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Dictating Change, Shouting Success: Where is Accountability?

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Keywords
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Dictating Change, Shouting Success: Where is Accountability?

Ashfaq Khan[1]

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Key words: Not-for-profit sector, organisational change, controlling and dependent organisations, regulations

JEL Classification:M40.

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Introduction

The primary purpose of microfinance is to provide loans of small amounts to poor people at an affordable interest rate, to help them start a small business and get out of poverty. However, after the paradigm shift of the 1990s in the finance sector, microfinance organisations have to strive not only to accomplish their primary objective, but also to keep their other stakeholders happy and content. DiMaggio and Powell (1983) and Meyer and Rowan (1977) argue that an organisation can ensure its success and long-term survival if all its policies and procedures conform to the local social values, and the benefits to the local community of its overall operations meet the community's expectations. This ensures that the organisation is sustainable and legitimate in the eyes of the general public, and thus eligible for the community's scarce resources. The following section will examine the welfarist approach to microfinance, which was the predominant approach until the mid 1990s. The paper will then discuss the shift in paradigm from the welfarist approach to the institutionist approach, and how this shift could ultimately jeopardise the microfinance sector's success in achieving its core objectives.

The commercialisation of the microfinance sector is a relatively new phenomenon, and carries a negative connotation for some academics of exploiting the poor. However, many professionals in the field advocate the concept, and refer to it as "the application of market-based principles to microfinance" or "the expansion of profit-driven microfinance operations" (Charitonenko & Afwan 2003, p. 2). These professionals argue that the limited outreach of microfinance services around the world makes it necessary to introduce the sector to commercialisation principles so that MFOs can meet the ever-expanding demand for microfinance services on a sustainable basis (Charitonenko & Afwan 2003).

Charitonenko and Afwan (2003) described the completion of microfinance commercialisation as a four-step process. First, the MFO changes its approach to its overall administration and operation from not-for profit to for-profit. At this stage, the institution diversifies its product-line, introducing new financial products according to the needs of its target clients. Second, the institution strives for operational and financial self-sufficiency. This involves keeping all costs at the lowest possible level, but without any negative impact on the level of its outreach. Third, instead of looking around for subsidised financial resources, the institution tries to generate market-based funds to meet its capital requirements. This may include seeking loans from other mainstream commercial institutions, mobilising voluntary savings and resorting to other non-subsidised sources. Fourth, the institution changes its overall approach and adopts commercialism in all its policies and operations. In other words, it tries to work alongside other mainstream commercial institutions and attract equity investment from commercial sources. This, however, may make it subject to government regulations and supervision.

The paper is informed and the empirical data[2] explained using a theoretical framework from Laughlin's (1991) model of organisational change. The data collected for the case study shows that the Microfinance Division of the Aga Khan Rural Support Programme (AKRSP) went, more or less, through the four steps listed above to reach full commercialisation. The

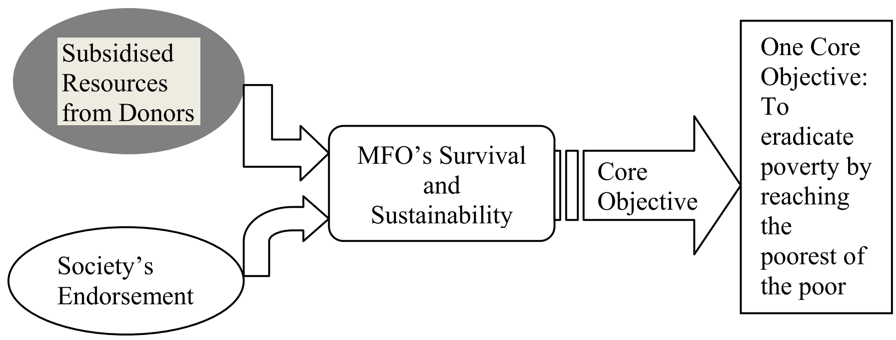
[2] This study is part of a larger study in which semi-structured interviews were conducted in Pakistan with the members of the top- and middle-level management team at both the AKRSP and the FMFBL to collect empirical data; in addition, print media (newspapers and magazines), annual reports, minutes of meetings of the board of directors and archival documents, were consulted for secondary data. Full details of the empirical data are not given in this paper for reasons of space.

