Stockholm School of Economics

Master Thesis in Accounting and Financial Management

An integrated perspective on emerging tensions between upward, downward and internal accountability within a development NGO setting

- An explanatory case study on a large Indian microfinance NGO with specific focus on beneficiaries

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Abstract:

This paper contributes to the understanding and use of accountability in development NGOs (non-governmental organizations). By drawing on Ebrahim's (2003) framework we outline the accountability mechanisms present in Microfin, a large Indian microfinance NGO, and analyze the effects on Microfin's relationship with key stakeholders (in particular downwards to beneficiaries). We find that the internal accountability to a large extent is influenced by externally induced upward accountability mechanisms. By applying Kilby (2006), we find that strong internal accountability can constrain the effectiveness of downward accountability. In that way, the effectiveness of downward accountability is not only directly influenced by dominant upward accountability, but also indirectly influenced by internal accountability, which is shaped by upward accountability mechanisms. We call for a higher level of formality in the implementation of downward accountability mechanisms that properly incorporate beneficiaries' views and address the power imbalances inherent in the NGO-beneficiary relationship. Further, we argue that more informal relationships between field staff and beneficiaries foster and initiate proper interaction with beneficiaries, which given their life situation and illiteracy, cannot be expected to be initiated on their behalf. However, we especially see that funders have a responsibility in enhancing the formal downward accountability mechanisms due to, as we found, their high leverage on the configuration of internal and downward accountability within the NGO.

Key words: NGO accountability, downward accountability, development NGO

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Stockholm, 19 May 2014

Cecilia Kores Dennis Müllerschön

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1 INTRODUCTION

There has been a well-documented growth of non-governmental organizations (NGOs)[1] working in the field of international development over the past two decades (Korten, 1990; Hulme & Edwards, 1995; Lewis & Wallace, 2000). Many researchers (English et al., 2005; Gilbert & Parent, 2004; Leung, 1994, Lewis, 2003; Lewis & Madon, 2004) note that the "roll back" of the state from development work has recently gained momentum in several large economies, such as in India. This has resulted in a large expansion of NGOs in the provision and funding of essential services such as welfare, education and healthcare, which were previously taken care of by the state (Kamat, 2004; Leung, 1994; Sommerfeld & Reisch, 2003). In some areas, governments have even reduced the funding and expect that NGOs will fill the gap (Edwards & Hulme, 1996b; Lewis & Madon, 2004).

The growth and the large amount of official development aid channeled to them mean that NGOs can no longer be considered as independent actors in the society. Therefore, important questions have been raised in literature regarding NGO performance and accountability (Edwards & Hulme, 1996b; Najam, 1996; Lewis, 2001). Researchers, such as Smillie (1995) and Lewis (2001), argue that if the NGO movement is going to survive, they need to confront the issues of increased accountability requirements.

As few studies have started to emerge, the complexity of the NGO context and its many stakeholders has been recognized in the academic literature (Goddard & Assad, 2006; Ebrahim, 2005, 2003; O'Dwyer & Unerman, 2008; Unerman & O'Dwyer, 2006b; Dixon et al., 2006). Several researchers have found that NGOs seem to find themselves as intermediaries more accountable to the government and other funders, who support their activities, rather than to its beneficiaries (Najam, 1996; Lewis & Madon, 2004; Ebrahim, 2003; Unerman & O'Dwyer, 2006b). This narrow focus comes at the expense of broader accountability concerns and the recognition of other forms of NGO accountability (Najam, 1996). Unerman & O'Dwyer (2006b) argue: "where an NGO has responsibilities to stakeholders, it also has duties of accountability to these stakeholders". As such, accountability should be both about being held responsible by external actors and standards, and about taking internal responsibility for actions (Ebrahim, 2003). Thus, there is a strong argument for re-examining the accountability relationship of NGOs to move the discussion away from solely accountability to funders (Najam, 1996; Ebrahim, 2003; Kilby, 2006; Edwards & Hulme 1996b), since in practice it has created concerns that NGOs'

[1] There exists no clear definition of NGOs in research literature, which gives rise to somewhat blurred boundaries regarding the term (Kilby, 2006; Lewis & Madon, 2004; Unerman & O'Dwyer, 2006b). Vakil (1997) and Lewis & Madon (2004) argue that it all effectively boils down to NGOs as being defined as "self-governing, private, not-for-profit organizations that are geared to improving the quality of life for disadvantaged people".

accountability focus becomes distorted and the beneficiaries sidelined (Blagescu et al., 2005; Ebrahim, 2005, 2003; O'Dwyer & Unerman, 2007, 2006b; Dixon et al., 2006).

Researchers have identified three directions in which NGOs are argued to be accountable: upwards (to funders), downwards (to beneficiaries) and internally (to themselves) (Najam, 1996; see also Kearns, 1996; Lindenberg & Bryant, 2001; Edwards & Hulme 1996b). Upward accountability refers to relationships between the NGO and its funders, and as such, is argued to mainly focus on "spending designated money for the designated purpose" (Najam, 1996). Downward accountability refers to relationships between the NGO and the recipients of the NGO services, i.e. the direct and indirect beneficiaries (Najam, 1996; O'Dwyer & Unerman, 2010; Unerman & O'Dwyer, 2006b; Edwards & Hulme, 1996a; Ebrahim, 2003, 2005). Internal accountability relates to the NGO itself, from being responsible to the vision that made it an NGO in the first place, its mission and staff, to the wider NGO community (Najam, 1996; Kilby, 2006; Ebrahim 2010, 2005).

Gaps in literature and contribution

While many previous studies have looked at NGO accountability mainly upwards to the funders, there is a need for more studies taking an integrative look on how all three, possibly contradictory, accountability demands (upward, downward and internal) are managed in NGOs (Ebrahim, 2003; Kilby, 2006; Hopwood, 2005; Unerman & O'Dwyer, 2006a). A better understanding which NGO actions are accountable to whom and for what will provide useful guidance to NGOs for reflecting better why, and for whom, they do what they do (Najam, 1996). Otherwise, the "failure to recognize and discharge the duties of accountability to various stakeholders can pose a threat to the legitimacy and viability of the NGO." (Unerman & O'Dwyer, 2006b). While upward accountability can contribute to improve efficiency of funding spent, downward accountability is "needed to improve effectiveness of the deployment of aid" (Unerman & O'Dwyer, 2012; O'Dwyer & Unerman, 2010; Kilby, 2006). By incorporating the view of less powerful stakeholder groups, in addition to the traditional upward focus on funders (who control access to key resources), NGOs may enhance their overall accountability structures to better measure their wider impacts (O'Dwyer & Unerman, 2008; Agyemang et al., 2009; Edwards & Hulme, 1996a, 1996b, 2002; Najam, 1996; Kilby, 2004). Despite this ongoing debate, NGO accountability, especially among development NGOs, remains under-researched in the accounting literature (Choudhury & Ahmed, 2002; Ebrahim 2005, 2003; Collier 2005; O'Dywer & Unerman, 2008; Unerman & O'Dwyer, 2006b; Dixon et al., 2006; Goddard & Assad, 2006).

This paper seeks to address this gap by advancing our understanding of NGO accountability within a specific development NGO setting (Choudhury & Ahmed, 2002; Ebrahim, 2005, 2003; Collier 2005; O'Dywer & Unerman, 2008; Unerman & O'Dwyer, 2006b; Dixon et al., 2006; Goddard & Assad, 2006), since development NGOs often face conflicting and complex pressures from different stakeholders (O'Dwyer & Unerman, 2008). In particular, this paper aims to take an integrated and coherent look on how upward, downward and internal accountability mechanisms are configured within the NGO, and what effect these have on the relationship with the different stakeholders and in particular with beneficiaries. O'Dwyer & Unerman (2008) notes that if NGOs explicitly acknowledge the need for considering multiple stakeholders, this leads to "significant emphasis being placed on downward accountability to beneficiaries (Dixon et al., 2006)". Thus, a special emphasis is put on contributing to the embryonic research on downward accountability, by looking at how downward accountability is enhanced or suppressed depending on the implementation of upward and internal accountability mechanisms. Few studies have been done on how downward accountability is formally implemented and achieved in an NGO (see Kilby, 2006).

Motivation

The empirical data collection consists of a six-week in-depth field study performed by the two researchers (us) in the beginning of 2014. The research organization, Microfin, had seen a profound growth since its inception two decades ago, and is now one of the largest microfinance NGOs in India with around 1,900 employees and serving more than 650,000 below-poverty-line (BPL)[2] clients/beneficiaries[3]. A microfinance NGO provides an interesting setting due to the need for strong safeguards and controls (Dixon et al., 2006). Furthermore, India´s NGO sector has been underlying a large growth in recent years, as the Indian government in the 1990s assigned NGOs a more active role in rural development aid after it realized that NGOs, due to their "localness", were more effective in bringing change. This led to a massive expansion of India's NGO sector, which is still on-going.

In addition to the analytical gaps outlined above, our study differs in three important aspects from previous work in this field. First, we got the opportunity to conduct an in-depth, on-site field study, applying a methodology based on detailed day-to-day field observations in combination with various formal and informal interviews of the three stakeholder groups. The daily presence generated trust that led to numerous informal conversations between us and in particular NGO staff, which resulted in access to confidential information but also to very personal views and insights. Second, previous research has focused on smaller-scale development NGOs (see for example Dixon et al., 2006), while Microfin has been chosen partly due to its significant size and developed internal management information systems. This provides an interesting foundation for studying the complex nature of NGO accountability and the three stakeholder groups (upwards, downwards and internal). Third, by integrating three existing frameworks of Najam (1996), Ebrahim (2003) and Kilby (2006), we aim to outline each accountability

[2] Microfin defines its target clients as BPL women, which are women in households living below "USD 1.5 per day".

[3] It has to be noted, that we use the terms beneficiary, which is conventional in literature, and the term client, which is how Microfin calls its beneficiary, synonymously in this paper.

mechanism present in Microfin specifically (by using Ebrahim's (2003) conceptual framework), before integrating the mechanisms according to the three stakeholder groups first defined by Najam (1996) (upward, downwards and internal). Subsequently, we add an additional layer by analyzing the effectiveness of the identified downward mechanisms by using Kilby's (2006) schema. The three frameworks together enable us to perform a profound analysis regarding the configuration and effectiveness of Microfin's accountability mechanisms before drawing conclusions regarding the different stakeholders. Especially, it enables us to take a specific view on how downward accountability is affected by the upward and internal accountabilities within Microfin.

In sum, we seek to achieve our aim by answering the following two research questions:

1. **How are the three forms of accountability (upward, downward and internal) laid out in the development NGO Microfin?**
2. **How do these three accountabilities interrelate in practice and what are the effects on downward accountability within Microfin?**

Outline

The remaining paper is outlined as follows. Chapter 2 presents a review of the theoretical development of NGO accountability until now. In addition, it provides a theoretical background of the concepts being used to analyze accountability mechanisms at Microfin: Ebrahim's (2003) framework and Kilby's (2006) schema for downward accountability. Chapter 3 describes the methodical approach of this research. In Chapter 4 we present the case analysis, including a short description of the NGO and microfinance sector in India, followed by an organizational background of Microfin and an outline and analysis of Microfin's accountability mechanisms. In Chapter 5 we discuss the findings and subsequently in Chapter 6 we draw conclusions, point out the limitations of our study and propose suggestions for further research.

2 THEORETICAL DEVELOPMENT

2.1 The NGO sector and its importance for international development

Before 1985, there was little mentioned about NGOs in the academic literature (Lewis, 2001). Since the late 1980s and early 1990s when NGOs first started to gain a foothold within the international development sector, the number and the size of NGOs has grown substantially (Kamat, 2003; Salamon et al., 1999; Unerman & O'Dwyer, 2006b; Najam, 1996). Now, NGOs have become important players in social and economic development throughout the world (Goddard & Assad, 2006).

Defining NGO

NGOs can be national or international welfare provision NGOs, such as BRAC[4], or advocacy NGOs, such as Amnesty International, or a hybrid form of both. There exist little consensus in past research on how to define and classify NGOs (Vakil, 1997; O'Dwyer & Unerman, 2008; Kilby, 2006; Lewis & Madon, 2004). Unerman & O'Dwyer (2006b) provide a broad definition by specifying what NGOs are not: "NGOs are organizations which are neither governmental (public sector) organizations, nor private (for-profit) commercial organizations". The United Nations uses a slightly more narrow, de facto approach and identifies an NGO based on its activities: "An NGO is a not-for-profit, voluntary citizen's group, which is organized on a local, national or international level to address issues in support of the public good. /.../ NGOs perform a variety of services and humanitarian functions /.../ and encourage participation of civil society stakeholders at the community level." (Teegan et al., 2004, p. 466, quoting the United Nations (2003)[8]). Beyond the definitional problems discussed above (definition by exclusion and the de facto approach), a useful categorization of NGOs is by orientation (Unerman & O'Dwyer, 2006b). Vakil (1997) identifies six categories of NGOs according to their orientation: welfare[5], development, development education, networking, research and advocacy. In this paper we focus on development service NGOs, that "act as intermediaries in providing service to ... entire populations" (Antrobus, 1987) and thus "have as their ultimate goal improvement in the capacity of a community to provide for its own basic needs" (Elliott, 1987, p. 58).

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4 BRAC is a development organization dedicated to alleviating poverty by empowering the poor to bring about change in their own lives. BRAC aims to track poor people out of poverty by a holistic development approach geared toward inclusion, using tools such as microfinance, education, healthcare, legal services, community empowerment or social enterprises (BRAC, 2014).

5 According to Elliott (1987) welfare activities, to differentiate from development activities, deliver services to specific groups based on a charity model.

Development NGOs play an increasingly important role in international development

Development NGOs are playing an increasingly important role in providing development work and alleviating poverty across the world (see e.g. Dixon et al., 2006; Ebrahim, 2003; Edwards & Fowler, 2002; Goddard & Assad, 2006; Gray et al., 2006; Unerman & O'Dwyer, 2006a; O'Dwyer & Unerman, 2007). Donors and governments (especially in the southern hemisphere[6]) increasingly rely on NGOs as service providers within the development sectors (including health and education, credit schemes, and small-scale infrastructure projects). In many cases, NGOs have become the preferred agents over governments (Edwards & Hulme, 1996b; Lewis, 2001; Goddard & Assad, 2006). According to Lewis (2001), the actual failure of governments and public social actions in fighting poverty is one of the main reasons for the increased NGO movement, as transfers between governments have yielded poor results and contributed to increasing levels of bureaucracy and corruption. Earlier theory has stated that NGOs are generally more efficient and cost-effective service providers than governments and public agencies, and thus impacting poverty reduction more effectively (Meyer, 1992; Sollis, 1992; Vivian, 1994; Edwards & Hulme, 1996b).

The growth of the NGO sector and its implications

The availability of official funding has been a significant factor supporting the explosive growth of NGOs in many countries (Edwards & Hulme, 1996b; Fowler, 1991; Constantino-David, 1992). Since Edwards & Hulme (1996b) published their paper, the trend has only intensified. At that time, for example, BRAC in Bangladesh, which started in 1972, employed more than 10,000 staff and covered 15,000 villages (Aga Khan Foundation Canada/Novib., 1993). Today, BRAC is among the world's largest NGOs, with more than 100,000 staff, 8 million grassroots members and serves over 6.6 million microcredit clients. Its domestic activities account for more than 0.5 per cent of Bangladesh's gross domestic product (Smillie, 2009). Still, however, the size and complexity of NGO's and their activities vary significantly. While some NGOs work only on small-scale local projects conducted by a few volunteers, some have grown into large global organizations with huge budgets and thousands of paid professionals (Unerman & O'Dwyer, 2006b). This growth and the large amount of official development aid channeled to them mean that NGOs not longer can be considered as being independent actors in the society. Important questions have been raised in literature regarding NGO performance and accountability, its relation to the state and the ability of NGOs to remain independent actors in pursuing their goals and focusing on their beneficiaries (Edwards & Hulme, 1996b; Najam, 1996; Lewis, 2001). Smillie (1995) goes so far as stating that accountability is the "Achilles heel" of the NGO move-

[6] In the development literature, researchers often talk about the global North (meaning the wealthy Europe and America) versus the global South (meaning the developing countries in the Southern hemisphere - in this paper we focus on South Asia; including India, Bangladesh, Sri Lanka, and Philippines) (Edwards & Hulme, 1996b; Ebrahim, 2005).

ment. Lewis (2001) takes it one step further by claiming that "an ability to confront these issues [of increased accountability requirements] may be the key to the survival of the NGO movement".

2.2 Current research on NGO accountability

Defining accountability

The term accountability has been described in several ways in the NGO literature, but it all effectively boils down to an actor being held responsible (by no means necessarily through financials) for its actions (Fox & Brown, 1998; Gray et al., 2006; Edward & Hulme, 1996b; Dixon et al., 2006). The literature highlights two key dimensions of accountability: externally as "an obligation to meet prescribed standards of behaviour" (Chisolm, 1995), and internally as a "felt responsibility" towards organizational goals and individual behaviour (Fry, 1995). The challenge arising in development NGOs is that stakeholders have different and sometimes competing requirements and demands, which create multiple, complex and sometimes diffuse accountabilities to respond to (McDonald, 1999). However, research literature recognizes that NGOs in practice seem to find themselves more accountable upward to the funders rather than downwards to the beneficiaries (Lewis & Madon, 2004; Ebrahim, 2003, 2005; Najam, 1996; O'Dwyer & Unerman, 2010). Recognizing this, several observers argue that the formal discussion of NGO accountability is too narrowly focused on upward accountability, and identify three directions in which NGOs are argued to be accountable: upwards (to funders), downwards (to beneficiaries) and internally (to themselves), a distinction, which we draw from Najam's (1996) conceptual framework on NGO accountability (see e.g. Kearns, 1996; Lindenberg & Bryant, 2001; O'Dwyer & Unerman, 2010).

Distinction between the three forms of NGO accountability, as first defined by Najam (1996)

Upward accountability refers usually to hierarchical relationships between the NGO and its funders, which may include donors, credit providers and governments (Fowler, 1996; Najam, 1996; Dillon, 2004; Kilby, 2006; O'Dwyer & Unerman, 2007, 2008). These relationships are often characterized by an unbalanced power relationship in favor of the funder; a formal one-way information flow and the usage of rigid accounting procedures with the focus of the NGO demonstrating efficient spending of the provided funds (Agyemang et al., 2009; Fowler, 1996; Najam, 1996). As such, upward accountability is argued to mainly focus on "spending designated money for the designated purpose" (Najam, 1996).

Downward accountability refers primarily to relationships between the NGO and the recipients of the NGO services, i.e. its beneficiaries, but may also include families and communities of the beneficiaries, and other groups indirectly affected (sometimes in an unintended and unforeseen way) by the NGO services (O'Dwyer & Unerman, 2010; Unerman & O'Dwyer, 2006; Edwards & Hulme, 1996a; Najam, 1996; Ebrahim, 2003, 2005). Downward accountability puts the NGO responsible for, and hence accountable to, the aspirations and needs of its indirect and direct beneficiaries (Najam, 1996).

Internal accountability, also referred to as horizontal accountability, relates to the NGO itself: from being responsible to the vision that made it an NGO in the first place, its mission and staff (from management down to field staff), its coalition partners and the NGO community at large (Najam, 1996; Ebrahim 2010, 2005). To clearly distinguish internal accountability from upward and downward, Najam (1996) defines the NGO "itself" as being members actively taking or influencing decisions regarding the direction of the NGO activities.

