys.

To explore BRAC's work, Brockington, and his research assistants, attended meetings of 20 microfinance groups in four regions in Tanzania with over 470 clients. Each group was visited on at least three separate occasions, with participant observation at the meetings allowing Brockington to observe group dynamics and client–staff interactions. We then spoke to clients individually (292 of them) to learn about the history of their loans. These interviews examined what use clients had made of loans, what difference this use had made to their lives and livelihoods, the history of their businesses more generally and any alternative sources of finance available. All interviews and participant observations were conducted in Swahili in which Brockington and his research assistants were fluent.

We interviewed 42 BRAC employees across the hierarchy of its microfinance operations.[2] These comprised: 24 junior staff (8 credit officers and 18 branch monitors); 4 branch-level staff (managers and accountants); 2 area managers; 2 regional managers; and 9 senior staff working in the country office in Dar es Salaam. Interviews covered current and former roles in the organisation (all branch managers and monitors had formerly served as credit officers). We discussed the way each role needed to be performed to be carried out effectively, the challenges of the role, and, for Bangladeshi interviewees, the differences they noticed between microfinance operations in Tanzania and in Bangladesh. Again, interviews with Tanzanian staff were conducted by Brockington in Swahili, and with Bangladeshi staff in English.

Interviewing the 18 branch monitors was important as their worked covered all of BRAC's branches in Tanzania. This allowed us to compare findings from our study regions more broadly across the country. Interviews were not recorded or

[2] BRAC microfinance offices are composed of branches run by branch managers, with three to seven branches run by area managers, and areas clustered into regions run by regional managers.

transcribed, as informants were more comfortable with the interviewer writing notes as we talked. Interview notes were kept as part of a field diary that also highlighted the key themes that emerged over the course of the research. This was discussed with author D. Hulme at periodic intervals to guide the research progress.

In the final weeks of the research, after much of the ethnographic work was complete, a record of monthly branch level reports from April 2011 to April 2013 was made available to Brockington. This database provided records of borrower numbers, loan size, branch surpluses and deficits, loan write-offs and other technical information required by managers to ensure the financial health of their organisation. We have used these data to examine trends in surplus and borrower numbers. We were also able to examine human resources records for 15 months from January 2012 to April 2013 to learn of trends in staff retention, resignations and lay-offs.

These data allowed us to understand how well branches were performing in terms of their financial robustness, and to explore initial relationships between financial performance indicators and staff retention. We also used the branch-level reports to undertake a cluster analysis based on seven variables: Expenditure, Income Surplus, Age, Average Loan Size, Borrower Numbers and Average Loan Write-Off. These variables were chosen because they are key indicators of a branch's financial robustness and helped us to understand the sorts of variety that different branches displayed. .

Finally, an important part of this exercise has also been sharing and discussing findings with BRAC staff in Dar es Salaam and Uganda. Brockington circulated a written report to the organisation (on which this paper is based) and presented the same in person to the country headquarters in June 2013 and at a further meeting in April 2014. We also circulated initial findings in an IDPM working paper (Brockington and Banks 2014). BRAC feedback then, and by email afterwards, has been useful in helping us to understand these data.

BRAC in Tanzania: Multiple Stories, Not a Single Growth Narrative

BRAC is the world's largest NGO, and one of the most successful. Formed just over 40 years ago, it has contributed to remarkable economic and social improvements in Bangladesh. It employs 100,000 people there in diverse programmes that include education, microfinance, disaster relief, public health, a University and numerous commercial enterprises. It has, since 2002, expanded its operations, becoming an international NGO and operating development and microcredit programmes in other parts of the world, notably in Africa where it has offices in Liberia, Sierra Leone, South Sudan, Uganda and Tanzania (Hossain and Sengupta 2009). It has been declared to be the best NGO in the world in 2016, 2017 and 2018 by *NGO Advisor*.[3]

Central to this success story has been BRAC's role in the revolution of microfinance; microfinance also constitutes a key element of its operations overseas. At the time of our research, BRAC offered two products in Tanzania: larger loans to small

[3] http://www.brac.net/component/k2/item/1010-brac-ranked-number-one-ngo-two-years-in-a-row.

and medium-sized enterprises (which we did not study), and small loans (US$50 initially, several hundred dollars after several successful loans) to women (and only women) who were organized into lending groups of about 30 clients per group. These groups were the focus of our investigation. The clients in each groups guarantee each other's loans, which are paid back over 48 weeks. Interest rates were 24% (simple interest). A small proportion of loans is retained as a security deposit by BRAC and only returned to the client when they finally leave the organisation.

BRAC initially identifies clients through a vigorous and thorough procedure of canvassing potential clients through door-to-door surveys. This process produced the microfinance client groups of women who were prepared to act as guarantors of each other's loans. As is standard in microfinance, if a group member defaulted then their loan was to be paid by their fellow group members.

