MICROFINANCE MANAGEMENT'S ROLE AND RESPONSIBILITY IN THE REDUCTION OF LOAN DEFAULT ASSOCIATED WITH GROUP LENDING WITH JOINT LIABILITY

A dissertation presented in partial fulfillment of the
requirements for the degree of
Doctor of Management in Global Leadership

By

Agnes Katawera Bamuwamye

Colorado Technical University

January 2014

Committee

Michael Alexander, DM, Chair

Cathy Royal, PhD, Committee Member

David Levy, PhD, Committee Member

Date Approved: December 16^{th} 2013

Abstract

The concept of providing access to financial services to groups of uncollateralized poor entrepreneurs has become a mainstream poverty alleviation tool of the time (Gunjan, Soumyadeep, & Srijit, 2010; Li, Liu, & Deininger, 2009; Pal, 2012). This concept agrees with the notion that small-scale entrepreneurship is one of the most effective and sustainable tools of poverty alleviation and economic development (Gunjan, et al., 2010). While access to capital is the backbone of entrepreneurship (N. K. Shetty & Verrashekharappa, 2009), the conventional banking system labels the poor "unbankable" for lack of collateral (Brau & Woller, 2004). This, coupled with the 1974 famine in Bangladesh, compelled Professor Muhammad Yunus to design a mechanism by which the uncollateralized poor can access financial services (Yunus, 1999). This mechanism is group lending with joint liability—also referred to as social collateral (Bayulgen, 2008). The height of this mechanism's success was the formation of the Grameen Bank and the emergence of the microfinance revolution; however, the mechanism recently encountered some setbacks. This research study, therefore, will employ a qualitative approach through one-on-one semi-structured telephone interviews to explore the role and contribution of management in the improvement of the microfinance process.

Keywords: microfinance, group lending, joint liability, financial inclusion, poverty eradication

Acknowledgements

This dissertation is a product of an enormous amount of hours of discussion with my mentor and advisor, Dr. Michael Alexander. His kind and thoughtful, simple and firm approach to mentorship pulled me from a resigned state and empowered me to do my part. Through his efforts, I have grown as a researcher, a scholar-practitioner, and as person. I acknowledge and appreciate the tremendous assistance and support, wrapped in patience, which I received from my committee: Dr. Cathy Royal and Dr. Levy. A special thank you to Dr. Daphne DePorres for always being just in time to set the pace. I am deeply thankful to Dr. Shawn Richmond for assisting me in restructuring and repositioning my passion in the process. I also appreciate the help of my microfinance guru, Dr. Yoshano Gheneti, for his great insights in the process.

I am grateful to my husband, Moses Bamuwamye, whose brilliance with patience in chaos challenged my judgment to balance. I could not have come this far without his support. My junior champions, Ruth and Abigail, and the departed Daudi for being great cheerleaders in the years of chaos over the course of my doctoral journey.

I am deeply indebted to the girls in my league: my own sister Mrs. Alexandria Mwogeza, for getting me off the seat of excuses; my senior cheerleader, Druscilla Senkungu; and my power-girl niece Phoebe Kyamwine, without whom I would not have come this far. A special thank you to my cousin, friend, and research counsel, Dr. Lydia Kapiriri for keeping me grounded in theory and the collected data. To my family and friends: thank you for believing in me. My dissertation would not be complete without the support of my cohort members who empowered me to look ahead and keep moving. Last, but not least, I would like to acknowledge and appreciate the firm and loving

support and guidance of my God, the All-Knowing, who has been my guide and anchor through it all.

Dedication

I dedicate this dissertation to my late mother and my eldest sister Mrs. Alexandria Mwogeza. Their hard work, dedication, and perseverance taught me that femininity is not a limitation, but paved my way to success. I also dedicate this to the poor women across the nations trying so hard through small scale entrepreneurship and microfinance to create a better future for themselves, their children and their communities.

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Chapter 1: Introduction

Background of the Problem

Engagement in small-scale entrepreneurship is one of the most effective and sustainable tools of poverty alleviation and economic development (Gunjan, et al., 2010). While access to capital is the backbone of entrepreneurship (N. K. Shetty & Verrashekharappa, 2009), the traditional banking system deems the poor traditionally high-risk candidates because they lack income and collateral (Brau & Woller, 2004; Eijkel, 2011). Group lending with joint liability, therefore, forms a bridge between the poor entrepreneurs and the necessary financial services. This mechanism allows a group to assume joint liability for the uncollateralized loan (Prahalad, 2009).

Professor Yunus, a former Bengali professor of economics, designed and implemented this model through the Grameen Bank he founded in 1976 in Bangladesh (Bayulgen, 2008). This model is the greatest innovation of the microfinance movement and the origin of the microfinance revolution (Giné, Jakiela, Karlan, & Morduch, 2006). In an epigraph (Wahid, 1993), Professor Yunus equated denying the poor financial access for lack of collateral to a metaphor that men cannot fly because they lack wings (Yunus, 1999). Professor Yunus believes that poverty is a product of lack of access to financial services (Ghani & Mahmood, 2011). His argument is that access to financial services at reasonable terms would promote small business entrepreneurship among the poor and help them escape poverty (Khavul, 2010; N. K. Shetty & Verrashekharappa, 2009).

Through this model, groups of five members merge into centers of three to six groups per center. Groups meet weekly in borrowers' homes or local community centers (Mahajan, 2012). The group and center model encourages a culture of financial responsibility through which peer support leads to over 90% loan repayment rates (Cull, Demirgüç-Kunt, & Morduch, 2009; Sriram, 2012). In other words, the group serves as a social network of voluntary, mutual support in which members provide assistance to their peers (Sriram, 2012).

Group lending encompasses a variety of methods, all of which have roots in the principle of joint liability (Gunjan, et al., 2010). The most common of these are static and sequential. In static group lending, all of the group members borrow at the same time and undertake their respective projects simultaneously. In sequential group lending, each new project is financed after the success of its predecessor (Aniket, 2003). This research will incorporate both static and sequential group lending methods.

Joint liability is a crucial feature of both group lending arrangements. Essentially, the group takes over the underwriting, monitoring, and enforcement of loan contracts from the microfinance industry (MFI) (Wenner, 1995). Under joint liability, the members are mutually responsible for each other's portion of the loan in case of default, or else they lose access to future loans (Sriram, 2012). It is in each member's interest, therefore, to ensure that the other members pay their share of the loans (Yunus, 1999).

In group lending, loans may be made to the group as a whole or to individuals of a self-selected group, but the whole group is liable for the repayment of the loan (Khavul, 2010; Pal, 2012). The mechanism of microcredit embraces the existing social ties that bind communities together as a form of social collateral. Banks utilize that social collateral to monitor problems of adverse selection, improve repayment rates, and transfer the burden and costs associated with monitoring loans to the borrowers themselves (Khavul, 2010). This mechanism works because the contracts offered are of a joint liability nature (Mahajan, 2012).

While the provision of credit to the poor in the rural communities of emerging economies is crucial from a poverty management perspective, microfinance organizations (MFOs) often encounter severe problems (Khavul, 2010). These problems include adverse selection, moral hazard, and auditing costs, all of which inflate the transactional costs. The group lending with joint liability model endeavors to confront these problems by making failure more costly for the borrowers (Ghatak, 1999). Group lending contributes significantly to the high loan repayment rates from traditionally high risk, un-collateralized clients (Cull, et al., 2009; de Aghion & Morduch, 2000). Group lending, therefore, controls some risky investment behavior that would otherwise occur under an individual borrowing contract (Edward & Olsen, 2006).

This model influences high loan repayment rates through (a) fear of implications on a defaulter's community reputation if a borrower defaults, (b) social isolation, and (c) loss of future loans access; furthermore, group lending with joint liability gives rise to peer monitoring and internal group pressure to repay loans. Groups ensure prompt loan payments through (a) the fear of group expulsion, (b) the threat of losing the safety net of intragroup credit insurance, and, in severe cases, (c) the use of physical force.

Without group lending, information acquisition from each member would not only be very expensive, but also barely possible. It could lead to misrepresentation (Bayulgen, 2008); however, through group lending, members choose among those of their own community whose credit-worthiness is known. Group lending, therefore, provides informational advantage for the MFIs (Pitt & Khandker, 1998).

Microloan innovators, such as Professor Yunus, through his work with Grameen Bank, have managed to overcome problems of risk and adverse selection by lending to groups with mutual responsibility for the loans (Khavul, 2010). When one member of the group defaults, the whole group is liable (Mahajan, 2012). This overcomes the problem of adverse selection by allowing the group members to pick responsible partners to reduce the potential risk or information costs to the lender (Giné, et al., 2006). Group lending with joint liability gave rise to groups' self-monitoring behavior which significantly reinforces loan repayment (Bayulgen, 2008).

Group lending gained enormous popularity as a tool for providing credit access to the poor in developing countries (Barboza & Trejos, 2009). This concept has attracted the attention of economists as one of the most innovative and promising means of creating credit accessibility to the poor (Khavul, 2010; Wydick, 1999). Microcredit programs, unlike governments and conventional banking systems, have reached the interaction of poverty and ethics with impressive success, excellent loan recuperation rates, and a positive impact on poverty reduction (Saad & Duasa, 2011).

Statement of the Problem

Group lending with joint liability as a mode of credit delivery has been successful in the developing world. The loan repayment rates are higher than 97% on average (Bayulgen, 2008); however, this success links to the rising suicide rates among microfinance clients because of the fear of the implications of defaulting (Sriram, 2012). Loan default not only subjects the borrower to the informal enforcement mechanisms, but also creates a stigma (Besley & Coate, 1995), which in some cases leads to defaulter suicide (Sriram, 2012). There is a significant connection between the stigma and suicide in microfinance. For example, Ardener stated "the stigma arising through social sanctions may cause those who failed in installments in rotating savings and credit associations (ROSCAs) to commit suicide" (as cited in Besley, 1995, p. 2175). In Japan, for instance, people would rather live with the death or suicide of family member who is a debtor than the burden of the stigma if the defaulter stayed part of the family (Ashta, Khan, & Otto, 2011). The stigma that surrounds loan default in group lending with joint liability led microfinance pioneer institutions like Grameen Bank and BancoSol to substitute the group lending with joint liability approach for other methods of credit delivery to the uncollateralized poor (Giné, et al., 2006).

A combination of enormous debt with aggressive loan collection practices (Mahajan, 2012; Sriram, 2012), left a significant number of poor loan defaulters in the southern state of Andhra Pradesh in India without a choice but to commit suicide (Ashta, et al., 2011; Chakrabarti & Ravi, 2011). These suicides forced intervention from the state government. The implications of this intervention made several micro lenders encounter significant losses that forced some of them out of business. One of the ordinances in October 2010 limited the interaction between MFIs and their customers (Chakrabarti & Ravi, 2011; Pal, 2012; Sriram, 2012).

India has one of the largest microfinance industries in the world today. According to the 2010-11 mid-year financial analysis compiled by the Department of Finance, the combined microcredit outstanding in India was estimated to be US $6.7 billion (Kazmin, 2010) and nearly 30 million beneficiaries (Chakrabarti & Ravi, 2011). The state of Andra Pradesh, considered the cradle of microfinance in India, is the largest MFI with 40% of India's microfinance activity (Chakrabarti & Ravi, 2011; Kazmin, 2010).

There is little-to-no research on the roles of management in the microfinance process because the topic is at a nascent stage; however, a study on the microfinance ordeal and setback in the state of Andra Pradesh in India indicates that microfinance companies are not sharing information (Chakrabarti & Ravi, 2011). This is causing duplication of effort through the issuance of multiple loans. This creates a trap for the poor when they acquire multiple loans that they then cannot manage.

Purpose of the Study

The purpose of this qualitative study is to establish and examine the roles and contributions of microfinance management in the reduction of loan defaults. An examination of the roles may provide insights into ways that managers may reduce the number of microloan defaults, and ultimately, the extremely negative consequences of default. This study will explore the process from the viewpoints of the microloan managers; they can best describe their beliefs, opinions of the process, and areas in need of improvement.

Significance of the Study

This research is significant to the financial inclusion initiative, which was designed to reinforce equal distribution of financial resources around the world (Leeladhar 2005). The research will also benefit international organizations like the United Nations (UN). The UN declared 2005 the year of microfinance as part of its goal to end poverty (Department of Economic and Social Affairs of the United Nations Secretariat, 2007). The UN set 2015 as the deadline for reducing poverty by half (Khandker, 1998). This research is also timely for other international bodies like the World Bank, US Agency for International Development (USAID), Opportunity

International, Kiva, Accion, and World Vision International, as they continue with the war against poverty in the emerging economies.

This study will further benefit the microfinance sector which has the main purpose of using financial services distributed to the uncollateralized poor to alleviate poverty (Khandker, 1998). Microfinance employees who walk miles and miles on foot in remote areas to reach the potential customers will also find this research significant. Microfinance customers in emerging nations live in remote, countryside areas. Microfinance employees must walk long distances to reach them.

In addition, this study will benefit the 2.8 billion poor people around the globe. This study is also significant to the women's rights movements that are fighting for gender equality (Mayoux, 2010; Sanyal, 2009). The study will further benefit the women who constitute the majority of the impoverished in the developing countries. These women are experiencing emancipation as a bi-product of poverty eradication (Chant, 2009; Siraj, 2012).

Poverty, women, and microfinance are three closely related notions in this process because the majority of the poor are women (Chant, 2009); therefore, the majority of microfinance clients are women. Women are better credit risks and consistently invest in entrepreneurial endeavors which build financial freedom for them, their families, and their communities (Whiting, de Pillis, & Hatch, 2010).

Finally, as previously mentioned, the topic of microfinance is at a nascent stage. There is, therefore, a scarcity of theories to inform the phenomenon. As a result, this research will benefit the world of academia by aiding the process of understanding the phenomenon and designing theories to inform the microfinance process (Kritikos & Vigenina, 2005).

Significance of the Study to Management

Debates on the relevance, significance, responsibilities, and roles of management in the success of the organizational functions have existed since 1825. The word "management" has its roots in France in 1598 CE (Nienaber, 2010). The definition of management carries the distinct tasks and interlocking functions of (a) creating corporate policy, (b) planning, (c) organizing, (d) commanding, (e) directing, (f) coordinating, and (g) controlling an organization's resources to achieve the objectives of that organization (Fayol, 1949; Nienaber, 2010). This definition originates from the scientific revolution. The tasks and functions thereof are all aimed at the achievement of the organizational goals and organizational success. This research is significant to management because of management's role, power, and responsibility to make decisions and oversee the organizational performance and success of microfinance.

Microfinance is a global phenomenon believed by the majority to be the panacea for the eradication of poverty (Batabyal & Beladi, 2010). The uncollateralized poor without income or sound credit history receive microloans to enable them to engage in small-scale entrepreneurships to help them slowly wade their way out of poverty (Navajas, Schreiner, Meyer, Gonzalez-Vega, & Rodriguez-Meza, 2000). The philosophy behind microfinance is that the poor are poor because they lack resources to enable them to become productive, small-scale entrepreneurs (Sriram, 2012). Microfinance empowers the poor to look beyond their limitations to their dreams with hope for a better future for them, their families, and the entire society through small-scale entrepreneurship.

In group lending with joint liability, a self-selected group of five people receive a loan for which they are jointly responsible (Kritikos & Vigenina, 2005; Sriram, 2012). The microfinance philosophy trades the group lending with joint liability model for collateral. This model is not only responsible for the low screening and monitoring costs, but also the high loan repayment rates (Epstein & Yuthas, 2011; Kritikos & Vigenina, 2005).

In addition, recent research on rural credit markets in developing countries focuses on imperfect information costs in the lending process as the key to understanding the phenomena of high interest rates, market segmentation, and credit rationing (Dasgupta, 2005). This has led to a greater appreciation of the fundamental disadvantages faced by formal lending institutions, e.g., the commercial banking sector and government lending agencies (Johnsen, 2010). This market experiences high costs of screening loan applicants, monitoring borrowers, writing, and enforcing contracts. This is because of the imperfections in the banking information, communication systems, and low levels of literacy (Besley & Coate, 1995). This has created a rekindled interest in the role of alternative institutional arrangements, such as (a) group-lending programs, (b) credit cooperatives, and (c) rotating saving and credit associations to overcome these problems.

Nature of the Study

The researcher in this study interviewed eight executive officers in management positions and one loan recipient from five microfinance organizations. The first two participating organizations are in the United States of America. The first international organization is in India where much of the microfinance crisis is at its highest (Chakrabarti & Ravi, 2011). India has one of the largest microfinance industries in the world (Chakrabarti & Ravi, 2011). Microfinance in India is in a crisis not only because of increasing numbers of loan default and deaths related to microfinance, but also because of the exploitation of the system by the microfinance institutions (Chakrabarti & Ravi, 2011; Sriram, 2012).

The second participating international organization is in Uganda in East Africa. Uganda has not documented any outright violence associated with microfinance, however, that does not necessarily mean there is no violence associated with loan defaults in group lending with joint liability. Uganda, like many other emerging nations, thrives on community relationships (Frimpong-Mansoh, 2008). Loan defaulting in a close-knit community will bring social tension.

Research Questions

The purpose of this research is to explore the role and contribution of management in the reduction and elimination of loan defaults in the microfinance process. Loan defaults are the source of the recent violence and social tension in the group lending with joint liability model in the microfinance process. The following questions and sub-questions will guide this study:

R1 How do managers view their role in the microfinance process?

- R1a. How do microfinance managers describe their roles and responsibilities?
- R1b. In what areas of microfinance do managers see room for improvement?

R2 How do managers think their actions affect loan defaults and the subsequent negative results?

- R2a. What factors do microfinance managers describe as reasons for loan default?

R2b. How do managers relate their roles and responsibilities to loan defaults?

Theoretical Framework

The theoretical framework that informs this study fits into Elton Mayo's human relations theory. Mayo's human relations theory is a motivational management theory that emerged in 1920 in an attempt to reject the theory behind Taylor's scientific management (Sarachek, 1968). Instead of dealing with labor as tool, as is the case in Taylor's scientific management, the human relations theory advocates for dealing with labor as socio-psychological beings (Salimath & Jones III, 2011; Sarachek, 1968). To enhance labor productivity, the human relations theory capitalized on the employment of moral and human psychological qualities like values, motivation, and goals.

