



**COMPLIANCE OF MICROCREDIT AUTHORITY RULES, 2010:
A STUDY ON SELECTED NGOs**

By

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ID No. 12172005 (4th MAGD)
IGS, BRAC University, 2013

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STATEMENT OF THE CANDIDATE

In accordance with the requirements of the degree of Master in Governance and Development in the Institute of Governance Studies, BRAC University I present the following dissertation entitled “*Compliance Of Microcredit Authority Rules, 2010: A Study On Selected NGOs*”. This study was performed under the supervision of Professor M. A. Baqui Khalily, Ph. D.

I hereby declare that the work submitted in this dissertation is own and based on the results found by survey. Materials of work found by other researcher are mentioned by reference. It is hereby declared that this dissertation or any part of it has not been submitted elsewhere for the award of any degree or diploma.

March, 2013

Mohammad Moshiur Rahman

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ABSTRACT

Compliance of Microcredit Authority Rules, 2010: A study on selected NGOs

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In view of the latest controversial activities of NGOs like Grameen Bank, the purpose of the study is to determine the level of compliance in Microcredit Authority Rules, 2010 in five microfinance institutions and to identify the barriers in complying those.

The study is conducted following the multiple-case study research method with interpretive epistemology (Yin, 2003). Data has been collected mainly using semi-structured interviews, participant observations and document review from five microcredit organizations (ranging from small to medium) in Bangladesh.

The findings confirm that Microfinance Institution have a high level of compliance with the Microcredit Authority Rules, 2010. Higher compliance was observed in the area of management and organogram, maintenance of accounts, rights of the clients, deposit and duration rules. But moderate compliance was remarked in case of service charges on loan particularly allowing a rational rate of rebate for prepayment of the entire outstanding loan.

CHAPTER 01: SETTING THE STAGE

Background and Significance

Bangladesh has been known as the birthplace of microfinance. Its contributions to the economy have markedly increased during the last decade. Microfinance as a concept is not new. But it did not draw the attention of the professionals, international agencies, and policymakers until microfinance as a concept for poverty alleviation through institutional mechanisms was globally perceived (Khalily B, 2004). Bangladesh, with a total population of almost 160 million, is one of the world's most densely populated countries. In 2012, 31.50% of the population was living under the national poverty line, i.e. earning less than \$1 per day. The GNI per capita for 2012 was at \$848. The literacy rate for Bangladeshi was 57.9 and life expectancy at birth was 67.2 years in 2012 (Economic Review, 2012). The country's poverty has various dimensions which are apparent in terms of inequality in income distribution, dramatic increases in the cost of living, malnutrition by the vast majority of the population and unemployment and internal migration. To overcome the poverty problem government and NGOs is working collaboratively. Microfinance operation is the private sector vital one as we are lacking of big investments and industrialization.

Microfinance entails the delivery of financial services (such as deposits, loans, payment services, money transfers and insurance) to poor and low income households and their micro-enterprises. Microfinance institutions (MFI) now play a key role in the fight against poverty by helping poor households build their income and assets (Zaman, 2004).

Credit delivery has been the main driver for the creation of MFIs in developing countries (for instance in Bangladesh). Now in order to achieve self-sufficiency (reduce donor dependency) it is important for MFIs to mobilise savings as well. Savings will also help MFIs increase their lending activities and so allow for more growth. This in turn may permit higher profit margins and generate competitive strength (Nazirwan, 2004).

Fighting against poverty has long been going on through the concept of providing small amounts of money as a collateral free loan to economically marginalized communities which have no access to formal financial services. One of the main underlying assumptions of the concept is that the receiver of the money will be able to uplift the economic condition of the household through creating self-employment with this manageable amount of money. The

concept also includes the belief that through involvement of lending-repayment process with different socio-cultural activities, empowerment and social development would take place in the community, especially for women (Yunus, 1998). Since the innovation of this concept in the 1970s with the name of microcredit a tremendous movement of implementation of the concept has occurred especially in the least developed countries throughout the globe. It is said that no single poverty intervention programme has ever reached such a wide coverage anywhere in the world as microcredit (Ahmed, 2004).

Statement of the Problem

The Bangladesh government recently announced that it will form a committee to investigate allegations of “financial irregularities” against Grameen Bank, a microfinance institution (MFI) started in Bangladesh by Dr Muhammad Yunus and the parliamentary standing committee on the ministry of finance will sought explanation of why Grameen Bank is not being operated under the Microcredit Regulatory Authority Act, 2006. (www.microcapital.org, 24.12.2010).

In 2011, about 1,200 MFIs operate in Bangladesh, catering to over thirty millions clients. Of the organisations, only about 550 are registered with MRA. Bangladesh has played a pioneering role in innovating modern microcredit system, and also has become the first country in the world to have set up a regulatory body to regulate the industry. Now stronger monitoring of micro-credit activities needed to free the sector of corruption and irregularities. Corruption and irregularities have penetrated the activities of microcredit organisations (www.thedailystar.net, 12.06.2011).

However, controversy is there that some people were using the sector for making huge profits. Besides, some top officials maintain luxury lifestyle without giving much attention to the wellbeing of the MFI. Microcredit has little by little built up a social protection in the country, which cannot be destroyed by careless actions of a group of people.

Responsibility of the MFIs does not lie only in disbursing fund to borrowers. They have to ensure that the money flows to the sector. MRA should see what percentage of the budget of an MFI is being set aside for monitoring. The regulations should not be formulated just to regulate the sector; the regulatory agency should look what benefit the regulations are

bringing in for the industry and beneficiaries. Implementation of the regulations is also an important issue.

We have to accept that microcredit is a part of the formal financial system. Now MRA has to think how it can promote the sector instead of confining itself to regulation. Microcredit operations need prudential regulations. The legal framework does not only give the MFIs the lawful recognition, but it also helps with better management.

Microcredit has been one of the greatest innovations in the country. Particularly it opened huge employment opportunities in the rural areas. The rural economy now is not only based on agriculture, the villages are full of non-farm activities. The role of microcredit in this regard is noteworthy. There is no way to negate the role of microcredit. Now there is no cry for financing in the rural areas.

Microcredit is working as a tool for financial inclusion. It has given financial empowerment, building social and political awareness. Its role in women empowerment is incredible.