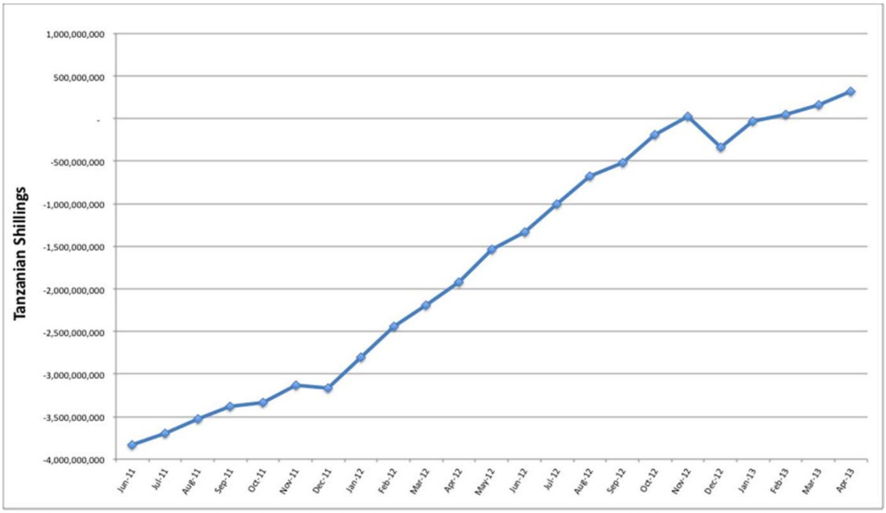
There are many microfinance organisations in Tanzania, but BRAC stands out for the size of its operations and the speed with which it has grown. This is simply an order of magnitude bigger than the Tanzanian norm. Most microfinance operations peak at around 25,000 members, but BRAC had established over 7600 borrower groups with a total of over 125,000 members and nearly 100,000 active borrowers at the time of this research. More than that, however, is the speed with which it has grown. For BRAC has only been operating in Tanzania since 2005, yet had been able to rapidly establish 112 branches across the country by 2010. It had 10 branches in 2006, 41 by 2007, 68 by 2008, and 105 by 2009. Financial operations are now in surplus, that is, its returns from loans exceed its loans made (Fig. 1a). This is all the more remarkable because this growth was achieved at a time when microfinance growth was, nationally, static. Research by the Financial Sector Deepening Trust shows that access to microfinance grew from just 4.4% of the population to 4.5% between 2009 and 2013 (Financial Sector Deepening Trust 2013).

This picture of healthy growth nationally, is, however, misleading. There is not one story to tell about BRAC's history of microfinance in Tanzania, but many. The first element of this variable performance is visible by plotting the surplus of each branch against its age (Fig. 1b). This shows that, as branches age, they tend to become less profitable after 5 years.

To explore trends in performance with age, we undertook a cluster analysis. This identified three groups of branches that we named Strong, Young, and Weak. Their characteristics are shown in Table 2 and can be summarized thus:

- Strong branches: thriving membership; they constitute 26% of branches but account for 81% of BRAC's microfinance surplus.
- Young branches: going steady; these do generally create a surplus, but do not display dramatic returns; they account for 39% of branches and 17% of surplus.
- Weak branches: often making a loss and losing members; these are also, generally, the oldest branches in the organisation; these branches make up 35% of all branches but account for just 2% of surplus.

We can see that these different groups demonstrated dramatically different trends in average monthly surplus and borrower numbers when plotted against the age of the branch. All branches started from similar levels of surplus, but the



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

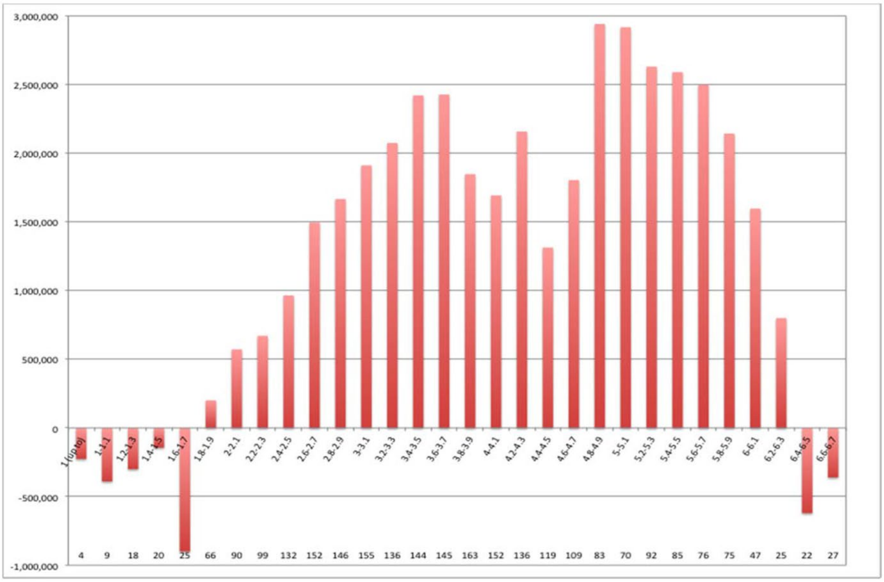
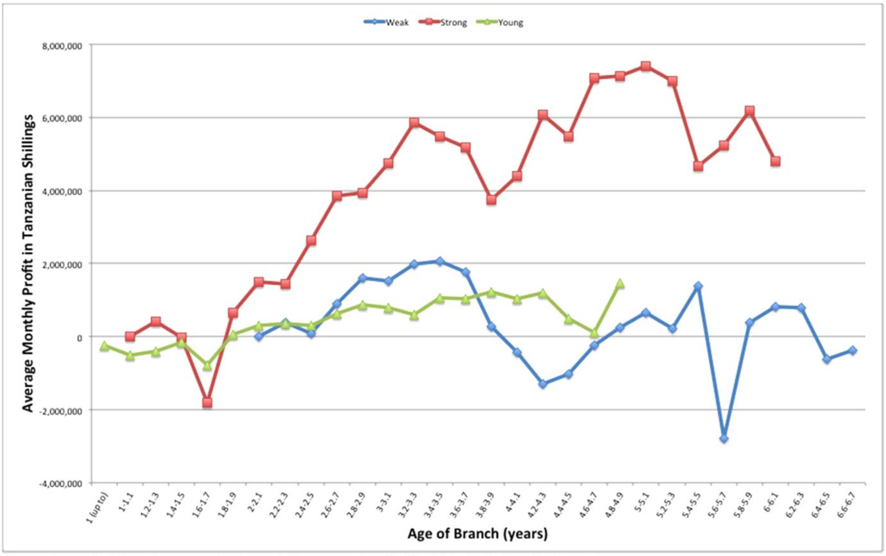