Unlike Taylor who was convinced that human nature is the source of conflict, Mayo believed that conflict is a product of a faulty social environment. Mayo's vision, therefore, is founded on the assumptions (a) that human nature seeks to belong to social alliances and team work (Knowles, 1958), (b) that appropriate alteration in workers' environments promotes improvement in mental and psychological health, job satisfaction and cooperation among social alliances and groups of workers and, consequently, productivity (Sarachek, 1968). This improvement may include manager-employee relations, management interest in workers' personal lives and technical training (Knowles, 1958; Sarachek, 1968; Smith, 1974). The bottom line of Mayo's theory is the improvement in individual workers and society satisfaction, as well as productivity levels.

The influence of Mayo's human relations theory on microfinance management practices and styles is unclear, making this a gap worth exploring; however, the human relations theory's emphasis of the power of togetherness tends to speak more to the concept of group lending with joint liability (Knowles, 1958). It also may be significant in explaining the existence of loan defaults in the microfinance process. The causes of microloan defaults in group lending with joint liability in microfinance are a result of both external and internal factors. These factors range from (a) natural hazards, (b) health problems, (c) poor decisions, (d) moral hazards, and others; however, there is no evidence to rule out the effects of human relations theory as an explanation for loan default in group lending with joint liability. The literature supports that peer pressure and mentoring significantly factor into a high repayment rate (Khavul, 2010). This concept agrees with the assumption in the human relations theory which stipulates that human nature excels with social alliance and cooperation (Smith, 1974).

Microfinance focuses on providing financial services' access to the uncollateralized poor to help them engage in small-scale entrepreneurships as a way to overcome poverty (Khavul, 2010). This research will focus the human relations theory with the support of two microfinance theories as processes to provide a foundation for the study. These theories are (a) the supply leading finance theory, and (b) the imperfect information paradigm theory.

Supply leading finance theory (process). According to Patrick (1966) supply leading finance is the creation of financial institutions and instruments before the demand for them in an effort to stimulate economic growth. This theory is a postwar initiative to facilitate postwar economic development in the emerging economies. The theory is a product of the Keynesian economic theory. It states that the best way to ensure economic growth and stability in the emerging economies is by active government intervention in the marketplace and monetary policy. The theory rests on three assumptions. The first assumption is that governments in emerging nations are responsible for the economic development of their citizens. The second assumption is that large scale agricultural production and the use of advanced technology, like machinery, is the foundation for economic development in the emerging economies. The final assumption is that the local farmers need access to financial services to buy the machinery and seeds (Jung, 1986).

The majority of emerging nations depend entirely on agriculture for economic development (Kiggundu, 1991). The means of production, however, are not capable of supporting substantial economic growth. Agricultural growth and the use of machinery is the center of this theory. The theory anticipates that governments will grant credit to groups of local farmers (co-operatives). This credit is to help foster larger scale production and the purchase of agricultural machinery to assist in large-scale farming; hence, the idea of credit supply before demand. The theory, however, was not successful because it overlooked one of the dominant issues in the developing world: corruption.

Tying this process back to Mayo's human relations theory, microfinance works on the assumption that group lending with joint liability is the greatest contributor to the high repayment rates (Sriram, 2012). This argument aligns with the assumption in Mayo's human relations theory that human nature thrives on social alliances (Sarachek, 1968).

Imperfect information paradigm theory. Imbalance in the circulation of information between creditors and borrowers constitutes information asymmetry. Information asymmetry is one of the leading barriers to traditional banking system engagement with poor people (Hoff & Stiglitz, 1990). The banks know that collecting credit-based information from poor clients would show an extremely high risk and yield very high interest rates (Dasgupta, 2005). Information asymmetry and moral hazards are the main cause of loan defaults in both microfinance and the traditional banking system (Johnsen, 2010). The theory's assumption that the borrowers know more than the banks and lenders defines behavior in the developing world and provides a foundation for the group lending with joint liability model of credit delivery. The blind application of the theory in the emerging nations, however, has led to some disastrous outcomes that have created the gap that this research will fill.

Definition of Terms

Adverse selection. Adverse selection refers to a situation in which the microfinance institutions lack accurate information about the riskiness of the borrowers' business projects. (Batabyal & Beladi, 2010).

Collateral. Collateral is a requirement for borrowing from formal banking sources (Eijkel, 2011). The concept defines an asset that a borrower pledges (e.g., a car or property), which becomes a secured debt owed to the creditor who gives the loan. In the event that the borrower fails to pay back the loan, the creditor takes possession of the asset used as collateral and may sell it to regain some of, or the entire, amount originally lent to the borrower.

Financial inclusion. Financial inclusion is an initiative by government to deliver banking services at an affordable cost to the vast sections of disadvantaged and low income groups of people (Taylor, 2011).

Information asymmetry. Information asymmetry refers to imbalance in information between two parties in a given contract (Johnsen, 2010). One of the two parties in a contract has more information than the other. For instance, with microfinance the borrowers know more than the lenders by virtue of borrowers being in the same community with each other (Barboza & Trejos, 2009; Epstein & Yuthas, 2011).

Joint liability. Joint liability means that the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Eijkel, 2011; Wenner, 1995).

Microfinance, micro lending, and microloans. These three terms mean the same thing. Microfinance, microloan, and micro lending, therefore, refer to the provision of access to financial services to a large population of the poor who, by the standard banking system, are high-risk customers because they lack collateral (Batabyal & Beladi, 2010).

Moral hazard. A moral hazard is a situation in which one party in a contract takes on risky engagements knowing that the losses thereof will not be his or her responsibility (Barboza & Trejos, 2009).

Poverty. In most cases, the yardstick for assessing poverty has been consumption or income (Prahalad, 2009). Based on the above statement, people are poor if their income or consumption falls below the defined standards. The World Bank describes the poor as people living on less than two dollars a day (World Bank, 2000).

Social capital. This refers to "the institutions, relationships, and norms that shape the quality and quantity of a society's social interactions" (Rankin, 2002, p. 4). The poor use social collateral to qualify for microloans.

Scope

As earlier noted, the purpose of this study is to explore the role and contribution of management in the microfinance process. The study will establish if management is aware of any problems in the process. It is expected that the improvement of the process will mastermind the elimination of the defaults and, consequently, the violence and social tensions. Although it is clear that group lending with joint liability fosters high loan repayment rates, this study focuses on improving the microfinance process from a management perspective (Prahalad, 2009). This study, therefore, will examine management's role, experiences, and opinions of the microfinance process.

Limitations

The study indicates a chain of problems in action. Loan default in the group lending with joint liability model of credit delivery is causing violence and social tensions. While there may be several perspectives in reaching a solution to this chain of problems, this study focuses on drawing a solution solely from the microfinance management perspective.

This study is also limited by geographical distance. The researcher will conduct the study from the United States with participants from three continents and five organizations. Two of the participating organizations are in Uganda in Africa and India in Asia. The final three reside in the United States of America in North America.

Some challenges with communication when conducting interviews with participants in India and Uganda may occur. One of the qualifications for participating in this research is the ability to communicate in English; however individuals with a first language different from English will harbor an accent linked to their first languages when speaking English. The listener must be conversant with the mother tongue to understand accurately every word in a conversation held in English. With a Ugandan origin, one would not expect problems with communication; however, Uganda has 52 dialects. The researcher is knowledgeable in only four. Each dialect has its own accent.

The difference in time zones between the United States and the participants' countries in Asia and Africa also poses a challenge. Uganda is seven to eight hours ahead of the United States' Eastern time zone. India is 10 to 11 hours ahead of the United States' Eastern time zone. This limits the flexibility in time for conducting the interviews abroad.

There are various ways of learning about dimensions. These include textbooks, academic journals on research methods and previous case studies--both general and specific. For the purposes of this study, the general case studies refer to all case studies at the researcher's disposal regardless of the discipline. The specific case studies are about loan defaults in the group with joint liability model in the microfinance process; however, this study utilized multiple research textbooks and other previous work on research methods and general case studies to obtain foundational information on the case study method. The existing literature does not have specific case studies because the topic is still at a nascent stage (Edmondson & McManus, 2007).

The participants in this study were members of senior management in three MFOs. They are involved in making decisions and policies that govern the microfinance operations in those specific organizations. These participants must represent organizations currently or previously using group lending with joint liability as the model for credit delivery to the uncollateralized poor.

Summary

Overcoming the questions of information asymmetry, moral hazards, adverse selection, and the lack of collateral is the main reason the traditional banking system has opted out of extending credit services to the poor (Hermes, Lensink, & van Eijkel, 2007). Group lending with joint liability in the microfinance process, therefore, is an answer to these problems. The model works to replace collateral in the process of extending financial services to the uncollateralized poor. This enables them to engage in small-scale entrepreneurial activities as a way out of poverty. The model follows after the policy of financial inclusion, in which governments all over the world are encouraging the redistribution of financial services to include the uncollateralized poor. This qualitative study employed multiple case studies with a grounded theory approach, to explore the role and contribution of management in the microfinance process from a management perspective.

Chapter 2: Literature Review

In the war against global poverty, one of the most important instruments of poverty management is the extension of access to financial services to the uncollateralized poor (Prahalad, 2009; Yunus, 1999). The measurement of the standard banking system, however, labels the poor "unbankable" for lack of collateral (Bayulgen, 2008; Wenner, 1995). Group lending with joint liability works as a bridge which the uncollateralized poor can use to access financial services in the microfinance process.

This literature review is an overview of the current body of knowledge about group lending with joint liability in the microfinance process. It focuses on the recent violence and social tension associated with loan defaults in the microfinance process (Sriram, 2012). The chapter explores the different perspectives various authors have expressed regarding the subject and how that information shapes the direction of understanding the group lending with joint liability mechanism. This chapter further establishes (a) the reason for group lending, (b) peer effects in microfinance, (c) and its effects on the borrowers and their communities. It finally outlines (a) the nature of the problem, (b) some of the alternatives to joint liability, and (c) group monitoring found in the existing literature on the subject.

In an attempt to understand the mechanism of group lending with joint liability better, the theory of constructivism will guide this study. Constructivism is a philosophy with the premise that by reflecting on their experiences, people construct their own understanding of the world in which they live and work. People make sense of their experiences through generations of individual rules and mental models (Creswell, 2009).

Culture and experiences, therefore, inform a people's worldview. For that reason, qualitative researchers endeavor to gather data by reaching the participants in their own environment and using open-ended questions (Lincoln & Guba, 1985) which grant the free expression of participants' views. The qualitative researcher additionally interprets data based on the researcher's own worldviews. In this case, meaning is a product of social interaction with participants.

In the fight toward poverty alleviation, the initial alternative to microfinance has been in form of foreign aid from the developed countries to the poor in emerging economies (Ashford, 2012). Given the previous and current economic crises in the developed economies, it was just a matter of time before foreign aid fatigue would become a concern in the fight against global poverty (Cook & Lam, 2009; Ip, 2012). Donors and taxpayers are uncertain about their welfare because of the economic crisis; causing them reluctance to paying more for the sake of the poor people in developing countries (Ashford, 2012). Microfinance is, therefore, the alternative solution to this problem.

Poverty is a social responsibility that "the G-7 leaders acknowledge the importance of and the necessity of providing assistance to developing countries" (Fukuda-Parr, 2004, p. 399). G7 is an organization of leaders of the developed world with the aim of bolstering economic recovery and development in the emerging nations. Given the turn of events in the donor economies, however, it has become financially impossible for both private and foreign aid donors to maintain that spirit of generosity while trying to salvage their own drowning economies. It has, therefore, become apparent that microfinance is the most sustainable alternative or supplement to foreign aid in the fight against poverty (Prahalad, 2009). The rise of microfinance as a global phenomenon for poverty eradication is timely. Microfinance does not only empower the uncollateralized poor to engage in small entrepreneurial ventures, but it also provides them with the ability to look beyond their limitations to their dreams with hope for a better future for their families and communities (S. L. Shetty, 2010).

Group Lending

Instead of lending directly to the poor as individual borrowers, many credit institutions in the developing countries lend one loan to self-selected groups of entrepreneurs for which they are jointly liable (Barboza & Trejos, 2009). Professor Yunus designed the group lending mechanism in response to his frustration that the formal banking structure had no provisions for helping the uncollateralized poor. He noted that the uncollateralized poor constitute the majority of people who need the credit (Yunus, 2007).

Professor Yunus' idea was that small loans to poor people could promote small business entrepreneurships among them that would lift their communities and families out of poverty (Sriram, 2012). His reasoning was that if the poor can get access to financial resources at appropriate and reasonable terms and conditions, "these millions of small people with their millions of small pursuits can add up to create the biggest development wonder" (as cited in Prahalad, 2009, pg. 49). This model encountered significant success with loan repayment rates soaring above 98%. Recently, change became necessary due to a setback that included violent death, murders, and social tensions due to loan default.

Joint Liability

Joint liability means that the group takes over the underwriting, monitoring, and enforcement of loan contracts from the lending institution (Wenner, 1995). Under joint liability, all group members are mutually responsible for the loans of the other group members in case of loan default. The penalty for loan default is loss of access to future loans (Kritikos & Vigenina, 2005). It is in each member's interest to ensure that every member pays off his or her loans through the application of peer screening, peer pressure, and peer monitoring mechanisms.

Peer screening is reinforced through encouraging the members to select each other. Members will select only those people to whose credibility and work ethics they can attest (Epstein & Yuthas, 2011). Due to joint liability, members take it upon themselves to monitor each other's activities to ensure that each member is investing responsibly and working hard to avoid defaults on the loan (Besley & Coate, 1995). Group lending with joint liability in the microfinance process, therefore, offers an alternative form of collateral—social collateral—to the lenders (Pitt & Khandker, 1998).

The terms microfinance, micro lending, and microcredit in the microfinance process refer to the provision of collateral-free credit to the poor to help them wade their way out poverty. Poverty eradication through microloans, however, has received mixed judgments from critics who believe that the impact of microcredit on the poor has been more significant on the side of emancipation than poverty eradication (Brau & Woller, 2004).

Global poverty is one of the most important challenges of our time, one that organizational scholarship can help address by bringing to bear its understanding of organizations and the managers who run them (Kiggundu, 1991). It is an issue that has captured attention to which global leaders cannot turn a deaf ear. Poverty hinders the poor from accessing the basic needs of life. These include (a) health, (b) education, (c) employment, (d) information, (e) housing, (f) income generation opportunities, and (g) a clean and safe environment, among others. The definition of poverty from the poor's perspective goes beyond consumption and income to encompass some intangible assets including hope and a voice in a society that considers money to be power (Wenner, 1995). Poverty is an overwhelming feeling and reality of powerlessness and noiselessness leading to limited choices and opportunities (Yunus, 1999). Poverty expresses itself in various dimensions, including gender inequality, and lack of education (World Bank, 2000).

Case for Group Lending

Loans to the rural poor in emerging economies, although crucial from the perspective of poverty management, are often subjected to severe informational problems. The literature on group lending indicates that group lending with joint liability attempts to resolve these problems by making failure more costly for the borrowers (Epstein & Yuthas, 2011; Ghatak, 1999). Group lending, therefore, is a major contributing factor in the high loan repayment rates even from clients who traditionally have been too risky and too poor to offer collateral (de Aghion & Morduch, 2000). Through strong social ties, group lending mitigates some risky investment behavior that would otherwise occur under an individual borrowing contract (Edward & Olsen, 2006). The success contributors of group lending include (a) the fear of societal excommunication, (b) social isolation, and (c) a ban from future borrowing (Epstein &

Yuthas, 2011). Other contributors are (a) peer monitoring, (b) internal group pressure to repay loans, (c) the threat of group expulsion, (d) the safety net of intragroup credit insurance, and (e) the use of physical force. The credible threat of social sanctions against group members who misallocate borrowed capital further reduces instances of such behavior.

Without group lending, acquiring information from each member can be cumbersome and expensive. It may increase misrepresentation. In group lending, members choose from their community people to whose credit worthiness they can attest (Epstein & Yuthas, 2011). Group lending thus has an informational advantage over outside lenders (Pitt & Khandker, 1998). The information advantage of group lending spills over to the aspect of bundling credit and insurance. Group lending with joint liability acts as a form of group insurance, which provides a smooth and easier transition when a member encounters an unexpected catastrophe (Yunus, 1999).

Another reason for group lending appertains to social customs. For example, in rural Bangladesh, customs restrict direct contact between potential female borrowers and outside lenders. The culture further restricts interaction between men and women outside the family. The credit organizers usually are men; however, it is easier and safer for a woman to be in the company of other women when interacting with the male organizer in the company. This situation makes group lending an absolute necessity (Pitt & Khandker, 1998).

Finally, some MFIs conduct micro lending purely for business. This has roots in the concept of "doing good for doing well." The aim of microfinance is to help the uncollateralized poor obtain access to uncollateralized, except for social collateral, loans to help enhance their welfare by engaging in entrepreneurial activities. Group lending thus helps the poor access credit with minimal interest rates (Yunus, 1999).

Impact of Group Lending with Joint Liability

Much of the literature on group lending focuses on its high repayment rates rather than its goal of promoting borrower welfare (Besley & Coate, 1995). Most studies that attempt to measure the impact of group lending neglect the issues of self-selection and endogenous program placement, thus leading to biased estimates of impact. The success of group lending is primarily because of its low-cost delivery system due to the joint liability, close, adverse selection, and peer effects. Group lending with joint liability provides a mechanism to overcome some of the informational disadvantages of commercial lenders. In his research in Guatemala, Wydick (1999) demonstrates that (a) social cohesion of Guatemalan groups, (b) mitigating adverse selection and moral hazard, and (c) encouraging mutual insurance are the primary determinants of high repayment rates in group lending with joint liability.

Group lending with joint liability has become an increasingly utilized tool for providing credit access to the poor in developing countries (Barboza & Trejos, 2009). This phenomenon rapidly has gained the attention of economists as one of the most innovative and promising means of making credit accessible to the poor (Wydick, 1999). As a result, microcredit programs have achieved what the conventional financial institutions and the government have not been able to accomplish: impressive loan recuperation rates and a positive impact on poverty reduction.

Advantages of group lending. In establishing the pros and cons of group lending, several authors have noted that members of tightly-knit communities within low income villages and communities have the ability to judge their peers' creditworthiness (Chakrabarti & Ravi, 2011). This mitigates the problems of adverse selection and moral hazard (Ghatak, 1999; Stiglitz, 1990; Varian, 1990). Group lending with joint liability as a contract provides that all members of a group are mutually responsible for each other's loans (Feigenberg, Field, & Pande, 2013). This creates the peer effects (Brau & Woller, 2004), which provide incentives for a member to avoid excessively risky projects (Stiglitz, 1990) and to repay his or her loan to avoid the social sanctions (Besley & Coate, 1995); furthermore, group lending encourages a member to seek assistance from other members if his or her project is performing poorly. A member also can provide similar assistance to other members in need of help (Varian, 1990). Joint liability may not only instill repayment discipline, but also ensure that borrowers invest in productive assets.

