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A Case Study of NGO's Profit-Seeking Business Model in the Microfinance Sector in Emerging Markets

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ABSTRACT:

Non-government organizations (NGOs) aim to support people in need through programs that are primarily related to basic human needs. However, in recent years, in many emerging countries, the role and activities of NGOs have shifted more toward profit maximization through microfinance programs. This shift toward commercialization has profound consequences for its beneficiaries and the overall sector's brand image. This study mainly aims to understand the reasons behind this shift from the NGO's perspective, in other words, why NGOs have shifted their activities from social development to commercial ones.

The study's research design is qualitative, meaning it focuses on gathering descriptive information. Ten semi-structured interviews were conducted to collect primary data. These interviews involved specialists from the NGO sector in Bangladesh, specifically those in middle to top management positions within prominent NGO-based microfinance organizations. This group of individuals holds influential roles and plays a significant part in decision-making. By interviewing these managers, the study aims to gather primary data, gain a deeper understanding, and provide context. This research contributes to the existing literature on NGO commercialization and the overall sustainability of the sector. The data collected from the interviews will be analyzed using thematic analysis, which involves identifying key themes and patterns related to the reasons behind NGOs adopting commercialization and profit maximization approaches.

This master's thesis reveals that not any single cause was solely responsible for the commercialization of the NGOs. Instead, a set of five aspects contributed to this shift. The shifting elements are organizational, donor, market, financial, and insufficient regulatory authority factors in Bangladesh. Also, to balance between commercialization and social development activities by NGOs, government and NGO regulatory authorities should step up with achievable agendas.

KEYWORDS: NGO, Microfinance, Sustainability, Social Development

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Abbreviations

ADB	Asian Development Bank
BM	Business Model
BMI	Business Model Innovation
CDP	Community Development Program
EM	Emerging Markets
GDP	Gross Domestic Production
GJD	Gender Justice and Diversity
HCMP	Humanitarian Crisis Management Program
HNPP	Health, Nutrition and Population Program
HRLS	Human Rights and Legal Aid Services
INGO	International Non-Government Organization
MF	Microfinance
MFI	Microfinance Institutions
MRA	Microcredit Regulatory Authority
NGO	Non-Government Organization
SDG	Sustainable Development Goals
SDP	Skills Development Program
UN	United Nations
UPG	Ultra-Poor Graduation

CHAPTER 1: INTRODUCTION

This section provides a thorough outline of the study. It starts with a background of the study, which intends to create significance in the research topic, discuss the general groundwork for the research problem, and consequently identify the research gap. The study's purpose, research question, and objectives based on the acknowledged research gap are also reflected. Then, a brief overview of the previous studies in this research is presented. Definitions of the key terms used in the literature review chapter are discussed in the fifth section. Lastly, the chapter's final section summarizes the thesis's structure.

1.1 Background of the study

The role of NGOs in different social development has been praised around the world. This early success helped the industry grow and boost its operation in many emerging countries in Asia and Africa. Renowned international donors revealed NGOs to be an appropriate, effective tool for solving issues and promoting peace and justice (Ismail, 2019). Some groundbreaking projects focused on disease control, malnutrition, child education, women empowerment, youth skill development, safe drinking water, and hygiene (Nordtveit, 2008).

One such project was microcredit/microfinance to alleviate poverty by fostering people's entrepreneurship skills. Initially, microfinance used to be operated like other social development tools funded by international NGOs and local governments with a specific goal of reducing poverty and involving people more in income-generating activities. However, this model had some practicalities and was not sustained long. Ledgerwood (2000) states, "In the mid-1980s, the subsidized, targeted credit model supported by many donors was criticized because of significant loan losses and frequent recapitalization, making it more evident that market-based solutions were required."

To find an alternative, Dr. Mohammad Yunus of Grameen Bank started a microcredit operation known as the Grameen model. In this model, Grameen Bank focused on operational cost reduction, emphasized loan recovery, group lending, and reduced aid-based poverty alleviation

(Joshee, 2008). However, treating microfinance as other business entities created issues with the program's original mission.

Microfinance institutions with a commercial approach are more profitable than those that follow a development approach; in some instances, they are even more profitable than commercial banks (Christen, 2001). During the 1990s, with an interest rate of 25 to 30 percent for the distributed loans, the MFIs considered this business opportunity very lucrative. In a journal titled *Exploitative Microfinance Interest Rates*, Mitra (2009) explains with a factual case study that, “Many MFIs simply state that they charge only a 15 percent flat rate of interest. However, the effective interest rate, including processing fee, compulsory savings, etc, goes well over 100 percent annually.”

1.2 Purpose of the study and Research question

The above discussion exhibited how NGOs’ missions drifted from serving disadvantaged people for social causes to maximizing profits through microfinance programs. As the microfinance sector matures, more questions are raised about the role of fully commercial, profit-seeking institutions in providing microfinance loans (Roberts, 2013). However, the NGOs’ moral and financial accountability questions have yet to be answered. Moreover, there is more to understand about “why” organizations like NGOs with such noble causes run after high profit margins. In this thesis, the author will attempt to answer the following research question:

“Why do NGOs with social development missions engage in highly commercial microfinance business models in emerging markets?”

1.3 Objectives of the study

To ensure an organized study of the research question in this thesis, a detailed set of primary research objectives and sub-objectives has been established, providing clear guidance and direction for the research process, which are the following:

Primary objective: To study and critically analyze the factors that cause non-governmental organizations (NGOs) to choose the highly profitable microfinance business model that eventually negatively affects their organizational missions.

Sub-objective 1: To critically investigate the purpose of NGOs' commercialization in regard to achieving self-sufficiency and future business sustainability.

Sub-objective 2: To deeply understand from NGOs' perspective to choose the microfinance business model as their main organizational operation.

Sub-objective 3: To explore the influences that have led the NGO's microfinance operation to shift from a tool for poverty alleviation to a way of profit maximization.

To fulfill the objectives of this study, the author uses the microfinance sector in Bangladesh as a case study, as it is one of the pioneering examples of modern microfinance and an emerging country. The details are discussed in the methodology chapter.

1.4 Definitions of Key Terms

The following discussion presents the key concepts and their corresponding definitions, providing the reader of this study with a comprehensive overview.

1.4.1 Non-Government Organization (NGO)

A Non-Governmental Organization (NGO) is a voluntary, non-profit institute or entity that functions independently of government control in collaboration with other supporting organizations such as donors and local authorities. According to Harvard Law School (n.d.), "Nongovernmental organizations (NGOs) are typically mission-driven advocacy or service organizations in the nonprofit sector that work for different social causes such as the eradication of extreme poverty and hunger, universal primary education, gender equality, the reduction of child mortality, improvement of maternal health, and environmental sustainability." As NGOs are non-profit, they often depend on donations, endowments, and volunteer efforts from similar supporting organizations to carry out their missions.

1.4.2 Emerging Market (EM)

An emerging market is a term commonly used in recent times to describe a nation or area that exhibits the traits of a developing country, undertaking economic expansion with industrialization and becoming more consistent with economic activities. Although these countries typically have lower per capita income levels and gross domestic production (GDP), they have a high potential for considerable growth and progress due to inevitable factors such as huge populations and increased market demand (Kearney, 2012). Green Templeton College (n.d.) states, "Emerging markets are differentiated from higher-income countries with relatively more reliable political, economic, financial, and judicial systems and better-established institutions and lower-income countries with somewhat weaker and less reliable systems and less established institutions." Emerging markets include Brazil, China, India, Indonesia, Mexico, Russia, South Africa, Turkey, and about fifteen other countries.

1.4.3 Poverty Reduction

The term poverty reduction discusses the collaborative actions and tactics to alleviate poverty in a particular society. It typically includes a broad method that challenges various factors contributing to poverty, such as lack of access to education, health services, work, etc (Toye, 2007). The primary objective of poverty alleviation is to enhance the livelihood of underprivileged people through different short-term and long-term programs. United Nations (UN) (n.d.) states, "An integrated strategy towards poverty eradication necessitates implementing policies geared to more equitable distribution of wealth and income and social protection coverage." In the Millennium Development Agenda, the UN selected No Poverty as its number 1 Goal.

1.4.4 Microfinance (MF)

Microfinance is a financial service that delivers small loans to disadvantaged entrepreneurs and struggling businesspeople to help them grow their small enterprises (Hazeltine & Bull, 2003). It is often referred to as microcredit, but modern microfinance includes other services such as savings, insurance, and financial education. According to ING Luxembourg. (2021), "Microfinance is part of a process of seeing a world where disadvantaged families have steady access to affordable financial services to finance income-generating activities, add assets through savings, provide for family needs, and protect themselves against the risks of daily life."

1.4.5 Profitability

Profitability is the measurement of a company's profit compared to its expenditures. The more efficient any company's operation is, the more profitable the company will be. Market competition, pricing strategy, industry regulation, product or service demand, and business strategy greatly influence a company's profitability. The company uses tools such as net profit margin, return on investment, cost of capital, etc, to measure profitability (Stobierski, 2020).

1.4.6 Sustainability

The natural environment holds the key to our survival and overall welfare and is the source of all our necessities. By determining sustainability, people aim to establish and uphold an environment where humans and nature can thrive together in perfect balance, ensuring the well-being of present and future generations (U.S. Environmental Protection Agency, 2023). However, from a business perspective, it is more than just ensuring the balance of the environment; it is about confirming that the business model and procedures are well-planned enough to thrive in the long term by not harming the stakeholders (Salter, n.d.).

1.5 Structure of the Study

This master's thesis has been divided into six chapters. They are an introduction, literature review, research methodology, case company, findings, and conclusion. In the first chapter, the author presents the study's introduction, which provides a thorough background of the study, research question, and objectives of the study. Additionally, to assist the reader in better understanding the study, this chapter continues with a few definitions of the related key terms and a short review of the previous related studies.

The second chapter presents a theoretical framework to establish the contextual background for understanding and evaluating the fundamental concepts and principles that guide a research study. Furthermore, it provides a structured approach to comprehend and analyze the research problem. A few key concepts reviewed in this chapter are the Business model of NGOs, the organizational operation of NGOs in theory, the organizational operation of NGOs in practice, the NGO's mission drift towards commercialization, and the need for high profitability of microfinance for NGO sustainability.

The following chapter, Research Methodology, explains the practical aspects of this study. In the beginning, it explains the research structure taken for this study. A complete overview of the data collection process, data sampling design, and interview process is presented in this chapter. The chapter also discusses research ethics, data validity, and reliability, ensuring the study's credibility. Afterward, the research setting chapter discusses the research phenomenon and the case companies in detail and provides an overview of the relevant considerations. It starts with a brief overview of the case company's country and microfinance in Bangladesh. Then, the activities of the prominent NGO-based microfinance institutions were presented along with relevant data. The fifth chapter presents the study's findings. The qualitative data collected through interviews will be presented, analyzed, and discussed here. This chapter will be followed by a summary of the noteworthy findings as the conclusion chapter. It will briefly discuss the practical implications for microfinance institutions. Moreover, the conclusion chapter will present further study recommendations and the study's limitations.

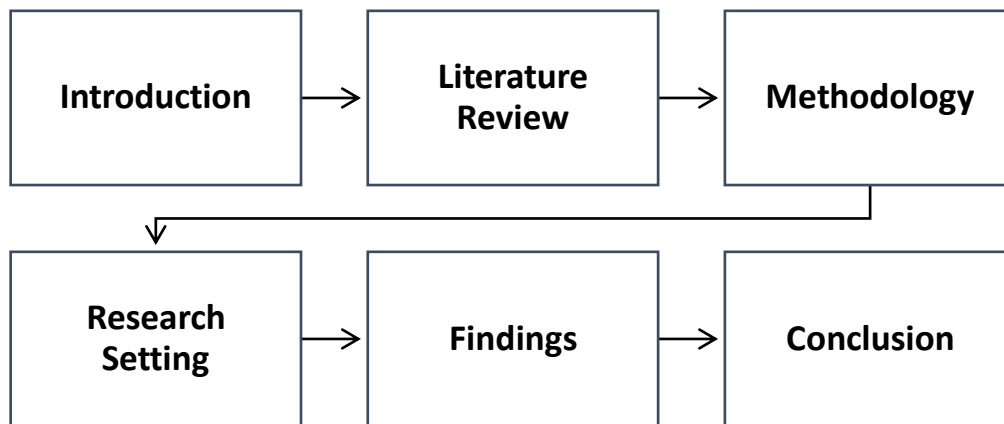


Figure 1: Structure of the Study

CHAPTER 2: LITERATURE REVIEW

This chapter aims to deliver a broad understanding by discussing the relevant studies. The initial discussion will be on how NGOs started operating in the early days and the NGOs' gradual involvement in microfinance operations. The following discussions will be on business model theory and the business model in NGO operations. After that, the author will provide a theoretical comparison of how an NGO should be operated and how it is operated in practice. Then, the discussion will focus on the NGO's mission drift, commercialization, profitability, and organizational sustainability. After that, a conceptual framework for the study will be presented based on the integrated literature review and available secondary data in that study. Finally, a summary of major previous studies will be presented.

2.1 An Overview of NGO Activities

To solve different societal, economic, and environmental problems in society, many entities such as government, non-government organizations, and companies (firms) work. However, these parties have specific agendas in the community to solve some particular issues (Brinkerhoff et al., 2007), and they work with their long-term views. The increasing involvement of non-government organizations (NGOs) in solving various issues has recently captured much attention in both the business and academic worlds.