Fig. 1 Surplus from BRAC microfinance loans: **a** cumulative over time across BRAC as a whole, and **b** average per branch according to branch age. *Note* this graph excludes Zanzibar whose data are unusual because of a large write off of bad debt. The *x* axis shows branch age in years, the numbers along the base of the graph shows the number of data points in each category

Strong groups rose dramatically and maintained their performance (Fig. 2). The Young groups never took off in the same way, demonstrating much gentler levels of growth. They never made a loss, but their levels of surplus were much lower.



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

Fig. 2 Average monthly surplus of Weak, Strong and Young branches

Finally, the performance of the Weak groups was much more erratic, and often in the red.

The presence of these different clusters means that it is not merely the age of a branch that determines its success, as Fig. 1b suggests; rather, other variables must be at work. This is most clearly visible in years 3.8–4.9 of their existence. At that point, the Strong branches are maintaining healthy surpluses, the Weak branches have already begun to decline, and the Young branches are maintaining a steady, if small, profit.

The Surprise of the Weak Branches

What could explain this variation? In the first instance, it is important to point out that the weaknesses visible in so many branches is surprising. BRAC is a good microfinance organisation. It is highly experienced and its operations work at a scale few can emulate. Moreover, our research into clients' views of BRAC showed many positive responses to the impacts that it had made. It was clear that it should succeed, and for several reasons.

First, BRAC faced little competition. Most other microfinance organisations target larger businesses or government employees. Interviewees we spoke to were, with two exceptions, unable to name other organisations from which they could have obtained loans of this sort. They did not earn the salaries that other companies then required, but they were operating small businesses that needed the liquidity BRAC loans provided. They also mentioned that BRAC's assiduous local surveys of loan needs and awareness raising of their products had helped to grow demand as the organisation was establishing itself.

Second, it has targeted the right people. Products have been aimed at existing businesswomen who were, before BRAC arrived, excluded from the financial services they required. Of the 292 clients we interviewed, 272 had put their loans into an existing business of some sort (such as charcoal sales, chicken rearing, clothing sales, grocery stores, tea shops, tailoring, bars and vegetable shops as well as agriculture). Only 40 clients used the loans to invest in entirely new businesses (and half of these already had other businesses). Selling a financial product to women who were already running successful businesses reduced the risk to which BRAC exposed itself.

Another aspect of the healthy fit between the clients and the product is that these clients are also relatively wealthy compared to most Tanzanians. We compared wealth rankings of three villages where BRAC was working with wealth rankings of its clients (Table 1). This shows that the poorest two groups were not represented at all in BRAC's client groups, and the wealthier asset-owning groups were disproportionately represented. This quantitative survey was backed up with a series of more informal conversations with clients and former clients during Brockington's 13-month stay that again suggest that BRAC has been able to tap into a group of more effective and relatively wealthy business women. Again, avoiding the poorest Tanzanians reduced risk and should have made the business model robust.

Finally, BRAC should succeed because the products being offered suit clients' needs. We cannot determine what difference these loans have made to levels of poverty, but we can report that most clients we spoke to valued the services offered. The widespread sentiment was that the loans provided a useful service that had helped to grow businesses and provide liquidity. Clients repeatedly told us that '*imenisaidia sana*' (it has helped me a great deal) and gave examples of growing and creating new businesses, paying school fees and coping with unexpected accidents, misfortune and illness.

A measure of the success of BRAC and the popularity of its loans is the penchant for multiple loans that a number of clients developed. Some members of borrowing groups would 'sell' their loan-taking ability to other group members. Woman A would take the loan, but give it to woman B (for a small sum). This benefits both the woman who uses the money and her colleague. It is a relatively painless way of providing a favour. For those taking the extra loans, this behaviour allows them to access a loan commensurate with their business needs and circumvent the tiresomely small loans that BRAC's microfinance programme offers even to well-established customers.

Indeed, in some cases, these were not simple transactions. Woman B may in fact also be taking loans in the name of women C, D and E. Brockington's observations suggest that this practice was widespread and could account for between 10 and 25% of all loans in some groups (while absent in others). It is quite possible, therefore, that multiple loans are making a significant contribution to the current levels of surplus.