Additionally, the group lending with joint liability contract obligates all members in a group to have mutual responsibility of the group loan (Kritikos & Vigenina, 2005). This provides insurance to other members in the group in times of unexpected shocks and when their projects fail.

Finally, the groups in group lending with joint liability are self-selected members. They know each other and can attest to each other's business ethics and credit worthiness. This not only enhances trust between group members, but also creates strong inducement to self-monitor. Group lending with joint liability thus minimizes loan defaults and the high operational costs involving the high information asymmetry and moral hazards. This renders the monitoring costs to other borrowers and lenders close to zero (Kritikos & Vigenina, 2005).

Case against group lending. While group lending with joint liability is the primary source of the high repayment rates in the microfinance process, some of the methods used in reinforcing the high loan repayment rates created mixed reviews about the microfinance process. These methods include

Peer pressure enforcement. The joint liability clause in the group lending with joint liability spreads the entire liability of a defaulted part of the loan to the entire group (Kritikos & Vigenina, 2005). Success of the entire group is in the best interest of all members. Peers will monitor each other to ensure that each member is investing responsibly (Sriram, 2012) . This situation results in pressure and social tensions in the groups and communities.

Punishment for default. Group lending with joint liability makes defaulting costly to the defaulter. The punishment for defaulting on loans ranges from excommunication from the community to death of the defaulting member through murder or suicide (Chakrabarti & Ravi, 2011).

Denied access to future funds. The rule in group lending with joint liability is that when there is a loan default, the group involved is mutually responsible for the repayment of the entire loan. Failure to repay a loan subjects the entire group to denial of access to future borrowing (Brau & Woller, 2004).

Options/alternatives to joint liability. ***Rewarding high performance.*** Group lending with joint liability is the foundation for the success in microfinance success; however, Barboza and Barreto (2006) contend that positive motivation, for example rewarding high performance instead of coercing the defaulters, is one of the concepts to consider as part of the solution for reducing the stigma associated with loan defaults.

Joint benefits versus joint liability. As noted earlier, the purpose of microfinance is to help the poor achieve better lives through credit extended to them for engaging in small-scale business (Bayulgen, 2008). Based on the magnitude of the punishment for defaulting, however, the search for alternatives to joint liability and group monitoring becomes necessary. The body of knowledge lays some pointer toward an approach that provides rewards for group success by promising a joint benefit as an alternative to joint liability. Unlike the joint liability mechanism, the joint-benefit mechanism would ensure higher repayment probability even in the absence of peer-monitoring (Bhattacharya, Banerjee, & Mukherjee, 2008).

Peer mentoring versus peer monitoring. Peer monitoring means that every member in the group is looking over and observing what others are doing without the others' input. Peer monitoring creates tension, stress, and an unfriendly environment (Barboza & Barreto, 2006) Peer mentoring compels the experienced and trusted group members to offer advice to the inexperienced members in the group to enhance high performance (Stiglitz, 1990). Peer mentoring creates a friendly, nurturing environment. Stiglitz states,

> The role of microcredit programs as a tool to teach clients how to manage funds, develop entrepreneurial skills, and succeed in a market-based society through shared endogenous learning from within groups has been mostly neglected. At the core of a successful microcredit program, spillover learning effects must be developed and promoted from within and across borrowing groups. Peer monitoring is often used to mean that group members will enforce sanctions

against nonpaying members, thereby helping the lender collect on loans that would default under conventional, independent lending arrangements (p. 353).

Barboza and Baretto (2006) believe there are other ways that poor performers are helped. Instead of simply punishing those falling behind, successful individuals should actively coach and teach those who are struggling. They call this peer mentoring. Like peer monitoring, peer mentoring has its roots in self-interest—successful individuals who know that the entire group must succeed and, thus, they help others help themselves. Although the optimizing game theory aspects of group lending and peer monitoring do matter, learning by association from within the group (peer mentoring) is a dominant factor at work.

Group lending with joint liability as a mode of credit delivery has had success in the developing world. The loan repayment rate is higher than 97% on average because of the peer effect and aggressiveness in loan collection (Yunus, 2007). This scenario reflects the reason for the rising suicides among microfinance clients for fear of the implications of defaulting (Field, Pande, Papp, & Park, 2012). Excessive debt, coupled with aggressive loan collection practices, drove more than 30 people to kill themselves in the southern state of Andhra Pradesh, India (Chakrabarti & Ravi, 2011; Young, 2010). In addition, borrowed group data from Guatemala indicates that group pressure is found to have a small effect in deterring moral hazard, while the effect of social ties among members is statistically insignificant (Wydick, 1999).

So, the cons of group lending with joint liability, coupled with the client complaints that group lending creates tension and excessive peer pressure within groups, led the microfinance pioneer institutions, Grameen Bank and BancoSol, to overcome the group lending with joint liability approach (de Quidt, Fetzer, & Ghatak, 2012) for alternative solutions, e.g. group lending without joint liability, progressive loans, etc. The two pioneers of group lending, BancoSol of Bolivia and Grameen Bank of Bangladesh turned to individual lending contracts removing explicit joint liability clauses from contracts (Giné, et al., 2006).

People form organizations, not the other way around. It is people who drive an organization's culture, mission, values, policies, and procedures. Ethics and virtues play a major role in an organization's aura and should remain at the forefront of the accountability factor. Poverty is a social responsibility. It is, therefore, time someone addressed the problem of the stigma associated with group lending with joint liability (Chakrabarti & Ravi, 2011; Chant, 2009).

Documentation Sources

The database sources of information for this research were Sage, EbscoHost, ProQuest, and Emerald as accessed through the Colorado Technical University library. Other sources were found through Google Scholar, Wiley online library, Bergen County Cooperative Library Systems, the IRA Money and Finance Bulletin, the Academy of Management Journals, the Economic & Political Weekly Magazines, and the Economist. Additionally, the study incorporated information from four books written by Professor Yunus to establish the history and the language of microfinance.

Summary of Group Lending Practices

The group lending with joint liability model is key to the high repayment rates in the microfinance process. This model fills the place of collateral to ensure the lenders get their portion of the investment. Group lending with joint liability is not only a crucial factor in the functionality and sustainability of the microfinance process, but also instrumental in the high repayment rates and efficiency. This model outperforms individual liability in the terms of aggregate surplus (Yunus, 2007). The borrowers' in-depth knowledge of each other makes the arrangement risk-neutral and enforcement costless (Epstein & Yuthas, 2011; Johnsen, 2010). Safer borrowers prefer joint liability to individual liability because they have safer partners. The model is not obsolete, but it does need some modifications to meet the changing demands of the clients. This exploratory case study attempts to establish and invoke the role and contribution of management toward the improvement of the group lending and joint model to reduce loan defaults in the microfinance process.

Historical Review of Group Lending with Joint Liability in the Microfinance Process

University of Chataagong Bangladesh economics professor Mr. Mohammed Yunus was outraged by the level of poverty in Bangladesh accompanied by the famine in 1974. As a result, Yunus founded the Grameen Bank in 1976 (Yunus, 2007). The Grameen Bank's purpose was to extend credit to the uncollateralized poor to enable them to engage in small-scale entrepreneurships that would help them out of poverty (Siraj, 2012). From its humble beginning, Grameen excelled with (a) loan repayment rates of over 90% (de Aghion & Morduch, 2000), (b) a successful impact on poverty alleviation, and (c) a remarkable coverage in the Bangladesh rural areas exceeding two million women by 1999 (Arena, 2008).

Professor Yunus is known globally for his successful application of the concept of microcredit: the extension of small loans to uncollateralized entrepreneurs (Arena, 2008).

In 2006, he received a Nobel Peace Prize for his work in microfinance (Bayulgen, 2008; Field, et al., 2012). In August 2009, he received the Presidential Medal of Honor from President Barack Obama. He created businesses and programs that have lifted millions of women, men, their families, and communities out of poverty (Arena, 2008; Bayulgen, 2008). He also authored three bestselling books:

- *Building Social Business. The New Kind of Capitalism that Serves Humanity's Most Pressing Needs* (2010).
- *Creating a World without Poverty: Social Business and the Future of Capitalism* (2007).
- *Banker to the Poor* (2007, 1999).

Banks and other financial institutions hesitate to lend to borrowers who cannot provide adequate collateral because collateral represents the penalty for default (Brau & Woller, 2004). Collateral requirements limit the poor from accessing credit. This tends to perpetuate poverty and underdevelopment in societies where economic backwardness and low productivity are a consequence of the scarcity of capital. Microloans were initiated for such people (Yunus, 2007).

Professor Yunus discovered that group support is key to successful operations and the power of solidarity grows stronger when the groups are self-selected (Arena, 2008; Bayulgen, 2008). In traditional societies, residents of the same village usually know each other's productive capabilities. A person regarded as a high-risk borrower by others is excluded from the group because that person is more likely to default and impose a financial burden on the rest (Epstein & Yuthas, 2011). The term "joint liability" provides incentive to borrowers to utilize their personal information about each other to ensure membership quality.

Each potential borrower is encouraged to join a group of like-minded people living in similar economic, social, and geographical conditions (Siraj, 2012). In the place of collateral, the Grameen Bank model uses group lending with joint liability as a screening device to overcome insufficient information on the soundness of individual loan projects (Arena, 2008). Different from conventional individual lending, group lending with joint liability gives a loan to a group of borrowers and the whole group is mutually liable for the debt of any individual member in the group (Allen, 2012; Barman, Mathur, & Kalra, 2009).

In addition to excluding bad borrowers, group formation encourages peer monitoring and peer mentoring activities. Members of a group are likely to (a) mentor or monitor the performance of each other, (b) offer help, (c) advise, and (d) apply pressure on those that tend to be lazy or delinquent. This minimizes the incidence of default and the consequent burden of peer pressure (Cassar, Crowley, & Wydick, 2007). In this manner, the Grameen Bank uses intra-group incentives to circumvent the dangers of providing loans without collateral This makes it possible to finance productive activities among the poor (Yunus, 2007).

This practice allows microfinance programs to rely on accountability and mutual trust among group members, a form of social collateral, rather than financial collateral to insure against default (Yunus, 2007). Because the poor do not have appropriate financial collateral, group lending programs offer a feasible, and even profitable, channel to extend credit to the uncollateralized poor.

Since the establishment of the Grameen Bank, MFIs' programs had adopted group lending in both developed and developing countries as an important tool to provide credit to the uncollateralized poor. These institutions focus on providing credit to the poor through innovative unconventional mechanisms (Arena, 2008). In doing so, they offer the poor a valuable opportunity out of the poverty trap.

The Grameen Bank has successfully ensured that its borrowers make productive use of their loans and can pay back their debts through the lending practices adopted by its founder, Muhammad Yunus (Epstein & Yuthas, 2011). The Grameen model does not require any collateral, but it deals with groups instead of individual borrowers. This feature of joint liability enhances the function of screening high-risk borrowers from the pool of loan applicants (Sriram, 2010).

Current Issues of Microfinance

Current issues on microfinance are zeroing in on financial inclusion (Taylor, 2011). As banking services are in the nature of public good, it is essential that availability of financial services to the entire population without discrimination is the prime objective of the public policy. As Leeladhar (2005) put it, freedom of access to public goods and services is the "sine qua non," or essential part, of an open and efficient society. Microfinance now receives support from national governments and international bodies through state-driven policies and voluntary banking initiatives.

Among the current issues is the impact of microfinance on poverty eradication (Ahlin & Jiang, 2008; Craxton & Rathke, 2011; Siraj, 2012). Also a point of debate on the same note is the contribution of microfinance and group lending to the emancipation of women who are culturally considered possessions of their husbands in many developing cultures (de Haan & Lakwo, 2010; Siraj, 2012). The notion that microfinance has contributed more toward emancipation than poverty eradication has been regularly revisited in the scholarly realms (Berhane & Gardebroek, 2011).

Emancipation

The culture in the developing world is such that women's roles are limited to non-productive chores which amount to no value on the productive economic contribution scale. If they appeared on the scale, they would rank the least paid on the charts. These include (a) child rearing, (b) elderly care, (c) cooking, (d) cleaning, and (e) home maintenance along with many more. As a matter of fact, before the introduction of microfinance in the 1970s, many customary laws in emerging economies prohibited women from owning any assets like land or even the opportunity to access credit of any kind (Kabeer, 2005). In the rural areas of Uganda, for example, there are many families that did not accord the opportunity of education to the female child. The reason for this is that eventually they would be married and fetch a dowry for their parents. As a result, women in countries like Uganda were subjected to becoming mere possessions of their husbands.

Women and children constitute the majority of the poor. With the rise of microfinance, women in the emerging world have broken through the ceiling. They have acquired the opportunities of accessing financial services and developing financial skills through peer mentoring and the microfinance trainings prior to loan acquisitions. Women can now work outside the home and earn more for their worth than before. As a result, women who are involved in microfinance help their husbands in providing for the home needs and paying for children's education. Women's power and influence has, therefore, extended not only to their households, but to their communities (Adu-Okoree, 2012). The woman now has a voice. This means that the female child now can access more or less the same educational opportunities and privileges as their male counterparts. One case study on the impact of microfinance on poverty eradication in Uganda had a subsequent gender power analysis which confirmed that microfinance has contributed more toward emancipation than poverty eradication (de Haan & Lakwo, 2010).

Gap in Research

Group lending with joint liability as a method of financing liquidity-constrained entrepreneurs is associated with lowering the liquidity risk of default (Sriram, 2012). A salient feature of Grameen Bank's unconventional lending model is that, although entrepreneurs receive loans as individuals, each individual is in a group of four or five others (Epstein & Yuthas, 2011). Together they act as co-guarantors. This scenario creates heavy peer-group pressure on the delinquent (Sriram, 2012). The group lending and joint-liability arrangement gives agents a stake in each other's projects. This limits the lender's ability to punish the agent as the lender is confined to non-negative payoffs. The joint liability clause, however, allows the lender to punish an agent's success when accompanied by a peer's failure; hence, the influence on the agents to behave cooperatively (Varian, 1990).

According to Dorado and Molz, (2005), MFI Boards of Directors play a crucial role of helping MFIs "evolve and that their roles change as both the organization and the industry develop" (p. 100); however, the roles and functions of management rotate around the provision of direction. Management achieves this (a) through setting goals, (b) designing strategies for their attainment, (c) implementing the vision, and (d) implementing the mission of an organization (Vallabhaneni, 2008). From a microfinance perspective, these goals are both social and commercial. From a social point of view, the mission is to eradicate poverty through the provision of financial services (Brau & Woller, 2004). From a commercial initiative, management has the responsibility to lead the organization to financial sustainability.

The change in roles is not only to ensure financial sustainability and the achievement of the social objectives, but also a balance between the commercial and non-commercial objectives (Dorado & Molz, 2005). Until the late 1900s, the uncollateralized poor barely had any access to financial services. The only credit opportunities for the poor were informal lenders and state-owned rural banks. The informal commercial lenders included the (a) money lenders, (b) traders, and (c) landlords. These individuals became the "loan sharks" because of the exorbitant interest rates they charged on the loans (Chakrabarti & Ravi, 2011). The state-owned rural banks required some education on the system that the poor could not access. In the final analysis, they serviced the elite households. The evolution of microfinance was an answer to the financial apartheid of the time (Chakrabarti & Ravi, 2011).

The violence and social tension resulting from loan defaulting in group lending with joint liability has placed a dent in the microfinance process (Field, et al., 2012). This is impacting the achievement of microfinance social objectives, thereby imposing an imbalance between the social and economic goals of the process (Dorado & Molz, 2005). As a result, there arose an intervention of various stakeholders in the microfinance process to defend the welfare of the poor. The typical example of such interventions is the case of Andhra Pradesh in which the state government intervened after several suicides followed the introduction of regulations and loan collection restrictions to protect the poor citizens (Chakrabarti & Ravi, 2011; Sriram, 2012).

Chapter 3: Methods

Research has shown that even with its outstanding success, the stigma surrounding loan defaults has sparked negative reviews for the group lending with joint liability mechanism in the microfinance process (Chakrabarti & Ravi, 2011). This study, therefore, will explore the role and contribution of management in the improvement of this mechanism from a microfinance management perspective. The center of this study helps to establish (a) what management knows about the problem, (b) how they feel about it, and (c) where they see areas that need improvement. The research also helps establish whether management thinks they can help and how they think they can help in the improvement of the microfinance process.

This chapter details how this research study was conducted. This detailed description includes the (a) research design, (b) methods, (c) sampling, (d) data collection instruments, and (e) analysis. The purpose of this study is to examine and inform the following research questions and sub-questions:

R1. How do managers view their roles in the microfinance process?

R1a. How do microfinance managers describe their roles and responsibilities?

R1b. In what areas of microfinance do managers see room for improvement?

R2. How do managers feel their actions affect loan defaults and the subsequent negative results?

R2a. What factors do microfinance managers describe as reasons for loan default?

R2b. How do managers relate their roles and responsibilities to loan defaults?

Methodology

The research study employed a qualitative methodology. Creswell (2009) defines the qualitative methodology as

> A means of exploring a social or human problem ascribed to and understanding the meaning individuals or groups ascribe to a social or human problem. The process of research involves emerging questions and procedures, data typically collected from participants' settings, data analysis inductively building from a particular to general themes and the researcher making interpretations of the meaning of the data (p. 4).

Qualitative research aims at gathering an in-depth understanding of specific human behavior and the reasons that govern such behavior (Creswell, 2009). In other words, the qualitative researcher seeks to answer the (a) whats, (b) whens, (c) wheres, and (d) hows of decision making (Creswell, 2009). The methodology offers multiple lenses into people's experiences. In the search to understand management's perspectives, a qualitative approach guided this study. Participants had the opportunity to explain themselves and their experiences in their own words (Nicholls, 2009). The questions sought (a) management's opinion on what they think the problem may be and (b) their perception of management's role and contribution in the reduction of loan default in the group lending with joint liability. Due to the flexibility that qualitative research methodology offers, the research questions were adjusted accordingly in the process (Creswell, 2009).

Many methodologies could inform this study, however, the extent of research already done on a topic helps to determine the method used. Edmondson and McManus

(2007) highlight three stages in theory in research: nascent, intermediate, and mature theory. Microfinance is at a nascent stage (Hulme, 2000), thereby justifying qualitative methods as the most appropriate methodology for the study.