AKRSP[3], however, had to transform into a completely different organisation to complete the commercialisation process.

The Paradigm Shift

Traditionally, the long-term survival and sustainability of MFOs have been largely dependent on the provision of subsidised financial resources from the international donor community. Their Subsidy Dependence Index[4] indicates their extremely high level of dependence on the continuous inflow of subsidised funds (Yaron 1994). Thus, MFOs' long-term survival and sustainability has depended primarily on two factors: the provision of subsidised financial and non-financial resources and the general public's support (i.e., society's endorsement).

Figure 1
Diagrammatic representation of MFOs' sustainability arrangements *before* the changed environmental conditions



The various types of subsidies to MFOs have included low-interest loans from the government or donors, government absorption of foreign-exchange losses on loans denominated in foreign currencies, reimbursement of operating costs by donors, exemption from reserve requirements or forced investment in government securities, and obligatory deposits by other financial institutions at below-market interest rates (Yaron 1994). Figure 1 shows the prerequisites of a MFO's long-term survival and sustainability.

The financial resources needed by the microfinance sector have been far beyond donors' ability to provide without any provision for repayment. The most recent estimates put the market demand for microfinance services at US$300 billion, while the supply was a meagre US$4 billion (Meehan 2005). Without withdrawing the helping hand altogether, the donor community considered it essential for MFOs not only to cover their operational costs but also to earn profits to sustain their operations. They wanted the sector to sustain itself by controlling costs and ensuring profitability while still operating under the donors' supervision and help – a system

[3] The name 'Aga Khan Rural Support Programme' refers in this paper specifically to the Microfinance Division of the AKRSP.
[4] An MFO's SDI shows the extent of its dependence on the availability of subsidised funding (Yaron 1994, p. 56).

often referred to as the financial-system approach. The idea was that MFOs' profitability would attract private investment, which was essential for enhancing the outreach of the microfinance efforts. Donors now wanted to ensure that MFOs show operational and financial efficiency and demonstrate efficient use of the funds already at their disposal before allowing them further financial assistance (Rhyne & Otero,1994; Yaron, McDonald & Charistonenko 1998).

As discussed above, microfinance (often referred to as "microcredit" in the literature) was originally used as a poverty-reduction tool by non-government organisations (NGOs), and depended heavily on donors' support in the form of subsidised financial resources (Armendáriz & Morduch 2010; Yaron 1994). The performance of MFOs in achieving their primary objective of eradicating poverty had been discouraging. Morduch (1998) argued that despite the remarkable attention being paid to microfinance as a tool to eradicate world poverty, the real achievements of microfinance were questionable. Cernea (1993, p.12) revealed that 13 out of 25 World Bank projects in Asia, Africa and Latin America had no long-term developmental impact on their respective areas of operations, and had failed to benefit their respective communities.

