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Microfinance and Poverty Alleviation:

Effects of Microfinance on the Well-being of Clients in Guayaquil, Ecuador

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Declaration

I, Anette Nickelsen, declare that this thesis is a result of my research investigations and findings. Sources of information other than my own have been acknowledged and a reference list has been appended. This work has not been previously submitted to any other university for award of any type of academic degree.

Signature………………………………..

Date…………………………………………

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Abstract

Microfinance is seen as an important development tool in the fight against poverty. However, inconsistent evidence jeopardizes the notion that microfinance is in fact able to sustainably reduce poverty. More research is needed to enhance our understanding of under which circumstances microfinance interventions can be of benefit to the poor.

The purpose of this study has been to evaluate how the provision of microfinance, by the microfinance institution D-Miro, has affected the well-being of the clients interviewed in Guayaquil, Ecuador. Applying an actor-oriented perspective, using Amartya Sen's "capability approach" and Caroline Moser's "asset vulnerability framework", the aim has been to see how microfinance has affected the clients' capabilities, agency, portfolio of assets, vulnerability and resilience. Furthermore, the intention has been to see what contextual factors shape this particular microfinance intervention, and how these influenced the effects the clients experienced. A qualitative research strategy was used, and the methods of data collection consisted of semi-structured interviews and observation.

Based on the findings in this study I argue that the clients' agency increased, as they were given more opportunities to pursue things that were of value to them: investing in their businesses, improving their standard of housing, buying better nutrition and clothing, and providing education for their children. This strengthened the clients' capability. Being able to invest in their portfolio of assets, more specifically, labor, housing and human capital, made the clients more resilient in coping with life's challenges and decreased their vulnerability towards external stressors. D-Miro's operations seem to be in line with its agenda to alleviate poverty. A differentiated set of products and services indicates a commitment to meet the needs of their clients. Loans are fairly priced, maximising profits is not a motive, and loan approvals are thorough and responsible in order to prevent clients from becoming over-indebted.

This study shows the value of an actor-oriented perspective in evaluating how microfinance affects people. A qualitative approach is useful, as the data collected is rich in contextual information. Seeing the world through the eyes of the actors is important when trying to understand how microfinance affects the well-being of poor people.

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1.0 Introduction

Since the pioneering work by Muhammed Yunus who in the 1970's began to provide small loans to local villagers in Bangladesh, later to be denoted as the provision of "microcredit", the world has witnessed a microcredit revolution making grounds in all five continents. Based on the strong belief that providing the poor with microcredit would free them from the chains of poverty, as access to credit would provide them with economic opportunities to start small enterprises, or to further prosper on existing enterprises. The previous term "microcredit" is today more commonly referred to as "microfinance" as to encompass not only credit, but also other financial inclusion services such as savings and insurance. The United Nations declared 2005 to be the "International year of Microcredit" with Kofi Annan acknowledging that microfinance would be *"an integral part of our collective effort to meet the Millennium Development Goals"* (Annan in Armendáriz and Morduch 2010:ix). The idea of microfinance as a powerful tool in the fight against poverty made a strong impact in academic, political and international development circles, and the attention given to microfinance burst into a global phenomenon. As the interest in this newfound development tool rose, much focus has been devoted to the theory, practice, and implications of microfinance on poverty.

In its early years, microfinance was believed to be the silver bullet and the "cure" the world needed to eradicate world poverty, and has experienced a massive expansion over the last decades: there are now over 200 000 000 clients worldwide covered by a 70 billion dollar microfinance industry (Sinclair, 2012). But despite 40 years in the making this industry has struggled to produce convincing results that microfinance is in fact able to sustainably reduce poverty. It is argued by many that the field lacks clear and robust evidence of its impacts (Stewart et al, 2012; Duvendack et al, 2011; Bauchet et al, 2011; APPGM, 2011; Karlan and Zinman, 2011; Hermes and Lensink, 2009; Weiss and Montgomery, 2005; Armendáriz and Morduch, 2010).

1.1 Motivations and rationale: why study microfinance?

Poverty affects hundreds of millions of people across the globe. Developing strategies to alleviate world poverty so that all people are given the opportunity to live a rich life should be high on everyone's agenda. At first glance, microfinance appears to be a simple and effective idea: helping the poor to help themselves by providing them with financial services that they can use to work their way out of poverty. But the link between microfinance and poverty alleviation is far from simple. More research is needed to get a more accurate picture of how and in what ways microfinance affects the lives of the poor. I argue that my study can offer valuable insights on how microfinance affects the poor, and by this, contribute to the ongoing debate on the impact of microfinance on poverty. Moreover, microfinance is a diverse and complex field, and I believe it is vital to evaluate intervention by intervention to learn more about why and how some interventions work compared to others; why some interventions prove to be beneficial to the poor, whereas others can make matters worse.

1.2 Problem statement

Microfinance is seen as an important development tool in the fight against poverty. However, credible evidence is needed to demonstrate that it can be meaningfully associated with poverty reduction. We also have yet to *truly* grasp how microfinance affects the lives of the poor. My study takes a qualitative approach, using semi-structured interviews, and draws on Amartya Sen's "capability approach" and Caroline Moser's "asset vulnerability framework" in order to identify how microfinance has affected the lives of the poor in Guayaquil, Ecuador.

1.3 Objectives and research questions

1. *To investigate what types of services and products are offered, how operations are run, and how the provision of microfinance and other services has affected the well-being of the clients interviewed. More specifically:*

   i) What services and products are offered, and how are overall operations run?
   ii) In what ways has the provision of microfinance and other services affected the clients' capability, agency, resilience and vulnerability?
   iii) In what ways has the provision of microfinance affected the clients' portfolio of assets?

2. *To investigate what contextual factors shape this particular microfinance intervention and what the implications of these are to the effectiveness of the intervention. More specifically:*

i) What contextual factors shape this particular microfinance intervention?

ii) What are the implications of these to the effectiveness of the intervention?

iii) What is the agenda of the microfinance institution evaluated in this study?

iv) To what extent are contextual factors, including the agenda, compatible with the services and products that are being offered and the overall operations of the microfinance institution?

3. *To examine the value of evaluating how microfinance affects the well-being of the poor in light of the theoretical actor-oriented perspective outlined in this thesis.*

i) How can the capability approach and the asset vulnerability framework contribute when evaluating the impact of a microfinance intervention?

ii) What can qualitative methods offer in evaluating microfinance interventions?

1.4 Thesis outline

This thesis is comprised of six chapters. **Chapter 1** introduces the reader to the issue at hand and outlines the motivation and rationale, problem statement, objectives and research questions covered in the thesis. **Chapter two** provides the reader with a thematic background of microfinance, as well as the conceptual framework that is used as basis for the analysis. I take an actor-oriented perspective, consisting of two themes that I argue are fundamental to consider when it comes to evaluating the effectiveness of microfinance and when trying to understand how microfinance affects the lives of the poor. **Chapter three** presents the contextual background, introduces the reader to Guayaquil and Ecuador, and presents the intervention agents: Mission Alliance, AMAS and D-Miro. In **Chapter four,** the methodological basis of this thesis is presented, with a focus on the underlying epistemology, research approach and data collection methods. Limitations to the present study as well as ethical considerations will also be discussed. **Chapter five** presents the empirical findings this study generated. In **chapter six** I will discuss how the findings relate to the conceptual framework, and the contextual factors outlined in chapter two. **Chapter seven** concludes the thesis and offers a set of future recommendations for the study of microfinance.

2.0 Theoretical background and conceptual framework

In the following chapter I will **first** present some thematic background on the link between microfinance and poverty reduction, as there is a need to establish the grounds on which microfinance is considered to be an important tool in the fight against poverty. Further, I will elaborate on why the premise of microfinance as being a valuable poverty reduction measure is such a contested claim. The latter is in part due to the methodological challenges in evaluating the effects of microfinance, which will also be addressed. **Second,** I will present the conceptual framework that I used as a backbone for this thesis. I will outline an alternative and more actor-oriented perspective, consisting of two themes that I argue are important to consider when evaluating the performance of microfinance institutions (MFIs), and how microfinance affects the well-being of the poor: i) drawing on the works of Amartya Sen and his "capability approach" and Caroline Moser's "asset vulnerability framework", I argue that microfinance should be evaluated in terms of how it affects poor people's capabilities, resilience, agency, portfolio of assets and vulnerability, and ii) microfinance is a diverse and complex field, and there are many contextual factors that shape microfinance interventions which may have implications for the effects the clients experience.

2.1 How can microfinance reduce poverty?

Microfinance interventions, wherever they are implemented, share a common objective: they are devised to help the "unbankable" (to steel a term from Muhammed Yunus), the portion of poor people who have no access to formal credit markets due to their high credit risk and lack of collateral. Microfinance is thus a measure to provide the poor with financial services in order to help them move out of poverty by offering them start-up capital needed for establishing small enterprises, or expand already existing enterprises. Grameen 2009 & Khandker 2005 (in Stewart et al, 2012) argue that it is assumed that by offering financial inclusion services to the poor, their income will increase. With higher income it is further assumed that the poor will be able to increase their standard of living and experience positive impacts, such as: *"increases in household expenditure and consumption, reduction in income fluctuation and vulnerability, and increases in durable assets accumulated by households"* (APPGM, 2011:17). Other positive impacts that have been associated with microfinance include investment in health and children's education, better nutrition, better management of cash flow, and empowerment (often related to female clients) (Littlefield et al, 2003).

Furthermore, it has been argued that microfinance *"promotes free markets and entrepreneurship, reduces the dependency of poor people on government and donor handouts, and contributes to the emergence of a middle class"* (Coleman, 2005:184). Nevertheless, the outcomes of microfinance are complex, and there is a possibility that the provision of microfinance can do more harm than good. Figure 2.1 below provides an overview of likely outcomes of microfinance.

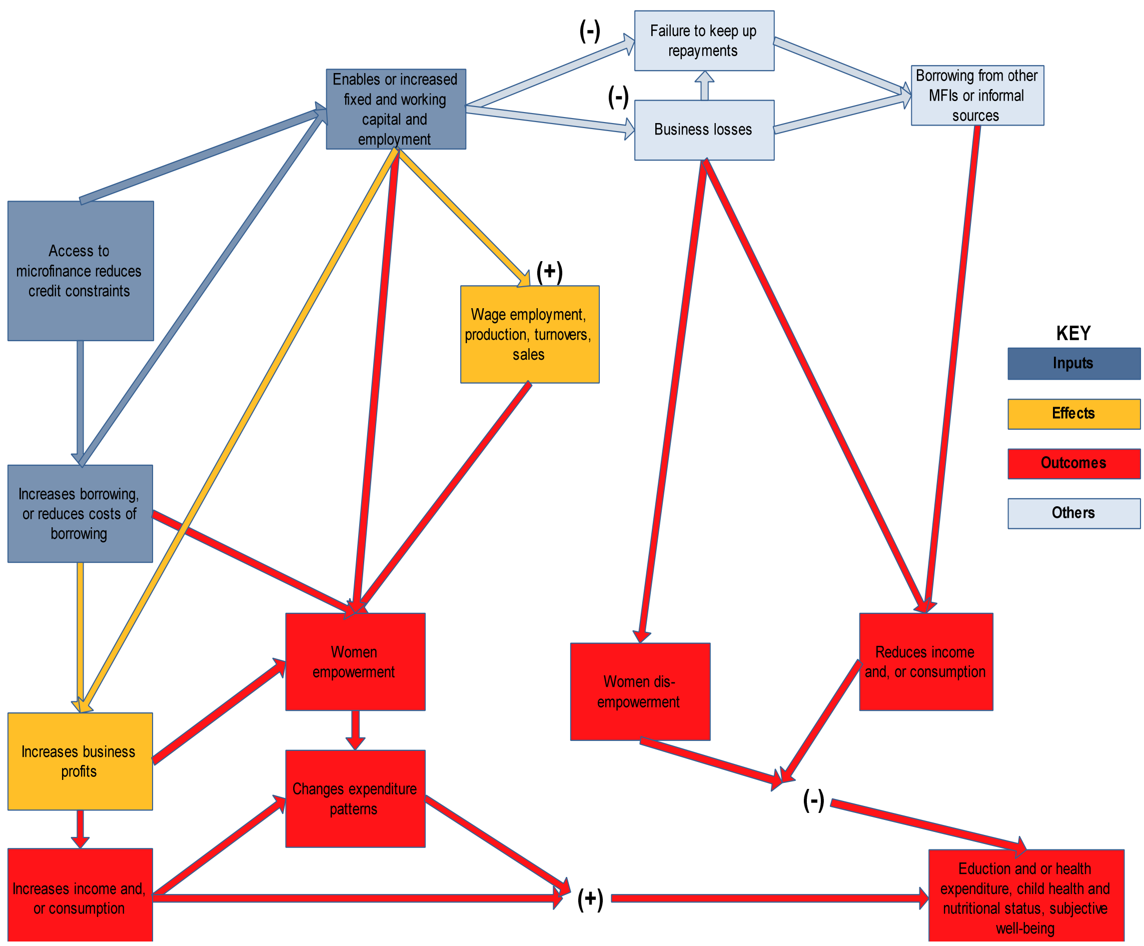

Figure 2.1 Pathways and outcomes of microfinance (Source: Duvendack et al, 2011:13)

Even though the provision of microfinance is a measure with the intention to increase income by increasing business profits in order to smooth consumption and improve a client's standard of life, there is also a danger associated with taking on a loan. If the client fails to meet repayments, and is forced to take on additional loans by other MFIs or informal sources (such as money lenders), the outcomes can be of a negative nature. Consequently, failure to keep up with repayments can elicit business losses, and the client can enter into a cycle of debt that has the potential to bring the client into even poorer conditions. Therefore, it is crucial to bear in mind that the causal pathways for microfinance include potentially both positive and negative outcomes.

Moreover, Stewart et al (2012) make a powerful comment to the argument made by Grameen 2009 and Khandker 2005, stating that: *"care should though be taken to avoid the assumption that increased access is an end goal in itself. Simply making financial services and products available to poor people of itself will not necessarily lead to poverty reduction"* (Stewart et al, 2012:10). Access to credit is vital in order to get economic opportunities to enhance one's standard of living, but it is not given that this will occur unconditionally. Responsible management of any loan is needed in order for it to render positive outcomes. It is perhaps even more important to be aware of the fact that microfinance does not *guarantee* poverty alleviation, as argued by Armendáriz and Morduch: *"we believe that microfinance can make a real difference in the lives of those served …, but microfinance is neither a panacea nor a magic bullet, and it cannot be expected to work everywhere or for everyone"* (Armendáriz and Morduch, 2010:5).

Furthermore, to put all the eggs in one basket is a dangerous and naive undertaking, and microfinance should only be one of *many* tools to foster development in the fight against world poverty. Morduch and Haley (2002) point to the fact that *"there are strong potential synergies between microfinance and the provision of basic social services for clients. The benefits derived from microfinance, basic education, and primary health are interconnected, and programs have found that the impact of each can increase when they are delivered together* (Morduch and Haley, 2002:3). The provision of microfinance together with basic services is also an important contextual factor, which I will address in section 2.2.2.2. The combination of providing financial and non-financial services can also have implications on clients' capabilities and resilience and will be addressed in chapter six.

2.1.1 A contested claim: does microfinance contribute to poverty alleviation?

As already mentioned, the lack of clear and robust evidence to demonstrate that microfinance is in fact associated with significant poverty reduction has led to a division in the field. This divide is between those who believe that microfinance *indeed* has the potential to alleviate poverty and those that believe that the power of microfinance in reducing poverty has been largely overrated. The following two quotes demonstrate two contradicting views on the ability of microfinance to reduce poverty:

> *"58% of the poor who borrowed from Grameen are now out of poverty. There are over 100 million people now involved with microcredit schemes. At the rate we're heading, we'll halve total poverty by 2015. We'll create a poverty museum in 2030"* (Muhammad Yunus in APPGM, 2011:6).

> *"The microfinance movement has been in operation now for some 30 years and in that time it has failed to provide robust evidence that it is meaningfully associated with sustainable poverty reduction and 'bottom-up' economic and social development…But even worse, many economists and development specialists are now of the firm opinion that MF actually UNDERMINES the process of sustainable poverty reduction and 'bottom-up' economic and social development"*
> (Dr. Milford Bateman in APPGM, 2011:6).

Milford Bateman, the author of the book "Why Doesn't Microfinance Work: The Destructive Rise of Local Neoliberalism" gives a rather stark critique of microfinance and the extent to which it can reduce poverty. Bateman argues that microfinance falls short of its premise as a poverty reduction tool stating that: *"virtually all of the core assumptions that underpin microfinance today should more accurately be described as myths"* (Bateman, 2010:29). Bateman speaks of a "new wave" of microfinance that is centred on commercialization and MFIs being out to become for-profit financial self- sustainable private businesses (Bateman, 2010). The view that the field of microfinance has become overly focused on profits is also emphasized by Hugh Sinclair, the author behind the book "Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the Poor." Sinclair argues that: *"some microfinance is extremely beneficial to the poor, but it is not the miracle cure that its publicists would have you believe. Microfinance has been hijacked by profiteers, and we need to reclaim it for the poor"* (Sinclair, 2012:xvi).

As these rivalling views express, the claim of microfinance as being a tool for poverty reduction is highly contested, and the lack of compelling evidence weakens the claim that microfinance is in fact able to sustainably reduce poverty. The most controversial debates regarding microfinance today are the following: i) the effectiveness of microfinance as a tool to reduce poverty, ii) the commercialization of the sector, and iii) does microfinance actually reach the poorest of the poor? (mission drift). Commercialization of the sector and mission drift is two interlinked topics. The danger, it is argued, lies in the possibility that *"MFIs become too focused on making profits at the expense of outreach to poorer customers"* (Mersland and Strøm, 2009:28).

To calculate mission drift, the average loan size is used as a proxy – a higher average loan size would implicate a move towards catering to clients that are better off and a decrease in outreach to the poorest segments of a population (Mersland and Strøm, 2009). The evidence of mission drift is contradictory. Some welcome the "profit motive" into commercial microfinance, as they argue that the drive for profit can have a positive impact on efficiency and that instead of decreasing outreach, it can increase it (Rhyne, 1998; Christen and Drake, 2002; Mersland and Strøm, 2009). Mersland and Strøm (2009) investigated the degree of mission drift using data from 379 MFIs in 74 countries from 1998-2008 using the average loan size as a proxy, and did not find evidence of mission drift. On the other hand, Dichter and Harper (2007) argue that: *"the industry is abandoning its mission to serve the poor* (in Mersland and Strøm 2009:28). Addressing more thoroughly the debates on commercialization and mission drift are not within the scope of this thesis, and as I argue that the debate over the actual effectiveness of microfinance in reducing poverty is by far the most pressing, it will also be the focal point of this thesis, and will be discussed next.

