ENHANCING ENTREPRENEURSHIP IN SRI LANKA: THE PROVISION OF BUSINESS DEVELOPMENT SERVICES (BDS) BY MICROFINANCE INSTITUTIONS TO SUPPORT THE SELF-SUFFICIENCY OF MICROENTERPRISES

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Copyright Statement

Abstract

The literature shows that microenterprises can make a significant contribution to the economies of the developing world but that such firms face considerable challenges, especially during the start-up phase. Microfinance initiatives in the form of micro credit and business development services (BDS) are recognised as helping such firms to address these challenges as the provision of finance and support in the development of key skills can facilitate start-up and foster growth. Given this context, this study investigates how microfinance institutions (MFIs) in Sri Lanka use BDS to support the aspirations of entrepreneurs and employs the lens of co-production to analyse how the parties work together to support microenterprises. For the purposes of this study, co-production is defined as the combined efforts of two parties who jointly determine the output of their collaboration. The multiple case study method was used and data were gathered by conducting 51 in-depth interviews with microfinance officers, owner managers and with an external trainer and a BDS consultant involved in the process.

The findings of the study reveal that MFI counsellors and owner managers of microenterprises use BDS to co-produce generating outcomes that help them both improve their performance. The findings also reveal that a number of contextual factors, such as client selection, social mobilisation programmes, planning, performance evaluation and financial sustainability influence co-production in BDS. Moreover, the findings show that aspects of the counsellor/owner manager relationship, such as expertise, readiness, follow up by the counsellor, owner manager willingness, and counsellor-owner manager communication and interpersonal relationships enhance co-production.

This study contributes to the BDS literature as there has been a dearth of studies conducted on this area. Moreover, by focusing on how contextual factors influence co-production, the study fills a gap in the co-production literature. The recommendations provide useful information to policymakers (e.g. collaboration between the government and MFIs in catering for poorer people) and practitioners (e.g. use of low cost methods such as mentoring and on the job training for counsellors), which should help inform future strategies in this field.

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Dedication

With love and admiration,
I dedicate this thesis to my parents.

Declaration

I declare that this thesis contains no material that has been accepted for the award of any other degree or diploma in any institution or university. The thesis is based on my original work except for quotations and citations which have been acknowledged accordingly. I also declare that this thesis has not been previously or simultaneously submitted, either partially or wholly, for any other qualification at any university or institution.

Ruwan Abeysekera

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Acronyms and Abbreviations

ADB	Asian Development Bank
ABS	Associate of Business Schools
APEC	Asia-Pacific Economic Cooperation
BDS	Business development services
CGAP	Consultative Group to Assist the Poor
DPRN	Development policy review network
IPSL	Institute of Policy Studies of Sri Lanka
ILO	International Labour Organization
LMPA	Lanka Microfinance Practitioners' Association
MFI	Microfinance institution
NGO	Non-governmental organization
OM	Owner manager
OECD	Organization for Economic Cooperation and Development
PAR	Portfolio at risk
SME	Small and medium enterprises
SAARC	South Asian Association for Regional Cooperation
SIYB	Start and improve your business

Chapter 1. Introduction

1.1 Overview of the chapter

This thesis concerns the exploration of business development services provided by Sri Lankan microfinance institutions to microenterprises using the concept of co-production.

This chapter introduces the study. It presents microfinance for microenterprises, Business Development Services (BDS), counselling and training and the concept of co-production. It also states the aim, objectives and research questions, the justification for the study, and its contribution to the knowledge base and practice. Finally, the chapter explains the research methodology adopted and the organisation of the thesis. Since this study focuses on Sri Lanka, the Sri Lankan context is discussed in the microfinance for microenterprises and BDS sections. Moreover, the gaps in the literature are identified in the microfinance and BDS sections.

1.2 Microfinance for microenterprises

This section first explains microenterprises and constraints faced by them and then microfinance initiatives that help microenterprises overcome its constraints. Further it identifies the gaps in the microfinance literature.

1.2.1 Microenterprises

Different terms are used to describe microenterprises (MEs), such as small scale industries, microenterprises, small and micro-enterprises or micro and small enterprises (SAARC, 2000). A microenterprise is defined as an owner-managed business that has fewer than 10 employees (OECD, 2005).

Microenterprises play a significant role in developing countries by contributing to economic growth and employment generation (Mensah *et al.*, 2007; Zevallos, 2003; Storey, 2002). The microenterprise sector is an important vehicle for low income people to escape from poverty (Shaw, 2004; SAARC, 2000). With limited skills and education to compete in the formal job sector, the sector is an opportunity for them to become business owners or work as employees (Shaw, 2004; SAARC, 2000).

Microenterprises in Sri Lanka

Sri Lanka is a developing country in the South Asian region. Microenterprises play a vital role in the Sri Lankan economy by contributing to it, generating employment and alleviating poverty (NEDA, 2013; Aheeyar, 2007; SAARC, 2000). Since Sri Lanka has emerged from a long conflict, resulting in serious issues related to socio-economic disparities and regional development, the development of microenterprises has been identified by the government as one of the key strategies to help address regional disparities and inclusive growth (NEDA, 2013; IPSL, 2011, 2012; De Alwis, 2009). Thus the Sri Lankan government has planned to establish about 500,000 new microenterprises between 2006 and 2016 and 10% of the existing ones will be promoted to the small industries category (NEDA, 2013). As a result of this microenterprise development initiative, it is expected that both unemployment and poverty in the country will drop by 2% by 2016.

Constraints faced by microenterprises

Despite the importance of microenterprises to economies, they often encounter constraints that undermine their development (Boomgard *et al.*, 1992; Anderson, 1982). They are often characterised by low productivity, lack of capital, poor information access, limited technical knowhow and market access (Ruan and Zhang, 2009; Sonobe and Otsuka, 2006). It has been identified that microfinance initiatives can circumvent most of the problems faced by microenterprises (NEDA, 2013; Khavul, 2010; Sievers and Vandenberg, 2007). The following section introduces microfinance.

1.2.2 Microfinance

Microfinance is the issuance of small unsecured loans (microcredit) and other services such as business development services (BDS), insurance, and savings products to individuals or groups for the purpose of starting or expanding businesses (Khavul, 2010; ADB, 1997). Microfinance is provided by microfinance institutions (MFIs). Microfinance is widely practised in developing countries and targets the 2.8 billion people living on less than $2 per day (World Bank, 2014; Easterly, 2006, p.165). MFIs use innovative methods such as group lending and group liability, pre-loan savings requirements and gradually increasing loan sizes to provide services with little or no collateral (CGAP, 2011; Khavul, 2010; ADB, 1997).

Microfinance in Sri Lanka

The Sri Lankan microfinance sector has a long history and can be traced back to 1900 (GTZProMis, 2010a; Tilakaratne *et al.*, 2005). The sector is well established in Sri Lanka, with the main players covering the country with more than 10,000 branches (GTZProMis, 2010a). These microfinance providers in Sri Lanka are government owned MFIs, cooperative rural banks/societies, non-bank financial institutions, bank-MFIs and nongovernmental organisations (NGO-MFIs) (GTZProMis, 2010a). The microfinance sector in Sri Lanka is becoming commercialised at the moment and this has resulted in banks and other financial institutions venturing into the sector (Attapattu and De Silva, 2009). Currently, the sector faces some challenges, such as lack of funding from donors, lack of a proper regulation system and lack of financial sustainability faced by some MFIs (LMPA, 2010; Attapattu, 2009). The government of Sri Lanka is keen to develop the microfinance sector as it helps alleviate poverty through livelihood development (NEDA, 2013; Tilakaratne *et al.*, 2009). It has therefore taken measures to develop the sector by managing some MFIs (i.e. government- owned MFIs), providing funds to MFIs and trying to regulate it to enable the smooth operation of MFIs (GTZPromis, 2010a).

1.2.3 First gap in the literature

The existing literature on microfinance largely focuses on the microcredit provided by MFIs and discusses topics such as lending practices (Van Eijkel *et al.*, 2011; Hermes and Lensink, 2007; Denotes and Alexandar, 2004; Coleman, 1988; Portes, 1998), loan repayment rates and sustainability (Cull *et a*l., 2009; Roodman and Qureshi, 2006; Rosenberg, 1999), empowerment of women (Sanyal, 2009; Banerjee *et al*., 2009; Ahamed *et al*, 2001; Rahaman, 1999) and outcomes for borrowers (Bruton *et al*, 2011; Banerjee *et al* , 2009). However, there are limited studies on the Business Development Services (BDS) provided by MFIs in developing countries such as Sri Lanka. This study therefore attempts to fill this gap by focusing on the BDS provided by Sri Lankan MFIs to microenterprises.

1.3 Business development services (BDS)

Studies show that microcredit (capital) alone is not sufficient to help micro-entrepreneurs to circumvent the problems they face (Gulli and Berger, 1999; Wright, 1999; Mosley and Hulme, 1998; Johnson and Rogaly, 1997; Rogaly, 1996; Hulme and Mosley, 1996). Credit may be the initial ruling constraint for microenterprises, but for them to grow, they need certain skills and resources such as managerial capacity and knowledge and access to markets (Fisher and Sriram, 2002). Therefore, MFIs have looked beyond micro credit to provide non- financial services under the heading of business development services (BDS) to microenterprises (Sievers and Vandenberg, 2007). BDS are non-financial services such as management training, vocational training skills, marketing assistance and technology access provided to entrepreneurs by MFIs (Khavul, 2010; Sievers and Vandenberg, 2007).

The literature shows that MFIs are confronted with some issues that hinder the provision of BDS. These issues are that some microfinance practitioners perceive that the benefits to costs ratio of BDS is low; that the BDS programme cannot sustain itself; and that client demand for BDS is low (Sievers and Vandenberg, 2007; Goldmark, 1999; Webster *et al.*, 1996). Despite these issues, the literature reveals that some MFIs provide BDS because they enhance the performance of both MFIs and microenterprises (Karlan and Valdivia, 2006; ADEMCOL, 2001). BDS contribute to the performance of MFIs by improving financial sustainability through improved loan repayments, client retention and client outreach. Further provision of BDS help MFIs achieves social objectives (i.e. poverty alleviation). They contribute to the performance of microenterprises by increasing their sales and profits (Karlan and Valdivia, 2006; ADEMCOL, 2001). The literature also shows that some MFIs provide BDS to clients because of donors' requests (Sievers and Vandenberg, 2007). Moreover, studies reveal that some profit-oriented MFIs provide BDS to clients in order to face competition, because they can improve client loyalty and as a result clients will stay with the MFI (Sievers and Vandenberg, 2007).

BDS in Sri Lanka

In Sri Lanka, it has been found that only a few MFIs (e.g. SEEDS, WDF) provide BDS to clients; only 5% those who received microcredit had received BDS (Attapattu, 2009). The main reasons for this low level of BDS provision are lack of funding, as MFIs are not receiving funds from donors as Sri Lanka has grown to a lower-middle income country in recent times, and lack of client demand for BDS (LMPA, 2010; Attapattu, 2009, Tilakaratne *et al*., 2009). However, the literature shows that there are a number of

MFIs which provide BDS effectively in Sri Lanka by overcoming the issues involved (Attapattu, 2009; Tilakaratne *et al.*, 2009).

1.3.1 Counselling and training

MFIs provide BDS to owner managers of microenterprises through counselling and training (Tilakaratne *et al.*, 2009; Halder, 2003; ADEMCOL, 2001).

In this study, counselling refers to advice given by MFI counsellors to aspiring, embryonic and established businesses on how to exploit growth opportunities and how to manage the many problems which confront the microenterprise (Johnson, 1991). Through process facilitation, the small business counsellor leads and assists clients in acquiring the capability to assess their current situation, to assess the advantages and disadvantages of alternatives, and to make an informed decision on whether to act or not. Above all, the counsellor practises personal competencies that develop rapport and build relationships to assist the client in recognising and achieving personal, entrepreneurial and business goals and objectives (Canadian APEC, IBIZ, 2015; Johnson, 1991). The literature shows that MFI counsellors assist owner mangers in areas such as financial literacy, input supplies, linkages (market, loans and training), taxation, human resources, marketing and production (De Wildt, 2004; ADEMCOL, 2001).

Training refers to MFI provision of programmes on financial literacy and business training, and follow up support to owner managers to solve practical problems, which can be tailor-made or specific to the microenterprise (ADEMCOL, 2001; Gibb, 1997; Manpower Services Commission, 1975). Further, MFI trainers use interactive training techniques (e.g. problem solving games and role playing, which improve action learning) and adult learning techniques (e.g. people learn new things in relation to what they already know) to improve owner managers' knowledge and skills (ACCION, 2005). The training is conducted in a community-based environment where owner managers have similar backgrounds and needs (i.e. socio-economic, formal education) (Brookfield, 2005; Knowles *et al.*, 2005). Moreover, trainers in small business act as learning facilitators (Gibb, 1990). According to Rogers (2004), a learning facilitator possesses certain qualities such as the ability to empathise with the feelings of learners (accepting these often as more important than knowledge content), the ability to build upon the experience of learners and the ability to empower learners to take up ownership for their learning.

1.3.2 Second and third gaps in the literature

The literature on BDS in the microfinance context largely focuses on how BDS help improve the performance of MFIs and owner managers (Sievers and Vandenberg, 2007; Karlan and Valdivia, 2006; De Wildt, 2004; Halder, 2003; ADEMCOL, 2001).The extant literature (Karlan and Valdivia, 2006; De Wildt, 2004; Halder, 2003; ILO, 2002; Copestake *et al.* (2001; ADEMCOL, 2001) on the impact of BDS mainly focuses on training intervention (i.e. how business training improves the performance of MFIs and owner managers). No study has been made on BDS focusing on counselling; though its two key functions, both counselling and training should receive similar attention in order to appreciate the value of BDS provision at both individual owner manager and MFI institutional levels. Hence, this study fills this gap by exploring BDS through counselling and training modes (the second gap in the literature). Furthermore, the BDS literature (Karlan and Valdivia, 2006; De Wildt, 2004; Halder, 2003; ADEMCOL, 2001) on performance does not discuss how MFI counsellors and trainers and owner managers of microenterprises engage/co-produce in BDS to achieve MFI-specific and owner manager-specific performance objectives. Given this lacuna, this study focuses on the dyadic relationships between counsellors, trainers and owner managers by using the concept of co-production, as this concept can be used to investigate dyadic relationships in counselling (e.g. counsellor and owner manager) and training interventions (trainer and owner manager) (the third gap in the literature).

The following section introduces the co-production concept and its suitability for this study.

1.4 Concept of co-production

A number of different definitions have been made of the concept of co-production (Boyle and Harris, 2009; Humphreys, 2008; Lengnick-Hall *et al.*, 2000). In this study, co-production is defined as the joint efforts of two parties who together determine the output of their collaboration (Parks *et al.,* 1981). Co-production is a central construct in the service literature (Zeithaml et al., 2006). In service co-production, both the customer-contact employees and customers interact and participate in the production

(Meuter and Bitner, 1998). Further, according to Vargo *et al.* (2008), the points of customer-firm interaction are critical for creating value, and this value is co-created through this reciprocal and mutually beneficial relationship. Similarly, service co-production is based on interactions between the firm and the customer at individual levels (i.e. dyadic relationships) (Guo and Ng, 2011). The studies have used the concept of co-production to examine the dyadic relationships between individuals in firms and customers (Guo and Ng, 2011; Rice, 2002).

This study focuses on counselling and training interventions (the second gap in the literature) and looks at how MFI counsellors and trainers collaborate/co-produce with the owner managers of microenterprises. It therefore analyses the joint efforts of MFI counsellors and trainers, and the owner managers of microenterprises (i.e. dyadic relationships) (the third gap in the literature). Hence, the concept of co-production is suitable for this study. Moreover, in this study counselling and training are considered as co-production modes, as MFIs implement co-production in BDS through these modes. The co-production literature (Cepiku and Giordano, 2014; Verschuere *et al.*, 2012) also discusses the fact that the context in which co-production takes place could affect co-production. For example, macro environmental variables such as a country's culture, and organisational variables such as organisational structure, could influence co-production. This study therefore explores the BDS context. Moreover, the co-production literature (Guo and NG, 2011; Auh *et al.*, 2007; Rice, 2002) discusses factors relating to dyadic relationships between the firm's contact staff and clients (e.g. communication, expertise) which could influence co-production. Consequently, this study attempts to establish factors relating to MFI counsellors, trainers and owner managers of microenterprises that affect co-production. Finally, the co-production literature (Cepiku and Giordano, 2014; Rice, 2002) identifies co-production outcomes such as employment generation and neighbourhood revitalization based on the context (i.e. business incubation). Therefore, this study also attempts to explore co-production outcomes relating to the BDS context.

1.5 Aim, objectives and research questions of the study

In order to address these knowledge gaps, this study aims to study the BDS provision to microenterprises in order to explore how the relationships between MFI counsellors and trainers, and owner managers of microenterprises in the provision enhance the performance of MFIs and microenterprises by using the concept of co-production.

On the basis of this aim, the following objectives were established:

Objective 1: to understand the concept of co-production in relation to the effective functioning of BDS programmes run by MFIs.

Objective 2: to develop a conceptual framework based on the empirical findings that simultaneously connects and illustrates the position of each co-production component.

Objective 3: to provide insights for the management of MFIs that will help them to improve the effectiveness of BDS programmes.

To achieve the aim and objectives of the study, the following research questions were developed after reviewing the literature (Chapter 2) and following the research methodology adopted for the study (The case study method recommends the use of only *how*, *why* and *what* types of research questions; see Chapter 4). The questions are based on the concept of co-production.

Research question 1. How is co-production implemented in BDS?

This research question identifies how co-production is implemented through counselling and training (i.e. co-production modes: co-production in counselling (how counsellors and owner managers co-produce) and co-production in training (how trainers and owner managers co-produce)

Research question 2. How do contextual factors influence co-production in BDS?

This research question will explore how contextual factors such as funding, the organisational structure of MFIs and client selection for BDS affect co-production in BDS.

Research question 3. What factors relating to counsellors, trainers and owner managers influence co-production in BDS?

This research question will explore factors such as interpersonal communication, and the expertise of counsellors, trainers and owner managers that influence co-production

Research question 4. What are the co-production outcomes?

This question will identify the co-production outcomes that enhance the performance of both MFIs and microenterprises.

1.6 Justification for the study

There are few studies on BDS in the microfinance literature, so this study fills this gap by adding knowledge to the BDS area (Karlan and Valdivia, 2006; De Wildt, 2004; Halder, 2003; ADEMCOL, 2001).A number of studies in the Sri Lankan context have examined the impact of microcredit on clients (GTZProMis, 2010a, 2010b; Aheeyar,2007; Tilakaratne *et al.*, 2005). These studies have largely investigated its impact on the household and business performance of clients. However, little research has been conducted to investigate the provision of BDS by MFIs to owner managers of microenterprises. Hence, this study attempts to fill this gap by focusing on BDS in this context. Moreover, by exploring the impact of BDS through counselling and training modes, this study fills a gap in the literature as no such studies have been previously conducted.

As previously pointed out in this chapter, past studies on BDS in the microfinance setting have not used the concept of co-production to investigate the impact of BDS on the performance of MFIs and microenterprises/owner managers. This study therefore fills this gap by focussing on the concept of co-production. The study focuses on the BDS provided by Sri Lankan MFIs and thus its findings will help policy makers and practitioners in Sri Lanka to develop effective BDS programmes, which in turn will help improve the performance of microenterprises and MFIs.

1.7 Contribution of the study

This study makes six contributions to knowledge and practice in the area of BDS in the microfinance sector. Firstly, it identifies the contextual factors that influence co-production in BDS. Secondly, the study identifies the factors relating to counsellors, trainers and owner managers that improve the incidence of co-production in BDS based on the case studies drawn from the microfinance sector. Thirdly, it identifies the co-production outcomes in BDS. The literature reveals that there is a dearth of studies on BDS in the microfinance setting, in particular in the Sri Lankan context. Thus, fourthly, the study will contribute to the literature on BDS in the microfinance context. Many studies have been conducted on the concept of co-production. However, few have been made on co-production focusing on dyadic relationships and on counselling and training. Fifthly, the study will therefore contribute to co-production theory. The findings will be useful for practising MFI managers to implement successful BDS programmes. Hence, sixthly, the study will contribute to practice.

1.8 Research methodology

This study investigates a contemporary phenomenon (i.e. BDS) in depth and within its real life context. It also answers the "how" type of exploratory questions and does not control the behaviour events. Thus, according to Yin (2009), the case study method is the appropriate strategy for this study. Further, due to its exploratory nature, in-depth interviews are conducted to collect data. The study also focuses on theory building in the area of business development services, hence inductive logic is considered.

1.9 Organisation of the thesis

The chapters of the thesis are organised as follows:

Chapter 1: Introduction
Chapter 1 introduces the study

Chapter 2: Literature Review
Chapter 2 examines the literature pertaining to the subject matter of the thesis. The literature review is organised under six headings: microenterprise, microfinance, business development services, counselling, training and the concept of co-production.

Chapter 3: Conceptual framework
Chapter 3 presents the conceptual framework. This chapter formulates the conceptual framework based on the theory of co-production, which is used as the grounding theory. The concept of co-production is used to investigate dyadic relationships between counsellors, owner managers, trainers and owner managers. Further, an IMP framework is used to identify the contextual factors that influence co-production.

Chapter 4: Research methodology
Chapter 4 presents the research methodological design and research process followed in the study. This chapter examines the research philosophy, research strategy (why the

case study method was chosen), research techniques (data collection and analysis techniques) and the validity and the reliability of the research.

Chapter 5: Introduction to the cases and interviewees

This chapter presents an introduction to the six cases (i.e. six MFIs) and interviewees.

Chapter 6: Findings: cross case analysis

Chapter 6 presents the findings of the cross case analysis. In the cross case analysis themes, similarities and differences across cases are examined. Six case studies are analysed based on the research objectives, questions and initial conceptual framework.

Chapter 7: Discussion of findings

Chapter 7 discusses the findings of the study in the light of previous literature.

Chapter 8: Conclusion and recommendations

This chapter presents a summary of the findings and recommendations. The contribution of the study to theory and practice is also presented. In addition, the limitation of the study and areas for further research are discussed.

Chapter 2. Literature Review

2.1. Overview of the chapter

The chapter presents a review of the literature that forms the foundation for the study of the business development services (BDS) provided by microfinance institutions (MFIs) to owner managers of microenterprises using the concept of co-production.

It first discusses the selection of literature for the study, the importance of microenterprises to economies, the characteristics of owner managers and the problems faced by microenterprises. Secondly, the chapter introduces microfinance initiatives (e.g. microcredit and BDS) that help micro-entrepreneurs to circumvent problems; it also discusses BDS in detail, as this study focuses on the BDS provided by MFIs. Thirdly, the counselling and training that are used by MFIs to provide BDS are detailed. Finally, the concept of co-production is explained, as it guides this study. In the co-production section, the IMP framework is introduced to examine the influence of context on co-production in BDS; the factors relating to co-production in BDS are identified, co-production outcomes are discussed and finally the key studies undertaken on co-production are reviewed.

2.2 Selection of literature for the study

The literature for the study was selected by following a systematic and a logical process that focused on the research gaps and related research questions. When reviewing the literature on the topic, Bournemouth University's e-library was used to select journal articles. Research databases such as Emerald Insight, EBSCO, SAGE, ScienceDirect, and Business Source Complete, available in the e-library, were used to download articles by using key words such as microfinance, microcredit, BDS, counselling, training, microenterprises, and co-production. Every possible effort was made to review ABS Journals that are rated 2* and above. All the journal articles and reports that were read by the researcher relating to the topic were summarised in a table. It was found that there was a limited number of journal articles on BDS, although there are a number of reports made on BDS by agencies such as ILO and DPRN.

At first, a broad criterion based on the receipt of microfinance by microenterprises was used to select papers to study how microfinance initiatives help microenterprises to circumvent their constraints. This search resulted in producing a significant number of academic articles focusing on the provision of microcredit to resource-constrained enterprises; very few papers highlighted BDS provision as a service and discussion was very light in content (the first gap in the literature). In the second round, the search was limited to the literature on BDS. This search resulted in producing a limited number of studies compared to those focusing on microcredit. In the BDS literature, it was found that studies were conducted in the broad areas of the sustainability of BDS and its impact on the performance of MFIs and owner managers.

It was revealed that the literature on BDS focusing on its impact on the performance of MFIs and owner managers has not done this with reference to counselling and training (the second gap in the literature). Furthermore, the dyadic relationships between MFI counsellors, trainers and owner managers of microenterprises in BDS provision which enhance the performance of all parties have been ignored (The third gap in the literature). It was also found that the concept of co-production is suitable for filling these gaps in the literature. Thus the third round of the search was limited to literature on counselling and training, and co-production. Since the literature on counselling and training in BDS in the microfinance setting was limited, the search was extended to the small business sector. In addition, when searching the co-production literature, an attempt was made to find literature on counselling, training (research question 1), contextual factors (research question 2), dyadic relationships (research question 3) and co-production outcomes (research question 4).

2.3. Microenterprises

Different terms are used to describe microenterprises (MEs), such as small-scale industries, microenterprises, small and micro-enterprises or micro and small enterprises (SAARC, 2000). A microenterprise is defined as an owner-managed business that has fewer than 10 employees (OECD, 2005).

Microenterprises contribute immensely to the economies of developing countries thanks to their contribution to production and employment (Mensah *et al.*, 2007; Zevallos, 2003; Storey, 2002; Hart, 2000; Mead and Liedholm, 1998). They generate income and employment in labour intensive sectors, engaging the low income segment in society. Further, microenterprises have the potential to cater for small and specialised markets and are flexible in allocating resources to changing opportunities (Ali and Peerlings, 2011; Nadvi and Barrientos, 2004).

The following section discusses the characteristics of the owner managers who manage microenterprises.

2.3.1 Characteristics of owner managers (OMs)

The owner managers who manage microenterprise/small business enjoy independence due to the smallness of microenterprises. Further, owner managers experience a high degree of ownership, both financial and psychological (Gibb, 2009; Ghobadian and O'Regan, 2006). The way the business develops is based on the owner managers' personal experiences, in which earlier problems have been addressed (Krueger, 2007; Thorpe *et al.*, 2006). Moreover, the owner manager takes a holistic view of management and is highly dependent on personal relationships and key stakeholders. The allocation of managerial tasks is based on owner managers' personal preferences (Gibb, 2009). Moreover, business decisions are influenced by personal and family ambitions. Owner managers' personal leadership style dominates the whole business (Bishop, 2011; Gibb, 2009).

For the owner manager and team, management development = organisation development = business development. They learn and develop through the process of building the business, and changing the organisation to respond as necessary to problems and opportunities (Gibb, 2009). Furthermore, owner managers often prefer to learn through peers and by doing things, rather than through formal sources such as training (Gibb, 2009). They also demonstrate varied educational backgrounds and often lack formal educational qualifications (Gibb, 1990).

According to Gibb (2009), the following are the general characteristics of owner managers and their team.

- Small management team
- Stretched multifunctional and overlapping roles
- Wider potential for all the staff to know the business and stakeholders
- Limited control over the external environment
- Fewer specialised managerial personnel
- Closeness of managerial group
- Relatively limited resources and power to raise resources
- Limited capacity to scan the environment

- Wider scope for informal ways of doing things

2.3.2 Problems faced by microenterprises

Despite the importance of microenterprises to economies, owner managers are constrained by low capital, technology, managerial skills, information, markets and few linkages to other sectors (SAARC, 2000; Rogerson, 2001). Moreover, the studies show that most closures of microenterprises take place in the early years of a firm's existence (Mead and Liedholm, 1998; Rogerson, 2001; Chrisman and McMullan, 2004).

According to Chrisman (1989), small firms face 13 problem areas, which are classified into strategic, administrative and operational problems. The following are the problems areas identified by Chrisman and their classification.

1) Developing a business plan, (2) feasibility analysis, (3) preformed financial analysis, (4) strategic planning, (5) finance, (6) accounting, (7) personnel, (8) general management, (9) marketing, (10) production, (11) inventory control and purchasing, (12) operations, and (13) others.