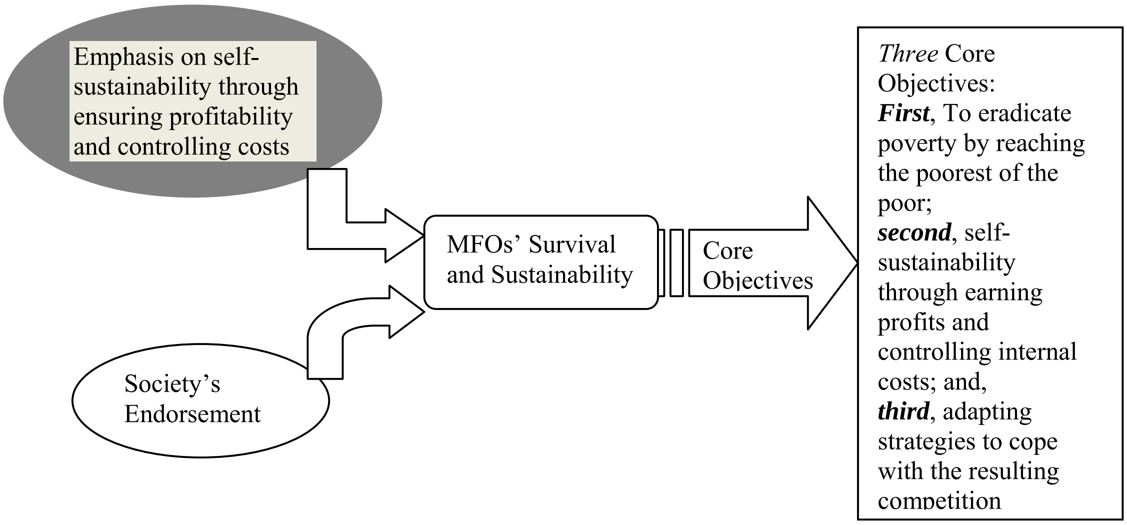
In the early to mid-1990s, the donor community started changing their approach to the sustainability of MFOs, from providing subsidised financial resources to emphasising MFOs' profitability and self-sustainability (Hermes & Lensink, 2007; Robinson 2001, 2002). The idea was that subsidies would be provided to cover start-up and expansion costs, and that MFOs' long-term sustainability would be achieved through revenues from their operations (Schreiner 2002). The shift in the donor community's thinking from a welfarist-based to an institutionist or financial systems-based approach can be traced back to this period (Baydas, Graham & Valenzuela 1997; CGAP 1996; Chaves & Gonzalez-Vega 1996; Dichter 1996; Fernando 2006; Gonzalez-Vega & Schreiner 1997; Robinson 2001, 2002; Rogaly 1996; Yaron 1994). As a result of this changed approach, the microfinance sector started to evolve, and the NGOs and other MFOs started experiencing two external environmental disturbances: stresses to profitability and to self-sustainability.

Profitability and Self-Sustainability Stressed

MFOs throughout the world now have to cope with the changing circumstances that have moved the microfinance sector out of the heavily donor-dependent arena of subsidised funding into one in which MFOs become part of the mainstream regulated financial system, and have to base their operations on the principles of commercialisation.

The literature suggests that MFOs will not reach their optimal level of operational and financial efficiency unless subsidised funding to the sector is withdrawn. To improve MFOs' profitability, they should be made self-dependent for their capital requirements. To ensure the maximum outreach to the world's poor with a variety of financial services, the microfinance sector now has to seek commercially available funds instead of looking for subsidised resources. As Figure 2 shows, taking savings deposits from the general public and attracting private-sector investment through high rates of return on investments are the two available options for MFOs to meeting their capital needs (Hubka & Zaidi 2005; Morduch 1999).

Figure 2
Diagrammatic representation of the MFOs' sustainability arrangements *after* the changed environmental conditions.



The 'Welfarist' Approach

The main objective under the welfarist approach is to reduce poverty through subsidised credit. The idea is to ensure the continuous inflow of subsidised financial resources to the sector. In addition, the intermediary organisations ─ in other words, the MFOs ─ must also ensure that loan recipients receive appropriate training in the prudent use of scarce financial resources and develop their skills in undertaking different business ventures. This approach also aims to create a general awareness of health- and education-related issues among poor borrowers (Armendáriz & Morduch 2010). Advocates of the welfarist approach argue that to alleviate poverty, all these financial and non-financial services should be ensured through the availability of subsidised resources (Ledgerwood 1999): unlike in the mainstream business sector, financial resources are provided at an interest rate substantially below the prevailing rate in the open market. However, as subsidised financial resources are limited, the number of poor households served also remains limited. In addition, the survival and sustainability of MFOs remain dependent on the provision of these resources on a continuing basis (Robinson 2001).