In the last half of the 20th century, many non-government organizations (NGOs), including a few prominent international NGOs, started working in indifferent societal development areas (Zohir, 2004). Nicola and David (2012) state that "the perceived failures of state-led development approaches throughout the 1970s and 1980s fueled interest in NGOs as a development alternative, offering innovative and people-centered methods to service delivery, advocacy, and empowerment." The NGOs mainly chose sectors where governments in developing countries did not focus on work. However, in some cases, the government worked, but they could have been more successful.

NGOs work in various areas of society but are mainly apprehensive about encouraging social, diplomatic, or financial change. Their agenda is often linked with 'development' or helping people

in need financially or at the advocacy level. NGOs have three leading interrelated roles in development work: implementers, catalysts, and partners (Lewis, 2013).

Besides providing donations, NGOs deliver technical, legal, and financial assistance to people experiencing poverty as service delivery agents or work with municipal administrations in essential service and foundation establishment (Desai, 2008). Many prominent NGOs have become highly efficient in delivering projects and achieving project goals. They focus on cost-effectiveness and efficiency while implementing the role. NGOs are considered more efficient and effective service deliverers than the government (Brinkerhoff, 2007). As NGOs have a vast network of people, they play implementer roles for the government and donors. The implementer's function includes mobilizing resources to deliver goods (donations) and services to individuals who need those services (Lewis et al., 2020).

2.2 The Historical Aspects of NGOs' Involvement in Microfinance

In the 1970s, NGOs and their partners, mostly donor organizations, started planning and executing programs for market-led financial growth, poverty reduction, and health and education services. They found that if people start entrepreneurial activities, they succeed more than only by providing donations. From this ideology, the NGOs began to look for a more long-term methodology than the unsustainable income generation approaches (e.g., donating reliefs) to social development (Pant, 2009). The achievements of the early pioneers in Bangladesh, Indonesia, and Brazil also determined that microfinance can be a sustainable, business-minded intervention in reducing global poverty (Watkins, 2018).

In some contexts, the high interest rates and credit background checks became an issue for poor people to finance their entrepreneurial activities. To solve this problem, NGOs' role in poverty alleviation led to a decision to cut some unnecessary formal regulations for NGOs. Some NGO sector specialists argue that formal regulations could hinder mission achievement and growth in this sector, but eventually, government and NGO management agreed to have formal regulations (Ahmed, 2004).

Microfinance initiators like Dr. Mohammad Yunus and Sir Fazle Hasan Abed believed everyone had some skills. If poor people can access credit, they can start businesses and succeed (Yunus &

Jolis, 1998). In the beginning, the microfinance initiative aimed to reduce poverty by granting small loans to individuals facing financial difficulties. The loans are designed to assist them in creating work opportunities by engaging in income-generating activities. Thus, the primary recipients of microfinance services are underprivileged individuals (Yunus & Jolis, 1998).

In the 1970s, NGOs' microfinance journey started with a few project-based works. When those projects bring exemplary achievements, NGOs started savings and microcredit schemes. Microcredit delivered financial investment for underprivileged entrepreneurs who work in developing country economies' informal sectors (Woller & Woodworth, 2001). The NGOs were very effective in helping local microfinance groups in villages supported by the organizations, especially in support groups for women, as women are least likely to have access to more formal means of saving and borrowing (Desai, 2008a). Microfinance has speeded up remarkably over the last decades to more than 10,000 microfinance institutions (MFI) serving more than 200 million people, but access to microfinance is different in different countries (Watkins, 2018).

2.3 An Overview of the Business Model (BM)

The business model concept encompasses the essential framework that explains how a company generates, distributes, and captures value across diverse economic landscapes. It serves as the fundamental strategy for a company to attain profitability. Essentially, a business model articulates how an organization aims to generate revenue and achieve financial viability. The expression "business" indicates an enterprise that does business to make a profit, and the term "model" represents a method combined with different components and their connections. Therefore, a business model means a combined and constant idea of a firm and how it targets to make profits (Schweizer, 2005).

From an activities point of view, a business model can be divided into two parts. The first part comprises all the creation-related activities, such as designing, buying raw supplies, manufacturing, etc. Then, the latter part involves the actions related to selling, for example, looking for customers, managing the sales, and delivering the product or service (Ovans, 2015). Weill and Vitale (2001) explain business models as "A description of the roles and relationships

among a firm's consumers, customers, allies, and suppliers that identifies the major flows of product, information, and money, and the major benefits to participants."

As the business model outlines the profit-making plan of a company, different types of business models suit different kinds of companies. For example, a product-selling company's business model differs from a company that only sells customer services. There are also retailing, franchise, rental, and subscription business models. Even 20 years ago, many companies followed similar value creation and value deliberation patterns to their targeted customers. However, that is significantly changing. Firms nowadays are bringing more efficiency to the business process by rethinking their business model and trying to build solid customer relations (Schweizer, 2005a).

The main goal of any business model is to be profoundly concerned with generating profit through value creation and capturing returns from that value, and a model represents reality (Shafer et al., 2005). The business model also works as the strategic baseline for an organization through which it achieves its organizational goals. Interestingly, all profit-making companies have a business model, whether they deliberately focus on it or not. Also, the innovative business model is not only for new startup companies but also for existing companies to revolutionize old businesses and keep the customer satisfied (Magretta, 2002).

Business models facilitate defining the firm's target customers, planning for expenses, adapting business developments, and making accurate financial forecasts (McGrath, 2010). Typically, investors require a clearly defined business model before providing capital. Moreover, the well-defined framework allows for possible innovation in the business model, and it empowers the company to explore additional revenue streams by substitute services (Demil & Lecocq, 2010).

Despite many advantages of using any specific business model for a company, success in achieving goals has yet to come. Managers and decision-makers must analyze current and future business perspectives to implement a business plan better. Moreover, some researchers argue that a good business model might bring little success due to external effects such as changes in industry dynamics, political changes, and innovations from competitors (Lai et al., 2006).

Managers should implement business model concepts to deeply comprehend the structural decisions associated with their companies' business models because this understanding is crucial

for effectively managing diverse business models (Malone et al., 2006). Also, good ideas about a perfect business model only bring something once a successful implementation is done. The business model is not guaranteed to be successful for other competitors in the same industry as the success of the business model depends very much on the firms' efficiency, brand image differentiation strategy, and customer participation (Amit & Zott, 2001).

The manufacturing model is one of the oldest business models, where the organization produces goods from raw materials. The company focuses on arranging raw materials, efficient technology, and skilled producers in this business model. One of the biggest challenges of this business model is the continuous pressure to reduce costs by enhancing efficiency in the process (Witell & Löfgren, 2013). However, due to fierce competition in the manufacturing industry, almost two-thirds of companies nowadays innovate by infusing services alongside selling the products, which is more familiar as servitization (Kastalli et al., 2013).

The most common business model in the world is the retailer business model, where the retailer buys goods from manufacturers and sells them to customers at a profit. They mainly trade merchandise made by big manufacturers, and as a result, they only derive short-term advantages from product uniqueness compared to their competitors, and they maintain face-to-face relations with many end customers (Sorescu et al., 2011). As this business model is easy to comprehend, it is hugely competitive in real life, and so many complexities surround it (Haas, 2019).

One of the latest business models is the subscription model, where the customer or user pays for a specific service for a specific period, such as a month of subscription. Big manufacturers may have a long-standing affiliation with their clients (manufacturing business model users). However, subscription business model users have a more significant competitive position by continuously concentrating on resolving the consumers' complications instead of focusing on only products (Schuhs et al., 2020).

2.3.1 The Business Model Outline for NGO Operations

When an organization makes a profit through activities such as trade and providing services, it is called business (Pride et al., 2019). As service providers, NGOs have many characteristics that are similar to business institutions. However, NGOs are not-for-profit organizations, which is why

many people believe they do not make any profit (Werker & Ahmed, 2008). However, NGOs have operational costs such as salaries and office rent (Vincent, 2006). To describe the matter, Osterwalder and Pigneur (2010) put it, "Every organization has a business model, even if the word "business" is not used as a descriptor. To exist, every institution that creates and delivers value must make enough income to meet its expenditures. Therefore, it has a business model. The difference is just a matter of focus."

NGOs' business model has the same components as that of for-profit organizations. A for-profit organization's primary goal is maximizing profit. However, achieving the goals of social missions, especially ensuring NGO target groups are getting the benefits, is the critical agenda for an NGO business model (Sanderse, 2014). Instead of maximizing their profit, NGOs focus on delivering critical services to target groups with donors' financial assistance and sometimes own profit-generating streams (Igoe, 2003). Not-for-profit organizations can connect with donors to streamline internal coordination and assess an organization's potential. This collaboration can effectively allocate donations by identifying and eliminating critical obstacles in the business model, paving the way for growth and expansion (Seelos, 2010).

NGOs prefer to call their target customer as target audiences or beneficiaries. Their target audience or beneficiaries mainly depend on the project's goal and objectives (O'Dwyer & Unerman, 2010). They often work with specific disadvantaged groups, such as underprivileged societies, marginalized people, or those affected by social, economic, or environmental challenges (Banks & Hulme, 2012a). However, some NGOs do not serve any target customer and work only on the policy level (Evans & Shields, 2014).

NGOs collaborate with various partners to serve these target audiences, achieve their missions, and address different issues. One of the biggest partners is the donors; NGOs rely on their money to provide resources (Teegen, 2003). Other partners include international NGOs, foreign governments, government agencies, and corporate firms. Most partners are from the global north and need local organizations in the global South. Donors like USAID (1997) think this is a win-win situation, "Partnerships can make it possible to tailor development projects to local needs and concerns, thus leveraging the development expertise and resources of outsiders well beyond Northern capabilities." However, to have fruitful and long-term partnerships, factors such

as mutual trust, complementary strengths, shared responsibility, collaborative decision-making, and proper exchange of information play crucial roles (Brinkerhoff, 2002).

2.3.2 NGO's Organizational Operation in Theory

The NGO aid chain starts with the donors' activities. Some of the notable donors are the World Bank, Red Crescent, Red Cross, USAID, Asian Development Bank, International Monetary Fund, Department for International Development, the Ford Foundation, Helen Keller International, OXFAM, European Economic Community, the Netherlands International Development, Concern, Save the Children (UK, USA, and Australia) and many others (Ryfman, 2007). These donors fund the international and local NGOs to achieve their organizational agenda. These donors largely contribute to various projects related to health and nutrition, agriculture, safe water, hygiene, flood control, primary education, population control, women empowerment, social justice, roads and highways, and inland water transportation (Obaydullah, 2007).

Donor organizations could run their project by themselves with local offices. Instead, they prefer local NGOs as partners to bring efficiency and effectiveness to the money. One key factor contributing to the growing utilization of NGOs in developmental activities is the interest in an alternative and more effective way of delivering development assistance in third-world nations (Ullah, 1999). Also, NGOs are the tool to bypass bureaucratic and corrupt government channels to ensure donors' funds reach the right people in need (Brass, 2012).

Partner NGOs have worked in some countries, mainly in Asia and Africa, and donors have built trust in them for decades. According to Wallace (2000), "The improved communication between NGOs, donors, and governments has led to a growing homogenization of language; this is the language of strategic and business planning, efficiency, accountability, cost-effectiveness, impact, sustainability, participation, facilitation, enabling frameworks, and capacity-building."

It might seem that renowned donors spend billions of dollars, and it is easy to get funds. However, the reality is that small NGOs always need help due to capacity limitations. Munslow and Brown (1999) state, "NGOs often compete for donations, with donors generally more sympathetic to emergencies than longer-term aid and development, leading to wide divergence in funding levels." Also, another crucial thing for donors when funding an NGO is how the NGO plans to do

its work. This includes activities like speaking out strongly for its cause or working closely with governments. Donors often decide to give based on the organization's mission, what it does, how it does it, who benefits, and its reputation (Sanderse, 2014).

In this aid chain, the next partner is the international NGO, also known as Northern NGO (NNGO). NGOs play a significant role in providing financial assistance, enhancing capacity, and advocating the challenges that Southern NGOs (SNGOs) face (Ahmad, 2006). Before the 1980s, many NNGOs used to run their development programs by implementing the projects themselves. However, to scale up their operations, NNGOs find local partner organizations to do most of the work. The NNGOs help by giving money and support to the organization, but the local partners do most of the work (Lewis, 1998).

This partnership is crucial for SNGOs to build organizational capacities, such as gaining knowledge with hands-on experience in strategic management through strategic planning and organizational strategies (Lewis, 1998a). This learning opportunity for SNGOs also showed them how to collaborate effectively with partners. However, this issue resulted in getting funds directly from donors. Recently, many donors have provided funds directly to the southern NGOs, bypassing the northern NGOs and weakening the partnership between NNGO and SNGO (Sanyal, 2006).

SNGOs play a crucial role in delivering aid to the target groups. The amount of donations handled by this group signifies their importance. According to Agyemang et al. (2009), "In OECD countries, approximately US\$135 billion were spent on development aid and are committed to spending over twice this amount (as a proportion of national income) each year by 2015."