1-4 above are classified as strategic problems that are concerned with deciding what business the firm is in and what kind of business it will seek to enter. 5-8 are classified as administrative problems, which deal with a firm's organisation (e.g., structuring of authority, responsibility relationships, and work flows) and its acquisition and development of resources (e.g. personnel training and development, and financing). 9-12 are classified as operational problems that involve functional decisions in areas such as marketing, production, and inventory control.

Entrepreneurs therefore have to address each of these problems in the venture development process. For example, business plans should be developed and many financial, personnel and operating decisions have to be made and implemented. Outside business assistance should help entrepreneurs address the above problem areas. Chrisman and McMullan (2000) assume that in many instances there is a gap between the knowledge possessed by the entrepreneurs and the knowledge required for successful ventures. Chrisman (1999) and Chrisman and McMullan (2000) suggest that outside assistance helps enhance the explicit and tacit knowledge needed by ventures for competitive advantage, resulting in survival and better performances. An entrepreneur's knowledge gap can exist in four areas: know-why, know-what, know-how and know-who (Malecki, 1997). Know-why is concerned with scientific knowledge, whereas know-what is concerned with facts and techniques. Know-why and know-what belong to explicit knowledge that can be codified, replicated, and transmitted (Phillips, 2002) and thus they do not lead to sustainable competitive advantage. In contrast, know-who and know-how belong to tacit knowledge and are more difficult to codify or to copy. Know-how involves the process of learning by doing, whereas know-who involves building network relationships with suppliers, customers, lenders and other stakeholders. Both know-how and know-who lead to sustainable competitive advantage (Phillips, 2002). Thus, outside assistance given by various institutions (e.g. Small Business Development Centres (SBDC) and MFIs) should be able to provide help in covering the knowledge gaps that exist in these four areas.

Microfinance initiatives can help owner managers of microenterprises circumvent problems/constraints and the knowledge gaps faced by them (Sievers and Vandenberg, 2007; ADEMCOL, 2001; De Wildt, 2004). Microfinance institutions (MFIs) provide microcredit and business development services (BDS) to microenterprises. The following sections introduce microfinance and then discuss BDS in detail, as this study focuses on the provision of BDS by MFIs.

2.4 Introduction to microfinance

Microfinance is the issuance of small unsecured loans (microcredit) and other services such as business development services (BDS), insurance and savings products to individuals or groups for the purpose of starting or expanding businesses (Khavul, 2010; ADB, 1997). Microfinance is provided by microfinance institutions (MFIs). Generally, microfinance services are provided to low income people. Thus, most of the MFIs target the 2.8 billion people living on less than $2 a day in developing countries (World Bank, 2014; Akula, 2008; Easterly, 2006, p.165). A trend has also occurred in the recent past in developed countries to offer microfinance to micro entrepreneurs to support their microenterprises (Khavul, 2010). MFIs use innovative methods such as group lending and group liability, pre-loan savings requirements and gradually increasing loan sizes to provide services with little or no collateral (CGAP, 2011; Khavul, 2010; ADB, 1997).

Poverty alleviation is the main objective of many microfinance initiatives (Khandker, 1998, 2005). Microfinancing aims to alleviate poverty by developing microenterprises. Often micro- entrepreneurs who operate in the informal sector have no access to the credit provided by the traditional banking system (i.e. banks often ask for collateral and micro entrepreneurs are not in a position to provide this). Thus credit provided by MFIs without collateral to micro entrepreneurs helps them immensely to grow their enterprises and escape from poverty (Siringi, 2011; IPSL, 2011; Sashi, 2011; Sievers and Vandenberg, 2007).

Today, microfinance is a developed and established industry, serving millions of poor people (Khavul, 2010). There are thousands of MFIs operating in the world today, which service the unmet needs of poor people. In addition, there are about 100 private equity funds comprising banks and foundations, which channel close to $6.5 million to these MFIs (Khavul, 2010; Reille and Glisovic-Mezieres, 2009).

2.4.1 Lending methodologies

MFIs use two main lending methodologies to provide microcredit to clients:

Group methodology

Individual methodology.

Group lending methodology

The basic idea of group lending is that loans (i.e. microcredit) are given to the individual members of a group, but the group is responsible for the repayment of the loans of the individual members to the MFI (group liability). In general, a group consists of 3-10 members. Group lending methodology allows group members to screen and monitor the other members of the group to reinforce the repayment of loans (Khavul, 2010; Denotes and Alexandar, 2004). Groups have a group leader. They meet regularly (e.g. once a month) and MFIs use these group meetings to collect loan instalments and provide counselling and training to clients/members to develop their business ventures (Van Eijkel *et al.*, 2011; Hermes *et al.*, 2005; De Wildt, 2004; ADEMCOL, 2001).

Individual lending methodology

The main difference between group lending and individual lending is that individual lending demands collateral from clients for money to be lent. As a result of the collateral requirement, poor clients are not in a position to obtain loans from MFIs that lend through individual lending because often poor clients do not have collateral to offer. Thus MFIs using individual lending cater for non-poor clients (Khavul, 2010; Denotes and Alexandar, 2004).

The following table compares group lending and individual lending.

Table 1: Group lending versus individual lending

Characteristics of lending methods	**Group Lending**	**Individual Lending**
Collateral	No, joint group liability	Collateral
Loan size	Small	Larger
Client group	Poor	Non-poor
Screening, monitoring and enforcement	Responsibility passed on to clients	Responsibility mainly lies with the MFI
Motivation	Once the loan is settled, clients have access to further loans	Once the loan is settled, clients have access to larger loans
Peer pressure, social ties	Present	Absent

Source: author’s compilation

According to Table 1 clients enjoy different benefits from each lending method. For example, poorer clients can obtain loans without collateral from MFIs using group lending methodology, whereas non-poor clients can obtain larger loans from MFIs using individual lending methodology.

2.4.2 MFI Categories

MFIs can be divided into four categories (Jansson *et al.*, 2004)

- Non-profit MFIs (e.g. NGOs)
- Bank MFIs
- Non-bank MFIs
- Cooperative/credit union MFIs

Depending on the category of MFI (i.e. bank, NGO), the nature of investors, the objectives, and the lending methodology, the market segment varies. For example, NGO and cooperative MFIs are funded by social investors and they are more concerned with achieving dual objectives (financial and social) (Galema *et al.*, 2012). These MFIs have a strong desire to achieve social objectives such as business development services and healthcare (Maes and Foose, 2006). Further, they often cater for poorer clients by using group methodology. In contrast, bank MFIs are often funded by profit-oriented investors who always want MFIs to earn profits (i.e. financial objectives). These MFIs regularly cater for non-poor clients by using individual lending methodology (Galema *et al.*, 2012; Denotes and Alexandar, 2004).

The literature (Sievers and Vandenberg, 2007; Fisher and Sriram, 2002) shows that microcredit is the initial ruling constraint for the micro-entrepreneurs. For them to grow, they need managerial expertise and marketing linkages. Thus MFIs need to provide not only credit but also BDS that help micro-entrepreneurs improve management and discover markets.

Many studies have been made on microcredit in the microfinance literature (Van Eijkel *et al.*, 2011; Bruton et al, 2011; Khavul, 2010; Cull *et a*l., 2009; Banerjee *et al.*, 2009; Sanyal, 2009; Roodman and Qureshi, 2006; Denotes and Alexandar, 2004; Ahamed *et al*, 2001; Rahaman, 1999), which focus on areas such as the empowerment of women, lending methodologies, loan repayments rates, sustainability and outcomes for borrowers, but few have been made on Business Development Services (BDS). This study therefore focuses mainly on BDS in order to fill this gap in the literature. The following section reviews the literature on BDS and identifies the gaps within it.

2.5 Business development services (BDS)

This section first defines business development services (BDS). It then discusses how BDS have evolved over time. After discussing the evolution of BDS, the motivators for MFIs to provide them, BDS linkages, BDS types based on clients, the value chain approach to BDS and the sustainability of BDS are discussed. Finally, the section discusses the impact of BDS on the performance of MFIs and owner managers, identifies the gaps in the BDS literature and summarises the key studies conducted on BDS-focused performance.

2.5.1 Definition of BDS

According to Sievers and Vandenberg (2007), business development services (BDS) are non-financial services provided by MFIs to micro-entrepreneurs that boost competitiveness, and lead to higher productivity, better product design, improved service delivery and/or enhanced market access. The main categories of BDS are management/business training, marketing assistance (for input and output), technology access, technical assistance, productivity and product design, accounting and legal services and access to various forms of information (about standard regulations or ideas in the enterprise field) (Sievers and Vandenberg, 2007). MFIs provide BDS to clients through counselling and training and use counsellors and trainers to provide these services.. Details of the counselling and training provided by MFIs are given in section 2.6.

2.5.2 Evolution of BDS

The focus of support programmes that help small enterprises has changed dramatically since the late 1960s (Sievers and Vandenberg, 2007; Webster *et al.*, 1996). Initially, donors working with national governments helped small and medium enterprises (SMEs) in the manufacturing sector to encourage industrialisation. The World Bank started to help these enterprises in 1973 by giving loans and continued to help for the next two decades. Bilateral and multilateral projects were funded by governments through a combination of credit and BDS. Credit was channelled through the development banks and BDS were channelled through the development banks, government ministries or agencies. The BDS provided were of low quality, not suited for demand, and highly subsidised (Webster *et al.*, 1996).

In the late 1970 and early 1980s the emphasis of the donor community changed. The microcredit programmes that started in Latin America and Asia in the 1970s using group lending to poor people caught the attention of donors (Morduch, 1999). Grameen Bank in Bangaladesh and some other MFIs were the pioneers in introducing this group-based microcredit technique (Sievers and Vandenberg, 2007). This technique was far superior to that of unsustainable donor projects based on a welfare mentality. Moreover, MFIs which provided microcredit thrived since they charged higher interest rates and enjoyed higher loan repayments (Sievers and Vandenberg, 2007). These microcredit programmes were targeted at poor people and lenders were of the view that with the little credit given, borrowers could do well in their enterprises with their entrepreneurial abilities.

In the 1970s, MFIs also offered BDS to borrowers and these services were a pre-/core requisite for the credit given. These BDS consisted of management training, such as developing a business plan. The idea of giving BDS was that borrowers would make use of their credit wisely. Successful use of credit meant MFIs could achieve poverty reduction goals while enjoying higher loan repayments (Sievers and Vandenberg, 2007). However, in the late 1980s and early 1990s, MFIs scaled back BDS for several reasons. They found a lack of demand from borrowers for BDS, which was due to the poor quality and narrow focus of the business training provided by MFIs. In addition, loan officers who had to provide business training in addition to their loan work found it added to an already difficult workload. There was also pressure from the industry for MFIs to become sustainable and they found BDS to be a cost which affected their sustainability negatively. Moreover, they were not clear about the benefits that BDS offered to both themselves and clients (Goldmark, 2006). The World Bank, which supported BDS programmes between 1989 and 1993, reported that proper cost benefit analysis of BDS had not been carried out by MFIs (Webster *et al.*, 1996). Practitioners were of the view that cost benefit analysis of BDS was poor. In this period the Asian Development Bank (ADB) suggested that “it should be accepted that for non-financial services, cost-effectiveness and net social benefits are more appropriate immediate goals than full cost recovery or sustainability” (ADB, 1997). ADB recommended that “funding agencies should be willing to countenance subsidies in non-credit inputs and services for much longer than is necessary in credit provision” (ADB, 1997).

Many MFIs did not agree with the ADB recommendations and continued to follow the credit only approach. Some MFIs which began as NGOs and later evolved into proper financial institutions were required to comply with the financial regulations and had to separate their accounting between credit and BDS, or it was required that non-financial services should not be provided at all. In the mid 1990s, MFIs in Latin America and Asia adopted a “minimalist credit model”, in which emphasis shifted to delivering credit and other financial products that could maximise sustainability (Goldmark, 2006, p.1). This model ignored the development needs of the enterprises and poverty reduction, which are the main objectives of microfinance endeavour. In adopting this model, the focus was on a financial system approach that engendered increased access to financial services, ignoring the impact in terms of measurable enterprise growth. By the late 1990s, MFI concentrated on scale and technique, and the impact on clients had been taken largely for granted. BDS hardly came in to play in this period (Rhyne and Otero, 1992; Fisher and Sriram, 2002).

In 1997, ADB again emphasised the importance of having a “not by credit alone” strategy. As these changes were happening in the microfinance domain, the BDS field was also changing; BDS providers wanted to adopt a more client-driven and sustainable approach for their services, culminating in a consensus in the late 1990s on a new market development paradigm for BDS, as set out by the Committee of Donor Agencies for Small Enterprise Development (CDASED, 2001). Further, practitioners and policy makers suggested that all MFI borrowers did not need to follow training as a compulsory requirement, as some borrowers did not need this (Goldmark, 1999). It was also found that vocational training was more popular among start up microenterprises and that services such as marketing and technology access were sustainable for BDS providers (Goldmark, 1999). It was recommended that BDS should address a distinct business problem or provide a service that could not be generated internally by microenterprises (Sievers and Vandenberg, 2007). Thus, BDS providers needed to provide a broader range of BDS which suited a particular need of client and type of industry, with an eye on sustainability.

The combined shift of moving beyond microcredit alone and providing appropriate BDS influenced a new approach called “making markets work for the poor” (Miehlbradt and McVay, 2005; DFID, 2004; SIDA, 2004). This is a holistic strategy which evaluates the constraints faced by entrepreneurs and gives solutions. In this holistic strategy, credit intervention is one possible solution for entrepreneurs, but various other BDS need to be provided as solutions for them.

With the renewed interest in linked programmes (i.e. credit and BDS) and broader development goals in recent times, policymakers and practitioners of microfinance recommend that MFIs provide BDS in addition to credit, with a greater emphasis on sustainability, quality, local demand on markets and subsectors of BDS to improve the lives of poor entrepreneurs. This approach is different to that of the earlier BDS philosophy, which was more supply driven (Sievers and Vandenberg, 2007).

2.5.3 Motivators for MFIs to provide BDS

The literature (Sievers and Vandenberg, 2007; De Wildt, 2004; ADEMCOL, 2001) shows that despite MFIs facing issues such as lack of financial sustainability and low client demand for BDS, some of them provide services for the following reasons/motivators.

- By linking BDS to microcredit programmes, MFIs can achieve financial sustainability through higher loan repayments, client retention and client outreach (due to BDS provision, clients will repay loans promptly because they can manage their credit and business better). Furthermore, BDS improves client satisfaction and thus clients will stay with the MFIs. New clients will also join the MFIs because of the BDS provided).
- Some MFIs provide BDS following donors' and investors' requests.
- Profit-oriented MFIs provide BDS in order to face the competition because they can retain clients by improving client loyalty through this provision.

2.5.4 Linkages between the provision of microcredit and BDS

Dunford (2001) of Freedom from Hunger (FFH) has defined three categories (linkages) that can be used by MFIs to link microcredit and BDS and deliver these to clients.

The three categories are:

—Unified: the same people from one institution deliver both credit and BDS.

—Parallel: an institution has two different organisational units that are separate cost centres and use different people to provide both credit and BDS.

—Linked (or partner): two distinct institutions; one offering credit and the other BDS, operating in the same area. Normally these institutions are linked by referring clients to each other and by initiatives such as undertaking joint marketing.

2.5.4.1 Advantages and disadvantages of having different linkages

Unified linkage is better in many instances as it offers cost benefits to MFIs and clients. Since the same person (i.e. loan officer) provides both credit and BDS in a unified linkage, it gives a cost benefit to MFIs compared to parallel linkage, which uses two persons to provide credit and BDS. In unified linkage, loan officers and clients meet each other at group meetings. Since group meetings are close to client/member operating bases, they can also save time and money. The downside of unified linkage is that loan officers have the added workload of providing BDS in addition to their credit work. Further, their expertise can be insufficient to provide BDS and MFIs using unified linkage may not have separate accounts for credit and BDS, resulting in difficulties to identify costs and revenues for BDS (Sievers and Vandenberg, 2007).

In contrast, parallel linkage can help MFIs to retain larger clients or clients who have outgrown microloans. Parallel linkage can also help MFIs to secure better information about a client's business, which will help to assess credit risk (Sievers and Vandenberg, 2007).

Partnerships between MFIs and BDS providers (i.e. partner linkage) provide benefits to both parties. For example, MFIs can cater for the diverse clientele (i.e. youth, women) introduced by BDS providers. Furthermore, MFIs can limit their credit risk with clients as BDS providers introduce clients groomed (i.e. BDS providers train clients by giving them training) by them. In contrast, MFIs can introduce its clients to BDS providers (Sievers and Vandenberg, 2007; Henry, 2006).

Whether the provision of BDS is compulsory in any of the three categories is matter of debate (Helms, 1998), which actually creates six categories (Sievers and Vandenberg, 2007):

*Unified-compulsory; *Unified-voluntary; Parallel-compulsory; Parallel-voluntary; Partner-compulsory; and Partner-voluntary (Sievers and Vandenberg, 2007).

*Unified-compulsory means one department provides both credit and BDS and clients must accept both, whereas *Unified-voluntary means one department provides both services, but clients can opt to receive both or only one. The same concept also applies to others.

Compulsory linkages have resulted in unnecessary costs for clients who need only one of the services. Besides, MFIs would also lose important information pertaining to quality and demand for BDS. However, they may have to provide certain initial low intensity BDS, such as financial literacy, which would be compulsory for inexperienced or first time borrowers so that they would make use of credit wisely (Sievers and Vandenberg, 2007).

Sievers and Vandenberg (2007) researched the effectiveness of these six categories and the following recommendations are the outcomes of their research:

—MFIs should opt for voluntary rather than compulsory;

—They should opt for unified solutions only if the staff can handle them efficiently;

—They should opt for partner rather than parallel, if existing providers already exist.

2.5.5. Targeted provision of BDS to different types of clients

According to DPRN (2011), three broad types of BDS can be identified, depending on the type of client. Table 2 illustrates these three types.

Table 2: Targeted provision of BDS to different types of clients

Client development services	Raising awareness among clients of their basic business or personal (financial) situations. Generally aimed at preventing harmful situations (e.g. over-indebtedness) Clients are in survival mode and generally not willing to pay for these services. e.g. financial literacy.
Entrepreneurship development	Helping individuals to start their own business and raising awareness of entrepreneurship as a career choice, plus basic business skills training. Clients are aspiring to set up a business

services	from a positive choice, not so much out of necessity- e.g. vocational training, business creation programmes.
Business development services	Supporting existing small businesses to improve their operations, with the services ranging from business advice to technical skills training and linking entrepreneurs to markets.

Source: DPRN (2011)

2.5.6 Value chain approach to BDS

The studies show that BDS providers should provide their services to cover the value chain of the entrepreneur (EMN, 2011; ILO, 2009). A DPRN (2011) report on BDS policies also recommends that MFIs should consider the value chain concept when providing BDS.

A value chain "describes the full range of activities that are required to bring a product or service from conception, through the inter-mediary phases of production" (ILO, 2009, p.3; Kaplinsky, 2004).

The value chain covers following activities:

- Product or service design
- Primary production
- Processes and transformation
- Trading and sale to final customer

BDS providers should therefore provide supporting services for these activities. For example, MFIs should help clients to design their product, help them with input supplies (primary production), assist with machinery, and finally help to market the product.

2.5.7 Financial sustainability of BDS

The sustainability of BDS provided by MFIs is a major concern (Sievers and Vandenberg, 2007). It has become more important ever since donor funds started drying up (Goldmark, 1999). Thus MFIs use different strategies, such as charging clients a fee for BDS, and linking BDS to microcredit programmes to sustain the programmes. Each of these strategies is explained below.

BDS providers such as MFIs can recover costs mainly from services such as marketing and technology access, which have a demand from clients. MFIs recover cost from these services by charging a fee either from the clients or from the buyers (e.g. when an MFI creates a market linkage for its clients, it can charge those who buy products from MFI clients a fee; for technology access, an MFI can charge the client a fee). But MFIs find it difficult to recover costs from services such as technical assistance, accounting and legal advice, training and information because there is low client demand for these non-viable services and hence MFIs cannot charge a fee for them. However, BDS providers such as MFIs should be able to cross-subsidise BDS in order to maintain the sustainability of BDS programmes (for example, an MFI can recover the cost of non-viable services from the profits gained from viable ones such as marketing). Moreover, MFIs can also prioritise services; for example, by providing viable services (i.e. demand-driven) more than non-viable ones in order to survive (Goldmark, 1999).

Measuring profits for both viable and non-viable services is important for the sustainability of BDS. Besides, identifying clients' price signals for BDS are important for both BDS service providers and clients. The studies (Tilakaratne, 2009; Goldmark, 1999) show that even if clients are poor, they are willing to pay a fee for BDS, so BDS providers should charge for their services. Micro-entrepreneurs also benefit from being charged, since they have access to sustainable services (Goldmark, 1999). According to Goldmark, by charging a fee from clients, full cost recovery for BDS may not be possible, although an aggressive strategy may result in sustainability.

Some MFIs believe that linking BDS to microcredit programmes enhances the financial sustainability of both MFIs and BDS. Since BDS improve loan repayments, client retention and client outreach, they will improve the financial sustainability of MFIs. When there is financial sustainability, MFIs can continue their BDS programmes (Sievers and Vandenberg, 2007; ADEMCOL, 2001).

Studies also show that MFIs may not be able to maintain their BDS programmes in the short term as their cost will exceed any revenue. However, they can sustain the programmes in the long run, as the benefits of BDS outweigh their costs (Sievers and Vandenberg, 2007; Halder, 2003; ADEMCOL, 2001).

Thus, given the context that donor funds are drying up, MFIs must look at how they can sustain their BDS programmes. As revealed in the literature (Sievers and Vandenberg, 2007; ADEMCOL, 2001), they should provide demand-driven BDS, and prioritise and cross subsidise them in order for them to continue. Moreover, MFIs should identify price signals for BDS from clients and charge them a fee to cover costs. It has also been revealed that MFIs could achieve the financial sustainability of BDS by linking them to microcredit programmes.

2.5.8 The impact of BDS on the performance of MFIs and owner managers/microenterprises

The BDS literature shows that BDS have a positive impact on the performance of MFIs and owner managers/microenterprises (Sashi, 2011; Karlan and Valdivia, 2006; ADEMCOL, 2001). MFIs can achieve better client/owner manager satisfaction and better client retention, increase the client base and ensure better loan repayments by providing BDS. In contrast, they help owner managers of microenterprises improve the sales and profits of their business ventures and improve their business knowledge and practice (Karlan and Valdivia, 2006; De Wildt, 2004; ADEMCOL, 2001).

A number of studies (Karlan and Valdivia, 2006; Henry, 2006; Halder, 2003; ILO, 2002; Dunford, 2001) conducted on BDS in the microfinance context have investigated the relationship between BDS and the performance of owner managers and MFIs.

ADEMCOL (2001) investigates the effectiveness of business training given as a part of BDS by ADEMCOL, an MFI in Columbia. Business training given to clients by ADEMCOL led to high loan repayment rates, fewer client dropouts, high outreach and increased employee motivation in the MFI. Halder (2003), in his case study on BRAC, an MFI in Bangladesh, examines the impact of skills development training on participants' performance. BRAC provided skills training, inputs, technical assistance and marketing. The findings clearly show that loan clients who received training were able to increase their income significantly more (almost double) than loan clients who did not take part in the training. De Wildt (2004) conducted a study on the MFI Financiera Solución (FS) in Peru. The study reveals that those who attended the training were able to generate more employment, acquire more assets, and improve product quality, the product portfolio and production process compared to those who did not attend. Moreover, the training improved FS employee satisfaction. Karlan and Valdivia

(2006) examine the impact of business training on microfinance clients and institutions on a Peruvian village banking program. Randomised control trial methodology was used for the study by using control and treatment groups. The findings reveal that the treatment group showed better business knowledge, practice and revenues due to the business training that they received. The MFI had better repayment rates and client retention due to the business training provided to clients. Henry (2006) examines the effectiveness of BDS on the performance of clients and MFIs by using two case studies (one in Canada and one in Columbia). The study shows that BDS improve the performance of the MFI and the client. Table 3 shows the key studies made on BDS which show the impact of BDS on the performance of MFIs and owner managers.

Table 3: Key studies made on BDS in the microfinance setting that investigate the impact of BDS on the performance of MFIs and owner managers

Author	**Method**	**Focus**	**Key findings**
ADEMCOL (2001)	Case study (Columbian MFI ADEMCOL)	To evaluate the success of BDS (e.g. training) provided by ADEMCOL	MFI experienced better loan repayments, client satisfaction, increase in the client base, decrease in the client dropout rate, increase in financial sustainability
ILO (2002)	Case study Zimbabwe	Impact of training on MFIs	MFI profitability and loan repayments improved. Client base grew
Dunford (2001)	Case study Zimbabwe	Impact of BDS on MFI performance	MFIs did well in terms of better administrative expense and salary expense ratios, cost per borrower and staff productivity ratios due to the BDS provided
Copestake *et al.* (2001)	Case study Zambia	Impact of microcredit and training on	Clients' profits increased due to training received

		performance of clients	
Nisttahusz *et al.* (2002)	Case study Bolivia	Impact of BDS on loan repayment and clients.	Clients who received BDS showed better business results and applied for larger loans. There was no relationship between BDS and loan repayment
McKernan (2002)	Case study in Bangladesh	To measure the impact of credit and non-credit programmes on clients	Clients' profits improved significantly due to the BDS programmes
Halder (2003)	Case study based on the MFI BRAC in Bangladesh	To measure the skills development training on participants and the cost effectiveness of BDS	Clients who received training from BRAC earned more from their business ventures than those who did not
De Wildt (2004)	The case study method was used to study the case of Financiera Solución (FS) in Peru	To identify the cost and benefits of linkage (credit and BDS) to microenterprise clients and FS	Clients who received training were more satisfied, earned more, and generated more employment than those who did not. FS benefited in terms of having better client relationships and employee satisfaction
Karlan and Valdivia (2006)	Quantitative case study of a Peruvian village banking program (by using	To measure the effectiveness of a training program given to microfinance clients	Training led to improved business knowledge, practices and revenue in the treatment group, whereas the control group remained as they were before. The MFI benefited in terms of higher

	treatment and control groups)		loan repayments and better client retention due to the training given to clients
Henry (2006)	Case studies in Canada and Columbia: two MFI programs	To examine the performance of two MFI programs. The Canadian MFI used an external BDS provider, whereas the Columbian MFI used its own BDS program	MFIs improved the bottom line and clients improved their business performance thanks to BDS

Source: author's compilation

The majority of the literature discussed above in the microfinance setting shows that BDS have a positive impact on the performance of the MFIs and the owner managers. The literature has not focused on counselling, mainly focussing on training intervention (Karlan and Valdivia, 2006; De Wildt, 2004; ILO, 2002; ADEMCOL, 2001). Although BDS are provided through counselling and training, no single study has examined the impact of BDS with regard to counselling and training and hence how the relationships between MFI counsellors, trainers and owner managers of microenterprises in BDS provision affect the performance of MFIs and owner managers. Thus given this gap in the literature, this study attempts to investigate the dyadic relationships between MFI counsellors and trainers, and the owner managers of microenterprises. The literature (Guo and Ng, 2011; Rice, 2002) reveals that the concept of co-production can be used as the guiding theory to investigate dyadic relationships. The study therefore uses this concept as a guide. Co-production refers to joint efforts between two parties who together determine the output of their collaboration (Parks *et al.*, 1981). The concept of co-production is discussed in detail in section 2.7. Thus the aim of this study is to explore how relationships between MFI counsellors and trainers, and the owner managers of microenterprises in BDS provision enhance the performance of MFIs and microenterprises by using the concept of co-production.

Since this study focuses on counselling and training modes in which dyadic relationships between counsellors and trainers, and owner managers, take place, the following section discusses counselling and training. Understanding of these two interventions is important, as this study considers counselling and training as co-production modes (see research question 1). The literature from other settings such as small businesses and marketing is also used in order to discuss counselling and training interventions.