The irregularities and non-transparent way of running micro-credit programmes -- as alleged by the critics -- should be the villain of piece. But peace of the poor should not be forbidden by making micro-credit programme a villain (Bayes, 2011).

Statement of the Purpose

The purpose of the study is to determine the level of MFIs compliance in implementing Microcredit Authority Rules, 2010 and factors affecting to comply the rules.

Research Questions

1. What is the level of compliance among the Microfinance Institutions (MFIs) with the Microcredit Authority Rules, 2010?
2. What are the factors affecting MFIs compliance with the Microcredit Authority Rules, 2010?

Definition of Variables

For the purpose of the study, the following terms are defined:

Microfinance: Microfinance is an economic development approach that involves providing financial services, through institutions, to low-income clients, where the market fails to provide appropriate services. The services provided by the Microfinance Institutions (MFIs) include credit saving and insurance services. Many microfinance institutions also provide social intermediation services such as training and education, organizational support, health and skills in line with their development objectives (Amin, M. R and Sheikh, M. R. I., 2011).

Micro-credit: It is a component of microfinance and is the extension of small loans to entrepreneurs, who are too poor to qualify for traditional bank loans. Especially in developing countries, micro-credit enables very poor people to engage in self-employment projects that generate income, thus allowing them to improve the standard of living for themselves and their families (Amin, M. R and Sheikh, M. R. I., 2011).

Throughout the study the term microcredit is used instead of microfinance. Microcredit is the original name of the programme that has been replaced with the term microfinance by most of the writers and practitioners these days as the programme includes components like micro-savings and micro-insurance with microcredit. The subject area of this study is about only microcredit not the other components of the whole programme. Because of the analysis of the study is on the credit component of the programme, the original and representative term microcredit is used throughout the study.

Micro finance Institutions (MFIs): A microfinance institution is an organization, engaged in extending micro credit loans and other financial services to poor borrowers for income generating and self-employment activities. An MFI is usually not a part of the formal banking industry or government. It is usually referred to as a NGO (Non-Government Organization) (Amin, M. R and Sheikh, M. R. I., 2011).

Compliance: The degree of constancy and accuracy with which a prescribed protocol is followed as distinguished from adherence or maintenance (American Heritage Dictionary, 2003). Compliance is operationally defined as the degree of constancy with which the MFIs follow the rules identified in the Microcredit Authority Rules, 2010.

Report Outlines

Chapter 1 - provides the background to the research and also lays the foundations of this research. The research purpose and justification for the research were discussed in board terms.

Chapter 2 - reviews literature currently available on the subject, in particular, different philosophies on what constitute compliance. Through the literature review, it also added the “sate of the art” for the body of knowledge, pointing out major findings of previous studies and areas or issues pertinent to future study. Through this review, research questions were developed.

Chapter 3 - discussed the research methodology. It provides justifications on why the Qualitative Model was chosen for this research. The sample sizes, research methods, case study and research ethical issues were also discussed.

Chapter 4 - presented a profile of the participants invited for this research. This chapter also discusses using grounded theory as the method chosen for data analysis and how the data analysis related to the research questions developed in Chapter 2.

Chapter 5 - is the final chapter. The purpose of this chapter is to link the findings from the data analysis to the literature review (Chapter 2) and draw conclusions related to the research questions. This chapter also discusses the implications of the findings to theory and practice and identifies areas for further research.

CHAPTER 02: RIVIEW OF LITERATURE

Many a times internet search was executed to find out literature about compliance, compliance theories and compliance of Microcredit Authority Rules. Uses term was “compliance”, “compliance theory”, “microcredit authority of Bangladesh”, “microcredit authority rules” and “microfinance”. Lots of literature was found about tax compliance and clinical studies. Few literatures were found about compliance theory. But no literature was found about Microcredit Authority Rules compliance.

What is Compliance?

Where there is a law or rules, there will be matter of compliance. According to WordWeb Pro, compliance means:

- Acting according to certain accepted standards
- A disposition or tendency to yield to the will of others
- The act of submitting; usually surrendering power to another

In general, compliance means conforming to a rule, such as a specification, policy, standard or law. Regulatory compliance describes the goal that corporations or public agencies aspire to achieve in their efforts to ensure that personnel are aware of and take steps to comply with relevant laws and regulations. (www.en.wikipedia.org)

According to WikiAnswer, compliance means:

- The act of complying to a desire
- The fulfilment of oversight criteria and/or standards of care necessary for license, certification, and accreditation.
- To be in compliance means to adhere to all laws, rules, and policies
- Compliance (regulation), the act adhering to, and demonstrating adherence to, a standard or regulation.

Regulatory compliance refers to systems or departments at corporations and public agencies to ensure that personnel are aware of and take steps to comply with relevant laws and

regulations. In general, compliance means conforming to a specification or policy, standard or law that has been clearly defined.

Compliance (or Adherence) is a medical term that is used to indicate a patient's correct following of medical advice. Most commonly it is a patient taking medication (drug compliance), but may also apply to use of surgical appliances such as compression stockings, chronic wound care, self-directed physiotherapy exercises, or attending counselling or other courses of therapy.

Compliance (psychology) is a form of social influence that involves a direct request, often by a person in need, such as a friend or acquaintance who asked for a favour, or a stranger who requests directions or the time of day (www.wiki.answers.com).

Certification or confirmation that the doer of an action (such as the writer of an audit report), or the manufacturer or supplier of a product, meets the requirements of accepted practices, legislation, prescribed rules and regulations, specified standards, or the terms of a contract. (www.businessdictionary.com)

Compliance is either a state of being in accordance with established guidelines, specifications, or legislation or the process of becoming so. Software, for example, may be developed in compliance with specifications created by some standards body, such as the Institute of Electrical and Electronics Engineers (IEEE), and may be distributed in compliance with the vendor's licensing agreement. In the legal system, compliance usually refers to behaviour in accordance with legislation, such as the United States Can Spam Act of 2003, the Sarbanes-Oxley Act (SOX) of 2002, or HIPAA (United States Health Insurance Portability and Accountability Act of 1996). (www.searchdatamanagement.techtarget.com)

Theory of Forced Compliance

One theory was found during internet search. According to Wikipedia, Forced Compliance Theory is a paradigm that is closely related to cognitive dissonance theory. It emerged in the field of Social Psychology. Forced Compliance Theory is the idea that authority or some other perceived higher-ranking person can force a lower-ranked individual to say or perform acts that violate their better judgment. It focuses on the goal of altering an individual's attitude through persuasion and authority. Leon Festinger and James M. Carlsmith (1959)

conducted an experiment entitled "Cognitive Consequences of Forced Compliance". This study involved 71 male students from Stanford University. The students were asked to perform a tedious task involving using one hand to turn small spools a quarter clockwise turn. The purpose was to make the task uninteresting and unexciting enough that none of the participants could possibly find it enjoyable. (www.psychclassics.yorku.ca/Festinger).