Multiple loans increase the risk of default and are not allowed by BRAC. However, the incentives to allow multiple loans reach right down to the roots of the organisation. It was clear from this research that credit officers are aware of it and turn a blind

Table 1 Wealth groups of BRAC clients in Tanzania

Wealth group	Wealth group characteristics	Clients (%) $n = 428$	Comparator villages (%) $n = 1315$
1	Immensely rich; knows no barriers; has cars, lorries, etc.	0	2
2	Very rich; many cattle and much land; may own a tractor but not a lorry. Has businesses and land in towns	0	3
3	Rich; employs casual labour; has several businesses and land.	10	3
4	Owns their own house and business, some land; can employ casual labour occasionally.	72	44
5	Some income-earning assets (house/shop/business); does not employ labourers; rarely performs casual labour	18	31
6	Poor; depends on casual labour work for daily needs; few if any livestock or assets.	0	10
7	Extremely poor; unable to get work easily; suffering from alcoholism and/or illness.	0	6

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

eye. After all, it helped them to meet their targets, and they could use the prohibitions against multiple loans as a means of extracting payment (called ‘thanks’ money, on which more below). Branch managers (all themselves former credit officers) will have been well aware that it could be happening, but must be careful that they are not too zealous in their attempts to expose it, for it would necessitate considerable disciplinary action and make it harder for them to reach their loan quotas.

In summary, then, BRAC in Tanzania has targeted a group of relatively wealthy and active business-savvy women. BRAC loans have fed into a pre-existing economic infrastructure (i.e. client businesses) that made them quickly productive. These clients, and their businesses, are less vulnerable to the risks and misfortunes of poverty than the poorest Tanzanians.[4] BRAC was selling these products in the face of little, if any, competition. Significant minorities of clients were likely seeking multiple loans. In addition, BRAC has the backing of a highly experienced international microfinance infrastructure. What could go wrong with such an arrangement?

Explaining Weakness

Driving the differences in surplus reported above are the borrower numbers. The health of a branch is highly dependent upon the number of active borrowers. Most obviously, without borrowers, there can be no returns on loans and no profit to the

[4] For BRAC staff we spoke to who had worked in Bangladesh, the vigour of women’s businesses was the main difference between microfinance in Tanzania and Bangladesh. As one senior manager put it, in Bangladesh only 10% of clients might have their own business, the money is put into businesses operated by male relatives, but in Tanzania all the clients have their own businesses.

organisation, but there are two further dynamics that make borrower numbers particularly important.

On the one hand, the dynamics of loan groups make borrower numbers highly sensitive to any problems. If one person defaults in a group of 20, the others have to pay back that person's loan instalments. That loan (one person's weekly repayments) can be relatively easily spread around. But if three people default, or five, then the costs of staying on in the groups can rapidly become excessive and it can collapse. Declines in branches can be dramatic if the groups that underpin it dissipate.

On the other hand, profit is much more easily sustained from larger numbers of borrowers, above a certain minimum, because of the economies of scale that the branch enjoys (Fig. 3). A group of 30 has only a few more financial costs than a group of 25, but could return a 20% increase in revenues. Thus, borrower numbers drive virtuous (and vicious) circles in microfinance. Similarly, a loan officer visiting three loan groups in a morning could relatively easily add a fourth to her rota.

The changes in borrower numbers plainly drove the variations we have reported above. Figure 4 shows that the Strong groups undertook, and sustained, a healthy rise in borrower numbers during the first 4.5 years of their life. Thereafter, they declined, but not to an extent which threatens surplus. The Young groups in contrast never took off in the same way. They had, on average, just 68% of the membership numbers of the Strong groups, and generally fewer than 900 members. The Weak branches started well, with a rapid rise in numbers, but that soon began to decline quickly, and thereafter more slowly, with numbers hovering around 700 in the last months of the data records.

BRAC has therefore grown because it was increasing the number of borrowers, and that number has grown because BRAC was opening new branches, although BRAC was not necessarily keeping the borrowers in all branches. The crucial questions we have to answer, therefore, are: what could be precluding clients from taking up successful and desirable products? And why could this only be happening in some branches and not others? And why do some branches do so well and others so badly?

It is important to note there that the traditional triptych of causes (products, clients, environment) that have been used to explain microfinance institutions' performance is not satisfactory here. There is no variation in the product offered between different branches, so this cannot explain any difference. Nor are the clients particularly different across the branches; all are Tanzanian business women seeking loans not otherwise accessible to them; almost all, in our surveys, were also relatively wealthy. Nor can geography or environment explain the problems; BRAC has set up branches in the more prosperous growth poles of the country, and only in urban centres of a sufficiently large size to sustain a large number of potential clients. Dar es Salaam has clearly proven a difficult environment for BRAC to work in, as 14 of 15 branches there are Weak. Perhaps this sort of urban conglomeration might be make easier for clients to abscond and disappear. Yet other urban centres in Tanzania's other large towns (Mwanza Mbeya and Arusha) are also plenty large enough for such problems, and yet do not demonstrate such difficulties (only 8 of 21 are Weak, and 8 are Strong).