In opposition to 'institutionists', advocates of the 'welfarist' approach argue against charging the market interest rate on loans to the poor. The literature shows that many poor households who participate in microfinance programs cannot bear the burden of commercial loans at the market interest rate. Thus, it is not possible to simultaneously accomplish two contradicting objectives: first, ensuring profitability on the part of microfinance organisations through charging an interest rate that could cover all operational costs and make a profit; and, second, ensuring the eradication of poverty. The profit motive will overtake the service motive if MFOs emphasise profitability more than outreach and poverty eradication (Woller, Dunford, & Woodworth 1999). Also, as indicated earlier, MFOs' struggle to survive and earn profits, and their use of commercial tactics, translates into a reduced demand from the sector's intended beneficiaries – the poor (Armendáriz & Morduch 2010). This in turn means failure on the part of the sector, even though its constituents – the MFO's, may eventually be able to sustain themselves through generating profits.

Woller et al. (1999) argue that advocates of the 'welfarist' approach are not interested in banking per se. They merely want donors to keep providing subsidised financial resources to the sector. They argue that providing subsidised financial and non-financial resources to the economically active poor is the only way for international development agencies to fight world poverty, and that MFOs should not see the poor as a source of profit for their long-term survival and sustainability. Some researchers argue that more emphasis on 'cost recovery' and 'profitability' on the part of MFOs in order to survive and achieve sustainability in the long run would result in a deviation from the very purpose for which the program was initially developed: poverty eradication, which is primarily a social objective (Khan 2008).

The 'Institutionist' Approach

The 'institutionists' have a different scenario to present. Robinson (2002) argues that the success of MFOs – in both making a real dent on poverty through reaching a maximum number of poor households and ensuring their own long-term survival and sustainability – depends on their ability to adopt principles of commercialisation in all their operations. The approach finds its roots in the Ohio school of thought on microcredit (Hulme & Mosley 1996). The institutionist approach has proven to be a viable alternative to making financial services available to the poor on a large scale, while also ensuring MFOs' profitability and self-sustainability (Robinson 2001, p. 23).

Many of the subsidised microfinance programs have failed to improve the lives of poor households, as well as failed to realise the full benefits of the donor community's allocating its scarce resources to the sector (Fernando 2006; Rhyne & Otero 1994). Donors now want to make sure that the benefits from the available resources reach the maximum number of poor households. In addition, in order to encourage more inflow of financial resources, the sector has to attract private capital, for which it needs to show a reasonably high return on investment, at least more than the opportunity cost of private capital. This is possible only if MFOs switch to commercialism and ensure a scrupulous check on their operational and administrative costs and charge a market rate of interest on their loans.

However, MFOs' commercialism should not be limited to charging higher interest rates on loans only. It should also reflect in their overall operations and the variety of services they offer to the poor (Christen & McDonald 1998; Rhyne & Otero 1994) Advocates of the 'institutionist' or 'financial system' approach argue that by showing profits to society, an MFO can present itself as a legitimate recipient of the society's limited financial resources. If the organisation is able to pay back what it has borrowed from society, then it will be considered worthwhile from a social service point of view, and be deemed to benefit the poor community at no cost to the society.

Supporters of the 'institutionist approach' maintain that to achieve sustainability in the long run, MFOs have to adopt a 'financial system' approach under which the main objective is to achieve financial self-sufficiency (Hermes & Lensink 2007; Robinson 2001). The focus is on the MFO, and institutional success is gauged by the extent to which the institution is financially self-sufficient and subsidy-free (Woller et al. 1999). The idea, under the institutionist approach, is to pursue microfinance efforts through a large number of commercial institutions, with all their operations geared towards achieving profitability and long-term self-sustainability, instead of expecting subsidies from the donor community (Schreiner, 2002; Woller et al., 1999). Robinson (2001), an active advocate of the institutionist approach, argued that to diminish the wide gap between the available financial and non-financial resources and the potential demand MFOs would have to switch from a social service-oriented to a business-oriented approach.