Researcher's Role

Creswell (2009) advises regarding the researcher's role, assumptions, and biases that may potentially influence the outcome of the research. The researcher's role in this study was (a) conducting interviews, (b) transcribing, (c) coding, (d) organizing the data into themes, and € analyzing the data to determine the findings. The researcher acknowledged her passion and exposure to microfinance. She disclosed that exposure potentially could alter the way she viewed and interpreted the data. To reduce the incidence of bias because of prior exposure and encounters with microfinance clients and the process, she followed a preset process and created an environment that ensured the interviewees' freedom of expression without interruption.

Qualitative Study

To gain multiple perspectives of this complex phenomenon of group lending with joint liability, this study recruited participants from multiple organizations in varying cultures. Two studies done parallel to group lending with joint liability were used to inform the study. In one of the studies, Giné and Karlan (2011) researched clients of the Green Bank in the Philippines in which the joint liability clause was no longer used. Findings from this study indicated no change in the repayment rates. In another study by Feigenberg, Field, and Pande (2009), the researchers applied random changes in intragroup meeting frequencies of group lending with joint liability borrowers. The findings expressed that groups that met more frequently experienced higher repayment rates. The idea here is social collateral.

On the other hand, according to Wydick, (1999), borrowed group data from Guatemala indicated that, while effects of peer monitoring significantly affect loan repayment rates and group performance, the same was found to have an insignificant effect in deterring moral hazards. The study further indicated that the contribution of social ties to the repayment rates among members is statistically insignificant. The purpose of this research, therefore, is to explore the group lending with joint-liability model in an attempt to establish microfinance management's view on their role and contribution toward the improvement of this model.

Research Strategy & Design Appropriateness

The nature of the research problem should drive the choice of research strategy (Creswell, 2009). Consistent with this philosophy, and because of the lack of extensive knowledge on this phenomenon, a qualitative study methodology was the most relevant approach for the study. The inquiry used one-on-one interviews as the method of data collection and comparison of themes as they evolved (Charmaz, 2006). The approach was appropriate for this study because it enabled the researcher to rely on the participants' views (Creswell, 2009). This enabled a look at a broad range of interconnected processes or causes of loans defaulting in the group lending with joint liability model of credit delivery from a management perspective (Carpenter & Suto, 2008).

To maximize the variations in the phenomena, the participants were recruited following the subsequent criteria:

- Participants either must be (a) members of senior management involved in making and executing decisions regarding the microfinance interest rates, the mode of credit delivery, and how the process works or (b) members of the microfinance grassroots community impacted by the decisions.
- Participants must be able to communicate in English
- Participants were representatives from organizations with some experience in the group lending with joint liability model of credit delivery, and
- Participants had to have access to reliable telephone service.

Population and sampling. Eight, purposefully selected participants included senior level executives: managers from three microfinance institutions. These participants were capable and willing to share candidly their perspectives and experiences with loan defaults in group lending with joint liability in the microfinance process. Figures 1-4 show the demographic composition of the participants.

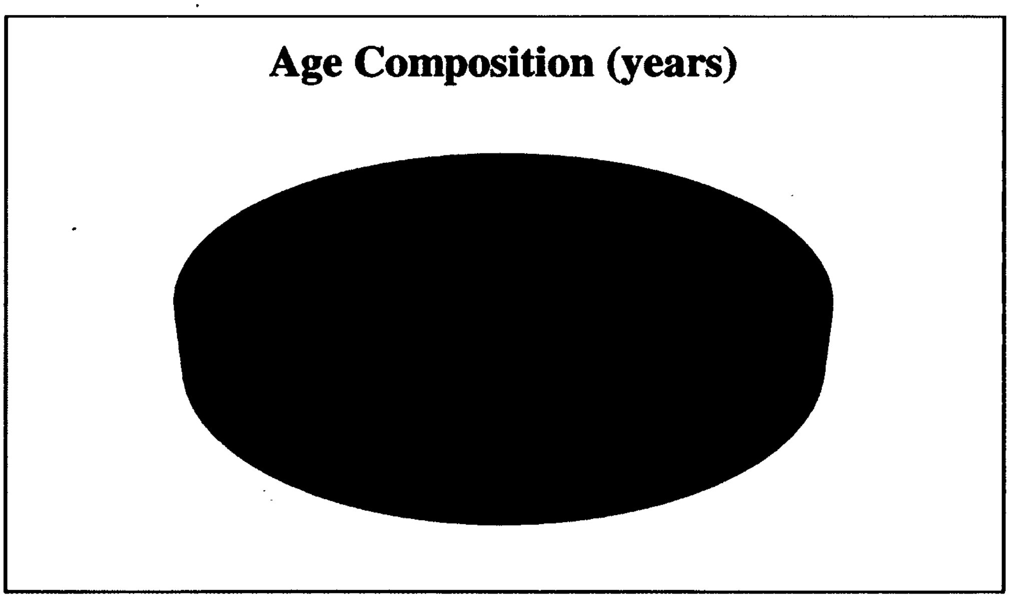

Figure 1: Participants' Ages in Years

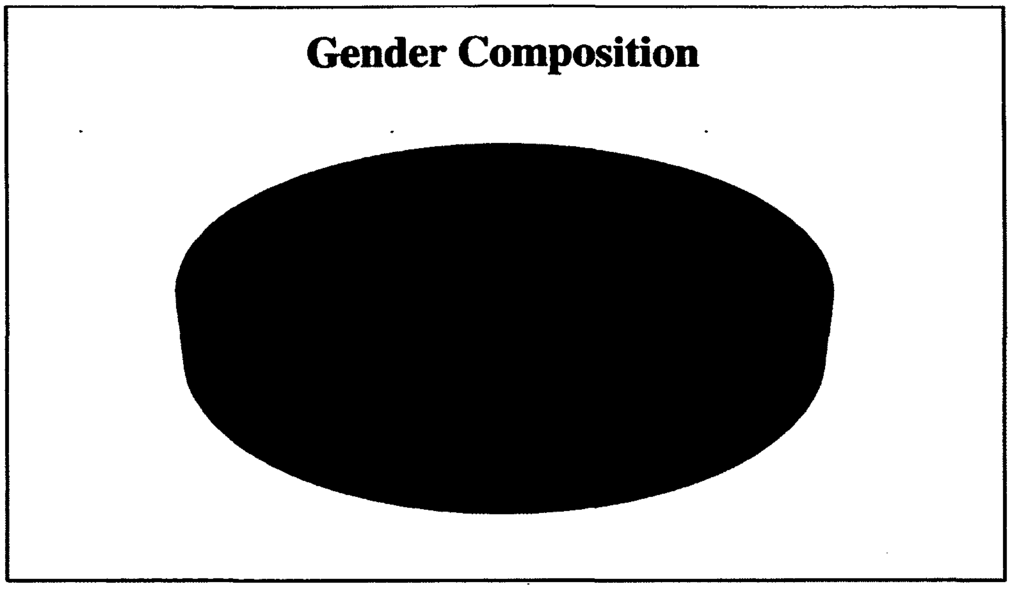

Figure 2: Participants' Genders

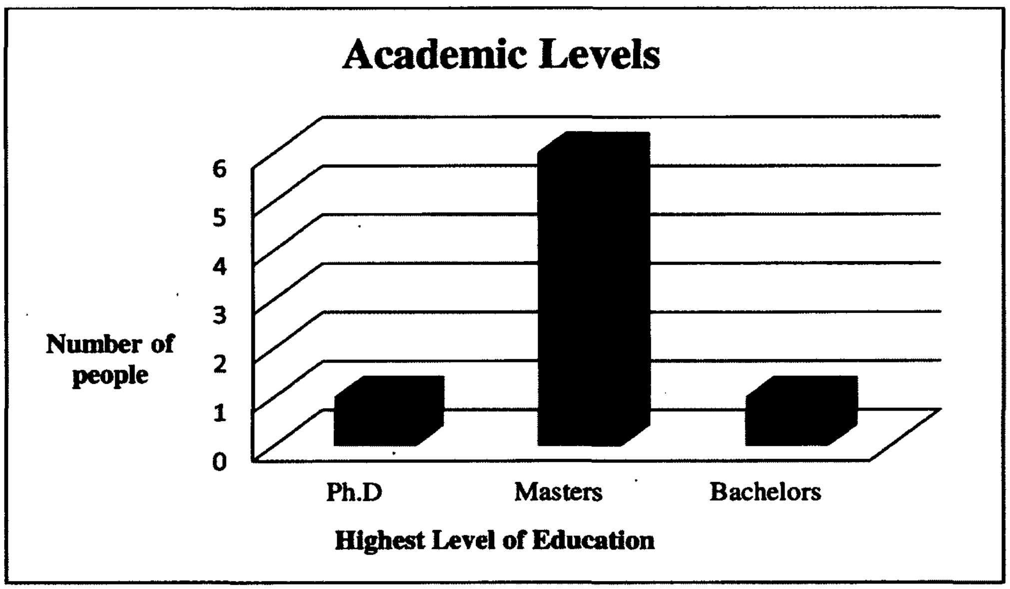

Figure 3: Participants' Level of Education

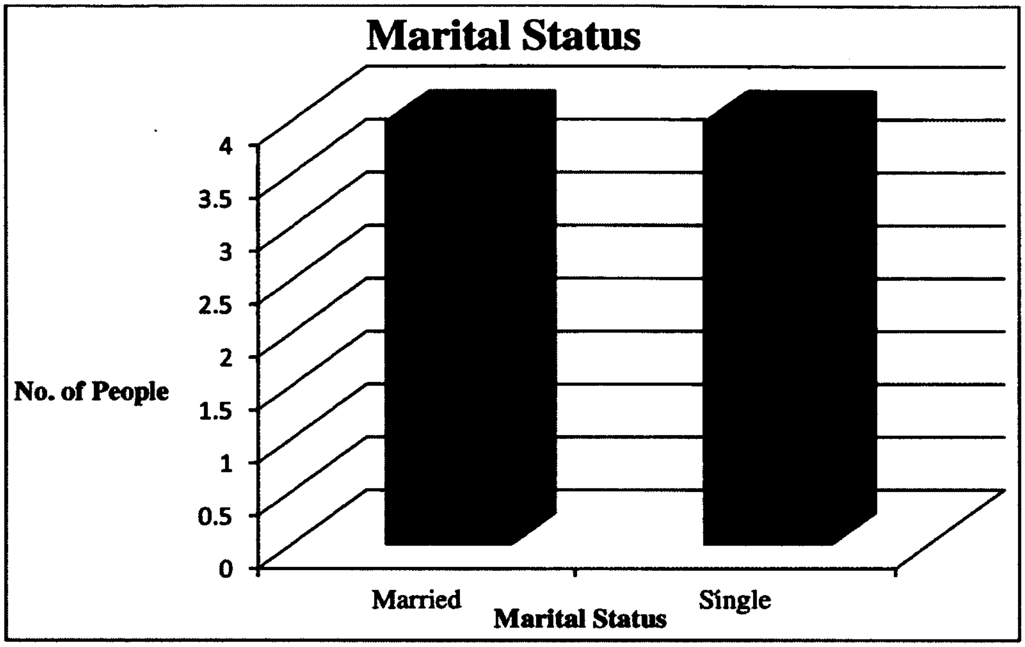

Figure. 4: Participants' Marital Status

Sample Size Choice

The appropriate sample size in qualitative research is a function of the maximum number of participants required to answer effectively the research question exhaustively and data saturation. Data saturation is the point in the research process when the emergence of new themes and categories from the data being collected ceases to occur. This study, therefore, engaged a flexible approach toward the appropriate sample size guided the concept of data saturation (Marshall & Rossman, 2006).

One of the three participating organizations is in the United States of America, but funds MFIs in in Uganda and India. The other two are in India and Uganda. The researcher has roots in Uganda, but resides in the United States. This research, therefore, was conducted from the United States. All the organizations represented in this study have participated, or still participate, in group lending with joint liability as one of their models of credit delivery to customers. All interviews were conducted in English. The researcher anticipated that collecting data from three organizations in three countries from three continents would reinforce the validity, depth and quality of the findings.

One of the participating organizations was from the Indian state of West Bengal. While India has one the largest microfinance industries in the world with a customer base of over 30 million, it has an overwhelming 350-400 million people living in utter poverty (Chakrabarti & Ravi, 2011; Taylor, 2011). According to the 2010-11 mid-year analysis compiled by the department of finance, India's total microloan outstanding ranked at US $6.7 billion. The state of Andra Pradesh has had the largest number of recorded deaths resulting from microloan defaults (Chakrabarti & Ravi, 2011; Taylor, 2011); consequently, the state government of Andra Pradesh intervened with the introduction of regulations to guide the microfinance industry (Galab, Revathi, & Reddy, 2010).

This research intends to establish how much management in microfinance knows about the loan defaults and their association with the violence and social tensions. The study sought to establish how microfinance management perceives their role and contribution in the elimination of the loan defaults. It also sought to establish how management can contribute toward the improvement of the microfinance process. The study would be relevant in establishing any reasons for the variations in the experiences ranging from social tensions to physical violence in the form of deaths and suicides (Deshpande & Arora, 2010) as a result of loan defaults. Participation in this research project was voluntary. The privacy of the participant was maintained. Only the consent form held any personally identifiable information about participants; therefore, the form was stored separately from all other data collected during this research study to ensure and enhance confidentiality.

Qualitative studies seek "sample participants into the study that can offer meaningful insights into the phenomenon they are studying" (Nicholls, 2009, p. 640). This research's participating organization samples were randomly selected; however, the selection of interviewee/participants involved purposeful sampling. Purposeful sampling involves the selection of participants who will help enhance the researcher's understanding of the question and the problem (Creswell, 2009).

Ethical Considerations/Confidentiality

In accordance with the procedures of Colorado Technical University's Institutional Review Board (IRB), an informed consent form was distributed to the participants prior to the interview for their approval (Appendix A). Once accepted, participants signed and returned the informed consent forms to the researcher by e-mail. The researcher then sent the interview questions to the participants so the sample population could become familiar with them.

Institutional Review Board

The Institutional Review Board (IRB) monitors the work of researchers to ensure that they treat their participants with respect and dignity; accordingly, participants cannot be (a) people with physical or mental disabilities, (b) children under 18 years of age, (c) prisoners, (d) pregnant women, or (e) employees from the researcher's organization. The individuals mentioned above all belong to protected classes. No-one from any of the protected classes participated in this study.

This qualitative research stressed ethical considerations (Marshall & Rossman, 2006). During interviews, access to confidential information was eminent. The researcher understood and complied with the obligation to honor the needs, desires, rights, and privacy of the participants. The research was conducted in accordance with the ethical guidelines highlighted on the IRB form to ensure the confidentiality and complete anonymity of the participants.

To reinforce the above obligations, objectives of the study were discussed both verbally and in writing to ensure that the participants knew exactly what to expect; furthermore, the researcher distributed the informed consent forms to the participants by e-mail. The participants, when agreeing to participate, signed the consent forms and returned them to the researcher by e-mail. Participants granted permission for the interviews to be recorded for transcription and analysis purposes. Interviews were audio taped.

Participation in the research project was voluntary. The only personally identifiable information contained in this project appeared on the consent form. These confidential forms and information, therefore, were stored separately from all other data collected during the research study. Other data was stored on an electronic data storage device, which is stored in a safe. It will be stored for a period of three years and then destroyed. To further ensure confidentiality, this researcher used an Olympus DS-5000 Professional Digital Voice Recorder to record the interviews. This recorder offers (a) file encryption, (b) device password protection, and (c) a fingerprint reader to avoid unauthorized access.

Geographic Location

Telephone interviews were conducted in English with the participants from the three chosen countries: India, Uganda, and the United States. Interviews were conducted at a set time using telephone numbers participants provided. This researcher took into account the time differences between the countries' three continents: North America, Asia, and Africa.

Data Collection

Prior to the research study, a pilot was conducted to verify the functionality of the instruments. A pilot study is "a small study for helping to design a further confirmatory study" (Arain, Campbell, Cooper, & Lancaster, 2010, p. 67). The purpose of a pilot study includes (a) testing the validity of the instruments, (b) testing study procedures, and (c) estimating the recruitment rate. The pilot study also helps to test the estimation of parameters such as (a) the variance of the outcome, (b) the length of the data instrument, (c) the accuracy of the content relative to the intended outcome, and (d) and an estimate of the variable to calculate sample sizes (Arain, et al., 2010).

The pilot study was conducted with one microfinance executive officer and one microfinance recipient from one MFI in Uganda using the interview protocol designed for the research (Appendix B). The study's data was collected through one-hour, semi-structured, one-on-one telephone interviews with eight participants from the three countries at selected venues (home countries), date, and time (Drever, 2003). During the data collection process, the researcher purposefully went beyond the typical interviews to capture the participants' interest in order to obtain any information that interviews and secondary data may not provide (Creswell, 2009). During the data collection, the researcher maintained a personal reflection journal.

An interview is a two-way information gathering technique between an interviewer and an interviewee (Creswell, 2009). A semi-structured interview is a flexible data collection technique in which the researcher (a) establishes the scope of the study,

(b) sets the pace by designing the structure and the questions to guide the study, and (c) the interviewee reserves the right to choose the course of the details, the form of expression, the amount of information, and the content of his or her responses (Drever, 2003).

Semi-structured interviews utilize both scheduled and unscheduled probes, thereby providing the researcher with the means "to draw out more complete narratives from the interviewees, drilling down a particular topic" (Qu & Dumay, 2011, p. 247). During the interviewing process, the interviewer handwrote notes to augment the recording and to provide backup in case the digital recorder malfunctioned (Creswell, 2009). In addition, the researcher kept a reflective journal to document her thoughts, experiences, and feelings about the process.

Error

This researcher anticipated measurement and coverage errors because not every individual participant in the population of interest had an equal likelihood of selection. As a result, caution was taken to minimize the measurement error. Interview questions' structure avoided leading questions. The response error was influenced by prior acquaintance with the cultures in the countries of study to understand better and appreciate the cultures of the participants.

Instrument Appropriateness

This study utilized five open-ended, semi-structured questions as contained in the interview protocol (Appendix B). The instrument was deemed appropriate because it gave the participants the liberty to respond in a manner that represents their perspectives (Nicholls, 2009) per the requirement of qualitative studies. On the other hand, the clause "semi-structured" gives the interviewer the flexibility to ask more questions or to rephrase the existing questions for purposes of clarity (Creswell, 2009).

Interview Questions

The Interviewing process requires "a respect for and curiosity about what people say, and a systematic effort to really hear and understand what people tell you" (Rubin & Rubin, 2005, p. 7). With qualitative interviews, the semi-structured, open-ended questions are intelligible. They give the participants flexibility to answer analytically while the interviewer reserves the right to direct and clarify whenever necessary, for example, when an interviewee goes off topic (Kvale & Brinkmann, 2009). Because the participants come from different cultures and geographical locations, this researcher applied customized interview questions and supplemented the research protocol for each participant to accommodate respective encounters in their location (Appendix B).