Other than providing donations as relief, NGOs are keen to be active in making the target audience more knowledgeable and aware to overcome particular challenges. They achieve this goal through regular training programs (Holcombe, 2004). For example, in the 1980s, BRAC implemented a training program called the Oral Therapy Extension Program (OTEP) in Bangladesh, where 12.5 million women received the training, which saved thousands of lives from diarrhea-related diseases (Hodgins et al., 2013).

The last and most important part of this aid chain is the beneficiaries for whom all the previous activities have been intended. The beneficiaries are primarily disadvantaged poor people;

however, depending on the project design, the beneficiaries could be specific tribes, animals, or trees (Keengwe, 1998).

NGO beneficiaries enjoy some rights during the aid chain process, such as the right to know an NGO's goals and agenda and the right to freedom of expression. However, the beneficiaries also obey a few accountabilities, such as publicly holding any NGO accountable for its actions (Agyemang, 2009). However, that rarely happens in real life as the beneficiaries are unaware of their rights to the donations and think they should not comment on the aid program.

Local government, international politics, the momentum of any incident, transparency, level of trust between parties, and media focus are some of the external influences that heavily affect significant decisions in the aid supply chain process (Banks et al., 2020).

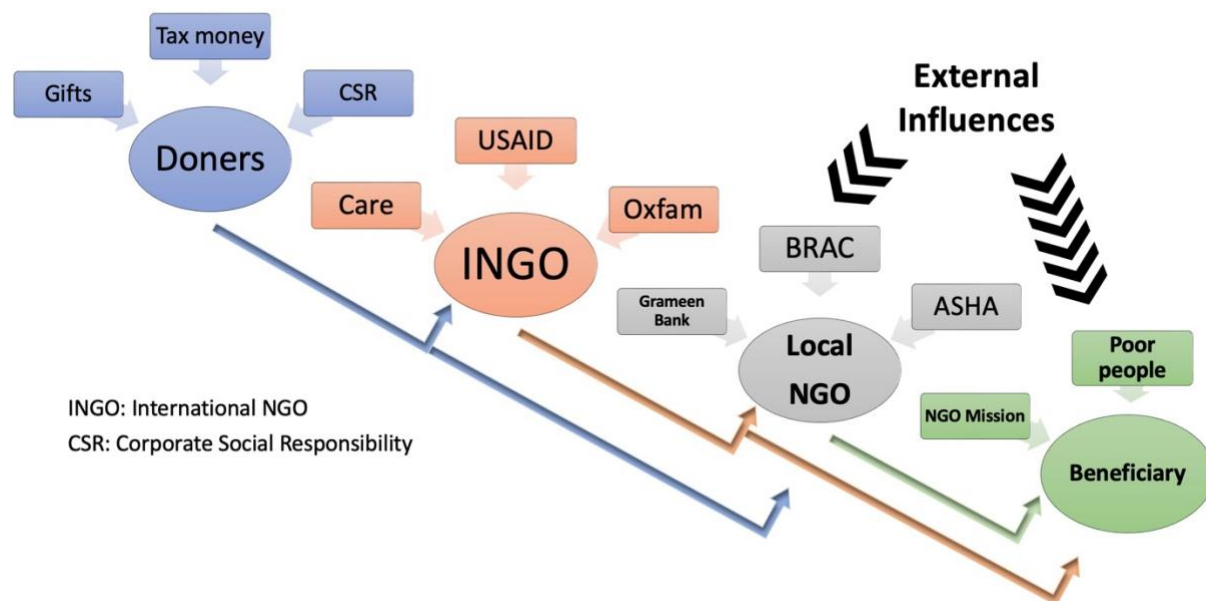


Figure 2: NGO Aid Chain in Bangladesh

2.3.3 NGO's Organizational Operation in Practice

Even though the NGO aid chain seems straightforward, there are many loopholes for different parties. The countries cannot use much of their aid properly because the projects are not planned well, the government works inefficiently, and different government departments must coordinate better. This makes it less likely for the country to get more aid (Obaydullah, 2007a).

Of the total assistance received by Bangladesh as donations in the past decades, only twenty-five percent has been given to disadvantaged people, and the remaining aid was shown to have different costs to reach the target audience. The vast costs were associated with foreign and local advisors, contractors of foreign technology providers and their local commission agents, government officials, administrators, and local contractors (Obaydullah, 2007b). However, the root causes for not reaching donations to poor people are corruption, fund embezzlement, overlapping government officials' power, and bureaucracy (Bhattacharya et al., 2004).

The negative consequences of these actions are now seriously impacting the overall NGO industry. Byman et al. (2000) state, "Despite improved coordination, evidence suggests that the humanitarian aid program has become less strategic in the past decade." Some of the significant donors started to evaluate that the outcome of several years of sufficient donations was below a satisfactory level. After that, donors increasingly demand accountability, transparency, and value for money in return for supporting humanitarian aid agencies (Scholten et al., 2010)

Many NGO professionals argue that almost half of the donation money gets misused for bureaucracy and corruption, and aid could be more effective if the provided funds were appropriately used (Easterly & Pfutze, 2008). If this is the circumstance, there must be something doubtful about such a tactic for development operations. According to Wallace (2000a), "NGOs are taking their concepts and approaches from the business world; they appear to be out of step with much of the recent business literature, which discusses the need to sustain, empower, and deliver value to target people. Also, they have started to treat the staff as an organizational resource and find ways to manage and structure them to allow them to perform competitively." This view of NGO activities as a business entity has advantages and disadvantages, which are also partially responsible for the outcomes.

2.4 NGO's Mission Drift through Commercialization

Like everyone else, disadvantaged people also need financial access. However, typical commercial banks categorize them as very risky customers. Thus, they have minimal access to financial services (Goddard, 2009). From this point of view, NGOs started by trying to help poor people and have been involved with microfinance activities. Initially, with the help of donor funds,

microcredit grabbed collective attention as a poverty reduction tool, encouraging governments and local officials to foster the programs and motivate commercial banking institutions to be involved in serving poor people, at least to some extent (Christen, 2001).

Microfinance has two leading views: the poverty lending approach and the financial systems approach. Donors and the government usually fund the credit to poor borrowers at a minimal interest rate. The goal is to reach the poor, to help overcome poverty, and to gain empowerment through entrepreneurial activities. On the other hand, the financial systems approach highlights large-scale outreach to the economically active poor—borrowers who can repay microloans. This method acts like other commercial financial services as clients demand suitable financial services and organizational profit maximization (Pant, 2009a).

Instead of financial inclusion of poor people and poverty reduction using the poverty lending approach, they are thoroughly treating their act as a business organization with a complete focus on profitability with the financial systems approach. NGOs in many developing countries, especially Bangladesh, are changing how they work because they are getting less money from donors and want to be more independent. They are starting or switching to microfinance programs instead of just doing development projects. However, over time, NGOs have shifted from acting as charities to development activities with a commercial orientation (Bari, 2011).

This change often includes using microfinance programs, which can be the root cause of the problem. It means they might care more about making profits than helping the poorest. Microfinance used to be a way to help poor people, but now it is linked to this change in focus, where making money becomes more important than the original goal of reducing poverty. However, now, people are discussing why these microfinance NGOs want to make a profit. Some say it ensures the organization can keep going, but others worry it might hurt poor people financially and socially (Khoda, 2020).

Some industry experts, such as Tvedt (1998), argue that “ Nowadays, NGOs focus only on a specific mission, essentially for business purposes. Additionally, organizations are created to meet donor expectations and grow as profitable organizations.” Some of the significant allegations for this were the shift of funds from one project to another that mainly makes the organization more

profitable, such as spending the funds for education in microfinance projects. Also, showing high project costs and dividing the money among the top management were common misappropriations (Tvedt, 1998). The patronizers of NGOs' for-profit microfinance operations argue that although for-profit NGOs profit, they share a substantial part of the profit for social mission activities. However, many prominent researchers disagree with this view. According to them, there are significant differences in how nonprofit and for-profit NGOs are being operated.

Microfinance organizations (MFOs) no longer depend on donor funds because they generate income from the profits of microfinance loan interests and investments from financial institutions. According to Pytkowska (2006), "Nowadays, almost half of the MFIs are using commercial sources of funds. They aim to provide a financial return to their investors in addition to a social return and, therefore, often accept higher risk in their investments." Consequently, commercial bank loans make MFIs more costly to operate, which results in an increase in the service charge at a higher rate (Islam et al., 2014)

Also, mission drift is real because MFIs must reinvest their profits into their microfinance operations. Nonprofit NGOs are expected to focus on social impact to fulfill their mission and maintain trust, while for-profit MFIs prioritize financial success to be profitable and self-sufficient (Zhao, 2014). Another perspective of mission drift is excluding the neediest group in the population. Saifullah (2001) points out, "Though NGOs always argue about reducing poverty, they bypass the poorest from microfinance program to maximize profit."

In this situation, many could argue why the regulatory authority does not step in not to bypass the poorest from the MFI service list. To answer the question, Abrar et al. (2023) state, "Unlike commercial banks, the microfinance industry is not completely regulated. Regulators can often ignore the industry as it may play an insignificant role in the overall financial sector." This lack of proper regulatory authority is also partially responsible for the mission drift and changing nature of what the top management wants to do. On this topic, Mader (2017) states that "There is not much formal or fiat authority in microfinance (except for some governments' basic regulations to different extents), but institutional authority exists. Many of the regulations are not legally binding, but they work de facto as commonsense and changeable."

2.4.1 The Need for Microfinance for NGO Sustainability

In emerging countries like Bangladesh, many NGOs depend a lot on help from donors. This is because they need more resources. The small resource bases make these NGOs rely on support from agencies that provide funds and assistance to carry out their work (Saifullah, 2001a). In recent years, NGOs and donor agencies have been focusing more on making sure that development plans can continue by themselves. They want projects to be able to sustain themselves without needing constant outside help. This is a significant change from the past in the NGO industry (Bari, 2011a).

The supporters of microfinance claim that the way microfinance is set up ensures that money from various programs keeps coming in regularly. This is done to make sure the organization can sustain itself without donor funds, and they believe that profits from microfinance help other poor people to get out of poverty as the profits are reinvested through disbursement (Khandker, 2000). Some researchers argue that donor-funded microfinance programs will influence NGOs' decision-making rights on where to invest and avoid. On this issue, Ahmed (2009) points out that "A key advantage of autonomous microfinance funds is their ability to screen and monitor microfinance programs according to standard criteria, compared to inconsistent "ad hoc" criteria imposed on individual microfinance programs by the donor and government agencies."

In discussions about microfinance, people often need to work on whether focusing on sustainability and turning microfinance into a business is causing institutions to move towards serving wealthier clients rather than staying true to their original purpose of eradicating poverty from society (Christen, 2001a). Khandker et al. (2015) found that "the outcome of a microfinance borrower varies depending on the household characteristics such as education level, wealth, and land ownership. Typically, wealthy customers experience income gain from microfinance, while marginal and small-to-medium holders do not."

Microfinance has transformed to become more like a business, and the primary motive for this change is the need for sound financial gains rather than just being sustainable. Many microfinance institutions have been able to grow and do more without always needing big donations because they reinvest a significant part of their profits back into their own capitals (Christen, 2001b).

2.4.2 Business Model Innovation of NGO

Some social purpose organizations, like NGOs, often innovate their business models (BM) due to the changing nature of business operations, resource limitations, and working on different projects with distinct focus. These organizations aim for different goals at the same time. This can put their mixed goals at risk and affect the organization's overall mission. When an NGO with a social purpose tries new business models and tries to figure out what happens with different choices, there is a risk that the organization might focus more on the social or economic aspects, neglecting the balance between them (Klein et al., 2021).

Organizations often need to focus on their mission to address concerns about possible mission drift and ensure that what they do balances stakeholders' expectations. In this regard, business model innovation often results from firms responding to changing external environments. If the business model changes, the organization might adopt a new focus. However, researchers argue that this change caused the organization to lose its initial mission, even though changing the business model can be crucial to achieving its social goals (Klein et al., 2021a).

Balancing fulfilling social purpose and maintaining the organization's economic stability in a constantly progressing funding business setting has become a very challenging task for NGOs (Best et al., 2021). NGOs have realized they must rethink their business operations to stay competitive in a challenging environment with limited resources. They understand that they must review and possibly change their business model to keep up with the competition and make the most of the resources they have (Best et al., 2019).

2.5 Conceptual framework of the study

The broad literature review shows how commercialized profit-seeking NGOs have evolved from the initial phase of NGOs for social development in a fifty-year span. It was a gradual process, and different factors played crucial roles during different phases. From the literature review, it is clear that donor factors such as irregular donations, program-specific donations, and lack of donations initiated organizational factors such as self-sufficiency and sustainability. Eventually, these two factors caused the organizational mission to drift toward commercialization. Additionally, the market factors, financial factors, and regulatory factors highly influenced the NGOs to achieve

high-profit margins and toward a commercialized business model. This commercially motivated environment also affected the microfinance sectors' operational patterns, influencing the decision-making of different independent variables.