The experimental condition was to tell the subject before the experiment started that it would be fun, while the control condition was not setting expectations. The control subjects were asked to go to a room to be interviewed. The experimental condition involved giving either \$1 or \$20 to try to convince the next participant that the experiment was fun.

The results showed a significant difference between the groups. Another large difference was observed between the \$1 and \$20 groups. However, no significant difference emerged between the \$20 group and control group. The results indicate that the smaller reward group (\$1) had convinced themselves that the experiment was fun. In summary, this study concluded that if an individual performs an action that goes against what they initially believe, the belief will typically change. (www.psychclassics.yorku.ca/Festinger).

Reviewed Articles

One thesis was found about "Nursing Compliance with Standard Fall Prevention Protocol among Acute Care Hospital Nurses" in the internet (Thirumalai, A 2010). The purpose of that study was to determine the level of nursing compliance in implementing Fall Prevention Protocol (FPP) in an acute care hospital in a high fall risk patient population and to identify the barriers in complying. That study was important because falls are considered one of the nursing-sensitive quality indicators. The AACN Synergy model for patient care was used as the organizing framework for that study. A total of 24 nurses participated in the study, and a total of 29 high fall risk patients were assessed. The degree of compliance among nursing staff was measured using the modified Scripps Mercy Hospital Rounding Tool (Rounding Tool) for patients identified at high risk for falls. The modified Scripps Mercy Hospital Fall Prevention Intervention Questionnaire (Barriers Tool) was used to determine the nurses perceived barriers (Gutierrez and Smith, 2008). High-to-moderate compliance was noted. High patient turn over and proximity of patient assignments were the frequently cited barriers with hourly rounding cited as the most valued intervention to prevent falls. The study was

descriptive. The major limitation of the study was that for the Rounding Tool, only 29 cases of high risk were studied for determining the compliance level but it identified some important factors which could be developed for better compliance.

Another literature was found on tax compliance dynamics (Jon S. Davis, Gary, H and Jon D. Perkins, (2003). The paper analyzed the effect of social norms and enforcement on the dynamics of taxpayer compliance. They develop two models to evaluate the movement between classes of compliant and noncompliant taxpayers. Their analysis suggests that the effect on compliance of changing enforcement levels depends on whether the taxpayer population is initially compliant or noncompliant. Compliant populations are insensitive to changes in enforcement policies until enforcement becomes sufficiently lax, when they observed a sudden shift to high levels of noncompliance in equilibrium. In contrast, relatively noncompliant populations respond to increased enforcement by gradually increasing compliance. Then, when enforcement becomes sufficiently harsh, they find a sudden shift in equilibrium to very high levels of compliance. After the taxpayer population shifts from compliance to noncompliance, or vice versa, our models predict that returning to the previous enforcement policy will not cause the population to return to its previous state. On the whole, their models' results help explain why taxpayer compliance varies across time and across geographic regions, even under similar enforcement regimes (Jon S. Davis, Gary, H and Jon D. Perkins, 2003).

However, Microfinance Regulation refers to the set of legal rules that apply to microfinance. Supervision is the process of enforcing compliance with those rules. Financial service providers that take deposits need prudential regulation. This type of regulation protects their financial soundness and reduces the chances of their losing small depositors' money. Prudential regulation – which mandates, for instance, capital-adequacy requirements and rules for provisioning for loan losses – is relatively difficult, intrusive, and expensive because it involves understanding and protecting the core health of an institution.

Non-prudential rules – such as the screening out of unsuitable owners/managers or requiring transparent reporting and disclosure – tend to be easier to administer because governments do not have to take responsibility for the financial soundness of the organization (Sinha, F 2009).

According to a assessment and comparative analysis by Gallardo, J (2001) of World Bank, a primary reason for regulating and supervising traditional financial institutions is consumer protection for public depositors in financial institutions. Moral hazard issues arise because the

interests of financial institutions vis-à-vis the interests of consumers per se are not necessarily compatible. Individual depositors and investors may not be in a position to judge the soundness of a financial institution (the issue of asymmetric information), much less to influence that institution's management. Thus, an impartial third party which such as the state or one of its agencies is required to regulate and control the soundness of a country's financial institutions. Since bank failures and problems tend to be contagious and affect other banks regardless of their soundness, the protection of the whole banking and payment system becomes an additional objective of regulation and supervision.

The author also gave emphasis on a legal framework and regulation of the sector. According to him, a country's legal framework and governing principles of financial intermediation define the roles of its banking and financial sector regulatory authorities (such as the central bank, ministry of finance, or bank super intendancy), setting out rules for entry and exit of financial institutions, determining and limiting their businesses and products, and specifying criteria and standards for the sound and sustainable operation of the industry. Regulation (which usually refers to non-prudential regulation but may include prudential supervision in its broad general meaning) is not limited to rules set by the state alone. Regulation may include forms of auxiliary regulation and self-regulation by governing boards of financial institutions, their networks and associations, or apex organizations. Prudential supervision encompasses all measures by which regulators enforce compliance by licensed financial institutions with a given legal and regulatory framework, because licensing implies that the financial authority is vouching for or is prepared to assume responsibility for the soundness of the regulated financial institution which the public may be dealing with (Gallardo, J 2001). Thus setting a regulatory authority and rules is justified in Bangladesh.

The Microcredit Regulatory Authority and the Microcredit Authority Rules, 2010

The Microcredit Regulatory Authority (MRA) has been established by the Government of the People's Republic of Bangladesh under the "Microcredit Regulatory Authority Act 2006" to promote and foster sustainable development of microfinance sector through creating an enabling environment for NGO-MFIs in Bangladesh. MRA is the central body to monitor and supervise microfinance operations of NGO-MFIs. License from the Authority is mandatory to operate microfinance operations in Bangladesh as an NGO (www.mra.gov.bd).