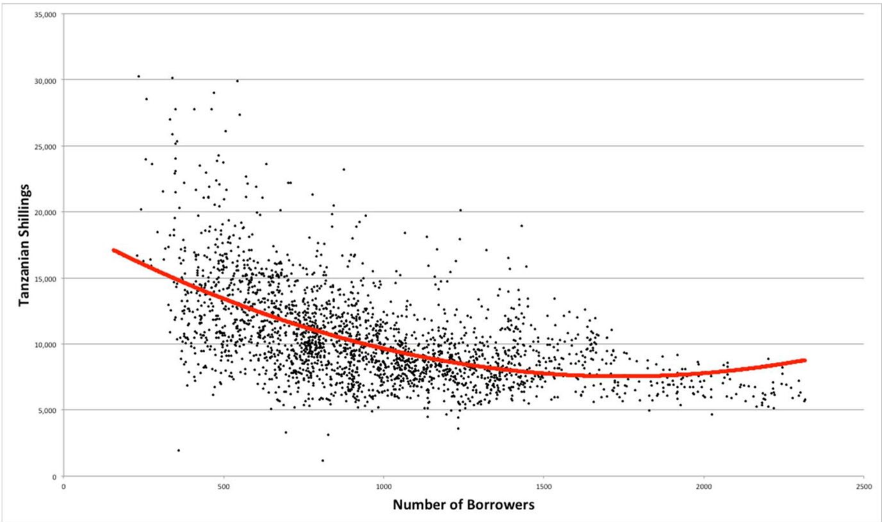
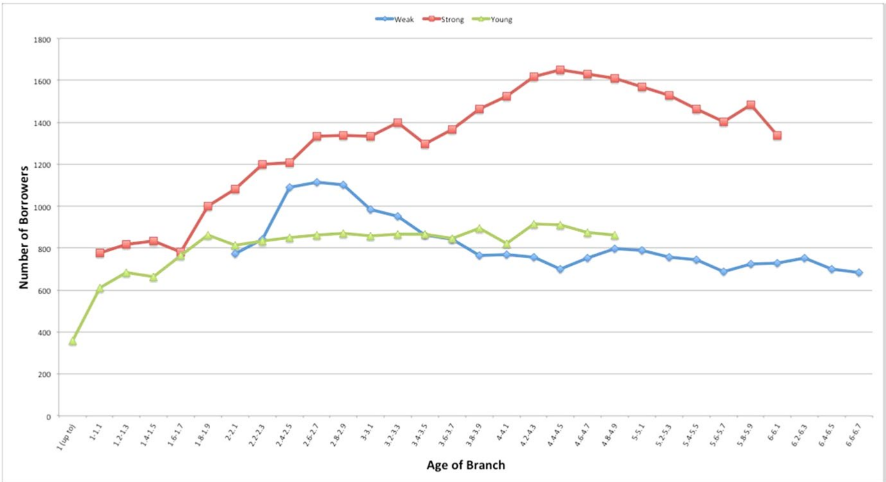


Fig. 3 Monthly administrative costs per borrower for each branch plotted against the number of borrowers



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

Fig. 4 Average monthly borrower numbers in branch groups

The exploratory nature of this research project means we cannot, definitively, exclude these mechanisms. A different study design would be required that sampled systematically across the country and across different sorts of branches (Weak, Young and Strong). We could not do this because the data that produced these categories only became available at the end of our time.

However, in the spirit of exploratory inductive research, we contend that the variation is likely to derive from a different source than the usual triptych. The causes of this variation lie in the differential response of branch, area and regional managers in coping with a number of challenges in administering loans. There are a number of generic issues that they have to control and cope with, lest clients are deterred from renewing loans or driven to leave the organisation. Our suggestion is that the way staff, and through them the problems we list below, *are managed* will be fundamental to explaining the success or failure of branches.

First, there are language barriers. BRAC's rapid expansion had left it with an interesting demography in its employees at the time of this research. All credit officers were Tanzanian women. So, too, were all monitoring staff and branch managers (both are recruited from the credit officers). At the other end of the scale, almost all higher-level management, including all but 6 of the 24 area managers, were (at the time of this research) Bangladeshi men. The expansion of the client base had been faster than the training and capacity building of Tanzanian staff to take on senior positions within BRAC's structure.[5]

This situation meant that, at the time that the research was conducted, hardly any of BRAC Tanzania's Bangladeshi staff spoke Swahili well enough to talk to their clients. Instead these staff—the vast majority of all area managers and all of the regional managers—were dependent upon their credit officers and branch managers to understand their clients. Bangladeshi and Tanzanian staff would talk in English, which was problematic because of the frequently low levels of English among all concerned. As a result of these language barriers, Bangladeshi area and regional managers faced significant challenges. It was difficult for them to listen to or understand their clients' needs and problems.

Second, there were widespread complaints from clients about the behaviour of the credit officers. Problems included extracting illicit 'thanks money' from clients in return for renewing loans; stealing money; taking loans out in clients' names and then running off; making it difficult for clients to take back the security deposit[6]; and finding numerous ways of extorting funds from clients. These reflected problems of staff probity and capacity that are reported across the sector in Tanzania.[7]

Interviews with both senior and junior staff confirmed many of the problems about which their clients complained. Junior staff told Brockington about the 'thanks money' they extracted. They could not hide the fact that their colleagues had absconded with clients' (and sometimes fellow credit officers') money. And many credit officers were quite clear that it was standard practice to make it difficult for clients to leave BRAC by making it harder for them to pick up their security deposit.[8]

[5] This attribute has since been transformed by recent staff changes that took place after the field research was completed, as we will discuss later.

[6] The security deposit constituted part of the loan and was returned to clients when they left the organisation.

[7] The work of the Financial Sector Deepening Trust of Tanzania makes plain that there are significant challenges with respect to staff quality and probity that afflict all organisations; Sosthenes, personal communication (CEO of Financial Sector Deepening Trust) June 2013.

[8] This used to be a major issue in BRAC's Bangladeshi programmes in the 1990s and 2000s.

Area and regional mangers we interviewed (then all Bangladeshi) also complained about the weaknesses of their junior colleagues but expressed it in a slightly different idiom. Their complaint was about the probity and quality of their junior Tanzanian colleagues, particularly in comparison to their equivalent staff in Bangladesh. Tanzanian colleagues were frequently said to be not as 'serious' about their jobs as equivalent staff in Bangladesh. Their work ethic was said to be weaker, they were not committed to BRAC as an organisation, and they were less trustworthy.