Instrument Validity

Findings from research are dependable only if the data collection instrument is reliable and valid (Creswell, 2009). Validity in qualitative research focuses on the accuracy of findings from the participants', readers' and researcher's perspectives (Creswell, 2009). To ensure validity, the following tools were utilized.

Respondent-checking. In respondent, or informant checking, the researcher shares the final reports and emerged themes with the participants for review to ensure they are a true representation of participants' thoughts and ideas (Creswell, 2009). The researcher's passion and prior exposure to poverty and microfinance had the potential to constitute a bias. To enhance validity, the researcher endeavored to explain how her background may have shaped her interpretation of the findings (Creswell, 2009).

According to Creswell (2009), validity in the qualitative methodology centers on the consistency of theme patterns. To ensure validity of the study, the researcher sought to understand participants' meanings and interpretations throughout the analysis process. The researcher applied an extra effort to reinforce consistency in themes. In addition, the participants were given access to the final research reports to review to verify that the information therein was a true representation of their thoughts.

The pilot study is another method of reinforcing validity. A pilot study tested the validity of the instruments with two participants: an executive officer and a microloan recipient from a microfinance organization in Uganda. Appendix B contains the interview protocol designed for the research, including the pilot study. The pilot study utilized telephone interviews with the two participants at selected venues, dates, and times which exactly mirrored the plans for the research study.

The interview participants come from three different continents, three different countries, and, therefore, three different cultures. To reinforce validity, answers from the executives were compared. Data analysis established the existence of any patterns shared in a country or culture. To further ensure validity of findings, the study utilized a selection tool to confirm the right participants for the study were recruited.

Data Analysis

According to Marshall & Rossman (2006), data collection and analysis should be concurrent in qualitative research. Recording and transcription both were performed using an Olympus AS-2400 PC Transcription Kit. Data analysis commenced with sorting and classifying the data into categories that characterized them. On an on-going basis, data was organized, reviewed, and categorized into patterns and themes. Data and field notes both were transcribed (Rubin & Rubin, 2005). The researcher read through the processed data to obtain a general sense of the acquired information before embarking on the coding process. Nvivo software was used to aid in the data analysis process. An inter-coder agreement was obtained (Creswell, 2009) with one professional coder (a) to look at the processed data, (b) to code it, (c) to develop the themes individually, and then (d) to compare them for uniformity. Rubin and Rubin (2005) and Maxwell (2005) advocate for the data analysis to run concurrently with the data collection when the interviews are still fresh in the researcher's mind. Data collected was prepared and organized into themes and patterns on an on-going basis. The semi-structured interview involves "prepared questioning guided by identified themes in a consistent and systematic manner interposed with probes designed to elicit more elaborate responses" (Qu & Dumay, 2011, p. 246).

Summary

According to Yunus (1999), the poor are poor because they lack access to financial services and resources to start or expand their small-scale businesses. These financial services and resources are responsible for spreading economic opportunity and a weapon for fighting poverty. Microfinance plays an important role in fighting the multi-dimensional aspects of poverty through increasing household income. This then leads to (a) increased food security, (b) the building of assets, and (c) an increased likelihood of educating the children. Microfinance is also a means for self-empowerment (Bayulgen, 2008). It enables the poor, especially women, to become economic agents of change by (a) increasing their income, (b) becoming business-owners and (c) reducing their vulnerability to external shocks like illness, weather, and so forth (Saad & Duasa, 2011). Social development studies have demonstrated that women, unlike their male counterparts, are much more likely to reinvest income into the household for the benefit of the entire family (Whiting, et al., 2010).

The traditional banking system standards consider the poor "unbankable" because they lack collateral (Bayulgen, 2008). Group lending with joint liability in the microfinance process, therefore, is a potential "innovation" to minimize risks in this informal credit market. Through group-lending programs, borrowers who cannot offer any collateral are asked to form small groups of five (Epstein & Yuthas, 2011). Group members are jointly liable for each other's debts. Joint liability makes a borrower's terms of repayment conditional to the repayment performance of other borrowers in a pre-specified and self-selected group (Sriram, 2012). Group lending programs leverage on this mechanism to achieve their organization's objectives (Epstein & Yuthas, 2011).

In group lending with joint liability, peer monitoring and peer pressure provide cheaper screening and monitoring means than the tools available to the formal banking institutions in achieving the same goals (Banerjeey, Duflo, Glennerster, & Kinnan, 2009; Besley & Coate, 1995; Conning, 1999; Khavul, 2010; Pal, 2012; Stiglitz, 1990). Through peer monitoring, members in a group can monitor the performance of their group members' portions of the loan, thereby reducing ex-ante moral hazards like risky investments. Through peer pressure, members exert pressure on each other to enforce loan repayment and mitigate ex-post moral hazards like deliberate default. The effectiveness of these channels depends on the premise that group members who live in close-knit, poor communities effectively can identify and punish irresponsible members and deliberate defaulters through social penalties (Stiglitz, 1990).

Conclusion

Group lending with joint liability as a phenomenon is responsible for the high loan repayment rates in the microfinance process. Muhammad Yunus, a former Bengali professor of economics and a Nobel Peace Prize winner for his effort in poverty eradication, invented the model (Yunus, 2007). The model stipulates that one loan is granted to a group of self-selected members—usually five in number—who would be jointly liable for the loan (Barboza & Trejos, 2009). Group lending with joint liability registered its initial success in Bangladesh through the Grameen Bank with loan repayment rates soaring above 98% (Grunewald & Baron, 2011). Group lending with joint liability offers an alternative form of collateral, social collateral, to the lenders (Pitt & Khandker, 1998) and encompasses a variety of methodologies, all of which have their base in the principal of joint liability.

Despite the great success that the model has drawn to the MFI, group lending with joint liability has experienced some setbacks. The model is one source of the violence, and occasionally death, experienced when members cannot meet their loan repayment obligations (Mahajan, 2012). This study's objective is to establish the role of management in the reduction of loan default and, consequently, mitigate the acts of violence and the stress they impart on poor communities.

Chapter 4: Interpretation, Analysis, and Findings

The purpose of this study was to establish the role of management in the improvement of the microfinance process. The study focused on the eradication of loan default and, consequently, the violence associated with it in the microfinance process. In this chapter, this researcher addresses the management perspective of the problem and how management views their role and contribution in the reduction of loan defaults in the microfinance process.

This chapter is a summary report of the results, interpretation, and analysis of the data collected and organized in the order of the research questions. This chapter has a discussion of the participants' demographics, how the data was analyzed, and the research findings. It concludes with the summary of the key elements in this study as reflected in the chapter.

The data was collected through individual, one hour, one-on-one, semi-structured, open ended telephone interviews with nine participants in India, Uganda, and the United States of America, eight of whom were members of microfinance organizations' management. The interview protocol had two main questions with four sub-questions each. Appendix B shows the interview protocol. The interviews were recorded using an Olympus 2400 Digital recorder and transcriber. They were transcribed verbatim. The type of data collected was qualitative in nature and intended to create an in-depth understanding of the management's perception of their roles and contribution toward the reduction of loan defaults. The interviews conducted in India and Uganda were manually transcribed to ensure that the machine's transcription was not corrupted by foreign accents. The Nvivo 10 software program coded and analyzed both the automatically transcribed and the handwritten data. An inter-coder agreement ensured process consistency.

This chapter capitalizes on the themes generated in the process from the data collected from eight participants who are members of senior management involved in making and executing decisions regarding the microfinance interest rates, the mode of credit delivery, and how the process works. One participant belongs to the grassroots community who is impacted by the decisions. All participants were at least18 years old and able to communicate in English. All participants were representatives from organizations with some experience in the group lending with joint liability model of credit delivery. This model in the course of the chapter has been referred to by the participants as the Grameen Model or solidarity. Participants had access to reliable telephone service and e-mail, and voluntarily participated. None of the participants were members of any protected classes as highlighted in the Colorado Technical University IRB.

Data Collection

The participating organizations were randomly selected from a list of MFIs in India, Uganda, and the United States of America. The participants were purposefully selected designated officers in operations responsible for the microfinance process. After recruitment, demographics like age range, gender, status in the organization (management or client) and level of education was established. The researcher anticipated that this information could be significant in establishing whether the demographics had any influence on the findings. The data was collected through qualitative, in-depth, semi-structured interviews. The researcher performed data collection and the coding concurrently while the interviews were still fresh in the researcher's mind as recommended by Rubin & Rubin (2005).

Data Interpretation and Analysis

Creswell (2009) highlights six linear steps to follow in a qualitative data analysis process: data preparation, exploration, analysis, interpretation and validation of the data.

Preparation and exploration. The process of preparing and exploring the data involves converting the digital recorded data (audio) and written or typed notes into readable and usable data. This process is called transcription. Originally, the Nvivo software was selected to do all transcription and data coding and analysis; however, after data collection, the transcriber was not capable of correctly transcribing interviews done with participants in India and Uganda. These interviews received manual transcription as a result.

Coding. Coding is the process of placing ideas into batches and assigning labels to the batches with the intent of developing an answer to a research question. Coding is considered the backbone of qualitative data analysis (Creswell, 2009). In this study, the researcher followed three forms of coding: open, axial, and selective coding. First was open coding. Open coding involves approaching the collected data with an open mind, labelling and defining the concepts that emerge, and categorizing them according to the research question. Axial coding uses the categorized data in open coding to develop concepts that later inform the research questions. Selective coding is the last stage of coding which piggy backs on the categories and concepts developed in the previous phases of coding and generates a grounded explanation of the attribute in question.

Content analysis was used in the process of exploring of the data. The researcher read through the scripts the first time to acquire a generalized picture and understanding of the data collected. She then reviewed the data two more times exploring and examining interviews, phrases, and words in search of key concepts and how they related to each other. To aid this process, the researcher used the Nvivo software to perform a word frequency query.

Word frequency analysis is the navigation through the data collected to identify the key words in relation to the objective of the research study. The relative occurrence or frequency of the word indicates the importance of the same to the objective of the study. It is important to note that this process also picks some words that may have been overly used yet irrelevant to the topic of study. The researcher, therefore, needs to go through the words on the generated list to eliminate redundancy.

With the Nvivo software program, the researcher initially obtained one hundred most-used words with no fewer than seven characters from the interview scripts. From this list, the researcher eliminated all of the redundant words. Redundant words for purposes of this research are those which are irrelevant to the objectives of the study. Figure 5 is a word cloud developed from the word frequency analysis.

The size of the word indicates a word's level of relevance to the study as expressed in the interviews. Table 1 shows the 24 most-used words in the data collected from interviews as indicated from the word cloud in Figure 5. From the table, the most used word was "default" which was mentioned 77 times followed by "clients" and "business" with 38 mentions each.

Figure 5: Word Frequency Cloud

Table 1: Word Frequency Table

default	77	1.23
business	38	0.61
clients	38	0.61
product	29	0.46
repayment	29	0.46
individual	28	0.45
process	28	0.45
management	27	0.43
lending	25	0.40
payment	24	0.38
information	23	0.37
officer	23	0.37
officers	23	0.37

(continued)

collateral	19	0.30
defaults	19	0.30
members	19	0.30
training	19	0.30
sometimes	17	0.27
microfinance	16	0.26
solidarity	14	0.22
financial	13	0.21
institutions	13	0.21
problem	13	0.21
another	12	0.19
character	12	0.19

Figure 6 represents the most-used terms in the interviews after the elimination of the redundant terms. The frequency graph flows in an ascending order.

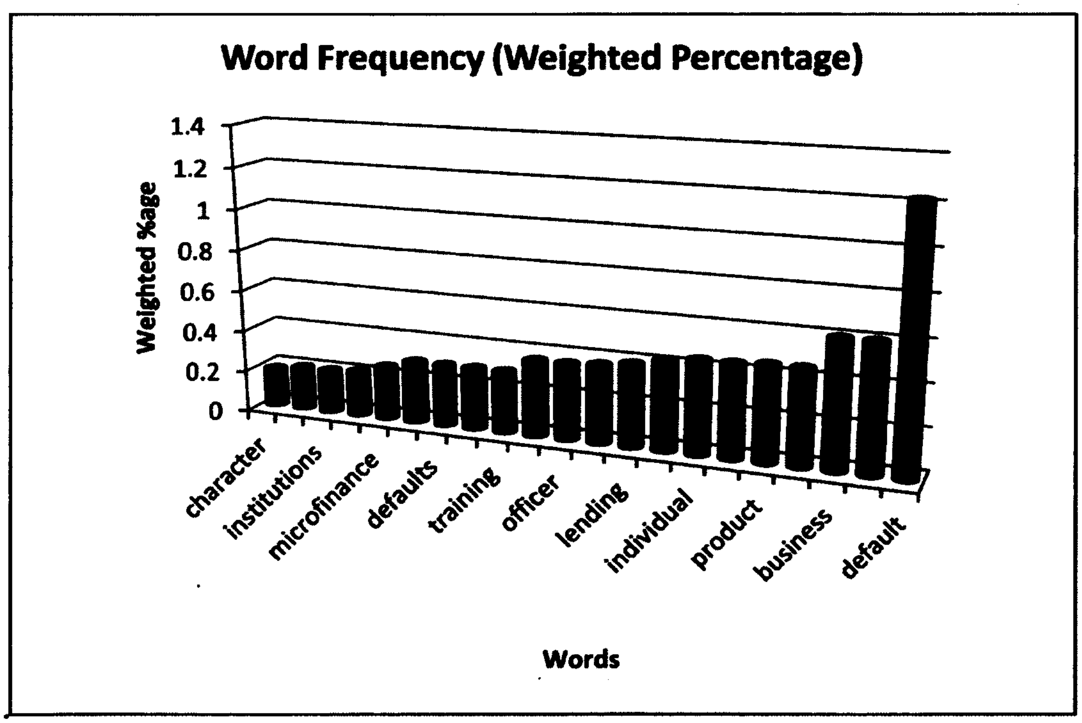

Figure 6: Word Frequency Graph

Selective coding. The third time the researcher read through the data, she carefully read line by line exploring the content in the data while comparing it with the word frequency query. From both the word frequency query and the content analysis, over fifty themes emerged. The researcher employed a closed-coding approach through which she developed a shorter list of themes that are directly relevant to the objectives of the research. The new list contained six themes reflecting the objectives of the research study. The list of themes that emerged in this study include (a) the lending model, (b) performance, (c) causes of loan default, (d) experience with violence, (e) effects of violence, and (f) ways to reduce loan default. The researcher used tables to represent the data collected and how it may be linked to the demographics. The rest of the raw data, however, is represented in a narrative form in the chapter. To ensure reliability, one additional coder independently coded the same data.

Methodologists present various methods of data interpretation; however, the study topic, the amount of time available for the research, and the researcher's personality work together to dictate the best method for the research. Creswell (2009) noted that data analysis from a qualitative approach is not an "off-the-shelf; rather, it is custom-built, revised, and choreographed" (p. 150) to match both the type of study and the researcher's intentions and needs.

There are several forms of qualitative data analysis. These include typology, taxonomy, grounded theory, matrix analysis, event analysis, thematic analysis, inductive analysis, deductive analysis, content analysis and discourse analysis. In this study, the researcher capitalized on a combination of the content analysis, thematic analysis, and contingency analysis, following the qualitative data analysis and interpretation framework set forth by Creswell (2009).

The aim of the data analysis was to organize and sort the collected data searching for patterns. The exploratory data analysis method was employed to summarize the data with the aid of tables and direct verbatim texts from the interviews. The contingency analysis method, also called the "If-then analysis," was utilized. This method is a form of quantitative approach to analysis in which the researcher develops sample text block and establishes the numerical frequency of categories of contents to help the researcher maintain record of text content and emerged themes (Robert, 2000). The research-developed data matrix sets with specific content themes (or categories) as column headings, distinct text blocks as row headings, and frequency counts in the cells. From this, the researcher developed a "matrix of association" among categories and themes. The matrix of association visually showed the positive and negative association created in the process. Themes, concepts, and categories developed in the process led to generalizations about the data.

From the open coding, the researcher employed a closed coding approach through which she developed a summarized list to group the codes. This list consisted of six themes reflecting the objectives of the research study. The list of themes included (a) the lending model, (b) performance, (c) causes of loan default, (d) experience with violence, (e) effects of 2010 microfinance crisis, and (f) ways to reduce loan default.

Lending Model

The mode of this research was directed specifically to the Grameen model of group lending with joint liability. All the participants had to have some experience in their organizations with group lending with joint liability. At the beginning of the study, the researcher was not aware about the evolution of the model. The original Grameen Model stipulated that a group of five like-minded, uncollateralized poor people within the same geographical environment come together with the purpose of obtaining credit to fund their entrepreneurial dreams in the form of a loan for which the entire group is mutually responsible (Yunus, 2007).

The concept of mutual responsibility replaces the need for collateral as a requirement in the lending process. Group lending over the course of this study was referred to by the participants as solidarity groups. In a solidarity group, when one member defaults, the entire group is responsible for that portion of the loan or they all face disciplinary action including expulsion from future borrowing for the entire group. This is said to cause violence and social tension among members and their communities.

Through the research study, this researcher recognized the evolution in the model. Even when the participants' organizations were expected to be engaged in group lending with joint liability, the researcher discovered some modifications in the model. These experiences included a mixture of group lending with joint liability and individual liability, group lending with individual liability as referenced in Figure 7.