Basic Features of the Microcredit Regulatory Authority Act, 2006

The Act is the basic skeleton of regulatory requirements, which has a scope to expand further by formulating rules. Following are the important areas which have been covered in the law.

- formation of the Authority
- duties of the Authority
- prerequisites of license for MFIs
- rights and responsibilities of MFIs
- deposit insurance fund
- governance of MFIs
- reserve requirement
- profit distribution
- operational requirement
- illegal activities and punishment

The Authority has drafted a set of rules and regulations under the coverage of the law, which is waiting for government approval. It is expected that this set of rules will help the sector to take a formal institutional shape. This draft has been finalized after thorough consultation with the sector at different levels. It addresses the issue of service charge, good governance, savings collection, merger, sources of fund, rights and responsibilities, reserve requirement and use of surplus fund, liquidity requirement, financial transparency, audit requirement etc., (www.mra.gov.bd).

The member-based Microfinance Institutions (MFIs) constitute a rapidly growing segment of the Rural Financial Market (RFM) in Bangladesh. Microcredit programs (MCP) in Bangladesh are implemented by various formal financial institutions (nationalized commercial banks and specialized banks), specialized government organizations and Non-Government Organizations (NGOs). The growth in the MFI sector, in terms of the number of MFI as well as total membership, was phenomenal during the 1990s and continues till today.

Despite the fact that more than a thousand of institutions are operating microcredit programs, but only 10 large Microcredit Institutions (MFIs) and Grameen Bank represent 87% of total savings of the sector and 81% of total outstanding loan of the sector. Through the financial

services of microcredit, the poor people are engaging themselves in various income generating activities and around 30 million poor people are directly benefited from microcredit programs.

Credit services of this sector can be categorized into six broad groups: i) general microcredit for small-scale self employment based activities, ii) microenterprise loans, iii) loans for ultra poor, iv) agricultural loans, v) seasonal loans, and vi) loans for disaster management. By 2011, 505 institutions have been licensed by MRA to operate Micro Credit Programs. But, Grameen Bank is out of the jurisdiction of MRA as it is operated under a distinct legislation- Grameen Bank Ordinance, 1983.

To bring Non-government Microfinance Institutions (NGO-MFIs) under a regulatory framework, the Government of Bangladesh enacted "Microcredit Regulatory Authority Act, 2006" (Act no. 32 of 2006) which came into effect from August 27, 2006. Under this Act, the Government established Microcredit Regulatory Authority (MRA) with a view to ensuring transparency and accountability of microcredit activities of the NGO-MFIs in the country. The Authority is empowered and responsible to implement the said act and to bring the microcredit sector of the country under a full-fledged regulatory framework.

MRA's mission is to ensure transparency and accountability of microfinance operations of NGO-MFIs as well as foster sustainable growth of this sector. In order to achieve its mission, MRA has set itself the task to attain the following goals:

- To formulate as well as implement the policies to ensure good governance and transparent financial systems of MFIs.
- To conduct in-depth research on critical microfinance issues and provide policy inputs to the government consistent with the national strategy for poverty eradication.
- To provide training of NGO-MFIs and linking them with the broader financial market to facilitate sustainable resources and efficient management.
- To assist the government to build up an inclusive financial market for economic development of the country.
- To identify the priorities in the microfinance sector for policy guidance and dissemination of information to attain the MRA's social responsibility.

According to the Act, the MRA will be responsible for the three primary functions that will need to be carried out, namely:

- Licensing of MFIs with explicit legal powers;
- Supervision of MFIs to ensure that they continue to comply with the licensing requirements; and
- Enforcement of sanctions in the event of any MFI failing to meet the licensing and ongoing supervisory requirements.

Summery

Studies about Microcredit Authority Rules, 2010 compliance are very limited in identifying factors affecting compliance of MFIs in implementing MRA Rules, 2010. But literature suggests that a study could be done by case study on these issues.

CHAPTER 03: METHODOLOGY

Research Method

The study was directed at measuring MFIs compliance with Microcredit Authority Rules, 2010, so the design for the study was descriptive. No interventions were used to improve MFIs compliance with the Microcredit Authority Rules, 2010.

Qualitative research deals with subjectively constructed rather than objectively determined. It is not concerned with statistical analysis. It involves gathering a great deal of information through small numbers of people or organisations. It is based on the beliefs that ‘a full and rounded understanding of the organisational experiences and situations of a few individuals, however unrepresentative they may be, is of more value than a limited understanding of a large, representative group’. (Ticehurst & Veal, 2000, p.21) ‘Qualitative data can be defined as empirical information about the world, not in the form of numbers.’ (Punch, 1998, p.59)

Furthermore, unlike the statistical findings of the quantitative methods, the findings of qualitative research are not to be used to test a theory; rather they are used to build a theory or to identify a phenomenon for further research (Wong, 2006).

Justification for Qualitative Research

This section provides justification on the choice of methodology that is – Qualitative Method. In summary, quantitative research is based on presentation of statistical information. That is, a research methodology that involves statistical analysis. ‘It relies on numerical evidence to draw conclusions or to test hypotheses. To be sure of the reliability of the results it is often necessary to study relatively large numbers of people or organisations.’ (Ticehurst & Veal, 2000, p.20-21) The statistical significance levels of the findings can then be generalised.

In answering the research questions, quantitative research aims to answer the ‘what’, ‘who’, ‘how much’ and ‘how many’ questions - explanatory in nature, whilst qualitative research aims to answer the ‘why’ and ‘how’ questions - exploratory in nature.

Further, the key concept of quantitative research is in dealing with variables, so that there is a link between data and variables. (Punch 1998). On the other hand, qualitative research deals with subjectively constructed rather than objectively determined. It is not concerned with

statistical analysis. It involves gathering a great deal of information through small numbers of people or organisations. It is based on the beliefs that ‘a full and rounded understanding of the organisational experiences and situations of a few individuals, however unrepresentative they may be, is of more value than a limited understanding of a large, representative group’. (Ticehurst & Veal, 2000, p.21) ‘Qualitative data can be defined as empirical information about the world, not in the form of numbers,’ (Punch, 1998, p.59).