2.6 BDS modes of delivery- counselling and training

MFIs deliver BDS to clients through counselling and training (Tilakaratne *et al.*, 2009; ADEMCOL, 2001). Counsellors attached to MFIs provide counselling to clients and internal and external MFI trainers provide training to clients. Table 4 shows how BDS are provided by MFIs through counselling and training.

Table 4: BDS provided by MFIs through counselling and training

BDS	**Counselling**	**Training**
Financial literacy	x	x
Linkages (loan, market, training)	x	
Assistance in business registration	x	
Assistance in loan application		
Business plan registration	x	x
Assistance in input supplies	x	
Formation of producer groups	x	
Organising exposure visits, entrepreneurship competitions, trade fairs	x	
Knowledge in record keeping, marketing, pricing, quality, purchasing, costing	x	x
Vocational skills training		x
Business management (record keeping, accounting,		x

costing, marketing, inventory control, purchasing) training		
Soft skills (communication skills, negotiation skills) training		x

Source: author's compilation

As can be seen from Table 4, there are certain BDS such as financial literacy that could be provided by both counsellors and trainers. The following section discusses counselling and training in detail.

2.6.1 Business counselling

Patton and Marlow (2002) assert that small firms are often unaware of their knowledge and skills gaps until a critical incident happens. Therefore providing counselling to these firms can spot problems before they become serious. This section first defines counselling for this study. Secondly, it discusses counselling types and approaches before examining counselling in the microfinance setting. Finally, the relationship between counselling and the performance of business ventures is discussed.

Definition of business counselling

In this study counselling refers to advice given by counsellors to aspiring, embryonic and established businesses on how to exploit growth opportunities and how to manage the many problems which confront the small firm (Johnson, 1991). Through process facilitation, the small business counsellor leads and assists clients in acquiring the capability to assess their current situation, to assess the advantages and disadvantages of alternatives, and to make an informed decision to act or not. Above all, the counsellor practises personal competencies that develop rapport and build relationships to assist the client in recognising and achieving personal, entrepreneurial, and business goals and objectives (Canadian APEC, IBIZ, 2015; Johnson, 1991).

Types of business counselling

Three types of counselling techniques are available. These are developmental counselling, rational redirection and crisis intervention (Boyd, 1993).

Developmental counselling is long term counselling. Its goal is to build a foundation of knowledge that will prepare clients for the business community and move them up the counselling hierarchy. This approach considers the ongoing developmental needs of the client.

Sometimes, clients need rational redirection, whereby they are told that their idea is irrational. Crisis intervention is also part of counselling and crises can often happen in a recession. Pre-venture clients may also face crises. In crisis intervention, counselling helps clients circumvent the problems (Boyd, 1993).

Counselling approaches

Rice (2002) identifies three counselling approaches in his study on business assistance given by incubator managers to entrepreneurs. They are

1. Reactive and episodic: in this approach, clients request help in dealing with a crisis or problem and assistance is given for a short time.
2. Proactive and episodic: in this approach, incubator managers can be proactive in giving counselling on an episodic basis. This can happen due to the co-location (e.g. discussion over a coffee). This informal and ad hoc approach enhances trust and communication between incubator managers and clients/entrepreneurs.
3. Continual and proactive: this approach considers the ongoing developmental needs of the client and the incubation company.

The continual and proactive approach was emphasised as the best approach by incubator managers who participated in the study.

Importance of counselling based on the stage of the business

A number of studies on counselling provided by outside assistance providers such as Small Business Development Centres show that counselling is useful at the early stages of an entrepreneur’s venture (McMullan and Long, 1990; Bouwen and Steyaert 1990; Barney 1986; Bird, 1988; Stinchcombe, 1965). The knowledge gained through counselling at early stages can be vital for nascent entrepreneurs to use in the start-up, survival and performance stages (Chrisman and McMullan, 2004).

Problem areas addressed by counselling

Counselling provides solutions to the strategic, administrative and operating problems of entrepreneurs (Chrisman, 1989). The literature reveals that the effectiveness of counselling provided by outside assistance providers can vary depending on the problem. Chrisman (1989) investigates how pre-venture clients perceived the value of an outside assistance programme (i.e. Small Business Development Centres, SDBC). Strategic, administrative and operating assistance was provided to entrepreneurs through counselling. The results indicate that clients perceived that strategic assistance was more valuable than administrative and operating assistance and hence the author recommends that SDBC should focus more on strategic assistance (such as business plan preparation) so that counselling efforts could be maximised.

2.6.1.1 Counselling in the microfinance setting

MFI counsellors provide counselling to clients. As shown in Table 4, counsellors provide counselling in financial literacy, assistance in business plan preparation and loan applications, and assistance in input supplies. Further, they create market and loan linkages for clients, form producer groups for them, and organise exposure visits and entrepreneurship competitions (Henry, 2006; ADEMCOL, 2001).

Counsellors provide one-to-one and group counselling to clients (Henry, 2006); this study focuses only on one-to-one counselling. Counsellors often provide counselling at weekly group meetings attended by clients (ADEMCOL, 2001) and for start up businesses and established ones (Henry, 2006).

2.6.1.2 Relationship between counselling and the performance of business ventures

The studies show that small firms are able to gain better business knowledge, and improve the sales and profits of their business ventures, and growth and survival rates because of the counselling they received (Cumming and Fischer, 2012; Klinger and Schündeln, 2011; Schayek and Dvir, 2009; Rice, 2002; Chrisman and McMullan, 2000). However, several studies conducted to ascertain a relationship between counselling and business performance found that there is weak or zero relationship (Dahlqvist and Davidsson, 2000; Dahlqvist *et al.*, 2000; Honig and Davidsson, 2000; Tremlett, 1993; Maung and Ehrens, 1991). These studies show that those who take up counselling do not launch new businesses or run their businesses successfully. This could be due to a number of reasons, such as negative client selection for counselling (i.e. less experienced clients turn up for counselling); those who have entrepreneurial talent do not take up the counselling; and those who have come to counselling are not turned into successful entrepreneurs (Davidsson, 2002; Chrisman and McMullan, 2000).

Counselling provided by MFIs improves not only the performance of owner managers but also their own performance (Sashi, 2011). Counselling helps owner managers develop products, make changes in their strategy and market their products. In contrast, MFI provision of counselling ensures owner managers' success in business and their loan repayments (Sashi, 2011). The microfinance literature does not show any empirical evidence that counselling improves the business performance of owner managers. However, some studies (Henry, 2006; Nisttahusz *et al.,* 2002; Dunford, 2001) show that BDS improve the business performance of not only owner managers but also MFIs. Since BDS are provided through counselling and training, it is argued that counselling may have contributed to performance.

Co-production between counsellors and owner managers in BDS can be important in effective counselling intervention which ensures the performance of both MFIs and owner managers. Thus potential factors relating to counsellors and owner managers (i.e. dyadic relationships) that can enhance co-production in BDS are identified in the co-production section (2.6).

2.6.2 Training

This section first defines training. Secondly, it discusses the types of training and training approaches before discussing training in the microfinance setting. Finally, this section discusses the relationship between training and the performance of business ventures.

Definition of training

In this study, training refers to MFI provision of programmes on financial literacy and business training, and follow up support to owner managers to solve practical problems, tailor-made and specific to the microenterprise (ADEMCOL, 2001; Gibb, 1997; Manpower Services Commission, 1975). MFI trainers use training approaches such as community-based training, interactive training and adult training techniques to provide support to owner managers. These approaches are discussed in detail below.

Types of training

Training in small firms can be broadly classified into three categories: 1. Motivational 2. Entrepreneurial 3. Business (Ladzani and Vuuren, 2002). Table 5 shows the skills imparted to entrepreneurs by each of these categories.

Table 5: skills given by training programmes

Motivation	**Entrepreneurial skills**	**Business Skills**
Need for achievement	Creativity	Management/leadership
Ability to inspire	Innovation	Business plans
Expectations of the high achiever	Ability to take risks	Financial skills
Obstacles or blocks	Ability to identify opportunities	Marketing skills
Help	Ability to have a vision for growth	Operational skills
Reactions to success or failure	Interpretation of successful entrepreneurial role models	Human resources skills

Source: Ladzani and Vuuren (2002)

Different training based on the stage of the client's business

The studies show that based on the stage of the business (start up, survival, growth, launch, expansion) business clients need different business training modules (Yukichi *et al.*, 2012; DPRN, 2011; Klinger and Schündeln , 2011; Henry, 2006).

Yukichi *et al.'s* (2012) study on the impact of basic management training given to micro- and small entrepreneurs in Ghana shows that basic management training helps entrepreneurs at the survival stage to learn some management skills. The authors' conjecture is that by providing advanced business training the entrepreneurs could move to the quality improvement (growth) stage. Klinger and Schündeln (2011) assess the effectiveness of training programs for entrepreneurs in Central America, covering three countries. The study shows that there are new business start ups and expansions due to the training given. This included the development of a business plan. The training program consisted of three stages 1. How to write a business plan; 2. How to develop a business plan with one-to-one support; and 3. Winning prize money for the best business plans. The findings show that the first stage impacted on the entrepreneurs' business expansion and the other two impacted on the entrepreneurs who were launching businesses. Further, Henry (2006) emphasises that MFIs should provide operational training to start up entrepreneurs and strategic training to mature ones.

Different training based on particular business problems

As discussed in section 2.2.2, clients have different strategic, operational and administrative problems (Chrisman, 1989), hence training must be provided to solve these. ADEMCOL's (2001) study shows that Columbian MFIs provide two types of training for operational needs and strategic needs. Operational training covers daily requirements such as accounting and tax records, whereas strategic training is given to address medium and long term issues to improve business performance and access new markets, and to enhance the ability to compete.

2.6.2.1 Training approaches to micro/small enterprises

The literature (Walker *et al.*; 2007; Knowles *et al.*, 2005; ACCION, 2005) on small businesses discusses the different approaches to business training given to micro/small enterprises. The following explains some of these approaches.

Interactive training

The interactive training method is found to be useful for small firms as it guarantees a high level of learning over short periods of time for small business owners with lower levels of formal education (Walker *et al.*, 2007; ACCION, 2005). In interactive training there is interaction between the trainer and the trainee in the classroom, where trainees provide their knowledge and experience by connecting with the information and experiences provided by the trainer. Moreover, interactive training facilitates networking and sharing of experiences among trainees in the classroom. Interactive training does not happen in a traditional lecture-based environment, where passive learning takes place, but in an environment where deep learning occurs through participatory workshops (Walker *et al.*, 2007; ACCION, 2005).

Interactive role playing, problem-solving, games and discussions that incorporate the life experiences of the participants are some of the techniques used in interactive training (ACCION, 2005). Small and micro-entrepreneurs learn to apply tools through interactive training while developing their abilities. For example, a micro-entrepreneur may debate his own ideas and knowledge on inventory control in the classroom before learning to apply this in his business venture. Interactive training activities also promote the learning by doing (i.e. action learning) approach (Rasmussen and Sorheim, 2006). In action learning, greater involvement of trainees is expected (Rasmussen and Sorheim, 2006). Further, in this approach the trainers should be coaches or facilitators rather than teachers and need to show empathy towards the trainees.

Adult learning

The fundamentals of adult learning concepts are used in business training provided for micro- and small entrepreneurs. Some of the concepts used by training providers are given below (ACCION, 2005).

- People learn by considering what new ideas offer in relation to what they already know.

  People do not discard what they learn; instead, they want to mix the new knowledge with what they already know. Thus trainers should facilitate "learning by reconstructing" for the entrepreneurs who attend training.
- When a new idea can be implemented in the short or medium term, it is adopted more easily than ideas that are adopted long term.

  Entrepreneurs are motivated to learn new things that can be put into action more in the short or medium term compared to the long term. Trainers have noticed that things taught in the classroom which need changes in the long run are adopted with difficulty by the entrepreneurs.
- Zone of proximal development.

  Proximity is a basic requirement to enable trainers to "hear" the participants. If the message is very distant, then participants may not pay attention. For example, when teaching accounting for micro-entrepreneurs they should not be taught accounting which is applicable to larger firms, but instead that which suits small firms with 2-3 employees; they will then pay attention.

- Entrepreneurs should identify the needs of their microenterprises and the ways to satisfy them.

  Manfred Max Neef's work on "human scale development" postulates that it is important to distinguish between the necessity and satisfier. For example, for the entrepreneur "control of business" can be a necessity, hence the satisfier would be "record keeping". Training providers should therefore design tools, solutions and skills to satisfy the necessities of entrepreneurs.

- Real learning involves destabilisation.

  Entrepreneurs should be able to transform prior knowledge and not substitute it for new knowledge. Thus trainers should create "cognitive dissonance" in the minds of entrepreneurs to destabilise them. Cognitive dissonance is the simply the generation of doubt. If doubt is not created, then entrepreneurs would lose interest; they are destabilised in order to learn new concepts and to improve what is already known to them.

Community-based education (CBE) training

A community-based approach to learning is focused on the needs of the learner and not on evaluating them. Thus, the role of diagnosing learning needs must come from the small business community (Redmond *et al.,* 2008; Brookfield, 2005; Knowles *et al.*, 2005). The CBE approach ensures that individuals want to learn from their own community and with other small business owner managers who have similar backgrounds in terms of level of prior education and experiences. The CBE approach also creates a collaborative and non- threatening environment for the participants to learn in, while considering adult learning needs. In this familiar approach, both teachers and participants are provided with the opportunity for reflection and action. A critical element of the CBE approach is that training is not given in the traditional setting but is taken to the local community. Moreover, the learning content is designed and managed by the participants and teacher and hence it is a participative model. The participants in CBE based training can attend voluntarily and do not need to pay fees. They are also free to leave the training at any time as participation is not tied to any evaluation criteria. The trainer acts as a facilitator and his role is not to evaluate the learner by using reward and punishments (Redmond *et al.,* 2008).

In general, small firms think training is a cost rather than an investment. They think that by attending training they would lose time in their business, lose production and lose money spent on training. Thus they are reluctant to attend traditional training conducted by technical colleges, training institutions etc. Given this context, the CBE approach to training encourages small firms to attend training (Redmond *et al.*, 2008).

2.6.2.2 Training in the microfinance setting

MFIs use their trainers to provide training, which is usually provided to owner managers at weekly group meetings (Karlan and Valdivia, 2006; ADEMCOL, 2001). They provide this training in the broad areas of financial literacy, strategy, and operational and vocational training. Each of these areas is explained below.

Financial literacy training

In financial literacy training, MFIs provide the knowledge, skills and attitudes required to adopt good management practices in earning, spending, saving, borrowing and investing. As a result of this training participants can make better financial choices (Henry, 2006). Most MFIs provide financial literacy training before they provide microcredit because owner managers can make use of microcredit wisely in their businesses with the knowledge gained through this training (Karlan and Valdivia, 2006; Ladzani and Varuen, 2002).

Operational training

Operational training covers areas such as business start up advice, business idea generation, preparation of business plans, accounting, marketing, inventory control, costing, pricing, sales forecasting and quality. This training helps entrepreneurs move their business forward and is important especially for start-up entrepreneurs (Henry, 2006).

Strategic training

Entrepreneurs face different challenges, especially when they want to expand, grow and earn more profits in their businesses. As such, these entrepreneurs seek strategic training, such as training specific to their industries, finding ways to access new markets, negotiating new contracts and networking (Henry, 2006).

Vocational training

Competency-based training is given to clients, such as food processing, beauty culture, sewing, soap manufacturing and flower growing (Henry, 2006).

This study focuses on financial literacy training, operational training and strategic training. Operational and strategic training is considered broadly as business training in this study. An example of a business training programme given by a Peruvian MFI is given in the appendix (see annex1).

Programme features of training provided by MFIs

This section discusses programme features such as use of internal and external trainers in training, its compulsory/voluntary nature, and charges for training that affect its effectiveness.

Internal versus external trainers

The studies conducted in the microfinance setting reveal that internal MFI trainers are better than external ones in providing business training to clients (De Wildt, 2004; ADEMCOL, 2001).

ADEMCOL's (2001) study on business training finds that MFI staff can deliver business training cost-effectively and tailor-made to the specific needs of clients, as opposed to outside providers who charged a fee. Furthermore, outside training providers offer training for educated clients and are often not specialised in providing training to microenterprises. ADEMCOL's (2001) study also reveals that clients who undergo training think of the MFI as a business partner, rather than a training institution, and they also feel that the quality of training is good compared to other BDS providers. Moreover, this study shows that trainers, being loan officers, are familiar with the reality of microenterprises and, more importantly, they represent the interests of the MFI they work for, unlike external trainers. De Wildt's (2004) study in Peru also shows that internal MFI trainers are better than external ones, as they can maintain a better quality of training.

Compulsory or voluntary?

The studies in the microfinance literature show that by making training compulsory or voluntary there could be advantages and disadvantages to both MFIs and clients (Sievers and Vandenberg, 2007; Karlan and Valdivia, 2006; Ladzani and Vauren , 2002).

Sievers and Vandenberg (2007) argue in their study on linkages in MFIs that clients should have the choice to decide on training and hence should be able to attend voluntarily based on their needs assessment and capacity to pay. Ladzani and Vauren (2002) assert that if financial institutions make training compulsory before providing microcredit, they could help clients to avoid business failures. For example, by the time a client comes to business training having already obtained microcredit from MFIs, he could have already lost much capital due to poor business knowledge.

In addition, most MFIs which provide business training in weekly meetings have made training indirectly compulsory to clients because they have to attend these meetings to obtain their credit. Providing training in weekly meetings could be beneficial to both MFIs and clients. MFIs could provide training easily in weekly meetings; otherwise, they would have to organise it with time and financial cost. Clients also could obtain training easily in weekly meetings without these costs (ADEMCOL, 2001). Further, Karlan and Valdivia's (2006) study shows that by making training compulsory, some of the less interested clients become interested and show good progress in their businesses.

However, compulsory training could also have some disadvantages. For example, Karlan and Valdivia (2006) report that some clients drop out, since they do not want to spend time on long weekly MFI meetings due to compulsory training. Moreover, Kimball's (2001) study on the PRIDE MFI in Guinea reveals that it provided credit linked to compulsory training initially and later, to test the demand of the clients, it made the training non-compulsory; as a result, they found a substantial drop in attendance.

Delivery of training (location, time of day and length of the session)

The studies conducted on the small business sector show that small firms consider the location of training, the time of day at which the training is provided, and the length of the session in order to improve attendance on training programmes (Walker *et al.*, 2007; Patton *et al.*, 2000). Small firm owners are constrained by time and hence attending training at a location far away may take away from the precious time available for business. Hence they like the training location to be close. Walker *et al.* (2007) show that training providers select two locations close to owner managers' operating bases so that they can reduce the travelling distance. ADEMCOL (2001) shows that Columbian MFIs hold training at weekly meetings close to clients' operating base; as a result, they can save the money needed for transportation and time. Halder (2003) shows that the BRAC MFI holds training at a location close to clients' operating base.

Small firm owners may not like to attend training at busy times of the day. Walker *et al.*'s (2007) study on training for small business owners also shows that training providers in the study selected two sessions, one at lunch time and the other in the evening, so that small firm owners could choose one of them based on their limitations.

The length of the training is important as small firm owners may not have time to attend long sessions. ADEMCOL (2001) shows that business training is conducted for its clients for short periods of time (i.e. 1-1.5 hours) to ensure that clients are willing to attend meetings. Walker *et al.* (2007) show that training providers in their study offer training fortnightly so that participants can limit the time spent on it and also the shorter duration allows participants to reflect and put the knowledge gained into practice. De Wildt's (2004) study also confirms those of ADEMCOL (2001) and Walker *et al.* (2009); the clients in their study prefer short term as opposed to long term training.

Providing training free or for a fee

Charging a fee for training or providing it free could influence owner managers' attendance. The literature on microfinance shows that some practitioners believe that business training should be provided free (DPRN, 2009; Sievers and Vandenberg, 2007), while others believe a fee should be charged (ADEMCOL, 2001; Goldmark, 1999)

DPRN's (2009) study recommends that BDS, including business training, provided to microenterprises should be free. Karlan and Valdivia's (2006) study on business training reveals that clients who showed the least interest in business training only showed up as it was provided free; otherwise they would not have attended. Thus, making training free could be beneficial.

The ADEMCOL MFI in Columbia provided training free at the beginning, as charging could have discouraged clients from attending. However, later, once the training programme was established, it charged clients by deducting an amount from loans, as clients were by then willing to pay (ADEMCOL, 2001). Other studies show that micro-entrepreneurs, even poor ones, may be willing to pay a fee for training and hence providers should charge (Goldmark, 2006, 1999). Since MFIs find it difficult to sustain the BDS programmes, they must charge a fee for the training conducted (Goldmark, 1999).

Demand-driven training

The studies reveal that MFIs should provide training based on client demand; otherwise it could be futile (Sievers and Vandenberg, 2007; ADEMCOL, 2001; Gunatilaka, 1997). This is important, given that there is a lack of client demand for BDS (Sievers and Vandenberg, 2007).

ADEMCOL’s (2001) study finds that training should be provided on demand, instead of forcing clients to attend, as it was proven to be ineffective in the latter case, as after training clients did not practise what was learnt. Gunatilaka’s (1997) study reveals that most of the training programmes offered through BDS by Sri Lankan MFIs were supply driven and hence they were not successful. Further, Shaw’s (2004) study of Sri Lankan MFIs also shows that most of the training provided by MFIs was poorly designed and not based on local demands; it was also designed by head office staff.

Martin *et al.*’s (2006) study on African American small business firms evaluates the preference of small business owners in different business training modules and the findings show that business owners mostly prefer those on complying with regulations and taxes, whereas the least preferred areas were book keeping, accounting, electronic commerce and cash flow management. Thus, training providers take into account small business owners’ preferences when offering business training.

2.6.2.3 Impact of training on the business performance of owner managers

The literature shows that entrepreneurs can be trained. Moreover, a lack of training is the main reason for failure in small firms (Ladzani and Varuen, 2002). Kroon and Moolman (1992) have noted that training can help owner/managers learn how to approach certain problems, and in this way save time and money and to become aware of certain rules and procedures that could help them do the work with fewer difficulties. The trained entrepreneurs had a lower closure rate and a higher profit rate (Ladzani and Varuen, 2002). As discussed in section 2.4.7, the studies conducted in the microfinance setting show that training given by MFIs improves not only owner managers' business performance, but also MFI performance.

Despite the fact that some studies try to prove a causal relationship between training and the performance of small businesses, some authors argue that the performance of entrepreneurs cannot only be attributed to training, as there are other factors, such as the characteristics of entrepreneurs and changes in the sector, which could influence the survival and growth of firms (Cosh *et al.*, 1997; Storey, 1997; Winterton and Winterton, 1996; Stanworth and Gray, 1991). Further, Patton *et al.* (2000) assert that although some studies show a relationship between training and the performance of small business entrepreneurs, they do not paint a true picture, as these studies have flaws in adopting certain methodologies and isolating the relevant variables.

When trainers provide training to a group of owner managers in the microfinance setting, there is a dyadic relationship between them, as trainers communicate with owner managers/trainees in the classroom through interactive training/group activities and by following up owner managers after training (ACCION, 2005; De Wildt, 2004). Co-production between the trainer and trainees/owner managers is important in achieving performance, and potential factors relating to trainers and owner managers that affect co-production are identified in section 2.6.

2.7. Concept of co-production

The concept of co-production is used in this study as it can help to examine dyadic relationships. Moreover, this study needs a theoretical perspective since it uses the case study method (see chapter 4). According to Yin (2008), the case study method needs a theoretical perspective at the beginning of the investigation as it affects the research questions, analysis and interpretation of the findings. Thus this study uses the concept of co-production as the theoretical perspective.

As an introduction, this section begins by describing how co-production evolved. The section then discusses key concepts in co-production, such as collaborative and collective co-production, and gives definitions of the term. After these concepts have been discussed, the section discusses how co-production can be used in counselling and training, as this study focuses on these two modes (research question 1). How context is important in co-production is then explained with the introduction of the IMP framework that can be used to identify the contextual factors that influence co-production (research question 2). Before reviewing the key literature on co-production relating to this study, factors relating to client contact staff and clients that enhance co-production (i.e. dyadic relationships) (research question 3) and co-production outcomes are discussed (research question 4).

2.7.1 Introduction to co-production

The concept of co-production was originally developed by the workshop in Political Theory and Policy Analysis at Indiana University in 1973. Originally, the concept related to client or citizen involvement in production (i.e. direct user involvement either in the public or private sectors). It created great enthusiasm among public administration scholars in the US in the 1970s and 1980s (Parks *et al.*, 1981).

Scholars argued that citizens as clients would receive an effective and efficient service from the professional staff employed by large bureaucratic agencies. After studying police services in the US they established that a centralised police department was unable to provide a better direct service to clients/citizens (Ostrom, 1999). Hence, they realised that not only the service provider but also the clients needed to collaborate in the production. They also realised that the production of a service as opposed to a good was difficult without the active participation of those receiving the service (Ostrom, 1999). Thus the term “co-production” focuses on the individuals and groups in the production of services at the micro-levels, but it could have an impact on both the meso- and the macro-levels of society (Ostrom, 1999).

According to Parks *et al.* (1981), co-production involves joint efforts between two parties who jointly determine the output of their collaboration. Here, the two parties are the consumer and the producer. In co-production, contrary to the passive role played by the consumer in production, the efforts of the consumers are the central to the production of the output (Rice, 2002).

The concept of co-production was initially studied in the context of industrial and service markets. It was also originally discussed in terms of the economic efficiency gained from collaborating with a customer in a business-to-business context, resulting in competitive advantage (Fitzsimmons, 1985). In the 1990s scholars began to discuss the use of the co-production concept in consumer markets. In these markets, the emergence of the 'customising consumer' was witnessed; someone who takes an active role in the production process (Firat and Shultz, 1997; Firat *et al.*, 1995; Firat and Venkatesh, 1993, 1995; Firat, 1991). In recent times, the work of Prahalad and Ramaswamy (2004a, 2004b, 2002, 2000,) and Vargo and Lusch (2006, 2004) on value co-creation and the service-dominant logic of marketing, a new school of thought, has driven the idea of co-production. Until recently, the dominant thinking was that customer value creation accompanies the product (Goods Dominant logic, G-D). However, Vargo and Lush (2004) proposed Service Dominant (S-D) logic, in which service provision, rather than goods, is the basis of economic exchange. They argue that value does not exist solely in the finished good, but that value is defined and created in co-production with the consumer (Vargo and Lusch, 2006, p. 10). They propose that goods are part of distribution in service provision and that the customer is always a co-producer. Moreover, their S-D logic identifies how customer collaboration affects co-production and how it brings about benefits such as lower costs, customised service offerings and increased productivity.

Marketing theory encourages service providers and customers to interact and customers to participate in the service production process (Auh *et al.*, 2007; Lusch *et al.*, 2007; Vargo and Lusch, 2004). Etgar (2008) describes co-production as customers' participation in performance in the various activities in the production process and encompasses all co-operation formats between the customer and the service provider.

2.7.2 Collaborative co-production and collective co-production

Co-production can take two forms: collaborative and collective (Humphreys, 2008). Collaborative co-production refers to the partnership between the company and consumers to create a service or a product, whereas collective co-production refers to the interaction between consumers to produce a product or service or product/service alterations independent of the company and input and stewardship (Humphreys, 2008). In collaborative co-production, a company works with consumers at various stages of the value chain (e.g. conceptualisation, design, production and post-purchase service) to produce a product. In contrast, collective co-production fits into the other end of the continuum, where consumers work independently from the service provider and may seek assistance and advice from other consumers to produce a product (Peters *et al.*, 2012). This study primarily examines collaborative co-production, as MFI counsellors and trainers co-produce with the owner managers of microenterprises.

2.7.3 Definitions of co-production

Definitions of co-production vary widely and mostly limit the concept to the service delivery phase (Alford, 2009). Others find the concept of co-production to be relevant not only to the delivery phase but to refer to service users being part of service planning, delivery, monitoring and or evaluation (Bovaird and Loffler, 2012).

Some of the definitions given for co-production in the literature are listed below.