What the above discussion makes clear is that accountability is a rather complex and equivocal construct, and in essence a relational concept (in line with Ebrahim, 2005). The multiple and sometimes competing accountabilities can become even more complicated where the NGO has several contractual relationships with "foreign donors, local governments, and multinational corporations" (Meyer, 1999).

Emerging tensions between accountabilities

A well-established literature argues that, as NGOs increasingly seek external funds and thus increase their funder-dependence, they suffer from narrow, upward accountability demands (Ebrahim, 2005; Edwards & Hulme, 1996b; Hodson, 1997; Najam, 1996; Smillie, 1996). Requirements from funders, which increase as the amount of official funds channeled to NGOs increases, shift the accountability away from beneficiaries and risks to over-emphasize short-term, quantitative outputs (Edwards & Hulme, 1996b).

Upward accountability is seen as mainly focusing on accountability through the use of quantitative measures designed to assess aspects of NGO "performance" (Edwards & Hulme, 2002; Najam, 1996; O'Dwyer & Unerman, 2008). This leads to accountability mechanisms being predominantly used for ensuring efficient usage of (financial) resources rather than effective utilization of the funds (Unerman & O'Dwyer, 2010; Kilby, 2006; Lewis & Madon, 2004; Ebrahim, 2003). Thus, the emerging dominance of upward accountability in NGOs in practice has created concerns that NGOs' accountability focus becomes distorted and beneficiaries sidelined (Blagescu et al., 2005; Ebrahim, 2005, 2003; O'Dwyer & Unerman, 2007, 2006b; Dixon et al., 2006; Edwards & Hulme, 1996b; Lloyd, 2005). Consequently, existing literature within development NGOs "argues strongly in favour of accountability mechanisms that provide accountability to, and capture the views of, beneficiaries" (Agyemang et al, 2009; Edwards & Hulme, 1996b; Edwards & Fowler, 2002; Ebrahim, 2003; Kilby, 2006; Unerman & O'Dwyer, 2010). While upward accountability can contribute to improve efficiency of funding spent, downward accountability is "needed to improve effectiveness of the deployment of aid" (Unerman & O'Dwyer, 2012; Unerman & O'Dwyer, 2010; Kilby, 2006). Unerman & O'Dwyer (2010) stress the need for establishing formal downward accountability mechanisms in order for the NGO to "become a learning organization" by interacting with and learning from its beneficiaries.

As increased funds are channeled to NGOs, they subsequently grow and acquire new staff that was not involved in the "original dream" (Najam, 1996). Internal accountability is used to avoid the emergence of additional, and perhaps competing, "visions" which may distort the realization of the actual vision (Najam, 1996; Dudley, 1994). According to Kilby (2006), the NGO board plays a crucial role in fostering values that ensure adherence to this vision (this contradicts Keohane, 2002), in addition to internal proxies such as staff selection and program evaluation criteria.

The need for investigating the interplay between the three accountabilities

In the NGO accountability literature there is increasingly a call for taking a coherent view on all three accountabilities together. By incorporating the view of less powerful stakeholder groups in addition to the traditional upward focus on funders (who control access to key resources), NGOs may enhance their accountability structures and better measure their wider impacts (O'Dwyer & Unerman, 2008; Agyemang et al., 2009; Edwards & Hulme, 1996a, 1996b, 2002; Najam, 1996; Kilby, 2004). O'Dwyer & Unerman (2008) notes that if NGOs explicitly acknowledge the need for considering multiple stakeholder groups, this leads to "significant emphasis being placed on downward accountability to beneficiaries (Dixon et al., 2006)". A limited number of studies have so far taken a comprehensive look on how the three accountabilities work together. A case study by Goddard and Assad (2006) found, by investigating three Tanzanian NGOs, that overall, accountability was mainly used for the purpose of maintaining and enhancing symbolic legitimacy towards funders. The fulfillment of the funders' accountability requirements "proved" the organizational competence and subsequently built organizational credibility in the eyes of funders. For internal decision-making, however, accounting played a minimal role since the externally initiated accounting mechanisms were seen as "fundamentally superficial" and could "not affect culture, values and belief systems", nor penetrate internal working arrangements. O'Dwyer & Unerman (2010) analyse the relationship between funders and development NGOs and find that if downward accountability mechanisms are to be implemented effectively, it requires greater involvement and oversight by the funders (even far-fetched international funders). In this way, O'Dwyer & Unerman (2010) argue that funders are responsible for fostering downward accountability in NGOs. Kilby (2006) argues that the successful implementation of downward accountability mechanisms may be constrained in particular if there is a value conflict between the NGO and its beneficiaries, and fostered if the values are aligned. For this purpose, Kilby (2006) emphasizes the importance of establishing internal values, e.g. through staff selection and evaluation, that are aligned with the beneficiaries' values. Dixon et al. (2006) demonstrates the difficulties in managing multiple accountabilities for stakeholders with different power and resources. In their case study of a Zambian microfinance NGO, they recognize the unequal power in the relationship between the NGO and its beneficiaries, and find that this hinders the effective implementation of formal downward accountability mechanisms. Moreover, they find that too much formal requirements upwards from funders may lead to the implementation of ineffective downward accountability mechanisms. Hence, Dixon et al. (2006) argue that if the NGO, as represented by its field officers, instead have the freedom to develop informal, trust-based relationships with beneficiaries, downward accountability works more successfully. This is because the unequal power structures are relaxed, and a mutual "felt" responsibility between the NGO and its beneficiaries can instead be developed. Gray et al. (2006) supports the findings in Dixon et al. (2006) when they argue that close contact between an NGO and its key stakeholders necessitates less formal accountability mechanisms than required where there is a larger distance between those funding the NGO and the beneficiaries. Supporting the findings in O'Dwyer & Unerman (2010) and Dixon et al. (2006), Unerman & O'Dwyer (2012) argue that informal face-to-face engagement between NGO workers and beneficiaries is more effective and appropriate in helping to develop communities rather than traditional written reports.

Contributing to the ongoing debate

Despite the growing significance of NGOs and the ongoing debate in academic research, NGO accountability, especially among development NGOs, remains under-researched (Choudhury & Ahmed, 2002; Ebrahim 2005, 2003; Collier 2005; O'Dywer & Unerman, 2008; Unerman & O'Dwyer, 2006b; Dixon et al., 2006; Goddard & Assad, 2006). More studies are required to help identifying and developing suitable accountability mechanisms for a variety of NGOs (see, Ebrahim, 2003; Unerman & O'Dwyer, 2006b). Especially, few studies are done on how downward accountability is formally implemented and achieved in the organization (e.g. Kilby, 2006). While an initial set of studies on NGO accountability have started to emerge (e.g. Goddard & Assad, 2006; Dixon et al., 2006; Kilby, 2006; Agyemang et al., 2009) there is still a lack of – and thus a need for more – studies taking a comprehensive look on how all three, possibly contradictory, accountability demands (upward, downward and internal) are managed (Ebrahim, 2003; Kilby, 2006; Hopwood, 2005; Unerman & O'Dwyer, 2006a).

The aim of this paper is to contribute to the current research on accountability in NGOs, and more specifically in development NGOs, by taking a coherent and integrated perspective on how upward, downward and internal accountability mechanisms are configured within Microfin, and their effect on the relationship with the different stakeholders and in particular with beneficiaries. A special emphasis is put on contributing to the relatively new research on downward accountability, by looking at how downward accountability is promoted or suppressed depending on the implementation of upward and internal accountability mechanism. The following theoretical framework will serve as a basis, in order to answer the research questions.

2.3 Theoretical framework

While previous research has investigated NGO accountability in broad terms, we identify each mechanism individually and subsequently draw conclusions with respect to its effect on the three forms of accountability (upward, downward and internal). In order to do so, we draw on Ebrahim's (2003) framework, which greatly serves our purpose for identifying accountability mechanisms in NGOs. The framework provides a structural way of understanding the accountability structure within Microfin and is divided into five sub-categories of accountability mechanisms, which are generally found in NGOs: reports and disclosure statements (usually for the purpose of fulfilling upward accountability requirements), performance assessment and evaluations (usually used for upward accountability), participation of beneficiaries (downward accountability), self-regulation (usually for internal accountability) and social audit (can relate to all three accountabilities). In this way, Ebrahim's (2003) framework provides a useful tool for laying out Microfin's accountability mechanisms in detail. In addition, we use Kilby's (2006) schema for analyzing the effectiveness of the downward accountability mechanisms present in Microfin, as identified through the use of Ebrahim (2003), by looking at the *level of formality* and the *depth of* downward *accountability*.

2.3.1 Alnoor Ebrahim's (2003) framework for analyzing accountability mechanisms in NGOs

Alnoor Ebrahim (2003) problematizes the current upward accountability focus in NGOs and argues that it encourages and forms relationships with a highly imbalanced accountability structure. In his framework he takes an integrated look at how NGOs deal with "multiple and sometimes competing accountability demands" upwards from funders, downwards from beneficiaries and internally to the NGO itself. This integrated way of looking at accountability, he claims, is "missing from much of the debate on [NGO] accountability". Ebrahim (2003) identifies five broad, but by no means comprehensive categories of accountability mechanisms present in NGOs: reports and disclosure statements, performance assessments and evaluations, participation, self-regulation and social auditing. He distinguishes between them as being either a tool or a process used to achieve accountability. An accountability tool is a "discrete device or technique", while a process is "generally more broad and multifaceted than [a] tool". The two first ones; reports and disclosure statements, and performance assessments and evaluations can be seen as discrete tools, while the two later; participation and self-regulation are rather continuous processes that are "a part of the ongoing routines" and "emphasize a course of action". The fifth, social auditing, can either be seen as a tool or a process.

In addition, Ebrahim (2003) makes three analytical distinctions. First, he distinguishes between stakeholder focus that is, upwards to funders, downwards to beneficiaries or internally to the NGO itself. For example, he notes that disclosure statements and reports are primarily used for upward accountability to funders. Secondly, he considers the inducement, or driver, behind each accountability mechanism. Is it induced externally, e.g. legal requirements for annual reports or is it internally driven, a felt responsibility by the NGO (e.g. by incorporating social and ethical dimensions)? Thirdly, he draws on the organizational response the accountability mechanisms generate –for short-term purposes (e.g. accounting for resource use) or is it a part of long-term strategy (e.g. accounting for structural impacts). Ebrahim (2003) concludes that in general, accountability mechanisms in NGOs tend to be externally induced by funders and serve a short-term purpose.

Categories of accountability mechanisms

Disclosure statements and reports are tools that mainly report financial or operational data upward to funders. These are often legally induced from upwards, lack downward focus and do not generally encourage NGOs to take internal responsibility for shaping long-term organizational mission or values. Thus, these mechanisms tend to be short-term focused.

Performance assessments and evaluations are usually induced externally from upward, where the formers are typically undertaken during the course of a project/funding cycle, while the latter ones are done at the end. The results are often decisive to whether funders will provide further funds in the future and thus mainly serve a short-term purpose. The main risk is that cumbersome data requirements from upwards may lead to the implementation of monitoring and evaluation systems that are irrelevant for internal decision-making, and consequently constrain organizational learning.

Participation mechanisms are processes by which beneficiaries are encouraged to engage in NGO activities and decisions, and are usually induced both internally from the NGO, but also sometimes externally from upwards. Ebrahim (2003) draws on four increasing levels of participation: 1) information is shared with the beneficiaries while decision-making power remains within the NGO, 2) beneficiaries are involved in the NGO's activities for example in the form of labor, 3) beneficiaries are granted bargaining power in decision-making processes within the NGO, which gives them more control over NGO activities, and 4) beneficiaries may initiate their own activities independent from the NGO. He argues that the two first forms are unlikely to lead to downward accountability due to lack of addressing unequal power balances, and in that function more as a short-term "feel-good" exercise for both the beneficiary community and the NGO (Najam, 1996), while the two latter forms enable beneficiaries to negotiate and bargain over decisions with NGOs, and thus serves a more long-term, strategic purpose.

Self-regulation refers to a process where the NGO develops its own standards and codes of conduct, either within the NGO or on a sector-wide level. Self-regulation is part of a complex process linked to "sectorial identity, legitimacy and normative views on organizational behavior", which can either be induced internally due to a "felt" responsibility or as a response to a loss of reputation, or externally from upwards to increase credibility, not lose access to funds or to avoid potentially restrictive future authoritarian regulations. This way, self-regulation can be seen as a strategic process forming the long-term change in behaviour and codes of conduct.

The final category, social auditing can be seen either as a process or a tool, whereby an NGO assesses and reports on its social performance and ethical behavior. Similar to participation, it may be induced externally as requirements from funders, or internally as an evaluation of its social performance. Its integrated nature makes social auditing a potentially valuable mechanism for enhancing NGO accountability, as it "combines a series of tools (e.g. use of disclosures and evaluations) with processes (e.g. participation of various stakeholders)" (Ebrahim, 2003). For this to succeed, the NGO needs to incorporate systematically the three stakeholders into dialogue and integrate with indicator development and performance assessment. If successfully implemented, it serves a short-term purpose as it affects the immediate performance of the NGO, and long-term as it promotes strategic planning, NGO-stakeholder interaction and sector-wide adaption.

Ebrahim's (2003) framework is summarized below.

Accountability mechanism (tool or process)	Stakeholder focus (in general)	Inducement (internal or external)	Purpose (short-term or long-term)
Disclosure statements and reports *(tool)*	Upward	External	Short-term
Performance assessments and evaluations *(tool)*	Upward	External	Short-term
Participation *(process)*	Downward	Internal/external	Short-term/long-term
Self-regulation *(process)*	Internal	Internal	Long-term
Social auditing *(tool/process)*	Internal/upward/downward	Internal/external	Short-term/long-term

Figure 1 shows the accountability mechanisms generally present in NGOs according to Ebrahim (2003).

From the framework above follows that NGOs need to focus on various stakeholders and requirements when tailoring their accountability mechanisms. Looking at Ebrahim´s (2003) three analytical distinctions (stakeholder focus, inducement, purpose) we can see that specific configurations of the tools and processes affect the relationships to stakeholders, which may result in imbalances of accountability. In this way, accountability mechanisms are interdependent, complex and diffuse in nature, and thus needs to be managed. For example, by incorporating the view of beneficiaries in the reports sent to funders, the NGO can increase transparency and credibility upwards. Likewise, if evaluation tools for clients and participation processes are used in combination, this can be used to develop complex downward accountability mechanisms. In this way, accountability mechanisms can foster and constrain each other, depending on how the NGO implements and manages them.

Hence, the strength of downward accountability is not only dependent on which downward accountability mechanisms are in place. An NGO's organizational values (related to internal accountability) may have a huge influence on the effectiveness of the downward accountability mechanisms (Lissner, 1977), and so do the upward accountability requirements from funders (Edwards & Hulme, 1996b; Najam, 1996). Ebrahim (2003) does not specifically analyze the effectiveness of downward accountability, but rather provides a structured way of identifying the present accountability mechanisms. As downward accountability mechanisms lose their "raison d'être" if they are not effective in capturing the views of the beneficiaries, we draw on the framework of Kilby (2006) to assess their effectiveness.

2.3.2 Patrick Kilby's (2006) schema for analyzing the effectiveness of downward accountability mechanisms in NGOs

The need for specifically analyzing the effectiveness of downward accountability comes from the unequal power structures inherent in the relationship between the NGO and its beneficiaries. This implies that the mere implementation of participatory downward mechanisms do not result in the NGO automatically being held to account by its beneficiaries. If the views of the beneficiaries are not captured through the mechanisms, they can be considered useless. Kilby (2006) notes three issues which NGOs face in being downwardly accountable to the beneficiaries. Firstly, NGOs are not required by law to provide their beneficiaries control. Hence, there are no sanctions the beneficiaries can induce if they are not satisfied with the NGO work. Secondly, the "required" accountability the NGO has to other stakeholders, such as the government and other funders, affects the strength of the accountability relationship they can have with their beneficiaries (Edwards & Hulme, 1996b), and finally, the internal, "broad values" of an NGO can determine the approach the NGO can take to downward accountability (Lissner, 1977). In sum, Kilby (2006) notes that NGOs' existence is based on the claim that they represent the good of their beneficiaries. However, there is no clearly defined path by which they can be held to account by those beneficiaries (who have little power in the relationship). So, regardless of the tools and processes that are in place for accountability (as examined through Ebrahim's (2003) framework), it is the degree of "rectification" – that is, the organizational changes resulting from the accountability relationship – that measures the strength of downward accountability (Mulgan, 2003). In essence, the strength of accountability corresponds to the ability to affect changes in NGO's action. This, Kilby (2006) claims, is largely absent for beneficiaries, due to them not being "able to impose a cost" on the NGO, hence they lack significant potential for "rectification". In line with Ebrahim (2003), who argues that the first and second levels (out of Ebrahim´s (2003) four) of participation do not lead to downward accountability, Kilby (2006) claims that "participation" does not imply, and in fact is a very poor proxy for downward accountability, since, in contrast to funders, beneficiaries have few tools to enforce accountability in practice.

Thus, since there exist no "real" requirements for downward accountability, NGOs have put in place "downward" accountability mechanisms ranging from very informal to formal. In order to assess the efficacy of these mechanisms, Kilby (2006) proposes a schema, which analyzes these mechanisms on their level of "depth" and "formality". The *depth of accountability* refers to the nature and extent of feedback arrangements from NGO to beneficiary. Depth increases with the frequency and the range of topics addressed to beneficiaries, as well as the extent to which topics are determined by beneficiaries. The *level of formality* refers to the formal rights of access and potential for "rectification" for beneficiaries, such as in form of regular or discretionary meetings, the extent to which the formal agenda of these meetings encourages beneficiaries to express their views and the formal response of the NGO, such as in form of minutes. Kilby (2006) claims that while "depth" does not assure "rectification", he expects that the more formal arrangements the greater the likelihood of "rectification" occurring. The presence of formal processes establishes a right for beneficiaries and is thus empowering, leaving the possibility that beneficiaries can impose direct cost on NGOs (Unerman & O'Dwyer, 2010).

In this, Kilby (2006) argues that informal accountability processes are insufficient and at best link the NGO instrumentally (through its work on the ground), but not structurally, to its beneficiaries. Thus, according to Kilby (2006), informal accountability processes can never lead to strong empowerment outcomes in the NGO-beneficiary relation. Consequently, to enable beneficiaries to gain more power in the relationship to the NGO, there is a need for developing formal accountability mechanisms. At the same time, NGOs should no be caught up in exclusively serving a narrow beneficiary base, but should maintain its flexibility to expand into other, new communities.

It should be noted that we add on yet another component, when assessing the "level of formality" in Kilby's (2006) model. We identify the importance of who is the "initiator", in the usage of the formal downward accountability mechanisms, which is put in place; Microfin or the beneficiary. We find the "initiator" to be an explanatory factor to whether the mechanism will actually be used, despite it being formally in place. As such, when assessing the level of formality, we also take into account who initiates the downward accountability mechanism.

Kilby's (2006) schema of downward accountability is summarized below.

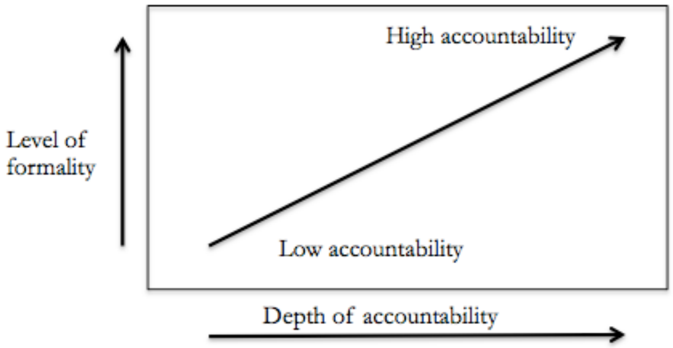

Figure 2 shows Kilby's (2006) schema for downward accountability, and illustrate his claim that the more formal downward accountability arrangements in place, the greater is the likelihood of "depth".