2.1.2 The debate over the effectiveness of microfinance to reduce poverty

The heated debate over the effectiveness of microfinance in alleviating poverty can be divided in two. **First,** the evidence base to date on the impact of microfinance in reducing poverty has been unconvincing and inconsistent, with studies identifying positive impacts, negative impacts, or no impact at all (APPGM, 2011). Moreover, evidence from the first three randomized control trials (RCTs)[1] that aimed at measuring the impacts of microfinance on poverty conducted by the Massachusetts Institute of Technology (MIT)'s Jameel Poverty Action Lab (J-Pal) *"did not find a strong causal link between increased access to microfinance and poverty reduction or social well-being for the poor"* (Stewart et al, 2012:12). The fact is that there is still uncertainty about the true impacts of microfinance

[1] A randomized control trial (RCT) is a quantitative evaluation method often used in assessing impacts of an intervention. RCTs will be discussed more in depth in section 2.1.3

interventions. According to Stewart et al (2012), *"we do not know how, for whom, and in what circumstances these interventions are successful (or not), nor whether specifically targeting women is more or less effective for combating economic gender inequalities than more mainstream interventions"* (Stewart et al, 2012:1).

Second, as put forward by Stewart et al (2012), the debate over the effectiveness of microfinance in reducing poverty has also been a question of what is the most appropriate method to measure the impacts of microfinance on poverty. As will be discussed in the following section, to be able to attribute cause and effect is a particularly complex endeavour in the social sciences. As argued by Stewart et al (2012), the problem is not only the lack of credible evidence on how microfinance impacts poverty. They also highlight the difficulty of extracting this evidence, as they view microfinance as *"a particularly challenging area to evaluate using rigorous research designs"* (Stewart et al, 2012:2). They link this difficulty to the fact that microfinance in itself is a complex phenomenon, and the fact that it is implemented in various developmental settings and social contexts makes it even harder to make evaluations on a general basis (Stewart et al, 2012).

The essential question is whether or not we *should* strive to evaluate the impacts of microfinance on a general basis, and to reach a conclusion of whether microfinance in general work or doesn't work? As argued by the All-Party Parliamentary Group on Microfinance (APPGM), the effects of microfinance are highly complex, and to simply reduce them to being either *"negative"* or *"positive"* is inadequate (APPGM, 2011). Furthermore, APPGM argues that: *"there is not sufficient high-quality nuanced evidence to be able to make a final conclusion over whether microfinance works, and in fact our sense is that this is the wrong question to ask. Microfinance is not all the same*" (APPGM, 2011:18). As microfinance is likely to produce different impacts in different settings where it has been introduced, it is vital to acknowledge the fact that *"each individual study is specific to the geographical area that it is evaluating"* (APPGM, 2011:18).

Therefore, instead of continuing with attempts to understand the "big picture" of the effectiveness of microfinance in reducing poverty, it seems that the field is at a "tipping point" where perhaps the best way forward is to identify which contextual factors that have implications for microfinance interventions. As Stewart et al (2012) point out, even after more than 40 years of experience there is still a considerable amount of uncertainty regarding why, how, for whom and in what type of contexts microfinance yields positive or negative impacts, which demonstrates urgent need for more research. To get a richer and deeper understanding of the many possible impacts of microfinance on the lives of the poor, there is a great need to ask more questions, and applying different perspectives when evaluating microfinance interventions in order to learn more of why some interventions work compared to others.

Stewart et al (2012) make this point, recommending that future research should not look at whether microfinance has a general poverty reduction impact, but rather strive towards *"identifying how, and in what circumstances, these financial inclusion interventions can work for the poor"* (Stewart et al, 2012:7). They make the plea for more primary research to be undertaken with RCTs as the preferred research design, as they consider RCTs to generate the most robust evidence (Stewart et al, 2012). This brings us to an important issue in the field of microfinance research: should RCTs be the only way to gain knowledge about the impacts of microfinance interventions?

2.1.3 The methodological challenges in evaluating microfinance

Conducting research on the effectiveness of microfinance in reducing poverty is a challenging endeavour, and much focus has been devoted to how to accurately *measure* the effects of microfinance. A vast number of impact assessments have been conducted, using various research designs. However, many of these fall short due to flawed designs and the *"technical challenges of conducting rigorous microfinance impact evaluations"* (Duvendack et al, 2011:2). The challenges are many, but the most profound challenge relates to that of attributing cause and effect. In the context of microfinance, to determine the causality between receiving a loan (X) and poverty alleviation (Y) is highly problematic. The causal pathway between X and Y is utterly complex and can involve circumstances unaccounted for and spurious/confounding variables that can have an effect on outcome Y, other than X. Furthermore, *"it is extremely difficult to isolate the impacts of microfinance, because to do so, you must identify what would have happened without it (i.e. establish the counterfactual) and this is a considerable challenge"* (Asian Development Bank 2011 in Stewart et al, 2012:13).

The establishment of a counterfactual[2] is the reason why RCTs receive such high standards when it comes to impact evaluations, and why advocates of the positivist tradition see RCTs as the *"'gold standard' of evaluation, and judge other evaluation designs in the light of how close they replicate RCTs"* (Stewart et al, 2012:15). RCTs work by comparing two different groups, where units of the sample have been *randomly* assigned to either the treatment or control group (both groups share homogenous characteristics). The treatment group then receives the intervention (microcredit), and the control group does not. If there is a difference in outcome in these two groups, it is assumed to result from the provision of microcredit (Maes and Reed, 2012). However, as Bateman (2010) notes: *"does impact assessment produce a genuine reflection of what microfinance can achieve economically and socially?"* (Bateman, 2010:34). David Ellerman (former World Bank staff member) argues that: *"the impact of microfinance cannot be assessed correctly by comparing microfinance to the alternative of 'doing nothing'"* (Ellerman in Bateman, 2010:34).

Another important element to consider regarding RCTs is that the *"results [from RCTs] are reported in terms of the average experience of borrowers, which obscures the variety of experience"* (Christopher Dunford in Maes and Reed 2012:14). The critical question that arises is whether or not RCTs actually capture the variety of the experiences of the microfinance clients? The average experience of the clients is a good indicator in trying to understand impacts. However, when trying to understand impacts, contextual information is also vital.

Given the difficulties of measuring how microfinance affects people, and the lack of consistent evidence, APPGM (2011) suggests that, *"additional evidence should be developed through varied but nuanced studies"* (APPGM, 2011:20). APPGM (2011) acknowledges the use of RCTs as bringing important insights to the impacts of microfinance on poverty. However, they also recommend that more qualitative studies should be undertaken, as "*qualitative studies may be better placed to discover mechanisms affecting programme effectiveness that could be missed by a quantitative study"* (APPGM, 2011:20). The benefits of a qualitative strategy when evaluating microfinance interventions will be discussed more in depth in chapter six.

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[2] *"The counterfactual is defined as what would have happened to the same individuals at the same time had the program not been implemented"*(Betterevaluation, 2014).

2.2 Outlining an actor-oriented perspective in evaluating microfinance

A valuable perspective in evaluating microfinance intervention is to focus on the actors involved, the MFI and the clients, and to develop a better understanding of how the interplay between these actors affects one another. In outlining an actor-oriented perspective there are two important themes to consider: i) the capabilities, assets, vulnerabilities, and resilience of the clients, and ii) the contextual factors that shape microfinance interventions.

When it comes to how interventions and social development measures are designed, Norman and Ann Long, the authors behind the book "Battlefields of Knowledge The Interlocking of Theory and Practice in Social Research and Development" argue that: *"policy models and measures are themselves underpinned, either explicitly or implicitly, by certain theoretical interpretations and methodological strategies, just as theorization and research are laden with evaluative judgments and decisions of a practical nature"* (Long and Long, 1992:3). What this entails is that theoretical standpoints constitute the backbone for what types of questions that will guide research, but also result in implications for what types of designs that are adopted and considered to be the best approach for the accumulation of knowledge.

Long and Long (1992) argue for the use of an actor-oriented approach that emphasizes the importance of being aware of how theory and practice are two highly integrated concepts constantly shaping social development measures and research. They are of the belief that theory and practice must be reconciled in a manner that acknowledges the fact that social development and interventions need to be approached with an open mind and not guided by preconceptions of how social development or interventions should occur (Long and Long, 1992). The following quote exemplifies the need to approach each case free from any preconceived notions:

> *"We do not intend to offer models or recipes that define a set of techniques simply to be applied in the field by researcher or practitioner. On the contrary, we distance our argument from the idea of applying simple positivist methods of research made up of a 'tool box' of techniques to be used for data collection, hypothesis testing and the isolation of the determinants of social behavior"* (Long and Long, 1992:6).

2.2.1 Sen's capability approach and Moser's asset vulnerability framework

A natural point of departure of any discussion of how microfinance impacts poverty is to define poverty. How should poverty be measured and defined? Amartya Sen has contributed to the public discourse on how poverty should be defined and how to best measure human development. His conceptualization of poverty has been central to the United Nations' Human Development Reports (Morris, 2010). Furthermore, Sen's "capability approach" has been and continues to be highly influential in various fields such as: *"development studies and policymaking, welfare economics, social policy, and social and political philosophy"* (Morris, 2010:60). Sen's conceptualization of poverty also provides a fruitful perspective on how microfinance can affect the lives of the poor, as it looks beyond the popular definition of poverty as simply low income. Essential in Sen's view on poverty and human development is that *"information about income may not tell the full story about the deprivations that many suffer"* (Morris, 2010:5). The significance of adopting a broader definition on poverty is also supported by Hossain (2005) who argues that:

> *"the indicators of Poverty Line analysis based on household consumption do not capture all dimensions of poverty, especially from the viewpoint of poor people themselves. Poverty is not defined solely in terms of low incomes, but uses broader concepts of deprivation and insecurity. And any attempt to place monetary values on these aspects of personal, household and social deprivation involves so many arbitrary assumptions that it is likely to be meaningless. Deprivation occurs when people are unable to reach a certain level of functioning or capability"*
>
> (Hossain, 2005:2).

There are three chief concepts in Sen's capability approach: functionings, capabilities and agency. The basic principle of Sen's capability approach is as follows: *"the goal of both human development and poverty reduction should be to expand the capability that people have to enjoy 'valuable beings and doings'"* (Alkire, 2002:2). 'Valuable beings and doings' are defined as functionings, and relate to the concept of agency. Agency is an individual's freedom to make the choices he or she wants to make, whereas *"a person's capability 'represents the various combinations of functionings (beings and doings) that the person can achieve'"* (Sen 1992:40 in Comin et al, 2008:2). Sen argues that poverty is a deprivation of capabilities and a lack of freedom and opportunities for people to pursue desired objectives and *"to undertake the actions and activities they want to engage in, and to be whom they want to be"* (Morris, 2010:63).

Realizing that poor people suffer from a wide range of deprivations is essential when considering the potential impacts development measures can have on poverty. Extending the focus on how microfinance can affect the capabilities, agency, and the range of opportunities available to the poor, is a constructive way to evaluate microfinance interventions. This, however, is not to say that income is not a valuable indicator of poverty, and should be dismissed as a factor when evaluating the effects of microfinance. The point is that it should not be considered as the main and/or only one.

In addition to applying Sen's capability approach when evaluating how microfinance affects the lives of the poor, is Caroline Moser's "asset vulnerability framework." Moser's framework was used to map the assets that poor people have in an urban research study in four different communities in Zambia, Ecuador, The Philippines and Hungary (Moser, 1998). Moser's asset vulnerability framework is comprised of five categories:

> *"i) labor – commonly defined as the most important asset for poor people, ii) human capital – health status, which determines people's capacity to work, and skills and education, which determine the return to their labor, iii) productive assets – for poor urban households the most important is often housing, iv) household relations – a mechanism for pooling income and sharing consumption, and v) social capital – reciprocity within communities and between households based on trust deriving from social ties"* (Moser, 1998:4).

Poor people are not entirely without assets, resources, skills or knowledge (the extent of which naturally depend on contextual factors such as the level of poverty and individual circumstances). However, the challenge is to what extent poor people have the opportunity to take advantage of the assets they have in order to strengthen their capability, and in how expanding their portfolio of assets can reduce their vulnerability towards external events and setbacks. The level of vulnerability is considered to be connected to the assets that the poor people have (Moser, 1998) (this will be discussed more in depth in chapter six). Moser (1998) further argues that: *"analyzing vulnerability involves identifying not only the threat but also the "resilience," or responsiveness in exploiting opportunities, and in resisting or* *recovering from the negative effects of a changing environment"* (Moser, 1998:3). The benefit of the asset vulnerability framework is as Moser argues: *"translated into operational practice this framework facilitates interventions promoting opportunities, as well as removing obstacles, to ensure the urban poor use their assets productively"* (Moser, 1998:1). As microfinance is in fact an intervention that promotes *opportunities,* the asset vulnerability framework can provide useful insights on how the provisions of microfinance affect poor people's portfolio of assets, vulnerability and resilience.

Combining the concepts of Sen and Moser, the following conceptual framework (figure 2.2 below) will be used as reference for discussing how microfinance has affected the lives of the clients that were interviewed in this study.

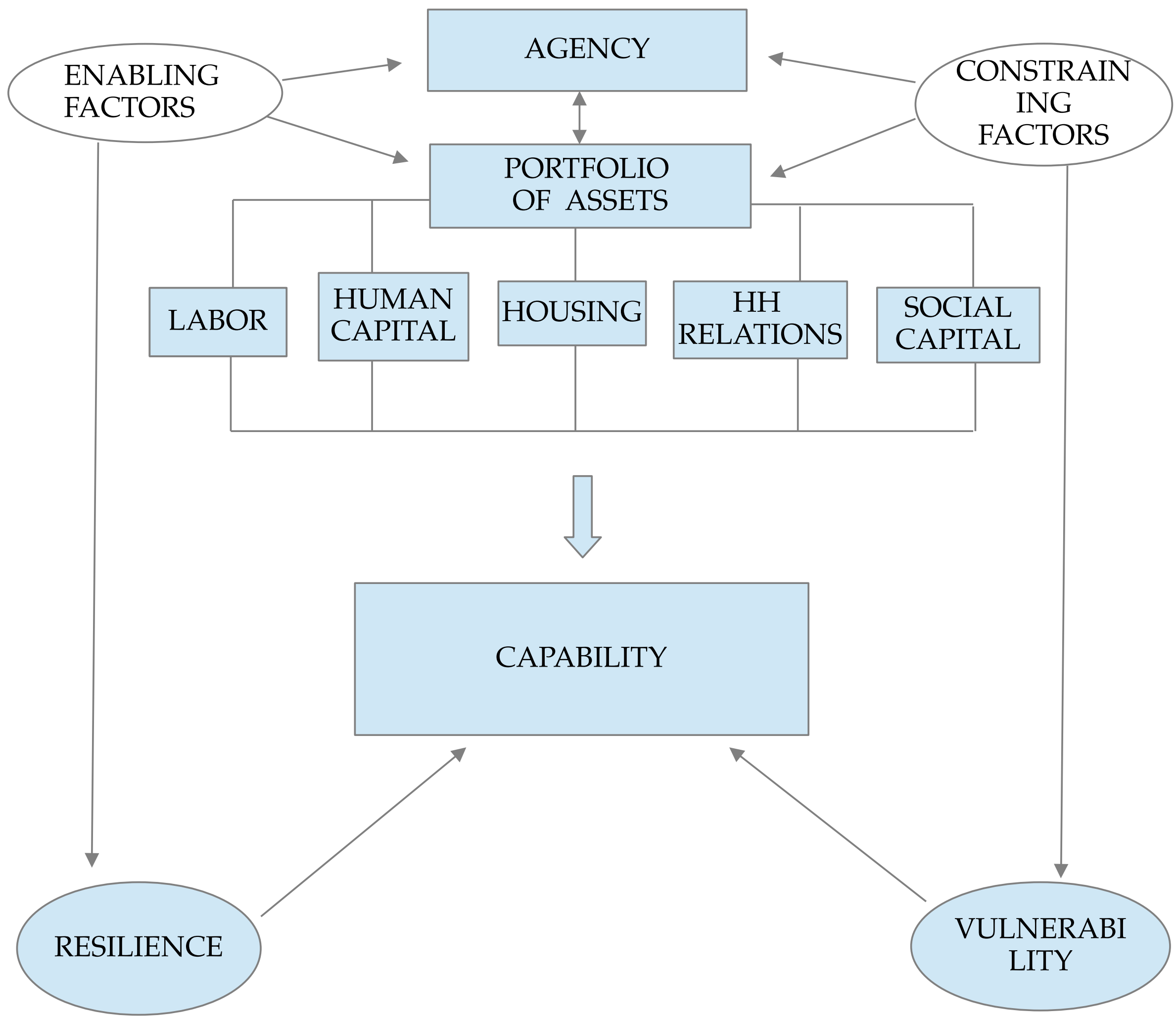

Figure 2.2 Conceptual framework for discussion (Source: Own construction)

Explaining this figure, I will investigate how microfinance affects the clients' portfolio of assets, if it enables agency and decreases vulnerability, and whether it increases the capability and resilience of the clients.

2.2.2 Contextual factors that shape microfinance interventions

The lack of consensus on the ability of microfinance to significantly reduce poverty suggests that in terms of evaluating microfinance interventions: *context matters.* Certain contextual factors shape microfinance interventions and can have implications for the effectiveness of the interventions. Joanna Ledgerwood (1999) argues that two factors influence microfinance interventions: i) the geographical setting, and ii) the socioeconomic environment and culture (in this factor I will add one segment: does the MFI meet the needs of the clients?) In addition to the factors argued by Ledgerwood, I propose that two additional contextual factors shape microfinance interventions: i) the design of the MFI, and the products and services offered, and ii) the agenda of the MFI, and whether the operations are in line with this agenda. These four contextual factors will be discussed in the following sections.

2.2.2.1 The geographical setting

A good first step towards understanding the context in which a microfinance intervention is to be implemented is referred to by Ledgerwood (1999) as *"understanding the country context"* (Ledgerwood, 1999:11). According to Ledgerwood (1999), many deciding factors should be evaluated prior to the provision of microfinance, including economic, political and social factors (see Figure 2.3 below). As we see from the figure, providers of microfinance should get an overview of who the suppliers of financial intermediation are in their surroundings, what types of regulations and restrictions the MFI is entitled to oblige to, and who their clients are.