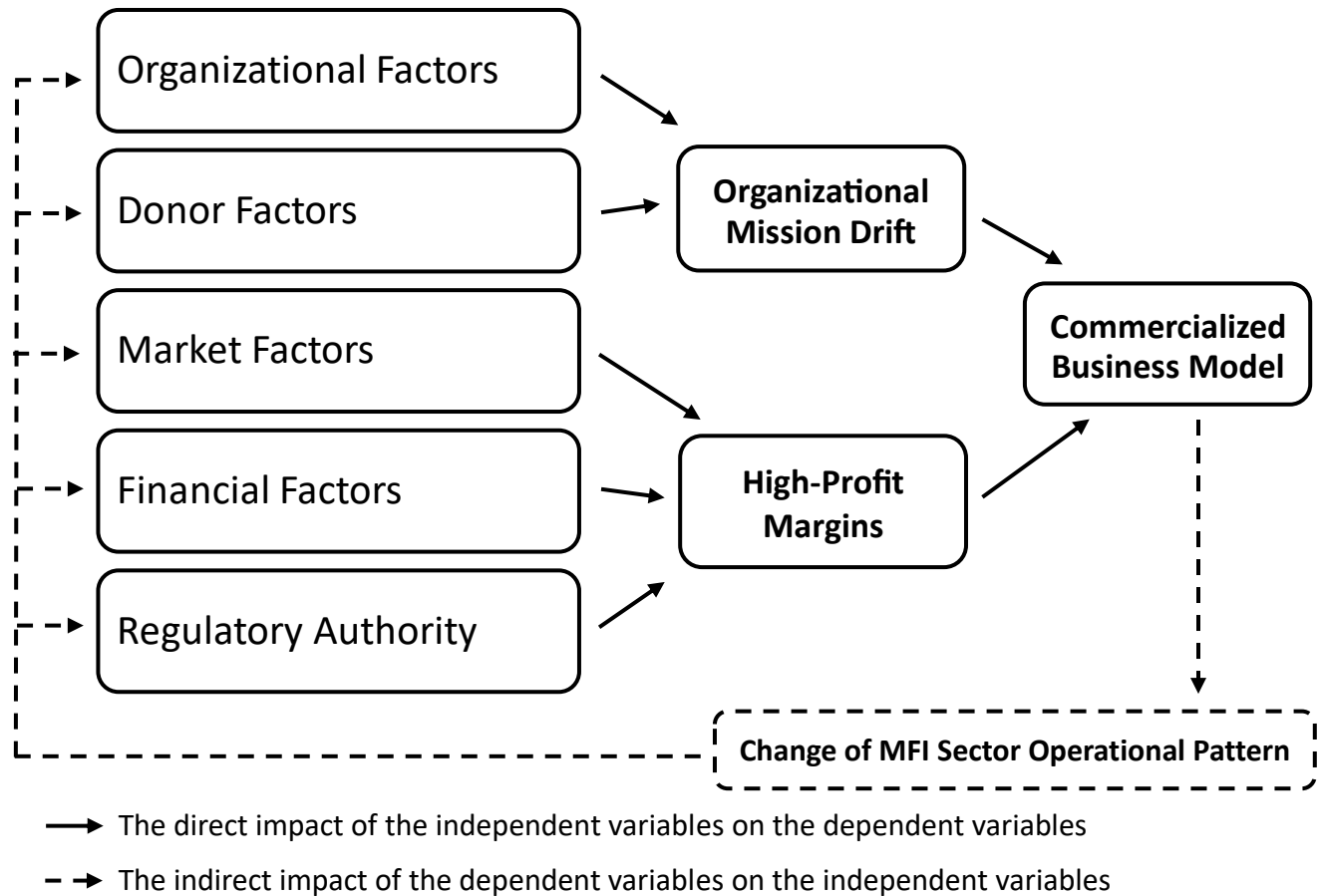


Figure 3. Conceptual framework of the study.

This conceptual framework will be used to analyze observed data collected through interviews as part of this study. Here, the framework links crucial theoretical ideas from previous studies discussed in the literature review. The study will then continue with data collection and analysis, utilizing the framework to guide the implementation of semi-structured interviews with case organizations in Bangladesh for collecting data. Moreover, the framework will be valuable in analyzing and discussing the results.

2.6 Summary of Major Previous Studies

Table 1 below mentions some of the related literature that has previously been studied in the field of this current thesis.

Table 1. Previous studies about the commercialization of microfinance operations by NGOs.

Title	Author(s)	Findings
NGOs' Capacity Building and Mission Drift <i>Commercialization of Microfinance Programs and Poverty Reduction in Bangladesh</i>	Md. Sher-E Khoda (2020)	The article highlights the shift of NGOs in Bangladesh towards commercialization due to the reduction of donor funding and an emphasis on self-sustainability. It finds potential challenges and impacts on the original mission of NGOs. It also suggests that the organizational policies are only concerned with growth and profitability due to the high market competition.
Microfinance Profitability	Peter W Muriu (2011)	The study finds that average profitability tends to be higher for more extensive and highly capitalized MFIs. Moreover, the research studies the impact of financing decisions on MFI profitability, revealing that highly leveraged MFIs consistently make more profit.
Mission or margin? Using dynamic capabilities to manage tensions in social purpose organizations' business model innovation	Bernadette et al. (2021)	The study indicates that social purpose organizations face conflicts in balancing their mission and financial performance. It investigates how organizations can develop the ability to adapt and integrate mission-oriented goals with economic sustainability—to build resilience, openness, and flexibility to succeed.
The Social Performance of Microfinance Institutions in Rural Bangladesh	Mathilde Maitrot (2014)	The article discusses the relationship between social performance and commercially driven MFIs in Bangladesh. The study inquires about the poverty-reducing potential of MFIs, indicating a "practice drift" where MFIs tend to increase loan amounts and offer credits beyond clients' ability to repay, raising essential questions about the position of MFIs with their social objectives.

CHAPTER 3: RESEARCH METHODOLOGY

This chapter aims to present the selected methodological approaches for this study. It starts by defining the research approach and research method. After that, the chapter continues with the research design strategy and the case study context. Then, it discusses the data collection, sample, and analysis methods employed in this thesis. The applied methods for data analysis were discussed after that. The chapter concludes with a discussion of the quality assurance of the study, where reflexivity and the use of AI have been reviewed.

3.1 Research Approach

For the nature of the research, a deductive approach is the most suitable and will be used. According to Saunders et al. (2019), the deductive research approach constructs and tests a well-defined theoretical framework after the data collection in contrast to the inductive approach, where theory is developed before data collection. Additionally, in deductive analysis, saturation is a way to measure how well the data matches the conceptual categories that were already defined, and it indicates to what level the data fits into those categories (Saunders et al., 2017). Deductive research works from the top to down, from a theory to hypotheses/theoretical framework to data to improve or deny the model (Soiferman, 2010).

The conceptual framework of this research is whether different factors, such as organizational, donor, market, financial, and regulation, have influenced NGOs to choose a commercialized business model through drifted missions and lured by high-profit margins. Based on the deductive approach theory, this conceptual framework will be tested against the collected data from semi-structured interviews. A few well-defined theories are mentioned in the literature review chapter regarding the research questions that will be tested against the collected data.

3.2 Research Method

A research method explains how the research/study is directed and executed, from collecting data to answering the research question/s (Merriam & Tisdell, 2015). It is a systematic way to conduct data collection and analyze those. Some of the most used research methods are mono-quantitative, mono-qualitative, multi-quantitative, multi-qualitative, and mixed-method of

simple and complex (Chen, 2006). The purpose of this study is to critically analyze the factors that cause NGOs to choose the highly profitable microfinance business model that eventually negatively affects their organizational missions. Due to the scope and characteristics of the research, the qualitative research method was selected for data collection and analysis.

Qualitative research focuses on gaining a broader understanding of the study by observing it from the different perspectives of involved individuals. This involves exploring their thoughts, experiences, interpretations, and emotions to better understand the phenomenon (Agius, 2013). Qualitative research usually uses interviews, focus groups, observations, surveys, case studies, and hybrid methodologies using two or more methods together (Polkinghorne, 2005).

This research follows an exploratory mono-qualitative research methodology. This method offers a determined and constant way to study a particular research question, enabling a thorough analysis of the topic (Vizcarguenaga-Aguirre & López-Robles, 2020). Hossan (2020) states, “The qualitative exploratory research method is a suitable tool for opening the ‘black box’ of a phenomenon to its entirety and answering the what, how, and why questions.” As this study aims to understand why the NGOs choose the highly profitable microfinance business model, this is the most suitable research methodology to adopt.

3.3 Research Design Strategy

The research design specifies the general strategy that the author chooses to include the research components coherently and logically, thus ensuring effective addressing of the research problem; it represents the blueprint for collecting, measuring, and analyzing research data (Research Guides: Organizing Academic Research Papers: Types of Research Designs, n.d.). Implementing a carefully planned research design strategy is vital in obtaining suitable data to address the research questions effectively and achieve the objectives (Saunders et al., 2009).

Some of the most used research design strategies are survey, experiment, action research, case study, grounded theory, ethnography, and cross-sectional studies (Johannesson et al., 2021). However, selecting a specific research design strategy for a study depends on some of the characteristics of the research objectives and research questions (Marczyk et al., 2010). Researchers' time, budget, and required skill sets' limitations can also be critical factors.

Considering the selection factors, a single case study research design strategy is the most suitable option for this study. Experts argue that a case study allows the researcher to dig deep into a situation and broaden understanding. It emphasizes unique research, allowing the study of a unit widely through rigorous analysis and helping understand compound phenomena in real-life situations (Gerring, 2004).

When conducting a case study, researchers collect extensive and detailed data and information about a specific situation, which is the foundation for creating theoretical proposals and structures supported by real-world evidence (Eisenhardt & Graebner, 2007). In this study, the author studied a few prominent NGOs from their evolution to present-day operations in Bangladesh, one of the promising emerging markets in the world, to understand the phenomenon of NGO commercialization as a case study.

3.4 Case Study Context

An overall understanding of the case context will help the reader visualize and recognize the practicalities. It will also assist the reader with the historical evolution that impacts the present context. Furthermore, recognizing the case study context will clarify the authors' perspective on the discussed topic. Nonetheless, this understanding also explains why these particular NGOs were selected for interviews. The discussion will start with the case companies' country overview and microfinance business in Bangladesh. The discussion will lead to market competition and profitability aspects with recent profit data from the case organizations. Finally, the major NGOs and other influential organizations will be addressed with relevant financial data.

3.5 Research Data Collection

Collecting data is a crucial part of conducting research, and the ability to address the research question relies heavily on the effectiveness of data collection. Evaluating the data collection method carefully is essential, considering the feasibility and accessibility of obtaining the required data (Gibbs et al., 2007).

Success in qualitative research often hinges on the sampling techniques used, as they impact the depth and richness of the collected data (Serrano, 2023). That is why choosing the right group for

data collection is very crucial. A purposive sampling technique was the most suitable data collection method for this study. Robinson (2014) states that purposive sampling is an intentional selection of informants based on their ability to elucidate a specific theme, concept, or phenomenon. Thus, this method offers numerous advantages, such as quality responses from sector specialists, relevant and practical information, cost and time efficiency, and a comprehensive understanding of the study (Suri, 2011). This approach was implemented to ensure that the interviewees were highly knowledgeable and held authoritative roles within their respective areas of expertise.

For primary data collection, the sample selection criteria were knowledge of the NGO sector and microfinance operations, open-mindedness to provide feedback, middle to high-level operations, and strategy managers who understand the bigger picture and know the history of NGO and microfinance evolution and operation. A good combination of middle and higher-level managers was selected from leading NGOs running Bangladesh's microfinance operations.

For secondary data collection, the author particularly relied on prominent international journals such as the Journal of International Development, Strategic Management Journal, Journal of Business Research, Harvard Business Review, and California Management Review. For related data, NGO's annual reports were a reliable source. Furthermore, several economic progress reports from the World Bank, IMF, and the Asian Bank were also used.

The research method chosen for this study was an interview, carefully selected to gather comprehensive and reliable information about the research topic. Conducting interviews allowed for flexibility in asking additional questions, and the researcher could also request the interviewee to provide further elaboration or explanation, enhancing the flexibility of the method (Englander, 2012). Structured, semi-structured, and unstructured interviews are the primary types of interviews depending on the format of the questions (Fontana & Frey, 2005). This interview can occur face-to-face, on an online meeting platform (zoom or Meet), or on the telephone. Tenny (2022) states, "Interviews can be structured, semi-structured, or unstructured, with close-ended or open-ended questions on a research topic, and the interviewer adapts to the responses."

The primary data for this research was collected through face-to-face semi-structured interviews using online meeting platforms. Primary data collection played a crucial role in addressing the research questions. Through open-ended questions, the respondents were able to provide detailed personal opinions, experiences, and comprehensive analysis. This high quality of information made the primary data highly valuable, and the decision to conduct face-to-face semi-structured interviews aligns with previous research conducted in this field. Also, the interviews were conducted in Bangla, the mother tongue of the interviewees, so that they could express their opinions smoothly, flawlessly, and spontaneously.

The 14 semi-structured interview questions were categorized into different segments to operationalize the interview and ensure that note-taking was done smoothly during the interview. Table 1 below shows the interview question segments and possible outcomes.

Table 2: Overview of semi-structured interview questions group and possible outcomes

No	Question Section	Questions	Intended Outcome
1	Respondent profile	1 - 2	To know about the respondents' profile, i.e., experience, and job responsibilities etc.
2	NGO activities	3 - 4	To know about NGO activities and recent changes in their operation in Bangladesh
3	Donor Factors	5 - 6	To understand the impact of donor funds for mission drift and NGO commercialization
4	Organizational Factors	7 - 8	To understand how organizational factors affecting NGOs to operate in a more commercialized way
5	Market Factors	9 - 10	To understand the effect of demand and supply of MF products impacting NGO mission in Bangladesh
6	Financial Factors	11 - 12	To know the impact of high operating cost and commercial bank loans in MF operation
7	Regulatory Factors	13	To understand the level of impact of MFI regulatory authority on MFIs.