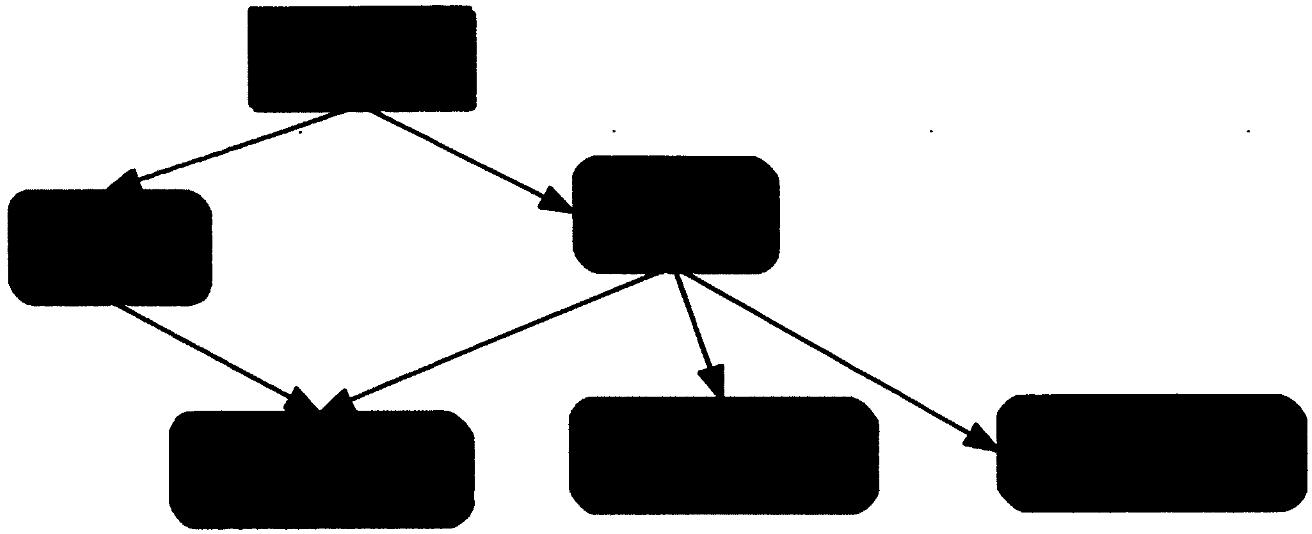

Figure 7: The Evolution of the Grameen Model

Over 80% of the participants reported that their organizations were exclusively engaged with group lending. Of these, 75% reported that their organizations were practicing both joint liability and individual liability concurrently. Group lending was highly recommended especially for its great result in high repayment rates because of the peer pressure and group support.

Group Lending and Peer Support

The cultures in India and Uganda are such that the women are raised to be homemakers, and dependents of their spouses. They are marginalized in household decision making and excluded from community decision making processes. As a result, the women's sense of self-esteem and self-worth is greatly diminished. On their own, therefore, these women are not able to develop a business mindset. Through group lending and peer support, such women have been empowered to become entrepreneurs. This contributes to the reasons the majority of microfinance clients are women. Group lending is a significant aspect in microfinance in the developing world to the extent that some entrepreneurs would prefer to remain in a group setting while receiving individual loans with individual liability.

To enhance the successful loan repayment rates in microfinance among the uncollateralized poor, the joint liability clause enhances both the financial responsibility of members in a group and accountability between group members. This sometimes translates into peer pressure; nonetheless, the model of group lending with joint liability has been credited with the high loan repayment rates. Over 90% of the participants reported that the model works well in their organizations. Of the study's participants, 10% indicated that their organizations have totally moved away from group lending with joint liability because it did not work for them. This 10% indicated that group lending with joint liability is cumbersome and breeds social tension and violence.

Group Lending with Individual Loans

Over 50% of the participants indicated that group lending with joint liability works well for new clients, but as they progress and do well in their businesses, some clients opt for bigger loans. Such clients are interested in the benefits of being in a group alongside opting for individual loans. On the other hand, the very small loan participants are not in favor of guaranteeing their large-loan counterparts. These types of clients contributed to the evolution of the original Grameen model to one with group lending with individual liability. Participant P3 noted that:

> The real concept of group lending is to help the uncollateralized poor get loans through group guarantees as the security, and so this works for that class, but as they move through the cycle and their earnings get better, time comes when they are able to accumulate their own assets for collateral. Even groups exist for a time

and after that they disintegrate and beyond that, those that may be doing well may advance to individual loans. To lend individual means you have to know the customer very well. It is much easier to manage individual well than in groups. Within groups, it is hard to establish the client's need than it is with individual lending. If the product is designed to the need of the client, then loan repayment should not be a problem. Probably because the installment sizes are just the right size, and are designed according to the cash flow patterns of the client.

Individual loans. Of the participants, 35% reported some engagements in individual loans to clients that may have initially belonged to the solidarity groups; however, one of the incentives for continued good performance is a promotion to individual loans. Participant P6 had this about individual loans:

> With the individual loan, there definitely has to be a business in place. The loan officer will go through an application process to understand how the business practice brings in on a weekly, monthly basis and any other expenses, the suppliers, any middle men, how much the person is asking for in loans to establish their capacity to repay the loan. If the cash flow is found sufficient for the loan repayment, they could be approved maybe with recommendations. The loan officer performs a character check in the community to ensure that the person belongs to the community and is a reputable member.

Solidarity groups and high loan repayment rate. Solidarity group is another term for group lending in Uganda. Participant P4 from Uganda described a solidarity group:

A solidarity group is a large group of individuals; they co-guarantee each other and especially those who do not have collateral security. Their security is the members of the group: 40-45 people divided in five groups…In solidarity arrangements, the group chooses a leader who coordinates the repayments. The loan officer stands on the fence and watches. Only when there is a problem with non-repayment does the loan officer step in to moderate the collection process. The group normally sets their loan security fund. The group is trained. The loan officers are sometimes required to be vigilant to verify the information members give, check them out where they say they work to ensure they really work there, and in the group sometimes they tell lies. If you find that there was some inconsistency in one group, then you become cautious of that group ahead of time to avoid surprises.

LSF [loan security fund]: When a group realizes that a member has some problem or has not been able to pay, they will always come up as solidarity group members and they will help that member pay off their loan and work out some plan of settlement. If that person does not work again, they expect the company to help them recover their loss. Sometimes it may not be so. The loan officer's interest is to make sure that each person has paid, and, in fact, it is also very tricky. If one member defaults and the loan is written off, then that may encourage others to take advantage. The deduction of money from the LSF is only when all other means have failed.

In the various descriptions of solidarity from various participants, the groups are self-selected as a way of enhancing loyalty in the group. These members usually know each other and would do their best not to hurt each with default. High repayment rates have been experienced in such environments. On this, Participant P5 noted:

> Our organization has found that the group system improves repayment. They process payment every week and if anyone is behind in payment, that is caught in time for the group to make up that week and then settle it out with the defaulter. It is, therefore, up to the group to figure out how this may work. They have their own method of going to discuss with the defaulter to find out what the matter is with defaulter: illness or bad business. Failure for a group to meet the repayments makes the entire group ineligible for any future loans. That, therefore, is an extra incentive for the group to make up for any unpaid loans. That definitely has contributed to the high loan repayment rate of 95-98%. The repayment for the individual loans is not that high.

One participant from India, however, indicated that in inner city areas and areas where the caste system is significant, self-selection would not work well. Member assignment is employed instead. High rates of default have been noted in such places because of low member loyalty.

Solidarity groups and loan defaults. Loan default in solidarity groups is said to have contributed to social tensions in communities, and sometimes violence. A participant from Uganda noted that physical violence was not common, but existent. Of all the participants, 90% indicated that social tension was rampant in loan default cases. Participant P8, who is involved in both Uganda and India, recounted the following story:

> I have heard of stories like this, but not seen it myself. I have heard of one in Uganda. I think she had a lot of potential. She was doing a real good job, but she

decided that she was going to help a friend. She accepted to be a co-guarantor. The lender took this seriously and this woman who was doing so well lost her business to some loan default of a friend she co-guaranteed. The person defaulted and they wanted her to pay since she was the co-guarantor. She could not pay, so she went to jail for that for 6 months. As our organization reached out to her, her response has been she does not want anything to do with MF. It was unfortunate because there are so many factors involved and every organization does it differently. In India, they encountered suicides because a lot of these farmers were unable to repay. Part of it is because the system is overwhelmed.

Regarding social tension in Uganda, participant P2 told a story of a woman who borrowed a loan and gave it to her husband who misallocated the funds. They, therefore, could not pay the loan when it came due. The woman told the solidarity group about the experience. The solidarity group confronted the husband who, in turn retaliated on the woman, but the loan was never paid back. A participant from India noted that the culture in Andra Pradesh has zero tolerance for default. "The culture of Andra Pradesh, though, is such that debtors are not tolerated and is considered shameful. So the moment one learns that this is known about them it is very common that they will commit suicide."

Causes of Loan Default

The participants mentioned several factor as causes to loan default. The factors fell into three categories: borrower-related, institution-related and external causes. The borrower-related causes include (a) character of the borrower, (b) multiple loans, (c) loan sources, (d) sickness of the borrower or the borrower's family, (e) corruption, (f) selection mode, (g) poor financial management, (h) incompetence of the borrower, (i) change of objectives, and (j) cultural ties. The institution-related causes include (a) poor product design, (b) incompetent loan officers, (c) poor timing, (d) loan officer corruption, (e) lack of training, (f) understaffing, and (e) the 2010 Microfinance Crisis in Andra Pradesh, India. The external causes are natural causes which include (a) fires, (b) floods and poor climatic conditions, (c) government intervention and (d) other causes including a poor economy. Figure 8 visually represents the loan default causes.

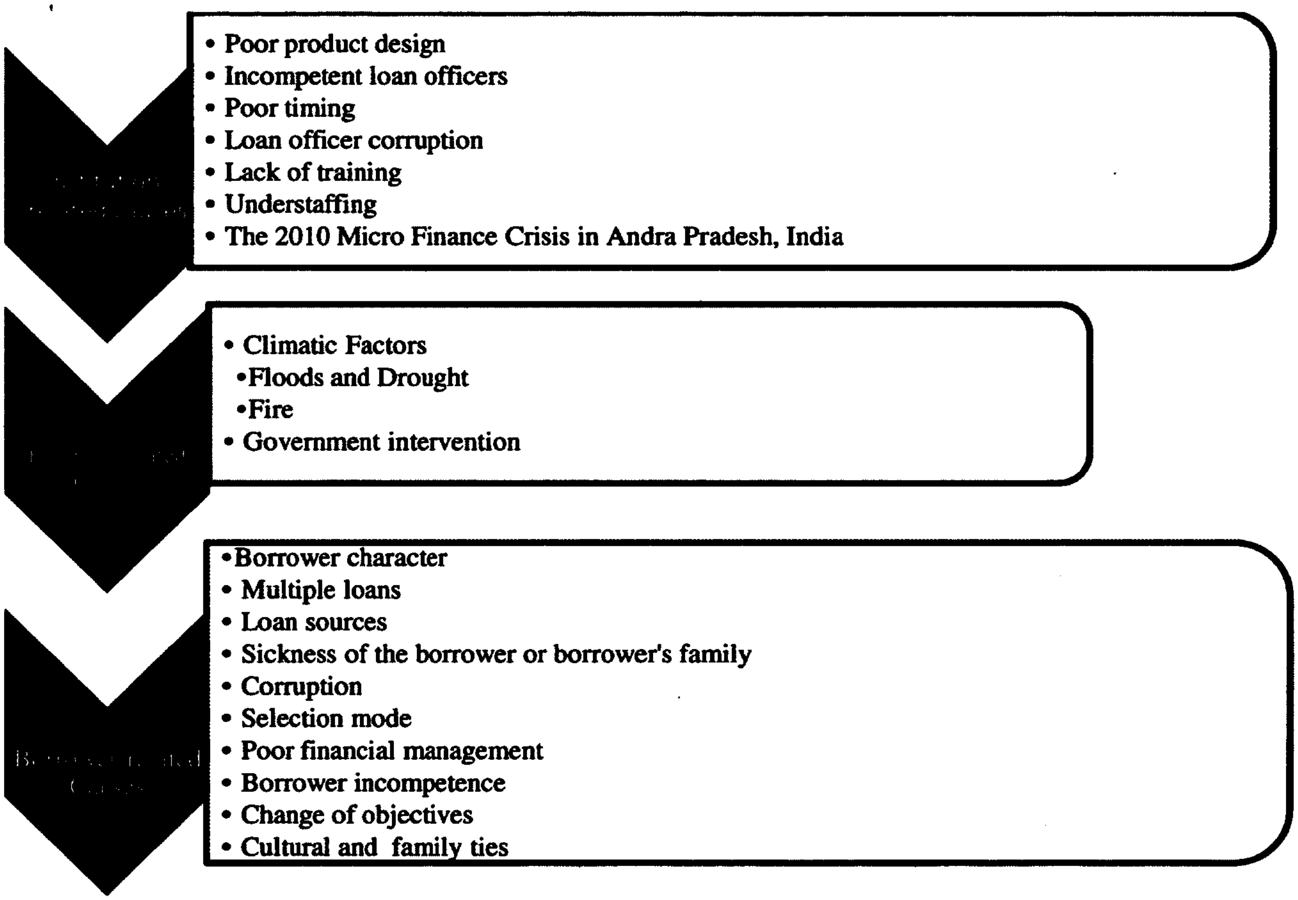

Figure 8: Causes of Loan Default

The graph in Figure 9 shows the various causes of loan default in the microfinance process and the number of times an attribute is referenced by the 9 participants. The higher the number of references an attribute is assigned, the greater the perception of microfinance management as a cause loan default. That said, product design is the greatest contributor to loan default.

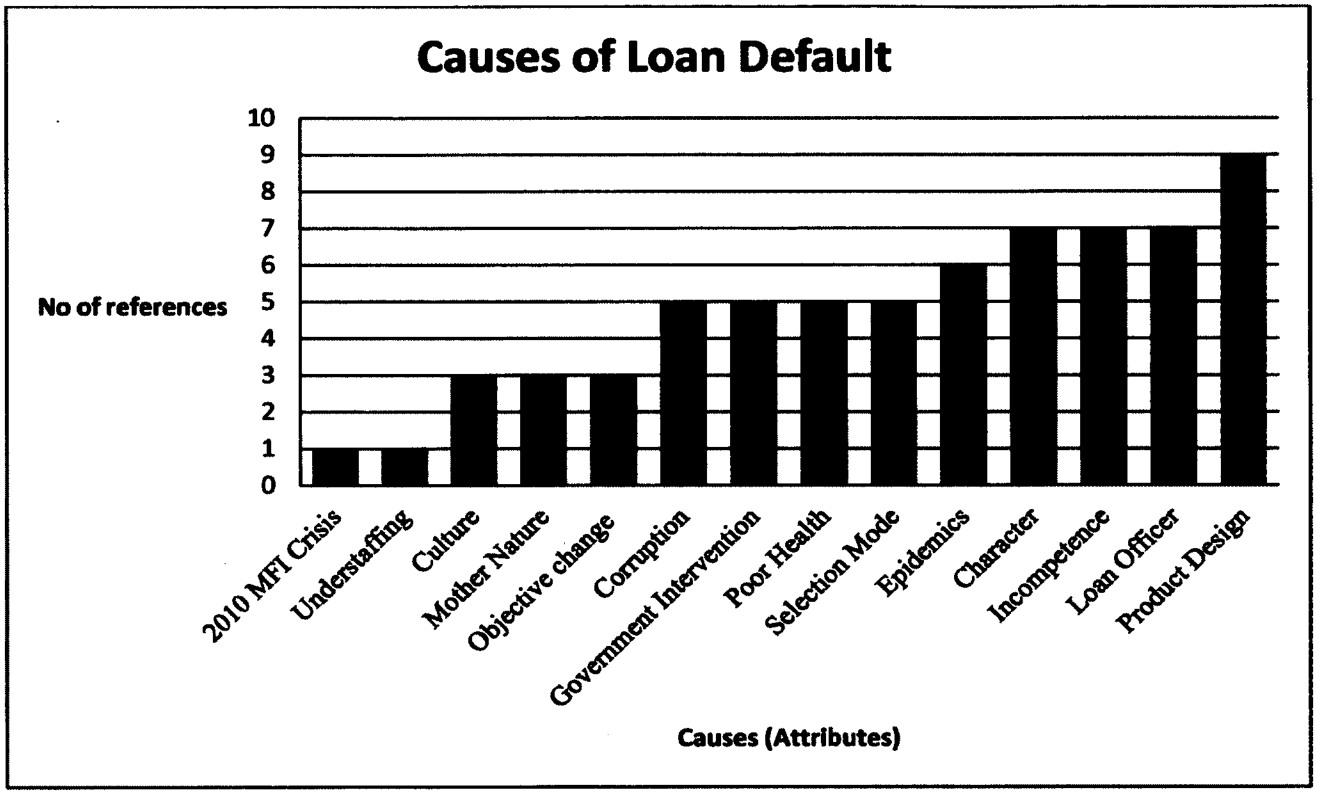

Figure 9: Loan Default Causes in Order of Significance

Borrower-related causes. ***Borrower's character.*** All participants noted that a borrower's character plays a big role in the repayment process. All the participants in Uganda used the term "Basele" which means "fraud stars" to describe a group of people that never repay their loans. This group of people use fake audited accounts, land titles, and car notes to acquire loans they will never repay. Some people in this category may have a one-time need they know they cannot afford. One participant gave an example of a person seeking a ticket abroad. "Fraud stars" join solidarity groups, get the loan, and leave for foreign countries never to return. Participant P3 said:

Some clients come with the intention just default because they are looking for a certain lump sum; because they need to address a particular need and they don't see any particular source of income anywhere. So they will just go to a particular institution and, once they get this loan, they will disappear. For example, there are people who have always wanted to fly out to the United States and all they are looking for if they have a visa is only their ticket. They will try only to get their lump sum to buy their ticket and that is the end. So, that is another angle at which you can look at the loan default. It is basically that one will default because they are just looking to do what they want to do, and where the product is not aligned to the need of the client and deliberate default.

Multiple loans. Financial institutions, MFIs included, in the developing world are still lagging behind in credit bureau services. This makes it easy for the poor to borrow from multiple sources. All of the participants in India and Uganda said that multiple loans is a significant problem in the microfinance industry. Participant P3 commented

> ...the product being insufficient in value for the need. This sends the customer to look for more sources to supplement the need, ending up with multiple loans. Once the clients have multiple loans, repayment becomes a problem leading to default.

In addition to the MFIs lacking information about the borrower's credit history, MFIs are in such high competition for customers that they are overlooking the importance of appropriate screening. This increases the capacity for poor people to amass new loans to pay off other loans. This creates a chain of indebtedness for the loan recipient.

Participant P8 from India told a story:

> The loan sharks are charging exorbitant interest rates. There was a lady who was paying a loan shark 1,000 rupees a month for her loan. She came to borrow from us to pay the shark. We found out. We advised her to pay off and we will help her get out of the entanglement.

Loan sources. All participants said that the loan's origin affects the repayment rate. Participants in Uganda used the terms "Hot money" and "Cold money" to describe the types of loan sources. According to participant P1, "Hot money is what the owner sweats for and cold money is what is donated." Once the borrowers realize that the source of their loan is donations, they do not feel any obligation to pay it back. World Vision International operated as a microfinance institution for some time, but incurred losses because the clients and employees felt the fund source was donations; therefore, they did not feel an obligation to pay back the loans. World Vision incurred exorbitant losses which forced the organization to change from an MFI to a grant agency called Vision Fund. The separation of the source from the local organization, therefore, is critical for loan repayment.