However, interviews with the credit officers also threw more light on why they might not value their jobs with BRAC particularly highly. Credit officers complained of low levels of job satisfaction, low pay and stressful conditions. Some have had to make up shortfalls in loan repayments from their own salary, and it was frequently reported that their salary is forcibly deducted to cover overdue payments. They are shouted at by managers in public and before clients, which is not culturally acceptable in Tanzania; it offended all Tanzanians, clients and staff alike. Brockington has witnessed clients comforting their (corrupt) credit officers after they had been shouted at.

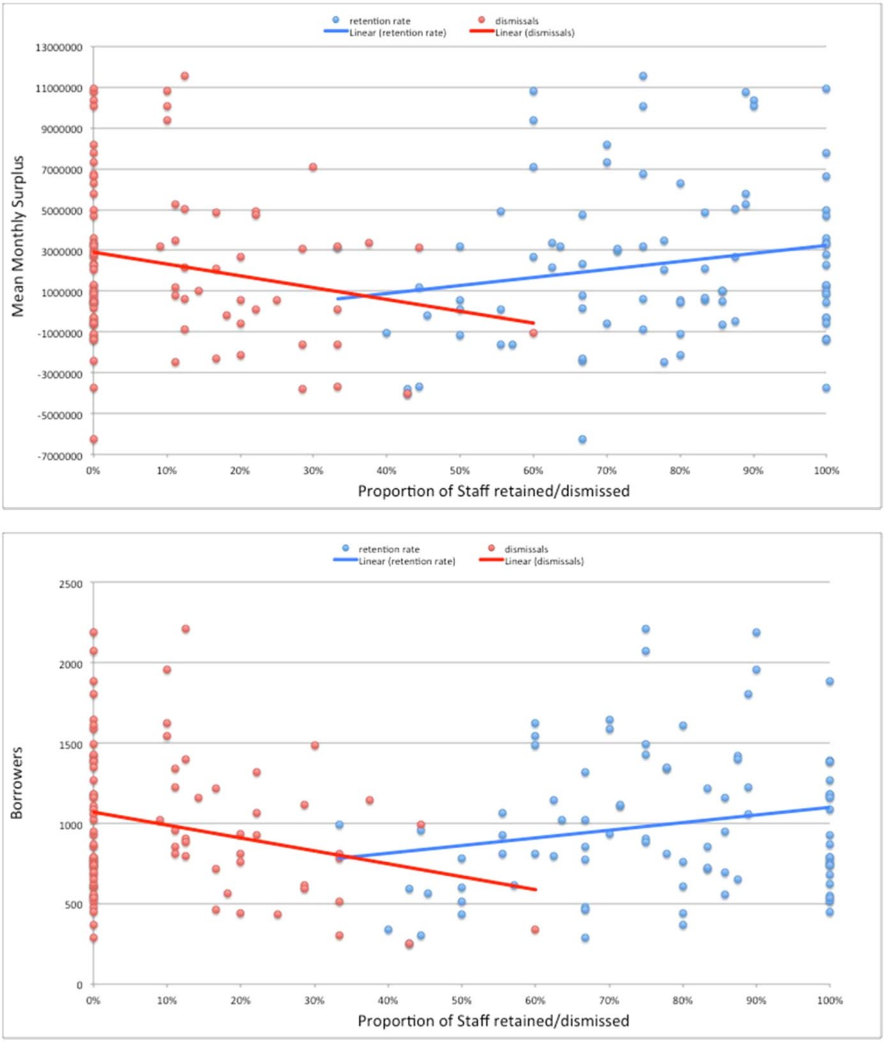
These two problems, of language and staff management, compounded each other in ways that impaired dealings with clients, as two incidents illustrate. One was related by a monitoring officer who described an area manager speaking to a group of clients, with the credit officer translating. When the clients asked the credit officer what the manager had been saying, she replied that he was saying that clients were not to delay when paying 'thanks money'. The second case reported was that of a client who repeatedly tried, and failed, to leave BRAC and have her security deposit returned to her. In the end, she disappeared for some time, leaving her security deposit. On her return, she was asked (in Swahili) by the credit officer whether she wanted to take out a new loan. 'No', she replied (in English) 'I have been improving my English. I want to speak to the Area Manager so that I can get my security deposit back'.[9]

But these difficulties are not just the source of awkward anecdotes. Our contention is that they represent a key human resource management problem that appears to be driving some of the reasons for failure and success. This is visible in the quantitative data.

Managing staff well so as to limit dismissals and boost retention is important for branch achievements (Fig. 5). Higher rates of dismissal and lower rates of retention are associated with poor branch performance, both in terms of surplus and borrower numbers.[10] It is also plain that there is a positive correlation between branches where credit officers perform well and borrower numbers (Fig. 6). This figure shows that it is not just that strong branches have more borrowers (which is already established) but also that credit officers from stronger branches are more likely to improve their borrower numbers over time compared with those from weaker and younger branches. Indeed, those at weaker branches see their borrower numbers decline despite increasing collective loan officer experience across the branch.

[9] This was relayed to Brockington by the credit officer who had been obstructing the client's attempts to regain the security deposit.