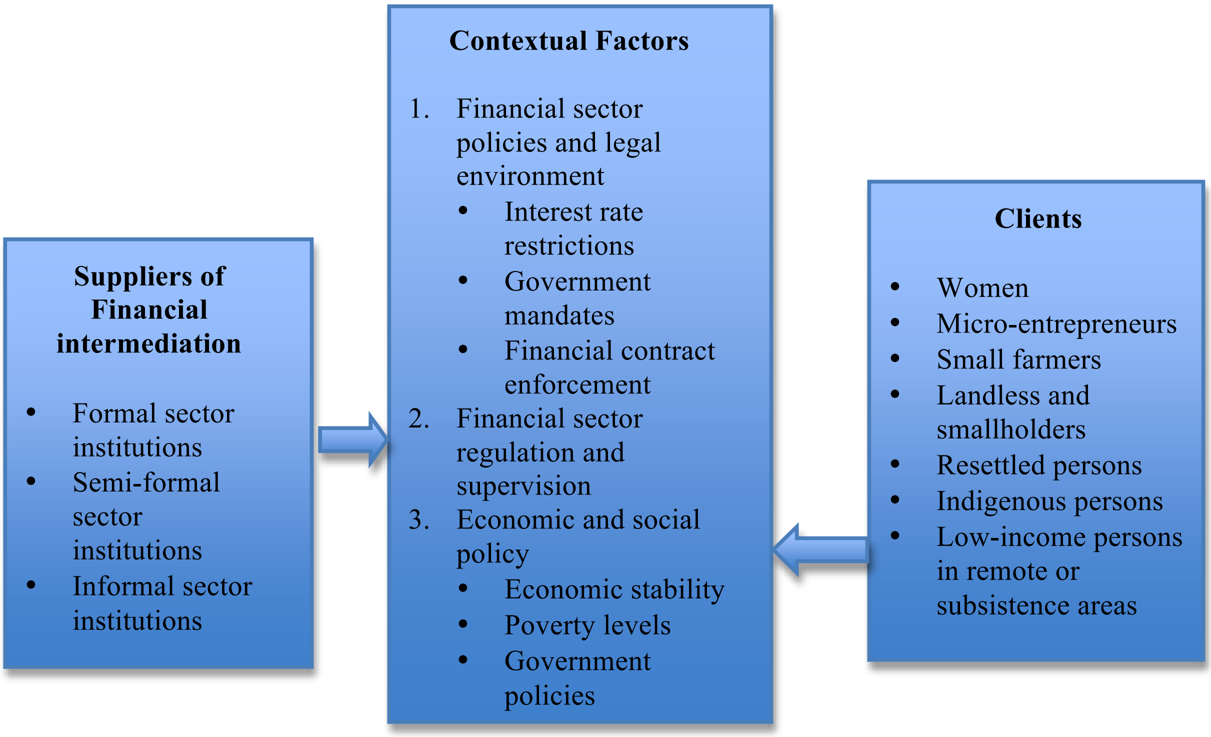

Figure 2.3 Understanding the country context (Source: Ledgerwood, 1999:11)

The geographical context also defines what market conditions exist, which will have implications for what types of enterprises the clients are likely to establish. What might be a good business idea in one specific geographic location might not be in another one, as it should correspond to local supply and demand.

Moreover, it is important to look at whether the intervention is to be implemented in rural or urban areas. Moser (1998) argues that the vulnerabilities of the urban poor differ from that of the rural poor, as vulnerability is connected to asset ownership. Moser (1998) argues that: *"three generalized characteristics of urban life often identified as differentiating urban from rural areas are levels of commoditization, environmental hazard, and social fragmentation"* (Moser, 1999:4). Moser (1998:4) argues that three factors comprise *"the commoditized nature of the urban sector"*: i) labor, the most important asset for the urban poor, as it generates income, ii) urban poor buy their own food and shelter, and iii) housing as an asset can be more than just shelter, as it can also be a means to generate income by *"renting rooms and the use of its space for home-based production activities"* (Moser, 1998:4). Environmental hazards include poor quality housing, inadequate water supplies, sanitation and solid waste disposal (Moser, 1998). These hazards *"often have a particularly serious* *impact upon the urban poor's human capital, health and well-being"* (Harday et al 1990 in Moser 1998:4). Lastly, the urban community is heterogeneous *"with wider distributional ranges of incomes, opportunities, and access to infrastructure, services, and political influence"* (Moser, 1998:4). This makes the urban poor more vulnerable to social fragmentation that can impact *"community and interhousehold mechanisms of trust and collaboration"* (Moser, 1998:4).

2.2.2.2 The design of the MFI and the products and services offered

As microfinance has grown to be a global movement since the 1970's, the number of MFIs that offer financial services to those that are denied access to the formal banking sector has flourished. However, the nature of MFIs varies considerably, from commercialized banks, to NGOs, to MFIs being subsidized by donors, to not-for-profit MFIs and for-profit MFIs. The range of financial services being offered, and *how* and to *whom* they are being offered, also varies significantly. Regarding the design of microfinance interventions, Fisher and Sriram (2002) argue that *"designing developmental micro-financial services cannot be done without proper attention and adaptation to the environment in which those services will operate; there cannot be a design blueprint to suit every condition"* (Fisher and Sriram, 2002:329). The crucial question that arises is: has the MFI taken into consideration under which conditions it will operate and been designed accordingly?

Also of relevance is to assess what types of products and services the MFIs offer. Do they offer loans just for microenterprises, or also for housing, and household and consumption needs? Collins et al (2009) argue that MFIs should offer the poor with loans for all purposes as the needs of the clients vary. Furthermore, does the MFI offer basic services? As pointed out in the beginning of this chapter, research has shown that valuable synergies can occur when delivering financial inclusion services together with basic social services such as health, education, and enterprise services (Morduch and Haley, 2002).

2.2.2.3: Socioeconomic environment and culture: meeting the needs of the clients

Adapting to the environment also signifies adapting to the needs of the specific recipients of the microfinance intervention. It is important to bear in mind the effect culture and norms have on social behavior in a given context, and how culture and society can have an effect on economic behavior and consumption patterns (Ledgerwood, 1999). Ledgerwood (1999) refers to this as *"the dilemma of the human subject as a dynamic target"* and argues that the recipients of an intervention – human beings, are complex, and furthermore *"are unique and also embedded in a culture and a society"* (Ledgerwood, 1999:50) The recipients of an intervention possess different combinations of capabilities and portfolio of assets; these different points of departures influence the effects they each experience, or are able to create, from an intervention. The recipients thus *actively* shape the impact of the intervention themselves. Long and Long's actor-oriented approach aims to elucidate why the same intervention strategy results in different outcomes in different social settings. They highlight that the difference in responses to the same intervention strategy is directly linked to the "subjects of intervention": *"social actors are not simply seen as disembodied social categories (based on class or some other classificatory criteria) or passive recipients of intervention, but active participants who process information and strategize in their dealings with various local actors as well as with outside institutions and personnel"* (Long and Long, 1992:21).

To assess if an MFI meets the needs of its respective client is to look at for what purposes the MFI offers loans. The authors of the State of the Microcredit Summit Campaign Report from 2012 underlines the importance of listening to the needs of the clients and designing their financial services accordingly: *"we need to approach the field from the clients' vantage point – asking what it is that they are looking for when they utilize financial service – and redouble our efforts to ensure that the tools we provide will enable them to achieve what they most desire for themselves and their families"* (Maes and Reed, 2012:1).

When interviewing leaders from various MFIs, the writers of the Microcredit Summit Campaign report became utterly aware of the remarked similarity in the clients' needs independent of social settings: *"education for the children, food, and shelter"* (John de Wit in Maes and Reed, 2012:2). This is an interesting observation, if the needs and the motivations of the clients are similar *independent* of social settings then why should context have anything to say? Even though microfinance clients across the world want similar outcomes, their *points of departure* achieving these outcomes vary considerably. Clients' capabilities, vulnerabilities and portfolio of assets differ, and this is where context comes into play, and also why the best way to meet the needs of the clients will vary.

2.2.2.4 The agenda of the MFI: are operations in line with the agenda?

The agenda of an MFI is likely to influence what types of products and services that are offered, and what sort of regulations and interest rates the MFI adopts. A vital factor to consider when assessing whether or not MFIs are able to improve the living conditions of poor people and help them towards a better future, is whether an MFI is dedicated to *serve* the poor. The ability of microfinance to reduce poverty depends in part on an MFI's motivation and design: what purpose the MFI is dedicated to serve, and whether the MFI's operations are in line with this purpose. Are there economic motives, idealistic motives or a combination of both? It is of interest to see whether MFIs provide their clients with fairly priced loans. More specifically, what interest rate do MFIs charge their borrowers? Rosenberg et al (2013) refers to interest rates as *"the most controversial dimension"* of microfinance (Rosenberg et al, 2013:1). The interest rates charged by MFIs are higher than what traditional banks charge, as it is more costly to lend out tiny amounts to thousands of people then it is to lend out large amounts to fewer people (Rosenberg et al, 2013). As Rosenberg et al (2013) note: "*higher administrative costs have to be covered by higher interest rates. But how much higher?"* (Rosenberg et al, 2013:1).

They argue: "*many people worry that poor borrowers are being exploited by excessive interest rates, given that those borrowers have little bargaining power, and that an ever-larger proportion of microcredit is moving into for-profit organizations where higher interest rates could, as the story goes, mean higher returns for the shareholders"* (Rosenberg et al, 2013:1). This is where the motivation or the agenda of an MFI comes in. Are the owners, or investors, of a given MFI motivated to profit from charging higher interest rates than necessary in order to cover administrative costs and ensuring efficiency in operations? The amount of profit gained is what Rosenberg et al (2013) deems as a controversial topic in the microfinance industry. They argue: *"some think that a microlender has no right to claim it is pursuing a "social" mission if it is extracting profit, or anything beyond a very modest profit, from its services to poor clients. Others argue that high profits will encourage innovation and faster expansion of services, and that competition will eventually squeeze out excesses"* (Rosenberg et al, 2013:18).

Another important element in assessing whether an MFI's operations are in line with its agenda is to evaluate an MFI's loan approval procedures. If the agenda of an MFI is to reduce poverty, it is important to prevent that their clients become over-indebted (this is also one of the client protection principles of the Smart Campaign, see below).

Several programmes have emerged to provide MFIs with guidelines of how to practice safe and responsible microfinance. Amongst some of these initiatives are the “Seal of Excellence for Poverty Outreach and Transformation in Microfinance” (by the Microcredit Summit Campaign), “The Smart Campaign”, “Microfinance Transparency” and the “Social Performance Task Force” (SPTF) (Maes and Reed, 2012).

To guide MFIs around the world in protecting their clients and managing safe, responsible, and ethical microfinance, the Smart Campaign has compiled seven core “client protection principles” that MFIs are encouraged to endorse in order to protect their clients. These principles are: *1) Appropriate product design and delivery 2) Prevention of over-indebtedness 3) Transparency 4) Responsible pricing 5) Fair and respectful treatment of clients 6) Privacy of client data 7) Mechanisms for complaint resolution* (Smart Campaign, 2014) For a full description of these principles, see Appendix I.

The Smart Campaign is an initiative that exclusively aims at protecting the millions of microfinance clients around the world:

> *“**Protecting clients is not only the right thing to do; it’s the smart thing to do.** When microfinance institutions implement the Campaign’s Client Protection Principles into their operations, they build strong, lasting relationships with clients, increase client retention, and reduce financial risk. Similarly, by incorporating client protection principles into their investment criteria and due diligence, microfinance investors can build a healthier, more client-focused industry that will foster a stronger portfolio and ensure healthy returns”* (Smartcampaign, 2014)

In summary, figure 2.4 below gives an overview of the contextual factors that shape microfinance interventions. I will use these factors as reference when analyzing my findings.

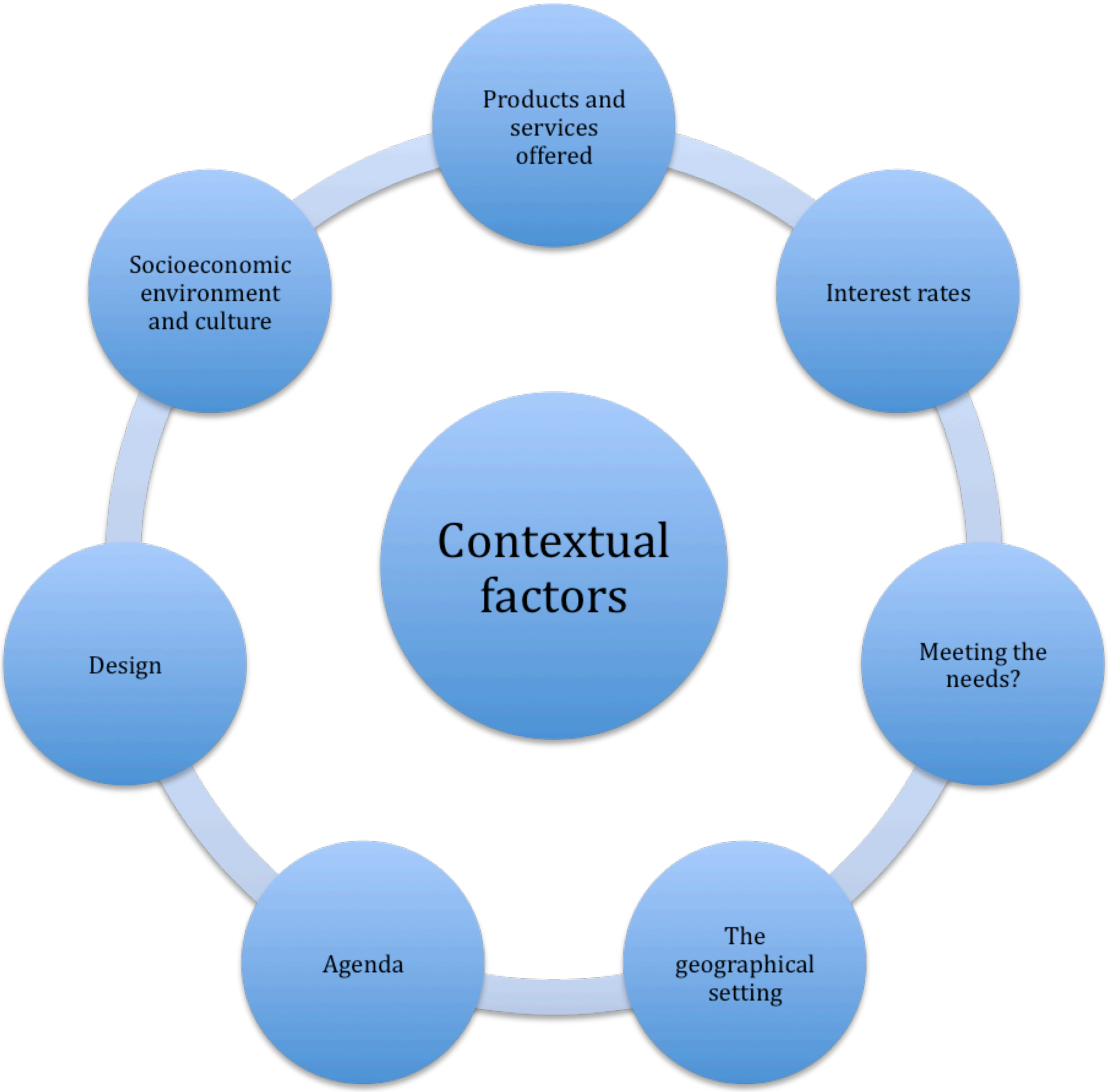

Figure 2.4 Contextual factors shaping microfinance interventions (Source: own construction)

3.0 Study area: setting the scene

The following section will provide the reader with a brief introduction to Ecuador and Guayaquil, the country and the city where the research for this thesis was undertaken, followed by a description of the intervention agents: The Norwegian Mission Alliance (Mission Alliance), Alliance Microfinance AS (AMAS) and Banco D-Miro (D-Miro).

3.1 Ecuador

Ecuador is located on the Northwestern coastline of South America and is a relatively small country with 15.49 million inhabitants (2012) and is classified as an upper middle-income country (Worldbank, 2013). Ecuador consists of many ethnic groups, the largest one being *mestizos* which accounts for 71.9% of the total population (CIA, 2013). The official language is Spanish, but the indigenous languages of *quechua* and *shuar* are also spoken. Table 3.1 below provides some important statistics of Ecuador.

Socioeconomic Indicators Ecuador	Numbers
Urban Population (2010 est.)	67% of total population
Major Urban Areas (2011 est.)	Guayaquil: 2.634 million, Quito: 1.622 million
Labour Force (2012 est.)	6.779 million
Labour Force by Occupation (2010 est.)	Agriculture: 27.6%, Industry: 18.8%, Services: 53.6 %
Unemployment rate (2012 est.)	4.9 %
Gini Coefficient (2013 est.)	0.463
Poverty Rate (2012 est.)	27.3 %

Table 3.1 Socioeconomic indicators Ecuador (Source: CIA, 2013).

As is shown in the table, 27.3 % of the Ecuadorian population live in poverty. However, the unemployment rate, which is estimated at only 4.9%, does not paint an accurate picture of the employment situation in Ecuador. As the Ecuadorian "Instituto Nacional de Estadística y Censos" (INEC) reports, Ecuador has a high number of people that are *subempleados* (underemployed), see figure 3.1 below.

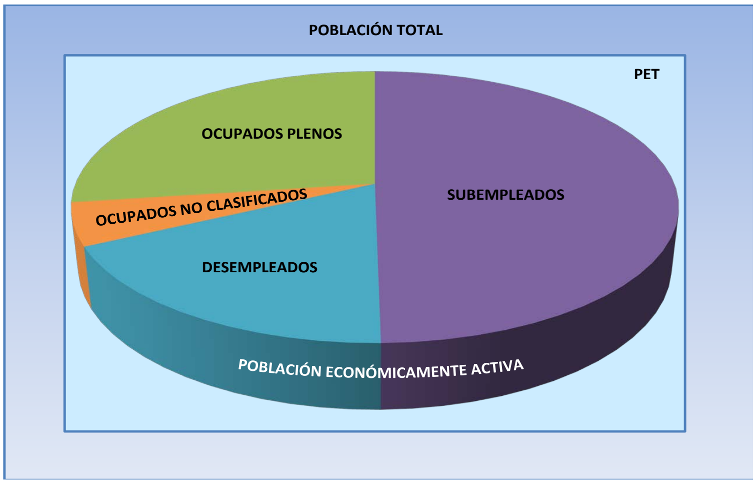

Figure 3.1 Division of the economically active population (Source: INEC, 2013a).

As the figure demonstrates, almost 50% of the population that is considered to be part of the *población económicamente activa* (the economically active population) is *subempleados*. Studying the numbers more closely, INEC reports that in December 2013, 6.644.241 million people were *ocupados* (employed). Of these were 3.649.775 million people underemployed (approximately 55%). In addition, 288.745 were *desocupados* (unemployed) (INEC, 2013a). Underemployment is defined by INEC as: "*persons who were working or had employment during the time of reference, but that were willing and ready to modify their employment situation in order to increase the duration or the productivity of their work, meeting the following conditions: 1) having worked less than 40 hours, 2) wanting to work more hours and to have additional employment, and 3) available to work more hours. Including additionally other forms of underemployment.*"[3] (INEC, 2013a). However, I argue that this definition is slightly incomplete, as a more holistic definition of underemployment should also include factors such as short-term work, black labour, low predictability, no benefits and low wages.

[3] *Personas que trabajaron o tuvieron un empleo durante el período de referencia considerado, pero estaban dispuestas y disponibles para modificar situación laboral a fin de aumentar la duración o la productividad de su trabajo, cumpliendo las siguientes condiciones:• Haber trabajado menos de 40 horas. •Desean trabajar más horas, es decir, tener otro empleo además de su empleo(s) actual(es). •Estar disponibles para trabajar más horas. Incluyen adicionalmente otras formas de subempleo.*

As the numbers above illustrate, underemployment constitutes a considerable challenge to the overall Ecuadorian labour market. People that are underemployed struggle to find steady employment appropriate to their level of expertise and/or education, and are faced with fluctuating and unpredictable sources of income. This will affect the economy of the underemployed individuals themselves, but also impacts the overall economy of Ecuador, as there is a high portion of untapped potential that theoretically could increase overall economic development if underemployed individuals would find steady and full-time employment. Considering the city in question for this thesis, Guayaquil, approximately 40 % of the economically active population is considered to be underemployed (INEC, 2013a).