Illness. Poor entrepreneurs are engaged in sole proprietorships. Borrower or borrower's family sickness will, therefore, potentially handicap the cash flow of the business, thereby making loan defaulting inevitable. MFIs have introduced insurance for such incidents, but the clients occasionally are unable to maintain the insurance fund deposits to maintain uninterrupted coverage.

Selection mode. The theory behind group lending with joint liability is that members of a group are self-selected. The idea behind the mode of selection is to have a group in which members know each other well enough to be loyal to the group (Wydick, 1999). The group members come from the same geographical environment and, therefore, have an idea of each other's credit history and character. Through this mode of selection, a group can eliminate outright defaulters. Participant P7 from India emphasized the contribution of self-selection to the success of a group. In the inner cities and caste system areas, the people do not know each other well. The participant attempted to assign members to groups. His observation was that such areas lacked group cohesion, loyalty within the groups, and registered significant loan default rates. Quality group functionality and cohesion are fundamental to high loan repayment rates and a function of self-selection in solidarity groups.

Poor financial management and borrower incompetence. One of the prerequisites of being granted a microfinance loan is training. This training introduces or enhances the customers' financial management knowledge and the dynamics of group function. Participant P2 gave an example of a client who got the loan to do business and bought presents for his family. In the long-run, he could not pay his installments.

Culture. The majority of microfinance clients are women because their male counterparts have a higher societal positioning in the culture. In addition, women are shown to be better creditors than their male counterparts. It is further stated that loans to women serve the good of the entire family and community compared to their male counterparts; however, various cultures dictate that men should be the financial custodians. Some female borrowers have given the borrowed money to their husbands who have diverted the funds to other uses rendering loan repayment impossible.

***Corruption*.** Clients in Uganda expressed that corruption is one of the causes of loan default. The clients have the access to companies that duplicate titles, and identity documents. The loan officers have to be vigilant and knowledgeable about the system to be able to identify duplicate titles and IDs; furthermore, Participant P2 noted that the system is such that if one defaults, that person is reported to the civil court. In court, individuals can bribe their way to freedom or go to jail for a maximum of six months, but the loan still will not be paid. Participants also commented that the loan officers' integrity is also a factor in loan default. Various organizations have different ways of collecting the installments. For some organizations, loan officers collect the installment payments at solidarity group meetings. Participant P1 indicated that clients sometimes are too busy to take the loans to loan centers. In such instances, the organizations may arrange for the loan officer to pick up the loan payments from the clients. Some loan officers pick up loan payments and then deny receipt of the same. In such cases, the client cannot duplicate payments and, thereby, defaults on the loan.

Institution-related causes. ***Product Design.*** A significant reason for loan default was poor product design. Participant P1 described a poor product design as follows:

> Poor product design (mismatched). For example, if a product is not tailored to the actual need of the client. For instance, if the design is such that the client has repayment installment that they cannot meet, e.g. farmers can't make installments before the farm products are ready for harvest. So if the client income flow does not meet the required monthly installments, there will be some form of default set up.

Office of human resources management (OHRM). The Office of Human Resource Management (OHRM) is key to the performance of the loan officer in various ways. These include hiring the right people for the job and providing those people with incentives, such as training and rewards for high performance; however, in several instances the loan officer's skill level is compromised by the non-competitive salary scales that MFIs offer; furthermore, many of the participating organizations lack incentives for high-performing loan officers.

Understaffing. One of the common observations from the phone interactions with participants was that the loan officers were understaffed. To succeed in their responsibilities, loan officers must (a) train the clients, (b) do spot checks, (c) perform thorough loan appraisals, (d) attend solidarity meetings, (e) in many cases collect the loan payments from the clients, and (f) stay close to the clients to observe changes that may constitute default, along with many other responsibilities. While a solidarity group may have 40-45 people, a loan officer may have seven or eight solidarity groups. Participant P2 made this comment:

> One loan officer may be having seven solidarity groups meeting at different intervals. The meetings are for only one hour because they are all busy, but also to enable a loan office r to have enough hours in a day to visit each group.

From that statement, it would be impossible for the loan officer to monitor the clients closely, perform thorough loan appraisals, and take part in the on-going trainings to keep ahead of the game along with fulfilling other responsibilities. This makes the loan officer rely on the group effect to fill in the gaps.

Poor loan appraisals. In the beginning of the microfinance process, poor borrowers do not have collateral. Loan appraisals, therefore, are not applicable. In such instances, the poor, uncollateralized entrepreneurs are encouraged to join groups of like-minded people they know in the same geographical environment to acquire the social collateral required to get loans for their businesses. Over time, with a series of loans, high performance—successful loan repayments—and, at times, acquisition of collateral, the poor, once uncollateralized members graduate to individual loans. Participant P6 stated,

> With the individual loan, there definitely has to be a business in place. The loan officer will go through an application process to understand how the business practice brings [income] on a weekly [and] monthly process and any other expenses, the suppliers, any middle men, how much the person is asking for in loans to establish their capacity to repay the loan. If the cash flow is found sufficient for the loan repayment, they could be approved, maybe with recommendations. They perform a character check in the community to ensure that the person belongs to the community and is a reputable member.

The nature of the Grameen model of microfinance shifts the lenders' responsibilities to the borrower under the pretext of lowering costs and, therefore, making the interest rates lower for the uncollateralized, poor borrower; however, the role of the loan officer is still crucial in the success of microfinance. The organizations, therefore, must ensure that the loan officer has the necessary skill set and is granted the necessary tools and support to perform the job with excellence.

Loan officer corruption. Corruption is one of the contributing factors to loan default in Uganda and India. As a matter of fact, 90% of the participants from Uganda noted that corruption is rampant in Uganda. It is said to appear in several forms ranging from (a) the loan officers conniving with the clients and asking them to pay the loan officer some money to write off the loan, to (b) the loan officer collecting the money from the vulnerable clients and turning around and denying that they received the money, to (c) the loan officers forging ways of taking out loans for themselves. The MFIs must take it upon themselves to create the necessary integrity among loan officers.

External factors. There are several external factors affecting loan repayment. These include nature, government interventions, and epidemics.

Nature. Nature includes floods, fires, and poor climatic conditions. The poor entrepreneurs carry out their business activities in low lying areas that are prone to flooding during the rainy seasons. For example, in Uganda the poor entrepreneurs are found in great numbers in Nakivubo and the Owino Markets. These areas frequently experience flooding. In addition, these areas are highly congested and incidents of fire, like the one in Nakivubo in Uganda, have caused extensive losses to the vendors who may also be microfinance loan recipients. The losses have ranged from loss of work time to loss of property, thereby, rendering loan repayment impossible. In several instances, the MFIs have exercised leniency by writing off some of the loans and extending payment due dates; however, for some clients who have no insurance, the extension of payment due dates make no difference when the businesses are destroyed.

In addition, a significant amount of microfinance clients in the developing world are engaged in agricultural activities; however, the success of any agricultural endeavor is linked to climatic conditions. In times of draught, the crop yield is low. Once the climatic conditions are not favorable, microfinance clients struggle to meet their loan repayment commitments.

Government interventions. Street vending is a popular business activity for microfinance recipients in urban environments. Participant P8 indicated that 98% of their clients were street vendors in Kolkata. There are a times, however, when the government has intervened and pushed the vendors off the streets. For example, in preparation for the 2012 CHOGUM conference in Uganda, the vendors were asked to stay off the streets while the government endeavored to maintain cleanliness, security, law, and order while the distinguished leaders flocked the country. This caused lost work time and disrupted some microfinance clients' cash flow making it difficult to pay loan installments.

Other factors. Some of the other factors affecting microloan repayments are epidemics and pandemics. This affects the microloan clients who are involved in tourism. For example, in 2012 there was an Ebola outbreak in Uganda. Ebola is a form of virus that affects humans and animals causing severe hemorrhagic fevers. The virus without a specific cure has fatality rate of 90%. As a result of the outbreak, travelers cancelled their travel plans to the country for that summer. Participant P4 expressed that the effects of the 2012 Ebola outbreaks in Uganda on the tourism industry led many microfinance clients to default on their loans.

Loan Default Reduction

Throughout this research study, the participants suggested various ways of reducing loan default. They are represented in Figure 10.

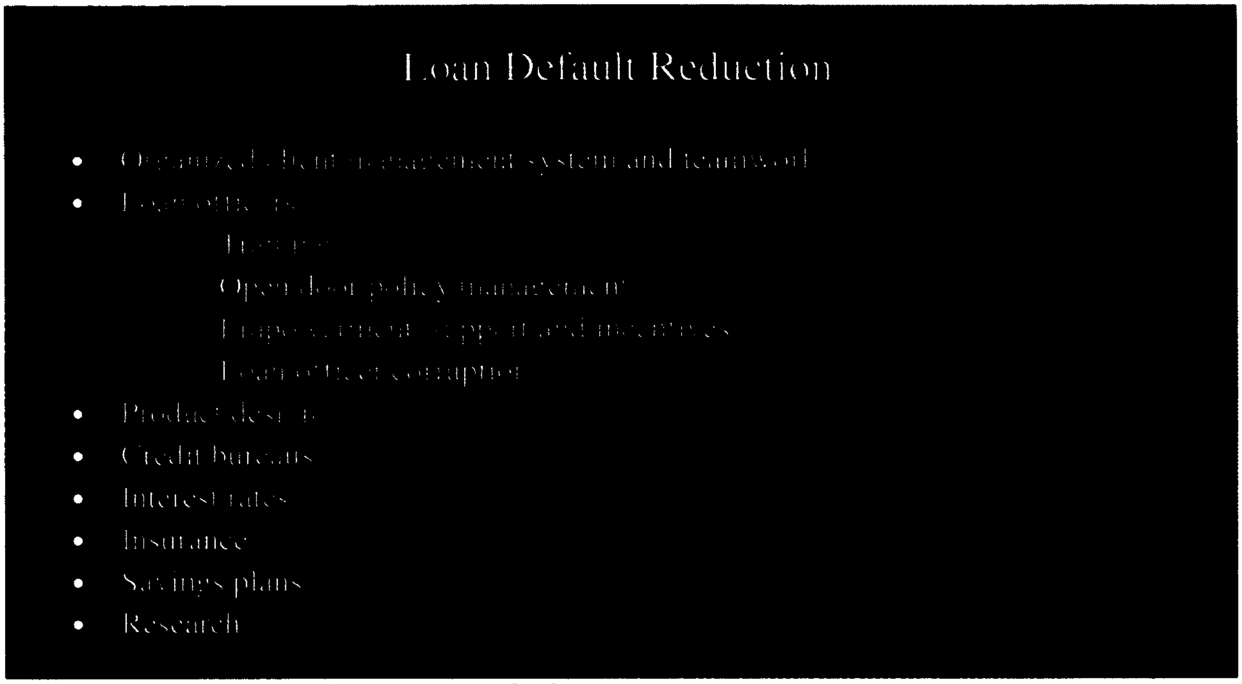

Figure 10: Ways to Reduce Loan Default

Organized client management system. In an established client management system, MFIs endeavor to know customers through the establishment of where they live, their needs, and work to meet them with an outstanding quality and timeliness. The aim of this process is to build and strengthen the MFI relationship with the clients, which in due course creates long-term client relationships and high loan repayment rates (Besley & Coate, 1995). In addition, MFIs using a client management system need to review the process, figure out who is responsible for what task, and where the process and information flow lag. They then can work to fix it. While that happens, team work becomes established and improves accordingly.

Loan officers. ***Training.*** As earlier indicated, loan officers are the life blood of the microfinance process. Loan officers, therefore, need to be empowered, supported, and provided with whatever they need to get the job done with excellence and efficiency. They need to receive effective training, receive incentives to perform, and receive rewards for high performance. This would help improve their integrity, loyalty, and capacity to perform their duties including effective loan appraisal.

Open door policy. Participant P2 noted that there is a big gap between management and loan officers. This participant suggested an open door policy in which the loan officers can walk in to talk to with management at any time to discuss an issue before it escalates into a big problem. Participant P3 pointed out that the loan officers are understaffed. One loan officer may have eight solidarity groups to monitor. Each solidarity group has 40-45 people. It is impossible for one loan officer to monitor closely and effectively such a large population.

In addition, the participants in Uganda noted that rotation of loan officers among different solidarity groups both breaks the monotony and decreases the tendency toward corruption. It also provides an extra eye through the system to catch some of the issues that may have been missed. They further highlighted that it is usually when a loan officer stays with the same group for lengthy periods that issues with corruption find grounds.

Product design. If a loan product design is not tailored to the needs of the client, the chances of defaulting are elevated. In fact, 98% of the study participants stated that 50% of the loan defaults result from the nature of the product design. One example of a poorly-designed loan product is a loan for an agricultural product demanding monthly installment payments immediately even though the borrower will have no income until harvest time in three to six months. This lack of income naturally will cause the borrower to default on the loan.

Flexibility and convenience. Participant P1 said that his company has policies in place to govern the flow of the microfinance process; however, there are times when customers genuinely encounter hardships and cannot pay. This information is secured through the great relationship between the loan officers and the customers. He indicated that the loan officers are trained and empowered to negotiate the possible terms in such instances; furthermore, the customers default because they just cannot get to payment centers on the installment due dates. Reasons range from being too busy to not having the means or time. The loan officers must be flexible enough to pick up the money or else it could be reallocated to other needs.

Interest rates. MFIs need to lower interest rates in order to encourage low default rates. The essence of the Grameen model is to keep the administrative costs low and, thus, keep interest rates down; nonetheless, some microfinance companies charge higher interest rates than others. Through competition, those with low interest rates may try to make up the difference by overstepping loan limits. In the long run, this inflates the loan default incidents.

Clear repayment plan. Loan officers need to have a clear form of communication and reminder system to remind clients of the repayment plan. They have to make sure the client clearly understands how, when, and in what amounts the repayment will be made; however, many times this step is not clear to new clients.

Micro-insurance and micro-savings programs. Micro-insurance programs are financial services that help the poor cope with unexpected shocks which disrupt their livelihood. In the instance of microloan mishaps, micro-insurance helps to cushion the transition in cases of financial losses. Micro-savings programs, on the other hand, are programs through which microcredit clients are encouraged to put away some money on a regular basis to help them through low financial seasons. Several participants indicated that microloan recipients are encouraged to participate in insurance programs that are provided by their MFIs; however, it is not mandatory that they enroll in the programs or buy the products. They are also taught how to manage savings plans to help them in times of low cash flow. MFIs need to reinforce this requirement as a way of reducing loan default.

Credit bureaus. One of the significant reasons mentioned as a cause for loan default was multiple loans. The poor are exposed to extensive need which forces them borrow from every possible source to satisfy their financial gaps. In various instances, the participants indicated that the poor were borrowing to pay off their prior loans from loan sharks. This drove many into a chain of loans they could not monitor, or even manage, leading them into default. Only 25% of the participants cited the presence of credit bureau associations. These associations help MFIs establish the credit history and the number of loans, if any, that a prospective client may have. They noted, however, that not every MFI subscribes to this association. In fact, 75% of the participants said there were no credit bureaus in place to help establish a client's credit history as a way to control multiple loans.

Conclusion

This study capitalized on establishing the role and contribution of the microfinance management to the improvement of the microfinance process. The consequence of microloan defaults range from social tension, to expulsion from accessing future loans and, in extreme and rare cases, murder or suicide of the defaulter. The study was conducted through one-on-one interviews that lasted between 45 and 60 minutes each. Eight participants are microfinance management personnel. While the idea was to find a microfinance perspective on the role and contribution in improving the process through loan default reduction, this researcher also endeavored to collect the perception of the grassroots who are the beneficiaries in the process. This data collected was manually transcribed and analyzed with the aid of the NVIVO 10 software program. The data presentation was through narratives, from participant stories, charts, tables and graphs.

Among the various themes that guided this study, this researcher explored the causes of loan defaults in depth to inform the solutions and, therefore, management's role and contribution to the basis for the research study. From this exploration, the researcher observed that even when management felt they had a role to play in improving the process, they pointed out that the process success rate was at a roughly 97% loan repayment rate; therefore, they indicated that management's role and contribution to the improvement of the microfinance process is critical from a humanitarian point of view. From a financial approach, however, management feels that it is a matter of cost effectiveness. Would it be economically reasonable to invest so much to go for the 3% who are in microloan default?

Chapter 5: Conclusion

This chapter is a summary of the entire research study. The chapter contains a brief recap of the introduction of the study, the literature review, the methodology used, the findings, future study, and practice recommendations. The chapter also outlines the limitations of the study, the implication to the practitioner, and the recommendations for further research. This is followed by the conclusion of the study as indicated in the findings. The findings are organized following the order of the interview questions, their responses, and the themes that directly inform the research questions in the study. The findings are a direct perspective of microfinance management on their role and contribution to the reduction of loan default in the microfinance process.

Findings and Conclusions

Entrepreneurship is the heart of sustainable economic development; however, entry to entrepreneurship requires access to funding. Poor entrepreneurs lack access to such funding or credit because they lack the collateral to qualify for conventional loans (Brau & Woller, 2004; Eijkel, 2011). This exclusion of the poor from the conventional banking system laid the foundation for microfinance. Microfinance is the provision of financial services' access to the poor, uncollateralized entrepreneurs through social collateral (Khandker 1998).

Social collateral is an ancient invention popularized in the 1970s by a Bengali economics professor Muhammad Yunus through the Grameen model (Bayulgen, 2008). Through this model, five self-selected, like-minded, uncollateralized, poor entrepreneurs from the same geographical area form a group and apply for a loan for which they are mutually responsible (Yunus, 1999). The concept is called group lending with joint liability. The arrangement in the process creates peer effects ranging from peer support to peer pressure. The success of the group is in every group member's best interest because of the mutual responsibility clause.

Microfinance has received significant recognition because of its contribution to poverty alleviation. The success of microfinance is marked by loan repayment rates above 90%. The success of microfinance is credited to the Grameen model of credit delivery through peer pressure and peer support (Giné et al., 2006). As a result, the United Nations declared 2005 as the year of microfinance. Poverty eradication is the first Millennium Development Goal of the United Nations. Through microfinance as a poverty eradication tool, the United Nations has vowed to reduce poverty by half by 2015 (Department of Economic and Social Affairs of the United Nations Secretariat, 2007; Khandker, 1998; Khavul, 2010). While the Grameen model is the foundation to the success of microfinance, it is also associated with the sources of social tension and violence in the poor communities around the world (Khandker, 1998; Khavul, 2010). The climax of this was the 2010 microfinance crisis in the state of Andra Pradesh, India. Because of harsh loan collection processes and multiple loans, a significant number of poor entrepreneurs committed suicide. Violence and social tension also have been noted in other places, including Uganda where half of the participants of this research study live (Ashta, et al., 2011; Chakrabarti & Ravi, 2011).