Having presented the two frameworks by Ebrahim (2003) and Kilby (2006) respectively, we now summarize them into the following schematic framework, which shows an integration of Ebrahim (2003), Kilby (2006) and Najam's (1996) conceptual framework of accountabilities. It shows that the effectiveness of the downward accountability mechanisms ("participation" in Ebrahim´s (2003) framework) is dependent on their "level of formality" and "depth of accountability", and further that an NGO's accountability structure mainly dependent on the set up of its accountability mechanisms.

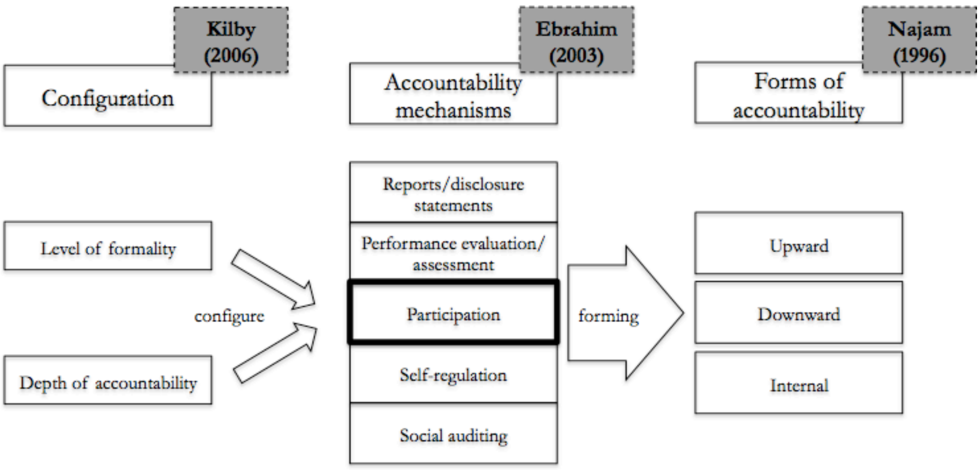

Figure 3 shows an integrated framework as laid out by the two researchers (us).

This integrated conceptual framework serves us to answer the research questions defined above.

3 METHODOLOGY

In order to fulfill our aim and answer the two research questions, previously outlined, we conducted a six-week in-depth case study at Microfin, a large microfinance NGO in North India. The study was designed as an explanatory[7] and abductive case study in order to better understand the nature of the tensions between Microfin's multiple accountabilities (see Sekaran, 2000).

Methodological motivation for choosing Microfin

Microfin was chosen for the study for mainly two reasons. First, while previous research has focused on small-scale development NGOs (e.g. Dixon et al., 2006; Goddard & Assad, 2006), Microfin has been underlying a significant growth path since its inception two decades ago. Following the trend in the sector, Microfin is dependent on serving a large number of funders to maintain and continue this growth. Secondly, with currently around 1,900 employees and almost 650,000 beneficiaries, Microfin has grown to one of the largest NGOs in its sector in India. The number of staff and beneficiaries impose a various accountability challenges for the organization, including ensuring control in the widespread fields, where a majority of staff having limited education and the majority of the beneficiaries being illiterate, as well as ensuring adherence to the vision, mission and values across the organization.

Case study

The case study consisted of an in-depth, on-site research conducted by the two researchers (us) during a period of six weeks in the beginning of 2014. Data gathering was based on detailed day-to-day field observations in combination with a number of formal and informal interviews with representatives from the three key stakeholder groups (funders, beneficiaries and staff). Our daily presence enabled the emergence of numerous informal conversations and in this way generated trust between staff and us, resulting in access to confidential information and personal views and insights, which would have been hard to attain in a more formal setting. Furthermore, stressing transparency in doing business, Microfin provided us with all kinds of public and confidential data regarding its business. We were able to move around freely in the head office and could approach individual staff on our own initiative. The fact that the business language in Microfin's head office is English further facilitated the opportunity of developing informal relationships and gaining first-hand contact with staff. We were provided a private room at the head office for conducting our research, which enabled us to undisturbed conduct interviews and discuss our findings in a private setting. Overall, the great access to meetings with staff, beneficiaries and funders, in addition to receiving internal documents and participate in daily work ranging from

[7] Explanatory case studies can be used to explore and describe phenomena, but can also be used to explain causal relationships and phenomena and to develop theory.

field work, training of staff and day-to-day work at the head office enabled us to understand the organization and its accountability structure in-depth, using various methods of collecting data.

Data collection process

The data collection process was further facilitated by the fact that the organization itself, with the managing director in the lead, was very encouraging when we first initiated contact and proposed our field research in the fall of 2013. A member of the training department subsequently coordinated our stay, supported us with relevant contacts to external stakeholders as well as internally with staff, and enabled us to do a number of field trips to rural and urban branches. As only 150 out of the 1,900 employees work at the head office, and all operational work is conducted in the field, the field trips proved to be a crucial component of the data collection process. In short, the field study was laid out as follows: the first week (out of six in total) was spent at the head office where introductory meetings with members of most departments were conducted in order to gain an understanding of Microfin's overall operations. It should be noted that several department heads, independently of each other, encouraged us to go “to the field” in order to gain an understanding of Microfin’s operations, because, as one head departmental head noted, “that is where our actual work is conducted, not here at head office”. Such statements influenced our fieldwork that we from the very beginning understood the importance of spending time in the fields. The subsequent five weeks we alternated between conducting numerous formal interviews, observing the every-day work and routines at the head office and branch offices, visiting the fields to observe operations, meeting with Microfin's departments, external partners and beneficiaries, analyzing internal and external documents and simply moving around and interact informally with staff (from all hierarchical levels). At the end of each day we wrote down our observations in a daily log, which we kept doing throughout the six weeks of our stay (see excerpt in Appendix). Our main data sources, direct observation and informal conversations, formal interviews and key documents are summarized below.

Direct observation and informal conversations

A large part of our findings is derived from direct observations and participations in the daily work and processes, such as from participating in the training of new staff and attending business communication seminars with key personnel at the head office, from gaining insights from observing field officer-beneficiary interaction and visiting beneficiaries’ homes and g businesses. Thanks to our daily presence in the organization, we were able to build trust within the organization and to develop informal relationships to staff. This, in turn, enabled us to access valuable personal opinions and views normally not outspoken (Sekaran, 2000, p. 226). For example, it happened that some staff spontaneously dropped into our office seeking informal conversations about Microfin with us. Overall, we got to know more than 50 employees in person ranging from the founding chairman, the managing director, and department heads down to field officers. By participating in multiple field trips in rural and urban areas we got the opportunity to understand the working processes and gained impressions from operations. We had the opportunity to attend over ten client group meetings, to observe the meeting procedures and to gain important insights of the interaction between field officers and beneficiaries. Our attendance was preannounced to the field officers a day before every field trip, which may have affected his or her behavior during the meetings and in the interaction with clients. However, after accompanying the field staff for a certain time, we noted that our presence faded more into the background until it was ignored, and usual, unbiased working patterns seemed to emerge. When conducting formal beneficiary interviews, we insisted on choosing the beneficiaries ourselves to assure that field officers would not present "success cases" to us. Invitations from beneficiaries to see their homes or businesses after the interview (usually on walking distance from where the client group meetings with Microfin are held) led to more informal conversations and created a good understanding of who the clients are. Additionally to attending client group meetings, we observed operations at branch offices and the interaction between clients and branch staff.

It should be highlighted that our daily observations often took an unobtrusive approach, meaning that the observed were unaware of us examining the situation, which created further unbiased insights (Hair et al., 2007). All information gained through observations, informal conversations and our personal impressions were noted down in the daily log during or at the end of each day. Interesting findings were discussed and highlighted among us. In addition, a log was composed and updated each day with information regarding daily routines and people met: their names, positions and contact details for further queries. This large set of information gives us deep insights into/for mapping the accountability mechanisms present within Microfin, which would have been difficult to gain only through formal interviews (Etzioni, 1961).

Formal interviews with staff, funders and beneficiaries

Formal interviews, individual and department-wise, constitute the second of our main empirical building blocks. Previous research has found formal interviews to be important in order to successfully generate in-depth insights (e.g. Ebrahim, 2003; Dixon et al., 2006; Goddard & Assad, 2006; Grey et al., 2006; Unerman & O'Dwyer, 2006b; Agyemang, 2009). During the first week of our stay, we formally met with almost each department (13 in total) for one to two hours. During these meetings, department representatives presented their functions and responsibilities, and we were able to freely ask questions and initiate discussions. These meetings proved to be valuable for the rest of our stay, as we got to know key staff and managed to quickly build trust and "establish" ourselves within the organization. Extensive notes were taken during these meetings, which were eventually structured and transcribed. These notes add provided us with an extensive and rich "information-starting point", which served as a basis for the subsequent individual interviews as we were able to quite directly initiate a more profound discussion since we already had gained a basic understanding of the organization. From week two and onwards, the main focus was on individual interviews, rather than departmental. In total, 29 formal individual interviews were held, with the interviewees being beneficiaries (7), external parties (2), and staff including the chairman and the managing director (20) (see Appendix). Beneficiary interviews lasted between 15 to 45 minutes with an average of around 30 minutes, while the other interviews lasted between 30 to 90 minutes with an average of 60 minutes (especially interviews with field officers were of shorter duration, due to staff being under time pressure). The relatively short duration of beneficiary interviews can be explained by time constraint, since the beneficiaries (all women) urged to go back to work or to take care of their small children. All interviews were semi-structured and interview questions were adjusted depending on the interviewees' function/role, but also during the course of the research process as the study focus became more and more narrow. The semi-structured approach gave us the opportunity to ask unanticipated questions and react on new and emerging insights while maintaining a structured direction, which helped in the comparison of the data in the analysis process (Hair et al., 2007). Furthermore, a natural flow of the discussion was established one the one hand, which facilitated for interviewees to talk freely without feeling constrained, and on the other hand that the conversation remained focused on the relevant issues of investigation (Pattron, 1990; Goddard, 2004; Maykut & Morehouse, 1994). When interviewees were unable to communicate in English, which was the case in the interviews with beneficiaries and field officers (the lowest operational staff level), a translator was used.

All interviews were conducted by both of us, where one of us asked questions and the other one took notes. All interviewees agreed that detailed notes could be taken during the interview. In the beginning, we used pen and paper, but as the situation became more comfortable we subsequently transferred to live computer writing. In order to create a comfortable and less intimidating atmosphere, the interviews were not tape-recorded, as suggested by our thesis tutor before departure. Especially for clients and low-level staff, the interview setting seemed new and even a bit uncomfortable. Hence, we aimed to mitigate this when choosing note-taking method. The interview notes were discussed between us daily to ensure high data quality and accuracy and were at the end of each day structured and transcribed for a second time, and finally re-checked by both researchers, to increase reliability.

Key documents

The third pillar of our data collection process comprises the analysis of around 60 key documents (see Appendix). This includes public available data such as annual reports, social and credit ratings, and the code of conduct. In addition, we gained access to internal and confidential documents, including the

"Operational Manual" and the "HR Manual", internal audit reports and various performance reports. The latter include funders' reports, operational, social and financial reports.

Data analysis

The process of digesting and analyzing the empirical data started already during the course of the field visit. All findings were shared and discussed daily, which enabled us to gain different perspectives and complement our respective insights and observations. This further creates confidence and strengthens the accuracy in the analysis (in line with Eisenhardt, 1989). The continuous data analysis process, which was conducted simultaneously to data collection, mutually influenced the problem focus, our methodology and the underlying theoretical framework. Even though the focus of investigating accountabilities within Microfin was to wide extent pre-set, during the course of the study, the theme of conflicting accountabilities with specific focus on downward accountability mechanisms carved out more specifically. Consequently, the data collection instruments and the developing theoretical framework were adjusted accordingly to our research direction and emerging findings. Additional interview questions were added to the questionnaire (e.g. Harris & Sutton, 1986) and the focus of the document analysis shifted (Eisenhardt, 1989). During the middle of our study, the theoretical framework was finalized and the interviews and observations subsequently became more narrowly focused.

Post-field study all collected data, such as interview transcripts, observations, daily logs, and documents received, were worked through thoroughly and information was structured inter alia in categories according to the conceptual frameworks laid out in the theory section (Ahrens & Chapman, 2004). For this, no formal coding program was used, however relevant information was categorized in order to better make sense of the data and to discover emerging patterns. The first layer of categories consisted of: Microfin's key stakeholders and information related to upward, downward and internal accountability. As a second layer, data was clustered according to Ebrahim's (2003) five categories of accountability mechanisms - reports and disclosure statements, performance evaluation and assessment, participation, self-regulation and social auditing - which served as basic structure for the case analysis. Data that was deemed irrelevant for the aim of this thesis/answering the research questions was henceforth ignored (in line with Hair et al., 2007). This empirical information, which we gained from clustering, was used to draw conclusions on our case, which was related to previous research in order to carve out unique insights from our case analysis. In order to gain more insights and trust in our findings, various sources of data were compared, such as field observations and interview notes to converge evidence (in line with Suter, 2012, p. 350) The first loop of analysis made the need evident for a more profound understanding of downward accountability mechanisms, which is why we additionally draw on Kilby's (2006) schema for analyzing the effectiveness of downward accountability mechanisms in NGOs and added two additional layers, "level of formality" and "depth of accountability", to our analysis. Case specific conclusions were drawn and eventually, our findings of the case analysis were laid out, written down and compared to previous literature.

4 CASE ANALYSIS

4.1 Poverty and microfinance NGOs in India

Around 33 per cent of the 1.2 billion[8] people in the world who live below the international poverty line (USD 1.25 per day) today live in India (The World Bank, 2013), which sums up to around 394 million people. Considering India's national poverty line[9], which is stated by the Reserve Bank of India (RBI), the number is 270 million people (more than one fifth of India's population). The life expectancy is 66 years, placing India on rank 136 in the United Nation's Human Development Index. Furthermore, the country ranks 132 out of 148 in the Gender Inequality Index (UNDP, 2013). Only 35 per cent of the adults have access to formal financial institutions (The World Bank, 2011), and, even less, only 8 per cent are able to formally borrow money. This has brought the topic of financial inclusion on the top of the political agenda (The World Bank, 2014). Lacking creditworthiness and collaterals among extremely poor people, often located in remote rural areas with limited infrastructure and no outreach of commercial banks, has made them being excluded from the formal banking sector. The Indian government strongly relies on the development sector, where NGOs play a significant role, for tackling these issues. Currently, the Indian authorities estimates the number of active NGOs to be two million, one NGO for every 600 Indians, active in various development sectors (The Times of India, 2014). Microfinance, offering financial services to the poor, is seen as one important pillar to overcome poverty by financial inclusion. MFIs[10] provide credit for self-employment purposes generating raising income levels and improved living standards. India's fragmented microfinance sector consists of around 50 for-profit and around 600 non-for-profits (NGO) MFIs (M-CRIL, 2012), such as Microfin, serving according to SAGE (2012) 26.6 million clients and having a gross loan portfolio of 209 billion INR (around 3.5 billion USD). Out of the ten largest MFIs in India, which in 2012 accounted for 74 per cent of the total outstanding loan amount in the sector, only two are NGOs. Until 2010 the sector was skyrocketing with annual client growth rates of 62 per cent and loan portfolio increases of 88 per cent. This boom is mainly caused by the commercialization of a sector historically dominated by NGO-MFIs, starting at the early 2000s, where many NGOs transformed to for-profit MFIs in order to attract private investors and extensive funding by commercial banks (Ghosh, 2013). An emerging "get rich quick" mentality

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[8] Despite a worldwide reduction of people living in poverty by 700 million in the last decades (The World Bank, 2013).

[9] The Indian Planning Commission releases the poverty estimates in India. The poverty is measured based on consumer expenditure surveys conducted by the National Sample Survey Organization (NSSO). The poverty line is defined based on monthly spending on food, health, education, electricity and transport. Currently, for people in rural areas the national poverty line is estimated to be 816 INR and for people living in urban areas its 1,000 INR per capita per month based on the Tendulkar methodology (Government of India, 2013).

[10] Microfinance institutions (MFIs)

among for-profits induced often-charged interest rates between 30 and 60 per cent, the usage of undesirable coercive loan repayment methods and multiple lending practices resulting in over indebtedness of clients. The sector was plunged into a crisis in 2010, when media reports about 200 suicides in the Andhra Pradesh state in relation to coercive loan repayment practices enforced by for-profits. Immediate released authoritarian ordinances to control activities, including limitation of interest rates, prohibition of multiple lending and penalties for coercive loan recovery methods impeded ground-level operations of in particular Andhra Pradesh's for-profit MFIs. This had vast consequences on the so far relatively unregulated microfinance sectors (CGAP, 2010). Although NGOs still remain relatively unregulated, compared to for-profits, they now also face certain regulation requirements, such as margin and interest rate caps and prescribed minimum capital adequacy ratios (CAR) [11], which might be even stricter in the future as the Indian government is about to issue a "Microfinance Institutions Bill" seeking for more regulation in the microfinance sector (Care Ratings, 2014). Competing against for-profit MFIs for funding, NGOs currently face hard competition in the fields requiring excellent operational models in order to attract funding from social and commercial investors and to survive within the sector. Furthermore, being restricted in the attraction of equity investors, NGOs mainly rely on donations, grants or bank loans resulting in high debt to equity ratios, which limits their growth potential compared to for-profits. Since the Andhra Pradesh crisis, the situation has become even harder for NGOs, because the sector now faces "something of a reputation risk" (managing director of Microfin).

4.2 Microfin

Microfin is a poverty-focused NGO operating in North India. Its vision is to provide access to financial services to all below-poverty-line (BPL) women[12] in Eastern Uttar Pradesh and Bihar. These women are excluded from the formal banking sector due to lacking credit worthiness and collaterals, and rely on informal moneylenders[13] or the credit from village wholesalers for gaining access to capital. Hence, Microfin's mission is to identify these women and motivate them to use their microfinance services (mainly micro credit, in addition to savings and pension accounts) to lift themselves and their families out of poverty. Microfin aims to achieve this in a financially sustainable way. All employees ascribe high importance to the vision and mission, and the chairman stresses that it is "... terribly important to us".

[11] Here defined as CAR = (share capital + sub-ordinate debt) / risk-weighted assets

[12] Microfin defines its target clients as BPL women, which have to consist of 90% of women from households living below "USD 1.5 per day" line. Microfin identifies these poor women by using its housing index (HI) and Progress-out-of-Poverty-Index cut-off-score. The HI identifies very poor women based on certain parameters assessing the condition of their house, while the PPI focuses on parameters such as proprietary assets, income and family circumstances.

[13] Moneylenders are individual persons who offer small personal loans at very high interest rates. Sometimes, they use coercive methods to obtain their installments.

The credit is provided on the condition that clients invest it in income-generating activities, from which they are able to pay the weekly installments, in addition to be able to increase their living standards. Microfin provides loans up to 30,000 INR (about 300 Euro) in a two-year loan cycle. Recently, Microfin initiated a small-scale pilot project in which it provides free-of-charge health and educational services to a small section of its client base. This is funded by the surplus from its core operations (i.e. the micro credit business), but in order to increase the outreach to include all clients (which is the goal in the future if the pilot project proves successful), it is dependent on grants.