Table 2 contains the interviewees' details and the name of the NGO they are working in with the job position. Also, the interview date and duration have been included for better understanding. For privacy issues, the author intentionally avoided the interviewees' names.

Table 3: Overview of semi-structured interviews.

No	Code Name	Interviewee's Position	Job Experience in NGO Sector	Interview Date	Interview Duration
1	Alpha	Regional Manager	21-24 years	08-02-24	38 min
2	Bravo	Regional Manager	4-6 years	09-02-24	43 min
3	Charlie	Manager, Client Service Unit	4-6 years	11-02-24	53 min
4	Delta	Business Develop. Specialist	4-6 years	13-02-24	33 min
5	Echo	Area Manager (Former)	7-9 years	14-02-24	40 min
6	Foxtrot	Regional Manager	4-6 years	16-02-24	42 min
7	Golf	Manager, Research & Insights	10-12 years	21-02-24	50 min
8	Hotel	AGM, Business Development	4-6 years	29-02-24	42 min
9	India	Business Development Manager	4-6 years	24-02-24	48 min
10	Juliet	Deputy Director	10-12 years	02-03-24	55 min

3.6 Data Analysis

An essential stage of this study included systematically analyzing the extensive qualitative data collected from the semi-structured interviews. The main objective was to extract meaningful insights that directly aligned with the research question and the objectives of the thesis. Analyzing qualitative data requires sensibly classifying meaningful information by summarizing and arranging the information (Saunders et al., 2009). In data analysis, the author tried to find patterns, recognize differences and inconsistencies, and relate the interview answers to the theory. The author considered the research questions and study objectives during the analysis phase, and the focus was on assessing the research problems.

This research uses Thematic Analysis to evaluate empirical data sensibly. Clarke and Braun (2017) state that thematic analysis is a method for identifying, analyzing, and interpreting patterns of meaning ('themes') within qualitative data, and it is extraordinary in the standard of qualitative methodical approaches because it offers a method as a tool or technique unbounded by theoretical commitments rather than a methodology. Thematic analysis is a flexible data analysis approach, allowing study plans to change and facilitating the study of new angles and the discovery of insights. It also has a structured approach to handling data, summarizing key features of large datasets (Terry et al., 2017).

Thematic analysis was the most suitable data analysis approach for this study as it is an appropriate method for understanding experiences, thoughts, or behaviors across a data set (Kiger & Varpio, 2020). Data collected from industry experts through interviews of their experiences and thoughts are processed and analyzed. For that, the author has gone through a few steps. Kiger and Varpio (2020a) state that the most widely accepted framework for conducting thematic analysis involves a six-step process: familiarizing with the collected data, generating initial codes, searching for themes, reviewing themes, defining and naming themes, and producing the report.

The research question reveals why NGOs are involved in highly profitable MF businesses. This topic is somewhat controversial for NGOs as they always focus on social development rather than organizational profits in their goals, missions, and visions. The interview questions also dig deep into those debatable organizational actions that help NGOs to be more profitable. During the interviews, many interviewees were concerned about their privacy. They did not allow the author to record the interview as they are the current employees of many prominent NGOs in the MF department. So, the author took notes during the interview and summarized the discussion as soon as the interview was completed. The interviews were conducted in Bangla, so the author had to translate the notes into English.

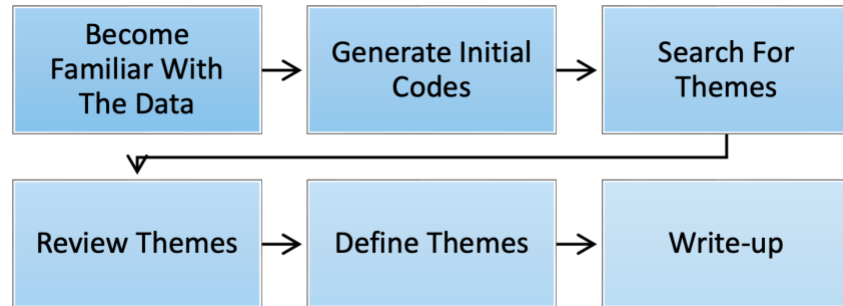


Figure 4: Six-phase framework of a thematic analysis (Adopted from Maguire & Delahunt, 2017)

The author thoroughly read the notes and summarized the datasheet to become familiar with the collected data. Later, the hybrid coding approach was used for data coding. The author coded all relevant data sections and took some remarkable information regarding the study. However, the line-by-line coding approach was not adopted for this study. The next step was finding the themes. Maguire and Delahunt (2017a) state that a theme is a pattern that captures something significant or interesting about the data and/or research question, and there are no hard and fast rules about what makes a theme. From the summarized data set, initial themes were selected and reviewed later on. Whether the themes made sense and the data supported the themes was confirmed during the review process.

3.7 Quality Assurance of the Study

Quality Assurance in Research (QAR) involves all the strategies, procedures, and materials utilized to verify the accuracy and supervision of research (Quality Assurance in Research, n.d.). This includes strategies for preventing mistakes from entering the datasets, taking precautions before data is collected, establishing procedures while data is used in a study, and transparency in the project implementation (Quality Assurance in Research, 2020).

For this study, quality assurance measures have been taken very seriously from the research planning phase to research implementation. The project has been planned in advance regarding data collection, consistent data formatting, and data analysis with integrity. Because data analysis should be done objectively to avoid misleading or false interpretations (Saunders et al., 2009).

3.7.1 Reflexivity

Reflexivity is examining one's assumptions, beliefs, and judgment systems, thinking carefully and critically about how these influence the research process, and self-reflection about the researchers, subjectivities, and biases that guide and inform the research process (Jamieson et al., 2023). It is a vital concept in qualitative research due to its substantial reliance on participants' information. As researcher conduct surveys, discussions, and interviews, the data collected during qualitative studies can be subjective to their own fundamental opinions. Hurst (2023) states that qualitative researchers understand that they can never be genuinely unbiased or outside of the study they are conducting.

The author of this study worked as a regional manager for three years at a prominent NGO in Bangladesh. He thinks this work experience helped him to understand the research problem from a practical point of view and provided him with the knowledge and skills to unfold some key issues. He considers this his crucial strength and one of the main reasons to study this matter further. However, from the study's literature review, he elaborated his view on this study. During data collection and analysis, he consciously tried to comprehend the interviewee's opinions to be as neutral as possible.

3.7.2 Use of AI as a Research Assistant

The author used ChatGPT as a research assistant tool to create ideas and get much information during the research. Researchers can effortlessly retrieve information, analyze data, detect emerging technological patterns or potential hurdles, and produce creative content by harnessing its vast database and cutting-edge language processing capabilities (Rice et al., 2024). Also, the author took assistance from Grammarly's premium version to write better sentences with correct grammar. It checks for writing mistakes in grammar, punctuation, spelling, usage, style, and plagiarism and gives suggestions for better sentences (Fitriana & Nurazni, 2022).

CHAPTER 4: RESEARCH SETTING

This chapter discusses the case organizations and the overall phenomenon in detail and provides an overview of the relevant considerations. It starts with a brief overview of Bangladesh, where the relevant NGOs operate, and then continues with a brief summary of microfinance in Bangladesh. Some of the crucial points to understand the economic and social perspectives, such as competition and profitability, have also been discussed. Finally, the author discusses the leading MFIs in Bangladesh as case organizations, along with their history, activities, and business portfolio over the years.

4.1 About Bangladesh

Bangladesh is a small but populous South Asian country on the Bay of Bengal. The country is 147,570 sq km in area, and the current population is 172,000,000 (The World Bank). Bangladesh is the world's eighth most populous country and has one of the highest population densities; around 1330 people live per sq km (Current population. (n.d.)). Most people in Bangladesh live in the countryside and more than 60% work in farming.

In the early days, Bangladesh was a resourceful country with a famous cotton and jute industry worldwide. During British colonial rule, Bangladesh, like its neighboring countries, suffered a lot, and after British colonialism, Pakistan ruled Bangladesh for another 25 years. These were dark times for Bangladesh as a nation, which led the country to be one of the poorest in the world. After liberation, frequent cyclones and floods, corrupted state-owned establishments, and inadequate energy supplies were the main hindrance to development (Obaydullah, 2007).

In the 1990s, the Bangladeshi economy opened up with reformed trade policies for industrialization, mostly with private entrepreneurs. The ready-made garments (RMG) sector was the largest export industry. The share of RMG export to total export increased from 0.5 percent in 1980–1981 to 82.01% in 2015–2016, in which 4.4 million people are employed, 80 percent of whom are women (Shimu & Islam, 2018). However, in recent years, Bangladesh has been shifting from primarily the agricultural sector to a balanced level of the industrial and service industries (Sultan, 2008).

4.2 Microfinance in Bangladesh

Microfinance organizations in Bangladesh have played a crucial role in their development to enhance financial inclusion for many decades (Hassan & Islam, 2019). The formal banking system remains distant from the disadvantaged population in Bangladesh, similar to many other developing countries (Khoda, 2020). The early NGO activists, Mohammad Yunus of Grameen Bank and Fazle Hasan Abed of BRAC, recognized the problem and started microcredit operations on a small scale (Sherratt, 2015). However, now in Bangladesh, according to Breezy. (2022), “The microfinance sector comprises over 750 active MFIs, serving 35.6 million individual borrowers, 93% of whom are women, as of fiscal year (FY) 2020. The total microfinance loans outstanding from MFIs was Tk788 billion, 9.38 billion USD, in FY2019.”

Some fundamental characteristics of NGO-based MFIs in Bangladesh are the low average loan size, an orientation toward women, geographical outreach for sufficient development impact, collaboration between MFIs, focus on savings products, and provision of capital for entrepreneurs (International Finance Corporation & KfW Bankengruppe, 2009). Even though the sector primarily started with only credit programs in Bangladesh, other features, such as savings and insurance services, have been added. For example, suppose a borrower or the primary earner of the family, husband or son, passes away through microinsurance. In that case, the loan gets paid, and some MFI also pays some money for initial support.

With the aim of achieving financial inclusion for everyone and women empowerment, MFIs have successfully reached 24.6% of the total population, 90% of whom are women. This indicates that a considerable portion of the population now has access to financial services that can help them improve their standard of living. To claim this success, in the last three decades, the microfinance sector in Bangladesh has put in much effort and experienced exponential growth. The number of MFIs, borrowers, savers, loan amounts, and other areas has grown continuously, almost double digits annually. MFI experts point out that this growth will continue as MFIs constantly reach new client groups with modified financial services. The table below provides a comparison of basic information on MFIs from 2019 to 2023. Here, it is worth mentioning that in 2020 and 2021, MFI activities were partially paused for COVID-19.

Table 4: Basic information on MRA-licensed MFIs (Adapted from MRA Annual Report – 2023)

Description	2019	2020	2021	2022	2023
Clients (Million)	32.37	33.31	35.2	38.27	40.86
Borrowers (Million people)	25.76	26.15	27.8	29.74	31.53
Loan Outstanding (Billion BDT)	787.58	888.6	949.9	1241.49	1504.18
Savings (Billion BDT)	306.19	373.9	422.4	496.24	620.55
Loan disbursement (Billion BDT)	1403	1363	1512	1918.83	2493.02

4.2.1 Competition in Microfinance Sector

Over the past years, the microfinance sector has achieved maturity, resulting in increased competition among MFIs. This competition has offered advantages to clients, such as convenient accessibility and reasonable interest rates, but has also introduced certain complexities (Saloner & Brady, 2007). Microfinance organizations face fierce competition all over Bangladesh. Due to high market competition, top officials set a minimum target for loan disbursement and collection. To meet the disbursement requirement and receive financial rewards, different MFIs often provide loans to one client. This has become a significant issue for the overall sector. Nevertheless, experts are worried that too much competition among the institutes to disburse loans is causing problems. People are not paying back the loans as much, and some are taking loans from one NGO to repay loans from other MFI or personal debt, making things difficult for all parties (Khandker & Koolwal, 2013).

International Finance Corporation and KfW Bankengruppe (2009a) report, "The average yearly growth rate in the microfinance sector in Bangladesh over the five years 2003–2008 was 23 percent. It is estimated to reach 25 percent yearly over the next three years (2009–2012) due to growing demand for larger loan sizes." This high growth rate has lured microfinance organizations to open new branches to reach new customers. However, Khandker et al., (2013) state that, "the MFI's branch placement is to tackle market competition and profit-focused."

4.2.2 Profitability in Microfinance Sector

Before 2010, the microfinance industry in Bangladesh was not constructively regulated. During that period, MFIs used to charge clients a 30 percent to 50 percent interest rate (Kazmin, 2010). To reduce this injustice toward low-income families, the Microcredit Regulatory Authority (MRA) set a ceiling on interest rates for loans at 27 percent in 2011 (Khandker & Koolwal, 2013a). However, many experts reported this interest rate as too high as some neighboring countries at that time had lower interest rates, for example, India, which had 24 percent (Kazmin, 2010a).