Success of MFOs

The literature suggests there is no evidence of overall success of MFOs in eradicating poverty using subsidised financial resources provided by the international donor community (Rhyne & Otero 1994). Many MFOs, while trying to secure their position, impose a condition on poor borrowers of providing some assets as collateral. This apparently excludes the main category of poor households ─ those in the 'extreme poor' category, for whom the formal microfinance effort was originally initiated – as they normally do not possess any assets acceptable as collateral. In the case of Bangladesh, for instance, MFOs have been potentially excluding many of the deserving poor households. The overall outreach of MFOs in the country in terms of reaching those in the 'extreme poor' category can be ascertained from the fact that only about 25 per cent of all clients of MFOs can be classified as 'extreme poor' (Morduch 1999). Thus, MFOs cannot claim success in terms of the achievement of their primary objective of eradicating world poverty (Christen & McDonald 1998).

Braverman and Huppi (1991) and Morduch(1999) have also condemned MFOs for their apparent failure to accomplish their original objective of helping the poorest of the poor. Zaman (1999) studied the effects of the microfinance operations of the Bangladesh Rural Advancement Committee (BRAC) ─ a prominent microcredit provider in Bangladesh – on the overall level of poverty in the areas of its operations. He did praise the MFO's contribution to poverty reduction in the region, but claimed at the same time that its success was not unconditional. He concluded that the positive impact of the program was conditional on two factors: first, the size of the loans, as the increase in income of the poor recipients of the BRAC's loans varied substantially from borrower to borrower depending on the size of loan sanctioned to each borrower; and, second, the level of poverty of the household at the time of receiving the loan. Similarly, Servon and Bates (1998) argued that the performance of small businesses could be enhanced if a greater amount of capital is invested to start with. They found a positive correlation between a small business's performance in terms of profitability and the amount of capital initially invested to start the business.

The success of the microfinance effort can be looked at both from the MFOs' perspective and the borrowers' perspective. The following section will discuss the perspective of MFOs.

MFOs' Perspective

MFOs have to show profits to prove that their existence is not at the expense of their stakeholders ─ the donor community, the MFOs' staff and the society in general. To be considered successful, therefore, MFOs have to serve the poor and, through effective cost-control policies, provide an acceptable return on investment (Christen & McDonald 1998; Megicks, Mishra, & Lean 2005; Rhyne & Otero 1994). This will enable them to gain the confidence of the poor as well as other stakeholders, which, in turn, will boost their chances of attaining long-term sustainability and success (Megicks et al.2005; Schreiner,2002).

The introduction of commercialism to the sector places more stress on pursuing sustainability through lowering organisational costs and raising interest rates (Christen & McDonald 1998; Rhyne & Otero 1994). Rao (2003) asserts that:

> the main objective of microcredit schemes is to provide sustainable microfinance with economic development goals. If credit lending institutions can operate profitably and efficiently by targeting lending priorities for the asset-poor in order to elevate the economic status of such borrowers (often to remain above applicable poverty line) and without dependence on any significant financial subsidies, then the microfinance scheme may be deemed to operate as a sustainable microfinance. (Rao 2003, p.53)

The literature suggests that many MFOs do not fit into this new definition, which entails serving the poorest of the poor in large numbers as well as showing profits from operations (Morduch 1999; Short 2000). The poor expect to pay an interest rate that is normally insufficient to cover all of the MFOs' costs, keeping the MOFs financially dependent on the donor community (Morduch 1999). Their financial products are not market-driven and do not meet the specific requirements of the poor, which hampers their outreach (Megicks et al. 2005). The few MFOs that have been judged as successful have achieved that status because they were almost financially self-sufficient (Schreiner 2002).