I have no accurate data on the employment situation or the overall economic circumstances of my informants or of the general project target group. However, poor areas tend to be overrepresented in underemployment records, so it is fair to assume that my research area has a higher percentage of underemployment than INEC's averages.

3.2 Guayaquil

Guayaquil is the biggest city in Ecuador, with 2.634 million inhabitants (CIA, 2013). Even though Quito is the country's official capital, Guayaquil is considered to be the major economic centre of the country. Guayaquil is also the city in Ecuador with the most poverty, as figure 3.2 and table 3.2 below demonstrate. 13.19% of the population live below the poverty line, estimated to \$ 77.04/month (INEC, 2013b). When it comes to people living in extreme poverty, estimated at \$ 43,42/month, approximately 2% of the population in Guayaquil lives in extreme poverty (INEC, 2013b).

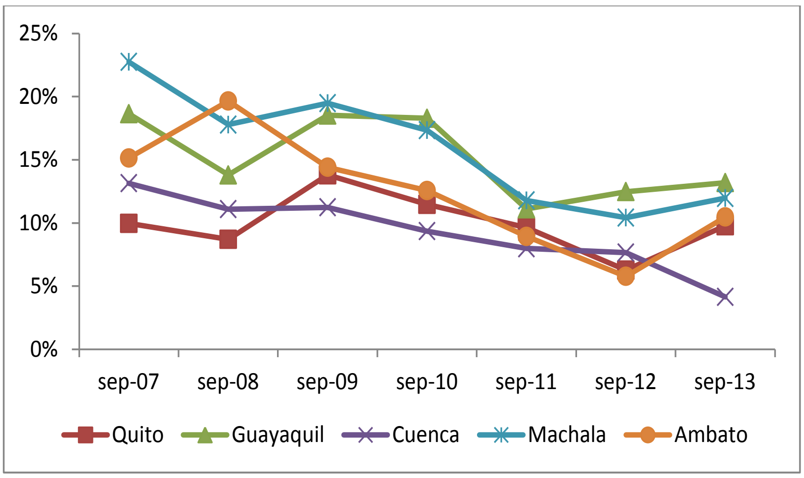

Figure 3.2 Evolution of urban poverty rates (Source: INEC, 2013b).

Ciudad	sep-2012	sep-2013	Diferencia
Quito	6,26%	9,77%	3,51%
Guayaquil	12,48%	13,19%	0,71%
Cuenca	7,65%	4,15%	-3,51%
Machala	10,42%	11,97%	1,55%
Ambato	5,78%	10,47%	4,70%

Table 3.2 Poverty rates in urban cities, Ecuador (Source: INEC, 2013b).

3.3 Intervention agents: Mission Alliance, AMAS and D-Miro

The Mission Alliance is a Norwegian evangelical, diaconal mission organization that is engaged in development work in ten different countries around the world. The Mission Alliance has been present in Guayaquil, Ecuador since 1994, and is involved in a number of local community projects in the two main slum areas in Guayaquil: Isla Trinitaria and Zona Norte (Misjonsalliansen, 2014). The Mission Alliance collaborates with 50 partner organizations in Guayaquil, in order to be holistic and locally grounded in their development work (Misjonsalliansen, 2014). Their work covers areas such as local community development, health services, education, HIV/AIDS, rights for people living with disabilities, activities towards children, churches, water, and microfinance. Furthermore, Mission Alliance is committed to helping their partners towards taking responsibility in the projects, and encourages them to take a proactive role in the development (Misjonsalliansen, 2014).

The history of D-Miro started in 1997, when two Norwegians, Roy Mersland and Nils Atle Krokeide, started “The Program of Microfinance” with a stamp of approval from the Mission Alliance, one of two main shareholders (the other one being AMAS, which was established by the Mission Alliance to manage the organization’s microfinance projects). The Program of Microfinance started out with 15 clients, but by 2003 the client base had reached over 9000 clients with a loan portfolio of 3.5 million dollars. With the number of microcredit clients increasing every year, in 2006 “The Program of Microfinance” was converted into the “Fundación para el Desarrollo Microempresarial D-Miro Misión Alianza Ecuador.” In 2010, the client base had reached over 37 000, with a loan portfolio of 30 million dollars (D-Miro, 2014).

To be able to offer other financial inclusion services, such as savings and insurance, the foundation was converted into a proper financial institution under the name of "Banco D-Miro" and began operations as a regulated bank in 2011 (AMAS, 2014). Today the client base is 40 682, with an average loan size of 1391 dollars and a total loan portfolio of 56 605 779 dollars (AMAS, 2014). D-Miro operates with approximately 30.5 % interest rate (D-Miro, 2014), which puts them 5 % below the world average of 35 %, reported in 2008 (Kneiding and Rosenberg, 2008). Moreover, the portfolio at risk (which indicates the percentage of payments that are 30 days overdue) is calculated at 5.84%, which indicates that nearly 95% of D-Miro's clients are meeting their required repayments (AMAS, 2014).

Today D-Miro has 15 offices located in 9 cities in Ecuador. They are present in the most vulnerable communities, where the need is the strongest. The slogan for D-Miro is "*cambiando vidas"* – changing lives, and their vision is *"to be a microfinance institution that can contribute to alleviating poverty*"[4] (D-Miro, 2014). AMAS' view on microfinance is demonstrated in the following quote:

> *"Microfinance is about giving poor, inventive and energetic people access to credit, savings, insurance and business training - so that they may ensure a smoother income stream, more secure everyday lives, a means to save safely, access to loan capital to invest in their business, and a brighter future"* (AMAS, 2014).

D-Miro offers a differentiated set of products to meet the needs of the clients: i) loans for microenterprises, ii) loans for housing, consumption and/or household needs, iii) loans for people with HIV, iv) loans for people with disabilities, v) loans for medical emergencies, and vi) loans for education (D-Miro, 2014). They also offer non-financial services such as enterprise services, health services, education services, and women's empowerment services (D-Miro, 2014 and Mixmarket, 2012).

D-Miro's activities in Ecuador are now 100 % financially sustainable and not dependent on donors, but they still receive funding from various sources (Kolibri, Triodos, Blue Orchard, Triple Jump, Microvest, Global Partnership, Microventure, Credit Suisse, LocFund, Incofin and KIVA) (AMAS, 2014). According to Andreas Andersen, the chief executive officer

[4] *"Ser la institución financiera que más contribuye a la superación de la pobreza"*

(CEO) of AMAS, donor funding was important to them in the beginning, when establishing D-Miro, but the funding D-Miro now receives is channeled to two other countries where AMAS has recently established MFIs: Liberia and Vietnam (Andersen, AMAS).

"MicroRate" is a vehicle for the evaluation and rating of MFIs. Since 1997 they have rated the operations of more than 750 MFIs across the world (MicroRate, 2014). They are committed *"to be the leading microfinance information services provider. MicroRate will accomplish this by maintaining a high level of quality along with independence, integrity, and an unyielding commitment to the poor"* (MicroRate, 2014). In 2013 MicroRate became a licensed certifier of the "Client Protection Certification Program" developed by the Smart Campaign. D-Miro has endorsed the seven "client protection principles" of the Smart Campaign (AMAS, 2014). MicroRate gave its most recent rating of D-Miro in May 2012. They received "good" social rating based on social performance and social commitment[5]. An excerpt from their rating reads as follows: *"Banco D-Miro is an institution with a clear social focus. This focus is well developed in the MFIs operations with the prospect of improvement in the near term. The efforts were mainly focused to transform the organization from an NGO to a bank explaining why the grade is not better"*[6] (MicroRate, 2012). The Microfinance Information Exchange (MIX) is a vehicle that promotes transparency in the microfinance industry, and analyses the financial and social performance of more than 2000 MFIs around the world. Their ranking is based on a diamond system that identifies the level of disclosure of a given MFI, 1 being the lowest disclosure and 5 being the highest disclosure. On October 23rd 2013, MIX provided D-Miro with 5 diamonds in the MIX Market (Mixmarket, 2012).

[5] "Good" rating signifies that D-Miro got 3.5 stars out of a possible 5 stars. (4 stars= excellent and 5 stars= world class.) To see the full rating of D-Miro see Appendix II.

[6] I interpret this statement as indicating that during the time of rating, D-Miro was still trying to get their operations in order after transforming from a NGO to a bank and that this influenced the grade they received.

4.0 Methodological framework

The following chapter will discuss the methodology that has been applied in this thesis. This involves a general discussion of the underlying epistemology that this thesis builds on, and the reasoning behind adopting a qualitative approach. As this study has some characteristics of a case study and some elements of a grounded theory approach, implications of this will also be assessed. Lastly, I will present and discuss the data collection methods applied: observation and interviews, as well as the method of sampling, limitations to the methodological choices, and ethical considerations.

4.1 Research epistemology and strategy

The aim of this study has been to investigate how the provision of microfinance has affected the well-being of the clients from the point of view of the actors. Grounded in an actor-oriented perspective, the words of the actors themselves have been the main source of knowledge in this thesis. In line with this objective I found an interpretive epistemological position to be the most appropriate. Research philosophies or epistemological viewpoints are essential factors when conducting research as they regard the question of what should be considered as *"acceptable knowledge in a discipline"* (Bryman, 2004:11). They set the stage for how scientists approach research based on the researcher's perception of how knowledge is best created and further determines the chosen research strategy.

Interpretivism is *"predicated upon the view that a strategy is required that represents the difference between people and the objects of the natural sciences and therefore requires the social scientist to grasp the subjective meaning of social action"* (Bryman, 2004:13). As the name implies, interpretivism strives to interpret and understand human behavior in all its complexity and acknowledges the importance of subjectivity and studying behavior from the actor's point of view (Bryman, 2004). This is because advocates of interpretivism, as opposed to advocates of positivism, view social reality as *internal* to the actors because human beings equate meaning to their social reality and their behavior. Thoughts and feelings are thus influenced and shaped by the meanings actors ascribe to their subjective experience of reality (Bryman, 2004). The interpretive position further influenced the choice of research strategy undertaken in this study: the qualitative approach.

The qualitative research strategy emphasizes words (rather than numbers) in order to gain knowledge about the social world (Bryman, 2004). As the intention of this study was to understand how microfinance had affected the well-being of the clients through words and the clients' subjective experience, I found a qualitative strategy to be the most appropriate. Qualitative researchers strive to see and experience the world *"through the eyes of the people that they study"* (Bryman, 2004:279). Consequently, it is in accordance with the interpretive philosophy of science, and research is undertaken to generate theories (inductive approach), meaning that theories are generated out from the findings. Berg and Lune (2012) define qualitative research as trying to capture and understand *"meanings, concepts, definitions, characteristics, metaphors, symbols and description of things"* (Berg and Lune, 2012:3) which are central to the objectives and the research questions of this study.

4.2 Overall research approach: grounded theory and case study

This section will discuss the overall research approach applied in this study. It will address how the interplay between data collection, analysis, and theory relates to the principles of grounded theory, and outline some similarities to case study research.

4.2.1 Grounded theory

The process that characterizes a grounded theory approach inspired the present study. This study has been of an explorative nature, meaning that it has developed as it has progressed. Essential in grounded theory is the continuous interplay (iterative approach) between data collection, analysis and generation of theory (Bryman, 2004). Before going to Guayaquil, Ecuador I had a vision of what I wanted to investigate; namely how microfinance was practiced in this particular context and how it had affected the lives of the clients. I did not have any clearly predefined research questions before going to Ecuador. Realities on the ground are often unpredictable and as I did not know what to expect or how I would be able to go about my study, I decided to approach my study with an open mind and let the realities on the ground shape the nature and the process of my study.

With this said, my present study shares some clear characteristic to that of a grounded theory approach: i) the intention was to be able to make theoretical inferences out of the data (inductive approach), ii) coding of the data was done according to my interpretation of what appeared to be of particular importance for the clients that were interviewed, and iii) data collection, analysis, and theory to some extent followed that of an iterative approach. A central tenet of grounded theory is the emphasis put on coding, which is the main instrument in the iterative process, and feeds both data collection and the development of theory and concepts. Coding refers to the analysis of data, and it *"entails reviewing transcripts and/or field notes and giving labels (names) to component parts that seem to be of potential theoretical significance and/or that appear to be particularly salient within the social worlds of those being studied"* (Bryman, 2004:402). The idea of an iterative approach was not fully met when collecting data in Ecuador, as the analysis of the first interviews was not by any means completed and coded and can therefore not be said to have shaped further data collection. After each interview, the notes were reviewed and reflected upon, but they were not coded to any considerable degree. It was more along the lines that reviewing the notes from the interviews made me more aware of what seemed to be of particular importance to the clients.

However, after having coded, reviewed, and analyzed the data from the interviews and the observations, and moreover, when writing up my thesis, it became apparent to me that I wanted to get some more first-hand information from the people behind D-Miro, as I viewed this as something that could further illuminate my findings of how microfinance is provided in this particular context. I decided to interview the CEO of AMAS, Andreas Andersen. More details of how this was performed will be provided in the section to come. Figure 4.1 below illustrates the usual steps in an iterative approach. These steps were not fully applied, but rather influenced the course of this study.

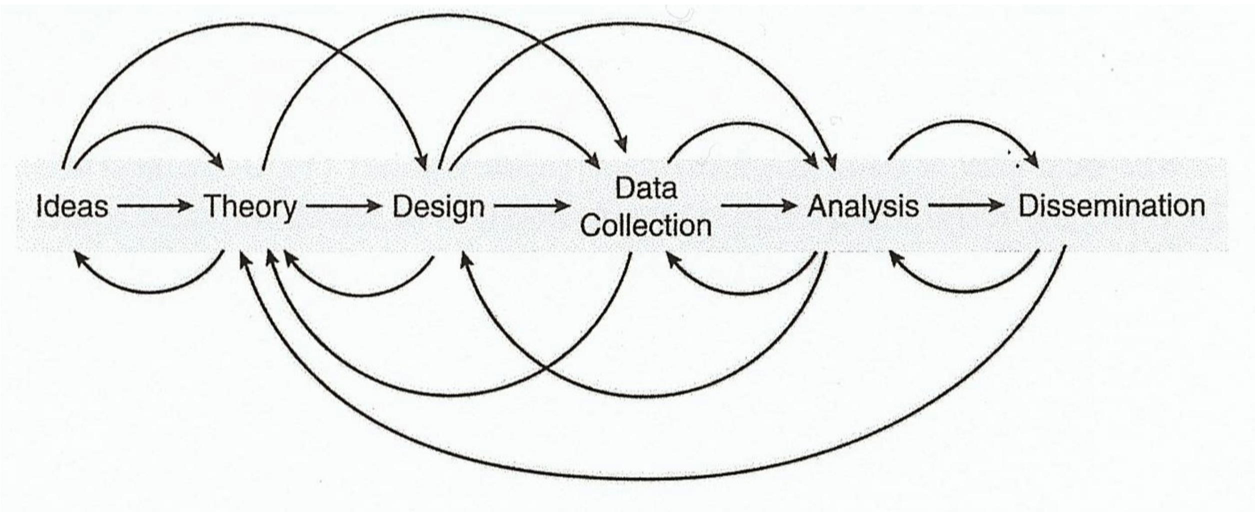

Figure 4.1 The spiralling research approach (Source: Berg and Lune, 2012:25).

4.2.2 Case study

The case in question for this thesis was the microfinance intervention and the target group for D-Miro in Guayaquil. I chose this case for several reasons: I was looking for a case where the MFI had an explicitly stated poverty alleviation focus. Furthermore, it was for more practical reasons, with regards to language proficiency and previous experience in Guayaquil with the Mission Alliance. The chosen unit of analysis *within* this case was the specific study area, namely one of the offices of D-Miro, which can be defined as an *"exemplifying case"* (Bryman, 2004). As Bryman (2004) notes, *"cases are often chosen not because they are extreme or unusual in some way but because they will provide a suitable context for certain research questions to be answered"* (Bryman, 2004:51). As such, the intention was that the chosen units of analysis would provide me with information on how the provision of microfinance had affected their well-being, and if their experiences had influenced their capabilities, agency, resilience and vulnerabilities, and portfolio of assets.

The purpose of this study has not been to generalize the findings to a larger context, but to rather understand the workings of microfinance within this specific context and geographical area. As Gomm et al (2000) note, *"it is sometimes argued that the aim of case study research should be to capture cases in their uniqueness, rather than to use them as a basis for wider generalization or for theoretical inference of some kind"* (Gomm et al, 2000:3). This statement by Gomm et al (2000) fits well with the general line of thinking made in this thesis, that context is a determining factor. Therefore it is more fruitful to evaluate the effectiveness of a microfinance intervention on its own merits, and to be more concerned on whether it works and why/why not it works in its specific geographical setting, rather than to strive for research that can be generalized to the wider debate on whether microfinance works or does not work as a whole.

Generalization however, is often considered to be the end goal of all research as Gomm et al (2000) put it: "*so convinced are many scientists that generalizations are the be-all and end-all of inquiry that they seriously question whether scientific activity aimed at something other than the establishment of generalizations is worth the effort"* (Gomm et al, 2000:27). Nevertheless, what Gomm et al (2000) refers to as research of the 'particular' and the 'unique', should not be dismissed as being of little value or less value than research that can be generalized across contexts. Knowledge of the particular is important as it can offer insights in variations of experience and offer essential implications for research and promote a more detailed understanding of a certain issue within a certain context. Seeing the “big picture” involves seeing and acknowledging the particular as part of the greater context.

4.3 Sampling

The study setting for my study can be seen as constituted like a case, as I chose one specific location for my study, but it cannot be classified as a full case study as my study was not holistic in character. As the observation part of this thesis consisted of me following an *asesor* (loan consultant) to visit clients that had been assigned to her by the office, I did not take part in choosing whom to sample in the observation. Before an *asesor* leaves to visit clients, he or she is provided with a list of clients to visit during the day. I accompanied the same *asesor* during my observation, which I was assigned to for mere practical reasons. The purpose of the observation was to get a better understanding of the work performed by the *asesores* and how they interacted with the clients.

The sampling method that was applied for the interviews can be defined as convenience sampling, but *with* an element of purposive sampling. Convenience sampling is defined as a sample *“that is simply available to the researcher by virtue of its accessibility”* (Bryman, 2004:100). The people who were sampled to participate in the interviews were present at the microfinance office where the interviews were conducted, and were simply approached and asked whether they would like to participate in the study. However, a criterion for participation was that the clients had experience with microfinance and were relevant for the objective of this thesis: to understand how microfinance had affected the lives of the clients (this was the element of purposive sampling). The limitations to the sampling method for the interviews will be discussed in the section under limitations.

The sample size for the interviews was 20 individuals, both men and women from the ages of 18-65. The sample consisted of 13 women and 7 men.