Origin and current stage

Microfin was founded in 1993 as an attempt to replicate the successful Grameen Bank model in Northern India. Microfin's founder and current chairman explains:

"I first met Mohammad Yunus [the "father of microfinance" who started Grameen Bank in Bangladesh] in 1985, and got the idea that it would be interesting if the same approach would work in a different context /.../ I wanted to work in an area with more potential customers, that is why I parachuted it to India and Eastern Uttar Pradesh."

In the start-up phase, the funding was based on zero to two per cent loans from the Grameen Trust. However, it proved to be difficult to motivate rural women to take on loans. He continues:

"The rural culture makes it very difficult to work here. There is a great fear among rural people of being cheated. They don't trust anybody. They don't trust outsiders, that is, people from outside the village."

Eventually, the words about Microfin spread across the villages that the organization was trustworthy and provided its clients with new opportunities. Also within the microfinance sector Microfin soon established a good reputation. This newly gained credibility contributed largely to its growth. A representative from an external rating agency notes:

"[Microfin] has been able to grow because of its good reputation and goodwill."

Today, Microfin has grown to be one of the largest non-for-profit MFIs in India, with around 1,900 employees and more than 650,000 active loan clients. Over the years, it has received a number of awards in the Indian NGO and microfinance sector. Currently, Microfin operates in 341 branches in 18 regions in Eastern Uttar Pradesh and Bihar, and still emphasize growth. Only during the last six months of 2013, it opened around 80 new branches and entered into six new regions. Apart from the board of directors, all employees are remunerated and earn their livings from Microfin. Their career progress is based on certain performance targets. Microfin's founder is still the chairman of the board, and has a strong influence on strategic and operational decisions in the organization. He points out a problematic nature of being a non-for-profit:

"We have to compete with the other MFIs, otherwise we lose staff to them. The bigger for-profits tend to pay very well/.../We are required to pay our field officers the minimum wage [of factory workers]. On top of that, we have incentive schemes where they can double their salary, which have brought out very good results. The side effects are that it creates money-minded staff."

Operations

Approximately 150 out of the 1,900 employees work in support functions at the head office. The rest works "in the field" i.e. at branches and regional offices in rural areas. Field staff (area managers, branch managers, field officers) is generally fully accommodated, including food and sleeping facilities, at the branch offices. The field officers form the baseline of Microfin's operations and are responsible for conducting "core credit activities" (for organizational chart, see appendix). These include every step from finding BPL women, grouping them into "centers" and motivating them to take loans, to disburse the loans, collect installments, and perform loan utilization checks. The field officers conduct weekly center meetings in the village, where they sit together with the clients and collect the installments. Every week they meet at the same time and place. It is during this meeting the field officers get the chance to interact with clients, and also receive new loan proposals from them. One field officer is responsible for up to 25 centers, each with 20 to 25 clients, and subsequently spends six days per week conducting center meetings. In addition, branch managers and area managers go into the field, meet with clients and perform loan utilization checks. A branch manager is responsible for one "branch", which consists of five field officers. Four branches form an "area", headed by an area manager. Every area belongs to one of Microfin's 18 regions (headed by regional managers), which are equally divided into North and South Zone (headed by zonal managers). Disregarding the chairman, the managing director and the two zonal managers form the highest decision-making powers in Microfin's operations. Microfin's operations are to a high extent dependent on Microfin's internally developed IT operations system. An ITC[14] manager explains:

"If the IT is down, no work can be done during the day."

The IT system is the heart of Microfin's daily reporting and management system. All field officers are equipped with a GPRS-phone, which is used to document every transaction they conduct with each individual client, such as installment collections, loan disbursement and center meeting attendance. This information is sent to a cloud server where the information is stored and daily transferred to a central database located at the head office. The central database is constantly updated with this "live data" and used by the accounts department to create financial statements and by the ITC and monitoring department to compose operational reports. Microfin's IT operations system strongly contributes to the or-

[14] Information Communication Technology

ganization's overall cost-efficiency. The mobile application has enabled Microfin to eliminate 80 per cent of the IT equipment at the regional offices and instead implement a centralized administration process at the head office. An ITC manager highlights the advantages:

"We are completely paperless in the operations, the field officer only needs his phone to operate. Thanks to this, our accuracy and cost-efficiency has improved."

Growth plan

The organization not only aims for remaining financially sustainable, but an implicitly unformulated goal is to minimize the interest rate for its loans clients. To achieve this, operating costs need to be minimized. Growth is important to achieve economies of scale as the chairman explains:

"The operating costs are the most important cost. It should continue to go down as we enjoy economies of scale."

Subsequently, according to the managing director, Microfin passes on the benefits to its clients:

"We take big pride in saying that we share the benefit of economies of scales [with our clients] in terms of interest rate reduction. From 2008 until today, we have reduced our effective interest rate by ten per cent."

Microfin follows an ambitious five-year growth plan with the aim of doubling the number of active loan clients. To fulfill this goal, Microfin has started partnerships with commercial banks and operates as a so called "business correspondent" (BC) for banks, a concept promoted by the Indian government. Since many commercial banks lack outreach in rural areas where only MFIs operate, they outsource operations to the MFIs, among them Microfin (meaning that BPL-women borrow directly from the bank, but are served by Microfin). In turn, Microfin charges the banks a "service charge". The reason for Microfin to engage in the BC model is to increase its outreach and outstanding loan portfolio without reducing its CAR ratio by taking up additional loans in their balance sheet. At present, Microfin has three such partnership agreements with commercial banks in three of its regions, however it aims to expand the model to all of its regions, to in total make up 50 per cent of its entire loan portfolio. A major driver affecting the degree of Microfin's expansion is the availability of official funding in the form of debt (similar to the situation of the South Asian NGOs described by Edwards & Hulme, 1996b). A member of the operational management team[15] is clear about the future:

"There is an unlimited amount of BPL clients to expand to, the only restriction is the funding."

This view is confirmed by the chairman:

"The only constrain to growth is money."

Based on the funding situation, the business plan is revised accordingly every year.

4.3 Key external stakeholders

Microfin's external stakeholders consist of funders (debt and equity providers and state authorities) and beneficiaries (or clients, as Microfin calls them).

4.3.1 Funders (upward)

Microfin mainly relies on social investors and commercial banks to fund its operations. As share capital is restricted from the RBI, social investors provide capital in the form of sub-ordinated debt, while banks provide ordinary debt in the form of term loans. Rarely, Microfin also receives lump-sum donations, for example in order to fund its internal IT infrastructure development.

Share capital

Microfin's share capital is entirely owned by Microfin Tech., which the chairman set up in 1993 to start providing microfinance services. In 2003, Microfin Tech. founded Microfin and transferred its microfinance activities to Microfin. Microfin Tech. does not provide any further services. Since Microfin is a not-for-profit organization it is exempted from paying taxes, and is by law not allowed to generate profits and consequently cannot distribute dividends to attract private investors. The only way to slightly increase its share capital is by gaining a net surplus, however the CFO, who is responsible for funding and the relationship with funders, explains its limitation:

"The net surplus should not be more than 15 per cent of our total surplus. We have to testify that we are not profit making."

The rest of the net surplus is used either for investments or to reduce clients' interest rate. The amount of share capital has huge implications on Microfin's growth and loan portfolio, since Microfin is required to maintain a capital adequacy ratio (CAR) of 15 per cent, otherwise banks will not lend to them. To this, the Chairman notes:

"We have CAR problems. We can't attract private investments. We are always short on capital. We are building our own equity capital by our own surplus, however we can use at a maximum 15 per cent of it. This is why we try to match with tier two capital [sub-ordinated debt] /.../ Tier two capital can only be the same amount of tier one capital."

Social investors

[15] The operational management team is formed by Microfin's two zonal managers, two deputies, two assistants and the "business correspondent" program manager. It has the responsibility to lead the operations and together with managing director and chairman takes strategic decisions.

Microfin attracts social investors in order to increase its capital base by adding sub-ordinated debt, which is needed to increase the loan portfolio and consequently to follow its growth strategies. At present, Microfin has nine social investors, most of them from Europe or USA, "[which it] has ongoing relationship with" (CFO), and which provide long-term sub-ordinated debt, with an average duration of five to eight years, to the organization. Social investors' capital is a cheaper way of funding, since their interest rates are around 30 per cent below commercial funders' and their focus is mainly on social activities as the CFO notes:

"They don't put any condition. They try to ensure the social involvement. Either it works or it does not work for them!"

Commercial funders

Microfin receives the vast majority of its funds from commercial funders, which are either private or public banks. Currently twelve public sector banks and nine private banks provide debt in the form of term loans with tenures of two to three years. The lending to Microfin goes under the state regulated priority sector lending[16], which is explained by a representative from Microfin's largest funder:

"Our main interest for lending to Microfin or any other MFI is our target and this target says that we have to lend to the priority sector/.../ The RBI sets the target to 40 per cent of our overall lending activities."

The motivation is further stated by the CFO:

"In rural areas the private banks do not have so many branches, so they want to lend to us to fulfill their priority sector lending requirements. It is more expensive for us to borrow from public banks. Public banks have more branches in rural areas themselves."

Despite filing under the priority sector, Microfin is more or less seen as an ordinary customer in the eyes of banks and as such needs to negotiate regarding the interest rate. A representative from a public bank explains:

"The target [of priority sector lending] is only one of the factors, but we definitely generate some income from [Microfin] as well. The return for lending to the industry sector is basically the same as for lending to [Microfin]."

State authorities

India's central bank, RBI, imposes various legal restrictions on MFIs. Compared to for-profit MFIs however, NGO-MFIs remain still relatively unregulated and are able to operate in a flexible manner. As a consequence of the Andhra Pradesh crisis, limitations also hit NGO-MFIs. Since, they are tax-

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[16] The Reserve Bank of India (RBI), India's central bank, requires banks to lend 40 per cent of their total amount to the priority sector, including agricultural credit, housing loan and SME credit. This is a part of RBI's attempt to increase the financial inclusion in India, that is, to make financial services available to non-prioritized groups in low-density areas (e.g. rural areas).

exempted, they are not allowed to create any profit. Furthermore, the RBI limits total indebtedness of a microfinance client to 50,000 INR (600 Euro), as well as the maximum interest rate charged (26 per cent). The RBI further restricts the size of the "margin cap", i.e. the spread between an MFI's lending and borrowing rate, to be below 12 per cent. For Microfin, requirements imposed by RBI do not play any crucial role rather constitute any real burden. Its focus is mainly put on the relationship with the funders.

4.3.2 Clients (downward)

Microfin targets below-poverty line (BPL) women in Eastern Uttar Pradesh and Bihar. These clients are often uneducated and (financially) illiterate and are either unemployed or work for a starvation wage as agricultural labors. Generally, they live in small mud houses together with their husbands, children and parents in remote villages with a lack of infrastructure, such as energy and water. By providing loans to them for income-generating activities (which requires the women to invest the loan amount in small businesses), Microfin generates an opportunity for these women to get capital and move into self-employment, but also to become independent from the village moneylenders. Clients typically invest the loans in small general stores, vegetable carts including vegetables, which they sell on the street, bicycle rickshaws or buffalos that generate milk to sell. The income generated from these businesses, they use to pay their weekly installments and spend for their essentials, such as food. Some clients also manage to save little money in a pension program offered by Microfin and subsidized by the Indian government. Also, we observed that clients' often borrow on behalf of their husbands or the entire family and jointly start a business.

4.4 Existing accountability mechanisms outlined according to Ebrahim (2003)

Microfin employs various accountability mechanisms aiming upwards (to funders), downwards (to clients i.e. beneficiaries) and internally (within the organization and the sector). In this section, the major accountability mechanisms are identified and outlined according to Ebrahim's (2003) framework. Together, they present the tools or processes by which Microfin is held to account by its stakeholder groups.

Disclosure statements and reports

A majority of the disclosure statements and reports are directed to funders, who require written reports timely at various frequencies. In addition to the annual report, there are a vast number of reports that are sent directly to funders throughout the year. Public and private banks require on average six and nine reports respectively, while social investors ask for eight reports on average (the maximum number of reports required by a single funder is 16). The frequency of these reports is either on an ad-hoc, monthly, quarterly, half-annual or annual basis. The purpose of the reporting is explained by the CFO:

"Banks [public and private] are basically commercial organizations. They have to ensure that whatever money they give away generates some income, and eventually is paid back. In India, the government requires each bank, public and private, to lend to the priority sector. They [the banks] are not concerned with poverty rising, but rather that the funds are provided to the priority sector. That is the reason why they lend to us. Banks are not social investors, they are commercial investors /.../ Social investors are concerned with poverty rising, they are interested in what the impact and social activities are."

This is in line with the statement from a representative of Microfin's largest commercial funder:

"Our main interest in lending to them [Microfin], or to any other MFI, is to be in line with our target. This target says that you have to lend to the priority sector, which is basically the agricultural sector."

A majority of the reports are sent to all funders, including operational reports such as the "Monthly Project Statement-Report" or the monthly "Consolidated Summary Company Report" (which includes detailed information regarding clients, loan disbursement, staff and loan portfolio statistics) and financial reports such as the annual "Grading report" (an assessment by an external credit agency of Microfin's creditworthiness), the "Limits and Exposure"-report (includes outstanding loans to each funder), or the monthly "Provisional Financial Statement". In addition, each funder asks for a "Book Debt Statement" which includes an exact breakdown of clients Microfin lends the provided funds to. The content mirrors the requirements the funders have on Microfin's operations. The CFO says:

"There are many different kinds of information, queries and statements that banks need from us. For example, they have certain requirements before they disburse the loan. E.g. we have to show them that we actually need the funds. They also follow up on our performance in various ways after the loan disbursement."

What we notice when analyzing the reports is that the content is mainly financial, partly operational, and almost absent from information regarding the actual quality of Microfin's work or its social impact. While some of Microfin's reports are created automatically, a huge part requires manual work – for example the calculations of funder-specific financial ratios. The deputy head of accounts explain:

"Different banks require different financial ratios, and the use of different, individual formulas to calculate them. All this we do manually in Excel for each individual report."

Thus, the departments that monitor and process all financial and operational data (mainly accounts department and ITC department) spend a great amount of time customizing the reports according to each funder's individual specifications. This is highlighted by a member of the monitoring and reporting department:

"Every month there are a lot of reporting requirements. ...All funders have their own format, that is why we have to generate so many specific reports, probably 20 to 25 different specific ones"

While the annual report is required by law by the government and naturally focuses on providing financial and operational information to patrons, Microfin has voluntarily chosen to include additional information regarding its social performance but also regarding its business model, as a part of its outspoken policy of having high transparency in operations. A member of the accounts department notes:

"Everything is transparent in this organization."

For example, Microfin discloses the result of the annual client survey, which is conducted on Microfin's own initiative.

On the other hand, Microfin does not provide any written disclosures or reports to its clients. Moreover, although the information in the annual report is made public, it is not reachable for the clients, mainly due to their illiteracy and lack of access. Consequently, the upward accountability is a strong focus in the reports and disclosure statements Microfin produces: funders have requirements on the number and frequency of reports, content and format. Thus, the inducement is mainly external and for a short-term purpose, in order to fulfill funders' requirements and ensuring further access to funds.

Performance assessments and evaluations

Performance assessments and evaluations are induced upwards from funders and internally within Microfin. Funders want to ensure that the organization fulfills its obligations towards them, and a major tool for doing so is to conduct on-site assessments in the field. A representative of Microfin's largest commercial funder explains:

"We [me and my credit officer] visit [Microfin] every six months. /…/ Our main purpose is to conduct a due diligence and verify the list of the beneficiaries [i.e. the Book Debt Statements]. Every quarter they [Microfin] give us an updated list [of the borrowers]. In order to verify that this is correct we pick three to four borrowers in each village, go to the villages and check whether these borrowers exist/.../ Indirectly we are lending to the client, so it is our duty to ensure whether the loan reaches the borrower or not."

In addition, the purpose of the evaluations is to ensure credibility and financial health of the organization, as outlined by the CFO:

"Banks look /.../ at the repayment capacity, securities available, collaterals or the book debt margin."

Based on the results, banks assess Microfin's ability to pay back the loan and decide whether or not to disburse it. The social investors have a stronger focus on assessing Microfin's social performance. National representatives from these (mostly Western) organizations visit the field to ensure that the capital is used for social activities. If they are not convinced about the operations and the social results they yield they withdraw their funds. But it can also go in the other direction, as exemplified by the CFO:

"[One social investor] was so happy with us when they did the due diligence in December 2012, that they doubled the amount they had initially planned. Now they even give us interest-free loans."

Internally, Microfin uses various tools for performance assessment and evaluation to control and measure how the organization is progressing operationally and financially. For this purpose, it has established a formal internal performance evaluation system that assesses the performance of its employees, branches and regions. The performance targets are set on a regional and branch level basis, and are subsequently channeled down to field officers (by the branch managers). The targets include parameters with respect to the growth in Microfin's loan portfolio (such as number of active loan clients, loan portfolio outstanding and client retention rate), and the improvement of the operational efficiency, where the operational self-sustainability ratio[17] is considered a key variable. Every quarter Microfin ranks its different regions according to their achievements of targets. This ranking is considered an important assessment tool when evaluating the operational management, according to the deputy head of accounts:

"The company has a policy of evaluating each staff yearly and for this purpose we create internal monthly and quarterly reports to track the performance."

In addition, employees are evaluated on two further parameters: the result of a yearly multi-source feedback assessment where each employee is subjectively evaluated by its immediate colleagues (supervisors, subordinates and peers), and a written exam where the employees' knowledge about Microfin's operational rules and procedures is tested. The chairman notes two reasons for assessing and evaluating staff's performance. One is to ensure alignment and adherence to the organization's vision and mission:

"We not only have to be focused on the poor but also you have to make your staff behave in that way."

Another is for the purpose of motivation and staff retention:

"We have to compete with the other MFIs [microfinance institutions], otherwise we lose staff to them. The bigger for-profits tend to pay very well. We believed right from the start that incentives should be an important component."

Another internal mechanism for assessing Microfin's operational performance is through regular field visits by the operational management team, during which they, formally and informally, speak to field staff and clients. A member of the team explains:

"Actually, every week we [representatives from the operational management team] visit one region. During that stay, we visit three branches in the region and attend at least two client meetings at each branch. We ask the clients about their satisfaction with our services /.../, their loans, their repayment status and what is going on. Also, we organize a 30-minute meeting with the branch managers and field officers at each branch. We discuss problems and staff issues and our observations in the field."

Together, the mechanisms for performance assessment and evaluations serves both upward and internal accountability purposes within Microfin, and is induced both externally from funders and internally from the organization itself. In addition, the purpose of the assessment and evaluation mechanisms is

[17] Operational self-sustainability is achieved when the operating income is sufficient enough to cover operational costs

both for the short-term account for funds in order to ensure high growth but also for operational efficiency in order to reduce its interest rate.

Participation and beneficiary involvement

The main interaction between Microfin and its beneficiaries is through the "Center Meetings", which are conducted every week at a specific time and location in the village. A field officer describes the purpose and procedure of the meeting:

"Once a week I visit every center for one hour. We sit in group and I collect the weekly installments from each client, and I check if she knows where she is in her repayment cycle until now."

The field officers also spend some time on making clients aware of Microfin's procedures of loan disbursement and collection, and try to motivate the clients to invest in Microfin's savings and pensions product offerings:

"Also, I tell them about our interest rate /.../ and our rules and regulations and any new information/..../ We have to keep reminding them, since they often forget these things."