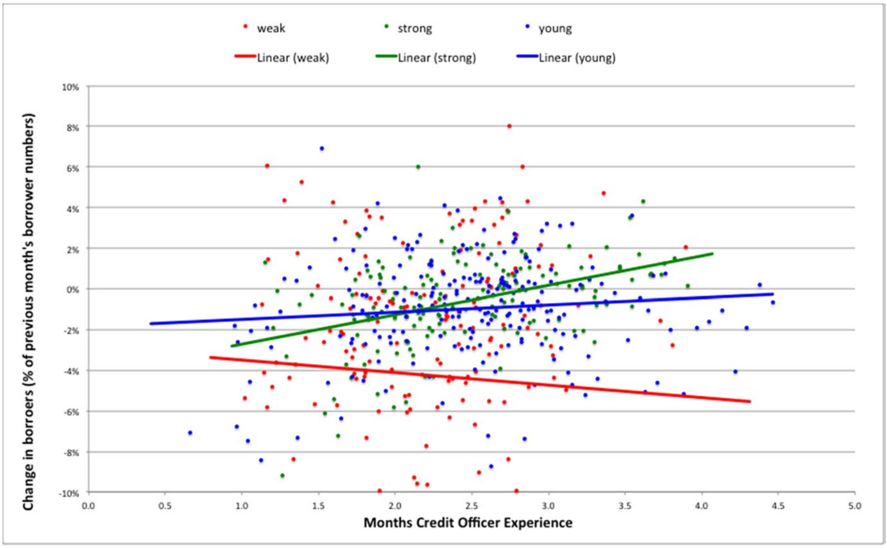
[10] Retention rates appear to us relatively low, and dismissal rates rather high.



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

Fig. 5 Dismissal and retention rates (Jan 2012–Apr 2013) plotted against **a** surplus and **b** borrowers

The final indication of the role of staff management and language barriers in branch performance is that there is an intriguing difference between the performance of the few Tanzanian Area Managers and their Bangladeshi counterparts. We divided the three groups of branches (Strong, Weak and Young) by the nationality of the area manager to produce five subgroups (Fig. 7).



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

Fig. 6 Average borrower numbers by branch grouping and area manager

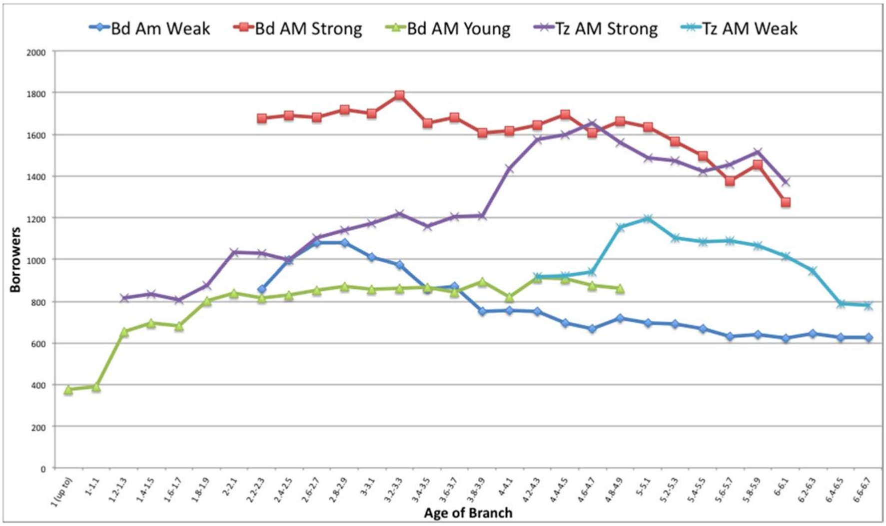


Fig. 7 Average borrower numbers by branch grouping and area manager

- The Strong group can be split into two: a really strong collection run by Bangladeshi managers which slightly outperforms another strong group of branches run by Tanzanian area managers.

Table 2 Summary statistics of branch cluster performances

Group	Mean age	Mean monthly surplus (TZS)	Mean no. of borrowers	No of branches	Bangladeshi area managers	Tanzanian area managers
Weak	4.8	12,215,576	816	28	26	2
Strong	4.0	145,924,254	1374	32	12	20
Young	3.0	26,670,395	843	45	45	0
Total				105	83	23

The exchange rate at the time of the research was approximately US$1:1700 TZS (Tanzanian shillings)

- The Weak group also divides into two, with a Tanzanian area manager doing better in terms of numbers but worse in terms of surplus than the Bangladeshi Area Managers. Note that there is only one Tanzanian area manager in this group.
- The Young group remains unchanged. All are supervised by Bangladeshi area managers.

Most of the good branches were in fact run in areas managed by Tanzanian managers (16 of the 29) and, nearly 75% of branches in areas run by Tanzanian managers were Strong (Table 2, final columns). This suggests that staff performance at the branch level is not merely a function of the branch manager and her loan officers alone but also of higher-level structures and oversight and the *management* of the performance of these junior officers.

Unpacking Performance Research

The design of our study prohibits a more robust testing of the importance of human resource management for branch performance. We began this research as an exploration of BRAC's apparent success. The quantitative data showing the variation in branch achievements were only revealed as fieldwork concluded. The serendipitous nature of this research precludes us from offering definitive explanations of the variation in BRAC's performance. A different study design, which explores differences between a sample of branches selected across different varieties of performance, would be required to robustly test the contention we have just made. Nevertheless, on the balance of evidence presented here, we argue that locating the explanation in staff performance—and management of that performance—is much more likely to explain the variation we have reported than differences in products, clients or environment.