4.4 Data collection methods

What follows next is a general discussion of the chosen data collection methods applied in this thesis, namely observation and interviews, why they were chosen, as well as a description of how they were applied in this study.

4.4.1 Observation

The type of observation that was performed in this study was *non-participant observation*. Ralph Hall defines the role of the researcher in non-participant observation as *"that of an outsider"* (Hall, 2008: 205). My role as an observer remained passive and I did not actively engage with the people who were being observed. Non-participant observation is a useful method when wanting to absorb everything that goes on and is thus an appealing method when doing field research (Hall, 2008). The observation conducted in this study can be labelled *overt* observation, meaning that the subjects were aware of the fact that I was observing them (as opposed to covert observation where the subjects are not informed that they are being observed). The *asesor* that I accompanied introduced me to each client we visited and explained that I was a master student who wanted to learn more about the process of microfinance and the interactions between D-Miro and the clients.

The aim of the observation part of this study was to get insights into how D-Miro interacted with their clients, and to get a better understanding of the relationship between the loan-givers and the loan-takers. As has been mentioned earlier in this thesis, it is vital that the MFI establishes close relationships with their clients, that their services are client-focused, and that they assist their clients in administering their loans in a productive and responsible manner. Proper management of a microfinance loan is important, and D-Miro devotes a considerable amount of time to following up their clients, to ensure that they are on the "right track." The value of keeping a close eye on the clients cannot be overestimated, as clients have often had no previous experience with managing a loan or with the many pitfalls and challenges that can arise when establishing an enterprise.

D-Miro has a number of *asesores* whose main task is to visit clients to oversee and evaluate their businesses, their progress, and how they are managing their loans. For one week I accompanied an *asesor* visiting various clients around Guayaquil. Figure 4.2 and Figure 4.3 below are pictures taken from one of the neighbourhoods we visited, Isla Trinitaria.

Figure 4.2 Neighbourhood in Isla Trinitaria (Source: photo, Elisabeth Berg Pedersen).

Figure 4.3 Neighbourhood in Isla Trinitaria (Source: photo, Elisabeth Berg Pedersen).

We made house calls to collect outstanding payments from clients, and we visited clients who had recently applied for a loan (in order to get a loan, an *asesor* must meet with the potential client and see what type of business they are planning to start up, or in some cases have already started). We also made visits to people who had applied for second/third loans to assess whether or not the business they had was viable, whether inputs covered outputs, and whether it was reasonable for the bank to offer more and higher credit.

The observation was also a way for me to familiarize myself with important context information. I got to see some of the areas that D-Miro caters to, whom their clients were, under which conditions they lived and what types of business activities they were engaged in.

4.4.2 Interviews

Of the data collection methods employed in qualitative research, the interview is perhaps the one that is the most extensively applied. This is due to the fact that qualitative researchers strive to understand social reality *through* the eyes of the people being studied, thus making the interview a strong tool for uncovering the actors' thoughts, feelings, understandings and the meanings they ascribe to their social environment (Bryman, 2004). As the objective of this study was exactly this, to uncover the actors' thoughts, feelings and perceptions on how microfinance had affected their lives, I found the interview to be a particularly suitable data collection method.

One of the characteristics of a qualitative interview is its flexibility: it can adopt a loose structure that allows the interviewees to discuss matters that they see as central. Thus, even though the interviewer may make use of an "interview guide" with certain themes and points to be covered in the interview, it is not unusual that the interview partially makes its own path as it progresses. This type of interview is referred to as a 'semi-structured' interview, meaning that the researcher goes into the interview with a clear view of matters that should be addressed but also welcomes "*rambling, or going off at tangents*" as this further enhances the researcher's understanding of what the interviewee deems as being significant (Bryman, 2004:320). The interviews conducted in this study were of a semi-structured nature, and an interview guide was prepared with themes to cover and more specific questions to be asked if needed (See Appendix III). This ensured some structure to the interviews, but also allowed for a great deal of flexibility, as the interviewees were allowed to speak about whatever they viewed as being important. The extent to which the interview guide structured the interviews varied, as some clients were more open than others, spoke more freely, and had fewer constraints in sharing their experience of how microfinance had affected their lives.

Before starting my interviews, I had a meeting with the general manager of the office together with a representative from Mission Alliance, where we discussed the purpose of my visit and how and where I could interview the clients. As there was no private office available for me to occupy, the general manager suggested that I interview the clients while they were waiting to be called into the office of the loan consultants. Clients were approached and asked to participate in the study. First I presented myself, my study and asked for informed consent. I ensured them that their participation would be kept anonymous, (no names were taken as the participants were referred to as client 1,2,3 etc) and the information they would give me would be confidential and would not be reported back to D-Miro or Mission Alliance.

The interviews were conducted at one of D-Miro's nine offices in Guayaquil. The office consisted of a large outdoor space with around 50 chairs lined up, where clients waited in turn to meet with one of D-Miro's consultants (see figure 4.4 and 4.5 below).

Figure 4.4 The office space where the interviews were conducted (Source: Own photo)

Figure 4.5 Clients waiting to meet with a loan consultant (Source: Own photo)

There are some problems relating to the interview setting and these will be discussed in the section of limitations.

A tape recorder was not used during the interviews for two reasons: i) there was a lot of background noise from the surroundings and from other clients talking close by, and ii) I preferred the interviews to be as informal as possible in order to make the clients feel more comfortable in sharing their thoughts. Hence, notes were taken under each interview and were more carefully written out after the interview. There are limitations associated with not using a tape recorder when conducting interviews; these will be discussed in the section of limitations.

Each interview lasted for about thirty to sixty minutes. The issues covered in the interviews were as follows: what had brought the clients to D-Miro; what types of businesses they were engaged in; in what ways microfinance had affected their lives; whether their lives were different now than before getting a loan; and whether they could point to any notable changes. The interviews also covered any emotional or personal impacts of having a loan and managing their own businesses.

The interview with Andreas Andersen, the CEO of AMAS, was performed by email. I presented my study and myself and asked him if he would like to participate in my study by answering some questions. The types of questions I asked related to his views on the controversial issues in the debate on microfinance and whether microfinance is able to reduce poverty, as well as questions relating to the design and practices of D-Miro that could contribute to the contextual understanding of this particular MFI (see Appendix III). The questions were open-ended and Andersen was free to formulate his own answers.

Informal unstructured interviews were also conducted when I accompanied the *asesor* in visiting clients. In between visits we conversed about her job as an *asesor,* what she liked and didn't like about her job, the work D-Miro did, and about microfinance in general. As such, spending time with the *asesor* was also a way for me to strengthen my contextual understanding.

4.5 Analysis methods

The analysis method that was used to analyze my data can be classified as "qualitative content analysis." The objective is to allow categories, underlying themes or tendencies to emerge from the data in order to understand their contextual significance in relation to the issue investigated (Bryman, 2004). As Berg and Lune (2012) note, *"qualitative data need to be reduced and transformed (coded) in order to make them more readily accessible, understandable, and to draw out various themes and patterns"* (Berg and Lune, 2012:55). The data collected were coded with the help of colour blocking. The data were grouped and "coloured" according to different categories that I defined with the intention of being able to capture essential themes and patterns.

4.6 Limitations

Like most studies, this study has limitations that are in need of discussion, as they can affect the quality of the research. The following sections will address the limitations of this study.

4.6.1 Interview setting

The setting for my interviews was problematic for the following reasons: i) the anonymity of my clients may have been jeopardized as the staff at the office may have been able to see which clients I was interviewing, ii) it was not neutral or private ground, as the interviews were conducted at D-Miro's "turf", which could have made the clients wary of being critical of D-Miro, and to talk about any negative perceptions they might have of microfinance, and iii) as the clients were interviewed while they were waiting to discuss a loan, they might not have been at their most relaxed, and the presence of other clients near by listening in may have made them anxious in expressing their thoughts and feelings.

4.6.2 Tape recorder

A tape recorder is an important tool for qualitative researchers when doing interviews. One benefit of using a tape-recorder is that the researcher can devote his full attention to what is being said and the manner in which it is expressed (facial expressions and body language are important indicators of an actor's attitude towards an issue) instead of having to worry about excessive note-taking (Bryman, 2004). Another benefit of using a tape-recorder is that you get the complete and exact wording of what is being said. However, due to the circumstances under which my interviews took place (there was a lot of background noise from surrounding clients and traffic from the street) coupled with the desire to keep the interviews as informal as possible without the use of technical equipment, the choice was made not to make use of a tape-recorder. The limitations resulting from this decision were in part counteracted by notes taken under the interviews, which were carefully written out and immediately reflected upon after each interview. However, I acknowledge the possibility that by not using a tape-recorder during my interviews, important information may have been missed.

4.6.3 Language barrier

The language of communication for the interviews was Spanish, as the clients spoke little or no English. I consider myself close to fluent in Spanish, and even though I considered making use of a translator during the interviews to be on the safe side, I came to the conclusion that I wanted to conduct the interviews myself as to interact more directly with the clients. Therefore, whenever there were words that I did not understand I asked the interviewees if they could rephrase their point. I generally felt that I managed to understand well what the interviewees were trying to communicate. However, as Spanish is not my mother tongue I acknowledge that I may have misinterpreted statements and failed to recognize nuances.

4.6.4 Sampling approach

My sample consisted only of people who had had previous experience with microfinance, as I wanted to know how microfinance had affected the lives of the clients it would not be fruitful for me to interview first-time clients. But an implication of this is that there is a good chance that the people in my sample only consisted of clients that had experienced positive outcomes, and who consequently returned to apply for a new loan. This might have put a positive bias on the data that was collected, as those clients who had a negative experience with microfinance would be less likely to return for new loans. As a result, there is a potential source of bias relating to the representativeness *within* my study as there is a possibility that contributions from clients with different perspectives were excluded. One might also ask whether the returning clients I interviewed were somehow better “suited” to be microfinance clients, and whether they may have shared certain characteristic that made them more likely to experience positive effects of microfinance. Even though this issue is out of the scope of this thesis, it would be an intriguing topic for further research to look at, whether and what underlying characteristics of the clients would have an impact on their experience of microfinance, and on the likelihood of it being positive or negative.

4.6.5 Perceptions of being associated with D-Miro

Another potential source of bias in the data that were collected relates to the fact of how the informants perceived me, and whether or not they associated me with D-Miro. Even though I stated that I was not associated with D-Miro, that I was an independent student who did research for my master thesis, they might still have associated me with D-Miro, and been worried that what they reported to me might find its way back to D-Miro. If the clients associated me with D-Miro, this is a likely source of bias, as it might well have affected the way the informants responded to my questions, painting a more positive picture of the experience they had had with D-Miro and leaving out any negative perceptions or answers.

4.6.6 My own objectivity and bias

In 2005 I was a volunteer for Mission Alliance in Ecuador, I worked as an English teacher at a high school and was also given the opportunity to get to know other projects that Mission Alliance was involved in, like microfinance. I got to visit some clients, and listened to their stories of how microfinance had influenced their lives and given them hope for a better future. They expressed that despite the many challenges they faced they remained hopeful, and were grateful for the opportunity of improving their standard of living with the help from microloans. I was given the impression that microfinance had the potential to change lives for the better. However, I acknowledge that Mission Alliance may have selected clients for us to visit that had experienced positive outcomes from microfinance, as the point of these visits was to see how microfinance could improve the well-being of poor people. Regardless of this assumption, I wont deny the fact that I went into this study with a preconceived notion that microfinance can provide opportunities for people to create a better life for themselves. Nevertheless, the objective of this thesis is to present an analysis as free from any preconceived personal bias as possible (in order to reflect an objective picture) of the effects microfinance has had on the lives of the people I interviewed.

4.6.7 Time and resources

Ideally and in retrospect I have realized that more data collection (not necessarily increasing the sample size) could have strengthened my study. With more time and resources I would have liked to visit the clients I interviewed in their homes in order to gather more contextual understanding of their individual circumstances. This was also my intention before getting to

Guayaquil. However, after having talked to the employees at the main office of D-Miro about how I was planning to go about my study, they advised me not to visit clients in the areas they lived in, as it would put me in risk of violence and robbery. The possibility of having someone from D-Miro with me when making these visits also fell through, as they did not have any "extra" employees to assist me. I could potentially have interviewed clients when I was visiting with the *asesor*, but due to the time frame allotted to each client, it would not provide me with the sufficient amount of time to conduct my interviews. In retrospect, I also regret not interviewing more of the local staff of D-Miro (other than the informal interviews I conducted with the *asesor* I accompanied). This could have strengthened my contextual understanding and provided me with more primary sources of data in order to be able to triangulate my findings.

4.6.8 Reliability and validity: Trustworthiness

Reliability and validity are criteria used to assess the quality of research (Bryman, 2004). However, some of the components of these criteria involve measurement issues, which are more relevant for assessing quantitative research (Bryman, 2004). Lincoln and Guba (1985, in Bryman 2004) suggest a different criterion for assessing the quality of qualitative research: *trustworthiness.* Trustworthiness includes four different aspects: *"i) Credibility – how believable are the findings?, ii) Transferability – do the findings apply to other contexts?, iii) Dependability – are the findings likely to apply at other times?, and iv) Confirmability – has the investigator allowed his or her values to intrude to a high degree?"* (Lincoln and Guba 1985 in Bryman 2004:30)

In the context of this study, the lack of triangulation related to some of the findings may affect the *credibility* of the research. This especially relates to the fact that I was not able to cross check the findings from the interview with Andreas Andersen (AMAS), as this interview was performed after I had left Ecuador. Andersen expressed that listening to the needs of the clients and executing own evaluations were important elements of D-Miro's product development. Verification of this with D-Miro's clients would have strengthened the statement of Andersen. Regarding the issue of *transferability,* being able to generalize the findings to other settings has not been the aim of this study. Moreover, as I have argued that context is a determining factor when evaluating microfinance interventions, the findings apply to this specific context and this particular MFI and might not correspond to findings from other contexts. To assess the degree of *dependability*, Guba and Lincoln (1985) argue for the use of an *"auditing approach"* (in Bryman, 2004:275). This requires that the researcher keep a comprehensive record of material pertaining to the entire research process, so that others may assess the validity of the findings (Bryman, 2004). Records have been kept, but they have not been assessed by anyone but myself. The issue of *confirmability* might also be a concern, given my previous experience with Mission Alliance and microfinance (refer to section 4.6.6), However, I have been conscious of this source of potential bias, and tried to preserve a reflective stance concerning my data collection and interpretation of my findings. The aim of this study has exclusively been to present the most objective analysis possible, without undue influence of personal perceptions, of how microfinance has affected the lives of the clients interviewed. The words of the clients themselves constitute the basis for the most important findings in this study.

4.7 Ethical considerations

It is imperative to reflect on any ethical issues that might arise during the research process. Bryman (2004) states that, *"it is only if researchers are aware of the [ethical] issues involved that they can make informed decisions about the implications of certain choices"* (Bryman, 2004:507). The relationship between the researcher and the participants in a study can give rise to various ethical concerns (Bryman, 2004). Diener and Crandall (1978) have listed four main ethical concerns when engaging in social research. These include: i) potential harm to participants, ii) lack of informed consent, iii) invasion of privacy, and iv) the use of deception (Bryman, 2004:509). Of these are, potential harm to participants and invasion of privacy, the most critical concerns in relation to this study. Before each interview, the participants gave me oral informed consent; there was no use of deception, as the participants were made aware that their answers would be part of this thesis. In addition, the participants' information remained confidential; their answers could not be traced back to them.

Potential harm to participants includes physical and psychological harm, stress or making the participants engage in activities that they don't really want to do (Bryman, 2004). The potential harm to participants in this study concerns potential invasion of privacy. The matters that were dealt with during the interviews were partially sensitive and private, as they involved participants' perceptions, feelings and thoughts on how microfinance had affected them. Disclosing economic information may also have been sensitive for the participants.

That said, the interviewees were not by any means pressured to answer questions that they viewed as being too private, and participants' reluctance to answer certain questions was respected. Nevertheless, it is difficult to estimate whether any psychological harm or stress was inflicted upon the participants during or after interviews e.g. by questions posed or the nature of the conversation evoking stressful thoughts and concerns in participants. However, even though the interviews covered sensitive matters, I am under the impression that no serious harm was inflicted upon the participants, as the tone under the interviews was mainly light and positive. Most of the clients seemed happy to share their experiences with me, and there were not many clients who declined when I asked if I could interview them.

Finally, a few words on how I handled and stored the data obtained from the interviews. In order to secure full anonymity and to make sure that there was no way to trace answers back to the interviewees, I kept no records of their names. The notes from the interviews were stored in my room where I stayed during my stay in Ecuador, which was always locked.

5.0 Empirical findings

The following chapter will present the results obtained in this study. First, I will address the results pertaining to D-Miro as a microfinance institution. Second, I will address the relationship between the clients and D-Miro, and lastly, I will provide results on how microfinance has affected the lives of the clients.

5.1 Contextual factors of D-Miro

D-Miro is an institution with a strong social focus (MicroRate, 2012), and their intervention motivation is founded upon the desire to be a microfinance institution that contributes to poverty reduction (D-Miro, 2014). According to Andreas Andersen, the CEO of AMAS, microcredit and the provision of loans to those unserved by traditional banks is a tool to reduce vulnerability and create ways to build the financial infrastructure that define developed countries today, which Andersen states consists of:

> *"Good infrastructure, respect for rights, a good education system, health services, a functioning and justified tax and fees system and a financial sector that makes sure that economical resources intermediates as to assist people and companies to secure their savings, and that banks can lend out these money to projects, investments and etc, and to offer access to insurances as to reduce risk"* (Andersen, AMAS*).*

As AMAS is under the belief that the provision of credit alone was only one measure to build this financial infrastructure, they saw the need to also provide other financial inclusion services, such as savings and insurance, and thus decided to transform itself from a NGO to a bank (Andersen, AMAS).

Relating to the design of D-Miro, according to Andersen, AMAS has been inspired by the history of the Norwegian Sparebank and the important role the Norwegian banks played in the economic development of Norway. Consequently, the Norwegian Sparebank was used as a model for the microfinance institutions that AMAS has established in Bolivia and Ecuador grounded in the belief that, *"there is a considerable amount of research that demonstrates the need for good banks, which covers as much as the population as possible to secure economic development in the long run"* (Andersen, AMAS). Andersen emphasizes that the

Mission Alliance started with microfinance in the late 80's in Bolivia and that it was the experiences from their Bolivian institution "Diaconia Frif" that laid the groundwork for their establishment of D-Miro in Ecuador. Additionally, Andersen expressed in the interview that microfinance is a complex industry and there are many examples demonstrating that it doesn't work. He bases this argument on the fact that there are many poorly driven MFIs with high costs and with owners that are out to maximize their profit and provide loans to poor clients in spite of being aware that they perhaps don't have the necessary means to repay the loan. He notes further that, *"it is not indifferent who offers microfinance. We are a non-profit owner with for-profit institutions in the South, and we think this contributes to a healthy dynamic"* (Andersen, AMAS).