- Joint efforts between two parties who jointly determine the outcome of their collaboration (Parks *et al.*, 1981).
- The joint production situations in which both the client and the firm's contact employees interact and participate in the production (Meuter and Bitner, 1998).
- Engaging customers as active participants in the organisation's work (Lengnick-Hall *et al.*, 2000, p. 359)
- A partnership between the company and consumers to create a service or a product (Humphreys, 2008).
- The interaction between consumers to produce a product or service or product/service alterations, independent of the company and input and stewardship (Humphreys, 2008).
- Delivery of public services in an equal and reciprocal relationship between professionals, people using the services, their families and their neighbours. When activities are co-produced in this way, both services and neighbourhoods become far more effective agents of change (Boyle and Harris, 2009).

- Complementary co-production means that clients undertake secondary or tertiary tasks that do not require core professional skills, while the staff can focus on their core functions (Pestoff, 2012).

These definitions all highlight the active participation of the customer /consumer/client in service provision. These definitions also reveal there could be the following four situations in which the service is produced:

1. By both the client and the service provider (e.g. membership of a professional institution).
2. By the customer contact staff and client – a dyadic relationship (e.g. counselling).
3. By a group of clients independent of the service provider (e.g. the client group produces software which is similar to that produced by the service provider).
4. Provided and delivered by both professional staff and clients (e.g. a public service; doctors and trained clients check blood pressure).

This study focuses only on the dyadic relationships between MFI counsellors and trainers, and the owner managers of microenterprises. It therefore uses Parks *et al.*'s (1981) definition to investigate dyadic relationships. Moreover, it considers not only delivery, but also the planning and monitoring/evaluation stages of co-production.

2.7.4. Levels of customer participation

There are three levels of customer participation in the service experience (Bitner *et al.*, 1997).

1. Low (e.g. a fast food restaurant).

2. Moderate (e.g. a haircut).

3. High (e.g. counselling or training).

As shown in Table 6, depending on the service, the level of customer participation varies with the level of co-production. In certain services such as fast food restaurants, customer participation in the service is low. Customers may have to order the food they want and then purchase it. But in a service such as a haircut, the customer has to exert an effort by visiting the barber, giving instructions and being patient while the haircut is being done, so a moderate level of customer participation is required. In contrast, when it comes to services such as counselling and training, customers need to be able to highly involved in the service experience. For example, trainers may give instructions, but the trainee (customer) needs to be able to attend training, grasp the knowledge and skills and finally implement what is learnt. Thus, according to Bitner *et al.* (1997), customer participation in service production varies with the type of the product and thus implies that a different degree of customer effort is expected in the co-production, based on the type of product. Since this study focuses on counselling and training, high customer involvement (i.e. effort) is expected in co-production.

Table 6: Levels of customer participation

***Low*. customer presence required during service delivery**	***Moderate*. customer inputs required for service creation**	***High.* customer co-creates the service product**
Products are standardised Service is provided regardless of any individual purchase Payment may be the only required customer input	Client inputs customise a standard service Provision of service requires customer purchase Customer inputs (information, materials) are necessary for an adequate outcome, but the service firm provides the service	Active client participation guides the customised service Service cannot be created apart from the customer's purchase active participation Customer inputs are mandatory and co-create the outcome
Examples *End consumer* Air line travel Fast food restaurant	Hair cut Annual physical exam	Marriage counselling Weight reduction programme
Business to business customer Pest control Maintenance service	Agency created advertising campaign Payroll service	Management consulting Executive management seminar

Source: Hubbert (1995)

2.7.5 Three factors that are needed for service co-production

Three customer factors are key to effective co-production: perceived clarity of the task/role; ability or competence; and motivation (Meuter *et al.*, 2005; Bettencourt *et al.*, 2002; Lengnick-Hall *et al.*, 2000; Lengnick-Hall, 1996; Lovelock and Young, 1979).

Task clarity refers to the extent to which customers understand what is required of them in the service. The clearer a customer's role expectations, the greater is the likelihood that their contributions will lead to improved service outcomes (Mills *et al.*, 1983). Rodie and Kleine (2000) mention four types of role clarity, namely a customers' own experience with a particular service provider; their experience with a service provider's direct competitors; their experience with similar service contexts; and the behaviour of other customers.

Customer ability refers to the quality of input customers provide to the service production process. Their useful and timely contributions enhance the co-production output (Schneider and Bowen, 1995). According to Auh *et al.* (2007) and Moorthy *et al.* (1997) ability is defined as expertise and they believe that customers with experience (i.e. expertise) of a service are better equipped to make valuable contributions to its production and thus co-production occurs. Rodie and Kleine (2000) provide a broad definition of ability, which includes knowledge, skills and the experience of the customer. Furthermore, customer self-efficacy (i.e. the perceived ability (belief) to perform a task) also can be discussed with regard to customer ability (Bandura, 2001), and customer self-efficacy improves the co-production (Ford and Dickson, 2012).

Rodie and Kleine (2000) mention three types of benefits that motivate customer participation in service, namely efficiency in the service process, efficiency of the service outcome and psychological benefits (e.g. novelty, enjoyment and increased perceived control).

2.7.6 Customers as partial employees

Studies show that organisations view service customers as partial employees (Bowen, 1986; Mills and Morris, 1986; Mills *et al.*, 1983). Customers provide inputs in terms of quantity and quality as employees for the service production and delivery. For example, in management consultancy, if the customer gives required information to the management consultancy firm, it can then help the customer better. Thus considering the customer as a partial employee of a consultancy firm can provide them with prior training and enable them to give the required information. Given the customer's role as a partial employee, a number of studies show that they should be given prior socialisation and training, similar to internal employees, so that they become better co-producers (Kotze and Plesis, 2003).

2.7.7 Co-production in counselling and training

This study focuses on co-production in BDS via counselling and training (i.e. research question 1: co-production modes). There is a dearth of studies conducted on these using the concept of co-production. Rice (2002) has used co-production in counselling in incubator setting and Davies *et al.* (2004) has used co-production in training in healthcare sector.

Rice (2002) uses the co-production concept in his study on business incubators. He examines the dyadic relationship between the incubator manager and the entrepreneur and uses counselling as one of the co-production modalities in his study. It is shown that the incubator manager's readiness (time available for co-production activities), intensity (time available for each entrepreneur), knowledge and experience affect co-production in counselling, whereas the entrepreneur's knowledge, experience, readiness and willingness affect co-production.

The co-production concept applied to training was not found in the small business literature. However, one study on co-production in training was found in the healthcare sector. Davies *et al.*'s (2014) study on personality disorder awareness training given by a local NHS mental health trust in the UK finds that the trust has successfully provided training by using the co-production model. In this model, the NHS used both professional staff (expert by occupation) and service users (patients; expert by experience) to deliver training. Both selected professional staff members and service users were given training at the beginning and then both parties delivered their training successfully. This co-production model used both co-facilitation and co-delivery. Rice's (2002) study on business incubators also attempts to establish whether there is co-production in training and shows that there is none, as entrepreneurs did not benefit from the few training programmes offered by the business incubator. However, Rice proposes that researchers could investigate co-production in training in future research. Thus his study also motivated the researcher to investigate co-production in training.

2.7.8 Contextual factors

The studies on co-production have largely focused on bilateral relationships between service providers and users and the overall impact of co-production services, ignoring how contextual factors such as the macro-environment; proximate environment; co-production management such as institutional design; and strategic management affect co-production (Cepiku and Giordano, 2014; Verschuere *et al.*, 2012). This study therefore attempts to fill this gap by identifying contextual factors that can influence co-production in BDS (research question 2). It uses the IMP framework discussed below in order to identify contextual factors that influence co-production in BDS.

Industrial Marketing Purchasing Group (IMP) interaction model

This study focuses on relationships between two organisations (an MFI and a microenterprise.). It is therefore appropriate to use inter-organisational theory to examine the context (macro, proximate environment, make up of individual parties, motivation for relationship) in which co-production takes place. Therefore, the IMP interaction model suits this purpose as it helps investigate the relationships between two organisations.

The IMP group developed a theoretical framework based on empirical data from more than 800 customer-supplier relationships in 1982. The study was focused on social exchange, interaction, variation of content, and duration of relationships in different kind of firms (Hakansson, 1982). This model could be used to understand business relationships between two firms (Hakansson and Snehota, 2000; Easton, 1992, in Axelsson and Easton, eds., 1992; Hakansson, ed., 1982).

The IMP group found four groups of variables that characterise a relationship (illustrated in figure 1): the interaction process, the interaction parties, the interaction environment and the atmosphere (Hakansson, 1982). The first three groups of the model describe different relationships, while the last group (i.e. atmosphere) gives a mediating effect to the interaction process (Hakansson, 1982).

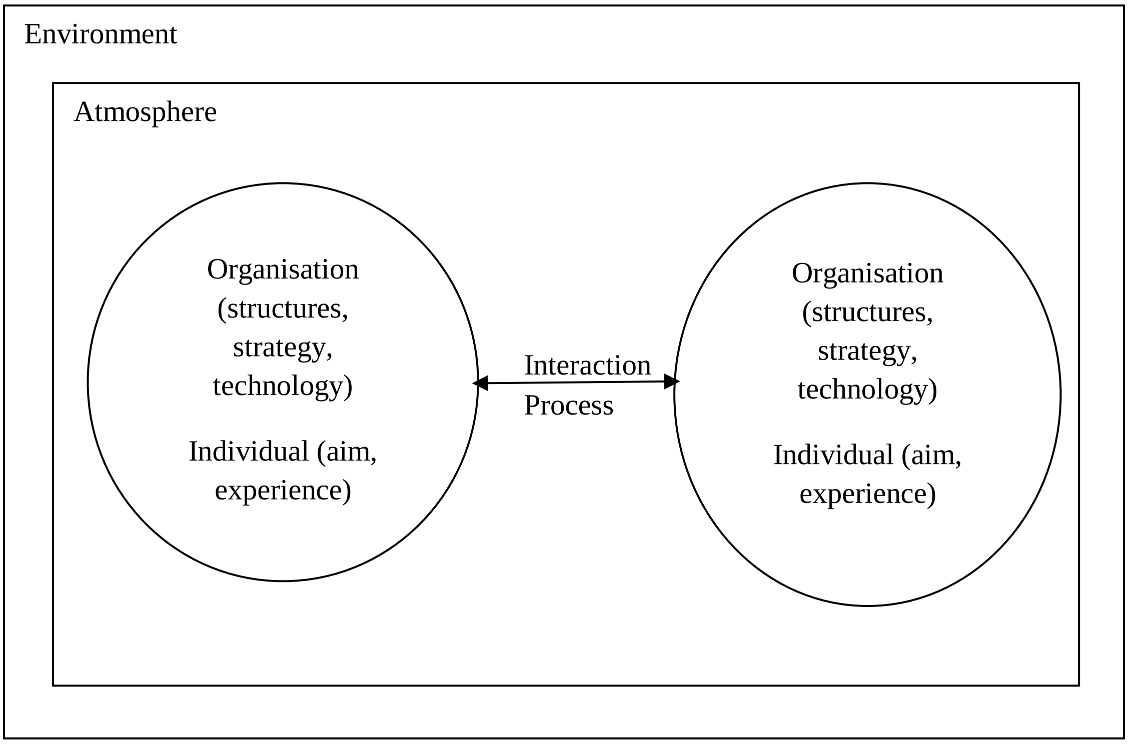

Figure 1: Industrial Marketing Purchasing (IMP) group framework

The interaction process

The interaction takes place between actors or parties, who could be organisations or individuals. There are four types of exchange between parties: product or service exchange, financial exchange, information exchange and social exchange. When these exchanges become routine, the parties create clear expectations of each other and "eventually these expectations become institutionalized" (Hakansson, 1982, p.17). These relationships will finally lead to benefits such as cost reduction and increased revenues. In this study, interaction between MFI counsellors and trainers, and owner managers of microenterprises are examined by using the concept of co-production.

The interaction parties

This group in the model includes the characteristics of the parties involved in the interaction process, such as technical issues, structures, strategies, individual experience, and size of the organisation. The interaction between the parties is determined by the differences between them (Hakansson, 1982). In this study, how MFI and microenterprise structures, people (counsellors, trainers, owner managers) and strategies (e.g. linkages, lending methodology) affect co-production is investigated.

The interaction environment

The interaction environment variables include market structure, the degree of dynamism, market internationalisation, and social system (Hakansson, 1982). For example, the general economic climate, level of competition, the availability of funds, the level of technical sophistication and social expectations could be parts of the interaction environment, which could influence the interaction process. This study examines the interaction environment and considers factors such as donor funding for BDS that affect co-production.

The atmosphere

The atmosphere includes the power dependence status, the state of conflict or cooperation and overall closeness or distance. These variables influence the relationships between the parties in two dimensions: economic and control. The economic dimension measures the benefits of having a relationship, whereas the control dimension concerns which of the two firms has the ability to control the other. This study considers motivators that influence counsellors, trainers and owner managers to interact within the atmosphere.

The last three groups of variables of the model (the interaction parties, the environment, the atmosphere) are used as guides to scan the context in which co-production takes place. The interaction process between the individuals in the IMP framework is discussed by using the concept of co-production, the guiding theory of the study.

2.7.9 Application of co-production in a dyadic relationship in the service literature

Co-production is a central construct in the service literature (Zeithaml *et al.*, 2006). The production phase of service cannot be disconnected from the consumption phase and customers always plays a vital role in service provision (Lovelock and Wirtz, 2004). In service co-production, both the customer-contact employees and customers interact and participate in the production (Meuter and Bitner, 1998) Furthermore, according to Vargo *et al.* (2008), the points of customer-firm interaction are critical for creating value, and value is co-created through their reciprocal and mutually beneficial relationship. Similarly, service co-production is based on interactions between the firm and the customer at individual levels (i.e. dyadic relationships).

Few studies have been conducted on co-production in relation to dyadic relationships. Rice (2002) investigates the dyadic relationship between incubator managers and entrepreneurs in his exploratory study on the co-production of business assistance in business incubators. He considers Parks *et al.*'s (1981) definition of co-production to investigate dyadic relationships. Guo and Ng (2011), in their study focusing on equipment-based services, examine the dyadic relationships between the personnel of two firms. These studies show that co-production between individuals improves the performance of firms. The following section discusses the factors relating to customer-contact staff and clients (i.e. dyadic relationships) that could enhance co-production.

2.7.10 Factors relating to customer/client-contact staff and clients that affect co-production

In relation to each factor, first literature on co-production is discussed, followed by literature concerning counselling and training in small business and microfinance relevant to each factor. These factors will be considered in this study to examine the dyadic relationships between counsellors and trainers, and owner managers (research question 3).

Expertise of customer/ client-contact staff and clients

The studies made on co-production show that the expertise of client-contact staff and clients enhances co-production (Auh *et al.*, 2007; Rice, 2002). Expertise refers to the knowledge gained through qualifications (e.g. degrees) and experiential knowledge (i.e. experience).

Rice's (2002) study on business incubators reveals that the knowledge and experience of incubator managers and entrepreneurs brings value to the incubator manager-entrepreneur co-production dyad. He examines the expertise of incubator managers and entrepreneurs in terms of their educational qualifications and experience in their roles and asserts that incubator managers have superior knowledge and experience to entrepreneurs and thus they can help increase the ability of entrepreneurs to co-produce.

Some studies of co-production consider the expertise of clients as their experience in dealing with the firm's products, which increases the incidence of co-production (Auh *et al.*, 2007; Heilman *et al.*, 2000). According to these studies, client expertise refers to a client's accrued knowledge about how a product should perform and general understanding of the average performance of similar brands in a product category (Sharma and Patterson, 2000). Clients with greater expertise (i.e. experience with a firm's products) tend to contribute more in the production of a service (Moorthy *et al.*, 1997). On the other hand, inexperienced clients take higher decision-making risks, so they are less likely to take part in co-production for fear of producing a suboptimal outcome (Heilman *et al.*, 2000). Moreover, expert clients could have a greater need for control in the service delivery process (O'Connor and Siomkos, 1994). Client expertise can therefore increase the incidence of co-production. Auh *et al.*'s (2007) study on financial services shows that the expertise of clients in terms of having experience in co-production has a positive association with co-production.

The literature on small business and microfinance reveals that the expertise of counsellors and trainers influences the effectiveness of counselling and training interventions (Tilakaratne *et al.*, 2009; Schayek and Dvir, 2009; De Wildt, 2004; Chrisman and McMullan, 2004; Rice, 2002; ADEMCOL, 2001; Chrisman, 1989). The studies show that when counsellors and trainers have greater expertise they are able to help entrepreneurs better. In addition, outside business assistance providers consider educational qualifications and experience when they recruit counsellors and trainers, and later they are given continuous training because of the importance of their expertise in service delivery (Chrisman and McMullan, 2004; ADEMCOL, 2001). According to Chrisman and McMullan's (2004) study on outside assistance given by Small Business Development Centres (SDBCs), SDBCs recruit counsellors who are both educated and experienced. They recruit counsellors with advanced degrees and with experience in developing new and small enterprises. Counsellors are also expected to engage in a minimum of 40 hours of professional development per year. Further, ADEMCOL in Columbia use its loan officers qualified with business/economics degrees and on the job experience to deliver training. These selected loan officers were given training on content and adult education techniques. Moreover, the trainers had to attend business seminars to update their knowledge (ADEMCOL, 2001). A number of studies in the microfinance literature show that MFIs are not able to deliver effective training programmes due to the inadequate expertise of trainers. TJP's (2003) study on an MFI in Morocco also shows that some of their credit agents did not have the necessary skills to provide training to the clients and hence MFIs were concerned with delivering good training programmes.

The literature shows that when owner managers have wider expertise in terms of knowledge and experience, they tend to follow counselling and training better (Yukichi *et al.*, 2012; Chrisman and McMullan, 2004; Halder, 2003; Rice, 2002). Chrisman and McMullan's (2004) study on outside business assistance through counselling suggests that counselling may work better with clients with business experience. Yukichi *et al.*'s (2012) study on the impact of business training on entrepreneurs shows that education has a clear impact of absorbing subsequent skills through training. The study reveals that highly educated entrepreneurs visit clients, and keep and analyse records after following management training, in contrast to those who are not so educated. Halder (2003) compares the success of skills training between the treatment and control group in his study on the BRAC MFI in Bangladesh. He finds that years of schooling is highly correlated with proper use of the knowledge gained through skills training. In contrast, Karlan and Valdivia's (2011) study on micro-entrepreneurs' business performance on a Peruvian MFI business training program indicates that business practices are stronger for the less educated entrepreneurs who participated in the training. Although De Wildt's (2004) study does not show any relationship between the absorption of training and the education of trainees, it does show that mostly educated clients, some with degrees, used to take part in the Improve Your Business (IYB) business training programme conducted by the Peruvian MFI.

Readiness of client-contact staff

According to the co-production literature, readiness of the client-contact staff improves the incidence of co-production (Rice, 2002). Readiness refers to the time available for the staff to spend with clients. According to Rice, the readiness of client-contact staff depends on the balance between co-production and non-co-production activities. They will be able to improve the ability, role of clarity and motivation (i.e. three customer factors needed for co-production) of the client if they have higher readiness.

Rice's (2002) study on co-production in the incubator context shows that the time available for incubator managers to engage in co-production activities improves the co-production between them and entrepreneurs.

The literature on small business, microfinance and counselling highlights the importance of the readiness of counsellors and trainers to improve the effectiveness of counselling and training (Sievers and Vandenberg, 2007; De Wildt, 2004; Rice, 2002; ADEMCOL, 2001). The literature also shows that counsellors' and trainers' readiness could be negatively affected by any workload not directly related to counselling or training (Sievers and Vandenberg, 2007; De Wildt, 2004).

In his study on business incubators, Rice (2002) stresses that not only the number of counselling hours but also the number of hours per client (intensity) is important to achieve better results. Furthermore, Cumming and Fischer's (2012) study on publicly funded advisory services and entrepreneurial outcome shows that the number of advisory hours that a firm receives from counsellors is positively correlated with the sales growth of the firm. However, Chrisman and McMullan (2004) and Chrisman (1989) find that there is a marginal effect of counselling hours on positive entrepreneurial outcomes after some time.

The studies conducted in the microfinance setting reveal that MFI trainers do not have sufficient time to provide training and follow up with clients after training, as they have to engage in credit work (Sievers and Vandenberg, 2007; De Wildt, 2004; ADEMCOL, 2001). For example, De Wildt's (2004) study on business training given by a Peruvian MFI finds that loan officers had to provide training in addition to credit work and as a result their increased workload limited them from following up with clients and providing feedback. Additionally, ADEMCOL's (2001) study on the effectiveness of business training given by Columbian MFIs shows that MFI management reduce the loan workload of their loan officers who provide training to clients in order to allow them to provide training effectively.

Willingness of clients

The co-production literature shows that client willingness is vital for co-production as clients make efforts in terms of time and money in co-production because of their willingness (Alford, 2009, 2014; Etgar, 2008; Rice, 2002; Sharp, 1978). The studies show that certain incentives motivate/affect a client's willingness to engage in co-production (Alford, 2009, 2014; Sharp, 1978). First, from an economic perspective (i.e. economic incentives) people like to achieve material gains such as money, goods, and services. Second, solidarity incentives derive from associating with others. Third, expressive incentives relate to feelings of satisfaction when contributing to a worthwhile cause. Alford also identifies intrinsic rewards, for example one's sense of competency and self-efficacy and sanctions resulting from legal obligations, as possible motivators for client co-production. Etgar's (2008) study on co-production proposes a model in which the author identifies a number of factors that affect a customer's willingness to engage in co-production. These factors are consumer-related factors (time availability for clients, skills, competencies); product-related factors (attributes of products); situational factors (customer-provider interactions); economic drives (e.g. economic benefits); psychological drives (intrinsic motives such as enjoyment and excitement, and extrinsic values such as excellence, autonomy and self-expression); and social drives (self-esteem, working in a team).

According to Lengnick-Hall *et al.* (2000), in addition to being able to contribute to co-production, customers must be willing to become involved in the process. Furthermore, Rice's (2002) study on business incubators finds that willingness of the entrepreneurs is essential in co-production in BDS. Rodie and Kleine (2000) also assert that motivation (willingness) is one of the three factors that clients need to co-produce with the service provider. The other two factors discussed previously in this chapter are the roles of clarity and ability.

The studies conducted on small businesses and the microfinance setting reveal that client willingness is essential for successful counselling and training interventions (Schayek and Dvir, 2009; Rice, 2002). Schayek and Dvir's study on small businesses reveals that client willingness to obtain counselling is pivotal in a successful counselling intervention. Karlan and Valdivia's (2006) study on business training provided by a Peruvian MFI shows that when clients do not come to training willingly they drop out from training programmes. ADEMCOL's (2001) study on a Columbian MFI providing training to clients reveals that when training is provided to clients before the credit is provided as a compulsory requirement, some clients underutilise the training as they had attended it unwillingly.

Interpersonal relationship between client-contact staff and clients

The studies on co-production show that the interpersonal relationship between the client and the client-contact staff improves co-production (Guo and Ng, 2010; Etgar, 2008; Skjølsvik *et al.*, 2007). The literature on marketing and service identifies interpersonal relationships as a construct based on trust and satisfaction between parties (Crosby and Stephens, 1987; Swan *et al*., 1985). Thus these relationships refer to the bond between client and client-contact staff based on trust and satisfaction. The marketing literature shows that client- contact staff develop relationships through intensity of contact, expertise and similarities (Bove and Johnson, 2000; Crosby *et al.*, 1990; Tan, 1981; Taylor and Woodside, 1981; Busch and Wilson, 1976; Byrne, 1969).

Guo and Ng (2010) conducted a study on equipment-based services and found that the interpersonal relationships between the managers of two firms enhanced co-production. Their study also reveals that interpersonal relationships are based on trust, and with the development of interpersonal relationships, cooperation between parties can move from the reciprocal to the communal. At the reciprocal stage, parties exchange personal favours and at the communal stage both work towards the collective goals. Moreover, Bettencourt *et al.* (2002), in their study on co-production in Knowledge-Intensive Business Firms (KIBS), show that the relationship between the service provider and client affects co-production. Etgar (2008), in his conceptual paper on co-production, asserts that interpersonal relationships (i.e. interaction) between service provider and customer could have an impact on co-production.

Schayek and Dvir (2009) find that the bond between counsellor and client in terms of trust and emotional closeness improves the level of performance of small firms. Other literature (Lean *et al.*, 1999; Boyd, 1993) shows there should be better interpersonal relationships between counsellor and client for successful counselling intervention. Lean *et al.*'s (1999) study on business counselling reveals that a counsellor needs to visit the client frequently in order to develop a strong relationship.

Communication between client-contact staff and clients

The literature on co-production shows that communication between service provider and client affects co-production (Auh *et al.*, 2007; Bettencourt *et al.*, 2002). Auh *et al.* (2007) define communication as the formal and informal sharing of meaningful and timely information between clients and service providers. Auh *et al.*'s (2007) study on financial services reveals that communication between financial advisors and clients enhances co-production. This study also asserts that communication improves the role of clarity for the client, which is key for co-production. Bettencourt *et al.*'s (2002) study on co-production in knowledge-based intensive services also highlights the importance of communication openness in co-production. According to Bettencourt *et al.*, communication openness and honest client communication of all information that is pertinent to the project is critical in co-production. They also stress that when there is effective communication, service providers and clients tend to share potentially sensitive information, leading to increased co-production. In addition, communication improves the relationship between parties and builds trust by resolving clients' queries and managing expectations (Sharma and Patterson, 1999).

The small business and microfinance literature reveals that trainers should communicate with entrepreneurs by using the right level of language and the right language. According to Gibb (1990), trainers who provide business training for micro and small firms should use the right level of language, given that small business owners often lack formal educational qualifications. Thus the language used in business training programmes offered to the corporate sector may not be suitable for owner managers. Trainers must also be aware of the different languages spoken by the owner mangers of small firms in the classroom and hence if trainers can speak more than one language, it would be useful in communicating with trainees (Nieman, 2001). Moreover, Karlan and Valdivia's (2006) study in Peru on business training indicates that some trainers had to conduct business training to owner managers in their indigenous language.

The studies in the microfinance setting reveal that trainers have used some techniques such as visual illustrations in training programmes to enhance the effectiveness of communication (Karlan and Valdivia, 2006; ACCION, 2005; TJP, 2003). It was also found that these techniques are especially useful for clients who are illiterate and have low formal education (Karlan and Valdivia, 2006; ACCION, 2005; TJP, 2003). ADEMCOL's (2001) study reveals that trainers use techniques such as visual illustrations and participatory exercises, which build on clients' experiences on business training programmes. Further, they use real-life examples from other clients in training modules. These techniques have especially helped illiterate clients. Karlan and Valdivia's (2006) and TJP's (2003) studies on business training also show that training videos are used, mostly to illiterate clients. ACCION (2005) asserts that training providers should use case studies, role playing, problem solving and games to improve the effectiveness of training to micro-entrepreneurs and that these techniques are useful for clients with low formal education.

Post-intervention follow up and feedback provided by client-contact staff

The co-production literature (Bovaird and Loffler, 2012; Bettencourt *et al.*, 2002) highlights the importance of the service provider's post-intervention follow up and feedback to the client as important factors that improve co-production. Follow up and feedback can improve the ability, role of clarity and motivation of clients, which are key for co-production.

The studies made of small business, microfinance and business counselling show that if counsellors and trainers follow up and provide feedback after the counselling and training to clients it improves their effectiveness (De Wildt, 2004; Halder, 2003; Rice, 2002).

Boyd's (1993) study on counselling theories and Rice's (2002) study highlight the importance of counsellors following up on the client for the effectiveness of counselling. De Wildt's (2004) study in Peru points out that clients insist on follow up and monitoring after attending business training. After the course is finished, the trainers should maintain contact to monitor change and should stimulate continuous exchange between the participants. The study shows that trainers' follow up and feedback is negatively affected by the added workload (De Wildt, 2004).