To scoop up this high-profit market with a double-digit growth rate, many new NGOs started to open branch offices. The emergence of new MFIs brought a shift towards highlighting profitability to mitigate the potential risks involved in borrowing and lending (Khandker et al., 2013a). During this time, for faster growth, many MFIs borrowed loans from commercial banks and hooked up borrowers in the name of financial inclusion. Muriu (2011) states the consequence of these actions as follows, “Commercially capitalized MFIs respond to the profit incentive, working to increase revenues and, at the same time, minimize expenses so that they can have sufficient revenues to cover all operating expenses, including the cost of capital.”

A comparison of the BRAC Annual Financial Report between the fiscal years 2019 and 2018 is analyzed here to better understand the microfinance sector profitability. Here, BRAC reports that in 2019, USD 5.09 billion was disbursed in loans, an increase of 21% from 2018 to 7.4 million clients in Bangladesh. BRAC’s net profit in that year was USD 201,992,000, with a calculated return on investment (ROI) of 7.0 percent, lower than in 2018, which was 8.1 percent. In 2019, the net profit ratio was 29.8; in 2018, it was 35.6.

Table 5: Profit from MF in 2018 and 2019 (Adapted from BRAC: Annual Reports, 2019)

Particulars	Balance on 31-12-19 (In USD)	Balance on 31-12-18 (In USD)	Growth In %
MF Loan Disbursement	2906,349,000	2412,090,000	20.5
MF Total Income	677,382,000	547,590,000	23.7
MF Total Expenditure	475,390,000	352,575,000	34.8
MF Net Income	201,992,000	195,015,000	3.6

4.2.3 Regulatory Authority of Microfinance

NGOs and MFI have been criticized for lack of transparency and accountability for many years, particularly cooperation with the governing officials and relatives in the MFI organizing board and controversial decision-making reported by Transparency International Bangladesh (TIB) (Chowdhury, 2014). To solve these issues, the Bangladesh government regulated the microfinance sector more closely through the Microcredit Regulatory Authority (MRA) in 2006. This act was developed to observe, regulate, and supervise the microfinance sector in Bangladesh (Mia, 2016).

All microcredit organizations are bound to register with MRA and obey the guidelines. For accountability and better supervision, all microcredit organizations must submit financial reports to MRA every six months. MRA also holds the ultimate authority to cancel or withdraw any organization's operating license for reasonable cause (Mia, 2016a). The Microcredit Act gives Microfinance Institutions (MFIs) clear instructions on how to improve the sector. These guidelines ensure MFIs follow good practices, which helps create competition and encourages them to be more productive and efficient. This aims to ensure that the microfinance sector is sustainable and continues helping people (Microcredit Regulatory Authority, 2022).

4.3 Microfinance Institutions in Bangladesh

According to the Microfinance Regulatory Authority (MRA)'s annual report, there were 731 registered microfinance institutions in Bangladesh as of July 2023. However, according to sector analysts, among the registered MFIs, only 30 to 40 MFIs operate nationwide and have the most impact on the sector. Of these MFIs, one of the most renowned MFIs, Grameen Bank, operates as a specialized bank. Some of the most influential Bangladeshi MFIs are discussed below:

4.3.1 BRAC

BRAC is a prominent international nonprofit organization that started its operation in Bangladesh in 1970 by Fazle Hasan Abed (Zaman et al., 2022). Its mission is to enable people and communities in poverty, illiteracy, disease, and social injustice (BRAC USA, 2022). Its primary objective is to design and implement tried-and-tested solutions that enable people to alleviate

poverty and show their perspective by training them with the required support, skills, and confidence (Why it works – BRAC UK, n.d.).

Their approach is based on the firm belief that impoverished individuals can become active causes of change, given the necessary tools, skills, and hope to transform their lives. BRAC believes no written development theory exists for social development and poverty alleviation; however, learning by doing is the best way. It follows some guiding principles, such as every person having hidden potential, donation not being a long-term solution, resilience being essential, and all programs need to be sustainable and scalable (Saifullah, 2001).

BRAC’s notable development programs in Bangladesh include the Community Development Program (CDP), Gender Justice and Diversity (GJD), Health, Nutrition and Population Program (HNPP), Human Rights and Legal Aid Services (HRLS), Humanitarian Crisis Management Program (HCMP), Microfinance (MF), Migration (MG), Skills Development Program (SDP), and Ultra-Poor Graduation (UPG) (BRAC: Annual Reports and Publications, 2019a). Outside Bangladesh, BRAC International also runs many development programs in 10 other least-developed countries in Asia and Africa, starting from Afghanistan in 2002 (BRAC turns 50: From Bangladesh to the world, n.d.).

BRAC microfinance program serves through 2478 branches in all 65 districts in Bangladesh. It has 9.94 million clients for loan and savings products, of which 7.4 million are active borrowers. BRAC International also operates a microfinance program in Rwanda, Uganda, Tanzania, Liberia, Sierra Leone, and Myanmar (Microfinance, n.d.).

Table 6: BRAC microfinance products and services

PRODUCTS AND SERVICES	Loan Products	Savings Products
	Loans for Women	General Savings
	Small Enterprise Loans	Deposit Premium Scheme
	Agriculture Loans	Monthly Profit Scheme
	Loans for Migrant Households	Special Savings

4.3.2 ASA

The Association of Social Advancement (ASA) was established in 1978 by Md. Shafiqul Haque Choudhury in Bangladesh. From the beginning, ASA's organizational objective was to make the marginal people aware of their rights and responsibilities. Afterward, it successfully started implementing development programs throughout the country, following the poverty map with several projects unique to the local needs (Sohel et al., 2007). In 1991, ASA started its innovative microfinance program, mainly focusing on low operational costs and scale-up all over Bangladesh (ASA - Bangladesh, n.d.). Eventually, ASA's plan paid off, and in 2007, Forbes Magazine ranked ASA as the world's best microfinance institution. ASA only focused on lower risky groups as members from the early days. For example, to be an ASA member, everyone must own some cultivable land whose income does not exceed Tk 1,200 (25 USD in 1991) per month and who sells her labor for at least 200 days a year (Sharma & Zeller, 1997).

By the number of microfinance branch offices, ASA is the largest MFI in Bangladesh, with 3073 offices, including hard-to-reach areas. It has disbursed 4.19 billion USD as a microfinance loan through different loan schemes and has 7.3 million clients for loan and savings accounts (ASA - Bangladesh, n.d.). ASA also operates an international MFI as ASA International Group PLC, one of the world's largest. It has disbursed USD 982.7 million in loans, serving 2.3 million clients in 13 emerging countries in Asia and Africa through 2028 branch offices. ASA International reported USD 17.9 million as net profit in 2022 from an outstanding loan of USD 351.2 million with a cost-to-income ratio of 67.5 percent (*ASA International*, n.d.).

4.3.3 Palli Karma Sahayak Foundation

Palli Karma Sahayak Foundation (PKSF) is a government agency that aims to facilitate mostly small and medium microfinance institutes in Bangladesh. It started in May 1990 and has been working for funding and capacity-building for MFIs to eradicate poverty (Haque & Fatema, 2012). Partner Organizations (POs) are those MFIs that get funding and operational support from PKSF. It delivers wholesale loans and organizational improvement assistance to partner organizations, and through subsidized financing to MFIs, PKSF has scaled MFIs up over time into effective organizations (Asian Development Bank, 2022).

Also, PKSF restructured its mission as “establishing human dignity” instead of limiting its efforts only to achieve financial aspects and began undertaking innovative programs to attain this mission (Karim, 2020). PKSF has 278 partner MFIs, of which 187 are borrowing partner MFIs, with total loans outstanding of Tk59.87 billion, and total outstanding loans to partner MFIs increased annually at a growth rate of 9% from 2015 to 2020 (Asian Development Bank, 2022a). To provide these loans, PKSF relies on government funds, income from investments, grants, and loans from development partners such as the World Bank and the Asian Development Bank (ADB).

4.3.4 BURO Bangladesh

BURO Bangladesh, Basic Unit for Resources and Opportunities of Bangladesh, is an NGO established in 1990 with a specific focus on microfinance programs. Over time, the institution developed as a dedicated microfinance institution, providing flexible financial services, agriculture loans, small and medium enterprise loans, and migration loans to one million low-income people (BURO Bangladesh—*Annual report 2018-19, 2019*). Currently, it serves 2.658 million clients through 1392 branch offices all over Bangladesh.

BURO Bangladesh is one of those NGOs that specifies themselves as a commercial entity. It identifies as one of the first MFIs in Bangladesh to articulate a clear, definite goal to achieve financial sustainability using commercial capital, i.e., commercial bank loans (BURO Bangladesh, n.d.). On this point, Hasan et al. (2009) state, "The management made a conscious effort to quickly achieve financial viability and manage the organization as a business entity by offering flexible loans and savings products."

A comparison of the BURO Bangladesh Annual Financial Report between the fiscal years 2019 and 2018 is analyzed here to understand their capital mix. Here, BURO Bangladesh reports that in 2019, it borrowed 47 percent of its total capital. It also paid 26,51 million (taka) in commercial loan interest to banks. MFI experts argue that this is a commercial operation, and to stay competitive in the sector, they must pick minimal risky clients as their capital cost is higher (Hasan et al., 2009a).

Table 7: Capital portfolio mix (BURO Bangladesh Annual Report – 2019)

Financial Resources	2018 - 19		2017 - 18	
	Taka	%	Taka	%
Commercial Borrowing	33,478	47	20,518	44
Equity/Net Worth	16,197	24	11,701	26
Client Savings and others fund	19,009	29	13,659	30
Total	68,685	100	45,879	100

Amount in Million (Taka)

CHAPTER 5: FINDINGS

This chapter reveals the rigorous understandings acquired from specified semi-structured interviews with leading experts in NGO and microfinance. Through these conversations, a deep dive was completed into the complex aspects of social development, the role of NGOs in social development, the role of MFIs in promoting economic freedom, the development phases of NGOs and MFIs, and the challenges and prospects of MFIs. The findings heavily rely on the content analysis of every interview. This approach effectively dissects the priceless wisdom shared by each participant, bringing clarity and depth to their thoughts. While the participants' identities remain undisclosed, their profound insights resonate throughout this section. The author is deeply appreciative and humbled by the opportunity to interact with such an exceptional group of professionals.

The author discussed the factors discussed in the conceptual framework to answer the research question better. The author thoroughly examines each factor in this chapter, drawing connections to existing literature and gaining a deeper understanding of the interview outcomes; it combines established knowledge with fresh perspectives. This collaborative effort aims to expand the readers' comprehension of the subject matter.

5.1 Organizational Factors

In the context of NGO and NGO-based microfinance organizations, organizational factors represent the causes of the organization the NGO or MFI wants to be or gradually shifts towards commercialized operation. Organizational factors are one of the most vital points of how the organization, NGO, shifts its motive and operational pattern. From the literature review, it is easily understood that many scholars pointed out that NGOs in emerging countries focused on staying in operation, even if that would mean shifting their operational style or mission.

During the interviews, it was one of the long-discussed topics. A common discussion during the interviews was the relationship between high profits in microfinance programs and NGO sustainability. During the interview, Alpha pointed out that "Wealth creation, investors' benefits, and sustainability are the leading causes for the NGO to generate high profits in microfinance

programs.” However, according to Charlie, “This is just another business. NGOs don’t say it as a business for better tax purposes to keep more profit within the organization. Rather, in practice, NGOs now do not consider them as development organizations. They use all tools and policies to make as much profit as possible.” Hotel also provided similar insights on this topic; according to him, “To be sustainable, microfinance institutions do not need that much of high profit. But they want to grow fast, around 10 to 15 percent growth yearly, which makes them prone to high profitability so that they can reinvest the profits as capital.”

According to the above interviewee group, MFI considers them business entities and wants to ensure that the organization continues to have good prospects in the future. That is why it focuses heavily on profitability. However, alongside the organization’s future prospects, investors' or owners’ financial interests were pointed out with significance.

On the other hand, another group of interviewees poses slightly different views. For example, according to Juliet, “NGOs as an organization wanted to be sustainable and run the organization with less responsibility and dependency on donors. Thus, they had to choose profitability.” Golf described the issue similarly: “Good profitability ensures future growth, which is used to circulate money to new clients. As the MFI target customers are yet to be reached properly, high profitability is not causing harm to the overall system; rather, it brings positive results.”

Nonetheless, Delta took it to the next level, as he described it: “It is good that NGOs have become self-sufficient and sustainable. In Bangladesh, many new challenges, such as climate change and the consequences of unplanned urbanization, are still being addressed through the NGO sector. If we did not have these organizations, the government alone could not take proper steps timely.”

To summarize the second group of interviewees, Microfinance institutions (MFIs) rely on high profits to maintain their financial stability, enabling them to navigate economic ups and downs and unexpected challenges such as COVID-19. By being profitable, MFIs also continue to provide financial services to low-income individuals. Sustainability is also critical to ensuring the endurance of microfinance programs, which maximizes their positive impact on reducing poverty and promoting financial inclusion.

Whether NGOs have changed or shifted their mission toward profits is also a heated debate. This issue was discussed significantly during the interview conversations. All interviewees agreed that there have been patterns of mission change and more focus on commercial activities that generate profits. However, the interviewees disagreed on the level of mission change in NGOs over the last decades.