Furthermore, unlike the statistical findings of the quantitative methods, the findings of qualitative research are not to be used to test a theory; rather they are used to build a theory or to identify a phenomenon for further research.

Research Design

Research designs are about organising research activities, including data collection, in order to achieve the predefined research aims. Table 01 summarised the five key choices for research design.

Table 01 - Key choices of research design

Researcher is independent	vs	Researcher is involved
Large samples	vs	Small numbers
Testing theories	vs	Generating theories
Experiential design	vs	Fieldwork methods
Verification	vs	Falsification

Source: adapted from Easterby-Smith, Thorpe & Lowe (1991)

As presented above, the selection of qualitative methods for this research is based on two reasons. Firstly, the study of compliance for microcredit rules is a contemporary issue. Recently we found some irregularities in microfinance management. Qualitative methods are best suited to explore these complex issues in depth.

Secondly, the type of information obtained for the purpose of this research can only be gained from in-depth detail of the participants’ attitude and behaviour. ‘... the need to delve

deep to gain an understanding of the phenomenon.’ And ‘ the depth and detail of qualitative data can be obtained only by getting physically and psychologically closer to the phenomena through in-depth interviews...’ (Perry, Riege & Brown, 1999, p. 20-21).

Defining and Justifying the use of ‘Case Study’ Research

Having selected the qualitative research method, it is now necessary to apply this methodology for data collection and analysis - the qualitative ‘case study’ methodology.

Definition of Case Study Research

A case study is a description of a management situation over time that provides a rich description of the situation. Case study is defined as a ‘research strategy that focuses on understanding the dynamics present within single settings’. (Eisenhardt, 1989,p.534)

Yin (1994), however, focuses on case study research as actual processes and the use of case studies as a researching tool. He defines case study as:

‘...an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident and in which multiple sources of evidence are used; and should not only be looked upon as a data collection tactic or solely as a design feature, but also as part of a comprehensive research strategy.’ (p.13)

Perry (2001, p.305) synthesises some of the literature and define case research as:

- an investigation of a contemporary, dynamic phenomenon and its emerging (rather than paradigmatic) body of knowledge (Eisenhardt, 1989; Yin, 1994; Romano, 1989; Chetty, 1996; Gable, 1994; Bonoma, 1985)
- within the phenomenon’s real-life context where the boundaries between the phenomenon and context under investigation are unclear (Bonoma, 1985; Chetty, 1996; Stake, 1994; Yin, 1994)
- when explanation of causal links are too complex for survey or experimental methods (Eisenhardt, 1989; McGuire, 1997) so that single, clear outcomes are not possible (McGuire 1997)

- using interviews, observation and other multiple sources of data. (Bonoma 1985; Perry 1998; Robson 1993)

Justification of Case Research Methodology

This section justifies the strategies adopted in choosing case study as the research tool. Yin (1994) proposes that the choice of the right research methodology among the five strategies, namely histories, experiments, archives, surveys and case study, is dependent on satisfying three situations. These situations are: the type of research question posed; if the research requires the researcher to have direct control of the participants' behaviour; and the degree of the research focus. Table 02 summarised these three conditions.

Table 02 - Three conditions for determining the appropriate type of research method

Research method	Form of research question	Requires control over behavioural events?	Focuses on Contemporary events?
Experiment	How, why	Yes	No
Survey	Who, what where, how many, how much	No	Yes
Archival analysis	Who, what, where, how many, how much	No	Yes/No
History	How, why	No	No
Case Study	How, why	No	Yes

Source: adapted from Yin (1994)

Form of research questions posed - the research questions 'how' and 'why' raised from the literature review (Chapter 2) is better addressed by experiment or the case research method. "If you were studying 'who' participated in riots, and 'how much' damage had been done, you might survey residents...or conduct a 'windshield survey' of the riot area. In contrast, if

you wanted to know ‘why’ riots occurred, you would have to conduct [case research] interviews and draw upon a wider array of documentary information.” Yin (1994, p.8)

Further, case research methodology usually addresses research problems within the realism paradigm (Perry, Riege & Brown, 1999) and tries to explain things (phenomenon) rather than measure them.

That is, the research problem is a usually a “how and why” problem, like this research. Also, Yin (1994, p.18) states that “how” and “why” questions [in case research are] ... exploratory ... such questions deal with operational links needing to be traced over time, rather than mere frequencies or incidence ...’ that are used in quantitative research such as surveys. Thus, case study research usually involves a relatively complex, social science issue about which little is known (Carson et al., 2001).

This research is focused on the contemporary issue of compliance of MRA Rules, 2010, the case study research method is appropriate choice for this research. Further, case research does not only focus on gathering information on contemporary events but also allows the researcher to obtain in-depth information, as well as providing tremendous details on the research topic (Patton, 1990).

Therefore, case research is the appropriate choice for this research because it focuses on the contemporary issue of compliance of MRA Rules 2010, the researcher is unable to control the behaviour and the research is attempting to answer the ‘how’ and ‘why’ questions, as illustrated in Table 02.

Framework for Case Study Research

With the use of case study research justified and the criteria for judging quality case research established, this section presents the framework for case study research.

Research Design for Case Selection

This section examines the type of case designs available for case selection. It also explains the conditions which the researcher believes are most suitable for this choice.

- *Types of case studies*

Yin (1994) suggests that there are four types of case research designs. These are summarised in Table 03.

Table 03- Types of case research design

	Single-case designs (1)	Multiple-case designs (2)
Holistic (single unit of analysis) (1)	Type 1	Type 3
Embedded (multiple units of analysis) (2)	Type 2	Type 4

Source: Yin (1994, p.39)

Holistic or embedded as unit of analysis?

According to Yin (1994) Type 1 involves a single case design with a holistic or single unit of analysis (column 1, row 1). Type 2 is a single case design with embedded or multiple units of analysis (column 1, row 2). Type 3 involves multiple case designs with a single unit of analysis (column 2 row 1) and type 4 multiple case designs with multiple unit of analysis (column 2, row 2).

A case is considered to be holistic if it contains only one unit of analysis, or embedded if it contains multiple units of analysis (Perry 1998; Yin 1994). If the research is about what a person can do, then the unit of analysis is an individual. Sometimes researchers use small cases that are a part of a big case that is the unit of analysis for a study. These parts of sub-cases are called embedded cases because they are embedded in the bigger unit of analysis (Carson et al.2001).