When joining the center meetings, we noticed that field officers seem to follow strict rules and procedures. We rarely observed any discussion or input being initiated from the clients' side during these meetings. The conversation was rather one-sided from the field officers to the clients, and also limited in time. The main role of the field officers seems to be to collect installments and receive new loan proposals, rather than interacting and communicating with the clients. This observation was later confirmed by several of the operational staff. One reason for this may relate to what a member of the operational management team told us:

"The field officers should only spend one hour per week with a center. That is enough. If you spend more time, our [Microfin's] efficiency will decrease."

Another reason gradually became visible during our field visits. After attending multiple client meetings at various branches, we noted that the rare questions asked by clients were mostly related to requests for higher loan amounts. Overall, the relationships between field officers and clients appeared very formal and professional with no room for informal or personal conversations. A client says:

"It is only a professional relationship, we don't talk personally!"

Despite field officers being formally assigned to specific centers, we discovered that the field officer of a particular center changes quite often, due to high staff fluctuation, staff transfers, staff illness or other operational irregularities. These changes affect the relationship to the clients and hinder the development of a stronger relationship. Another client says:

"There's a different field officer every month. So I'm not able to develop proper intimacy with him."

In another center, a client gets confused with the names of the field officer and the branch manager, and then concludes:

“The field officer are changing every quarter, so it’s not easy to remember all names.”

At some center meetings, we observed that clients leave the meetings just after the center manager has collected their installments, but before the meeting is actually over. The field officer who joined us in the field explains:

"We let them go, since they have excuses such as that their small baby needs them."

In others, we observe an overall relatively low attendance rate. At one meeting, only 15 out of the 19 clients attended the center meeting. When raising this concern, the field officer answered:

"Normally only 12 to 13 clients attend in this particular center, but since we disburse new loans to two of them today, the attendance is higher."

This quote is explained by Microfin’s internal policy, which gives the branch manager the authority to postpone new loan disbursements in a particular center if the center meeting attendance is less than 90 per cent at the day of disbursement. The policy was implemented in order to keep the attendance rate as high as possible, since Microfin has noted a positive correlation between center meeting attendance and successful repayment of loans.

Another tool for encouraging beneficiary participation is the annual “Center Leader Meeting”. Every year, Microfin conducts a meeting where all center leaders within a branch are invited to the branch office (a center leader is an appointed client who is the “leader” of her center, in total around 120 clients are center leaders within a branch). During this meeting, the regional manager and the area manager inform about Microfin's different products (e.g. pension and saving accounts in addition to income-generating loans) and try to motivate center leaders and the other clients to utilize these products, by showing them the benefits. During these meetings, center leaders also have the opportunity to raise questions and concerns. However, according to a field officer, this opportunity is rarely seized:

"If clients have a problem, they can raise questions, but they don't do so usually."

Also, the clients who were appointed center leaders told us that, normally none of them speak up during these meetings, and if questions actually are raised they usually relate to issues regarding loan disbursement. We realized that speaking up in front of 50 to 100 other clients and a range of Microfin representatives appears intimidating to them, and hence they keep quiet.

A third participatory accountability mechanism is the “Grievance Redressal Cell”, which enables clients to address grievances and other issues. Clients can dial a toll free number and report their issues faced with Microfin (such as staff misbehavior or operational difficulties) to a grievance officer located at the head office. All incoming and outgoing calls are recorded and Microfin promises to solve the issue within 14 working days. According to the annual report, between April 2012 and March 2013 Microfin received around 3,100 grievances, most of them related to undue delay in taking loan proposals or disbursement of loans. When talking to clients in the field, we noticed that all clients seem to be aware of this system and how to use it (i.e. where to find the number, which is on the clients' loan cards). Internally within Microfin, people emphasize the significance and importance of the grievance cell. The two zonal managers even attributed parts of Microfin's success to the grievance cell:

"It is a channel for dealing with clients' concerns and ensuring customer satisfaction."

To conclude, Microfin has several mechanisms in place for encouraging beneficiary participation. These all internally induced from within the organization. Commercial funders do however not induce any pressure on Microfin in this regard. The purpose of the participation mechanisms seems to be mainly for short-term handling of grievances and for encouraging product utilization among clients. In this way, the participation mechanisms seem to lack long-term focus of enhancing Microfin's long-term strategy and increase effectiveness of their service. However, we find that despite the mechanisms being formally in place, the real "participation" from the beneficiaries' side is rather limited. We find two reasons for this. Firstly, it seems, as the beneficiaries are not so interested in participating. Secondly, the unequal power structure seems to create a "mental barrier" for clients and hence they cannot freely express their views and opinions.

Self-regulation

Microfin's self-regulation consists of two pillars: sector-self regulation in form of industry-wide code of conducts and certifications as in line with Ebrahim (2003), but beyond also internal self-regulation (e.g. operations manuals and internal audit).

A sector-wide response to the Andhra Pradesh crisis has been the development of a common code of conduct and standards of behavior for the MFI sector. In 2012, Microfin adopted the "Industry Code of Conduct". This sector-wide code of conduct was developed by Sa-Dhan[18] in co-operation with MFIN[19] in 2011 in order to ensure that microfinance is conducted in a transparent and ethical way that benefits the clients. The code states core values for protecting the clients such as integrity, quality of service, transparency, fair practices, privacy of client information, and for integrating social values into operations (see also Sage, 2012). Furthermore, it prescribes practical guidelines a MFI should comply with such as "communicate all the terms and conditions for all products and services in the official

[18] Sa-Dhan is an association of community development finance institutions with the mission to better serve low-income households in rural and urban area and to improve their quality of life.

[19] Micro Finance Institutions Network (MFIN) is an Indian self-regulatory organization of Non-Banking Financial Company-MFIs

regional language or a language understood by clients." The zonal manager emphasizes the importance of good behavior with the clients:

"In rural areas, clients' husbands and their children observe very closely how we behave with their wives. We are very polite with clients and make sure our staff only addresses people in a formal and polite way."

A manager of the training department confirms the importance of the code of conduct:

"We are working strictly in line with our code of conduct, which contains transparency with clients/.../, good behavior among staff and clients [and] honesty/.../ This is very importance for us."

Sector-wide certifications often relate to the adherence to the “Industry Code of Conduct”. In January 2014 an Indian consultancy conducted a "Microfinance Code of Conduct Compliance Assessment" at Microfin. Microfin was awarded with "very good adherence", with special recognition of its successful targeting of low-income households, its low interest rate (lowest in the industry) and the staff’s high ethical standards when interacting with the clients. Microfin’s well manner in client interaction was recognized already in 2013, when it received a "Client Protection Certification" by Smart Campaign[20], stating that Microfin "...[has] demonstrated their commitment and practice to treat the people they serve fairly. They contribute to a microfinance industry that prioritizes client care” (Isabelle Barres, director, Smart Campaign).

In addition to complying with the Industry Code of Conduct, Microfin has established strong regulations and safeguards that lead to strong internal self-regulation. The basis is tight monitoring and supervision, a dominant hierarchical structure and strict internal rules and regulations. The field operations are largely shaped around the hierarchical structure, which supports close monitoring and supervision. The operations consist of eight hierarchical levels (the highest being the managing director, see Appendix) – out of which only the two lowest (field officers and to some extent branch officers) are executing the actual fieldwork. The rest have more or less supervision and coordination functions. A representative of an external rating agency explains:

"Their business model is built on small branches, very large hierarchies and a narrow span of control where basically one person supervises not more than four to five people /…/ This is required for this type of business [microfinance]. They faced a lot of issues with fraud and policy violations. There is a lot of cash handling and a large number of staff involved, and the operations are very widespread in the field/.../and in this particular region, Eastern Uttar Pradesh and Bihar, there are more crimes."

A member of the operational management team points out:

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[20] Smart Campaign is a global campaign committed to embed client protection practices into the microfinance industry

"The structure in the field is a set of close staff monitoring. It's very risky [in the field. Risky] in the sense that if we don't have proper working patterns, then there will be high chances of misbehavior because staff is working on their own. They need to know what they can and cannot do."

Many of Microfin's employees emphasize the close monitoring and supervision, in combination with strong procedures, guidelines and norms as one of the organization's key success factors. A manager of the training department noted:

"People have to follow the rules and they do follow. For that purpose only there are so many supervisors."

To ensure that everyone is aware of them, the rules are strictly stated in Microfin's "Operations Manual", which each employee is required to study in order to pass the written exam (explained above) in the course of the annual staff evaluation (and consequently affect promotion). The "Operational Manual" governs in detail how Microfin's operation should be conducted with respect to the identification of the poor clients, credit discipline delinquency management, financial procedures, and staff and office rules. In addition, the "HR Manual" states not only clear structures for employee compensation, evaluation and promotion, but also include a disciplinary code that clearly defines disciplinary actions in cases of any misbehavior. Microfin's "Disciplinary Action Committee" decides on actions if an employee does not comply with the established rules (including the code of conduct) and may pronounce dismissal and suspension. One field officer mentioned:

"[...] monitoring of subordinates by supervisors is very strong. Here, there are no relaxations. If any staff is not following the rules he will be punished."

The internal audit department monitors Microfin's adherence to its rules and regulations. The department employs 30 persons, most of them working in the fields, and is responsible for verifying compliance with guidelines, manuals, regulations and norms. Each branch is audited twice a year, and all staff and branches are rated based on a checklist and a written audit report. If serious discrepancies are found, the managing director and operational management team are notified. During the audit process, the audit department checks clients' knowledge about Microfin and its services:

"We observe the operations of a particular center. Then, we also conduct client checks, i.e. we ask them about the name of the organization, their loan amount, the purpose of borrowing, the interest rate and our products."

Another mechanism, which affects Microfin's internal self-regulation is the presence of the board and especially of the chairman within the organization. The chairman is basically involved in all strategic decisions and should be notified about all major changes in the operational work. The audit manager exemplifies when we ask what he think is the main strength of Microfin:

“In my opinion, what I observe, it [the main strength of the organization] is the effective provision and guidance of the chairman at every level, from top to bottom /…/ I have observed it myself. One or two years back, when I was given the responsibility of doing a [PPI] survey /…/ I found that the chairman concentrated on all small things regarding the work. He provided training on how we should perform the survey /…/ So effective guidance, supervision and leadership by the MD and chairman is our main strength."

The managing director emphasized Microfin's "very committed and supportive" board as one key success factors and a representative of a rating agency sees the board as driving force behind the strong regulations and policies in place. However, we also observe that while visiting the head office, the chairman works rather remote from staff in his office mostly being in contact with the managing director or departmental heads. Talking to low-level staff at the head office, we realized that many have neither talked to the chairman nor to the managing director. Communication at Microfin mainly takes place through hierarchy. On staff told us:

"If there is any issue to be addressed to the managing director, you have to file to your head and your head will file to the managing director."

The presence of the chairman is less physically but rather through his decisions.

In sum, the self-regulation comprises one of Microfin's key accountabilities. The main stakeholder focus of the self-regulatory mechanisms is internal, however it indirectly affects the relationship with upward funders as the regulations helps avoid staff fraud and mishappenings, and subsequently ensure the efficient usage of funds and the financial health of the organization. Moreover, it also indirectly affects the relationship Microfin has with its clients, as the internal self-regulation emphasizes the respectful treatment of clients. The purpose is both short-term and long-term, in that the control ensures efficiency in operations, but also the enforcement of sector-wide developments in code of conducts addressing client care and ethical behavior.

Social Auditing

Social auditing processes are basically voluntarily conducted at Microfin through two mechanisms: an annual client survey with the purpose of measuring client satisfaction and progression out of poverty, and a publically issued social audit report done by an external agency. Microfin has measured its impact on poverty alleviation through the "Annual Client Survey" since 2009. The survey is conducted jointly with the internal audit department and an external agency (to increase credibility and confidence), and measures Microfin's social impact on various dimensions: clients' progress out of poverty, client satisfaction rate and clients' perspectives regarding Microfin's adherence to the code of conduct. The purpose of the survey is twofolded: one is to strengthen the credibility of Microfin in the public, and the second is for Microfin to understand the clients' perspective in a better way. The chairman highlights the importance of tracking Microfin's impact:

"Monitoring our impact is one of our key success factors. We need to monitor our financial and social impact. We outsource to other agencies to pick random samples of our mature clients and ask questions on client protection, financial literacy, and impact, i.e. if the client's source of income change from agricultural labor to self-employment over time."

The survey also measures Microfin's social impact in terms of a "progress out of poverty index" (PPI). The PPI represents Microfin's major indicator to measure social impact. It consists of ten parameters regarding clients, such as number of family members, general education level, and assets owned. The PPI scores of the surveyed clients are used to benchmark poverty from one year to another, and Microfin's impact on it. Microfin presents some of the results of its client survey in the annual report (as a "Social Impact Report"). One of the findings presented there is that the more loans taken by a client, the less likely the client is to be poor. The survey however is conducted on a sample bases with a very limited outreach. Last year, 756 out of 650,000 clients were addressed.

The second mechanism is the publically issued social audit report. At three times, Microfin has assigned to an Indian rating agency to analyze it social impact and performance: in 2005, 2010 and 2012. This social rating is publically issued. It assesses Microfin's social commitment, its systems and adherence to its mission and values. In addition, it points out the organization's strengths and areas for improvements.

The inducement for conducting these audits are mainly internally enforced, however to some extent also externally from the society's expectations. The social audit mechanisms are not well developed within Microfin relative to many of its other accountability mechanisms. This may be explained by the fact that it seems to still be a relatively new accountability mechanism within the organization. The focus is mainly long-term, to provide inputs for how Microfin can improve its strategy to more successfully contribute to the alleviation of poverty, but it is also for short-term purposes – especially the annual client survey, which for example tracks clients' progress out of poverty from year to year.

Microfin's downward accountability mechanisms are summarized below.

Main accountability mechanisms	Content	Frequency	Stakeholder focus	Purpose	Inducement
Disclose Statements/reports (tool)					
Annual report	Fin./Op./Soc.	Annually	Varies	Short-term	Ext.
Funders' reports:					
Funder specific report	Fin./Op.	Varies	Up./Int.	Short-term	Ext.
Financial reports	Fin.	Varies	Up./Int.	Short-term	Ext.
Operational reports	Op.	Quarterly	Up./Int.	Short-term	Ext.
Performance assessment/evaluation (tool)					
Microfin's PMS	Op	Monthly	Up./Int.	Short-term	Int.
Funder field visits	Fin./Op.	Varies	Up.	Short-term	Ext.
Management field visits	Fin./Op.	Varies	Int.	Short-term	Int.
Participation/Involvment (process)					
Center leader meeting	Op.	Annually	Dw.	Short-term	Int.
Grievance cell	Op.	Ad hoc	Dw.	Short-term	Int.
Center meeting	Op.	Weekly	Dw.	Short-term	Int.
Self-regulation (process)					
Industry Code of Conduct	Op.	Continously	Int.	Long-term	Int./Ext.
Internal manuals/guidelines	Op.	Continously	Int.	Long-term	Int.
Board/chairman	Fin./Op.	Continously	Int.	Long-term	Int.
Internal audit	Fin./Op.	Continously	Int.	Long-term	Int.
Social auditing (tool/process)					
Social Impact report (in AR)	Op./Soc.	Annually	Varies	Long-term	Int./Ext.
Publlic Social Rating Report	Fin./Op./Soc.	Irregularly	Varies	Long-term	Int.
Client Survey	Op./Soc.	Annually	Dw.	Long-term	Int.

Figure 4 shows an overview of Microfin's present accountability mechanisms as laid out according to Ebrahim´s (2003) framework.

4.5 Summary of upward, downward and internal accountability within Microfin

Summarizing the accountability mechanisms laid out according to Ebrahim (2003), we see that a major part of Microfin’s accountability structure is geared upwards to funders, despite having participation and social auditing mechanisms in place.

4.5.1 Funder dependency results in strong focus on upward accountability

Due to Microfin being an NGO, Indian state authorities regulate its interest rate, margin cap and capital structure (equity). However, they do not impose any dominant form of accountability on Microfin. This finding is in line with Kilby (2006), who found that the NGOs in his study felt that the accountability to the state had little impact on internal and downward accountability. However, Microfin is largely dependent on accessing funds for growth, in order to achieve its vision (which is to ”provide all BPL women in Eastern Uttar Pradesh and Bihar with microfinance services”, see section 4.2). Since funders have the power to withdraw funding, Microfin is largely dependent on them. As shown in the case analysis, Microfin is held upwardly accountable (mainly financially) through an extensive amount of disclosure statements and reports, often customized for each funder, which Microfin spends a lot of time and resources on producing. Funders evaluate Microfin's performance mainly based on these reports, however they also conduct field visits where they actually get in contact with clients. We observed that the focus of these visits are mainly for ensuring operational efficiency and compliance with the legal requirements of priority sector lending on the one hand and with the funder's internal risk management systems on the other. The dependency on funds, which comes along with huge reporting requirements, enforces a strong upward accountability to funders, which is mainly for short-term purposes of ensuring the financial health of the organization and subsequent access to funds for growth.

4.5.2 Strong internal accountability ensures adherence to the organizational mission

Internal accountability plays an important role within Microfin, in order to establish adherence to the organizational mission that highlights to serve clients in an "honest, timely and efficient manner" and to remain "financially sustainable". Not only is internal accountability achieved through self-regulatory controls, which constitute a key accountability mechanism within Microfin's overall accountability structure, but also through internal performance assessments and evaluations (which contradicts Ebrahim (2003), who states that the latter is primarily used for the purpose of upward accountability). The key in achieving internal accountability, Microfin sees in the strict requirement for staff to follow the internally induced rules and regulation including the industry code of conduct. One reason for this is the geographically widespread operations, with a large number of staff handling an extensive amount of cash. Another is the strong focus on growth and cost-efficient operations. To achieve self-regulation by rules and regulations, Microfin relies on hierarchical structures based on strong supervision, controls and frequent system checks. Microfin's management and internal audit department investigate the fields to ensure efficient and frictionless operations. The chairman, having the most power in the organization, takes the role of the "guiding father" and leads major strategic decisions. Staff's knowledge about rules and regulation is examined in a written test in the course of the annual evaluation. To ensure high transparency in operations, regarding for exampled client protection, the microfinance sector has imposed an Industry Code of Conduct, which Microfin complies to. Overall, Microfin has a strong focus on internal accountability largely for the purpose of achieving its long-term vision. Thanks to the various mechanisms in place, it generates a strong internal control and accountability and ensures that operations work efficiently. This enables Microfin to create credibility among external stakeholder by frictionless operations and avoidance of public scandals (due to a loss of reputation caused by staff misbehaviors).

4.5.3 Despite several downward accountability mechanisms in place, drawing on Kilby (2006) reveals low effectiveness

Microfin has acknowledged the need for protecting clients. It has implemented several mechanisms for ensuring that clients are treated well, and for capturing their views. During the social audit process, it measures client satisfaction and Microfin's impact on poverty alleviation, and a large part of the self-regulatory mechanisms are put in place for the purpose of ensuring that clients are treated well and that business is conducted fairly. In addition, it has put in place a number of mechanisms for the purpose of engaging clients in participation – that is, for clients not only to be "protected" but for expressing their views and opinions regarding operations. This, Ebrahim (2003) argues, is what may lead to downward accountability, however he states whether downward accountability occurs or not is strongly depending on the degree (he distinguishes between four different forms) of participation. However, in contrast to Ebrahim (2003), we argue at this point, that participation as such cannot be discussed on a general level, but rather the different downward accountability mechanisms that lead to participation have to be analyzed individually in order to understand whether they lead to "real" participation and thus to downward accountability. We therefore following use Kilby's (2006) schema to analyze the mechanisms directed to clients through the dimensions of *level of formality* (formal rights of access according to clients), and *depth of accountability* (the nature and extent of feedback arrangements to clients).