Delta says, “The impact of high profitability in microfinance-based NGOs on changing their mission is not significant. Compare NGOs, like all other organizations, where change is inevitable due to the nature of circumstances. Most NGOs in Bangladesh have always been with the clients to meet their needs.”

India also described the issue from a similar perspective, “From the very beginning, NGOs always had the vision to help the people in need. In the 1970s and 80s, people preferred to get direct donations such as food and clothes. However, since the 1990s, people have preferred to receive cash. Even due to economic growth, people demanded loans over petty donations so they could invest or use them as they wished. So, NGOs implemented what the clients demanded.”

On the other hand, Beta pointed out slightly different views: “The reality is NGOs always made money from their operations. In the past, they received unrestricted funds from donors, and the NGOs had the freedom to use the funds as long as they fulfilled the project’s purposes. At that time, if an NGO would buy a property in its name for relevant purposes, that was okay. In recent years, they have made a profit as profit. So, the naming or the pattern of profit has only changed. It is also true that in the past, NGOs were more involved with social development programs.”

The desire to make its own decisions as an organization has influenced it toward being profit-oriented. Many NGO-based MFIs have been operating in Bangladesh for decades. So, they did not want to rely on donor funds, which are very volatile and uncertain. These organizational factors played a critical role in the commercialization of NGOs.

5.2 Donor Factors

Donors such as international NGOs, the World Bank, and similar development-oriented organizations played a crucial role in developing local NGOs in Bangladesh. During the initial

phase, mainly in the 1970s, the local NGOs totally depended on donor funds. Many prominent local NGOs made a solid operational base during this phase. However, in the 1990s, donors had limited the NGOs' freedom of funds use and decision-making power. Thus, the NGOs felt uncertain about the organizational actions. However, there were reasons to call for these restrictive actions, such as misuse of funds and corruption.

When interviewees were asked about NGOs' effective use of donor funds, most sector specialists pointed to inefficiency and misuse of funds. According to Foxtrot, "Around 40 to 50 percent of the donors' provided funds actually go to the beneficiaries' projects." Golf focuses on the reasons behind the low effective percentages. He says, "In many projects, the initial phase costs a lot of money. Fixed costs such as office spaces, equipment, and start-up costs are high. Organizational costs such as training new staff and salaries altogether cost around 50% of the project fund."

Some experts also focused on the misuse and ineffective use of funds. Juliet states, "Bangladeshi NGO misused many donor funds mostly through corruption and showing over expenses. In my opinion, about 20 to 30% goes to beneficiaries. Donor's fund diversion was and to some extent still now is a practice for NGOs. They show over costs in different things they have not purchased. Thus, they misused the funds."

Consequently, when donors knew about the issues, they took action. Foxtrot states, "The misuse and corruption related to donor funds have reduced as donors require phase-by-phase monitoring of a project. It has improved the results." However, due to trust and ethics issues, donors have reduced the donation amount. Charlie says, "When donors found out that NGOs are doing business and making a profit with the fund, they reduce the amount of funds." According to Echo, "Fund providers also prefer some sectors to spend the donations, such as education, health, and nowadays climate change is demandable fund attractive sectors. However, poverty reduction sectors do not get such attractions from the donors."

In general, NGOs have claimed that in the last 15 to 20 years, they have faced difficulties in getting donor funds, which has made the organization volatile and uncertain. When the specialists were asked about their experiences in the interview, they gave mixed answers. For example, Juliet says, "Reduction of donor funds was one of the crucial points to change the whole sector. The lack of

donor funds stabilizes the NGO, and to bring smooth operation, they run microfinance, which is profit focus.” India points out that “In the last decade, Bangladesh has experienced massive economic growth and has progressed toward a middle-income country. It made it difficult for Bangladeshi NGOs to get funds for poverty alleviation and related sectors.”

In summary, it can be concluded that depending solely on donor funds can create a sense of dependency that may not always be stable for NGOs. This is because donors' priorities change over time, and funding availability fluctuates. Additionally, donor funds often come with certain limitations and restrictions, which can restrict the ability of NGOs to carry out their projects according to their ideals. Moreover, NGOs also face intense competition when securing donor funds, which can present challenges in obtaining the necessary support they require. To avoid these uncertainties, NGOs heavily focused on profit-based programs such as microfinance.

5.3 Market Factors

Initially, microfinance was just a tool for NGOs to enhance the overall livelihood of the target group. Later, through different changes, microfinance emerged, as it does today. Many market factors influence the changes and growth along the way, such as demand for microfinance services, the type of service offered, pricing strategy, competition, and others. In different situations, these factors have acted for or against the sector. That is why it is essential to analyze market factors.

When interviewees were asked whether they think the high demand for MF services in the market has shifted NGOs toward a profit-focused business model in Bangladesh, the answers were mostly yes. The experts believe that when the microfinance project started, the MFIs saw a lot of potential and demand, which led the NGOs to focus more on MF.

According to Alpha, “30 years ago, the service charge (interest rate) for microfinance was around 30 percent. Yet, people would always look for money to borrow because they do not get loans from banks or anyone else. In a normal sense, 30 percent annually is a very high-interest rate. But for them, it was the only source they could get money from. It was not only for loans but also for savings. People could not save small amounts on a weekly basis anywhere other than NGOs. So, there was good demand for savings products as well, mostly to the poor people.”

Interviewee Beta describes a unique point: "NGOs used to go home to home to provide different health and education services. They knew about people and their demands. So, when they started the microfinance business, this crucial information and trust between the parties worked as a competitive factor." However, Delta had a different opinion on the increased demand, "the economic activities have boosted a lot in the last two decades which led the high demand of financial products. The customization of loan and savings products is also responsible for higher demand. In the past, there was only one loan product for all types of clients. But now, microfinance has elaborated on its scope. It categorized someone's state of financial ability as ultra-poor, poor, lower middle class, or middle class. Then, depending on the category, it offers clients suitable loan and savings products. It also spends on marketing, which increases the product demand."

Foxtrot focuses on the growth rate. She states, "Think of a usual business. Suppose the product demand is steadily growing year by year, and the organizations have a lot of potential to grow in the future. Will the company ever try to attack new or existing customers with lower price rates? No, of course not. Similar circumstances apply to MFIs. They have an annual growth of 10 to 12 percent, which will continue in the future. So why would they reduce the service charge!"

Then, when the interviewees were asked whether microfinance clients in Bangladesh had alternative funding sources to NGO-based MFIs, all of them agreed that, until now, NGO-based MFIs are the best available option for the population served. As of now, traditional commercial banks do not serve poor people for required collateral issues. The other option is a loan from the personal lender, which usually has much higher interest rates.

According to Alpha, "Microfinance clients do not have any better alternative in terms of getting loans at a lower interest rate. Commercial banks have much lower interest and better lending terms, but the banks do not serve them. So, NGO MFIs are the best option these people have." Charlie adds, "In recent times, some start-up organizations in urban areas started to offer collateral-free small loans for poor people. But this is still kind of in the trial phase." Golf states, "Clients do not have good alternatives of MFI as local lenders charge as much as 100% interest rate. However, some disrupted MFI by trying with Equated Monthly Instalment (EMI) to replace MF's high interest rate partially."

Delta focused on possible solutions to the problem: “I think this is a systematic problem, and the government should play a crucial role. In 2009, the government of Bangladesh started a project called the Ektee Bari Ektee Khamar project.” In English, it means one home, one farm. The plan was very suitable as an excellent alternative to microfinance. However, due to poor implementation, the project was not a successful one. The government should attempt it again; it will bring pressure on the MFIs to lower the interest rate.”

5.4 Financial Factors

Many people believe that microfinance interest rates are lower than what they are. Microfinance institutions (MFIs) charge higher interest rates than traditional banks for their loans. Costs of funds are one of the main reasons for this. In a report on the Asian Development Bank, Sinha (2016) states that “MFIs in Bangladesh overall cost of funds averages 7%, with the Grameen Bank paying as much as 12% interest on its client deposits and this cost is growing gradually.”

When asked by the experts about the rising costs of funds and associated challenges for MFIs, they agreed that MFIs initiated a fast-paced growth policy. In the beginning, they did not consider financial or fund factors as an issue. Now, they do not have an option but to continue with the trends. According to the experts, a limited number of MFIs have a good reserve of clients’ savings through which they can support the needed funds for loans. However, most MFIs have portfolio funds of 10 to 30 percent of clients' savings, 20 to 30 percent of their own capital, and the rest are loans from commercial banks.

When the interviewees were asked about the effect of borrowing money from commercial banks as MFIs' operational capital, they believed it served them well from a commercial point of view. Beta says, “As commercial banks have lower interest rates than MFIs, it makes sense for them to borrow money and invest in MF.” Alpha says, “I think it’s all about operational goal. MFIs are now focusing on profit maximization and keeping up with growth. If poverty reduction were their goal, borrowing from banks would not be the way.”

According to Echo, “Indeed, borrowing from commercial banks is not cheap. As a snowball effect, it increases the cost of funding for MFIs. Once MFIs have started the practice, it would be challenging for them to get rid of. Currently, I do not see any cheaper option for them.” Hotel

focuses on the solution, “In a sense, MFIs need help to get out of this loop. In collaboration with the government and the central bank, there should be a better way. It is a risky and unsustainable business policy for both MFIs & banks.”

Juliet focused on the investor’s interest in profit maximization: “An NGO, as a nonprofit organization, cannot take profit for personal gains. But, through corrupted practices, NGO owners use the profits. Thus, the more profit they make, the better their personal gains. One such practice is showing extra costs by increasing the operational expenses. If the investors do not think about their profit, MFIs could reduce the interest rate by 2 to 3 percent, which could be a great relief for the poor borrowers.”

NGOs' financial factor is a two-sided sword. They need money to retain demand now and for future growth. They do not have available cheap funds to support the development. However, neither they nor the central bank has a good solution for solving the fund crisis. Instead, it is creating auxiliary pressure on the sector. For instance, if a particular MFI does not meet a sufficient profitability ratio, banks consider it a risky investment and demand higher interest rates. Thus, this entire situation has created a loop for MFIs to take more loans to grow the business and operate the business in a more profit-oriented way to get more loans on good terms. Overall, it is influencing the MFIs to consider the poverty reduction element of microfinance less.

5.5 Insignificant Regulatory Authority

The Microfinance Regulatory Authority (MRA) controls microfinance organizations in Bangladesh. It was established in 2006 when no specific authority controlled the microfinance sector. MRA brought some regulations to structure the industry. However, the agency has been criticized for failing to protect clients' interests. When the interviewees inquired about the role of MRA in controlling MFIs and focusing on clients' interests, they revealed some deplorable information.

According to Alpha, “In my opinion, MRA is nothing but a dummy agency. All it does is collect taxes for the government from the MFIs. It does not have any monitoring wing to observe the MFIs and actually what is happening on the ground. As a controlling authority, it should play a bold role in protecting the clients, and for that, it must reorganize and recruit more staff.”

Many experts argue that MRA's goal was not correct in the beginning. Foxtrot says, "The formation of MRA was initiated by the NGOs in 2006. NGOs thought of legalizing the operation in a more organized way. And make any personal lending of very high interest illegal, which was definitely a novel idea. However, it is now hard for MRA to go against the founders. Also, NGOs always keep very close relations with MRA." Golf also adds, "MRA is not a functional authority. It depends on MFI taxes. So, it can't control MFI in practice. It is just to overlook the minimum requirements to run an MFI."

MRA argues that the overall situation in the microfinance sector is in control and has been improving day-to-day according to government central monetary policies. However, through interviews with industry experts, it is clear that, as a controlling authority, MRA should have been more involved in quality control and uplifting clients' interest in the sector. They could also adjust the high-interest rate of MF loans and control other irregularities, such as NGOs' mere involvement in social development and only focusing on microfinance. In collaboration with the Ministry of Social Welfare, MRA should guide NGO-based MFIs to be involved in social development activities with outcome-based practical agendas. Experts believe that corruption is one of the major hindrances to making these happen.

To sum up, the extended version of the conceptual framework shown below explains how NGOs became commercial entities through microfinance. Organizational factors such as self-sufficiency, sustainability, and freedom of decision-making, as well as donor factors such as limited donor funds for poverty reduction and misuse of donor funds, lead to organizational mission drift. In other words, the abovementioned factors influence the organization to change its mission toward a commercialized business model.

Also, market factors such as high demand for loan and savings products, high growth rate, and lack of competitors, as well as financial factors such as high operating costs and capital from commercial banks, have created a suitable situation for high-profit margins. On top of that, the microfinance regulatory authority should control the problem by not playing the role properly. Altogether, the situation is in favor of the MFIs to make good profits, which is far from the NGO's original mission of helping people in need.

NGO's organizational mission drifts from serving the unprivileged to a more commercialized orientation, and high-profit margins motivate MFIs to operate fully commercialized. This affects the overall circumstances of the MFI sector. For instance, if an MFI opens 20 new branches a year, others also need to take some competitive actions; otherwise, they will fall behind. So, to keep up with the competitive pace, all the MFIs are doing whatever is necessary to be more financially successful, and the process continues as a circle.