The analysis of this situation reveals that there is a contradiction between the ultimate objectives of these institutions and those of the poor. The struggle of MFOs to earn profits and thus ensure their long-term survival proves to be in conflict with the objectives of the poor to secure cheap financial assistance and help themselves to get out of poverty. Since these organisations mostly provide services in remote rural areas and deal in very small amounts, their transaction cost per borrower is normally very high. In order to cover their costs and provide a steady return on their investments, these organisations must charge higher than the market interest rate, thus shifting the costs to already-vulnerable poor households.

Borrowers' Perspective

The success of MFOs can also be looked at from the borrowers' perspective. The literature on MFO performance suggests that their success in accomplishing their intertwined objectives of poverty eradication and self-sustainability is not yet clear. Some researchers claim these organisations have been successful in eradicating poverty (Khandker & Shahidur 1998; Kloppenburg,2006); on the other hand there is also some research that concludes that they have had minimal impact on poverty eradication (Morduch 1998).

While studying the poverty and famine issues in India and Africa, Dreze and Sen (1991) concluded that the poor differed from country to country in dealing with their poverty issues. They adopted different, complex strategies to fight poverty and manage their available financial resources according to their particular circumstances. Dreze and Sen (1991) conceded that due to this heterogeneous behaviour, borrowers are very unlikely to be brought out of poverty using a single credit-dominated financial strategy. Rather, they need a variety of tailor-made financial services to fit their specific circumstances (Dreze & Sen 1991).

Before the 1990s, microfinance was believed to be reaching the deserving poor. Since then, however, evidence has not supported this belief. In the case of Bangladesh ─ the original hub of formal microfinance, for instance – researchers concluded that many of the MFOs were not serving those in the 'extreme poor' category. A study by the BRAC's Research and Evaluation Division (RED) analysed the performance of its Rural Development Programs (RDPs) and found that about 41 per cent of the most deserving poor were not covered by any of the microfinance programs (Hasan 2003; Matin 2001). Few MFOs were incorporating innovative approaches to strengthen their operations and cover the extreme poor under their umbrella (Hasan 2003).

MFOs are left with two strategies to improve their performance: first, charge an interest rate high enough to cover their operational and administrative costs, including bad loan losses, and also provide a steady rate of return on their investments; and, second, take all possible steps to keep their costs at a minimum (Conning 1999).

Close monitoring of their loan portfolios can complement MFOs' struggle for long-term sustainability. As loans in the case of mainstream financial institutions are sufficiently covered by collateral, the level of security against defaults is much higher when compared to institutions in the microfinance sector. The concept of group lending, which is based on the element of joint liability of all group members, covers MFOs against such risks by reducing or eliminating possible losses from bad loans. In such types of lending the social relationships among members of the group serve as collateral to secure the loan (Ghatak & Guinnane 1999).

The Case of the AKRSP

The AKRSP[5] has been in operation in the northern part of Pakistan since its inception in 1982. It has been actively involved in providing microfinance services in the area through its Microfinance Division. The AKRSP offers an important opportunity for study, as it is a pioneer in the field of microfinance in Pakistan (Gloekler & Seeley; Hussein & Plateau 2003); moreover, after experiencing the external environmental 'disturbances' during the 1990s, as discussed above, the AKRSP's Microfinance Division successfully adapted itself to the new environmental conditions (Hussein & Plateau 2003).

The Microfinance Division of the AKRSP, in response to the requirements of the donor community to provide for its own long-term sustainability, had to ultimately transform itself into an entirely new commercial setup ─ the First Microfinance Bank[6] (FMFBL). The president of the First Microfinance Bank Limited said donors did not want MFOs to remain donor-dependent for the life of the institution, but wanted them to be self-reliant in the long run, and look for other sources of funds, such as mobilising savings, to finance their operations.