Firstly, the annual center leader meeting creates an overall low level of downward accountability. Its level of formality is limited. Even tough it is established as a regular process initiated by Microfin on an annual basis, Microfin provides its clients only limited opportunity to formally address issues during this meeting. Clients "can speak", but are not encouraged or asked to do so. The depth of accountability is low, since clients take the role of "listeners" in the meeting rather than they have the opportunity to select topics by themselves. Topics besides products cover information regarding rules and regulations. Further, the grievance cell enables clients to initiate contact with Microfin whenever they face issues regarding Microfin's services resulting in a high level of formality. Looking at the depth, we observe that the grievance cell is rather rarely used by clients, the clients we met have never done so. It does not constitute a platform of collaboration, discussion or feedback. Microfin encourages its clients to use it only for grievance redressal ending up with a medium depth of accountability. Its overall level of accountability is assessed as limited in its nature. Thirdly, the weekly center meeting presents the major interaction platform between clients and Microfin (as represented by its field staff). It is formally set up as a process, however it only creates a limited opportunity for clients to formally air their perceptions and views. The meeting is to a high extent affected by the operational efficiency with a maximum duration of one hour. The depth of accountability is low, since the purpose of the meeting is to conduct core credit activities rather to discuss topics initiated by clients. Overall, the level of accountability is limited. Finally, the annual sample client survey plays a major role for Microfin to assess its social performance. In that, it gives clients an opportunity to formally express their views on a wide range of topics. The problem here is the low frequency and the limited number of clients that are reached by the survey. The predefined range of topics by Microfin gives the tool not a dialogue character but it is rather employed as "query tool" and consequently creates a limited opportunity to establish proper downward accountability to clients. Ebrahim (2003) states, that social auditing mechanism seek to incorporate stakeholder dialogue. We can recognize that this is not the case at Microfin. Microfin does not foster a dialogue with is clients but rather request answers on predefined questions. Furthermore, Microfin does not provide its clients a platform where they can engage on various topics on eye-level. In that sense, downward accountability is not given and the client survey as a learning tool is of limited use.

What we find when applying Kilby (2006) is that the level of downward accountability to clients in Microfin's overall accountability is rather limited. Overall, the assessment of downward accountability shows that despite Microfin having mechanisms in place that direct to clients, the real "participation" from clients' side is not there. All mechanisms depict some sort of client engagement, but they miss out to provide the opportunity for a proper NGO-client dialogue. Either only very limited topics can be addressed by clients or the mechanisms are not designed for active client engagement. What Kilby (2006) recognizes, and what we find at Microfin, is that there is a positive correlation between the level of formality and the depth of accountability. The level of formality at Microfin's downward accountability mechanisms is rather low, especially since they are not formally designed to foster dialogue and participation of clients. In this the openness of formal agenda is low and if it is high, as with the grievance cell, the range of topics is low. In general, the limited depth of accountability shows that clients are rarely involved actively in Microfin's activities neither is them given the power or the instruments to do so. To conclude, the overall downward accountability within Microfin is of very limited extent, although Microfin engages through various mechanisms with its clients. The form of participation these mechanisms create involves consultation with clients but decision-making power remains with Microfin, which Ebrahim (2003) classifies as lowest form of participation.

The analysis according to Kilby (2006) is summarized below:

Accountability mechanism	Level of Formality					Depth of accountability				Overall level of acct.
	Regulary/ Discretionary	**Frequency**	**Formal agenda**	**Initiator**	**Level of formality**	**Frequency topics addressed**	**Topic range**	**Clients' ability to select topics**	**Depth of acct.**	
Participation										
Center leader meeting	Regular	Annually	Limited	Microfin	Medium	Low	Medium	Low	Low	Low
Grievance cell	Discretionary	Continuous	High	Client	Medium	Low	Low	High	Medium	Medium
Center meeting	Regular	Weekly	Limited	Microfin	Medium	Medium	Low	Low	Low	Medium
Social auditing										
Client Survey	Regular	Annually	High	Microfin	Medium	Low	Wide	Nil	Medium	Medium

Figure 5 shows the results of analysing the effectiveness of Microfin's downward accountability mechanisms

5 DISCUSSION

What the previous analysis makes clear is that NGO accountability is a complex construct involving various stakeholders with various powers in the relationship. In line with the emerging literature on NGO accountability, Microfin has recognized the need for taking into account upward, downward as well as internal stakeholders when designing accountability mechanisms. However, we find that the actual implementation/usage of the mechanisms sometimes result in undesired or unknown effects. In this paper, we argue that upward, downward and internal accountabilities cannot be examined isolated from each other, but there is a need for taking an integrated view on how all three, possibly contradictory, accountability demands are managed. This, we argue, is needed in order to understand their possible interdependencies, and the mutual effects the mechanisms may have on their successful implementation and usage.

5.1 Mediating between upward, downward and internal accountability

What the case analysis has shown is that there are three major, and possibly contradictory, challenges inherent in Microfin's operations: the dependence on accessing funds for growth, ensuring adherence to the organizational mission, and engaging clients in mutual feedback. These challenges are directly reflected in the accountability structure within Microfin. The following discussion will highlight three findings from the case analysis: first, how strong upward accountability can have positive and negative implications on internal accountability (contradicting e.g. Goddard and Assad, 2006), second, the negative effects upward accountability can have on the implementation of downward accountability mechanisms (supporting the findings in O'Dwyer & Unerman, 2010 and Dixon et al., 2006), and third, how internal accountability can limit an organization to establish effective downward accountability mechanisms.

Strong upward and its implication on internal accountability

In this paper, we argue that strong, externally induced upward accountability has implications on the internal accountability within the organization. We find Microfin is held upwardly accountable to its funders mainly through written reports and disclosure statements, where the focus is on short-term operational and financial performance with less or no focus on the social impact. The largely financial focus on efficiency instead of effectiveness leads to what Ebrahim (2005) calls "myopias of accountability" and to a large extent shapes Microfin's internal financial and managerial control system[21].

[21] Here we refer to Microfin's performance management systems, such as staff performance and project evaluation, monitoring, reporting and strategic planning

We find that Microfin extensively incorporates the information included in the external reports also in internal decision-making. This contradicts Goddard and Assad (2006), who found that accounting played a minimal role in internal decision-making and could not penetrate internal working arrangements, as the externally initiated accounting mechanisms were seen as "fundamentally superficial". As such, it mainly served the purpose of establishing legitimacy towards funders. Within Microfin, however, we find that the information gathered for the purpose of compiling reports to donors also are successfully absorbed within the organization and used internally in various reports. In addition, many reports that are sent to funders are also distributed internally on management level. In sum, detailed (and comprehensive) operational and financial information is not only distributed upwards to funders, but internally within Microfin.

What Microfin's internal reporting and decision-making systems do not seem to adequately capture is basic social data/the social component. Neither do funders ask for it. This is despite efforts to increase tracking of social impact and performance (especially since the 2010 Andhra Pradesh crisis), mainly through the annual client survey. The survey is based only on a limited sample (756 out of in total 650,000 loan clients), and the result is not an integrated part of Microfin's internal decision-making/accountability system. In addition, social information is actually collected in the fields, throughout the year, such as reasons for client dropouts. But the information lacks proper integration into the internal reporting systems, nor is it included in the external reports to funders. This limits Microfin's, and potentially its funders', ability to understand clients' views and to monitor effectiveness in terms of social impact.

In order to increase overall effectiveness of development work, social performance and impacts need to be properly incorporated into the reporting systems within NGOs. For this to happen, we argue that it needs to be rated high both by the NGO but also by its funders. However, within Microfin, funders neglect this dimension and consequently Microfin does not feel any pressure to focus on it. Internal staff evaluation is based mainly on operational targets, such as number of loan clients, which to a high extent are geared towards growth and Microfin's organizational vision.

As such, we find the internal accountability mechanisms to a large extent being formed by the upward accountability mechanisms, and subsequently the accountability to the two stakeholder groups being very much aligned. One the one hand, it has enabled Microfin to create cost-efficiency in operations, which in turn has enabled it to lower its interest rate to clients to being among the lowest in the Indian MFI sector, and in addition satisfying funders and gaining access to capital to ensure further growth. However, both funders and Microfin lack the social focus, and miss out on the long-term, strategic perspective of social impact to a large extent. Hence, we find that strong upward accountability mechanisms to a large extent contribute to shaping the internal accountability system and the focus parameters within Microfin.

Upward accountability indirectly restricts downward accountability

Further, we find that direct relationships between Microfin's upward stakeholders, funders, and its downward stakeholders, clients, do not exist in practice. Funders (who are indirectly lending to clients through Microfin) do engage in ad-hoc field trips, but the focus of these is to conduct statutory due diligence focusing mainly on Microfin's lending practices. Hence, funders have no direct influence on clients, nor do they initiate conversations to gain first-hand information regarding clients' well-being. This, together with the evidence that funders mainly care about the financial health of Microfin to ensure pay-back of funds (which is confirmed by Microfin's largest funder) raise certain concerns. It shows that funders have not yet realized the need for downward accountability. Both O'Dwyer & Unerman (2006b) and Dixon et al. (2006) argue that funders need to help in fostering downward accountability in NGOs. (To a large extent) neglecting to include social performance indicators in upward accountability mechanisms, will indirectly lead to a natural restriction in the employment of effective downward accountability mechanisms within Microfin. As confirmed by a vast majority of literature (such as Edwards & Hulme, 1996b; Elliot, 1987; Fox & Brown, 1998; Najam, 1996), the upward accountability requirements in this sense have moved the focus of accountability away from beneficiaries to funders. Microfin's funder-dependence thus results in a skewed accountability towards funders on the cost of clients, and the client focus, which NGOs (should) have per definition, is hindered by the tensions from upwards. This is in line with Ebrahim (2005) who states that "asymmetric relationships among stakeholders are likely to result in a skewing toward accountability mechanisms that satisfy the interests of dominant actors." In this, Microfin's funders have the power and ability to influence "who is able to hold whom accountable" (Ebrahim, 2005).

Internal accountability may constrain downward accountability

As described in the case analysis, Microfin's strong internal accountability creates adherence to its mission and vision. The "proxies", as Kilby (2006) calls it, for achieving this are mainly the enforcement of rules, regulations and guidelines. These are strongly driven by the chairman, who is what Kilby (2006) calls the "final arbiter of [the] NGO's adherence to its values". To ensure compliance, the internal rules and regulations are enforced in a punitive manner, which means that not being compliant will be penalized by the "Disciplinary Action Committee" in the form of warnings, leave of absence or termination.

The large size of Microfin with a growing number of new staff requires a strong adherence to the mission to avoid inefficiencies. Najam (1996) and Dudley (1994) claim internal accountability is used to avoid the emergence of additional, and perhaps competing, "visions". However, it is not used to actively and emotionally involve staff in the "original dream" (Najam, 1996; Dudley, 1994). We claim that Microfin uses the strong internal controls to keep the organization as efficient as positive, as a means to achieve its ultimate vision, which is to "see all BPL women in eastern Uttar Pradesh and Bihar having access to microfinance...". Through structured and cost-efficient working processes, Microfin's rules and regulation systems aim towards a "timely and efficient" and "financially sustainable" way of doing business. Being financially sustainable in microfinance means being as cost-efficient as possible. These buzzwords, which are mentioned in the mission, are consequently mirrored in the way operations are done. For example, every field officer has to work with up to 25 centers, whereby one center meeting must not last longer than one hour. This huge workload puts field officers under strong time constraints not leaving much time to breath. Furthermore, the field officers have low education levels and are paid a minimum salary, and have no experience or skills in supporting clients with building up self-employment. Often they have not worked in microfinance before.

The strong internal accountability, we find, reduces flexibility for Microfin's field officers. Time pressure and strict commandment to follow formal procedures ensure frictionless operations, however at the expense of interaction and personal engagement with clients. Field officers formally conduct credit work, but are not encouraged or educated to build up more trustworthy and informal relationship with clients. In fact, the time constraint may even hinder this development. Dixon et al. (2006) warn that solely formal ways of accountability to the beneficiaries may be problematic for NGOs in microfinance, which by design have originally prioritized "relational " over "rule-based " accountabilities (Karim, 2006). In practice field officers need to build informal relationships to clients in order to receive relevant information from them, and by that conduct social monitoring (which is often based on mutual trust), and ensure efficient use of loans. Since there exist no contractual agreement defining accountability expectations to clients, neither are they part of the organization and hence cannot be forced to adhere to guidelines, the development of informal relationships to field officers, so clients feel more "attached" to the organization, may be crucial for enhancing the effectiveness of the downward accountability mechanisms. This contradicts Kilby (2006) stating that only formal mechanisms can ensure effective downward accountability. However, our finding is supported by Unerman & O'Dwyer (2012) who argue that informal relationships between field officers and beneficiaries are more effective to ensure downward accountability than formal reports.

At Microfin, field officers are not given the opportunity to build horizontal and personal relationships with clients (which focus on ensuring effectiveness of Microfin's work in terms of poverty alleviation). Microfin's downward accountability mechanisms, such as the weekly center meetings or the annual center leader meeting, are dominated and constrained by its strong internal accountability, which stresses operational efficiency at the expense of client participation. The consequence is that despite that Microfin has various accountability mechanisms in place directed to clients, its level of formality and depth of accountability are very limited and hence cannot establish proper downward accountability, inter alia caused by strong internal accountability. This is in line with Kilby (2006) who claims that internal accountability can either foster or constrain, as in case of Microfin, the strength and degree of "downward accountability".

In sum, we argue that the nature of the implementation of one form of accountability can have a huge impact on the effectiveness of the underlying mechanisms of the two other accountabilities. What we can see by observing the mutual influences of upward, internal and downward accountability within Microfin is that the externally induced upward accountability mechanisms (e.g. extensive financial reports) have a strong impact on the creation of strong internal accountability on the one hand, but limit downward accountability on the other. Moreover, the internal accountability mechanisms affect to a large extent the nature of downward accountability. We can see that power is a crucial aspect when it comes to accountability (as noted in previous theory such as O'Dwyer & Unerman, 2008; Agyemang et al., 2009; Edwards & Hulme, 1996a, 1996b, 2002; Najam, 1996; Kilby, 2006). Clients, in comparison to funders, naturally do not have an instrument to enforce (downward) accountability and in addition, there are no requirements to establish proper downward accountability, neither for NGOs nor funders. All this leads to a natural tendency to neglect downward accountability mechanisms, which we, in line with Lewis & Madon (2004), argue can lead to a potential mission drift of the NGO, away from beneficiaries towards funders.

5.2 A need for enforcing downward accountability

Based on the previous discussion, it becomes obvious that Microfin's overall accountability structure constrains the effective employment of downward accountability mechanisms. The following discussion recognizes the need to strengthen the downward accountability in order to avoid "skewed accountabilities to the most powerful constituency" (Edwards & Hulme, 1996b), which as we have shown, are Microfin's funders. Thereby, we aim to contribute to the limited literature on downward accountability.

Understand clients' background situation becomes essential

In order to strengthen the downward accountability mechanisms, we argue that it becomes crucial to look into clients' situations and backgrounds, to better understand and take their perspective into account. A perspective, which we note, many researchers in accountability literature have not taken up. As an example we can look at two of the four downward accountability mechanisms identified in Microfin. Despite the grievance cell being formally in place, it has never been used by most clients. In addition, although clients physically attend the annual center leader meeting, they do not really interact with Microfin during these meetings. The reasons for this seem to be two-folded. First, we realized that actual employment of Microfin's downward accountability mechanisms do not encourage extensive engagement with clients. This is exemplified by a field officer stating:

"If clients have a problem, they can raise questions, but they don't do so usually."

This summarizes what we have seen in the field; field officers and other low-level staff do not encourage engagements with clients, and are more concerned about keeping the time for their meetings and searching for new clients, as this is what they are measured on. Second, we argue that clients seem to lack incentives and capacity to prioritize engagement in Microfin's activities. Taking our observations during field visits we find that clients tend to hesitate to make use of these (downward accountability) mechanisms on their own initiative, because of lack of time or courage. We experienced, by communicating with clients, that they seem to lack interest and incentives for interacting and being involved in Microfin's activities. Most clients, we talked to, were satisfied with their knowledge about Microfin, which was basically limited to products and the name of the field officer. They are mainly interested in the actual loan product (and, further, less in savings and pensions account). The clients' life situations seem to be a contributing factor to this. Their main concern is to provide their families and themselves the essentials of life, such as food and clothes. We discovered little room (in terms of time and capacity) for proactively participating in Microfin's activities. During the center meetings, but also during our interviews, we felt clients' pressure to hurry back to their work or families. In addition, many clients also seemed to hesitate to raise their voices/concerns in the proximity of Microfin representatives, as they appeared to be afraid of suffering from consequences. Thus, we argue that the consideration of clients' personal situations and backgrounds is an essential feature for establishing effective and well-functioning downward accountability mechanisms. Informal and formal mechanisms need to be combined – the former for the creation of trust and a "felt" responsibility between field officers and clients (in line with Dixon et. al., 2006), and the latter for proactively encouraging clients to raise their voices (in line with Kilby, 2006, who argues that a high level of formality will lead to increased depth of accountability).

Establishing downward accountability mechanisms with a high level of formality

The analysis based on Kilby's (2006) schema shows that the effectiveness of downward accountability mechanisms strongly relates to their level of formality. Having formal downward accountability mechanisms in place establishes a right for beneficiaries, which leads to downward accountability and empowerment. At Microfin, neither the annual center leader meeting nor the weekly center meetings are formally designed as platforms providing clients the formal right to engage in discussion and proactively address topics. These mechanisms are rather used as a one-way information channel from Microfin to clients. Therefore, a higher level of formality facilitating active interaction is necessary in order to give clients a formal role and right to be involved. In accountability literature, Jacobs & Wilford (2007) recognized the need for "helping people with less power, who are liable to be victims of oppression, to engage more confidently and effectively with the institutions that govern their lives." In line with this, we argue that the full responsibility to initiate this involvement and dialogue lies within the NGO. Microfin needs to proactively invite clients to interact and establish downward accountability mechanisms that encourage mutual engagement. Considering clients life situation, as discussed above, it becomes obvious that it cannot be expected that clients start to interact and get involved with the NGO on their behalf.