2.7.11 Co-production outcomes

Co-production outcomes can vary depending on the setting (e.g. incubator, health, solid waste collection). Further, co-production outcomes may also change in terms of the co-production partners, sponsors and management. For example, in the business incubator setting, a co-production outcome for the co-production partners (i.e. entrepreneurs and incubator managers) would be business assistance. Business assistance is an intermediate outcome. However, the sponsors and management of business incubators are more concerned with co-production outcomes that reflect a broader socio-economic impact, such as job creation, neighbourhood revitalisation, technology transfer, or improvement in the economic condition of disadvantaged minorities (Rice, 2002; Schroeder, 1990). Similar patterns can be observed in other examples of co-production, such as anti-crime, solid waste collection, health services, education programmes and the finance industry. The co-production literature on the public management domain also asserts that co-production results in democracy and social capital enhancing effects, in addition to the efficiency and effectiveness of service delivery (Cepiku and Giordano, 2014).

In this study, it is assumed that co-production outcomes will be broadly MFI-specific ones, such as poverty alleviation, better loan repayments and owner manager-specific outcomes, such as better sales and profits in their business ventures. Thus this study attempts to explore co-production outcomes relating to BDS context (research question 4).

2.7.12 Review of the key literature on co-production

The table in the appendix (annex 2) summarises the key literature on co-production that is used in this study. These studies discuss definitions of co-production (i.e. dyadic relationships, collaborative, collective); factors relating to client-contact staff and client influencing co-production; concepts such as clients as partial employees and client involvement in co-production; and the importance of ability, motivation and role clarity for co-production.

2.8 Summary of the chapter

The literature shows that the BDS provided by MFIs improve the performance of both MFIs and microenterprises. The reviewed literature shows that a number of studies have been made on the impact of BDS on the performance of MFIs and microenterprises. However, none of the studies have considered how counsellors, MFI trainers and owner managers of microenterprises interact (i.e. dyadic relationships) with each other to achieve performance. Thus this study attempts to fill this gap by using the concept of co-production to investigate dyadic relationships. This chapter also explores the co-production literature to identify factors relating to counsellors, trainers and owner managers, such as expertise and communication, which enhance co-production. Moreover, the co-production literature reveals that the context of co-production has been little researched and this study attempts to fill this gap by proposing that the IMP framework that can be used to identify contextual factors.

The literature review has paved the way to establish a suitable conceptual framework for this study, as explained in chapter 3.

Chapter 3. Development of the Conceptual Framework

3.1 Overview of the chapter

This chapter develops the conceptual framework based on the literature review made in the previous chapter in order to examine the BDS provided by MFIs using the concept of co-production. First, the purpose of having a conceptual framework and how it is established for this study are discussed. Next, the key themes of the thesis are discussed in the 'co-production in counselling and training', 'contextual factors', 'co-production factors' and 'co-production outcomes' sections. A framework that links themes parsimoniously is then developed. The chapter concludes with a summary.

3.2 Purpose of having a conceptual framework

According to Miles and Huberman (2004), a conceptual framework serves three purposes: 1. it identifies who will and will not be included in the study; 2. it describes what relationships may be present based on logic, theory and/or experience; and 3. it provides the researcher with the opportunity to gather general constructs into intellectual "bins". The conceptual framework serves as an anchor for the study and is referred to at the stage of data interpretation.

Miles and Huberman (1994) note that it is better to have a rudimentary conceptual framework for qualitative research even if it changes over time, as it gives an idea of what researchers are looking for. Thus the qualitative research framework should continue to be developed and completed as the study progresses; the relationships between the proposed constructs will then emerge as the data are analysed. A final conceptual framework will include all the themes that emerged from the data analysis (Baxter and Jack, 2008). In addition, Yin (2009) and Stake (1995) highlight the importance of a conceptual framework in case study research to guide the research. The key difference between the case study and other qualitative designs such as grounded theory and ethnography is that the case study uses a theory or conceptual categories that guide the study and analysis of the data (Gioia and Chittipeddi, 1991; Strauss and Corbin, 1990; Glaser and Strauss, 1967). Thus the conceptual framework developed in the case study is guided by theory or conceptual categories.

This study is a qualitative one and uses the case study method (this is explained in detail in the research methodology in chapter 4). It therefore uses a conceptual framework guided by a theory (i.e. co-production).

Development of the conceptual framework for this study

The aim of this study is to explore how dyadic relationships between MFI counsellors and trainers, and owner managers of microenterprises (i.e. the counsellor-owner manager dyad and the trainer-owner manager dyad) enhance the performance of MFIs and owner managers/clients by using the concept of co-production. Co-production is defined for this study as the joint efforts of MFI counsellors and trainers, and owner managers of microenterprises, who jointly determine the output of their collaboration (Parks *et al.*, 1981). Moreover, three client factors that are key to effective co-production, ability, motivation and clarity of task, are used in this study to identify themes relating to co-production (Meuter *et al.*, 2005; Bettencourt *et al.*, 2002). For example, the social mobilisation programme is identified as a theme in this study because it could enhance a client's ability, motivation and clarity of role to co-produce in BDS. The collaborative co-production concept, as opposed to the collective co-production one is also used, as the focus is on relationships between MFI staff and owner managers, rather than the relationships between owner managers (Humphreys, 2008). Further, not only the delivery stage of BDS, but also the planning, monitoring and performance evaluation stages in co-production are considered (Bovaird and Loffler, 2012). The conceptual framework developed for this study is based on the research questions guided by the concept of co-production. Thus the conceptual framework shows how co-production in BDS via counselling and training takes place (research question 1); the context which influences co-production in BDS (research question 2); co-production factors (research question 3); and co-production outcomes (research question 4). The remainder of this chapter is based on these research questions and the development of the research framework.

3.3 Co-production in BDS via counselling and training (co-production modes)

As described in the previous chapter, BDS are provided through counselling and training by MFIs. It was discovered from the literature (see 2.7.10) and the initial study (annex 3) conducted by the researcher, that counsellors and trainers working for MFIs co-produce/collaborate with owner managers of microenterprises in the BDS provision.

Thus counselling and training are considered as co-production modes in this study. In the contextual factors (3.4), co-production factors (3.5) and co-production outcomes (3.6) sections , factors relevant to these co-production modes are discussed; that is, factors relevant to co-production in BDS (via counselling and training).

3.4 Contextual factors

The IMP framework explained in the previous chapter has been used to identify the contextual factors that affect co-production in BDS for this study. In the operating environment area of the framework, supply and demand side issues of BDS are discussed. Motivators to engage in BDS are discussed in the ‘atmosphere’ area of the framework, and co-production management in BDS is discussed in the ‘interacting parties’ area. It is assumed that contextual factors influence co-production in BDS and hence the dyadic relationships between counsellors, trainers and owner managers.

3.4.1 Supply side and demand side issues of BDS

The literature shows that BDS provision by MFIs is hindered by several supply and demand side issues (Tilakaratne *et al.*, 2009; Sievers and Vandenberg, 2007). For example, some MFIs do not know the benefits that BDS offer to both MFIs and clients, hence they do not provide BDS. The general perception among microfinance practitioners is also that the ratio of benefits to costs of BDS is ‘‘poor’’ (Webster *et al.*, 1996). Moreover, MFIs perceive that BDS is a cost, unlike microcredit, and hence it affects the sustainability of MFIs negatively (Sievers and Vandenberg, 2007). The literature shows that client demand for BDS is low compared to microcredit and hence MFIs have to create a demand for them. In addition, it was found that lack of client demand for BDS is due to MFIs not providing demand-driven services (Tilakaratne *et al.*, 2009, Sievers and Vandenberg, 2007).

Policymakers and practitioners are aware of the supply and demand side issues of BDS and thus have proposed that MFIs use sustainable and demand-driven BDS to clients, as clients need not only finance but managerial skills and market linkages to grow (CDASED, 2001; ADB, 1997).

It is important to understand the supply and demand side issues of BDS, as these issues could influence an MFI’s decision to provide BDS and the ways in which these services are provided, and hence affect co-production in BDS. For example, if MFIs are constrained to provide BDS due to supply and demand side issues, then MFI counsellors and trainers find it difficult to co-produce with the owner managers of microenterprises. This study will explore the supply and demand side issues of BDS faced by Sri Lankan MFIs. These issues are therefore proposed as a contextual factor in the conceptual framework.

3.4.2 Motivators for parties to engage in BDS

The literature shows that MFIs and owner managers engage/co-produce in BDS due to a number of motivating factors (Galema *et al.*, 2012; Sievers and Vandenberg, 2007; Rhyne and Christen, 1999). For example, MFIs and microenterprises engage in BDS due to the benefits that they offer to both parties. MFIs can experience better loan repayments, better client retention and more new clients by providing BDS. Furthermore, they can achieve broad socio-economic objectives such as poverty alleviation, and improvement in the management and assets of micro-entrepreneurs through this provision. In contrast, clients can benefit from improved business knowledge and practice, better sales and better profits by obtaining BDS (Sievers and Vandenberg, 2007; De Wildt, 2004; Halder, 2003; ADEMCOL, 2001). Moreover, the literature reveals that some MFIs provide BDS because donors want them in order to use part of the money given by them for BDS provision (Sievers and Vandenberg, 2007; Rhyne and Christen, 1999). This study will therefore examine motivators for Sri Lankan MFIs and owner managers to engage in BDS.

3.4.3 Co-production management in BDS

Co-production management in BDS relates to how MFIs manage their delivery by using the co-production concept. In co-production management, the following factors that are directly related to MFI and owner manager structures, processes and strategies, and the people that influence BDS delivery/co-production are discussed in order to be included in the conceptual framework.

Linkages

The literature reveals that MFIs provide BDS through one of three different linkages (unified, parallel or partner; see section 2.4.4) (Sievers and Vandenberg, 2007; Dunford, 2001). Sievers and Vandenberg show that counsellors in parallel linkage may have more expertise and time (i.e. readiness) to provide BDS to clients compared to counsellors in unified linkages. According to Rice's (2002) study on co-production in business incubators, the expertise and readiness of counsellors improve co-production. Thus the type of linkage used by an MFI to deliver BDS could influence co-production and it is proposed as a contextual factor in the proposed conceptual framework.

Lending methodology

The literature shows that MFIs use either group or individual lending methodology to give microcredit (Khavul, 2010; Denotes and Alexandar, 2004). The basic idea of group lending is that loans are given to the individual members of the group, but the group is responsible for the repayment of the loans of the individual members to the MFI (group liability). The main difference between group lending and individual lending is that individual lending demands collateral. As a result of the collateral requirement, poor clients are not in a position to obtain loans from MFIs who use individual lending methodology (Denotes and Alexandar, 2004). Lending methodology therefore determines the type of clientele catered for by MFIs and the type of clientele may have a bearing on co-production. For example, poorer clients may not have the same expertise and attitudes as wealthier clients towards engaging in BDS (Shaw, 2004). Furthermore, it has been revealed that MFIs that use group lending require their clients (i.e. members of the group) to attend weekly group meetings at which MFI officers also attend. They use these group meetings to provide microcredit and BDS to clients while interacting with them (Karlan and Valdivia, 2006; ADEMCOL. 2001). In contrast, MFIs that use the individual lending methodology do not have groups formed with clients and hence they find it difficult to provide BDS. It can thus be argued that MFIs that use group lending methodology could co-produce better than ones who use individual lending. Consequently, this study considers lending methodology as a contextual factor that could influence co-production.

Social mobilisation programmes

The co-production literature reveals that clients should be considered as partial employees of the firm and thus they should be trained by giving them training/socialisation programmes when they join firms to obtain services (Kotze and Plesis, 2003; Claycomb *et al.*, 2001; Bettencourt, 1997; Kelley *et al.*, 1992). The literature also shows that socialisation programmes improve clients' ability, motivation and clarity of task, which are vital for co-production (Kotze and Plesis, 2003). Some

MFIs offer social mobilisation programmes to clients joining them, in which they form groups of clients, and educate them about their products and financial literacy. It is assumed that these programmes will improve the clients' ability, motivation and clarity of task to engage in BDS and thereby improve co-production in BDS. Thus the social mobilisation programme is proposed as one of the contextual factors in the conceptual framework.

Counselling and training location, timing and fees

The literature on small businesses and microfinance shows that location, timing and fees charged for business training influence entrepreneurs' attendance (Walker *et al.*, 2007; De Wildt, 2004; ADEMCOL, 2001; Dean *et al.*, 2000). In the small business literature, the importance of these issues for an entrepreneur to attend counselling is not discussed as much as training. However, it is assumed that these factors could also motivate entrepreneurs to attend counselling. The motivation (willingness) of clients/owner managers is vital for co-production (Alford, 2009, 2014; Etgar, 2008; Rice, 2002; Sharp, 1978). This study therefore considers that location, timing and fees could influence the motivation of owner managers to co-produce in BDS and be a contextual factor in the conceptual framework.

Client/owner manager characteristics

According to the literature (OECD, 2005), owner managers manage microenterprises that employ fewer than 10 employees. They often prefer to learn through peers and by doing things, rather than through formal sources such as training (Gibb, 2009), demonstrate varied educational backgrounds and often lack formal educational qualifications (Gibb, 1990). Moreover, the owner manager takes a holistic view of management and is highly dependent on personal relationships and key stakeholders. The allocation of managerial tasks is based on an owner manager's personal preferences. Business decisions are influenced by personal and family ambitions and the owner manager's personal leadership style dominates the whole business (Gibb, 2009). Thus MFI counsellors and trainers should be aware of owner manager characteristics so that they can change counselling and training approaches based on their characteristics. For example, counsellors and trainers need to use non-technical language in counselling and training, given the low formal education of owner managers. Thus this study considers owner manager characteristics to be a contextual factor that could influences co-production.

3.5 Co-production factors

Given below are the factors relating to counsellors, trainers and owner managers identified through the literature which influence co-production in BDS. Since these factors have been discussed in detail in the previous chapter, only an overview of each one is given in this section.

Expertise of counsellors, trainers and owner managers

The co-production literature reveals that the expertise of customer-contact employees and customers improves co-production, as both parties can add value to it through their knowledge and experience (Auh, 2007; Rice, 2002). In this study, expertise refers to the business and experiential knowledge of counsellors, trainers and owner managers. Their business knowledge is knowledge gained through qualifications (e.g. degrees), while the experiential knowledge of counsellors and trainers is that gained through working with owner managers. The experiential knowledge of owner managers is knowledge gained through working with their businesses and previous experience with counselling and training. The small business literature shows that counsellors and trainers who have better qualifications (i.e. degrees, diplomas) and experience (i.e. having worked with owner managers) can provide better counselling and training, whereas owner managers who are have better qualifications (i.e. formal education) and experience (experience in business and products) can absorb counselling and training better (Yukichi *et al.*, 2012; Auh *et al.*, 2007; Chrisman and McMullan 2004; De Wildt, 2004; Halder, 2003; ADEMCOL, 2001; Chrisman, 1989). As explained in the contextual section, the type of linkage used by MFIs and the type of clientele they cater for can influence the expertise of counsellors and owner managers.

Thus, the expertise of counsellors, trainers and owner managers is proposed in this study as a factor that improves co-production.

Willingness of owner managers

The co-production literature shows that clients' willingness is vital for co-production as they will exert effort in terms of time and money if they have it (Alford, 2009, 2014;

Etgar, 2008; Rice, 2002; Sharp, 1978). According to Alford (2009, 2014) and Sharp (1978), clients are willing to engage in co-production due to certain incentives such as material gains and being able to associate with others. These authors also mention that there are certain sanctions imposed by the service provider (e.g. making training compulsory) which could either motivate or demotivate clients to co-produce. Thus willingness for this study refers to factors that influence the willingness of owner managers to engage in counselling and training

The microfinance and small business literature shows that entrepreneurs are willing to obtain counselling and training mainly due to economic benefits such as the improved sales and profits that these interventions offer to their business ventures, and certain contextual factors such as location, the timing of counselling and training and sanctions such as its compulsory nature (Tilakaratne *et al.*, 2009; Schayek and Dvir, 2009; Karlan and Valdivia, 2006; ADEMCOL, 2001; Kimball, 2001; Dean *et al.*, 2000).

Based on the literature, the willingness of owner managers is proposed as a co-production factor in this study.

Counsellor, trainer and owner manager communication

The co-production literature shows that communication between the service provider and the client improves co-production as it improves the clarity of the role of the client and the interpersonal relationship between the service provider and client (Etgar, 2008; Auh *et al.*, 2007; Bettencourt *et al.*, 2002; Sharma and Patterson, 1999). Thus communication for this study refers to that between counsellor, trainer and owner manager and that which improves co-production. This study will look at the types of communication techniques used by counsellors and trainers in order to enhance communication with clients and which will result in better co-production.

The microfinance and small business literature shows that trainers use techniques such as non-technical language communication, visual illustration techniques and interactive training to provide training, as clients often possess low levels of formal education (Karlan and Valdivia, 2007; ACCION, 2005; Gibb, 1990). The literature also reveals that trainers should facilitate clients using different languages in training as there may be some who speak different languages in the training session (Karlan and

Valdivia, 2006; Nieman, 2001). Moreover, studies made on counselling show that counsellors need to have good communication skills (i.e. listening to clients, using non-technical language, providing clear information) to be more effective (Auh *et al.*, 2007; Hawke and Hefernan, 2006; Johnson, 1992).

The microfinance and small business literature shows that not only do counsellors and trainers need to communicate with clients, but clients also need to be able to communicate with counsellors and trainers for effective counselling and training sessions (Redmond and Walker, 2008; Hawke and Hefernan, 2006; ACCION, 2005; Bitner, 1997). Counsellors and trainers use some techniques to improve communication with clients. For example, trainers use interactive training in order to encourage clients to communicate (ACCION, 2005). Counsellors can also maintain better interpersonal relationships with clients so that they open up and communicate (Hawke and Hefernan, 2006). Thus this study proposes communication between counsellors, trainers and owner managers as a co-production factor in BDS.

Counsellor-owner manager interpersonal relationships

The co-production literature shows that customer-contact employees and customer interpersonal relationships improve co-production, as interpersonal relationships help both parties to achieve co-production outcomes (Etgar, 2008; Guo and Ng, 2010). Interpersonal relationships for this study are defined as the bonds between counsellor and client based on the trust and satisfaction which improve co-production. This study will examine a number of techniques used by counsellors to improve interpersonal relationships with clients and thereby improve co-production.

The marketing literature shows that customer-contact staff develop relationships with customers through the intensity of contact, their expertise and their similarities with customers in areas such as dress code and attitudes (Bove and Johonson, 2000; Lean *et al.*, 1999; Crosby *et al.*, 1990; Tan, 1981; Taylor and Woodside, 1981; Busch and Wilson, 1976; Byrne, 1969). The researcher assumes that in this study interpersonal relationships between counsellor and owner manager are important, as the counsellor provides one-to-one counselling. However, interpersonal relationships between the trainer and the owner manager are not considered, as trainers provide training to groups of clients and may not continue the training for the same group again. Thus interpersonal relationships between counsellors and owner managers are considered as a factor the influences co-production in counselling.

Readiness of counsellor and trainer

The readiness of the client-contact staff improves co-production (Rice, 2002). Readiness refers to the time available for client-contact staff (e.g. counsellors, trainers) to spend with clients. According to Rice (2002), the readiness of these staff depends on the balance between co-production and non-co-production activities. When client-contact staff have time to spend with clients, they can improve their ability, role of clarity and motivation, which are key for co-production.

The co-production, microfinance and small business literature reveals that the readiness of counsellors and trainers affects the effectiveness of counselling and training (Sievers and Vandenberg, 2007; De Wildt, 2004; Rice, 2002; ADEMCOL, 2001). The literature on small businesses also shows that the number of counselling hours spent by counsellors on clients has a positive relationship on clients' business performance (Cumming and Fischer, 2012; Schayek and Dvir, 2009; Rice, 2002). This highlights the importance of a counsellor's readiness in counselling, as the more time the counsellor spends with clients, the better the clients' performance. Similarly, it can be argued that if trainers provide more training hours to clients (i.e. readiness), their performance will improve. Thus the readiness of counsellors and trainers can affect co-production in BDS. Moreover, it is assumed that the readiness of counsellors working for MFIs with unified linkage will be lower due to their higher workload.

Therefore, the readiness of counsellors and trainers is proposed as a co-production factor in this study.

Post-intervention follow up by counsellors and trainers

The co-production literature (Bovaird and Loffler, 2012; Bettencourt *et al.*, 2002) highlights the importance of a service provider's post-intervention follow up and feedback with the client as an important factor that affects co-production. Follow up and feedback for this study refer to counsellors' and trainers' provision of long term follow up on owner managers and feedback after counselling and training. Follow up and feedback can improve the ability, role of clarity and motivation of clients, which are key for co-production.

The studies made on microfinance and the small business setting show that counsellors' and trainers' post-intervention follow up on clients improves the effectiveness of counselling and training (De Wildt, 2004; Rice, 2002; ADEMCOL, 2001; Boyd, 1993). Thus this study proposes that post intervention follow up and the feedback of counsellor and trainers are co-production factors in counselling and training.

3.6 Co-production outcomes

According to the co-production literature, there are broad socio-economic co-production outcomes for sponsors and management of service providers, such as job creation, neighbourhood revitalisation, technology transfer, and improvement in the economic condition of disadvantaged minorities (Rice, 2002; Schroeder, 1990). There are also certain other co-production outcomes for partners in co-production (i.e. service provider and client) (Rice, 2002; Schroeder, 1990). These co-production outcomes could be better profits for the service provider and better service for the client.

Based on the literature, this study proposes two co-production outcomes in BDS:

1. MFI-related outcomes
2. Owner manager related outcomes

MFI-related co-production outcomes would be broader socio-economic objectives, such as poverty alleviation, employment generation and other outcomes such as better loan repayments, better client retention and client satisfaction (Karlan and Valdivia, 2006; De Wildt, 2004; ADEMCOL, 2001). Owner manager related outcomes would be better business knowledge and practice, and better sales and profits for their business ventures (Karlan and Valdivia, 2006; De Wildt, 2004; ADEMCOL, 2001).

3.7 Development of the conceptual framework

Based on the co-production modes, co-production factors and outcomes discussed above, the following conceptual framework is proposed for the study (Figure 2).

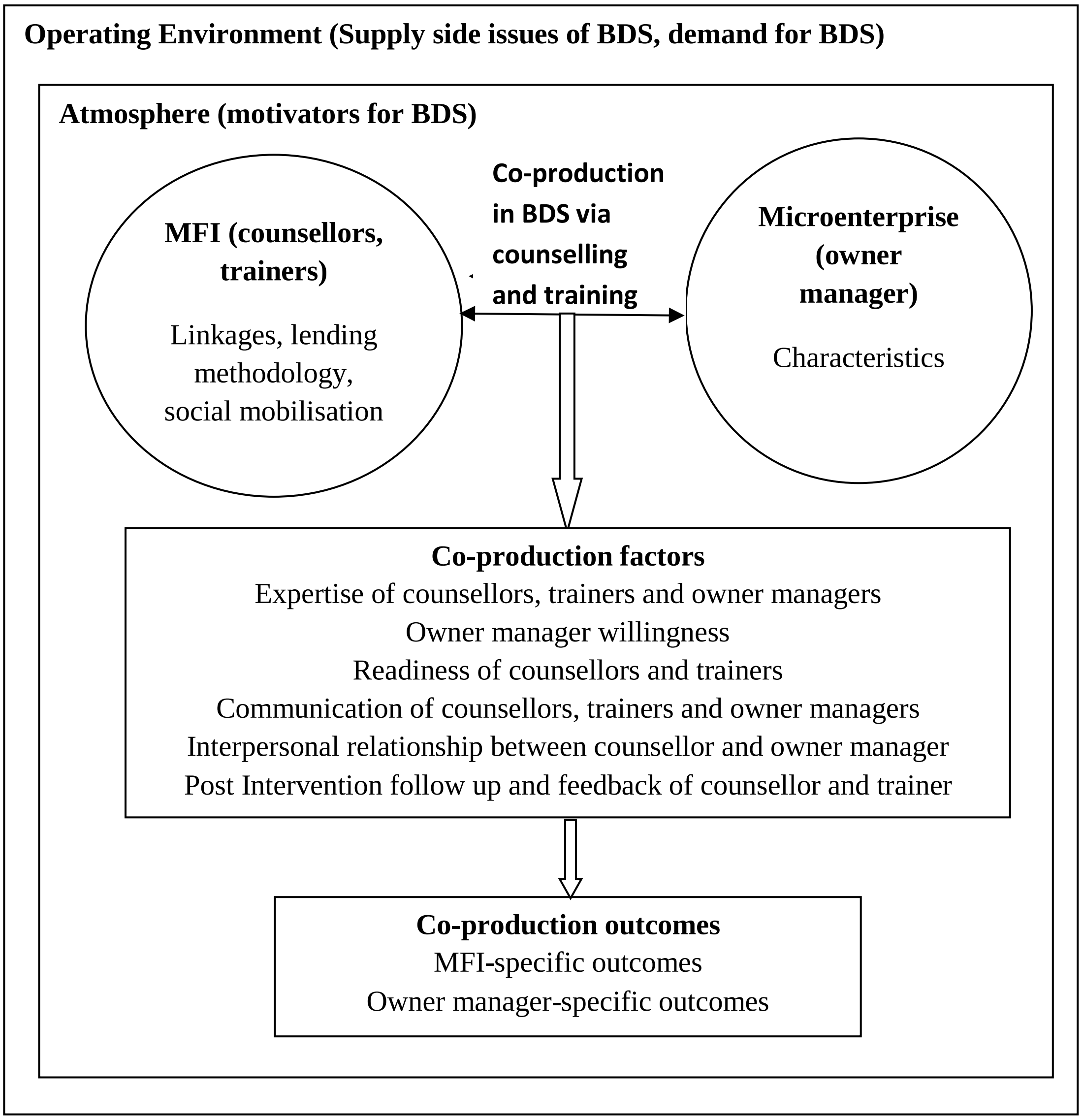

Figure 2: Conceptual framework

3.8 Summary of the chapter

This chapter has presented the development of the conceptual framework of the study. The framework was formulated based on the literature review and was guided by the concept of co-production. Four components of the conceptual framework have been indentified, namely: 1. Co-production modes (counselling and training); 2. contextual factors; 3 co-production factors; and 4. co-production outcomes. These components guided the researcher in data collection and analysis. The following chapter will discuss the research methodology of the study through which the case study method is discussed.

Chapter 4. Research Methodology

4.1 Overview of the chapter

Research methodology refers to an overall approach to a problem, which can be put into practice in a research process; from the theoretical underpinning, to the collection and analysis of the data (Collis and Hussey, 2003; Remenyi *et al.*, 2003). Saunders *et al.* (2009) state that methodology is the theory of how research should be undertaken. The most appropriate methodology for a research is decided by considering many factors. The research topic and specific research questions are key factors in the choice of a research methodology (Remenyi *et al.*, 2003). In order to select the most appropriate methodology, it is important to understand the philosophical underpinning of the research.

This chapter is composed of three main sections, which justify the choice of methodology adopted for this research. The first section explains the positioning of this research within the overall philosophical continuum. Secondly, the suitability of a particular approach used and the case study method are presented. Finally, the techniques used in the data collection and data analysis are discussed.

4.2 Research philosophy

The research philosophy characterises the researcher's particular beliefs about the world, which will be reflected in the nature of the data collection, analysis and overall phenomena to be perceived and interpreted (Denzin and Lincoln, 1998). Hence, the researcher needs to recognise and understand the personal philosophical position (paradigm) that will determine the entire course of the research study undertaken.

Positivism and social constructivism are the two contrasting views that can be taken to carry out research (Collis and Hussey, 2003; Remenyi *et al.*, 2003; Easterby-Smith *et al.*, 2003). The main idea behind positivism is that the social world exists externally and its properties should be measured through objective methods rather than inferred subjectively through sensation, reflection or intuition (Easterby-Smith *et al.*, 2003). In contrast, the social constructivist philosophical stance believes that reality is not objective (subjective consciousness) or external, but is socially constructed and given meaning by people (Easterby-Smith *et al.*, 2003).

The main differences between positivism and social constructivism are given in Table 7.