The AKRSP's credit programme, which started in 1983, was confined to short-term loans, used mainly for agricultural inputs. Later, four additional loan products were introduced: medium-term loans, the Village/Women's Organisations Credit Programme (V/WOCP), the Enterprise Credit Programme (ECP) and the Corporate Village Organisation Credit (CVOC). These products remained on the 'active products' list until the end of 1998 (Table 1). In early 1999, during the AKRSP's reorientation phase, these credit products were consolidated. The collateralised credit products (short- and medium-term loans and the V/WOCP) were merged and called group loans, while the Enterprise Credit Programme (ECP) became individual loans. The

[5] The Aga Khan Rural Support Programme (AKRSP) was established in 1982 in the northern region of Pakistan with the primary objective of eradicating regional poverty.
[6] The author has conglomerated some of the primary data through interviews with officials at the AKRSP and the FMFBL.

CVOC product was closed altogether along with short- and medium-term loans (AKRSP's Internal Policies and Procedures 2000).

Table 1
Savings and Loan Products at the AKRSP, 1982-2001.

Loan Product	Year of Launch	Year of Withdrawal[7]	Interest Rate
Short-Term Loans	1983	1999	9%
Medium-Term Loans	1984	1999	8%
Group Loans to VOs	1989		15%
Enterprise Credit Loans (ECL)	1992		16%, raised to 24% in 1998[8]
Corporate Credit Loans	1996[9]	1999[10]	Varying Market Rate
Business Committee Loans	2000		Varying Market Rate

Source: Adapted from Hussein and Plateau, 2003.

The AKRSP, after its initial adaptation to its 'changed environment', ultimately transformed into a new, independent commercial setup: the FMFBL. The new position of the AKRSP's 'interpretative schemes', 'design archetypes' and 'sub-systems' (Laughlin 1991) showed that an entirely new organisational setup had been born.

Commercialisation and Accountability

Advocates of non-commercialism in the microfinance sector argue that pressuring MFOs to control costs and move to self-sustainability may result in their drifting from their primary objective of eradicating poverty (Khan 2008). The empirical data collected for the study reveals low outreach after the AKRSP's Microfinance Division transformed became the First Microfinance Bank Limited (FMFBL). For instance, participant no. 10, a regional manager at the Rural Support Programme Network, said that since the change, every branch was now trying to be profitable because their performance was judged by their contribution to the profitability of the bank and by how they met targets for cost control (including staff costs) and profitability. Since the work is now done by a limited number of staff and cost control and profitability are the foremost priorities, it is not possible to achieve that level of outreach that had previously been possible. The participant also said that:

[7] The management's push to disburse an increasing number of loans during 1997 and 1998 resulted in high levels of loan delinquency by 1999, necessitating withdrawal of some non-performing loan products.
[8] During the AKRSP's reorientation phase, interest rates on some loans were raised to cover operational costs and provide for financial sustainability.
[9] Corporate loans were introduced after the change initiated at the AKRSP in the quest for improving profitability and ensuring self-sustainability.
[10] This loan product was withdrawn due to its large size, high level of loan delinquency and staff's inadequate appraising expertise.

> …although the bank is gaining strength and sound financial footing, so what? From the poor people's point of view 'to hell with it'. There is no shortage of good commercial banks in the country; the poor want the services that are specifically for them, like the AKRSP was providing.

Participant no. 13, the president of the First Microfinance Bank Limited, commented that the bank's objectives had become totally different, and that the real mission – poverty alleviation – had been sacrificed, because in commercial microfinance, the MFO didn't normally lend to the poorest of the poor because of the high costs involved. He further added that:

> …we believe that microfinance should not be purely on commercial terms and it should not deviate from its main objective of poverty alleviation. Microfinance should fulfill the needs of the poor people as well as those of the institution.

The AKRSP's management openly expressed its concerns and raised several questions at the Board of Directors meeting prior to the AKRSP's transformation into a commercial bank: "…how will the [FMBL] ensure the continuity of this mission given that it would be a national level bank? The bank is a commercial institution, so how will it maintain a commitment to poor people? If the bank's objectives come in conflict with each other, how would such a conflict be resolved? For example, would unprofitable branches in the NAs/C (Northern Areas and Chitral) be closed down?" (AKRSP's BOD Meeting,26th May, 2001).