As AMAS and D-Miro were established by Mission Alliance they are committed to a holistic approach on development as the following excerpt demonstrates: *"microfinance is not a panacea for world poverty, but it is a useful tool to be used in conjunction with others. For this reason AMAS works closely with the non-financial activities of Mission Alliance to provide a range of services to holistically assist in development"* (AMAS, 2014). Important for AMAS in managing D-Miro is to be grounded in a long-term perspective with regards to development measures in all areas. As noted by Andersen, it is vital for those involved in the aid-industry to embrace a holistic view on development and to adopt measures that have a long-term focus in all areas such as: "*health, education, women's rights, agriculture and that poor people gain access to financial services like loans, savings and insurance"* (Andersen, AMAS).

In addition, Andersen addresses the significance of being up to speed of what goes on in the microfinance sector and explains that AMAS has established relationships with researchers that offer them expertise and insights in order to ensure that their work is as effective as possible. D-Miro offers customized financial inclusion services to clients with HIV/AIDS, and to those suffering from a disability. The design of these services has resulted from cooperation with different NGOs that are specialized within these areas (Andersen, AMAS).

5.2 The relationship between the clients and D-Miro

All the twenty clients that were interviewed expressed that they had learned about the services offered by D-Miro through friends or family members, who themselves were clients, or who had friends or family that were. Furthermore, many clients mentioned that D-Miro is known to have few requisites when applying for a loan. Consequently, many of the clients expressed that they came to D-Miro because they had heard from friends and family members that achieving a loan was relatively “easy” and that the approval process was rapid. Seemingly, D-Miro in part recruits clients by word of mouth and shared experiences and recommendations on the street. One client expressed that: *“everyone who lives in the area knows of D-Miro and the services they offer.”*[7] Another client also stated that: *“people talk about the bank.”*[8] These views correspond well to my observation when I accompanied a loan consultant in making house visits to clients. The loan consultants that D-Miro sends out are well recognized (they wear a uniform from D-Miro), and from my observation it seemed common for loan consultants to be approached by potential or already existing clients with inquiries about the procedures of applying for loans etc. The statements from the clients above coupled with what I observed, support the impression that D-Miro is well known within the areas they work in, in part because loan consultants contribute to strengthening D-Miro’s visibility out in the poor communities they serve.

Loan consultants play a vital part in establishing a relationship between the clients and D-Miro, which is an aspect particularly salient in microfinance as it relates to providing client-focused services and further fosters communication. According to Andersen, communication and opening up a dialogue between the bank and the clients is an integral part of D-Miro’s product-development as he states: *“the development of products is a continuous process. Listening to the needs of the clients is central, and is done in a multitude of ways through the daily contact with clients, focus-groups, and more thorough evaluations”* (Andersen, AMAS). Through their loan consultants D-Miro establishes a good way to communicate with their clients, while at the same time maintaining a way to observe and keep an eye on the clients’ progress and business activities. One client expressed that, *“D-Miro makes you feel good. They treat us well and it has been a pleasure to come here.”* [9]

[7] *“Cada que viven cerca en este vecindario saben de D-Miro y los servicios que tienen”*
[8] *“La gente habla del banco”*
[9] *“Te hace sentir bien D-Miro, estamos bien trato y ha sido un gusto venir aqui”*

5.3 The purpose of the loans

To understand the workings of microfinance, it is essential to be aware of what types of activities and business ventures the clients are engaged in. Knowing your client is critical in order to provide the best possible care, and to offer services that the clients need. In general, the purpose of a microcredit loan is to provide the client with start up capital to start small enterprises or expand already existing ones. The key here is “small enterprises”, as the businesses are often of a relatively small scale and most of them are run from the clients’ houses. This is due to the relatively high cost of renting a business space, and the convenience of having your business in a part of your house as this allows the clients to juggle the role of running their business and taking care of their family/kids at the same time. This however, is not without challenges, as will be discussed in the section of “future and dreams.”

Of the twenty clients that were interviewed, four clients applied for loans with the purpose of “*mejorar la vivienda*” –meaning to improve the standard of housing. These four clients used their loans to make improvements on their houses. Many inhabitants in Guayaquil live in reed houses, less robust houses that are easily deteriorated by normal wear and tear and the forces of nature. Guayaquil is plagued with periods of heavy rains, which can have dire consequences for the inhabitants who live in houses built of reed, and where the foundation of the house rests on poles in the ground or even the water (see figure 5.1). Thus, in order to achieve better living situations many clients apply for loans in order to change their houses from reed to cement, which is far more robust and can withstand the forces of nature.

Figure 5.1: House resting on poles (Source: photo, Elisabeth Berg Pedersen)

The remaining sixteen clients applied for loans in order to expand their businesses. As I wanted to interview clients that already had previous experience with microfinance in order to learn more about how microfinance had affected their lives, the clients with businesses were in the midst of applying for their second, third or forth loan, and had already established their businesses. Table 5.1 below provides an overview of what types of businesses the clients were involved in.

Type of Business	Products	Number of Clients
"Bazar": small shop	Things for the house such as kitchen appliances, sheets and linens, mattresses, furniture, articles to use in the school. As well as groceries (vegetables, milk, fruits, meats, eggs, candy, juices, flour, sugar++)	7
Eatery	Meals consisting of some sort of meat, rice and vegetables. Soda and water.	6
Clothing	Attire for work, school and general clothing	2
Cellphone reparations	Fixing broken cellphones	1

Table 5.1 Overview of the kinds of businesses and the products sold (Source: own construction)

As the table illustrates, the businesses were of relatively small scale and they were all located in the clients' houses. Since these clients already had established their businesses, the purpose of applying for more credit was to expand their enterprises and increase the volume and range of products/services being offered. Being able to offer more products was seen by the clients as a way to increase their revenue.

The size of the loan applied for ranged from as little as 60 to 10 000 dollars. However, the average loan size was in the 1000 dollars range. The extent to which a loan is approved depends on the clients' standing with the bank, their ability to repay the loan on a monthly base, and not fall behind in their payments, as well as a careful evaluation done by a loan consultant. The consultant assesses the overall inputs and outputs of the business, to see if the client is in fact able to repay the loan given the expected/calculated revenue derived from the business.

So far we have seen some of the reasons why the clients chose to come to D-Miro and the relationship that exists between D-Miro and the clients, what purposes the loans were intended for, as well as a description of the types of businesses the clients had established. It is now time to turn to the focal point of this thesis: how microfinance has affected the lives of the clients.

5.4 How has microfinance affected the lives of the clients?

The causal pathway between the provision of microfinance and potential outcomes and effects is intricate and complex. As will be demonstrated in the sections to come, microfinance affects the lives of the clients in a myriad of ways. Figure 5.2 below provides an extensive list over the most common concepts that the clients themselves uttered in relation to how microfinance had affected and influenced their lives. The size of the words corresponds to the number of times a specific word was uttered during the interview sessions.

Figure 5.2 Concepts/themes associated with microfinance (Source: Own construction)

As illustrated above, microfinance has an impact on various aspects of life. In order to identify key elements of how microfinance had affected the lives of the clients the results were grouped and coded in relation to different themes. It became apparent that some themes were referred to more than others, and moreover, many of the concepts listed above actually go hand in hand. Consequently, the results will be presented in terms of the most significant and reoccurring themes. As figure 5.3 illustrates below these themes included: opportunities, help to *seguir adelante*- meaning to move forward, confidence and independence, future and dreams, worries and savings.

Figure 5.3 Reoccurring themes during the interview process (Source: Own construction)

5.4.1 Help to "*seguir adelante*"

Perhaps one of the most convincing and unanimous feedbacks from the clients when asked how microfinance had affected their lives was that D-Miro had provided them with considerable help. *"Seguir adelante"* was a saying used across the board, and translated into English this signifies something along the lines as "to move forward". However, it is such strong and central concept that it is best preserved in Spanish. According to the clients, D-Miro had provided them with help to *seguir adelante.* One client expressed that: *"D-Miro is* *made for us poor people."* [10] Another client stated that: *"I don't think there is anything negative with microcredit, because it is a big help, and something that is a help, cannot be negative, only positive."*[11]

The slogan for D-Miro is "*cambiando vidas*" "changing lives", and from the opinions expressed by the clients I was given the impression that their lives had changed, and that the changes were of a positive nature. The reason that I allow myself to state that I was left with the impression that their lives had changed for the better, was how the clients described their lives before they came to D-Miro (I asked the clients whether they felt that their lives had changed after becoming clients of D-Miro). Many of the clients explained that before coming to D-Miro, their lives were of a lower standard, and this not only referred to their economic difficulties, but that they had less hope, less freedom, and they were frustrated and worried over what would become of them. One client stated that: *"Before, I didn't know what to do with my life. I was in my house thinking of what to do, I was frustrated and sad, I had nothing and I felt miserable."*[12] To make the argument that the lives of the clients had changed for the better seems suitable as many of the clients outright stated that, *"My life has improved, and it is better now than it was before."* [13] Exactly how and in what ways the loans had affected the lives of the clients will be addressed in the sections to come.

5.4.2 Opportunities

Along with the statements by the clients that D-Miro had helped them to *seguir adelante* is the statement that D-Miro provided the clients with *opportunities:* opportunities not previously available to them. A majority of the clients expressed: "*With D-Miro I have more opportunities to seguir adelante."*[14] Not accustomed to having many opportunities, the clients were committed to taking advantage of the opportunities they had been granted to create a

[10] *"D-Miro es hecho para los pobres"*
[11] *"No me parece que hay algo negative con microcredito, porque es una ayuda bastante, y algo que te ayuda no es malo, solo positivo"*
[12] *"Antes no sabia que hacer con mi vida. Estaba en mi casa pensando que hacer. No tenia nada y era miserable"*
[13] *"Mi vida ha mejorada y es mejor ahora que antes"*
[14] *"D-Miro me ha dado mas possibilidades de seguir adelante"*

better life for themselves and their family. In the words of one of the clients, *"With this loan we can move forward, it gives us hope and opportunities to progress more than ever."* [15]

So what exactly did these opportunities consist of? The opportunities were manifested in a number of ways. The clients who had their own businesses experienced that with the loan from D-Miro, they were able to expand their businesses, in the sense that they were able to have a wider range of products available for sale to the customers. This in turn often led to higher sales, and consequently higher revenue. The profit earned from the business was used to improve many aspects of the clients' lives. Many clients reported that the profit was used to make improvements on their houses. As previously mentioned, many of the clients were living in houses built of reed, but with the profit from the business they could transform their houses to cement. The housing standard was seemingly of great significance to the clients, which the following quote illustrates: *"My life before was worse, because my house was made of reed and I didn't feel good living there. Now I don't only have a house, I have a home. Now I can play with my children, run around the house, paint the nails of my daughters. We have created a home."* [16]

Another source of having more opportunities is that the clients reported that they had more money to spend, which resulted in them being able to provide better for their families and improve their standard of life, by buying food of better quality, better clothing, and above all: being able to send their children to school. Being able to support and provide education for their children was of great importance to those clients who had children. According to Irene Andersen, a previous missionary for the Mission Alliance in Guayaquil, two years ago it was established that children should be provided with free uniforms and books. However, not every school has adopted this. The children themselves are responsible for buying necessary materials, such as notebooks, pencils, erasers etc. The approximate cost of school per child/per year is 100-120 dollars (Irene Andersen, Mission Alliance). Being able to pay these school fees is a considerable challenge for the poor and more so if they have many children that they wish to enrol in school.

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[15] *"Con este prestamo podemos seguir adelante, nos da esperanza y possibilidades de progresar mas que nunca"*

[16] *"Mi vida antes era peor porque mi casa era de caña y no me sentia bien viviendo aqui. Ahora no solo tengo una casa, tengo un hogar. Ahora puedo jugar con mis niños, podemos correr, pintar las uñas de mis hijas, hemos creido un hogar"*

In summary, microfinance has affected the lives of the clients by providing them with more opportunities. The clients have been able to improve their houses and expand their businesses by offering more products. They are better able to improve their standard of life in general, with better food and clothing, and last but not least; education for their children. All the effects mentioned above can be defined as "material effects", meaning that they can be defined as tangible. However, microfinance also has the potential to affect the mindset of the clients. This is what we will turn to next.

5.4.3 Confidence and independence

For those interested in mapping the ways in which microfinance affects the lives of clients, an area of much concern is how if affects clients in a more personal and emotional way. Therefore, I was intrigued to discover how administering a loan made the clients *feel*. Did they feel different? Did they feel more confident and more independent, or did the burden of having a debt make them worried and anxious?

Hence, one of the questions I asked the clients was how their own well-being and mental state had changed (if it had changed) as a consequence of microfinance. A majority of the clients reported that being in charge of their own business and managing a loan taught them to be responsible, and they also felt more independent. One client stated that: *"To have a loan teaches me to be responsible because you have to be organized."* [17]Another client expressed that: *"I enjoy working for myself, it makes me feel independent and that is important."*[18] Yet another client expressed that what he appreciated the most by having his own business was the fact that he felt more calm and more free as the following quote exemplifies: *"I feel free, no one tells me to hurry, no one tells me what I need to do and I have time for my children."* [19]

Some of the clients also expressed that they had gained more confidence, as they felt more capable of controlling and managing their lives. This was often linked to the fact that they had gotten more opportunities to move forward in their lives. However, some clients, even

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17 *"Para mi tener un prestamo me enseña ser responsable porque uno tiene que organizarse bien"*
18 *"Me gusta trabajar por mi mismo, me hace sentir independiente y eso es importante"*
19 *"Me siento libre, nadie me apure, nadie me dice que hacer y tengo tiempo para mis hijos"*

though explaining that their lives had changed, did not feel more confident: *"My confidence has not improved much, I feel like I always have felt."* [20]

5.4.4 Future and dreams

I wanted to gain some understanding of what the clients dreamt of and what they envisioned their future to be like. What did they wish to accomplish? The following results cannot be viewed as an effect of microfinance as I did not ask what their dreams were before entering the microfinance program of D-Miro and whether their dreams had changed as a consequence of having received microcredit. Nevertheless, to gain insights into what the clients dreamt of I argue is a good indicator of what they deem as important in their lives.

The dreams of the clients related to expanding their businesses, improving their houses, owning a car, and being able to provide their children with education, as the following four quotes demonstrate: i) *"I wish to move forward with the help of D-Miro and expand my business."* [21], ii) *"The most important thing to me is to have a house of good standard"* [22], iii) *"My dream is to move forward and prosper so that I can buy a car."* [23], and iv) *"My dream is that my children will have better lives than me, and that I can pay for their education."* [24]

As was mentioned in the section of "The Purpose of the Loan", many of the clients worked out of their houses, meaning that they had to manage the business and take care of their children at the same time. One mother expressed that this was quite a stressing situation for her, and that she dreamt of being able to separate her business from her home: *"It would be better to have a separate place for my business and have a nanny take care of the children while I am at work. Now I have to juggle the two roles of managing the business and taking care of my children."* [25]

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[20] *"Mi autoestima no ha mejorado mucho, sigue siendo como antes"*
[21] *"Deseo seguir adelante con la ayuda de D-Miro y crecer mi negocio"*
[22] *"Lo mas importane para mi es tener una casa bien hecho"*
[23] *"Mi sueño es seguir adelante y prosperar para poder comprarme un carro"*
[24] *"Mi sueño es poder pagar por los estudios de mis hijos y que tengan una vida mejor que yo"*
[25] *"Mejor tener un propio local y que una niñera cuida a los niños mientras yo cuido al negocio. Porque ahora tengo que mezclar los dos papeles; cuidar al negocio y a mis niños"*

5.4.5 Worries

Due to the fact that microcredit has the potential to do more harm than good, as microcredit induces debt and can thus bring the clients into worse conditions, I found it interesting to inquire about how the clients felt about having debt, and whether they had any worries about not being able to make the monthly repayments they were required to do. Only three clients reported that they had some worries associated with having to make monthly repayments. Being able to make down payments on the loan naturally depended on how well their businesses performed, but none of the clients reported ever having problems repaying (a follow up question to this was whether the clients were saving to have a "back-up" either in D-Miro or at home, and this will be discussed in the next section).

In general, what mostly worried the clients was that they were preoccupied with being "good clients." As has been established earlier, two of the most commonly reported ways in which microfinance had affected the lives of the clients was that it provided them with help and more opportunities to *seguir adelante*. It was important to the clients to maintain their standing as "good clients" in order to minimize the risk of not being eligible for future loans. The following statement from one of the clients expresses this: *"It worries me not to be able to pay each month, I don't want to be a bad client as it hurts your image, and we depend on D-Miro and want to continue being their clients"* [26]

5.4.6 Savings

Of the twenty clients that were interviewed, only one client had a savings account in D-Miro. The client expressed that for him it was impossible to save in the house because people would ask to borrow money from him. He explained that having a savings account gave him more security and less preoccupations of being able to make the monthly down payments on the loan, as he knew he had a "back-up". Three clients reported that they had some money saved in the house to cover emergencies (around 30-50 dollars) but that it was hard not to spend it. The remaining 16 clients reported that they did not yet have the ability to save and that the money they had was used to cover their expenses and to make down payments on the loan.

[26] *"Me da miedo de no poder pagar cada mez, porque no quiero ser un mal cliente porque le daña su imagen y nos depende de D-Miro y queremos seguir de estar clientes"*

6.0 Discussion

In the following chapter I will **first** discuss the implications of my findings drawing on the works of Amartya Sen and his "capability approach" focusing on the elements of capabilities and agency, and the work of Caroline Moser and her "asset vulnerability framework" and how microfinance affected the clients' portfolio of assets, vulnerabilities and resilience. The focus of the discussion will be on how microfinance can be used as a tool for poverty reduction by increasing the clients' agency, resilience, and capabilities, and how expanding or adding to the clients' portfolio of assets may decrease their vulnerability. **Second**, I will discuss my findings in relation to the contextual factors outlined in chapter two and the implications of these when evaluating microfinance interventions. **Third**, I will discuss the value of adopting an actor-oriented perspective when evaluating microfinance, and the benefit of a qualitative approach.

6.1 Sen's capability approach: poverty as a deprivation of capabilities

All the clients expressed that D-Miro had provided them with more *opportunities*. But what exactly did the new opportunities the clients were given consist of? Did they consist of ways to enhance agency, capabilities, assets and resilience? The clients were given the opportunities to engage in income-generating activities, opportunities to improve their standard of housing, opportunities to increase the quality of nutrition and clothing for themselves and their family, and to be able to invest in their children's education. Simply *having* these opportunities are of vital importance to poor people. This is why I argue that poverty reduction measures, such as microfinance, should not only be assessed according to how they affect poor people's income, but also according to how they affect poor people's range of opportunities. This is the cornerstone of Sen's capability approach: poverty is not only a deprivation of income, but also a deprivation of capabilities (Sen, 1999). By providing the clients of D-Miro with opportunities, I argue that their ability to make the choices that are of value to them become greater and their individual agency is strengthened. As Sen notes, *"the freedom of agency that we individually have is inescapably qualified and constrained by the social, political and economic opportunities that are available to us"* (Sen, 1999:xi-xii). Because microfinance is an intervention promoting opportunities, the clients' freedom of agency (as Sen puts it above) becomes less limited. By enabling agency and strengthening assets, clients may experience a greater sense of capability. With more capability clients can become more resilient and less vulnerable.