Table 7: Differences between positivism and social constructivism

Element	**Positivism**	**Social constructivism**
The observer	Must be independent	Is part of what is being observed
Human interest	Should be irrelevant	Are the main drivers of the science
Explanations	Must demonstrate causality	Aim to increase general understanding of the situation
Research progress through	Hypotheses and deduction	Gathering rich data from which ideas are induced
Concepts	Needs to be operationalized so that they can be measured	Should incorporate stakeholder perspectives
Units of analysis	Should be reduced to the simplest terms	May include the complexity of ‘whole situation
Generalisation through	Statistical probability	Theoretical abstraction
Sampling requires	Large numbers selected randomly	Small numbers of cases chosen for specific reasons

Source: Easterby-Smith *et al.* (2002)

By considering the characteristics between the two contrasting views, the social constructivist approach is deemed to be more appropriate for this study. As set out in the aim, objectives and questions, the study aims to explore the business development services provided by microfinance institutions in Sri Lanka. The research requires the researcher to be part of the environment and that reality is created with and through the relationships or interactions (e.g. between counsellor, trainer, and owner manager) in the environment. Moreover, it is believed that there is a multiple reality and no pre-existing one. Hence, this invalidates the strong embracing positivistic approach.

According to Saunders (2007), research philosophy can be thought of in three major ways: 1. ontological; 2. epistemological; and 3. axiological. These ontological, epistemological and axiological assumptions refer to the nature of reality, the acceptable knowledge in the field of study and the values, respectively. These three assumptions will allow the researcher to position the research within the philosophical continuum.

Ontological assumptions

Ontology refers to the assumptions that we make about the nature of reality (Easterby-Smith *et al.*, 2008). It is characterised by two aspects: objectivism and subjectivism (Saunders *et al.*, 2007; Johnson and Duberley, 2000) Objectivism asserts that the social entities which exist in reality are external to the social actors, whereas in subjectivism the perceptions and consequent actions of social actors create the social entities. Since this study deals with the perceptions and actions of stakeholders in business development services, it fits into subjectivism.

Epistemological assumptions

Epistemology relates to relationships between reality and the researcher (Healy and Perry, 2000). Burrell and Morgan (1979) recognise it as how one might understand the world and communicate knowledge to fellow human beings. The researcher who takes up the positivistic approach believes in a pre-existing reality and works with an observable and measurable reality. On the other hand, the researcher who takes up the social constructivist viewpoint does not believe in pre-existing reality and thus believes that reality is socially constructed, whereby differing viewpoints may emerge. The aim of the social constructivist researcher is to understand how people invent structures and explain what is going on around people. In this study, the researcher takes up the social constructivist stance, as the intention is not to measure things, but to understand business development services in Sri Lanka by gathering rich data.

Axiological assumptions

Axiology studies judgements about value. It relates to personal values in relation to a research topic (Collis and Hussey, 2003). In the positivist approach, researchers believe that the research process is value free and that objects being studied are unaffected by their activities. In contrast, in the social constructivist approach researchers believe that the research process is value-laden and that research activities are affected by researchers' values and help to determine the facts and interpretations of the study. This research is closer to the value-laden approach; the researcher is highly involved in the research process and adds his values in all the steps of the research process.

Research positioning

According to the previous discussion, a diagrammatic representation of how this study is positioned in the philosophical continuum is given in Figure 3

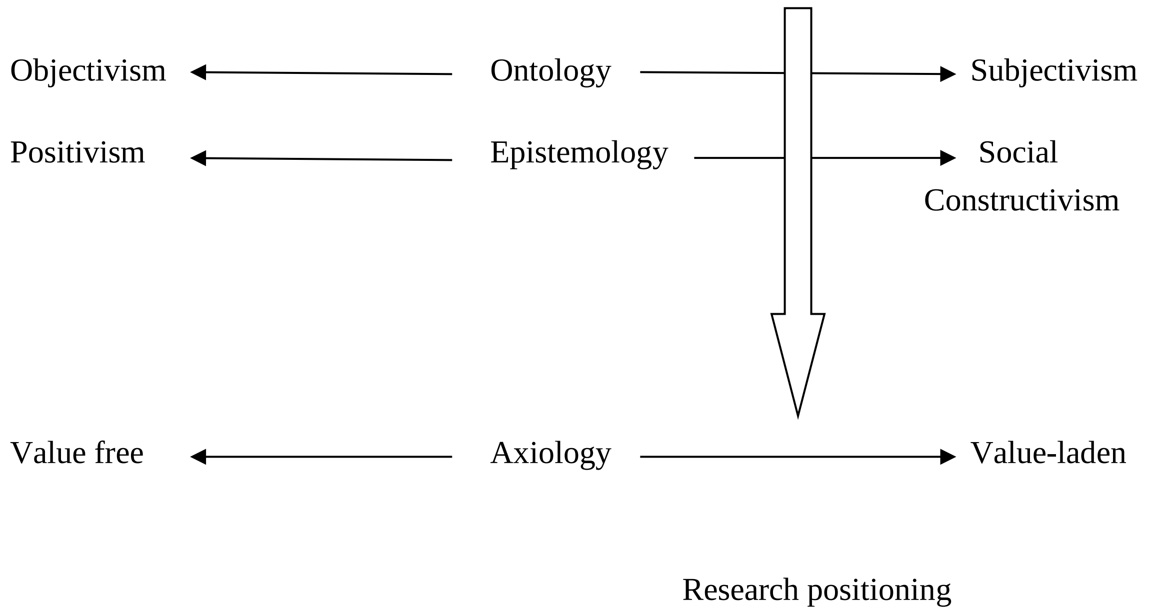

Figure 3: Philosophical continuum of the study

4.3 Research logic

Research logic has three components: induction, deduction and abduction (Eriksson and Kovalainen, 2008; Collis and Hussey, 2009). In the deductive approach, the researcher might begin with a specific theory of interest and then narrow it down to a few hypotheses. These hypotheses will be tested with sets of data to either prove or to disprove the original theory. The inductive approach works in the opposite way to the deductive approach, moving from more specific observations to broader generalisations and theories (Saunders *et al.*, 2007, Creswell, 2007; Gill and Johnson, 2002). Thus theory emerges through induction and theories are tested through deduction. According to Eriksson and Kovalainen (2008), the term *abduction* is used to combine both induction and deduction and some studies use adduction logic (theory building and theory testing). Since this study focuses on theory building in the area of business development services (the concept of co-production is used only to guide the study), induction logic is considered.

4.4 Research process

The research process consists of four steps, namely descriptive, analytical, predictive and exploratory (Collis and Hussey, 2009). Descriptive research describes a particular problem or issue, whereas analytical or explanatory research goes beyond this and analyses how and why phenomena are happening. Predictive research is involved with predicting (forecasting) the likelihood of something happening, while exploratory research is conducted when there is little or no information about the issue or problem. Therefore the idea of using exploratory research is to establish patterns, ideas or hypotheses, rather than testing or confirming hypotheses. This study on business development services provided by microfinance institutions in Sri Lanka is a novel study; the researcher attempts to explore the phenomena and hence this falls into exploratory research.

4.5 Research approaches: quantitative and qualitative

Collis and Hussey (2003) identify two research paradigms: quantitative and qualitative. The quantitative, also known as the positivist approach, believes that the researcher is independent of what is being researched, whereas in the qualitative, also known as the interpretive approach, the researcher interacts with what is being researched. Table 8 distinguishes between the two paradigms from the dimensions of ontology, epistemology, axiology and the rhetorical.

Table 8: Distinction between quantitative and qualitative research

Assumption	**Questions**	**Quantitative**	**Qualitative**
Ontological	What is the nature of the reality	Reality is objective and singular, apart from researcher	Reality is subjective and multiple as seen by participants in a study. Researcher interacts with that being researched
Epistemological	What is the relationship between	Researcher is independent from that being	Researcher interacts with that being researched

	researcher and the researched?	researched	
Axiology	What is the role of values?	Value-free and unbiased	Value –laden and biased
Rhetorical	What is the language of research?	Formal Based on set definitions Impersonal voice Use of accepted quantitative words	Informal Evolving decisions Personal voice Use of accepted qualitative words

Source: Collis and Hussey (2003).

Based on Collis and Hussey (2003), it is clear that this research is qualitative (e.g. the researcher interacts with that being researched; reality is subjective). According to Creswell (2009), qualitative research takes an inductive approach in the data analysis and builds general themes from the particular, the researcher interpreting the meaning of the data. Creswell (2007) identifies the characteristics of qualitative research. These are a) the natural setting (field-focused), a source of data for close interaction; b) the researcher as the key instrument of data collection; c) multiple data sources in words or images; d) analysis of data inductively, recursively and interactively; e) participants' meanings: focus on participants' perspectives, their meanings, and their subjective views; f) the theoretical lens: framing of human behaviour and beliefs within a social-political/historical context or through a cultural lens; g) emergent design: emergent rather than tightly prefigured design; h) interpretive inquiry: fundamentally interpretive inquiry – the researcher reflects on her or his role, the role of the reader, and the role of the participants in shaping the study; and i) the holistic account: a holistic view of social phenomena. Since this study is an inductive research and it possesses the characteristics identified by Creswell, it is a qualitative research.

4.6 Research strategy (why case studies are used)

Research strategy can be defined as the overall direction of research, including the process by which the research is conducted (Remenyi *et al.*, 2003). According to Yin (2009), the choice of research strategy is influenced by three conditions. These are the types of research questions posed; the extent of control an investigator has over actual behaviour events; and the degree of focus on contemporary events. Research strategy also depends on the philosophical stance, the extent of existing knowledge, and the amount of time and other resources available (Saunders *et al.*, 2007). In business and management research, common research strategies are experiments, action research, ethnography, survey and case studies (Saunders *et al.*, 2009; Remenyi *et al.*, 2003; Easterby-Smith *et al.*, 2003). The following section justifies the choice of case study as the best strategy for this study.

The overall philosophical stance of the study, as explained before, is social constructivism. The experiment and survey position is closer to the positivist end of the philosophical continuum. Experiments are widely used in natural science, in which hypotheses are tested in a controlled environment (laboratory). In an experiment the researcher can control the environment. Although surveys are not conducted in a strictly controlled environment, their results can be influenced by a pre-determined analysis plan which expect patterns. In contrast, this research was not conducted in a controlled environment and a pre-determined analysis plan was not used. As the study also considers stakeholders' views and perceptions on the subject, more in-depth analysis is needed, hence experiments and survey methods are not suitable.

In action research, the researcher acts as part of the problem environment and tries to change the status quo of the situation by changing the attitudes or behaviour of the participants. Moreover, it is conducted in a partially-controlled environment, hence making it unsuitable for this study. Ethnography is holistic research in which the researcher becomes a participant observer of the problem environment. Ethnography study is carried out for a prolonged period, with interaction with the social groups in order to understand the phenomenon better. Since this study was not conducted for a long period and the researcher did not act as a participant observer, ethnography was not suitable.

Due to the constraints stated, the case study method was the most appropriate method for this study. According to Yin (2009), a case study is an empirical inquiry that investigates a contemporary phenomenon in depth and within its real life context, especially when the boundaries between the phenomenon and its context are not clearly evident. Further, this study answers the "what" type of exploratory questions (*i.e.* what are the co-production outcomes?); does not control the behavioural events (*i.e.* the researcher does not control the behaviour of trainers, counsellors and owner managers); and focuses on a contemporary event (*i.e.* business development services in Sri Lanka). Hence, according to Yin (2009), case study qualifies as the most appropriate strategy. Accordingly, the following section explains the case study design.

The case study design

Some authors view case study as a methodology, others as a method (Creswell, 2003; Yin, 2009). In this research, the case study is used as a methodology or type of design. Moreover, case studies are generalisable to theoretical propositions and not populations or universes. They do not represent a sample and hence the objective of carrying them out is to expand and generalise theories (analytical generalisation) and not to enumerate frequencies (statistical generalisation) (Yin, 2003).

Choosing a grounding theory for case study

Case study uses a theory or conceptual categories that guide the study and data analysis. This approach is different to that of other qualitative designs such as grounded theory and ethnography, which do not use a theory to guide the study (Gioia and Chittipeddi, 1991; Strauss and Corbin, 1990; Glaser and Strauss, 1967). Yin (2008) recommends that the case study method needs a theoretical perspective at the beginning of the investigation as it affects the research questions, analysis and interpretation of findings. Thus this study uses the concept of co-production as the grounding theory for guidance.

Case study protocol

Case study protocol is a procedure with steps that enhance the reliability of case study research and it is intended to guide researchers in carrying out the data collection from cases (Yin, 2003).

A case study protocol should have the following sections:

- An overview of the case study project (project objectives and auspices, case study issues and relevant reading about the topic being investigated).
- Field procedures (presentation of credentials, access to case study "sites", language pertaining to the protection of human subjects, sources of data and procedural reminders).

- Case study questions (the specific questions that the case study investigator must keep in mind in collecting the data).
- A guide for the case study report (outline, format of the data, use and presentation of other documentation and bibliographical information).

A quick glance at the case study protocol indicates why it is so important. First, it keeps the researcher targeted on the topic being researched. It also helps him identify the anticipated problems that may be encountered in the areas of data collection and case study reporting.

In this study, the case study protocol was followed.

Selecting a multiple case study approach

Case study can be single case design or multiple case one. According to Yin (2003), the multiple case design composed of two or more cases is less vulnerable and gives stronger analytical conclusions than a single case design. Multiple case design also provides a strong base for theory building (Yin, 2009; Eisenhardt and Graebner, 2007). Since the researcher intends to have strong analytical conclusions and a strong base for theory building, the multiple case study approach is chosen for the study (i.e. six MFIs will be selected).

Determining case boundary and unit of analysis

It is important to identify the case boundary and the unit of analysis in order to conduct the study. The concept of business networks can be used in this respect. According to Eng (2005), business relationships in a network can be identified at four different levels. The first level is the dyad, or a focal exchange relationship between two parties, which is the basic unit of analysis to investigate business relationships. The second level includes a firm's focal relationship, consisting of all direct relationships (portfolio of relationships). The third level is concerned with the indirect or third party relationships of the firm connected through both the dyad and customer portfolio relationships within the focal firm's industry. The final level accounts for relationships beyond third parties connected indirectly to the firm in industries and networks.

Based on the nature of the study, which involves dyadic relationships between the MFI (counsellors, trainers) and the owner manager/microenterprise necessary for co-production in business development services (BDS), the dyad network perspective (first level) is best suited to determine the case boundary. Thus, the unit of analysis for the study is the dyadic relationship between the MFI (counsellors, trainers) and the owner manger/microenterprise. This is illustrated in Figure 4.

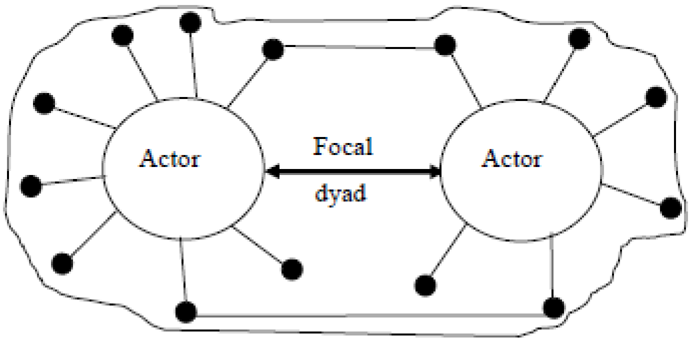

Figure 4: Case boundaries through the dyad-network perspective (Source: Halinen and Tornroos, 2005).

This study is focused mainly on the micro- rather than the macro-position, as it investigates relationships between counsellors, trainers and owner managers. As seen in Figure 4, the focal relationship between counsellors, trainers and owner managers is connected to the different relationships that counsellors, trainers and owner managers have and to third party relationships. For example, owner managers may have relationships with banks and clients, whereas counsellors may have relationships with BDS managers and external institutions. However, for this study other relationships in the wider network are not the focus; this is mainly on the dyad.

Selection of cases and respondents

According to Eisenhardt and Graebner (2007), for research focusing on developing a theory rather than testing one, theoretical, rather than random, sampling is found to be ideal. Since the proposed study is about developing a theory (the model in this study), theoretical sampling is used to select cases.

Selection of cases

In order to select cases (i.e. MFIs) for the study, the Microfinance Review Sri Lanka (LMPA, 2012) report which gives details of 51 MFIs in Sri Lanka was used as a guide.

When selecting the cases, only MFIs which provided BDS were selected (i.e. not all MFIs provided BDS).

The theoretical and convenience sampling methods were used to select these MFIs/cases. Six MFIs (see table 9) were selected for the study on the basis of different characteristics. These six MFIs vary in terms of category; client segments being served (rural/urban, poor/non-poor[1]); lending methodology (group/individual); and linkage.

MFIs can be broadly classified according to the following categories (Jansson *et al.*, 2004).

- Credit unions/cooperatives
- Non-profit organisations (e.g. NGOs)
- Non-bank financial institutions (NBFIs)
- Bank-MFIs

Depending on the category, MFIs may have different characteristics. For example, credit union MFIs may try to achieve dual objectives (i.e. financial and social). These MFIs may also use group lending methodology to reach out to poorer clients who are not in a position to provide collateral. In contrast, non-bank financial institutions may try to achieve financial objectives and as a result may cater for financially better off clients who can provide collateral to MFIs. Thus these MFIs use individual lending methodology. They may use three different linkages (i.e. unified, parallel and partner) to provide microcredit and BDS to clients. The type of MFI category, lending methodology, linkage and client segment may influence the BDS delivery, as discussed in the literature review and development of the conceptual framework chapters. Thus based on these characteristics of MFIs, co-production in BDS may vary. Since the MFIs show different characteristics to one another, it would be interesting to explore the business development services (BDS) provided by microfinance institutions (MFIs) in Sri Lanka in light of the concept of co-production, as this is a novel area in the research domain.

[1] Poor clients earn less than $2.5 a day (poverty line); those who are above the poverty line are non-poor clients.

Table 9: Selection of cases: Chosen Sri Lankan MFIs for the study

MFI	Category	Lending methodology	Profit orientation	Linkage	Income level of clients	Geographical segmentation
MFI-1	Credit union/guarantee company	Group	Dual objectives	Parallel	Non- poor, poor	Rural
MFI-2	Credit union	Group	Dual objectives	Parallel	Non- poor	Rural, urban
MFI-3	Bank-MFI	Individual	For profit	Unified	Non- poor	Rural, urban
MFI-4	Credit union /public company	Group	Dual objectives	Unified	Non- poor	Rural
MFI-5	Credit union/NGO	Group	Dual objectives	Unified	Poor, non-poor	Rural
MFI-6	Credit union /government	Group	Dual objectives	Unified	Poor, non-poor	Rural

Source: author's compilation

Six cases were selected for the study, a number which is in line with the suggestion of Eisenhardt (1989) and Gibbert *et al.* (2008), who propose that four to ten case studies are appropriate in providing a good basis for analytical generalisation.

Selection of respondents

Having selected the cases, the MFI personnel and owner managers who engage in BDS intervention then needed to be identified for data collection. The personnel who had better understanding of the BDS and microfinance attached to MFIs were chosen for interviews. The BDS, microfinance managers, counsellors and trainers were the most suitable persons for these. Thus four officials (i.e. a BDS manager, microfinance manager, counsellor and trainer) from each MFI were selected for data collection.

Moreover, an external trainer and BDS consultant outside of the MFIs were also selected for the study so that they could give rich insights. The inclusion of these two individuals, a BDS consultant who is an expert in BDS and an external trainer who has years of experience in training in microfinance, helped to improve the data triangulation (see 4.8). Three owner managers from each MFI were also selected. This selection was made jointly by the researcher and the MFI, based on the criteria laid down by the researcher. The criteria for selecting an owner manager was based on the following characteristics:

1. The owner manager manages a microenterprise (1-10 employees).
2. The owner manager has been in business for more than 2 years.
3. The owner manager uses credit and BDS provided by the MFI.
4. Two owner managers selected from each MFI had engaged in BDS more than the third owner manager selected.

According to LMPA (2012), MFIs cater mainly for microenterprises (45% of loans are given to them by Sri Lankan MFIs, the balance going to other sectors such as agriculture and the consumer, with the percentage for each sector being well below 45 %). Hence the selection of microenterprises for the study can be justified (i.e. microenterprise represents the highest percentage).

4.7. Research techniques

Research techniques can be discussed in relation to two major phases: 1. Data collection and 2. Data analysis.

4.7.1 Data collection

According to Yin (2009), the data for a case study should come from six sources: documents, archival records, interviews, direct observation, participant observation and physical artefacts. The logic behind using multiple sources of evidence is that it enhances data triangulation. Moreover, the benefit of having multiple sources of evidence in the case study approach can be maximised by maintaining a case study database, on which all the evidence (data) is stored in a systematic way (Yin, 2009). Thus the database gives the critical reader an opportunity to go back to the raw data as and when required, resulting in higher reliability in the case study approach (Yin, 2009).

Data collection in the study took place in two stages. In the first stage, data from the chosen MFIs was collected by conducting in-depth interviews with key officers. The data collected from the first stage was used to refine the conceptual framework and research questions. In the second stage, data was collected from both the MFI officers and owner managers of the microenterprises.

Since the study is exploratory in nature and aims to yield insights into the co-production concept in the microfinance context in Sri Lanka, in-depth interviews using a semi-structured questionnaire was the appropriate method for data collection. Thus, in-depth interviews were used as the main data collection tool. According to Martin *et al.* (2009), the goal of the in-depth interview method is to yield insights into less researched concepts that can guide theory development and/or future research and hence can be empirically verified in subsequent research. Moreover, Patton (2001) states that the semi-structured questionnaire (interview) allows researcher to gather data in more detail and enable a conversational situational interview. Semi-structured interviews also allow the researcher to collect a wide variety of information while covering the topic of interest (Valk, 2007).

For the study, primary and secondary data were collected. According to Patton (2001), the collection of primary data is often costly and time consuming. This data is tailored to a specific interest purpose and is originated by a researcher, whereas secondary data is often quick and less expensive and is already collected for purposes other than the researcher's. The primary data was collected through in-depth interviews and observations. The secondary data for this study was gathered through company records, websites (i.e. archival records), product brochures, and government institutions/reports. For example, the websites of six cases were visited in order to collect information pertaining to the organisational structures (i.e. linkages) of cases (MFIs) which have a bearing on co-production. Moreover, some MFIs provided their annual reports, from which BDS performance figures (e.g. Portfolio at Risk (PAR) figures, and number of employments generated) were obtained. These performance figures are useful to examine BDS co-production outcomes. According to Yin (2003, 2009), data from different sources enhances data triangulation.

Asking questions in semi-structured interviews

This section explains how a semi-structured questionnaire is designed by using the question order and different types of questions.

Question order

Question order is important in semi-structured interviews as surveys (Weinberg, 1996). The order helps to establish rapport with the respondents. It is always better to move from the non-threatening to the threatening; that is, to ask easy questions first. Asking demographic questions, such as ones about qualifications, at the beginning can sometimes be threatening, so it is better to include these at the end of the questionnaire. However, in some instances (i.e. obtaining one's philosophical beliefs) asking demographic questions such as qualifications at the beginning would be less threatening (Leech, 2002).

Types of question

There are certain types of question that should not be asked in a semi-structured questionnaire; for example, leading questions, loaded questions and double-barrelled ones (Leech, 2002). One should always try to ask open-ended questions as much as possible. Different types of questions asked in a semi-structured questionnaire are given below.

Grand tour questions

As the name suggests, grand tour questions ask respondents to give a verbal tour of something they know well. The advantage of these questions is that they allow the respondent to talk in a fairly focused way (Spradley, 1979, 1988).

An example of a grand tour question would be "can you describe your business?" (see annex 4; question 1 in the owner manager questionnaire).

Example questions

Example questions are similar to grand tour questions but are more specific. They try to identify a single act or an event experienced by the respondent and ask for an example (Spradley, 1979, 1988).

E.g. Can you explain how you have used the knowledge and skills received through training and counselling in your business and household activities giving some examples? (see annex 4; question 24 of the owner manager questionnaire).

Hypothetical interaction questions

These questions allow respondents to put themselves into hypothetical situations and give their opinion (Spradley, 1979, 1988). For example, "if you had to pay for training provided by an MFI, would you pay to attend training?" (see question 18 of the owner manager questionnaire).

Prompts

Prompts are very important in semi-structured interviews and serve two purposes: 1. they keep people talking, and 2. they rescue you when the responses are not clear (Leech, 2002).

There are two types of prompts (McCracken, 1988):

1. Planned prompts: prompts that are formally included in the interview protocol.

E.g. "what factors encourage clients to come for counselling?"

Economic reasons

Time, location

(See question 8 of the counsellor questionnaire)

2. Informal prompts: these are unscripted prompts that may be nothing more than the reassuring noises and clarification that interviewer and respondent make during an interview.

Respondent: "Training was quite confusing"

Interviewer: "Confusing, why?"

The researcher used a combination of grand tour questions, example questions, hypothetical questions and prompts in the interviews. Five different semi-structured questionnaires were used to collect data from the MFI officials (*i.e.* microfinance manager, BDS manager, counsellor, trainer) and owner managers. 1-2 hours were spent with each respondent to collect the data (see annex 4). The questions included were based on the research aim, questions and objectives. Before the final face-to-face interviews took place, the researcher visited potential MFIs and interviewed key personnel (initial data collection; see annex 3 for the initial study report), read company reports and visited websites in order to gain insight. A similar process was also followed by other studies (e.g. Johnsen and Ford, 2006).

A brief of the research study was sent to the chosen MFI officers and owner managers, and appointments were made prior to the interview dates. Officers were visited at their respective MFI offices and owner managers at their business premises for the interviews. This method was appropriate, as the researcher was able to make additional observations as well as collect verbal information. It was therefore possible to establish whether there was a discrepancy between what the respondents said and what really happened. The in-depth interviews were audio-taped, transcribed verbatim and then analysed. Annex 5 shows a sample transcript.

Table 10 shows a summary of the fieldwork.

Table 10: Study fieldwork

	MFI-1	**MFI-2**	**MFI-3**	**MFI-4**	**MFI-5**	**MFI-6**	**External Trainer**	**BDS consultant**
Dates of data collection (in-depth interviews)	05/09/13 19/09/13	10/09/13 20/09/13 26/09/13	01/10/13 09/10/13 16/10/13 13/10/13	06/09/13 13/11/13 14/11/13 21/11/13	27/11/13 28/11/13	26/09/13 25/10/13 06/11/13 03/12/13	05/12/13	06/12/13
Number of people interviewed	7 (4 MFI officers and 3 OM*)	7 (4 MFI officers and 3 OM)	8 (5 MFI officers and 3 OM)	7 (4 MFI officers and 3 OM)	9 (6 MFI officers and 3 OM)	11 (8 MFI officers and 3 OM)	1 officer	1 officer
Duration of interviews (in hours)	7	9	8	7	9	14	1	1
Data and data collection methods	Recorded face-to-face interviews, made observations, took pictures							

*OM – Owner Manager

Research ethics

All researchers should consider ethical issues when conducting a study. According to Denscombe (2004), a researcher needs to consider the following three ethical principals when carrying out a study:

1. Participants' interest should be protected.
2. Researchers should avoid deception and misinterpretation.
3. Participants should provide their informed consent.

Following Principal 1, the researcher sent a letter to all the participants before the data collection, informing them about the objective of the study, their role in the data collection and ensuring how their interests would be protected. When setting up the interviews the researcher made sure they were held at a convenient location and at times convenient to the participants. Thus all the interviews were held at participants' offices and business premises. The participants were informed that the data collected would only be used for the study and that their identities would not be disclosed.

Principal 2 expects the researcher to be open and honest in the interviewing process and its aftermath. For example, before the data collection began every participant was briefed about the objective of the study and their role in it. Transcriptions were also sent to the participants to verify accuracy. Moreover, the participants were allowed to ask questions and to obtain a copy of the results. The researcher updated the progress of the study to participants so that they felt respected and were willing to provide feedback.

Principal 3 is general agreement from participants that they are participating in the study willingly. The researcher obtained this informed consent from all of them. The participants were assured of their right to anonymity. Thus code numbers were used in the study to represent participants. They were also informed that they were participating in the study voluntarily and could withdraw at any time. They could refuse to answer any uncomfortable questions.