The board members also expressed their concerns about the future of the AKRSP itself. It was resolved in the meeting that the AKRSP should not end up in a situation where it would have to start up a new microfinance programme because the bank could not serve the Northern Areas and Chitral (NAC).

Theoretical Underpinnings

Under normal circumstances, organisations have to respond positively to external pressures and adapt to cope with the dictated conditions to ensure their survival. This pressure is referred to in the literature as institutional isomorphism. Meyer and Rowan (1977) defined institutional isomorphism as:

> the process by which organisations are driven to incorporate the practices and procedures defined by prevailing rationalized concepts of organisational work and institutionalized in society. (Meyer and Rowan 1977, p.340)

Institutional isomorphism occurs when organisations are driven to follow institutional norms and values set by leading players in the same industry to ensure their long-term survival and sustainability. Organisations that directly or indirectly depend on other independent entities for financial and/or non-financial resources must respond positively to the external environmental disturbances (Laughlin 1991) created by these independent entities' changes in policies to survive in the long run. The case of the AKRSP is no different in this regard. Laughlin (1991) argues that an organisation's 'interpretative schemes' are of utmost significance in keeping an organisation's elements intact and bound together. External pressure for an internal organisational change can disturb an organisation's basic coherence, that is, its 'interpretative schemes'. This leads to a new organisational ethos in the form of new set of 'interpretative schemes', which is incompatible with the organisation's existing 'design archetypes' and 'sub-systems'. This, in turn, necessitates changes in the organisation's 'design archetypes' and 'sub-systems'. The extent of these changes depends on the extent of change in the 'interpretative schemes'. The new position of the AKRSP's 'interpretative schemes[11]' after its transformation to the FMFBL was entirely different, necessitating a widespread change in the remaining two organisational elements. In other words, to cope with the external changed circumstances, the MFI had to surrender its original identity in the face of the 'unchecked' externally dictated conditions.

Conclusions

The literature suggests that demand for microfinance services will go down if interest rates charged by MFOs goes up; indeed, this t has happened since the shift in donors' approach to the sustainability of the sector (Dean & Jonathan 2008). The paradigm shift from a welfarist approach to an institutionist approach in the microfinance sector has largely gone unchecked. This paper argues, in light of the above discussion and an examination of the case study of the AKRSP, that the claimed 'success' of MFOs after the paradigm shift will remain under scrutiny if commercialist principles are enforced and their survival and sustainability are made dependent on their capacity to generate profits. Instead, this paper contends, they ought to meet the needs of the 'target poor' they are designed and formulated for to be regarded as successful.

While the new commercially driven organisational setup claims to be successful and boasts to be a high achiever, the real success of the MFO in terms of achieving its original objectives of reaching the poorest of the poor will continue to be questioned by academics and scholars. The question remains to be answered: are the poor better off now or before the change in the donors' approach? The above discussion logically suggests the poor were better off before the change, and the MFOs and donor community after[12]. The authors recommends further studies to quantitatively measure the performance of the AKRSP, with the main objective being to ascertain its success, in terms of outreach and impact on poverty, before and after its transformation to a purely commercial setup.

The evidence so far suggests that if a dependent organisation/sector is left helpless in the face of externally dictated pressure for change, an outcome favourable to both the sector and its constituents might not be possible; thus, the process may need the intervention of an independent regulating agency.

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[11] The empirical data suggests changes in all three organisational elements of the AKRSP. Trochim's (1989) 'Pattern-Matching' and Yin's 'explanation-building' (1994, p. 110) models were used to establish themes and extract trends from the data.

[12] The author intends to undertake an empirical study on the quantitative analysis of the real benefits of the AKRSP's transformation to a commercial bank in terms of the program's outreach and impact before and after the change.

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