However, the more important point is that our findings suggest that the factors used to understand and measure performance in microfinance need to be revised. Without reconsidering how organisational systems shape performance, we might be missing an important opportunity to make microfinance work better and for more people. The design of the product offered to clients, the qualities of the clients themselves, and the environments in which microfinance organisations operate are not the only variables that matter when understanding the consequences of microfinance.

Much research on microfinance tends not to focus on the organisational behaviour of the institutions providing the loans. To use an analogy, much current analyses liken loans to products delivered by post. They are merely delivered, and hence it is logical to see what clients do with the product and the environments in which they work. Who the postwoman is, and how she is managed, is immaterial to most people's enjoyment of their post; however, we do not feel that this strategy of making the postwoman disappear is helpful. This is why we prefer the analogy of a play. Every actor will tell you that the audience (clients), stage (environment) and the quality of the dialogue and plot (products) are all important elements in any good performance, but the same actor is also likely to insist that the actors' work, as well as their stage direction and production, also matter a great deal. They have been not been sufficiently prominent in debates thus far. We do not think that BRAC's experience in Tanzania can be properly understood without appreciating the varied performance within the organisation and the role of middle management in directing that performance. We suggest that this may be true in numerous other microfinance organisations.

The relative lack of attention to organisational heterogeneity could be an important weakness in microfinance research. The current swathe of randomised controlled trials (RCTs) hinge on robust designs that can construct sufficiently large samples to explore the impact of explanatory variables. However, if important explanatory variables are omitted, then RCTs may be poorly designed. It follows that, if organisational heterogeneity has not been adequately factored into RCTs, so their power will be reduced. It also means that, in order properly to cope with organisational variety, RCTs will become larger and yet more expensive.

Research into microfinance will become more useful to the microfinance organisations themselves if it engages with the realities of life and work inside these organisations. Research which engages with the working practices and cultures of microfinance institutions is likely to be more useful and practical than work which does not. If organisations are to learn from themselves (Korten 1980), then this will require some appreciation of their internal variety.

Changes in the composition of the staff present an opportunity to re-examine the influence of staffing on organisational systems. In August 2013, just as this research was being completed, there was a change in the country leadership of BRAC. This was quickly followed by a restructuring of the microfinance programme: the 24 areas were re-organised into 28, the 8 regions into 10, while the number of branches remained unchanged. Thereafter, a much more rapid programme of appointing Tanzanian area managers was put into place. Whereas in mid-2013, 6 of 24 area managers were Tanzanian (25%), by July 2014, 24 out of 28 (86%) were Tanzanian. A further 20 new area managers are trained up ready to fill vacancies should they arise. Whereas there were once no regional managers who were Tanzanian, now 2 out of 10 are. Moreover, 5 of the 10 regional accountants are Tanzanian (up from zero). There are also new Swahili language-learning requirements and courses in place for Bangladeshi staff. These might have implications for branches' financial performance and outreach.

Conclusion

The growth of BRAC's microfinance programme has been remarkably fast and has reached several times as many women in a few years as most other, if not all other, microfinance programmes in Tanzania. Moreover, our data suggest that the products it is offering are welcomed by most of the clients it recruits. BRAC's loans have enabled the women we interviewed to grow businesses, educate their children and cope with unexpected misfortune.

However, it is not simply a story of straightforward growth. One cannot understand BRAC's microfinance programme in Tanzania unless one appreciates the diversity of performance displayed across different branches and in different regions. BRAC has not just been unleashing economic opportunities for Tanzanian women (although it has been doing that) but it is also learning how to operate microfinance programmes in Tanzania and how to manage Tanzanian staff in the procedures and systems of its organisation.

The broader implication of this process is that many other microfinance organisations and institutions are also in the process of learning how to learn from and respond to their changing environments. As suggested by Simanowitz and Knotts (2015, p. 10), organisations need to critically reflect on the 'reality gaps' between the hard scalable systems put in place and the realities of their interaction with clients' lives. Standing still and ignoring the need for adaptation can present real dangers for microfinance organisations and for their clients (Simanowitz and Knotts 2015). Moreover, we should expect that all microfinance organisations are coping with some sorts of change all the time. At the very least, if they succeed, then their clients should be getting richer, which will introduce new sets of demands. And this is before we consider changes to the economic environment, legislation, competition and the myriad other elements at work (Cull et al. 2011).

BRAC provides a dramatic example of such learning. Other organisations may be well placed to learn from its experience and adaptive culture. It set up an entire organisation delivering services developed in Bangladesh in a new country where the operating environments, and language, were different from its previous experience. In doing so, it has rapidly become the largest microfinance provider in Tanzania, and alongside its other programmes reaches hundreds of thousands of families. Our findings here may highlight the problems this institutional transfer has faced culturally and linguistically, but also emphasise the steps in reorganisation and staff deployment that BRAC has taken to try to remedy these. Without a culture of institutional learning, the potential for identifying and responding to such problems in a timely fashion is much less likely.

We believe that it is important for scholarship about microfinance to address the deficit of research into the character and variety of behaviours *within* microfinance organisations. As our study finds, internal patterns of behaviour, and the management of that behaviour, have an important bearing on the success of the products offered to clients by determining the use and the potential impact of these products on their lives. We have sought to demonstrate that understanding this variety can be crucial to the understanding of the conditions and performance of microfinance programmes. The challenge now is how systematically to incorporate organizational variety into publically accessible databases so that researchers can explore organisational performance in relation to subtle aspects of management systems and processes. Failing to address this knowledge deficit, resulting from multiple siloed disciplinary interests in microfinance, risks keeping the means of ensuring and enhancing social and financial performance concealed.

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