In addition, as a postgraduate research student of Bournemouth University, the researcher had to pass an examination on research ethics and needed to obtain ethical clearance for the study from the university.

Transcription and translation

The majority of the interviews were conducted in the Sinhalese language, except for a few which were conducted in English. All the interviews were audio-recorded and the Sinhalese dialogues were translated into English. This was a time consuming exercise, but nevertheless the researcher himself transcribed all the interview data since he wanted to remain close to it. After the data had been transcribed, the researcher consulted with a bilingual colleague to make sure the transcriptions had been translated into English words and perspectives appropriately. Once the data had been transcribed into text the analysis was made. The following sections outline the data analysis procedures.

4.7.2 Data analysis

Yin (2009) proposes four general strategies and five techniques to analyse case studies. These general strategies and techniques are not mutually exclusive and hence researchers can use any number of them in any combination.

Four general strategies

1) Relying on theoretical propositions

The most preferred strategy to use in analysis is based on the theoretical propositions that led the case study. The original objectives of the case are based on such propositions, which in turn reflect a set of research questions, the literature review, and new hypotheses or propositions. This study employs this strategy in the analysis by using the research objectives, questions and conceptual framework (which reflects the propositions).

2) Developing a case description

This strategy is used when data has been collected without having initial research questions or propositions. Since this study had research questions and collected data accordingly, this strategy was not used.

3) Using both qualitative and quantitative data

Certain case studies may have a substantial amount of quantitative data, although the qualitative data remains central to the study. Researchers need to use a strong analytical tool to analyse this. This study did not use this strategy, as it primarily collected qualitative data. However, it did use quasi-statistics to explain certain concepts.

4) Examining rival explanations

This strategy attempts to define and test rival explanations. For example, it is possible to have rival propositions, and rival contrasting perspectives of participants and stakeholders. This study does not have rival propositions; however, rival perspectives could emerge, hence this strategy was used. For example, the literature shows that the level of formal education of owner managers can help them to absorb training better, but the findings of the MFI-6 case study show that formal education does not matter and that even with a low level owner managers can be trained.

Five techniques

Yin (2009) proposes five techniques to analyse data: pattern matching, explanation building, time series analysis, logic models and cross case synthesis.

1) Pattern matching

Pattern matching is the most desirable technique to analyse a case study. According to Trochim (1989), it compares an empirically-based pattern with a predicted one (or with several alternative predictions). If the patterns coincide, the results can help a case study to strengthen its internal validity. In pattern matching, Yin (2009) distinguishes between theoretical replication and literal replication. Theoretical replication is when cases are designed to cover different theoretical conditions (*i.e*. selection of cases to predict contrasting results), whereas literal replication is when cases are designed to corroborate each other (*i.e*. selection of similar cases).

This study used pattern matching as a technique to analyse the cases studies and hence involved theoretical replication and literal replication. An example of theoretical replication was that cases were selected based on the lending strategy of the MFI, and on the basis of this lending strategy the degree of co-production changed. MFI-1 uses group lending and showed higher co-production compared to MFI-3, which uses individual lending. An example of literal replication was that MFIs which use group lending (e.g. MFI-1 and MFI-2) showed somewhat similar co-production results.

2) Explanation building

The explanation building technique is used mainly in descriptive case studies. However, this technique is used in exploratory case studies as a part of the hypothesis-generating process (Glaser and Staruss, 1967), but its goal is not to conclude a study but to develop ideas for further study. Being an exploratory study, the explanation building technique was used in this study. For example, new ideas emerged that can be researched in the future in light of the co-production theory. A spouse's support in the owner manager's business and office bearer training are such new ideas which emerged from the study.

3) Time- series analysis

The third analytical technique is to conduct time-series analysis. This technique is directly analogous to the time-series analysis conducted in experiments and quasi-experiments. This technique was not used in this case, as the study does not deal with time-series data.

4) Logic models

The logic model technique deliberately stipulates a complex chain of events over an extended period of time. This is used in case study analysis when case events are staged in repeated cause-effect-cause-effect patterns. This technique was not used here, as the study is not involved with complex chains of events.

5) Cross-case synthesis

This technique is unique in multiple case studies (*i.e*. more than one case); as previously explained, techniques can be used for either single or multiple case studies. Cross-case analysis is easier compared to a single case and the findings are robust. In cross-case analysis, word tables are created to display the data from the individual cases according to a uniform framework. Cross-case synthesis was used in the analysis and a word table was created according to the framework identified. When the number of cases is high in cross-case synthesis, quantitative techniques can also be used.

This study used cross-case analysis as there were six cases. In qualitative analysis, the key elements in the data are called 'themes'. Some themes might develop before the analysis and others during the study (Patton, 2002; Coffey and Atkinson, 1996; Sandelowski, 1993). Themes can be common to all the cases or may vary across groups of cases depending on the data and method (Ayres *et al.*, 2003). In this study, the themes identified were common across the cases and hence cross-case analysis was conducted based on these common themes. Cross-case comparisons are useful for external validation of individual case study findings (Creswell, 2007). Table 11 summarises the strategies and techniques used in the analysis

Table 11: Strategies and techniques used in the case study analysis

Strategies used	**Techniques used**
Reliance on theoretical propositions	Pattern matching
Examination of rival explanations	Explanation building
	Cross-case synthesis

Data reduction, data display and conclusions

According to Miles and Huberman (1994), data analysis is composed of data reduction, data display and drawing or verification of conclusions. Data reduction is a form of analysis that sharpens, sorts, focuses, discards and/or organises data in such as way that final conclusions can be drawn and verified. In this study, data reduction was achieved by focusing on the research questions and objectives. The idea was not to compare information provided by the respondents to find out similarities, but to understand the whole picture of the phenomenon of co-production.

A display is an organised, compressed assembly of information that permits conclusion drawing and action (Miles and Huberman, 1994). The data was displayed by using two methods: 1. matrices (the crossing of two lists, set up as rows and columns) and 2. networks (the collection of 'nodes' or points connected by line-links) (Miles and Huberman, 1994). Hence in this study, the data was displayed using tables (matrices) and diagrams (networks).

Conclusion and verification involve deciding what things mean – noting regularities, patterns, explanations, possible configurations, causal flows, and propositions (Miles and Huberman, 1994). Accordingly, in this study conclusions were made by noting patterns, explanations, the conceptual framework and objectives.

Data analysis using NVivo 10

The NVivo 10 qualitative research software was developed by QSR International Australia. It helps researchers to manage, shape and make sense of unstructured data. This data comes in the forms of audio, video, documents and pictures. NVivo does not favour a particular methodology – it is designed to facilitate common qualitative techniques for organising, analysing and sharing data, no matter what method is used. NVivo 10 has a step-by-step approach. The steps adopted in this research are explained below.

First, six cases (six MFIs), and two individual cases (an external trainer and a BDS consultant) were set up in NVivo. Second, the interview transcripts which form the data sources were imported to NVivo from the individual case studies. Coding then allowed the researcher to classify the interview data into meaningful themes. There are two types of coding in NVivo: 1. Auto coding, and 2. Manual coding. Auto coding is recommended for research using structured questionnaires in order to obtain answers to the questions in a consistent way. The structured format enables the researcher to compile answers to each question into a node. Auto coding is particularly useful when dealing with large datasets. In contrast, manual coding is used when there is a relatively small data set and the study requires close analysis. In manual coding, the researcher identifies the themes based on the sources and then creates nodes in Nvivo. The researcher then drags and drops relevant references (i.e. quotations) to manually created nodes. In this study, manual coding was used because the researcher does not use a structured questionnaire which generates answers in a consistent way and there was also a manageable data set. Further concepts/themes emerged when data was being analysed, which were different to the themes identified by the software based on common words/similarities on the interview transcripts. Thus manual coding was preferred to auto coding.

A coding structure can be established by arranging the emerged themes in ‘tree nodes’, with each node based on a hierarchical structure for each study. Finally, interdependent ideas were captured, relationships were identified and models created to visualise ideas and relationships. The analysed data in NVivo was utilised in the thesis at the writing up stage. Annex 6 shows the screen printouts showing examples of data sources, nodes- structures and models created in the study.

The case study method recommends maintaining a case study database in order to increase the reliability of the study (Yin, 2009). Thus storing the research data in a meaningful way in Nvivo can improve the reliability of this study.

4.8 Validity and reliability

Validity and reliability are important to test the logical statements of a research design. Hence four tests, namely construct validity, internal validity, external validity and reliability, are used in this connection (Yin, 2009).

Construct validity is the identification of correct operational measures for the concepts being studied. In this study the researcher uses multiple sources of evidence, such as interviews, observations and company reports, and databases as tactics to improve the construct validity.

Internal validity is the quest to establish a causal relationship. This is done by using pattern matching in case studies. The researcher examines whether there is a relationship between BDS and the performances of MFIs and owner managers in the study.

External validity is the definition of the domain to which the study's findings can be generalised. In case studies, statistical generalisation cannot be expected; however, rich analytical generalisation can. Moreover, this study uses multiple cases, which are better than a single case study.

Reliability demonstrates that the operations of a study such as data collection procedures can be repeated with the same results. A case study protocol is used in the study, which helps other investigators to have the same results if the study is repeated (Yin, 2009).

Table 12 outlines how types of validity and reliability were used in the study.

Further, the applicability of maintaining a chain of evidence, triangulation and replication logic used in this study is also discussed in detail after the table.

Table 12: Types of validity used in the study

Type of Validity	Description	Techniques employed	Stage of the report
Construct validity	Identifying correct operational measures for the concepts being studied. In this study, the researcher uses multiple sources of evidence.	Data triangulation. Establishment of a chain of evidence. Key informants review the case study report.	Data collection. Data collection. Data composition.
Internal validity	Quest to establish a causal relationship. Inferences based on documentary evidence and interviews.	Patten matching. Explanation building.	Data analysis. Data analysis. Data analysis.
External validity	Defining the domain to which the study's findings can be generalised.	Multiple case study – application of replication logic.	Research design.
Reliability	Demonstrating that the operations of a study, such as data collection procedures, can be repeated with the same results.	Case study protocol. Consistent interview guidelines. Case study database.	Data collection. Data collection. Data collection.

Source: prepared by author, using Yin (2009).

Maintaining a chain of evidence

Maintaining a chain of evidence methodically improves the reliability of the study (Yin, 2009). The researcher maintained a case study database in which all the information (e.g. interview data, observations, references) was stored in Nvivo. The case study report cites the relevant sections of the case study database by referencing them to specific documents, interviews or observations. The following steps were followed in maintaining the chain of evidence (figure 5).

By following the steps stated below it is easier to cross-refer the methodological procedures to the resulting evidence.

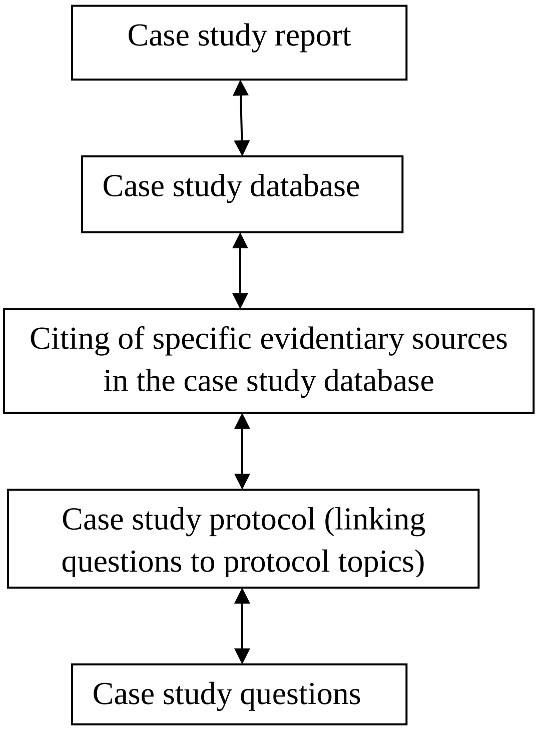

Figure 5: Chain of evidence. Source: Yin (2009).

Replication logic

Six case studies of diverse natures were selected to allow replication logic. Replication leads to generalisability of the findings to similar contexts. Identical semi-structured questionnaires were used to collect data across six diverse cases, and similar and dissimilar findings emerged (*i.e.* literal and theoretical replication).

Triangulation

Triangulation refers to the combination of multiple theories, methods, observers and empirical materials to produce a more accurate, comprehensive and objective representation of the object of the study (Silverman, 2006; Collis and Hussey, 2009). According to Denzin (2006), there are four types of triangulation: 1.data; 2.investigator; 3. method; and 4. theory.

1) Data triangulation

There are three categories in data triangulation: time, space and person (Denzin, 2006). Time triangulation occurs when data is collected at different points in time. In this study, the researcher first collected data in early 2012 and then in the last quarter of 2013. Furthermore, data had been collected through the literature survey since 2011, until the point of writing the thesis. Thus this study fulfils the time triangulation requirement.

Space triangulation occurs when the researcher collects data from different sites. In this study, data was collected from different locations in Sri Lanka. Thus this study meets the space triangulation requirement.

Person triangulation occurs when data is collected from different persons. For this study the researcher collected data from people in the six case studies and from an external trainer and a BDS consultant. Thus this study conforms to person triangulation.

2) Investigator triangulation

This occurs when data is collected by more than one investigator with different expertise, but which involves complementary work for the same study. In this study, data was collected by the researcher himself. Therefore investigator triangulation did not occur.

3) Method triangulation

Method triangulation can occur at the level of design or data collection. At design level it is called between-method triangulation and at data collection level within-method triangulation. In this study, at the design level in-depth interviews were held to collect data, but at the data collection level data was collected through in-depth interviews and observations.

4) Theory triangulation

Theory triangulation occurs when more than one theoretical position is used to interpret data. In this study, the concept of co-production was used as the grounding theory to interpret the data. Additionally, an IMP framework, linkage models, counselling and training theories were used for interpretation.

4.9 Summary of the chapter

This chapter has presented the methodology adopted in this study. The relevance of social constructivism philosophy and inductive and qualitative approaches to the study were first discussed. It was then explained why the case study method was selected and the case study method was detailed. The data collection methods and analysis were explained in the research techniques section. Finally, the chapter discussed the validity and reliability issues which ensured the quality and rigour of the study.

The following three chapters introduce the cases, and analyse and discuss the findings of this study. When analysing the study findings, the techniques prescribed for the case study method - cross case synthesis, pattern matching and explanation building - are used.

Chapter 5. Introduction to cases and interviewees

5.1 Overview of the chapter

This chapter introduces the six cases (MFIs 1, 2, 3, 4, 5, and 6) and interviewees considered in this study. The introduction to each case includes descriptions of the organisational structure of the MFI; how BDS are provided; client selection for credit and BDS; planning and performance evaluation of BDS programmes; performance of microcredit and BDS; the sustainability of BDS programmes; successes and failures of the programmes; summary of the findings; and profiles of the interviewees. Since the data was also collected from an external trainer and BDS consultant through in-depth interviews, their profiles and highlights of the interviews with them are given at the end of the chapter. Finally, a summary of the chapter is given.

5.2 Introduction to microfinance institution 1 (MFI-1)

MFI-1 is a guarantee company registered under the Company Act of Sri Lanka and was established in 2007. MFI-1's mission is to ensure the accessibility to quality microfinance for the poor and enterprise development at the lowest possible price.

MFI-1 provides both credit and BDS to its members and carries out its activities in four districts in Sri Lanka, namely Kegalle, Nuwara Eliya, Anurdahapura and Traincomalee. MFI-1 caters mainly for rural clients. To provide microcredit to its clients, it uses group lending methodology[2] through clusters. Its funding comes from the Grameen Credit Agricole Microfinance Foundation, Plan, the Stromme Foundation, Sri Lanka Savings Bank and Hatton National Bank of Sri Lanka.

5.2.1 Organisational structure

An organogram of MFI-1 is given in Figure 6. MFI-1 has separate divisions for microcredit and BDS. Both divisions are headed by managers. The BDS division (Enterprise Development) employs Enterprise Development Officers (EDOs), who provide counselling to clients, and a team of internal trainers who work part-time to provide training to the clients.

[2] The basic idea of group lending is that loans are given to the individual members of the group, but the group is responsible for the repayment of the loans of the individual members to the MFI (group liability).

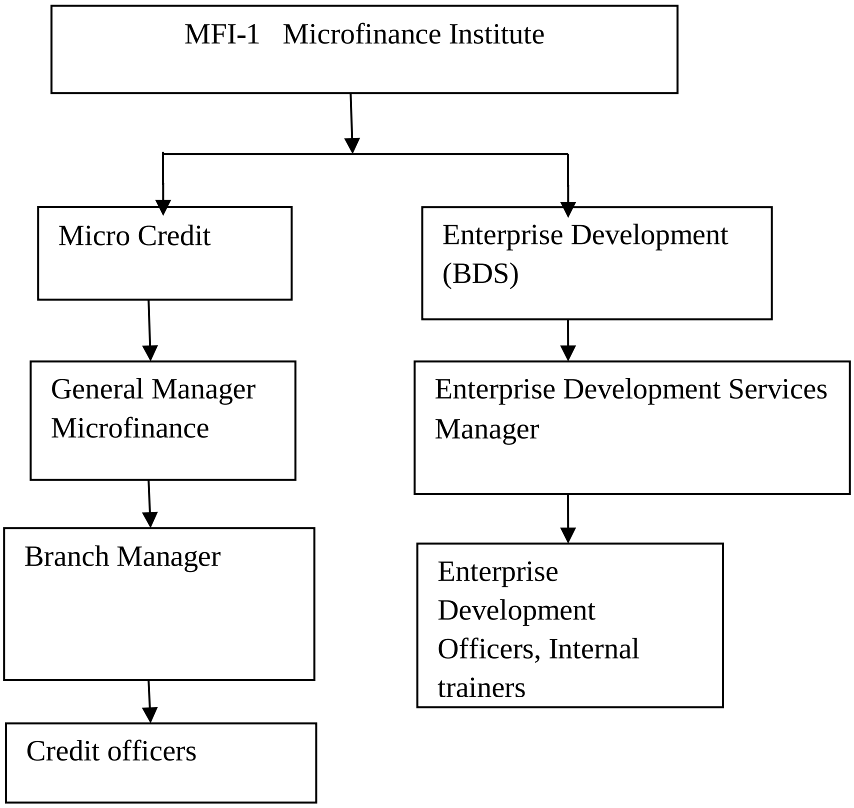

Figure 6: Organogram of MFI -1

It was found that the Microcredit Department and Enterprise Development Department work collaboratively to provide microcredit and BDS to clients. For example, credit officers working in the microcredit department provide the BDS needs of clients to the Enterprise Development Officers of the BDS department, whereas the Enterprise Development Officers provide details of clients' business performance and loan needs to the credit officers.

5.2.2 How MF1-1 provides BDS to clients

MFI-1 provides BDS only to clients who have obtained microcredit, through counselling and training. Before explaining how MFI-1 provides counselling and training to clients, this section first explains how it introduces microcredit and BDS programmes to clients through awareness sessions and group formation.

Awareness sessions and group formation

MFI-1 first conducts awareness sessions to attract clients. EDOs and credit officers create awareness of its services (i.e. microcredit and BDS) in awareness sessions. After these sessions, the MFI identifies potential clients who are willing to obtain microcredit from it, and then forms groups and clusters consisting of clients. As can be seen in Figure 7, the group consists of three members and a cluster consists of 10 groups. A village can have about 10 clusters.

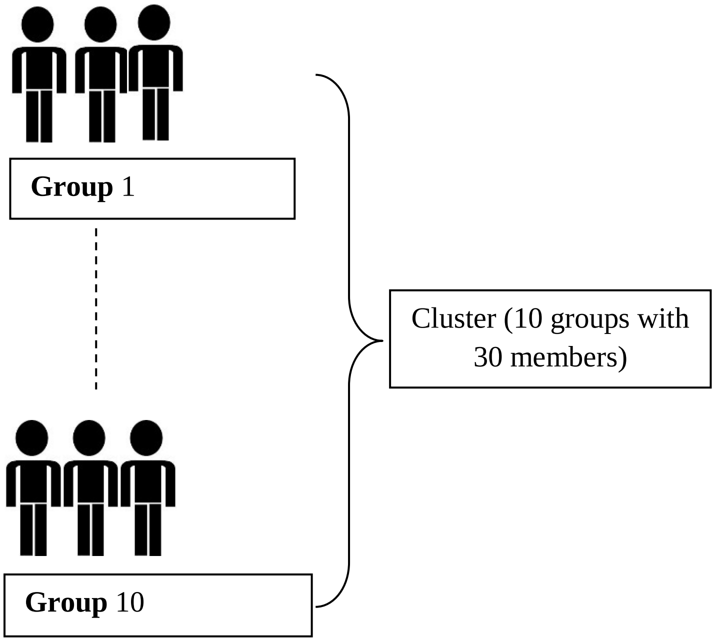

Figure 7: MFI-1 group structure

MFI-1 forms these groups and clusters because it provides microcredit to clients/members by taking group liability (i.e. group lending) as collateral for loans (microcredit). For example, if a member of a group who has obtained a loan does not pay an instalment, then other members of the group have to pay it. Clients in groups have to attend cluster meetings twice a month. In these meetings, all the members of the cluster (30 members) gather in one location. Cluster meetings are held in a community centre or temple close to the clients' homes. MFI-1 uses the cluster meetings to facilitate BDS and microcredit delivery. For example, Enterprise Development Officers (EDOs) attend the meetings to provide counselling to clients and credit officers use them to issue loan applications and follow up on loan recoveries.

Counselling

EDO selects clients who are willing to obtain counselling through the awareness sessions held in cluster meetings and thereafter provides one-to-one long term counselling for these selected clients. For example, an EDO selects around 50 clients for counselling through cluster meetings. It then visits these clients at their homes or operating bases to provide counselling. Besides, EDOs are also expected to visit cluster meetings throughout the year and provide group and one-to-one counselling to clients who attend these meetings. In the group counselling, awareness of the MFI's products and a basic overview of financial literacy, the importance of entrepreneurship, and business ideas are given. EDOs help clients with business plan preparation, business registration, production, marketing and linkages (market, loan and training) in one-to-one counselling. They play an important role in providing BDS to clients, being the link between the MFI and client. For example, when an MFI wants to provide training programme to clients, EDOs create awareness about training and its benefits at cluster meetings, select interested clients for training, organise training programmes with trainers and then follow up the programmes. In addition to the counselling given, counsellors are involved in forming producer groups, organising entrepreneurship competitions, and creating market linkages for clients. Counselling is not compulsory for clients to obtain other services and it is provided free.

Training

MFI-1's internal trainers mainly provide financial literacy and business training to its clients, while external trainers are mainly used for vocational training. Training is provided at nearby locations to clients, such as community centres, and it is mainly held on weekdays. Training is not provided free and it is not compulsory for the clients to obtain microcredit. However, one of the branches of MFI-1 makes financial literacy training compulsory for clients to obtain microcredit. It was also revealed that MFI-1 has collaborated with government institutions that provide training programmes so that it can link its clients to these institutions for training through EDOs.

Table 13 provides a summary of the BDS provided by MFI-1 through counselling and training.

Table 13: Summary of the business development services (BDS) provided by MFI-1 through counselling and training

Business development service	**Counselling**	**Training**
Financial literacy	x	x
Basic business management[1]	x	x
Advanced business management[2]	x	x
Vocational skills[3]		x
Market linkages[4]	x	
Linking to outside training[5]	x	
Forming producer groups	x	
Exposure visits	x	
Entrepreneurship competition	x	
Bank loan linkages	x	

Source: author's compilation

1 e.g. business plan preparation, business registration, record keeping, 2 e.g. marketing, costing, inventory management, 3 e.g. soap, yogurt manufacturing, 4 forward and backward, 5 e.g. government

As can be seen from Table 13, MFI-1 provides many BDS to clients. Further, certain BDS such as financial literacy are provided through both counselling and training.

5.2.3 Client selection for credit and BDS

MFI-1 caters mainly for clients who can service their loans and thus not poor people. However, it also caters for a small number of poor clients. It provides grants or interest free loans for the poor.

MFI-1 provides credit to existing business ventures for expansion, but not for new businesses. 60% of its loan portfolio consists of business loans, with the remaining going to asset building loans.

In order to obtain credit and BDS, clients have to become members of a group first. They can then obtain loans for their business venture by providing a business plan, their credentials on assets and income, and collateral. Collateral includes two members of the group and a member of the client's family, who give personal guarantees. After obtaining microcredit, clients are eligible to obtain counselling and training provided by MFI-1.

When obtaining a loan, clients also have to buy coupons worth Rs.1000 (US $10) (each coupon is worth Rs. 250 (US$ 2.5), which can be used later to attend training programmes. The coupon amount, Rs.1000, is deducted from the loan amount given. The loan sizes MFI-1 provides to clients are between US $250 and US $500. The annual interest rate is 16%-32% and the duration of loans between 6 and 42 months.

5.2.4 Planning and performance evaluation of BDS

MFI-1 plans its BDS programme under the direction of the top management. When planning, all the stakeholders' views, including those of the Enterprise Development manager, Enterprise Development officers, branch managers and clients, are taken into consideration. The planning is done in the last quarter of the year for the forthcoming financial year and the BDS plan details the activities to be carried out and how they will be monitored.

MFI-1 has a strong performance evaluation system which monitors the overall BDS programmes' effectiveness and also individual (counsellor and trainer) effectiveness. Top management gives a target to each branch manager, counsellor and trainer at the beginning of the year (i.e. number of new and existing clients' businesses to be supported, number of training programmes to be conducted, number of market linkages to be introduced, follow up and feedback to be done) and monitors whether they achieve the target. It was also found that MFI-1 requires counsellors to follow up on clients regularly and they even have to follow up clients on the training conducted by trainers.

5.2.5 Microcredit and BDS performance

It was found that MFI-1 maintains a very good loan repayment status (*i.e*. low Portfolio at Risk 0.32% (30 days)) in 2012 and had created 31,941 new job opportunities since 2007. Of this, 39% (12,457) were employment opportunities created in addition to the job of the micro-entrepreneur himself. MFI-1 provided 401 training programmes to 6500 clients in 2012.

5.2.6 Sustainability of BDS programmes

It was found that MFI-1's BDS programme is sustainable mainly due to the coupon system adopted. MFI-1 also sets aside part of its microcredit profits for BDS.

5.2.7 Successes and failures of the BDS programme

MFI-1 was able to create around 31,000 employment opportunities between 2007 and 2012. It also organised entrepreneurship competitions. Moreover, successful collaboration between the credit and BDS departments improved both microcredit and the BDS programmes. They were also able to formulate a BDS strategy with monitoring and feedback. During the interviews, no apparent failure of the BDS programme was highlighted.

5.2.8 Summary of findings

MFI-1 provides a very good BDS programme to its clients. The Enterprise Development Officer (counsellor) attached to MFI-1 is at the heart of the BDS programme. EDOs are qualified and have a number of years of experience. Further, MFI-1 has qualified internal trainers and maintains close relationships with government institutions so that it can link the clients/owner managers to the training and resources provided by those government institutions. MFI-1 uses a group structure consisting of clients to facilitate BDS delivery.

According to top management, the success of MFI-1's BDS programme is that the credit BDS teams work collaboratively. It was also found that MFI-1 has a good mechanism to monitor and evaluate the whole BDS programme, including counselling and training and uses an innovative coupon method to provide BDS. This coupon system contributes to achieving the sustainability of the BDS programme. Additionally, the qualified and visionary top management is instrumental in implementing the BDS programme successfully.