6.2 Microfinance as a means to increase poor people's portfolio of assets

In the following sections I will **first** address how the provision of microfinance affects the clients' assets. As the conceptual framework (see figure 2.2 in chapter two) was added after the data collection, I do not have sufficient data on two of the assets: social capital and household relations. Therefore, I will only address the effects on the three remaining asset in the conceptual framework: housing, human capital, and labor. **Second,** I will discuss how the provision of microfinance affects the clients' vulnerability and resilience.

6.2.1 Housing

The clients that applied for loans for microenterprises expressed that the credit from D-Miro allowed them to increase their range of products available for sale and cater more to their customers' demand. The profit earned from the business was channelled in increasing their portfolio of assets in terms of improving their standard of housing. This also applied to the clients that applied for loans with the *purpose* of improving their standard of housing. As mentioned earlier, many of the clients lived in reed houses but with the credit from D-Miro they had been able to convert their houses into more sustainable houses of cement. Improving the quality of housing was of great significance to the clients. One client expressed: *"My life before was worse, because my house was made of reed and I didn't feel good living there. Now I don't only have a house, I have a home. Now I can play with my children, run around the house, paint the nails of my daughters. We have created a home."*

Housing is a valuable asset, and as mentioned in chapter two, housing is also one of the five categories in the asset vulnerability framework by Caroline Moser. Moser's urban research study, that looked into the assets that poor people have, found that in terms of productive assets, housing was the most important to the poor (Moser, 1998). Moser argues that vulnerability and asset ownership are two closely interlinked concepts as she states: *"the more assets people have, the less vulnerable they are, and the greater the erosion of people's assets, the greater their insecurity"* (Moser, 1998:3). As Guayaquil is plagued with periods of heavy rain that can cause flooding, the poor people living in the most vulnerable communities (which D-Miro predominantly cater to), and those living in reed houses, are especially vulnerable to the forces of nature. Potential cost related to damages on their houses can be a huge setback for these people. Reed houses are also in general less sustainable, and deteriorate more rapidly than do houses made out of cement. Thus, increasing the standard of housing is an important measure to decrease the clients' vulnerability.

6.2.2 Labor

Moser defines labor as *"the most important asset of poor people"* (Moser, 1998:4). Labor and employment are means by which people can engage in income-generating activities that can ease economic difficulty by providing a more steady employment situation and (hopefully) a more steady flow of income. As has been mentioned earlier in this thesis, underemployment is a considerable challenge in Guayaquil, and in Ecuador overall. Steady and full-time employment is hard to come by for many poor people in Guayaquil. Microfinance can be seen as a coping strategy when facing the challenges of underemployment, by giving clients the necessary credit in order to help them start their own businesses. Which, if fruitful, can also be a source of strengthening other assets (as already mentioned many clients used the profit earned from the business to make improvements on their houses). But a possible increase in income is not the only aspect of labor as an asset. Some of the clients I interviewed expressed that they had better confidence, a consequence of managing their own business. Working for themselves taught them to be more responsible, and they felt more independent. Experiencing a greater sense of confidence and independence can contribute in making the clients less vulnerable and more resilient in coping with life's many challenges.

6.2.3 Human capital

Another finding relates to Moser's concept of human capital as an asset. Of the clients that were interviewed and who had children, it was very important to them to be able to send their children to school and invest in their children's education. They viewed education as an important asset for their children, and D-Miro had provided them with more opportunities to provide their children with education. Education is a source of human capital as people acquire skills and knowledge, which strengthen capabilities and improve chances of finding meaningful employment later on. In Moser's urban study where she identified the assets poor people have, she found a link between household income and education: *"in all four communities household heads' education level was linked to household income level, and* *those households of less-educated household heads, were more likely to be below the poverty line"* (Moser, 1998:9). In the context of my study, the link that Moser found between household heads' education and income level may support an assumption that the recipients of the loans would be able to contribute to strengthen human capital as an asset for their children (in the long run) by providing them with education.

6.2.4 Vulnerability and resilience

The degree of vulnerability is considered to be connected to the assets that the poor people have (Moser, 1998). A crucial aspect for MFIs would then be to determine the assets that their clients have, but perhaps more importantly, would be to demonstrate how their assets can be strengthened. With "demonstrate ways" I refer to the importance for MFIs to follow up on their clients and encourage them to channel the loan for the purpose it was intended for, (whether this was establishing/expanding a micro-enterprise, improving the standard of housing, for general household needs etcetera). Educating and encouraging their clients to invest in their portfolio of assets can potentially contribute to reduce their vulnerability and strengthen their resilience.

Besides having a connection to assets, vulnerability has been related to poor people's sustainable livelihood systems (Rakodi, 1995 in Hossain, 2005). Hossain defines livelihood as *"compromising the capabilities, assets, including both material and social resources, and activities required for a means of living"* (Hossain, 2005:2). Sustainable livelihood means that external stresses or shocks will not decrease the capabilities and assets that are available (Hossain, 2005). Poor people are in general more vulnerable towards external stress and setbacks: emergencies, hospitalisation, events such as births, marriages, funerals and school fees can be enough to upset the precarious balance for a poor family. This is why it is important to offer poor people financial services like microcredit, savings and insurance, in order to decrease their vulnerability towards external events. Less vulnerability equals more resilience. Poor people need more stability with regards to managing their cash flow, and microcredit, savings and insurance are important tools towards achieving more steadiness and predictability.

Even though the microfinance sector has started to realize the importance of offering not only credit, but also a means to save for the poor, a majority of MFIs around the world still only offer credit to their clients (APPGM, 2011). As APPGM argues: "*savings are an important tool for reducing vulnerability and yet savings services remain scarce for many of the world's poor"* (APPGM, 2011:49). To provide their clients with access to savings was one of the reasons that D-Miro in 2011 was converted into a bank, as there are certain regulations that must be met to allow for deposit-taking. The first savings accounts in D-Miro were opened in March 2012. Of the clients that were interviewed for this study, only one had opened an account. He expressed that this provided him with more security if any unexpected events should occur. Some of the other clients reported that they tried to save in the house, but this proved difficult, while others said that they did not have the means to save and spent what they had simply to make the wheel go around. Carlos Rabascall, marketing director in D-Miro confirms this: *"The clients of D-Miro are poor, so we cannot expect that everyone will come running to the bank once it becomes possible to save. Many simply don't have anything to save and have enough with covering their basic expenses"* (Carlos Rabascall in Årsmelding Misjonsalliansen, 2012). However, having the access to savings is important for poor people, as this can help to reduce vulnerability.

6.3 Implications of contextual factors

I have argued that microfinance is a heterogeneous area, and that certain contextual factors shape microfinance interventions and can have implications for the effects the clients experience. The following sections will address the contextual factors and their implications to the microfinance intervention evaluated in this study.

6.3.1 The geographical setting

I have no accurate data on to what extent the country context was assessed prior to the establishment of D-Miro. However, as noted by the CEO of AMAS, Andreas Andersen, the establishment of D-Miro was shaped by the lessons and experiences from Mission Alliance's Bolivian MFI, which was established in the 1980's (this point will be further elaborated on in the next section as it pertains to the design of D-Miro).

As introduced in chapter two, it is of relevance to look at whether a microfinance intervention is to be implemented in rural or urban areas, as the vulnerabilities of urban and rural poor differ (Moser, 1998). D-Miro operates in an urban setting, which have implications for the particular vulnerabilities their clients have. As Moser (1998) argues, labor is the most important asset for the urban poor, as it is an income-generating activity that the poor use to buy food and housing (Moser, 1998). This is why microfinance, as already mentioned above, is a way for the poor to secure employment and income by applying for a loan to start an enterprise or expand an already existing one. In addition, Moser (1998) argued that poor quality housing is a source of vulnerability for the urban poor, which is also why it is important to offer loans for not only microenterprises, but also for improving the standard of housing (as D-Miro does). As many of the clients' businesses are located in their houses, ensuring good quality housing becomes particularly important.

6.3.2 The design of the MFI and the products and services offered

As briefly introduced above, experiences from Mission Alliance's microfinance institution in Bolivia contributed in shaping the design of D-Miro. In addition, the Norwegian Sparebank has been used as a model for all of Mission Alliance's microfinance institutions (Andersen, AMAS). The nature of D-Miro today has also been adapted by years of experience in Ecuador. Seeing the need to provide their clients with not just credit, but also savings and insurance, was the reason why D-Miro was transformed from a NGO to a regulated bank.

Research has shown that credit alone is insufficient in bringing about positive outcomes for the poor. The poor need a wider range of services and products that, when combined and practiced in a responsible manner, can contribute to increasing the poor's capabilities and portfolio of assets. D-Miro offers their clients credit, savings, and insurance. As D-Miro is managed by AMAS, they also collaborate with Mission Alliance to provide a wider range of services to their microfinance clients: enterprise services, health services, education services, and women's empowerment services. It is important to acknowledge the fact that microfinance is not the only solution for world poverty and it should be viewed as one of many tools that could contribute to increasing poor peoples' capability, resilience, and portfolio of assets. Financial inclusion services should *"complement rather than replace other development strategies"* (Sinclair, 2012:xvii). Development that is characterized by a holistic approach, encompassing many development strategies and areas of focus, are arguably the best way to go. Thus, MFIs that offer a differentiated set of products and services to their clients can increase the number of opportunities available to the poor that they in turn can take advantage of and use as means to enhance their capabilities and enable agency. Moreover, it is of vital importance that MFIs assist their clients in responsible management of the loans and oversee that the new resources are channeled in a way that will increase their clients' portfolio of assets and contribute to making them more resilient and less vulnerable to external shocks.

6.3.3 Socioeconomic environment and culture: meeting the needs of the clients

Any recipient of an intervention is unique, and if MFIs are to contribute to positive outcomes for the poor they must strive to provide products and services that their *respective* clients need. To the question whether the services of D-Miro meet the needs of the clients, the CEO of AMAS, Andreas Andersen, states that in terms of product development, listening to the needs of the clients executing own market evaluations of the effectiveness of the program are pivotal activities. This statement is in reality un-triangulated. But, the fact that D-Miro has designed a differentiated set of products to support clients who live with HIV or disabilities, together with offering loans for microenterprises, housing and consumption needs, medical emergencies, and education, supports an assumption that D-Miro attempts to deliver services that meet the clients' needs.

Furthermore, statements from the clients I interviewed allow me to make some inferences about their level of satisfaction with the services provided to them. All the clients stated that D-Miro had provided them with help and opportunities to move forward. Two clients expressed that *"D-Miro is made for us poor people"* and *"D-Miro makes you feel good. They treat us well and it has been a pleasure to come here*". Another finding that reinforces the level of satisfaction with D-Miro on behalf of the clients was the desire to be "good clients" as the following quote from one of the clients demonstrates: *"It worries me to not be able to pay each month, I don't want to be a bad client as it hurts your image, and we depend on D-Miro and want to continue being their clients"*. The fact that the clients want to continue to be clients of D-Miro seem to support the notion that D-Miro's services are of *value* to the clients and why they want to be diligent in meeting repayments. Rosenberg (2010) argues that high repayment rates in the microfinance industry rest on "… *the borrower's desire to keep access to a highly valued service, one whose future availability they can count on as long as they keep their end of the bargain"* (Rosenberg, 2010:4).

6.3.4 The agenda of the MFI: are operations in line with the agenda?

First and foremost, I believe that it is important for MFIs who have a clearly stated poverty alleviation mission (such as D-Miro) that their operations are in line with their agenda. Although all MFIs provide financial inclusion services to the poor, the agenda of MFIs are relevant to how the provision and the effects of financial inclusions services play out for the poor.

When assessing whether the services and products that an MFI provides are in the best interest of the clients, it is important to look at the pricing of its loans, the interest rates. Commercialization has been a rising trend in the microfinance industry, which has led to a heated debate on whether the whole industry has drifted away from its original mission to serve the poor and is today more motivated by economic growth and returning a profit. The question to be asked is whether an MFI is primarily concerned with providing its clients with fairly priced loans, or whether they are primarily interested in making a profit and thus tend to offer loans with unjustifiably high interest rates? D-Miro charges an interest rate of about 30 % on their loans (world average is about 35%). D-Miro is a for-profit MFI, and their profit in 2012 was 990 507 NOK (Årsmelding Misjonsalliansen, 2012). However, this surplus is not taken out as profit but channeled to increase D-Miro's lending capacity in order to reach out to more clients (AMAS, 2014).

In comparison, Hugh Sinclair in his book "Confessions of a Microfinance Heretic: How Microlending Lost Its Way and Betrayed the poor" argues that commercialization in the microfinance sector and the quest for profit, with investors pumping millions of dollars into the microfinance industry expecting a profit, has tainted the entire sector (Sinclair, 2012). Sinclair provides an example of an MFI that charges its clients interest rates *above* 100 % making huge profits for their investors: The Mexican MFI Compartamos made a profit of $410 million in its first initial public offering (IPO) which is the sale of stocks to the public (Sinclair, 2012). Another MFI, the largest MFI in India, SKS, made its first IPO in 2010 and *"the company valuation reached the top of the offer band price at US$1.5 billion, and five weeks after trading began, the share price rose 42 percent"* (Chen et al, 2010:1). As the authors note, "*microfinance today blends commercial and social goals. Drawing in some private commercial capital is seen by many as necessary to ensure sustainability and scale.*

At the same time, many are wary that excessive commercialization will tilt the gains heavily toward investors at the expense of the poor" (Chen et al, 2010:11).

This is a valid concern, which raises an important question. Is it ethical to make high profits when microfinance is a development tool aimed at improving the lives of the poor? Is commercial microfinance at risk of straying away from the original social mission and become overly focused on making profit? It seems warranted to argue that making huge profits by providing financial inclusion services to the *poor* is a bit shady. On the other hand, one could argue that making profits is admissible as long as the quest for profit does not come at the expense of the poor. After all, microfinance is intended to deliver services and products that can be of benefit *primarily* to the poor and not to the owners and investors. Clients must come first.

Another element when evaluating whether the operations of an MFI are in line with its agenda, is to assess loan approval procedures. Careful evaluation of every client must be done before loan approval. It might not always be wise to offer newer and higher loans to the clients. It is essential that MFIs evaluate each client's ability to repay the loan to prevent over- indebtedness. A depressing, yet demonstrative example of how microfinance can fail the clients relates to a recent crisis in Andhra Pradesh in India in 2010, home to more than 6 million microfinance clients. Studies undertaken in this state revealed that more than 83 % of the clients were served by several MFIs at the same time and in a report by the Consultative Group to Assist the Poor (CGAP) it was argued: *"... households in Andhra Pradesh [had] too many loans and [more] debt than [seemed] supportable considering their income levels and ability to repay"* (CGAP 2010 in Maes and Reed, 2012:5). Lessons to be drawn from this is that even though it is appealing to reach out to as many clients as possible, this should not be at the expense of being able to provide good client-focused services. "Quality over quantity" should be the guiding principle.

D-Miro seemed to have developed sound practices regarding the approval of loans. From my observations accompanying an *asesor* visiting clients, a thorough investigation into the client's potential business, their expected inputs and outputs, as well as a calculation of other expenses such as rent, electricity bill and household expenditures, was carried out in order to verify whether the client had the necessary means to manage a loan.

6.4 Towards a more nuanced evaluation of microfinance

Using more indicators of poverty, and focusing on the ways in which microfinance has the potential to increase poor people's capabilities, agency, portfolio of assets, vulnerability, and resilience allows for a more nuanced assessment of how microfinance affects people. As general impact evaluations are methodologically very challenging to conduct, researchers might be better served by expanding their view of how microfinance can impact poverty by seeing poverty as not only a deprivation of income. Microfinance might be guilty of not bringing about the miraculous impacts and effects that it promised. And it might very well be that most microfinance clients use microloans to smooth consumption instead of making durable investments in enterprises. Sinclair (2012) refers to this as a *"murky area"* in microfinance and notes that, *"estimates for consumption loans range from 50 percent to 90 percent of all microfinance loans"* (Sinclair, 2012:78). Why is it murky? Perhaps because microfinance was initiated as a means to promote entrepreneurship and not to smooth consumption. But opportunities to smooth consumption are perhaps exactly what the poor *need*, based on the simple fact that it makes coping with poverty and life a whole lot easier.

This, however, should not mean that we should dismiss microfinance entirely as a potentially important development tool that can contribute in the fight against poverty. The focus of research should be in indentifying *how* microfinance can be of benefit to the poor, and adopting the theoretical perspective outlined in this thesis, might be useful for this. Poverty is a complex concept, and we don't do justice to its complexity by seeing it merely as low income. Microfinance can have potential impacts on income, but as my study suggest, it can also impact the range of choices and opportunities available to poor people in other ways, that if channelled responsibly, can have a positive impact on poor people's capability, agency and portfolio of assets. I say "channelled responsibly" because to achieve these potential positive impacts, clients must make the choices to invest in their portfolio of assets that can increase their livelihood security in the long run. It should come to no one's surprise that buying a TV with a microcredit loan will not in itself bring about the potentially positive benefits a loan can have on poor people's portfolio of asset, an example provided by Sinclair (2012).

Applying the frameworks outlined by Sen and Moser, and focusing research on how microfinance can affect agency, resilience, vulnerability, capabilities and the portfolio of asset that poor people have, will offer valuable understandings of the mechanisms of how microfinance affects people. Microfinance *is* a complex area to evaluate, and the industry still struggles to pinpoint its true impacts and effects. This might partly be because we have been too focused in looking at *if* microfinance has an impact on poverty and not devoted considerable attention to *how*. Asking the question of *how* microfinance affects people is imperative! And by expanding our attention to how microfinance can affect the factors mentioned above, we bring justice to the definition of poverty as compromising more than just a deprivation of income.

6.5 The benefits of a qualitative approach

A qualitative approach, such as the one applied in this study, is a useful strategy in discovering how microfinance affects the lives of the poor as the focus is on how the clients *themselves* are allowed to describe and define their subjective experience with microfinance. A qualitative approach is effective because it seeks to capture underlying tendencies and mechanisms, and allows for collecting data that is rich in contextual information. When trying to evaluate the effects of microfinance on abstract concepts such as capabilities, agency, assets, vulnerability and resilience, a qualitative approach is advantageous, as it might be challenging to operationalize the indicators to measure these concepts in quantitative evaluations employing surveys. Understanding human behavior and experience from the point of view of the actors themselves is essential, as human beings ascribe meanings to their experience, and their agency and choices are informed by these meanings. A qualitative approach can be helpful in trying to capture and extract the essence of these meanings. Sebstad and Chen (1996) in their review of the impacts of microfinance argue that there are:

> *"limitations of quantitative survey data alone in understanding impacts. Context information, ethnographic data, and in-depth case studies have been critically important in interpreting quantitative data, in explaining why certain changes have or have not occurred, and in understanding the implications of certain changes for microentrepreneurs and their families"* (Sebstad and Chen, 1996:5).