Single or multiple case studies?

There are no precise guides to the number of cases to be selected. Lincoln and Guba (1985,) suggest sampling of cases until saturation is reached. Patton (1990) claims there are no rules for sample sizes for qualitative research. Eisenhardt (1989) recommends that cases should be added as the interviews unfold, until theoretical saturation is reached.

- *Selection of cases*

There are two types of logic underlying the selection of cases: sampling logic and replication logic. Sampling logic is commonly used in surveys, which is used to assume a 'represent' a large pool of respondents. Replication logic according to Yin (1994, p.45) is 'analogous to that used in multiple experiments...same results are predicted.' In other words, selection of the cases should be relevant and purposive to the situation rather than sampling representative logic. Indeed, 'random selection of cases is neither necessary, nor even preferable' (Eisenhardt, 1989, p.537).

Researcher uses 'purposive sampling' method in this study. In this method, certain units are selected purposively for judgment by the researches. In this selection, the researchers try to make the selection as representative.

- *Number of cases and interviews*

Selection of the optimal number of cases for this research is a critical decision (Eisenhardt, 1989; Yin 1994). Eisenhardt's view (1989, p.545) is that ' While there is no ideal number of cases, a number between four and ten cases often works well.

This research undertakes a multiple cases approach. Five cases were selected to test a participant's MFI compliance with MRA Rules, 2010. In addition, the participants were invited to discuss their own view about compliance.

Data Collection Procedures

Data were collected by Mixed Questionnaire which comprises both close and open type questions.

Limitations of Case Study Methodology

Although case research is considered a distinctive form of empirical inquiry which is rigorous, coherent, and based on a justifiable philosophical position (Perry 1998a), the unique characteristics of case study research that produce these strengths may also produce weaknesses (Eisenhardt, 1989; Easterby-Smith, Thorpe & Lowe, 1991). This section

discusses the three major limitations of the case research and how these limitations are overcome in this research.

Firstly, there is an argument on case research that there is a lack of rigour and bias (Eisenhardt 1993; Easterby-Smith, Thorpe & Lowe, 1991, Yin 1994).

Secondly, it is argued that case study is not easily open to generalisation (Eisenhardt 1993; Easterby-Smith, Thorpe & Lowe, 1991, Yin 1994).

Thirdly, case studies are difficult to conduct because of potential logistical and operational problem (Eisenhardt 1993; Easterby-Smith, Thorpe & Lowe, 1991, Yin 1994). This research overcomes this criticism through preparation of an interview and systematic collection of data during the interviews.

Ethical Considerations

This study is conducted purely for research purposes. It is not intended to use the data collected for any other purpose. Confidentiality and anonymity are paramount to the researcher. Although Zikmund (2000, p.72) suggests that there are three parties to the research, this research only involves two parties - the researcher and the respondent.

The identity of the microfinance institutes and information about the identity of participating staff were collected in the study. The identity of the study setting is not revealed in the study findings. Appropriate permission was obtained from the Institute of Governance Studies, BRAC University and from the Executive Directors of the MFIs. Respondents were given the choice of either signing or not signing the consent to protect their identity, since the population was small. None of the respondents signed the consent, so consent forms were not collected.

CHAPTER 04: DATA ANALYSIS AND RESULTS

The purpose of this study was to measure the level of compliance of the Microfinance Institutions with Microcredit Authority Rules, 2010 and to obtain information on what respondents identified as significant factors in complying with Microcredit Authority Rules, 2010. The findings of the study are described below.

Demographic Overview of the Respondents

Participant Profile

To protect the confidentiality of the participants, each participant is identified by a code. The details of the organisations they worked for are not identified to further protect their confidentiality.

Table 04 - Participants profile

Case Code	Position	Educational Qualification	Service Length in this Institution	Training on MRA Rules, 2010
A	Financial Officer (Microfinance)	MBA	7 years	NO
B	Microfinance Coordinator	MSS	5 years	NO
C	Senior Accounts and Admin Officer (Microfinance)	MBA and CACC	3 years	NO
D	Programme Manager (Microfinance)	M.Com. (Management)	13 years	NO
E	Microfinance Coordinator	MSS	3 years	NO

Questionnaire survey has been conducted on the officers who have exclusive and day to day practical experience rather than the head of the institution like executive director. All of these microfinance institutions have their operation in outside of Dhaka but head offices are in

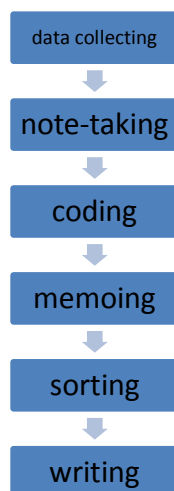
Mirpur area in Dhaka city. Respondents ranked differently and one from each microfinance institution.

Method used in Data Analysis

This research is based on a traditional research design relying on literature review which leads to formulating of research questions. As explained earlier that because this is a qualitative research and the data collected were based on interviews the research objective was not intended to test a hypothesis but to explore the issues raised in the research.

The approach to the data analysis is based on the model proposed by Dick (2002, p.2). This is summarised graphically as follows:

Figure 01 - Approach to data analysis



Source: Dick (2002, p.2) Grounded Theory; A thumbnail sketch

Overview of the Survey Questionnaire

Two questionnaires were developed for the survey purpose. Questionnaire A has 8 sections which are:

- Basic Information
- Management and organogram of the microcredit organization
- Maintenance of accounts and other procedures
- Rights of the clients

- Loan information of the concern microfinance institution
- Charges of loan processing
- Service charges on loans and types of deposit and duration
- Conditions for voluntary deposit and condition for term deposit

The respondents were asked ten (10) questions regarding compliance of MRA Rules, 2010 in microcredit operational activities by questionnaire B. To get their clear perception on the issue, the compliance of the questionnaire were asked to the respondents in a 5-point Likert scale where as 1 for “Very Poor”, 2 for “Poor”, 3 for “Neutral”, 4 for “Good” and 5 for “Very Good”.

Overview of the Interview Questionnaire

Questionnaire C was developed for the interview purpose. Three specific questions were asked to give opinion. Those are:

- What are the main factors affecting for complying Microcredit Authority Rules, 2010 in your institute?
- Mention your proposal to tackle the factors.
- What improvements/amendments you think need to make the Microcredit Authority Rules, 2010 more effective in use?