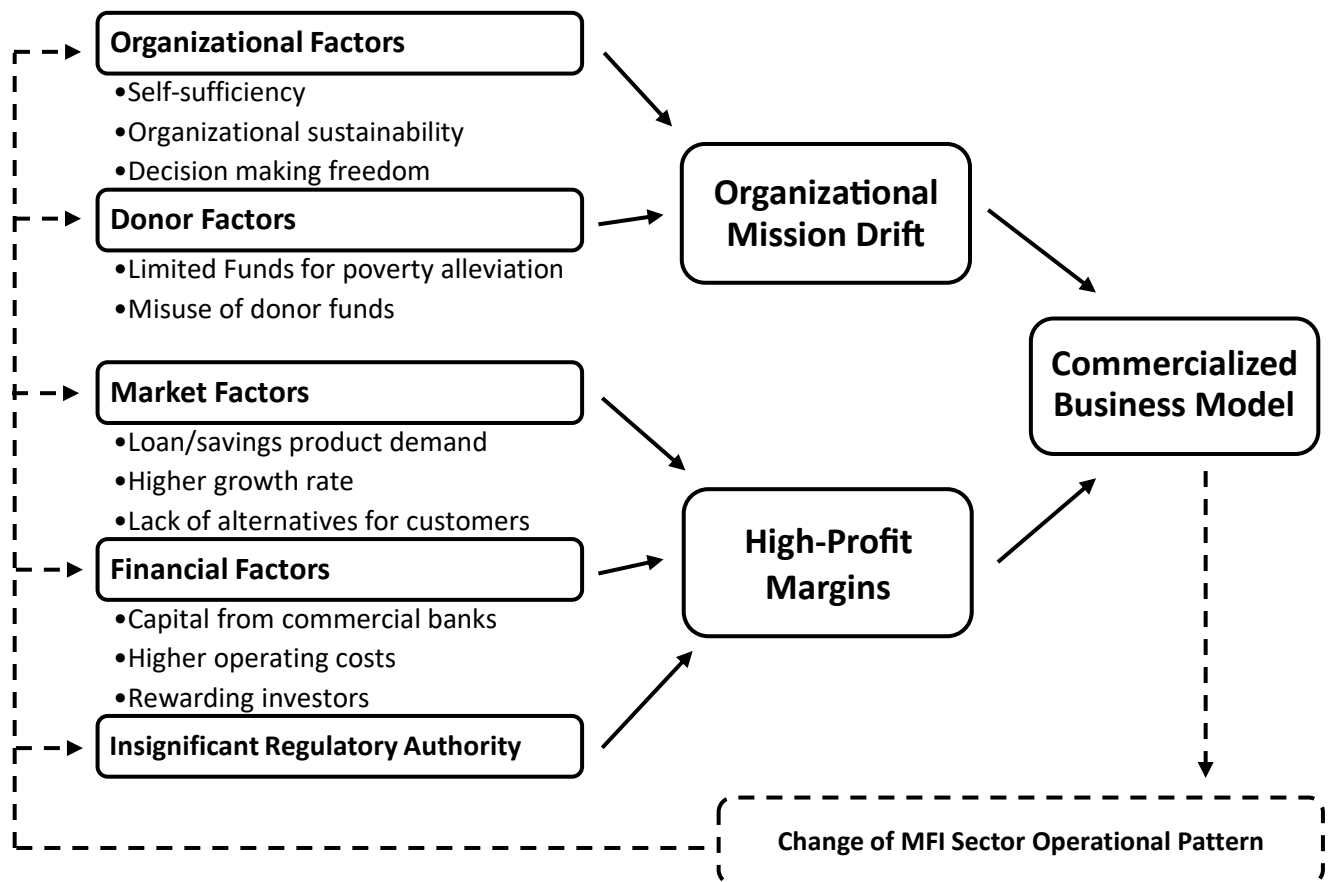


Figure 5: Extended form of Conceptual framework

CHAPTER 6: CONCLUSION

This conclusion chapter briefly delivers information about the key findings by answering the research question and confirming the conceptual framework, demonstrating theoretical implications, providing practical implications, discussing recommendations for policymakers regarding the practical use of the findings, guiding instructions for future study options, and defining the limitations of this research.

6.1 Key Findings

The objective of this research was to broaden the understanding of why NGOs with social development missions engage in highly commercial microfinance business models in emerging markets, even though they had a very sophisticated brand image in the past. The author relied on secondary data and interviewed ten sector specialists to answer the question. After systematically completing the collection and analysis, the author concluded the findings.

Not any single cause was solely responsible for the commercialization of the NGOs. Instead, a set of five aspects contributed to this shift. As previously discussed, the shifting elements are organizational, donor, market, financial, and insufficient regulatory authority factors in Bangladesh. All these factors also have sub-factors as a contributor. NGOs always argue that they want to be sustainable as an organization, which is why they are forced to take this profit-based form after the shrinkage of international donor funds.

However, this study finds that sustainability was initially the main issue, but it only partially answered all the questions. When NGOs started to prioritize MF business over other social development programs, they quickly realized the lucrative financial gains. Combined with the financial profits for the owners and investors, the demand for financial products was high and steady. To make things even more suitable for the NGOs, the regulatory authority did not play their role in favor of the clients. All these combinations were financially too good to be true for NGO-based MFIs. Thus, it shifted its operations from social development activities to profit-based activities. This shift was a gradual development for NGOs, which started in the late 1990s, and through modification, it peaked in the middle of the 2010s and gradually continued upwards.

6.2 Theoretical implications

This study's findings, derived from sector specialists, have dynamic theoretical implications. When compared with the existing literature, some new perspectives appear. First of all, the research findings reassure the organizational sustainability issues with the existing literature. For instance, existing literature indicates that NGOs want to ensure the organization's prosperity and financial sustainability (Bari, 2011a). During the interview, Alpha, Hotel, and Juliet all agreed with this motion that NGOs are choosing commercial business models to be financially sustainable.

Secondly, the existing literature argues that MFIs want autonomous decision-making power, and an independent decision-making option makes NGOs financially more successful (Ahmed, 2009a). Often, donor-funded projects are planned and implemented according to donors' wishes. NGO-based MFIs want to operate the program as part of their agenda. This research also agreed with the present literature. Among the interviewees, Beta, India, and Juliet agreed that the desire to make its own decisions as an organization has influenced NGOs toward being profit-oriented.

Thirdly, some existing literature also argues that microfinance has become more like a business, and the prime intention behind the change toward commercialization is the need for sound financial gains rather than just organizational sustainability (Christen, 2001b). This study also confirms this notion as Alpha, Charlie, Echo, and Hotel described NGOs' motive as profit maximization not only from a sustainability point of view but also from investors' interest.

Additionally, this research has uncovered several captivating discoveries that could change how this subject is traditionally approached. One such revelation concerns the microfinance regulatory authority in Bangladesh and its way of controlling MFIs. In existing literature, the role of MRA has rarely been discussed. However, during interviews in this study, all interviewed agreed that MRA's role in controlling the MFIs is questionable, and it has created a good opportunity for the NGOs to change the operations according to their wish and make good profits from it.

Moreover, this study's findings accumulated all the possible factors concerning sub-factors responsible for NGOs' operational change toward commercialization. Previous literature partially discussed some factors but did not focus on all the possible reasons for being commercialized. This holistic view of several factors would be helpful for future researchers in this topic.

6.3 Practical Implications

The study uncovers various practical implications that sector experts and related parties can leverage to shape more client-friendly policies in the future. It offers crucial insights into the evolving nature of the NGO sector, which is transitioning into a distinct type of organization. The study also identifies improvement areas for NGO-based MFIs, providing a roadmap for enhancing their operations. These findings serve as a valuable guide for sector specialists, equipping them with the knowledge to navigate the sector and improve implementation experiences.

The findings of this research are not only insightful but also highly beneficial for donors and international NGOs. Often, these parties lack actual views on the ground. This thesis provides sector experts with authentic views without any conflicting motives, instilling confidence in their decision-making. Also, NGOs are evolving continuously to cope with present circumstances. This research can be a helpful guide to understanding the current form of NGO-based MFIs and their motives, along with the historical changes. Donors and related parties can identify the loopholes to enhance the impact of the donations. Also, the findings shed light on the demand for project types in recent times, further enhancing their understanding.

The research findings and discussions have significant implications for financial policymakers in the microfinance sector. Entities such as the central bank, Ministry of Finance, commercial banks, and digital finance institutions can leverage these outcomes. In countries like Bangladesh, where a large portion of the population is involved in informal job sectors, microfinance plays a crucial role by providing almost half of the overall financing. The research identifies the need for capital for the MFIs and the high costs of capital for the MFIs. Financial policymakers can use this information to develop effective solutions and improve the sector's overall performance.

However, the most crucial use for the thesis outcome would be for the microfinance regulatory authority and government regulatory wings. The thesis outcome shows how the lack of proper control and monitoring gives the MFIs extra financial advantages and harms the client's interest. From the discussion, MRA should find out the loopholes that NGO-based MFIs are using by saying social development, but in practice, it is none but a very lucrative commercial business. Also, MFIs should rethink their purposes and get back on track.

6.4 Recommendations

The author found some recommendations for all critical relevant parties during the research. The first recommendation concerns the NGOs' previous goodwill. In Bangladesh, many NGOs have had remarkable achievements in the development sector. However, this has not been the case in the last 15 to 20 years. Undoubtedly, Organizational sustainability is essential. However, NGOs must remember their core focus, which is social development. By no means can it not be used for commercial purposes. At present, clients do not feel proud to be part of the great cause. So, the author recommends focusing more on the social development programs that the NGOs are actually meant for.

The recommendations for donors would be to restrict project expenses more. Fund diversion, corruption, and over-expenses must be handled seriously. While donors have improved their project evaluation and monitoring, there is still room for NGOs to be more effective and efficient in project implementation. Sector specialists suggest that long-term, well-planned projects are more impactful than short-term, one-term projects. Through NGO collaboration, donors can implement more significant projects.

The recommendation for the Ministry of Finance, Bangladesh, and the central bank is to secure needed funds for MFIs at a better rate. MFIs in Bangladesh play a crucial role in supplying the needed funds to all remote villages that traditional banks do not reach. If the issue remains unsolved, it can create instability in the financial market. Also, if the government implements MF programs with lower interest rates, it will be a good alternative for the target clients.

Lastly, the regulatory authority, the MRA, needs to be more active and impactful in controlling the MFIs. It must dynamically monitor the loan disbursement and collection issues to prevent loopholes in current practice. It also should adopt new regulations to prevent MF investors from taking money through loopholes. Indeed, in the present situation, microfinance is an excellent tool to finance the poor, but it must stick to its focused goal, and MRA must ensure that MFIs are abiding by rules. Moreover, for the NGO-based MFIs, MRA should specify a percentage of the net profit earned from the MF operation that must be spent on social development projects such as health and education.

6.5 Suggestions for Future Research

Based on the findings from this study, some areas can be explored in future studies. First, further research could examine the impact of NGO sustainability without the microfinance operation. For instance, further analysis could study whether NGOs could exist and operate only for social development causes without the profits of the MF operation. Here, the researcher could also find out if the NGOs can only sustain themselves with the help of microfinance and what kind of assistance they would need to stay in operation. This would explain the need for NGO-based MFIs.

Secondly, research could be done on the feasibility of microfinance operations run by commercial banks. In other words, the study will find the opportunities and challenges if commercial banks operate the microfinance business as they are already in the financing business. This study will provide a better understanding of what is preventing commercial banks from starting such a growing and impactful market. Moreover, this research could also find solutions to commercial banks' current challenges.

Finally, research could be conducted on the impact of NGOs' commercialized operations on clients, NGOs' brand image, and the overall social development sector. For instance, this research could examine the before-and-after scenarios of NGOs being commercialized. This research will also provide a crucial understanding of the future needs of NGOs in emerging markets. It is proven that so-called social development through NGOs is not functioning in many countries in the world. The research topics mentioned above will fulfill the scope-related limitations of this research and will provide a complete understanding of the future of NGOs and MFIs and their correlations.

6.6 Limitations

This research has some limitations because of the nature of the topic and the research method. The qualitative approach has certain limitations in understanding its impact. The main limitation of qualitative methods is that they often hinder a thorough evaluation of the pros and cons because they rely on a specific group's interpretations and opinions. While these insights give a good understanding, they may be influenced by the assumptions and perspectives of the people being interviewed, which could undermine the overall impact of data interpretation.

Also, this research had time, capabilities, and other practical limitations. The study was completed in a time-constrained form, which took about six months. As a researcher without previous experience in research or an academic field, the author had to learn several research-related topics, such as research frameworks, data collection methods, and data analysis. Also, the research data was collected from only the employees of NGO-based MFIs. MFI investors or owners were not included in the interview. However, their opinion would undoubtedly add a new perspective to the findings. Moreover, only big MFIs were selected for the data collection interviews. This research did not include small and locally based NGOs, which is also a limitation of this study.

This study has limitations in its scope. The research question was why NGOs have recently transformed into commercial entities. However, it did not include topics such as alternatives for NGOs and clients. It also did not discuss the future of this sector or the probable trend on the subject. To make any proper decision on the related issues, the policymakers must know the answers to the relevant issues, such as the future of this commercialized model and alternatives to the NGO's commercialized model, which will give them a complete view of the matter. Without the other information, the research findings of this study may not be that impactful for policymakers' practical use.

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APPENDICES

Appendix 1: Semi-structured interview questionnaire

Appendix 2: Summary of the interview transcripts

Appendix 3: Data codes for analysis