A qualitative approach can be complimentary to quantitative impact studies such as RCTs, by either following up the estimated impacts RCTs find with in-depth interviews to gain a deeper and a more contextual understanding, or by asking questions that can help to form the indicators and questions RCTs develop. As Copestake et al (2005) argue:

> *"The strength of qualitative methodologies is that they allow an understanding of causalities and meanings that tend to elude quantitative methodologies. They also help to triangulate findings from quantitative methods and they engage respondents in a more participatory process of interaction that may itself contribute to the kinds of knowledge that are generated* (Copestake et al, 2005:90).

As stated in chapter two, RCTs work by performing a baseline survey of a target group, then randomization occurs when allocating people to treatment and control group, the intervention is implemented, and a follow-up survey is conducted that will compare outcomes between the treatment and control group. However, the challenge of RCTs as addressed in chapter two, is that *"the control [only] mimics the counterfactual. The counterfactual is defined as what would have happened to the same individuals at the same time had the program not been implemented"* (Betterevaluation, 2014). And even though randomization is sought to assure that the individuals in the treatment and control group are similar in terms of homogeneous characteristics, the categories used might not really ensure this. Betterevaluation provides examples of categories such as, *"the same average income, the same average health level, and so on"* (Betterevaluation, 2014). But even though these variables might be matched in treatment and control group, what about factors like personalities, social networks and the fact that any individual's experience of an intervention, is just that – individual, and subjective? However, an individual's experience might be influenced by traits that can be captured by indicators. The challenge is to develop indicators that capture the complexity of these traits. These traits might affect the experienced impacts of the intervention and a qualitative approach can be useful in illuminating these, as it would require an in-depth analysis of personal characteristics, perceptions, thoughts and feelings.

In light of this I argue that the field of microfinance research is best served by allowing room for both quantitative and qualitative approaches in evaluating microfinance interventions. Both approaches have their strengths and weaknesses, and given that microfinance is such an intricate area to evaluate, the best option is to accumulate knowledge by applying different approaches, as this will provide a more holistic understanding of the effectiveness of microfinance in reducing poverty.

6.6 Microfinance as a means to cope with poverty

As have been argued in this thesis, the field still lacks clear and robust evidence that microfinance is indeed associated with increased well-being, and standard of living, and that it fulfils its promise to be a sustainable poverty reduction development tool. Even though the field lacks convincing results that microfinance has a direct impact on poverty, the findings in this study support the argument that *"the greatest use of microfinance products may, in fact, be in helping households smooth their consumption and helping them better face shocks"* (El-Zoghbi and Martinez, 2011:3). This moderate view on the effects of microfinance is further supported by Bauchet et al (2011). They argue that the findings from the latest three impact evaluations of microfinance (all RCTs) find that microfinance is not a miracle cure for poverty alleviation, and that the observable outcomes are few and moderate in size. These outcomes include:

> *"creating new businesses and tipping consumption away from temptation goods, such as alcohol, tobacco, and snacks, so that households can invest in their businesses or buy more durable goods. This suggests that microloans help some households reprioritize their expenditures and smooth consumption – a valuable function for poor households that suffer from irregular and unpredictable income streams"* (Bauchet et al, 2011:4).

Banerjee et al (2009) did not find evidence that microcredit had an impact on health, education, or women's empowerment in the short run (the study measured impacts 15-18 months after the intervention) but stated that increased investment and household expenditure could have an impact on these outcomes in the long run (Banerjee et al, 2009).

A study by Collins et al (2009) offers an important contribution to the research on financial intermediation tools for the poor and how poor people manage their money. They used what the authors themselves termed "financial diaries", where the researchers interviewed poor households two times a month for a year in Bangladesh, India and South Africa (Collins et al, 2011). The researchers applied a mixed research method combining qualitative and quantitative measures in order to capture the complexity of financial tools and their impact on poverty for poor people. The authors note, *"the most important sources for the findings reported in this book are the words and actions of poor people themselves"* (Collins et al, 2009:185). The authors conclude (which supports the arguments made in this discussion) that microfinance can help poor people to cope with poverty in three ways: "*1. Helping poor households manage money on a day-to-day basis, 2. Helping poor households build savings over the long term and 3. Helping poor households borrow for all uses"* (Collins et al, 2009:178). In addition, they note that microfinance offers a set of financial intermediation tools that are more reliable and provide a more structured set of means for the poor to manage their money, as opposed to informal money lending from moneylenders, family and friends etc (Collins et al, 2009).

Microfinance might not lead to remarkable transformations in the lives of the poor, but as Rosenberg (2010:2) notes, *"whether or not financial services lift people out of poverty, they are vital tools in helping them to cope with poverty."* I cannot demonstrate from my results that microfinance has *lifted* the clients of D-Miro out of poverty, but their testimonies seem to support the argument that microfinance has provided them with opportunities to *cope* with poverty, and have strengthened their capabilities, individual agency, increased or strengthened their portfolio of assets, and decreased their vulnerability towards external stressors. Additionally, the nature of my study coupled with the limitations outlined in chapter four only allows me to infer that microfinance can be *associated* with increased well-being or improved standard of living. There could have been other mechanisms or elements in play that accounted for the effects that the microfinance clients experienced. I gained little knowledge about how the lives of the clients were before the intervention, other than statements from the clients that their life now was better than before and that their lives had improved. Nevertheless, the findings in this study allow me to suggest that microfinance has had a positive effect on their lives.

7.0 Conclusion

The aim of this study has been to evaluate how the provision of microfinance by the microfinance institution D-Miro has affected the lives of the clients interviewed in Guayaquil, Ecuador. By adopting a broader definition of poverty, seeing poverty as a deprivation of capabilities, it is my view that the concepts of Sen and Moser can be useful when evaluating how microfinance affects the well-being of poor people. Consequently, I wanted to explore how microfinance affected the clients' capabilities, agency, portfolio of assets, resilience and vulnerability. Furthermore, I wanted to look into the contextual factors that pertained to this particular intervention in order to be able to assess to what extent these factors have implications for the overall effectiveness of the intervention and the effects that the clients experienced. Conclusions will be drawn according to the objectives of this study.

7.1. Concluding points

Objective 1: To investigate what types of services and products are offered, how operations are run, and how the provision of microfinance and other services has affected the well-being of the clients interviewed.

D-Miro offers their clients three financial inclusion services: microcredit, savings, and insurance. They also offer non-financial services such as enterprise services, health and education services, and women's empowerment services. Furthermore, D-Miro offers loans for different purposes – microenterprises, housing, household/consumption needs, medical emergencies, and education, which mirror the institution's commitment to providing services that their clients need.

D-Miro's operations seem to be run in a responsible manner. They have developed sound practices regarding the loan approval process. Loan consultants carefully evaluate each client's ability to repay a loan. Regular contact with clients is essential, and loan consultants contribute to strengthen the relationship and communication between D-Miro and the clients.

The clients that were interviewed unanimously conveyed that D-Miro had provided them with opportunities and considerable help to move forward. Providing opportunities is a way to increase agency of the clients, as it enables them to pursue things that are of value to them, whether this is to invest in a microenterprise, improve the standard of housing, invest in better nutrition and clothing, or in the education of their children. This in turn increases the capabilities of the clients, as they have more freedom to live their lives according to their choosing. On a more emotional level, some of the clients expressed that managing a loan and their own businesses gave them a greater sense of independence and increased their confidence. Furthermore, being able to invest in their portfolio of assets, such as housing, human capital (education), and independent labor are important aspects that make the clients more resilient in coping with life's challenges, decreasing their vulnerability against external stressors and shocks.

Even though I cannot demonstrate and conclude that the clients I interviewed are now out of poverty, D-Miro has provided them with more means to *cope* with poverty and the challenges of every day life. Statements from the clients also allow me to suggest that the services that D-Miro provides seem to be of great value to the clients, as they were preoccupied with being "good clients" in order to preserve their eligibility for future loans.

Objective 2: To investigate what contextual factors shape this particular microfinance intervention and what the implications of these are to the effectiveness of the intervention.

In light of the contextual factors that pertain to this particular microfinance intervention, my study shows that experiences from Mission Alliance's Bolivian MFI, together with experiences from years of operations in Ecuador, has contributed in shaping the nature of D-Miro today. D-Miro was converted into a fully regulated bank as they saw the need to also provide their clients with access to savings and insurance. The fact that D-Miro offers their clients with a differentiated set of products and services (as mentioned above), suggests that meeting the needs of the clients is high on D-Miro's agenda. If microfinance is to contribute to positive outcomes for the poor, it is essential that MFIs strive to provide products and services that their clients need. D-Miro's collaboration with Mission Alliance is of value, as they are able to offer their clients a wider range of services – helping people move out of poverty is an intricate endeavour, and microfinance services alone rarely do the trick.

The agenda of D-Miro is to alleviate poverty. Operations are run with a profit to ensure financial sustainability of the institution. The interest rate of D-Miro's loans are slightly below the world average, which suggests that returning a profit is not high on D-Miro's agenda. This view is strengthened by the fact that D-Miro is run and managed by a non-profit owner (AMAS). The profit is used to increase D-Miro's lending capacity.

All in all, the operations of D-Miro seem to mirror the institution's agenda. Operations are run responsibly, with careful evaluations of the clients' ability to repay loans in order to prevent over-indebtedness. A differentiated set of products and services strengthens the ability of D-Miro to meet the needs of the clients. This is perhaps the most important implication to whether an MFI is able to contribute to poverty alleviation.

Objective 3: To examine the value of evaluating how microfinance affects the well-being of the poor in light of the theoretical actor-oriented perspective outlined in this thesis.

An actor-oriented perspective is a valuable approach in evaluating how microfinance affects the well-being of poor people, as it allows you to focus on the actors involved, the MFI and the clients. Amartya Sen's capability approach is a useful framework of reference in trying to understand how microfinance affects the lives of the poor, as it is built on a wider conceptualization of poverty, which I believe is essential when trying to understand how microfinance affects poverty. Poor people are not only defined by their low income, but by their lack of freedom, resources, opportunities and a constrained capability to reach their true potential. In addition, Moser's asset vulnerability framework provides a structured framework of reference to assess how microfinance affects the assets that poor people have. It allows for a better understanding of whether and how microfinance can add to or enhance poor people's portfolio of assets. As asset ownership and vulnerability is two interlinked concepts, strengthening the assets of microfinance clients may make them less vulnerable and more resilient in coping with the challenges of poverty.

Focusing on the contextual factors that shape microfinance interventions, as these can affect to what degree the provision of microfinance can improve the well-being of the poor, allows for a better understanding of under which circumstances microfinance can improve the standard of life for the poor. Evaluating each microfinance intervention on its own merits may also increase our understanding of which contextual factors are indicators of a successful microfinance intervention.

Understanding how microfinance affect poor people is an intricate endeavour. This is why it is important to allow room for both quantitative and qualitative approaches to enhance understanding. A qualitative approach is useful because it lets the actors themselves take centre stage in the research process. Understanding and seeing the world through the eyes of the actors is important, as human beings ascribe meanings to their experiences. Qualitative research allows for the collection of data that is rich in contextual information, which is essential when trying to understand how microfinance affects poor people.

As already mentioned (see section 4.6), this study involves certain limitations that may have affected the trustworthiness of my research. The lack of triangulation might have affected the credibility of the findings and the inferences drawn from them. My previous experience with Mission Alliance might also have been a concern regarding the confirmability of my research, but, as previously stated, the aim has been to present an analysis as objective as possible, without influence of my own perceptions. Lastly, the findings in this study pertain to this particular context and specific MFI, and generalization to other contexts has not been the aim.

7.2 Recommendations for future research

As the field of microfinance is still defined by inconsistent and contradictory evidence to the effectiveness of microfinance as a poverty reduction tool, there is unquestionably a need for more research. I argue that given the diverse nature of microfinance, future research must strive to evaluate intervention by intervention to learn more about under which circumstances microfinance renders positive as well as negative outcomes for the poor. More primary research can help to pinpoint why and how some interventions prove more beneficial to the poor than others, and could also help to illuminate what contextual factors that have implications on the overall effectiveness of microfinance in reducing poverty. It is also my opinion that the field of microfinance research should welcome different approaches to research – quantitative and qualitative strategies should be combined in order to get a more holistic understanding of how microfinance affects the lives of the poor.

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Appendix I: Client Protection Principles (Source: Smartcampaign, 2014)

- **Appropriate product design and delivery**

Providers will take adequate care to design products and delivery channels in such a way that they do not cause clients harm. Products and delivery channels will be designed with client characteristics taken into account.

- **Prevention of over-indebtedness**

Providers will take adequate care in all phases of their credit process to determine that clients have the capacity to repay without becoming over-indebted. In addition, providers will implement and monitor internal systems that support prevention of over-indebtedness and will foster efforts to improve market level credit risk management (such as credit information sharing).

- **Transparency**

Providers will communicate clear, sufficient and timely information in a manner and language clients can understand so that clients can make informed decisions. The need for transparent information on pricing, terms and conditions of products is highlighted.

- **Responsible pricing**

Pricing, terms and conditions will be set in a way that is affordable to clients while allowing for financial institutions to be sustainable. Providers will strive to provide positive real returns on deposits.

- **Fair and respectful treatment of clients**

Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes.

- **Privacy of client data**

The privacy of individual client data will be respected in accordance with the laws and regulations of individual jurisdictions. Such data will only be used for the purposes specified at the time the information is collected or as permitted by law, unless otherwise agreed with the client.

- **Mechanisms for complaint resolution**

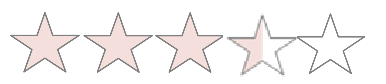
Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients and will use these mechanisms both to resolve individual problems and to improve their products and services.

Appendix II: Rating of D-Miro by MicroRate (2012)

MicroRate

Social Rating

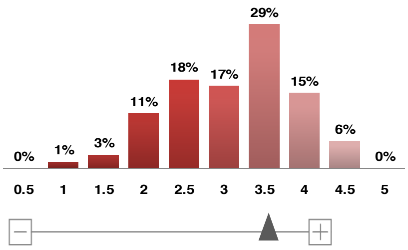
Banco D-MIRO | Ecuador | May 2012



Good rating generated by Good social results and Social Commitment. Social Performance Management still incipient.

Social Rating Perspective[1]	POSITIVE
Social Performance[2]	GOOD
Social Commitment	GOOD
Performance Rating	α–

Social Rating Grade Distribution



Date of Visit	Mar.-12
Previous MicroRate Rating (Dec-10)	★★★½☆

Main Performance Indicators

Social Profile of Ecuador	**Dec-10**	**Mar-12**
Poverty Rate	42.2%	42.2%
Extreme Poverty Rate	18.1%	18.1%
Unemployment Rate	n.a.	n.a.
Indicartors of Banco D-Miro		
Loan Portfolio	$29,835	$42,649
Number of Borrowers	36,463	39,855
Total Savings	$0	$8,000
Clients in rural areas (%)	0%	0%
Female clients (%)	62%	60%
Cost per borrower	$148	$221
Client retention	62%	70%
Effective cost	n.a.	60%

[1] See Annex 1
[2] See Annex 1

Summary Description

Banco D-MIRO originated from the Norwegian International Mission Alliance's (an NGO) D-MIRO program in Ecuador. It has over 15 years of industry experience, and has operated as an independent institution since Dec-06 and as a bank since July 2011.

In accordance with its mission to serve the poor, the MFI provides individual microcredit in suburban areas of Guayaquil (the economic center of the country) and in another five Ecuadorian coastal cities. Its portfolio exceeds $42 million, with 39,855 clients, focusing on the low microcredit niche.

Rating Rationale

Banco D-MIRO is an institution with a clear social focus. This focus is well developed in the MFI's operations with the prospect of improvement in the near term. The efforts were mainly focused to transform the organization from an NGO to a bank explaining why the grade is not better.

The social results achieved are good. The level of depth achieved is notable, with an average loan size that does not appear to be very low, but in actuality is when the operating environment is taken into consideration. This is significantly reinforced by the focus on attending un-served niches in the most vulnerable populations of the periphery of the coastal cities. The balance between operating costs and the effective cost to the client is positive. Operations are socially responsible, with good protection of clients' rights in place. Social commitment is strong, particularly considering the consistency between the mission, strategic plan, and monitoring of operational indicators, though social performance management still lacks structure. The efforts to reinforce the social focus with new personnel are noteworthy; however, such efforts are not extended towards personnel with more time at the institution.

Highlights

Social Performance

- Excellent operational depth.
- Diverse range of products, differentiated from those of the competition and with a strong social focus.
- Good level of responsible finance.
- Good level of corporate social responsibility.

Social Commitment

- Mission has a solid social focus, though only a moderate level of recognition among staff.
- Strategic plan with concrete social objectives.
- Hiring process with a social focus.

ANNEX I –Social Rating Grade Definitions

Social Rating ☆☆☆☆☆	A MicroRate social rating measures the social performance of a microfinance institution (MFI). • 5- stars: The MFI has a World Class level of social performance. • 4- stars: The MFI displays an excellent level of social performance. • 3- stars: The MFI displays a good level of social performance. • 2- stars: The MFI has a moderate level of social performance. • 1- star: The MFI has weak to no social performance.
Social Results • *Excellent* • *Good* • *Moderate* • *Weak*	Evaluates the social outcomes of an institution's operations.
Social Commitment • *Excellent* • *Good* • *Moderate* • *Weak*	Evaluates the institution's social orientation and degree of social mission fulfillment as well as its social performance management.

Rating Outlook • *Positive* • *Stable* • *Negative* • *Uncertain*	Expected direction of the rating grade over the 12 months following the rating. • Positive- The rating is expected to increase. • Stable- The rating is expected to remain unchanged. • Negative- The rating is not expected to remain unchanged. • Uncertain- Due to unpredictable factors, a rating outlook cannot be determined.
Performance Rating α, β, γ	A **performance rating** evaluates an institution, comparing it with the best practices in microfinance, taking into account financial, operational, and strategic aspects. In particular, it measures the level of efficiency and effectiveness, the level of risk management, and the future outlook of the institution.

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Appendix III: Interview guide for interviews and questions to the CEO of AMAS, Andreas Andersen

Interview guide for interviewing clients of D-Miro:

Points to cover:

- Purpose and information of the loan
- How they learned about the services offered by D-Miro

Themes:

- How microfinance has affected their lives-clients' thoughts on microfinance
- Lives before/after-changed? In what ways?
- Standard of Life
- Housing
- Access to food and nutrition
- Education for children
- Negative aspects of microfinance-worries?
- Happiness and dreams
- Personal effects: self-esteem, confidence, independence

More specific questions:

- What has microfinance provided you with?
- Has your life changed/not changed? In what ways?
- Do you feel different- do you have more confidence now than before?
- Do you have any dreams for your future?
- What makes you happy?
- Do you have any worries associated with that of having a loan? Do you have problems with repaying the loan?

Questions to the CEO of AMAS, Andreas Andersen

1. There is a huge debate on the effectiveness of microfinance in reducing poverty. What are your thoughts on this?

2. How did D-Miro develop the services and products it offers? To what extent are they a result from assessing the needs of D-Miro's clients?

3. D-Miro is dependent on donors, is it a goal for D-Miro to one day become financially sustainable?

4. How was the design of D-Miro developed? Were you inspired by other microfinance institutions when designing D-Miro?

5. What do you think are important factors for microfinance institutions in succeeding to reduce poverty?

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