The purpose of this exploratory study, therefore, was to establish the role and contribution of microfinance management to the improvement of the microfinance process through the reduction of loan default; consequently, the violence and social tension associated with the group lending with joint liability model of the microfinance process (Sriram, 2012). The researcher's intention in this study is to capture the perception of microfinance management on their role and contribution in their own words.

With over 4 billion people living in poverty, the need to confront poverty with sustainable means is critical (Prahalad & Hammond, 2002). Microfinance has proven one of the sustainable means of reaching the poor with entrepreneurial abilities to help them wade their way out of poverty. The phenomenon and its provision of access to credit to the uncollateralized poor is a noble cause now as several economies that once provided economic aid are experiencing economic crisis and aid fatigue. Microfinance is not only a sustainable approach to poverty eradication, but also a more inclusive approach to international economic development through the informal sector.

Many nations in the world have joined hands through microfinance as a global initiative to reduce poverty through financial inclusion. These initiatives include international organizations, including the United Nations through its millennium development goals in which poverty eradication is the first goal. The UN has earmarked microfinance as a significant sustainable contributor to poverty eradication. Other international organizations involved in poverty eradication include, but are not limited to, the World Bank, the US Agency for International Development (USAID) and World Vision International. Microfinance affords the poor, uncollateralized entrepreneurs access to financial services through social collateral.

While literature on microfinance indicates that it may not completely erase poverty, it has been earmarked as the link between the poor and the needed credit that provides the route to greater self-sufficiency. Lack of assets and collateral preclude the poor from accessing conventional loans. Microfinance, therefore, through social capital provided through the Grameen model, affords the uncollateralized poor the opportunity to access the needed credit to fund their entrepreneurship. While social capital through peer support and peer pressure is credited with the high loan repayment rates, peer pressure also contributes to social tension and violence in cases of loan default, also termed as non-reimbursement.

The findings of this research match causes of non-reimbursement of microloans as found in the existing literature. These causes include (a) lack of follow-up from loan officers, (b) the size of the loan, (c) the geographical area, (d) the distance between the loan centers and the borrowers' residences, (e) the nature of the business project in which the borrowers are engaged, and (f) the type of industry in which the borrowers engage (Mighri, 2013). Scholars like Pitt and Khandker (1998) and Meehan (2004) stress the impact of loan officers' failure to follow-up on the borrowers. Follow-ups ensure prevention of diversion of objectives and the public's wrong perception of the loaned funds being "cold money." Honlonkou et al. (2006) and (Morduch, 2000) are in agreement with the notion that loan officers' follow-up on borrowers is crucial to capturing the issues leading to default in their preliminary stages.

This research's findings, however, enlisted some contradictions regarding the essence of group lending. One of the major reasons for the Grameen model is to minimize operational costs that would otherwise inflate the interest rates and, thereby, cause loan defaults. Zeller & Meyer, (2002) agrees with the finding that while follow-up visits from loan officers improve loan repayment rates, they also increase the costs of operation and, consequently, elevate the interest rates to cover those costs.

Regarding the geographical location and distance between the loan centers and the borrowers' homes, the findings from this study showed that loan defaults are more frequent in long-distance lending relationships than in loans distributed closer to the loan centers. Loan centers are usually located in the cities; the level of default among the outdistanced agriculturists in the country are said to be higher. The geographical location further dictates on the weather and, therefore, the outcome of agricultural products for borrowers engaged in agriculture (Musshoff & Odening, 2009).

The literature mentioned the aspect of the size of the loan in relation to the entrepreneurial engagement. Honlonkou, Acclassato, and Quenum (2006) emphasized that the size of the loan plays a large role in the repayment process. The probability of loan default rises when the loan is insufficient for the intended objective.

The research portrayed some contradiction about the relationship between gender of the borrower and the loan repayment rate. The results indicated there was no significant difference in rate between the male borrowers and the female borrowers. This research's findings contradict the literature showing that gender is a significant contributor of loan repayment. Granger (2006) strongly disagrees, citing the fact that The Grameen Bank, which pioneered the microfinance initiative, is 90% woman-owned. The success was partly attributed to the gender composition of the borrowers.

Other contributors to loan repayment that surfaced in the findings of the research were the marital status, size of the families, and level of education. Families with a larger number of children have been associated with lower loan repayment rates. The level of education, on the other hand is associated with creativity and structured problem solving capacity (Hardy, 2007) all of which contribute to better repayment rates.

The research study employed a qualitative methodology with open-ended, semi-structured telephone interviews with eight members of microfinance management and one microfinance recipient. The choice of methodology was guided by various factors which included the personality of the researcher and the objective of the study. Creswell (2009) contends that the qualitative methodology capitalizes on understanding social issues and the meaning people attach to such issues. In other words, the methodology capitalizes on the people involved more than the meaning attached to social issues. This perspective lines up with the purpose of this research which entailed gathering microfinance management's perspective on their role and contribution in improving the microfinance process through the reduction of loan default.

Establishing the perspective of microfinance management on their role and contribution to the improvement of the microfinance process would leave much to be desired without establishing the reasons for microloan default. Various scholars have come up with many ways to improve the microfinance process; however, the specific means for improving the microfinance process in this study was the reduction of loan default with special emphasis on the group lending with joint liability model of loan delivery.

The findings of this study were guided by six themes which include the performance of group lending with joint liability, experiences with social tension and violence, effects of the 2010 microfinance crisis in India, the causes of loan default and the possible ways to reduce the loan default. The themes were developed from a microfinance management perspective; however, causes of microloan defaulting and ways to reduce loan default in the lending model, are the two major themes that directly inform the conclusion of the research study. These two themes will, therefore, be the focal point in this chapter.

The focus study was the Grameen model which is also called group lending with joint liability. This model emphasizes lending to groups of like-minded clients within the same locality who would be mutually responsible for the weekly loan repayments. The essence of mutual responsibility, also termed as joint liability, is such that if one member defaults, all members are liable for the repayment of that portion of the loan. Due to the mutual responsibility clause, members have the obligation of looking over one another's business activities to ensure that none is engaging in activities that potentially could lead to loan default. The peer pressure created in the process contributes to the high loan repayment rates in the microfinance process.

While the model has been credited with the excellent performance of microfinance, it gives rise to the social tension that was mentioned by all the participants in the study. Many participants mentioned that they had not experienced suicides or murder of the defaulters, although they had read about it in the news reports about the Andra Pradesh ordeal of 2010. They all noted that simply because they had not experienced it with their borrowers did not mean those situations do not exist; furthermore, the Grameen model design insisted that the clients make weekly loan installments. This creates high collection costs for the microfinance institutions, many of which have opted to modify to monthly payments and other forms of group lending. The modifications are said to improve the understaffing issue which were raised in the findings of this research as one of the reasons for loan default.

Other modifications of the Grameen model include (a) group lending with individual liability (b) individual loans with joint liability, (c) individual loans with a co-guarantor, and (d) group loans with individual liability. Different microloan recipients are at different levels on this journey. Some are just joining microfinance and others have been with the programs for a while. Other have excelled in performance and some have stalled. The modifications are not only to reinforce loan repayments, but also to respond effectively to individual customers. Each customer has different needs regarding the most applicable product portfolio designs.

That said, an understanding of the causes of microloan default provided a foundation for the establishment of the perspective of microfinance management regarding their role and contribution toward microloan default reduction. The reasons for loan default were categorized in three main groups: borrower-related, institution-related, and external factors. Borrower-related causes originate from the borrower. Institution-related factors include (a) poor loan appraisals, (b) poor customer service, (c) poor product design, (d) high interest rates, (e) inflexible repayment terms, (f) poor communication, (g) bad relationship with clients, (h) unclear repayment plans, (i) lack of incentives for high performance, (j) a close policy management approach, and (k) uncommitted teams. External factors include those resulting from (a) natural causes, (b) government intervention, (c) unfavorable economic conditions, and (d) other things which are beyond the institution or the borrower's control. Natural causes include unfavorable climatic conditions, flood, and droughts.

All participants in this study observed that the group lending with joint liability model performed well and is the reason for the high loan repayment rates experienced in the microfinance process. They also unanimously agreed that the Grameen model is the cause of the noted social tension and violence generated through peer pressure as a result of the joint liability clause.

The findings of the management perspective of their role and contribution to the reduction of loan default and, consequently, the violence and social tension associated with it in the Grameen model of microfinance were fourfold:

First, management stressed the aspect of empowering the loan officers by supplying them with the proper tools to help them excel in their work. The tools that emerged in their perspective include (a) adequate training, (b) open policy management, (c) adequate staffing, supplies, and (d) the means to contact customers in a timely fashion.

Second, management felt the need to run campaigns not only of spreading the word about microfinance loans, but also to encourage all microfinance institutions to register with the few existing credit agencies. From this association, MFIs will be able to share information about the credit history of the prospective customers. This effort will help combat borrowing multiple loans.

Third, management felt that high interest rates contribute to loan defaults; therefore, they felt that it was the responsibility of management to try to keep interest rates low. This role showed a split in opinion among participants. The split was a product of the participating institutions' motive for being in the business of microfinance. Of the participants, 20% came from for-profit organizations. The other 80% represented MFIs which were non-governmental organizations (NGOs) with both humanitarian and faith bases. Of the NGOs, 20% came from International NGOs while the remaining 80%

though local NGOs. Central banks set the rates of the participating for-profit organizations. All the participants questioned the cost effectiveness of the approach when the loan repayment rates are above 90%; therefore, they did not think that this would be easy to reinforce from their functional roles.

Fourth, management emphasized the significance of performing constant research within the individual organizations and also in the industry. This will help them establish the customers' needs and then design product portfolios tailored to such needs. Ongoing research within the MFIs will also help ensure microfinance processes' smooth continuity of the chain of operations to ensure responsibility. Microfinance today is a competitive business for which management felt an obligation to perform research to establish and follow industry trends.

Limitations of the Study

This study's limitations lie in the method used for recruiting participants, the number of community participants, and the data collection method. The participating organizations were randomly selected from a list of MFIs in Uganda, the United State and India; however, the strategy of random sampling was not applicable when recruiting the individual participants. Usually only one member of management in an organization is responsible for field operations. There is no clear-cut answer to the question regarding differences in the outcome if random selection had been used from organization selection through to participant selection; however, it is possible that the outcome may have been different.

This study focused on the side of acquiring the perspective of management on their role and contribution to the improvement of the microfinance process. Of the participants, 90% were from the microfinance management team; however in the process of establishing the reasons for loan default, the microfinance recipients' perspective was deemed useful to reinforce the quality of the outcome. One microfinance recipient was recruited from Uganda and one from India; however, due to a language barrier it was not possible to interview the Indian microfinance recipient. Only the Ugandan microfinance recipient was interviewed in the process. It is possible that a perspective of a recipient from India may have painted the picture differently and given more in-depth value to the outcome.

The method of data collection is the final limitation in this study. The study employed semi-structured, open-ended telephone interviews. In communication, facial expressions, gestures, and postures significantly validate verbal responses. Telephone interviews, however, do not give the advantage of matching the expressions and posture with the verbal responses.

Implications for Scholars

Although microfinance has existed for decades preceding the revolution of the phenomenon by Professor Muhammad Yunus, the industry is still evolving, The industry is, therefore, in the process of establishing how better to serve the poor. Theory behind the concept is at a nascent stage; more scholarly research is highly recommended. Scholars of microfinance, social scientists, and economists all agree that there is a dearth of both quantitative and qualitative data to qualify the big picture of microfinance. Additionally, more research could find the most appropriate means of measuring its performance.

There have been debates on the effectiveness of microfinance in poverty eradication. As Nghiem and Laurenceson (2005) assert, it is not only too early to discredit the impact of microfinance on poverty eradication, but also it is important to credit the evidence of its success. Over 53 years, billions of dollars of foreign aid have been pumped in sub-Saharan economies to promote economic development to no significant success (Dalgaard, Hansen, & Tarp, 2004). It is the responsibility of scholars and practitioners to study and shed more light on the gray areas of microfinance to provide sufficient grounds for reasonable judgment.

Implications for Practitioners

A conceptual study indicated that management's ability to "identify and manage future risks is the best predictor of long term success" (S. Padma, Suresh, & Vijayashree, 2012, p. 13). For the microfinance industry to thrive, the concept of sustainability is crucial. Regardless of whether the institution is in the industry for financial or social objectives, the notion of cost effectiveness is a significant driver; therefore, it becomes more challenging for the socially-driven institutions to establish where to draw the line. It is important that risk management permeates the entire industry. Management, as the top of the hierarchy, should not only lead, but take full responsibility for the system.

Recommendations for Practitioners

The study revealed that microfinance management in the offices may not have sufficient information to help improve the microfinance process. The loan officers at the grassroots level are the most important factors in this process. The study of loan officers' role at the community level would best inform further attempts to improve the microfinance process and the reduction of violence and social tension.

The observation in this study is that the Grameen model will be here for a while because of its significant contribution to the high loan repayment rates experienced in the microfinance process through peer effects. The model also helps engage a significant number of impoverished women in cultures that suffocate the entrepreneurial creativity of women. It also helps these women find the strength to participate in microfinance through peer support. There are recipients, however, who will perform well enough to qualify for individual loans while they still are interested in taking advantage of the peer support in the groups. The recommendation is the customization of portfolios in the microfinance process.

Summary

Entrepreneurship is one of the prominent sustainable ways of fighting poverty (Easterly, 2007). Entrepreneurship is only possible, however, with access to financial services. The uncollateralized poor are excluded from borrowing from the conventional banking system; therefore, microfinance is part of a global initiative for connecting the uncollateralized poor with needed financial services at affordable rates to help them fund their entrepreneurial dreams as a way out of poverty. With the turn of events in the global economy, sustainability is a critical factor in any means of poverty eradication.

Through microfinance, the Grameen model of credit delivery provides the poor with social collateral. It is a significant contributor to the high loan repayment rates in the microfinance process. Through the Grameen model, women that would never have ventured in business have been empowered to engage in small-scale entrepreneurship. The encouragement and peer support offered by the Grameen model of credit delivery has created a way out of poverty.

The Grameen model through the joint liability clause and peer effects is the foundation of the microfinance success. The model also has created a basis for violence and social tension in cases of loan default among the poor communities engaged in microfinance (Sriram, 2012). The purpose of this study, therefore, was to establish the role and contribution of management in reducing the loan default and, thus, the violence and social tension associated with it.

While microfinance began as a social and humanitarian-driven mission, recent success of group lending with joint liability has attracted profit-motivated institutions into the industry. This motivation difference makes it difficult to establish a consistent management perspective regarding their role and contribution to the reduction of the loan default rates. This discovery calls for more research.

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Appendix A

Informed Consent

Colorado Technical University.

Title: A Qualitative Study of the Role of Microfinance Management

Researcher: Agnes Bamuwamye

Contact: 1-201-889-4402

Research Consent Form

You are being asked to take part in a research study in an effort explore the role of microfinance management. This will investigate management's perceived role in the eradication of violence and social tension as a result of loan defaulting in the group lending with joint liability model of credit delivery in the microfinance process. The study will also endeavor to establish the contribution of microfinance management in the eradication of the violence mentioned above.

I am asking you to take part because you are a leader and, therefore, a decision-maker in the microfinance industry (MFI). Please read this form carefully and ask any questions you may have before agreeing to participate in the study.

Purpose of the Study:

The purpose of this study is to establish the role and contribution of microfinance management in the improvement of the microfinance process.

Expectations:

If you agree to participate in this study, the researcher will conduct one one-hour telephone interview with you at your convenience in the next six (6) weeks. The interview will ask questions about your perspective of the violence created by loan defaulting in the group lending with joint liability model in the microfinance process. The session will consist of an introduction and the actual interview. With your permission, I would also like to audio and video record the interview.

Risks and Benefits:

The researcher does not anticipate any risks to you for participating in this study other than those encountered in day-to-day life. There are no direct benefits to you for participating in this study.

Compensation:

There is no compensation for participating in the project; however, the solutions could help improve the microfinance process.

Confidentiality:

The records of this study will be kept private. In any sort of report that becomes public, the researcher will not include any information that will make it possible to identify you. Research records will be kept in a locked file. Only the researcher will have access to the records. If the researcher records the interview, she will destroy the tape after it has been transcribed. Transcription is anticipated to occur within two months of its recording.

Voluntary Participation:

Participating in this study is completely voluntary. If you decide not to participate, it will not affect your current or future relationships with the researcher.

Questions Regarding the Study:

The researcher conducting this study is Agnes Bamuwamye. Please ask any questions you have now. If you have questions later, you may contact Agnes Bamuwamye at Bikyukato@hotmail.com or at 1-201-889-4402. If you have any questions or concerns regarding your rights as a participant in this study, you may contact the Colorado Technical University (CTU) Institutional Review Board (IRB) at 1-719-598-0200. You will be given a copy of this form to keep for your records.

Informed Consent:

I have read the information in this form. I have received answers to my questions at the time of receiving this consent form. I consent to participate in this study.

Your Signature ____________________________________ Date

____

Your Name (printed)

____

In addition to agreeing to participate, I also consent to having the interview audio and video recorded.

Your Signature ____________________________________ Date

____

Signature of person obtaining consent ______________________________

Date ______________________

Printed name of person obtaining consent ________________________________

Date ______________________

This consent form will be kept by the researcher for at least three years beyond the end of the study and was approved by the IRB on July 11, 2013.

Appendix B

Interview Protocol

Research Questions: R1 How do managers view their role in the microfinance process? R1a. How do microfinance managers describe their roles and responsibilities? R1b. In what areas of microfinance do managers see room for improvement?

1) How would you describe the process and model for group lending with joint liability?
2) How would you describe the performance of this process and model?
3) In what areas of this process do you see room for improvement for the lending institutions?
4) In what areas of the process do you see room for improvement for the borrowers?

Research Questions: R2 How do managers think their actions affect loan defaults and the subsequent negative results? R2a. What factors do microfinance managers describe as reasons for loan default? R2b. How do managers relate their roles and responsibilities to loan defaults?

5) How would you describe your experiences (roles and responsibilities) with this process of group lending with joint liability?
6) To what factors do you attribute the three percent default rate?

7) What, if any, actions do you feel management could take to lower the default rate?
8) One of the ordinances in October 2010 restricted lender's ability to meet with customers about loans. How, if at all, do you feel this affects your role in this process of group lending with joint liability?