Increased formality by addressing unequal power balances between NGO and beneficiary

What the discussion until now makes clear, is that it is partly the unequal power balances inherent in the NGO's stakeholder relationships (upwards and downwards) that create the skewed accountabilities. As such, funders have an important role to play in enhancing downward accountability. In order to proactively invite clients, funders and NGOs have to mutually address unequal power balances between NGO and clients. As shown, Microfin's funders monitor its financial and operational performance mostly based on reporting. Microfin itself has a strong internal management system in place. Clients however are not given any kind of evaluation mechanism, where they get the possibility to evaluate the work of Microfin and its field officers or indirectly the relationship to funders. Microfin's (internally induced) annual client survey is downward directed and as such aims to strengthen clients' position. However, as mentioned, it addresses only a very limited sample of clients and does not impose compulsory actions for the NGO. As such, it does not serve as a mechanism to address unequal power balances. In line with Agyemang et al. (2009), Ebrahim (2010), Ebrahim (2003), Unerman & O'Dwyer (2008) and Lewis (2001), we thus argue that power imbalances between NGOs and clients appear in practice to impede the full effectiveness of the downward accountability mechanisms in place. At Microfin, power imbalances were an explanation to why clients hesitated to raise their voices in front of Microfin representatives. For most of them, as we observed, Microfin provides the only chance for gaining access to credit without paying exorbitant interest rates. As argued by Ebrahim (2003) clients are unable to hold NGOs or funders accountable by e.g. threatening to withdraw payments or by imposing conditionalities. Ebrahim (2003) claims that participation where all decision-making power remains within the NGO unlikely will lead to downward accountability. Subsequently, he calls for higher levels of participation where beneficiaries receive veto power over decisions, bargaining or negotiation power. Najam (1996) refers to participation where clients do not receive decision-making rights as nothing more than a "feel-good exercise" for NGO and beneficiary and thereby he mistrusts the effectiveness of downward accountability. In line, Jacobs & Wilford (2007) notes that downward accountability goes beyond that and claims that relationships should be reversed where NGOs explicitly participate in beneficiaries' actions. Ellerman (2001) claims that NGO activities have to be owned by beneficiaries to be effective. We experienced that clients in our case study lack the ambition and capacity to be deeply involved in activities of the NGO, nor to actively (or even passively) “lead” these activities. Thus, we claim that downward accountability mechanisms need to reflect beneficiaries’ capabilities, wishes and interests in being involved. Full ownership, as called for in literature, hence does not always lead to the best results for clients, especially if clients do not ask for it. Downward accountability in this sense needs to be viewed differently. We argue that a downward accountability mechanism can be effective if it leaves room for addressing power imbalances between clients and NGOs and funders, by giving clients the right to evaluate the work of the NGO (and funders) and to provide their (the clients’) views. By that, clients can increase their leverage, for example through publically available “participatory rural appraisals”[22] or annual participatory reviews. Furthermore, the performance assessment and evaluation mechanisms induced internally and upwards from funders have to be adapted to incorporate clients' needs and requirements. By combining with appropriate participatory mechanisms, these assessments and evaluations have the chance of increasing both the level of formality and the depth of accountability in the participatory mechanisms, and hence can strongly contribute to developing effective downward accountability mechanisms in Microfin. In addition, the enhanced engagement of clients into a better dialogue with the NGO may also contribute to a strengthening of the social auditing processes, and enables the organization to learn and develop.

Funders need to recognize the importance of downward accountability

As part of our argumentation, we argue that funders cannot disregard their responsibilities toward the beneficiaries, which leads to an overall discussion about the roles and functions of funders within the development sector. As we have shown, it is crucial to lead a debate regarding the way funders hold NGOs and beneficiaries accountable, since due to their power they influence relationships between NGO and beneficiaries and as such ultimately have an impact on how microfinance is conducted and its effect on alleviating poverty. A representative of Microfin’s largest funder admitted:

"Ultimately we are using public money... In lending to MFIs, our responsibilities should be both, social and in earning returns."

This lack of social responsibility, pointed out by the bank representative, is present among Microfin's funders, namely commercial banks, and presents indirectly one reason for Microfin's ineffective downward accountability mechanisms. Regarding this, Ebrahim (2005) argues that in cases where donors encourage and recognize the need for downward accountability, and their commitments as well as reporting and evaluation requirements reflect a long-term (strategic) perspective, there is no risk for skewed accountability favoring primarily one stakeholder, ”but [that] such cases appear unusual”. For

[22] Participatory rural appraisal seeks to incorporate the knowledge, opinions and perceptions of beneficiaries in the planning, management and execution of development projects.

Microfin, socially focused funders would trigger more debates and collaborations among stakeholders. This would strengthen social auditing mechanisms, as they would increasingly be asked for from funders. Ultimately, social performance indicators would find their way into Microfin's internal management system and be incorporated in upward accountability mechanisms, such as written reports, with the effect of strategic decisions reflecting clients' perspectives and views to a larger extent. In line with this, O'Dwyer & Unerman (2010) recently called for the development of public policies to embed commitment to greater downward accountability in order to direct governmental pressure on funders but also for fostering greater media debate and public scrutiny.

A lack of effective downward accountability limits the ability of adaptive organizational learning

To sum up, despite NGOs by definition being socially focused and "pro poor", downward accountability in practice is suppressed by strong upward accountability and in some cases by internal accountability. In order to ensure downward accountability, we argue that NGOs, but also funders, have to recognize clients' ability, capacity and willingness to participate in the NGO's activities. Based on that they are responsible for establishing downward accountability mechanisms with a high level of formality and depth that enable clients to interact with the NGO on a level that is suitable to the client's personal situation. Funders and NGOs need to address power imbalances by giving clients the right to assess the quality of the NGO's, but also of the funders', work. Funders, as public representatives, need to understand that they implicitly have the responsibility for ensuring that funds are used effectively and for the benefit of the clients. Consequently, they need to recognize the importance of downward accountability. As a result, internal accountability will be affected and social performance will move into focus. We argue that enforced and effective downward accountability is important for the purpose of organizational development, i.e. for becoming more effective in the delivery of the aid (see also Edwards & Hulme, 1996b; Edwards & Fowler, 2002; Ebrahim 2003, 2005; O'Dwyer & Unerman, 2010). We find that for the NGO, in order to adhere to its own values, organizational vision and mission, it needs to know its clients and understand their needs. This is essential in order to develop the organization in a way where it benefits the clients and the community and makes a sustainable social impact. Without focusing on social performance, but rather on being financially accountable to funders, the danger is that the organization loses its close contact to the beneficiaries. In that, we claim that downward accountability, established by a combination of social auditing, participation and beneficiary evaluation mechanisms, should be strategically used in order to foster organizational learning. Instead of funders emphasizing short-term quantitative targets for the sake of control, focus should be directed towards interaction and mutually learning with beneficiaries (in addition to other stakeholders) to achieve long-term social change (Edwards & Hulme, 1996b; Smillie, 1996; Ebrahim, 2005; O'Dwyer & Unerman, 2010). In order to do so, we claim that a more informal, trust-based relationship to clients should be developed to gain first hand information regarding their situation and perceptions of NGO and funders. This is crucial in order to develop a deeper understanding of how to most effectively provide development aid. In that, we argue that effective downward accountability rather enriches than constrains any developing NGO.

Further, by taking our close observations and conversations into account we suggest that downward accountability can be viewed from a different angle rather than empowerment of beneficiaries within the NGO: besides focusing on downward accountability mechanisms being implemented for the purpose of empowering the beneficiaries in the relationship with the NGO (see for example Kilby, 2006; Jacobs & Wilford, 2007; Ellerman, 2001; Ebrahim, 2003), which is hard to realistically achieve given the difficult lives of the beneficiaries (little spare time for involvement; little capacity and interest) accountability mechanisms should be for the purpose of the organization to learn, to receive feedback and to make sure that beneficiaries are effectively benefiting from the NGO's services. This view is somewhat captured also by Lewis & Madon (2004), who criticize development NGOs and argue that they need to increase their impact, effectiveness and overall professionalism by recognizing the importance of ”high quality information about field work to ensure accountability”.

6 SUMMARY AND CONCLUSION

To conclude, this paper illustrates and discusses the complex nature of NGO accountability within Microfin, a large Indian development NGO in the microfinance sector. In order to understand and analyse its accountability structure, we draw on Alnoor Ebrahim's (2003) framework for identifying accountability mechanisms in NGOs. Additionally, we add Patrick Kilby's (2006) schema for specifically analysing the effectiveness of the downward accountability mechanisms. In particular, this paper aims to take an integrated and coherent look on how upward, downward and internal accountability mechanisms are configured within the NGO and the effects on especially beneficiaries. This approach enables us to identify and illustrate the major mechanisms within Microfin, which lead to upward, downward and internal accountability (a distinction based on Najam (1996)), and subsequently to interpret and improve our understanding of accountability within NGOs.

We find that upward accountability is dominant within Microfin, mainly due to funders' comparably huge leverage, which is capital. This finding supports the claim made in existing literature that NGOs face pressure to ensure efficient usage of resources provided by funders (e.g. Edwards & Hulme, 2002; Najam, 1996; O'Dwyer & Unerman, 2008; Goddard & Assad, 2006; Dixon et al., 2006). On the other hand, we find that Microfin has strong internal accountability towards its staff, mission and vision, which is largely enforced by Microfin's founding chairman. It occurs through accountability mechanisms in the form of internal rules and regulations, but also in form of an industry code of conduct. The industry code of conduct stresses client care and protection within the microfinance sector, while the internal rules and regulations aim for cost-efficiency in operations. We find that Microfin's internal management systems capture mainly operational and financial information and are very much aligned with funders reporting requirements. Contradicting to Goddard & Assad (2006), we find that Microfin is able to use accounting to a very large extent for its internal-decision making processes, and not only "to ensure legitimacy towards funders". However, as noted above, the upward accountability to a large extent shapes the configuration of internal accountability mechanisms, and in that sense transfers funders' perspective onto the internal decision-making agenda within the NGO. Thus, while the majority of existing literature addresses the implications of strong upward accountability on the beneficiaries (e.g. O'Dwyer & Unerman, 2010; Dixon et al., 2006), this paper gives insights into how upward accountability affects internal accounting in a specific NGO setting.

By taking up Kilby's (2006) schema for analysing downward accountability, we examine Microfin's downward accountability mechanisms according to their "level of formality" and the "depth of accountability". We find that Microfin's downward accountability mechanisms lack formal (and informal) opportunities for beneficiaries to engage in Microfin's activities. In addition, they do not provide proper feedback arrangements for addressing the unequal power balances between beneficiaries and NGOs or funders. These together result in low level of formality and subsequently low depth of Microfin' downward accountability. We see two reasons for this:

First, being mainly held financially accountable to its funders keeps the NGO from focusing on social performance and impact. The internally induced annual client survey recognizes the need for social performance information to some extent, however it is based on a very limited sample, it is not integrated in the internal management systems and not configured in a way that creates a platform for interaction between Microfin and beneficiary. As funders do not hold the NGO socially accountable, e.g. by measuring the effectiveness of the funds channelled to them, the NGO seems to neglect the social component and as such the importance to establish effective downward accountability mechanisms. This finding supports literature by showing that requirements of funders can move locus of accountability away from beneficiaries (e.g. Edwards & Hulme, 1996b; Elliot, 1987; Fox & Brown, 1998; Najam, 1996). Hereby, we argue that it is crucial that funders engage more in downward accountability, both due to their position as powerful stakeholder to NGOs, but especially due to their position as indirect lenders to beneficiaries. We argue that funders that earn returns on poor, socially vulnerable people, ultimately are to be held responsible for ensuring the effectiveness of funds used, a moral topic which should be publically debated (see also O'Dwyer & Unerman, 2010). If funders were more socially oriented, they would evaluate NGOs to a higher extent on their social performance and encourage debates among stakeholders including beneficiaries, giving room for more developed social auditing processes. Consequently, NGO's focus would shift towards social performance and the needs of beneficiaries (rather than on financial performance), which overall leads to more effective downward accountability mechanisms (see Ebrahim, 2005).

Second, our case study reveals that Microfin's strong internal accountability is focused on achieving operational efficiency. The strong adherence to rules and regulations disregards the importance of deeper client engagements and restricts flexibility in the field operations. Field officers are more focused on financial and operational performance (indirectly induced by funders), rather than on formally ensuring social impact (e.g. through interaction during centre meetings) and building informal, trust-based relationships to beneficiaries, a finding we share with Dixon et al. (2006). The internal focus on cost-efficiency and growth, which requires the access to further funds, is reflected in field staff's day-to-day routines in the form of tough working schedules that makes deeper client engagements impossible. Furthermore, by analysing interdependencies between accountabilities, our finding delivers empirical proof to Kilby's (2006) claim that internal accountability can either foster but also limit, as in the case of Microfin, an NGO's ability to be downwardly accountable.

In order to strengthen downward accountability, we claim that beneficiaries need to proactively be encouraged to engage with the NGO in a way that is suitable with regards to their social background and confidence. In line with Kilby (2006), we argue that formal downward accountability mechanisms, where clients are encouraged to fully air their views and opinions without having any fear of sanctions, is necessary. Further, we identify huge power imbalances between beneficiaries and NGO and funders. In order to enable eye-level interaction, we argue that beneficiaries need to be able to evaluate the quality of work of NGOs and funders (see Agyemang et al., 2009; Ebrahim, 2010; Unerman & O'Dwyer, 2008).

Combining formal participation mechanisms with downward directed evaluation tools and deeper field officer-client relationship, we argue, will create a balance to funders' dominance and enhance focus on social impact and performance, which in turn creates huge opportunity for organizational learning (in the form of social auditing mechanisms) through mutual interaction between clients and the NGO. As such, effective downward accountability offers the opportunity to ensure the most effective development aid to beneficiaries.

Overall, our paper adds to the debate about NGO accountability by presenting how various accountability mechanisms, illustrated by Ebrahim's (2003) framework, create NGO accountability upwards, downwards and internal (as first defined by Najam (1996)) and further how these forms of accountability mutually influence each other. By taking the clients' perspective into account, we specifically consider the effectiveness of downward accountability by drawing on Kilby (2006) and how it is influenced by upward and internal accountability.

Recommendation for research

Our study indicates that more research is needed that takes a coherent view on accountability and further investigates the interdependencies between upward, downward and internal accountability. Our analysis is based on a very large NGO within microfinance with relatively strong developed management control systems. More research is needed in analysing the accountability structure of smaller, less professionally operating organizations, possibly in other development sectors. The microfinance sector specifically, but also to a wider extent other development sectors, have seen in the last decade increasing numbers of transformations of NGOs to for-profit organizations (see Ghosh, 2013). Therefore, we recommend future researchers to analyse the implications of such transformations on the organizational accountability structure and particularly on the effectiveness of downward accountability. As we have identified the importance of the role of funders in Microfin's accountability structure, investigations should continue focusing on their role in the downward accountability debate and aim to incorporate a broader, more empirical researched funder perspective in analysing NGO accountability. A further limitation of our study is that we identify accountability mechanisms in line with Ebrahim's (2003) predefined categories. Therefore, we recommend future researchers to analyse NGO accountability from a different angle and aim to identify further mechanisms not present within Ebrahim (2003).

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8 APPENDIX

8.1 Interviews and formal departmental meetings

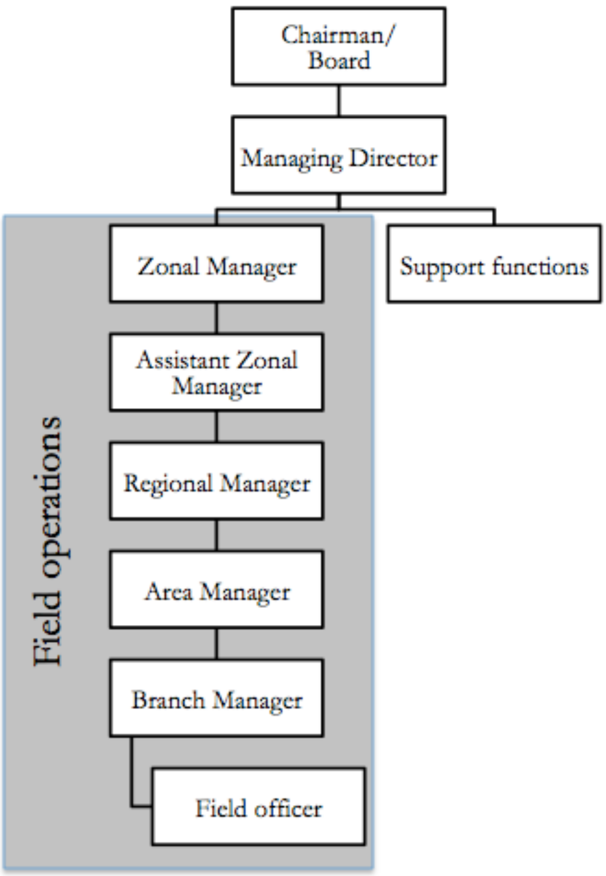
Formal interviews

#	Position	Department	Date	Length [min]
1	Chairman	HQ	05/03/14	75
2	Managing Director	HQ	11/03/14	65
3	Manager	Training	21/02/14	50
4	Manager	ICT	24/02/14	45
5	Head	ICT	24/02/14	80
6	Deputy Head	HR	26/02/14	75
7	Deputy Head	Audit	03/03/14	85
8	Chief Financial Officer	Finance	04/03/14	90
9	Deputy Head	Accounts	04/03/14	65
10	Officer	HR	05/03/14	60
11	Officer	Finance	10/03/14	40
12	Field officer (MT)	Operations	20/02/14	50
13	Business Correspondent	Operations	26/02/14	70
14	Branch Manager	Operations	28/02/14	50
15	Field officer	Operations	28/02/14	60
16	Field officer (MT)	Operations	28/02/14	50
17	Zonal Manager	Operations	03/03/14	70
18	Zonal Manager	Operations	03/03/14	60
19	Branch Manager	Operations	06/03/14	30
20	Assistant Zonal Manager	Operations	10/03/14	70
21	Senior Vice President	Rating Agency	05/03/14	50
22	Chief Manager	Funder - public bank	11/03/14	60
			Avg. Time	**61**
23	Client #1	Rural area	20/02/14	15
24	Client #2	Rural area	20/02/14	20
25	Client #3	Urban area	24/02/14	20
26	Client #4	Rural area	28/02/14	30
27	Client #5	Rural area	28/02/14	20
28	Client #6	Semi-urban area	07/03/14	45
29	Client #7	Semi-urban area	07/03/14	40
			Avg. Time	**27**

Department introductory meetings

#	Department	Date
1	Accounts	04/02/14
2	Board & MD Secretary	05/02/14
3	Credit Plus	04/02/14
4	Finance	05/02/14
5	Health and Education Service	05/02/14
6	Operational Management Team	25/02/14
7	Human Resource	04/02/14
8	Insurance	07/02/14
9	Internal Audit	06/02/14
10	Information communication technology	03/02/14
11	Monitoring & Reporting	25/02/14
12	Planning	06/02/14
13	Training	03/02/14

8.2 Microfin's organization chart (simplified)



8.3 Daily log (excerpt)

(Identities are anonymized)

Day 13, Mon 24 Feb		
#	**Department**	**Information**
Morning		
1	Field Trip	• 07:30: Field trip Branch #1: slum area. • Visited one centre meeting for 2 hours (time of centre meeting 1,5 hrs) and interviewed one client (the centre leader) afterwards (see client interview log)
2	Own work	• At 10:30 we were back at the office and started preparing for the next staff interview
3	Interview: ICT manager (1/2)	• Personal interview with ICT manager: In the middle of the interview he got a call and had to go out due to some "really important issue", he came back in the afternoon and we continued the interview (see ICT manager interview log)
Afternoon		
4	Interview: M+R manager	• Interviewed with Manager from M+R department: First regarding the department work and then continued with a personal interview
5	Own work	• Transcribing and discussing the two interviews and field trip from the morning
6	Interview: ICT manager (2/2)	• ICT manager came back at 17:00 and we had 1-hour discussion about the performance management system, in particular the 360 appraisal. • He stated his personal perception and the effect of the evaluation in respect to ICT department. He also gave suggestions of improvement and points out critics with interesting implication for us (see ICT manager interview log)
General observations of the day		
3/4/6	Interviews	This day has been very interesting, both regarding observations in field and at interviews: • Firstly, we feel that the persons we met the first week (like ICT and Training manager) is now trusting us and are talking freely. So we should make use of this and interview the people we know, but also try to get to know more people. The interview with M+R manager did not felt as honest as the one with ICT manager, probably because M+R manager has not met us before – he didn't feel so comfortable with us. • Secondly, there seem to be underlying tensions and dissatisfactions among staff regarding Microfin's bureaucratic, top-down approach – both ICT and Training manager (who we know well by now) felt their performance were not rewarded and they had no possibility to make their voices heard to top management
1	Field trip	• Thirdly, we question the interest among clients to participate in downward accountability – they don't seem to be so interested in Microfin except for the loans they provide (they are late to centre meetings, often only 2/3 of the clients show up on the meetings, they are not so interested in contributing with opinions when asked)