All the informants were asked about the compliance of MRA Rules, 2010 and expressed that their in-depth opinion was expected for a clear view of the issue, understanding the same and concluding thereof. Also, the informants were asked about the problems of compliance of MRA Rules, 2010 in their respective microfinance activities and what they think about best solution of them. The opinion of the key informants were noted down and used for analyzing the findings of the questionnaire survey.

Case Study and Findings

Five cases were studied for the research purpose. Respondents gave their opinions differently. The findings of the study are described below.

Case Analysis

MFI A was established in 1993 and got the MRA licence in 2006. It has 30, 960 clients. Now it has 40.06 corer taka of total deposit balance which was 5.06 corer taka before getting the licence. In case of management and organogram matter this institution issues appointment letters to its temporary and permanent staff specifying the terms and conditions of employment before their joining of work and have an employment policy specifying the procedures related to joining of work, holidays, termination, resignation and all other matters related to the employment of its staff. It also has a well defined pay scale and all the regular employees are entitled to salaries and other financial benefits according to the pay scale. It was same before they got the licence.

In case of maintenance of accounts and other procedures it publishes the terms of reference and policies of its internal audit and procedures related to its Microcredit Activities and deposit management in an abstract form. It was same before they got the licence.

If client has no outstanding loans, he can withdraw his deposit, in part or full, and his name as a client. Client can receive information related to deposit and loan balance from the relevant branch office on any working day which was same before it got the licence.

In case of deposit and duration, total deposit balance of this Microcredit Organization did not exceed 80% (eighty percent) of the principal loan outstanding at any given time. Accumulated loan recovery rate was at least 95% and current loan recovery rate is at least 90% during the past 5 (five) years in this organization. So it is eligible to collect voluntary deposit.

All the above mentioned facts are same for every case except allowing the rebate. The rule is in case of prepayment of the entire outstanding loan by any Client, a rational rate of rebate must be allowed to the relevant Client. But all the five organizations are not following this. Organization B and D allowing rebate before and after the licence, organization A and E allowing rebate after getting the licence and organization C is not allowing any rebate in case of prepayment of the entire outstanding loan.

Organization A is providing Grameen Microcredit, City Microcredit, Microcredit for Ultra Poor, Agricultural Microcredit, Seasonal Microcredit, Small Entrepreneur Loan, and House Building Loan. It follows the Declining Method to calculate the interest rate. It takes compulsory deposit but not term deposit from the client. It is taking voluntary deposit after

getting licence. The accumulated loan recovery rate is 100% and current loan recovery rate is 98.98%. Total deposit balance is 35.95 % of principal loan outstanding at this moment in this institution.

MFI B was established in 1973 and got the MRA licence in 2008. It has 7,621 clients. Now it has 14 corer taka of total deposit balance which was 3.26 corer taka before getting the licence. Organization B is providing only Grameen Microcredit, City Microcredit, Microcredit for Ultra Poor and Small Entrepreneur Loan. It follows the Declining Method to calculate the interest rate. It takes compulsory deposit only. The accumulated loan recovery rate is 98.58% and current loan recovery rate is 98.16%. Total deposit balance is 15 % of principal loan outstanding at this moment in this institution.

MFI C was established in 1992 and got the MRA licence in 2008. It has 91,082 clients. Now it has 20.65 corer taka of total deposit balance which was 13.79 corer taka before getting the licence. Organization C is providing Grameen Microcredit, City Microcredit, Microcredit for Ultra Poor, Agricultural Microcredit, Seasonal Microcredit, Small Entrepreneur Loan. Besides it provides loan for animal breeding and rehabilitation for beggar program. It follows the Declining Method to calculate the interest rate. It takes compulsory deposit, term deposit and voluntary deposit from the client. The accumulated loan recovery rate is 99.96% and current loan recovery rate is 96%. Total deposit balance is 46.74 % of principal loan outstanding at this moment in this institution.

MFI D was established in 1986. It has 8,194 clients. Now it has 5.06 corer taka of total deposit balance which was 4.04 corer taka before getting the licence. Organization D is providing only City Microcredit and Small Entrepreneur Loan only. It follows the Declining Method to calculate the interest rate. It takes compulsory deposit, term deposit and voluntary deposit from clients. The accumulated loan recovery rate is 99.90% and current loan recovery rate is 96%. Total deposit balance is 48 % of principal loan outstanding at this moment in this institution.

MFI E was established in 1974 and got the MRA licence in 2008. It has 1,08,218 clients. Now it has 22.18 corer taka of total deposit balance. Organization E is providing Grameen Microcredit, City Microcredit, Microcredit for Ultra Poor, Agricultural Microcredit, Seasonal Microcredit, Small Entrepreneur Loan, and Disaster Management Loan. It follows the Declining Method to calculate the interest rate. It takes compulsory deposit and term deposit from the client. The accumulated loan recovery rate is 99.46% and current loan recovery rate

is 99%. Total deposit balance is 48.83% of principal loan outstanding at this moment in this institution.

In case of Non Judicial Stamp and Revenue Stamp every organization is taking 50 taka and 10 taka accordingly. 100% compliance was noted here.

The respondents were asked to give opinion on 10 sub-clauses of the Microcredit Authority Rules, 2010 about the degree of compliance by 5 points scale. The results are described below.

Clause 12 of MRA Rules, 2010 is about management and organogram of the microcredit organization. Three selected sub-clauses were examined for compliance issue. 100% compliance was found as every respondent out of five case study encircled 'Very Good' option of the questionnaire B. these sub-clauses are about issuing appointment letter, employment policy and pay scale related.

Clause 13 of MRA Rules, 2010 is about maintenance of accounts and other procedures. Two sub-clauses were examined for compliance issue. 100% compliance was found as every respondent encircled 'Very Good' option of the questionnaire B. These sub-clauses are about publishing the terms of reference and policies of its internal audit and procedures related to its Microcredit Activities and deposit management in an abstract form.

Clause 16 is about the rights of the clients. Two sub-clauses were studied for compliance purpose. 100% compliance was detected as every respondent of the five cases encircled 'Very Good' option. These two sub-clauses is about the withdrawal of deposit and receiving information related to deposit and loan balance from the relevant branch office on any working day.