8.4 Field trip notes (excerpt)

Field notes and observations - Field Trip XY Branch

XY Branch - Generals (anonymized)

1st field visit – urban village near the branch office, 11/2

People met:
-Area Manager (AM) - medium strong in English
-Branch Manager (BM) - not strong in English
-Management Trainee (MT) - strong in English
-Centre Manager (CM) –not strong in English

Information about the branch:
-Urban/rural: semi-urban
-Location: branch office approx. 1 km from head office
-128 centres
-2731 loan clients, 2817 products
-6 field staff working and living at the branch office (1 AM, 1 BM, 4 CMs incl. MT)
-Outstanding loan amount: Rs. 30.5 million
-Furthest center: 8-10 km away

Translator: Management Trainee (MT)

Field visit	
Time	**Information**
08:00	- Picked up at the hotel by MT and AM, drove to branch office. From there walked approx. 200 m to the first centre meeting
08:30- 10:00	- Attended two centre meetings - In the beginning and the end of every centre meeting the groups takes an oat Centre meeting no. 1 - 20 women - CM absent so MT held the meeting - During the meeting MT simply collected EMIs (Equal Monthly Installments) - A woman asks why she cannot get one more loan, and receives the answer that she has already taken loans from MFIs amounting to 50 000 Rs. (RBIs limit) - At the final oat only 14 of the women were still present - When asked what the women used the money for, we get some examples: one bought four buffalos and sells the dairy milk, one invested in an auto rickshaw for her husband, one has a general store together with her husband, many are vegetable vendors - When asking the group what changes they have perceived from the microloans: • One woman says that now her children go to school. We ask if she will take a new loan after this. “After this I will see if I take one more loan” she answers. • Another says that before the being a client at the MFI, she purchased her vegetables on credit from the vendor. And she had only one trailer of onions and potatoes. Now she purchases with her own money (Microfin has lower interest rate than the credit has from the vendor) and has increased her business to three trailers. She is on her 5th loan in 10 yrs. Centre meeting no 2 - We were a bit late so we only joined at the end of the meeting - 20 women - CM: "All of the customers at this center do have savings account"; "We motivate them, but it is not mandatory to have a savings account"

<table>
<tr><td></td><td>- Also here, main business of clients: small general stores, vegetable tracker, buffalos</td></tr>
<tr><td>10:00-
11:00</td><td>- After the second centre meeting we (after asking to) were shown to three different businesses:
<u>Woman no. 1:</u>
• Client since 2 yrs.
• Started a general store 1 yr. ago
• 1,000 Rs. in sales → 200 Rs. in earnings/day
• She says it has been a big change – now she can save some money for herself
• New loan to increase stock – provide more items
• Some of the money she, a bit embarrassed, tells us she has used to pay for the second floor she has built above her shop
<u>Woman no. 2:</u>
• Is currently in her 5th loan cycle
• Loan amount 25,000 Rs.
• She uses it to buy woods which she stores in a 3*4 m big room
• She uses the loan to buy up on stock
• To sell all stock takes 1 month
• Profit approx. 150 Rs./day
• If she had more money she would build a shop – but for this you need more money; >1 lakh Rs.
<u>Woman nr 3:</u>
• Client since 1 yr.
• Loan amount 10,000 Rs.
• She had taken a loan so her son-in-law could increase inventory in the family's already big general store
• The store had been in the family since 25 yrs. (her dad had run it before) and was among the largest in the area
• She gets money from her children to bring to the centre meetings
• Observation: Made us question exactly how they assess the "poorness" of their clients? This was a proper building with proper roof and walls which has been a family property for years</td></tr>
<tr><td>11:00-
12:30</td><td>-Joining MT back to the branch office to talk to him and observe the activity
-While we were sitting there, clients came in doing different errands, e.g.:
• disbursing the EMIs for a centre (few women, mainly husbands/sons/male neighbors)
• collecting stock material (pass books etc.)
• taking out/putting in money in their savings accounts
• getting new loans – need to bring their husbands (a couple comes in while we're sitting there. She settled her loan last week and now she wants to get a new)</td></tr>
<tr><td colspan="2">Observations in the field and at branch office</td></tr>
<tr><td colspan="2">Monitoring
-No small talk from the CMs with the customer, e.g. asking how the business is going or if they need any help. Simply collection of EMIs and that's it. Neither when the customers go to the branch office for different errands this seem to be asked tis question
-Microfin trust their clients. If the client during the centre meeting says that she has used all the money for her business than they trust her. Example:
• MT told us "see, the clients are usually honest, living in the poor areas" – i.e. that the clients are honest and tell Microfin what they are using their money for. The oral communications seems to be the only way field staff/Microfin actually monitors the clients in order to make sure that the money is used for entrepreneurial activities.
• (ADDITIONALLY: Area Manager performs so called loan utilization check, where he visits onsite the business)
• When we meet woman no. 1, after she has shown us her shop and we have small talked a bit we ask her where she got the money from to build the second floor of her house. Then she hesitates for a second, blushes a bit and tells us that some of the loan amount she used for that. This was news also to the MT. But he didn't react on it so it seems he thought its fine. So now we can draw two conclusions:
o MT seemed to be right when he told us that oral communications work well as monitoring (clients are actually honest)</td></tr>
</table>

○ But – they don't seem to engage in this kind of monitoring anyway! So do they actually follow up on the loan money their clients spend at all?
General -MT seems to like his job. When asked he smiles and says immediately "yes of course!" --> see **interview MT** -The women seem to know each other very well, they're talking with each other and cover up if someone is absent -The CM is doing a lot of double-checks when collecting the money, counting several times; checking denomination on paper slips... -Questioning still if all money really is used for entrepreneurship? It seems that it is enough if you say that you for e.g. want to buy vegetables and sell to become eligible for a loan – no more checks are done? (<u>update</u>: after a second field visit we get to know that both CM, BM and AM should do surprise checks, and we joined some of them)
Interest rate -When overlooking the passbooks of the women we notice some example of interest rates and loan sizes: • Rs 30 000, interest 5 100 Rs → 17% interest rate • Rs 20 000, interest 3 400 Rs → 17% interest rate. Payment schedule looked similiar like: week 2-46 pay 400 Rs each week, week 47-102 (total 2 yrs.) pay 100 Rs each week → But at the HQ we got to know that interest rates was 21%?-->Changed. in December 2013
Branch office location -The office has two noticeboards, several racks with old files (a few racks assigned for each personnel, with its name on), one big desk and some benches and chairs. There is no computer or any other modern facilities such as TV. Artefacts include: **see pictures** • Microfin's vision and mission statements are up on the noticeboard, written in Hindi and English • Company Rules & Regulations box • Collections are registered in paper books -It's a real mess in there. It has three bedrooms, one bathroom, one kitchen (with a lot of old dirty plates and dishes everywhere) and one office where they meet customers. In the office there are papers everywhere, and all facilities such as chairs and tables are really old -When disbursing the EMIs the clients receive a deposit slip in return. Also now MT is very careful when counting the money, and double-checks the amount every time. No mobile phones are used at this time of collection -Hard to believe that some clients really are very poor? A neighbour of a client who is there to disburse a entire centre's EMIs has jeans, sneakers, sunglasses and t-shirt and look quite well off, comparably

8.5 Head office notes (excerpt)

Field notes and observation - Finance Department

1meeting in head office, 5/2

<u>People met (participated in meeting)</u>

Name: RB (Finance manager) - started as assistant accounts manager

General		
Date	**Name**	**Information**
5/2	RB	- Previously, accounting and finance has been one department, but now it is divided up into two parts - Hierarchy (top down): 1x ADF (Head) --> 1x CFO --> 2x AGM Finance (can be increased if expansion of Microfin) --> 2x Manager Finance (can be increased) - Cannot attract private equity investors - Current debt providers include 10 public banks, 10 private banks and some other fin. Inst. - NGO not registered by companies act
Manager Finance (lowest level)		
5/2	RB	<u>Responsibilities</u> - Groundwork of finance department - Preparation of proposals for term-loans - Submitting query replies to banks and institutions, acting as correspondent with banks - Fulfilment of loan requirements, which are stated in sanction terms of the banks i.e. the lenders - Coordination of quarterly visits to centres and branches by bank officials ("once in a quarter to look up the health of the organization and the requirement of the loans") -The finance manager is "a refresher at ground level, not analytic quality"
AGM Finance (2nd lowest level)		
5/2	RB	<u>Responsibilities:</u> - Train, refresh subordinates at ground level - Prepare **liquidity reports** (cash out flow and cash in flow) at a company level; determine cash balance and identify gap --> liquidity report is based on numbers (actual) from accounts and projected numbers from planning and submitted to CFO and further MD -Negotiation with banks about cost of borrowing: processing fees and interest rates. Bank charge 14 % normally, but Microfin has lower
Financing Process		
5/2	RB	<u>Funding :</u> 1) Finance process starts with Planning: - Planning department prepares Business Plan (BP) for the next 5 years by including feedback from executives (CEO, chairman) 2) Finance dep receive these targets from the internal planning dep. Fund requirements to fulfil targets for next 5 years are derived from BP 3) Finance dep.'s responsibility is to raise funds for the next fiscal year. It raises from private sector banks as well as public banks. Also there's subordinate-debt providers, which provides long-term debt (>5 yrs maturity) which is treated as quasi-equity (pay 5-6 % interest on these) 4) Funding proposal is created and submitted to private/public (governmental) banks; It includes: • Microfin's profile • Historical financial data of last 3 years • Projected data for next 5 years (BP) 5) Bank offer specific loans to Microfin (this can take 4 to 5 months) <u>Banks require two types of securities</u> • Book dates – include list of clients, which have been financed by the term loans (3-4 yrs). So the clients are earmarked for a specific term loan

<table>
<tr><td></td><td></td><td>• Cash collateral (CC) – cash margin of generally 5-10%, put as fixed deposits (FDR) for a certain loan amount, and is not released until after loan is repaid
<u>Relationships/Interaction with others</u>
• Accounts submits FS in monthly reports (provisional) to Fin. Dep.
• Fin. Dep. extracts data from accounts and analyses it
• (Accounts also submits FS data to IT and Monitoring)
• (IT provides core data from field to Accounts)
• Fin. Dep. is intermediate between outsiders/stakeholders/banks/rating agencies and bank department
• Fin. Dep. reports regularly to MD/Chairman
• Fin. Dep. has relations with Admin. department, especially when it comes to company visits
<u>Net margin</u>
- Microfin requires 2-3% net margin in long-term to operate sustainably
- Calculations: example:
21% lending rate (RBI regulation: no MFI can charge more than 26%)
-12-13% cost of funding
=9% margin cap (RBI, cannot be higher than 12%, ensuring that clients are not exploited
-5-6% General and admin. costs --> only way to increase net margin
=3% Net margin
- See printout
- “Microfin need at least 2-3% profit margin in the internal reports to sustain profits for a longer period of time” --> see internal reports
- But if too high surplus → decreasing interest rate to customer (policy of Microfin?) so that surplus also decreases (but when do they decide to increase employees salaries instead?)
- 2-3 yrs back the admin costs were very high, but after introducing ATOM mobile application Microfin has managed to reduce the adm. cost</td></tr>
<tr><td colspan="3">Regulation and Compliance</td></tr>
<tr><td>5/2</td><td>RB</td><td><u>RBI requirements:</u>
- CA (Chartered Accounting) certificate has to be submitted quarterly from Microfin to banks i.e. the lenders
- Any surplus increase has to be returned to customers
- See printout
- 12% rate is a margin cap decided by RBI for MFIs (as seen above under Net margin)
- No MFI can charge a rate of interest beyond 26 %
- NGOs are exempted from the registration with RBI (NBFCs are profit making and can hence attract private capital, and so they must register with the RBI). With non-profits it is challenging to fulfill employees’ needs (i.e. decent salaries).
- But Microfin has sufficient size and lower admin costs.</td></tr>
<tr><td colspan="3">Lending terms</td></tr>
<tr><td>5/2</td><td>RB</td><td>-Tenure of lending money
• Loan size for client < 15,000 --> max 12 month
• Loan size for client 30,000>x>15,000 --> max 24 months
- Max. 50,000 Rs. can be lend by MFI in India, however Microfin's limit is 30,000, two arguments:
• Firstly; "We serve the most poor; we focus first on clients of lowest level, since if someone can borrow 40-50 tsd., she can go directly to a normal bank; that is why we limit the loans at 30,000"
• Secondly; to extend the outreach - rather lending to one person 50,000, Microfin lends to 5 person rather 10000 --> increase of customer outreach
- Loan can be settled (repaid) at any time
- Limit earlier was 25,000, now it is 30,000
- Loans of 30,000 are offered to mature clients with good track records only, since due to huge formalities they have high issues getting a loan at a bank. With the MFI it is enough if they reveal their name then they will get the loan
<u>-Loan cycles:</u> see printout
1st cycle: Rs. 2,000-10,000</td></tr>
</table>

		2nd cycle: Rs. 14/16/18,000 3rd cycle: Rs. 16,000-30,000
Loan types		
5/2	RB	- Microfin has more than 20 banks as loan clients: 10 public, 10 private, others, 6-7 subordinate debt providers Subordinated debt - Treated as quasi-equity - NGOs company cannot take private equity investments (see Company Act of 19xx) - Interest rate: 5-6% - Tenure: >5 years Term loans - Tenure: 2-3years -Interest rate: 12-13% (usually) - 2 types of securities required: a) Book dates (list of clients financed by term loan), b) Cash collateral, i.e. fixed 5-10% cash margin Loan portfolios 1) Own portfolio (self-credit): term-loans (governmental/private); subordinated loan 2) Off-BS portfolio: a) BC credit; b) Securitization --> Goal in future: 50% own; 50% off balance sheet financing For next 1-2 years management decided to equal business credits and self credit (own portfolio – generated by term loans from banks)→a way to expanding their business to be able to serve more borrowers
Challenges regarding funding		
5/2	RB	- Capital is very narrow, especially since no direct investment in non profit company is allowed - Surplus out of operation only way to create capital basis to very limited extent - Fulfilling employees needs vs. clients needs

8.6 Overview organizational documents

File name	Received from	Type	Date
Accounts department - an overview (ppt)	Accounts	hard	04/02/14
Operational manual (pdf)	Board secretary	soft	24/02/14
RBI compliance audit report 13-14	Finance	hard	05/02/14
HR office circular no. 486 - loan cycles/max. loan size	Finance	hard	05/02/14
List of Microfin's funders	Finance	hard	04/03/14
"Microfin pitch" for attracting funders	Finance	hard	04/03/14
"How may i help you please"- service guideline	Human Resource	hard	12/02/14
Staff circular no. 401 - guidelines against harassment	Human Resource	soft	28/02/14
HR manual	Training	soft	18/02/14
Human resources - introduction (ppt)	Human Resource	hard	04/02/14
Audit report executive summary	Internal audit	hard	06/02/14
Internal audit department organizational structure	Internal audit	hard	03/03/14
Atom mobile solution (ppt)	ICT	soft	26/02/14
Consolidated summary company report as of 31/01/14	Monitoring	soft	24/02/14
Monthly project statement as of jan. 2014	Monitoring	soft	24/02/14
Funder#1 book debt statement	Monitoring	soft	25/02/14
Funder #1 specific monthly reporting format	Monitoring	soft	25/02/14
Funder #2 specific monthly reporting format	Monitoring	soft	25/02/14
Funder#2 book debt statement	Monitoring	soft	25/02/14
BC credit consolidated summary report as of 31/01/14	Monitoring	soft	25/02/14

BC credit progress report as of 01/01/14	Monitoring	soft	25/02/14
Geographic coverage details	Monitoring	soft	25/02/14
5-years business plan - updated (10. Jan 14)	Planning	soft	01/03/14
5-years business plan (21. may 13)	Planning	hard	06/02/14
Annual report 2012-2013	Training	soft	03/02/14
Micro credit code of conduct compliance assessment	Board secretary	hard	07/03/14
Smart campaign certificate	Board secretary	hard	07/03/14
Master reporting sheet private & public funders	Finance	soft	07/03/14
Social rating report	Board secretary	soft	10/03/14
Annual client survey report 2013	Board secretary	soft	10/03/14
Code of conduct January 2014	Board secretary	soft	10/03/14
Credit rating report february-14	Board secretary	soft	10/03/14
Direct borrower information report 2013	Board secretary	soft	10/03/14
OPIC questionnaire	Board secretary	soft	10/03/14
Master sheet social investors April 2014	Board secretary	soft	10/03/14
Narrative report on fund utilization	Board secretary	soft	10/03/14
Social covenant compliance report	Board secretary	soft	10/03/14
Funder#3 quarterly programmatic report indicators	Board secretary	soft	10/03/14
Various pass books and branch forms	Branch office	hard	06/03/14
Outstanding sub-ordinated debt report	Board secretary	hard	10/03/14
Statement of performance indicators Dec. 2013	Monitoring	soft	10/03/14
Funder report social investor #1 dec-13	Monitoring	soft	10/03/14
Funder report social investor #2 dec-13	Monitoring	soft	10/03/14
Loan utilization CA certificate	Monitoring	soft	10/03/14
Ageing report dec-13	Finance	soft	10/03/14
External grading report	Finance	soft	10/03/14
Detail of sanction & availment FY 2013-14	Finance	soft	10/03/14
Bankwise/FIs limit & exposure statement	Finance	soft	10/03/14
RBI compliance certificate	Finance	soft	10/03/14

8.7 Sample interview questions

a) Client interview questions

Introductory questions (asked in the course of small-talk)

- What is your name?
- How old are you?
- How long have you been customer with Microfin?
- What is the size of your current loan and what do you use it for?
- What is your family situation [working members, husband and children]?

Main questions

- Are you satisfied with Microfin [If no, have you raised it]?
- Do you think that Microfin was able to lift you out of poverty by providing you services? [Are you able now to send your children to school?]
- What do you know about Microfin? Do you know the name of the field officer?
- Have you been in contact with the people [Management] from the main office?

- How does your contact to the field officer look like? Do you speak about your business regularly?
- Does Microfin inform you about its plans and business? [How often?]
- Do address concerns/feedback? How? Are there meetings for that? [Do you think your feedback will be recognized?]
- If applicable, have you been to the annual center leader meeting? [Impressions?]
- Does Microfin ask for your experience with them?

b) Chairman interview question

- How did you get inspired to start an MFI?
- What is your philosophy in leading Microfin?
- Why is the majority of NGOs/MFIs not as successful as Microfin?
- How differs Microfin from other organizations?
- What are the key success factors of Microfin? Weaknesses?
- Vision: Where do you see the company in the long-term (15 years)?
- What are the main financial/non-financial metrics you focus on?
- What is your philosophy of motivating staff? [How do you ensure that key personnel retains in the organization? Tension: When to increase salaries vs. when to lower interest rate for clients?]
- Do you think MFIs are responsibility to support clients apart from credits to reach out of poverty?
- What is your opinion on microfinance as a tool for alleviating poverty?