Clause 26 is about the service charges on loans. One sub-clause was chosen. Out of five respondents two encircled 'Very Good', two encircled 'Good' and one encircled 'Very Poor'. 'Very Poor' means 'Not Allowing Rebate' here. As long as the rules is 'in case of prepayment of the entire outstanding loan by any Client, a rational rate of rebate must be allowed to the relevant Client' we could see rebate must be allowed whether the rate is rational or not. So 80% compliance was found only one MFI is not allowing rebate out of five.

Clause 27 is about types of deposit and duration. Only one sub-clause was chosen to examine. The sub-clause is ‘in general the total deposit balance of any Microcredit Organization will not exceed 80% (eighty percent) of the principal loan outstanding at any given time’. 100% compliance was found.

The last clause is 28 which is about conditions for voluntary deposit. The sub-clause is ‘accumulated loan recovery rate must be at least 95% and current loan recovery rate must be at least 90% during the past 5 (five) years’. 100% compliance was found with the law.

Interview Analysis for Factors Affecting MFIs Compliance

Questionnaire C was about the interview part of the study. First question was what the main factors are affecting for complying Microcredit Authority Rules, 2010. Interestingly every respondent pointed out about few rules that are unreasonable or hinder to comply the MRA Rules, 2010. Nobody pointed out factors like lack of training about MRA Rules, 2010, shortage of manpower, etc. The main pointed factors are:

- Quorum of the executive committee has been increased to 2/3 from 1/2. It is difficult to get quorum if two members do not complete their term whereas a member of the executive committee will be considered as a member even if he does not continue his whole term.
- Rule 34(1) suggested that every microcredit organization must maintain 15% liquidity of entire fund in a savings account of a scheduled bank of the branch offices. Maintaining account in branch office is not reasonable.
- Reserve fund using 10% of its total income surplus sometimes create shortage of capital for working capital.
- Clause 28 and 29 are putting bar on accepting flexible DPS saving upto 25% of the total equity of the organization.
- Reserve Provision on loan categories are fixed irrespective of fund fluctuations.

After knowing the factors respondents were asked to give some proposal to tackle the factors. They gave some suggestions. Those are:

- MRA must provide common software for automation of the organization because it is very costly to buy the software of individual organization.

- The membership in the Executive Committee shall be declare vacant if any member of the Executive Committee does not continue and or remain absent in three consecutive meeting.
- Law to be amended to increase the limit of saving to 40% of the total equity since the members are interested to save even beyond the proposed limit.
- Liquidity fund might be adjusted in yearly basis not on half yearly basis.
- The reserve provision calculated every six months is fixed even if the past dues are reduced in the next half yearly calculation but if the past dues are increased then we have to increase the reserve provision. Suggestion is actual state should be reflected in calculation like that of increased past dues.
- Head Office or Branch Office will maintain the Saving FDR. It will depend on the organization.

Third question was about the rules to be amendments or improvements. As long as all the factors are related within the MRA Rules, 2010 itself, respondents suggested amending the rules accordingly.

Summary

Microfinance Institution indicated a high level of compliance with the Microcredit Authority Rules, 2010. Higher compliance was observed in the area of management and organogram, maintenance of accounts, rights of the clients, deposit and duration rules. But moderate compliance was remarked in case of service charges on loan particularly allowing a rational rate of rebate for prepayment of the entire outstanding loan.

CHAPTER 05: DISCUSSION

The purpose of the study was to determine the level of compliance of MFIs with MRA Rules, 2010 and the factors that they face in complying. The results showed a high to moderate level of compliance and identified few factor as the most common barrier. This chapter provides a discussion of the findings, as well as limitations of the study, and recommendation for further research.

Interpretation of the Findings

The findings of this study should be interpreted with caution due to the size and nature of the sample, which is a convenience sample available at work on a given day and willingness to participate. Moreover the Microcredit Authority Rules, 2010 has 49 clauses representing 49 matter including short title and definitions. Study has been done only with 6 clauses.

Results showed a high to moderate level of compliance. But there are some very important facts here. Data was collected from the MFIs directly and it was not cross-examined with the data from the Microcredit Regulatory Authority. Alongside there was no scope to investigate MFIs documentations for study purpose.

Another fact is that in case of literature review no literature was found on this particular microcredit compliance issues. So the questions chose for the questionnaire and their answers are far from the suggestions that the respondents give for better implementation of MRA Rules.

There is large, medium and small scale MFIs in the microcredit sector. But the law and the rules are same for all the MFIs. Some small scales MFIs do not have the capacity to follow all the rules and regulations of MRA. The rules are very much rigid, too. Two of the respondents have large scale operations. They feel comfort to comply all the rules.

The Microcredit Regulatory Authority Act, 2006 was the Law 32 of the year 2006. After 4 years the rules was promulgated but the microcredit operations were in Bangladesh long before 2006. As the operation became noticeable government enacted the law to regulate the sector.

Implications for Microcredit Rules

The study measured the level of compliance and factors in complying the Microcredit Authority Rules, 2010. Findings could be used to modify the existing rules for better implementation of MRA Rules, 2010. For example, every respondent suggested that Saving FDR should be maintaining with the convenience of the organization not compulsorily from branch office. Another example is that every MFIs want automation software to run their operations smoothly. But it is expensive to build. So the Regulatory Authority could build software of all MFIs.

Implication for Future Research

The findings from the study could be further investigated. This study found highly compliance in the area of management and organogram, maintenance of accounts, rights of the clients, deposit and duration rules. But moderate compliance was remarked in case of service charges on loan particularly allowing a rational rate of rebate for prepayment of the entire outstanding loan. Further study could be done on the service charges of loan sector. But the recommended fact is that it is important to go through the meeting minutes and findings of the Microcredit Regulatory Authority before setting the questionnaire and to collect the suggestions that already has been given by MFIs to Microcredit Regulatory Authority.

Conclusion

Microfinance could be solution for ending poverty. Now-a-days this system is very popular and effective in some developing countries. Bangladesh enjoyed a persistence growth during last decade though she faced decreasing condition in governance. Political instability was always at that time. Government was not effective and efficient one. Government is not playing desired role for the overall development of the country. Microcredit programme could be a way out for the government because it has a self sustaining mechanism to create employment and profit. Though it has some challenges, with the proper implementation of Microcredit Authority Rules, 2010 we can overcome those, and achieve our coveted goals.

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