5.2.9 Interviewee profiles

For the purpose of this study, four MFI officers and three owner managers were interviewed. The interviewee profiles of MFI-1 are tabulated in Table 14

Table 14: MFI -1 interviewee profiles

Interviewee	Background
Enterprise Development Services Manager	In charge of the BDS programme. Degree and Masters in Agriculture.
General Manager Finance	In charge of microcredit. Degree in Business Management and finalist in Chartered Accountancy examinations.
Enterprise Development Officer (Counsellor)	Provides business counselling to clients. Diploma in Agriculture and 20 years' experience in counselling. Provides individual and group counselling. Dedicated business counsellor.
Trainer	Provides business training to clients. Diploma in Agriculture and followed five Training of Trainers (TOT) programmes.
Owner manager - Furniture	Manufactures and sells furniture and runs the business with his spouse. Passed Advanced Level examination in Commerce. Followed four modules of Start and Improve Your Business (SIYB), business training conducted by MFI-1.
Owner manager - Wicks	Manufactures and sells wicks, incense sticks and engages in beekeeping with the help of his spouse. Passed an Advanced Level examination in Mathematics. Has prior business experience. Followed four modules of SIYB business training and some other business training courses.
Owner manager - Grocery	Runs a grocery store with his spouse. Poor formal education, only up to Ordinary Level examination. Took part in an exposure visit organised by MFI-1.

5.3. Introduction to microfinance institution 2 (MFI-2)

MFI-2 is a guarantee company registered under the Company Act and was established in 1998. The mission of MFI-2 is to eradicate poverty by promoting economic empowerment for a sustainable livelihood.

MFI-2 provides both credit and BDS and is active throughout Sri Lanka, catering for both urban and rural clients. It provides credit to clients/members mainly through group lending methodology. It is funded by Conzorzio Etimos Plan Sri Lanka and several commercial banks.

5.3.1 Organisational structure

As can be seen in Figure 8, the Enterprise Services Division (ESD) of MFI-2 is headed by a manager who provides BDS to clients. Enterprise Promotional Officers (EPOs) attached to ESD provide counselling and a team of trainers attached to the Society Development Unit (SDU) provide training to clients in collaboration with ESD. The Credit and Project Finance Division (PFD) is also involved in providing microcredit.

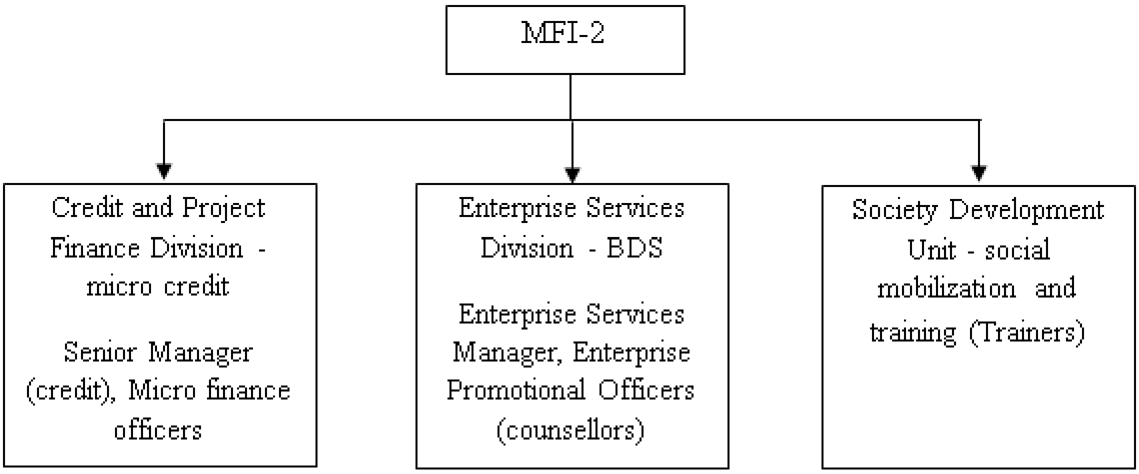

Figure 8: Organisational structure of MFI-2

5.3.2 How MFI-2 provides BDS to clients

It was found that MFI-2 provides BDS only to clients who have become members. It provides its services through counselling and training. This section first explains how it introduces microcredit and BDS programmes to clients through a social mobilisation programme and group formation and then explains how it provides counselling and training.

Social mobilisation programme and group formation

MFI-2 provides a social mobilisation programme when attracting new clients. It first selects a village and creates awareness about the services it provides to potential clients. It then forms groups and societies with members/clients under the social mobilisation programme. Figure 9 shows how clients/members of MFI-2 are organised into groups and societies. Societies are formed by a collection of groups, with a group consisting of 5 to 6 members. The duration of the social mobilisation period is around 3 months.

The main purpose of forming groups is to secure group guarantees for the loans (microcredit) provided to them. The members of the groups and societies are expected to internally appoint office bearers to manage them. During the social mobilisation programme, the office bearers are given training to manage the members' savings, lend money from the savings to members, and maintain accounts for the groups and societies. During the social mobilisation period, members are given counselling and training on subjects such as financial literacy, record keeping, and the importance of being a group member, to empower them so that they will become better members.

Members have to attend group meetings once a week and society meetings once a month. EPOs from the BDS department and microfinance officers from the microcredit department visit these meetings regularly to educate clients about the services and to provide these.

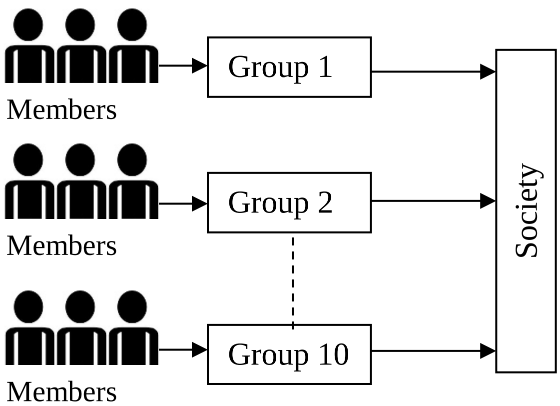

Figure 9: Client structure of MFI-2

Counselling

Counsellors (EPOs) conduct awareness sessions at the beginning of the year at group/society meetings to educate potential clients about BDS and then later hold selection sessions to select around 50 clients for the provision of long term one-to-one counselling, visiting clients at their operating bases. Apart from these selected clients, counsellors provide counselling to other members at group and society meetings, at MFI-2 offices and on the phone. Group/society meetings where counselling is provided are held in temples, schools and community centres close to clients' operating bases and homes. Counsellors provide both group and one-to-one counselling. In group counselling, clients are educated about topics such as financial literacy and the importance of being a businessman. In one-to-one counselling, clients are assisted with business registration, taxation, sourcing raw material for production, marketing etc. The EPO (counsellor) is not only involved in providing counselling to clients, but also forming producer groups, creating market linkages, organising training programmes to clients and liaising with government institutions to provide their services to clients. Counselling is not compulsory for clients to obtain other services and is provided free.

Training

MFI-2's internal trainers mainly provide financial literacy and business training to its clients, and external trainers are mainly used for vocational training. It has a full time team of internal trainers. Training is provided at nearby locations, such as community centres, and is mainly held on weekdays. Training is not provided free to clients and is not compulsory for obtaining microcredit. Internal trainers also provide management training to the office bearers of the groups/societies (i.e. office bearer training). These training sessions include leadership training, book keeping and accounting, which are necessary to manage the groups and societies. MFI-2 also links its clients to training programmes provided by government institutions. It was found that trainers and counsellors work collaboratively to provide counselling and training.

A summary of the BDS provided by MFI-2 through training and counselling is given in Table 15.

Table 15: Summary of BDS provided by MFI-2 via counselling and training

BDS	Counselling	Training
Financial literacy	x	x
Basic business management[1]	x	x
Advanced business management[2]	x	x
Vocational skills		x
Market linkages[4]	x	
Linking to outside training[5]	x	
Forming producer groups	x	
Exposure visits	x	
Bank loan linkages	x	
Trade fairs	x	
Business clinics	x	
Input supplies	x	
Technology transfer	x	

1 e.g. business plan preparation, business registration, record keeping, 2 e.g. marketing. costing, inventory management, HRM, 3 e.g. soap, yogurt manufacturing, 4 forward and backward, 5 e.g. government

As can be seen from Table 15, MFI-2 provides many BDS to clients.

5.3.3 Client selection for microcredit and BDS

The potential clients/members are selected during the social mobilisation programmes conducted by the SDU of MFI-2 in villages. When making the selection, it uses the Progress out of Poverty index (PPI) [3]and selects the clients who fall between 15 and 22 (*i.e.* low income, not poor people). However, it was revealed that this selection criterion is not followed strictly. In order to become a member of MFI-2, the potential member has to first become a member of it by buying a share of Rs.500 (US$5), save money in individual and group savings accounts and needs to attend both group and society meetings regularly. Once a person becomes a member, he or she can obtain microcredit and the BDS provided by MFI-2. Microcredit is provided for businesses, housing and

[3] The Progress out of Poverty Index (PPI) is a poverty measurement tool for organisations and businesses with a mission to serve the poor.

the asset financing needs of members. When financing businesses, MFI-2 only provides microcredit to existing businesses. The loan sizes it provides to clients are between US$50 and US$2000, the annual interest rate is 16% -32% and the duration of loans is between 6 and 36 months.

5.3.4 Planning and performance evaluation

MFI-2 plans its BDS programme for a financial year. When planning, the views of all the stakeholders, such as clients, counsellors and managers, are taken into consideration. It was found that MF-2's top management with higher expertise provides direction for the planning of the BDS. MFI-2 evaluates the performance of the programme based on indicators that have been identified in the plan (e.g. number of new employment opportunities created; number of new and existing clients' businesses improved; number of training programmes conducted; number of business clinics conducted; number of producer groups formed). Management also evaluates how counsellors and trainers provide their services to clients in every quarter. For example, counsellors have to report to the management details such as number of awareness sessions they conducted, number of clients they supported through counselling, and number of market linkages created.

5.3.5 Sustainability of the BDS programme

It was found that the sustainability of the BDS programme had been affected due to a lack of funds from donors. As a result, MFI-2 was providing fewer training programmes for clients. However, the findings reveal that it charged a fee for training to cover the costs incurred for BDS.

5.3.6 Successes and failures of the BDS programme

The Enterprise Services Manager mentioned that being able to introduce market linkages to clients was a success factor, but the opening up of technology centres was a failure, as the government provided the same service and hence MFI-2 was wasting resources.

5.3.7 Summary of findings

MFI-2 has a good BDS programme. It employs dedicated Enterprise Promotional Officers (EPOs) to provide business counselling. The EPOs employed by MFI-2 are qualified, with years of experience and training. It also has a separate training division to provide training. The trainers are qualified, having followed a number of Training of Trainers (TOT) programmes. MFI-2 uses its social mobilisation programme and groups consisting of clients to facilitate the BDS programme. It was revealed that in recent times MFI-2's BDS programme has been hampered by the lack of funding due to donor funds drying up. Further, it provides training to owner managers through the government institutions which provide training to micro-entrepreneurs. MFI-2 provides a wide range of BDS and EPOs play a vital role in providing those to owner managers.

5.3.8 Interviewee profiles

The MFI-2 interviewee profiles are shown in Table 16

Table 16: MFI-2 interviewee profiles

Interviewee	Background
Enterprise Services Manager	In charge of BDS. Degree and Masters in Agriculture
Senior Manager Credit	In charge of microcredit. Degree in Agriculture, MBA and MA in Economics
Enterprise Promotional Officer (counsellor)	Provides counselling to owner managers. Advanced Level in Commerce, following a degree in Business Management. Followed training on business counselling, book keeping, marketing, leadership, management and motivation
Trainer	Provides training to owner managers. Advanced Level examination. 20 years' experience in training. Master trainer; followed many Training of Trainers (TOT) programmes. In addition to providing training, the trainer has to perform other responsibilities in the organisation, such as managing accounting and HRM
Owner manager – mosquito nets	Manufactures and sells mosquito nets. Spouse involved in the business. Low formal education, up to Ordinary Level examination. Took part in training on book keeping and participated in trade fairs organised by MFI-2
Owner manager -	Processes and sells coir products. Employs nine workers.

coir	Spouse involved in the business. Passed Advanced Level examination and did a course in English and computers. Attended a 3 week entrepreneurship/business training course conducted by MFI-2 and a few other business training courses
Owner manager – ginger sweets	Produces and sells ginger sweets. Employs nine workers. Spouse engaged in the business. Passed Advanced Level examination. Has prior experience in business. Attended training on dehydration of food products conducted by MFI-2

5.4 Introduction to microfinance institution 3 (MFI-3)

MFI-3 is a private, well-established bank in Sri Lanka. In 1989, it introduced a village awakening microfinance model in order to cater for microenterprises. The salient feature of this programme is a village awakening advisor (counsellor), who goes to villages and provides banking services. There are more than 150 counsellors attached to branches and MFI-3 village awakening units, covering all the districts in the country. It also caters for both rural and urban clients.

The core objective of this programme is to develop a sustainable programme which will give a new orientation to the village people's economic and rural development and encourage participation in rural awakening and regeneration activities by identifying the strengths, weaknesses and resources available amongst them and by offering financial and other assistance as appropriate. Otherwise, these people would consider banks as places inaccessible to them.

MFI-3 primarily uses the individual lending method[4] to provide microcredit. The village awakening model was recognised by the World Bank as the best microfinancing model practised by a commercial bank in Sri Lanka. It is funded by special credit lines given by the Central Bank and through its own funds.

[4] Individual lending demands collateral and no groups of clients are formed. As a result of the collateral requirement, poor clients are not in a position to obtain loans.

5.4.1 Organisational structure

As can be seen in Figure 10, MFI-3 provides BDS through counsellors attached to branches and village awakening units. Microcredit and BDS programmes are managed by a senior manager based at head office. The senior manager uses counsellors based in bank branches and village awakening units to provide BDS. He also makes use of internal part time trainers based at head office to provide training. Unlike MF1- and MFI-2, MFI-3 counsellors have to perform both credit and BDS activities. Clients are not organised in groups as in MFI-1 and MFI-2 and are treated as individual clients.

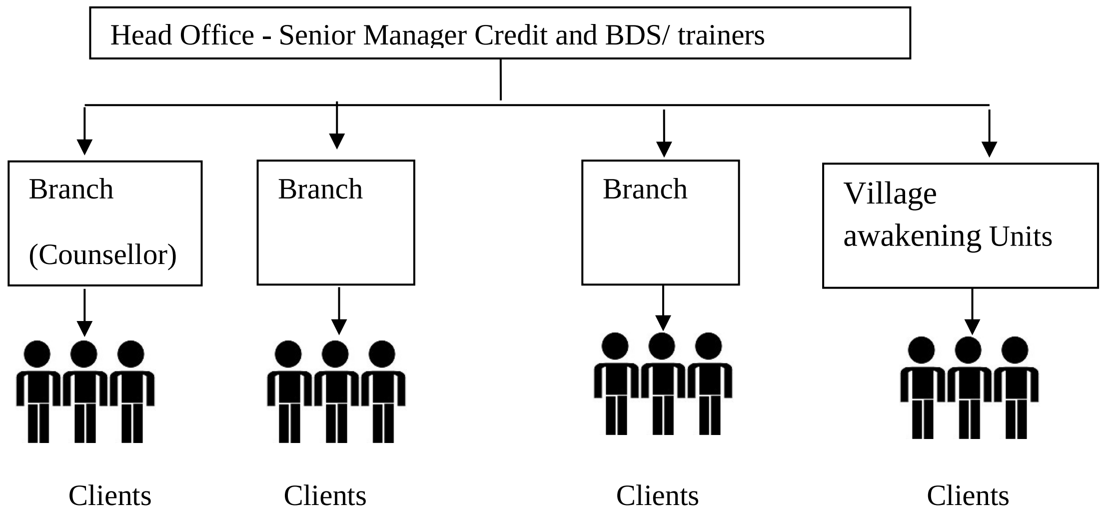

Figure 10: Organisational structure of MFI-3

5.4.2 How MFI-3 provides BDS to clients

MFI-3 provides BDS through counselling and training and to those who have obtained microcredit (loans) from it. Counsellors at branches and village reawakening units provide awareness sessions to introduce microcredit and BDS to clients.

Counselling

Counsellors provide counselling at bank branch offices and at village reawakening units. They are expected to be in the field and thus visit clients to provide counselling at their operating bases as well. In one-to-one counselling, clients are assisted with business plan registration, market linkages, loan linkages and business registration. Counselling is not compulsory for clients to obtain other services and is provided free. In addition to providing one-to-one counselling, counsellors organise training, form producer groups, and create market linkages to clients with the support of the head office.

Training

MFI-3's internal trainers mainly provide financial literacy training, and external trainers are mainly used for vocational and business training. Training is provided at locations close to clients, such as community centres/hotels, and is mainly held on weekdays. Training is provided free and is not compulsory to obtain microcredit.

A summary of the BDS provided by MFI-3 through training and counselling is given in Table 17.

Table 17: Summary of BDS provided by MFI-3

BDS	**Counselling**	**Training**
Financial literacy	x	x
Basic business management[1]	x	x
Vocational skills[2]		x
Market linkages[3]	x	
Forming producer groups	x	

1 e.g. business plan preparation, business registration, record keeping
2 e.g. soap, yogurt manufacturing
3 forward and backward

5.4.3 Client selection for microcredit and BDS

MFI-3 does not provide microcredit to very poor people and only to those who can repay the loan. The client needs to provide collateral in the form of two personal guarantees or a property mortgage in order to obtain microcredit. In contrast, other MFIs studied do not request mortgages or personal guarantees as collateral, but only the group members' guarantee. Therefore compared to other MFIs in this study, MFI-3 provides credit to a relatively higher income category of the lower income segment. It also provides larger loan amounts compared to the other MFIs studied. MFI-3's average loan size is US$1000 and the largest US$10,000. MFI-3 occasionally caters for poor clients when special credit lines (*i.e.* concessionary interest rates) demand that MFIs cater for poor people. Further, it provides microcredit only for income generating activities. Once clients have obtained a microcredit facility, they are eligible for counselling and training. Unlike the other MFIs studied, it was found that MFI-3 is able to cater for clients who graduated to the SME level from the microenterprise one as it is a bank capable of catering for richer clients. The annual interest rate of the loans provided by MFI-3 is 16-17% and the loan duration is 36 months.

5.4.4 Planning and performance evaluation

MFI-3 plans its BDS programme yearly. The senior manager credit and BDS considers the counsellors' views when preparing the plan. In turn, the counsellors obtain clients' views on BDS (e.g. training needs, marketing needs) when they are in the field and then discuss with the senior manager credit and BDS when preparing the BDS plan.

MFI-3 evaluates its BDS programme by looking at the performance indicators in the plan, such as how many microenterprises have graduated to the SME level, and how BDS has helped improve the businesses of new and existing clients. Moreover, it evaluates the field officers' (counsellors') performance in BDS in terms of the number of programmes (e.g. training, marketing linkages) they introduce per year.

5.4.5 Sustainability of the BDS programme

It was found that the MFI-3 BDS programme was sustainable. The senior manager credit and BDS mentioned that they looked at BDS as a long term investment and wanted their microfinance clients to graduate to the SME level. The MFI-3 credit programme was highly successful, so they were able to set aside part of the credit profit to BDS.

5.4.6 Successes and failures of the BDS programme

It was found that market linkages was a success factor in the BDS programme, while some training programmes conducted under Corporate Social Responsibility (CSR) failed as they did not consider clients' views when organising them.

5.4.7 Summary of findings

MFI-3 has over 150 counsellors, which is their strength in their BDS programme. It primarily uses external trainers, but also the services of part time internal trainers to only provide financial literacy training. MFI-3 caters for clients who are in the higher bracket in the low income category.

Being a bank, MFI-3 has a competitive advantage over most of the other MFIs studied, as it can retain clients when they graduate to the SME level (*i.e*. MFI-3 can provide larger loans, whereas MFIs such as MFI-1 and MFI-5 cannot do this).

MFI-3 has been successful in creating market linkages for its clients in partnership with companies that have guaranteed its loan repayments. Most of the training programmes conducted in recent times under CSR headings have proven unsuccessful, since they are not demand-driven. It was also observed that the current BDS programme is negatively affected by the vision of the recently appointed CEO, who shows little interest in it. Instead, he is keen on focusing more on credit to clients/owner managers.

5.4.8 Interviewee profiles

The MFI-3 interviewee profiles are shown in Table 18.

Table 18: MFI-3 interviewee profiles

Interviewee	**Background**
Senior Manager - microcredit and BDS	In charge of microcredit and BDS programmes. Diploma in Marketing and Post Graduate Diploma in Rural Development Studies.
Branch Manager	Approves microfinance loans. In charge of a bank branch. Diploma in Marketing and read for an MBA.
Senior counsellor/trainer	Manages a group of counsellors and provides financial literacy training. Diploma in Credit Management. Followed training courses offered by MFI-3. 20 years' experience.
Urban counsellor	Provides individual counselling. Engages in credit work (*i.e.* clients' credit evaluations for loans, debt collection). Passed Advanced Level examination, followed training programmes given by MFI-3, and took banking examinations. 10 years' experience.
Rural counsellor	Provides individual counselling. Engages in credit work (*i.e*. clients' credit evaluations for loans, debt collection). Passed

	Advanced Level examination, followed training programmes given by MFI-3, and took banking examinations. 18 years' experience.
Owner manager - garments	Manufactures and sells ladies' and children's garments. Employs one worker. Has prior business experience. Educated up to Ordinary Level examination (*i.e.* low formal education); followed training on book keeping.
Owner manager – service center	Manages a service centre. Passed Advanced Level examination in Mathematics. Has prior business experience and has worked overseas. Followed an entrepreneurship training programme and 5 S[5] inventory management training programmes offered by MFI-3.
Owner manager – buying and selling cars	Buys, repairs and sells motor cars. Educated up to Ordinary Level Examination, hence low formal education. Followed an automobile engineering course on counsellor's advice.

5.5 Introduction to microfinance institution 4 (MFI-4)

MFI-4 is a public company incorporated under the companies act. It was established in 1990 by ABC (a well-established government-owned development bank) and is closely monitored by the bank, who appointed a General Manager (ABC) to oversee it. The Central Bank of Sri Lanka also monitors its operations, being a managing partner from its inception.

The mission of MFI-4 is to provide services to rural communities to develop them economically and socially. It only caters for clients in the Puttalam district and uses group lending methodology to provide microcredit and BDS to its members. It is funded by ABC, the Central Bank and the National Savings fund.

[5] 5 S – Japanese management system

5.5.1 Organisational structure

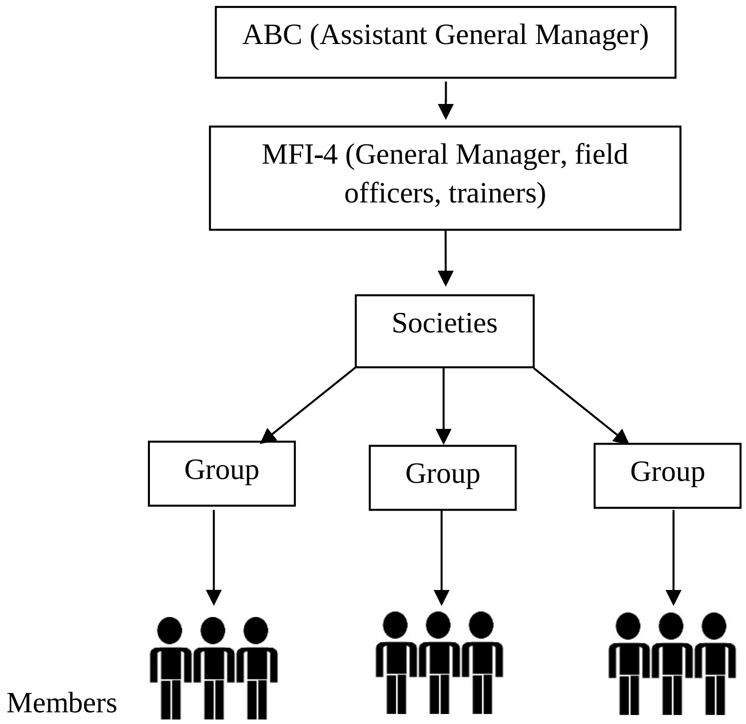

Figure 11: Organisational structure of -MFI-4

As can be seen in Figure 11, MFI-4 is an independent company, yet monitored by ABC. The Assistant General Manager of ABC oversees both its credit and BDS. The General Manager (who is a senior manager of ABC) based in MFI-4 manages the microcredit and BDS programmes, reporting to the ABC Assistant General Manager. Field officers (counsellors) attached to head office provide both microcredit and BDS to clients in groups. Besides, there is an internal team of trainers who provide training to clients.

5.5.2 How MFI-4 provides BDS to clients

It was found that MFI-4 only provides BDS to clients who become members. These are provided through counselling and training. Before explaining how MFI-4 provides these services, this section first explains how it introduces microcredit and BDS programmes through social mobilisation and group formation.

Social mobilisation programme and group formation

MFI-4 offers a social mobilisation programme when it wants to attract new clients. In this programme, it provides awareness about the services offered and forms groups and societies of members. Each group has 7-10 members and each society has around 10 groups (see figure 11). During the period in which the social mobilisation programme is conducted, the MFI provides training to office bearers of groups and societies on topics such as accounting, book keeping and leadership. Moreover, members are given education on financial literacy and record keeping in the programme. The members of the groups are expected to attend group meetings weekly and society meetings monthly. These meetings are attended by counsellors to provide both credit and BDS.

Counselling

Counsellors (field officers) use regular group and society meetings to provide counselling. Besides, counsellors visit clients at their homes/operating bases to do this. Group/society meetings are held in temples, schools and community centres close to clients' operating bases and homes. Counsellors provide both group and one-to-one counselling and play a vital role in providing BDS to clients. They have the skills and the competencies to organise training and trade fairs and create market linkages for clients in addition to their counselling roles. Counselling is not compulsory for clients to obtain other services and it is provided free.

Training

MFI-4's internal trainers mainly provide office bearer training, financial literacy and business training, while external trainers are mainly used for vocational training. Being a partner, officers of the Central Bank also provide training for MFI-4 clients. Training is provided at its training centre housed in its head office and locations close to clients, such as community centres. Training programmes are mainly held on weekdays. Training is provided free to clients and is not compulsory to obtain microcredit.

A summary of the BDS provided by MFI-4 through training and counselling is given in Table 19.

Table 19: Summary of BDS provided by MFI-4

BDS	Counselling	Training
Financial literacy	x	
Basic business management[1]	x	x
Vocational skills[2]		x
Market linkages[3]	x	
Linking to outside training[4]	x	
Trade fairs	x	

1 e.g. business plan preparation, business registration, record keeping; soft skills.
2 e.g. soap, yogurt manufacturing
3 forward and backward
4 e.g. government

5.5.3 Client selection for microcredit and BDS

Clients are chosen by the field officer based on his judgement; they are not very poor clients, but ones who can repay their loans. They are chosen in the social mobilisation programme conducted by MFI-4. To become a client/member, it is necessary to buy a share worth Rs.500 and to save money in an individual account and in a group account for 3 months. After 3 months, only members with the required individual and group savings can apply for a loan. Once the client has become a member, he/she can benefit from the BDS provided by MFI-4. Microcredit is provided mainly for income generating activities. The loan sizes provided are between US$250 and US$3000; the annual interest rate is 18 % and the duration of loans between 6 and 36 months.

5.5.4 Planning and performance evaluation

The General Manager of MFI-4 prepares the annual BDS plan with the support of counsellors, who are able to greatly contribute to it as they are in the field all the time and hence know clients' needs.

It was found that MFI-4 evaluates the overall performance of its BDS programme based on performance indicators in the BDS plan, such as number of new and existing client businesses supported through BDS, number of training programmes conducted per year, and number of market linkages created. Counsellors' performance is evaluated in terms of how many social mobilisation programmes they have organised, how many societies they have formed, and how many training programmes they have organised.

5.5.5 Sustainability of the BDS programme

MFI-4's BDS programme was funded by the Central Bank in the past and since this training funding has been withdrawn, the number of training programmes provided by it has fallen. Given the lack of support from the Central Bank for these programmes, MFI-4 uses part of the profits of the microcredit programme to provide BDS at the time of data collection.

5.5.6 Successes and failures of the BDS programme

It was found that the success of the BDS programme is due to the business model used. This model was introduced to ABC by the Central Bank of Sri Lanka to be implemented in MFI-4. ABC had used different business models before which had been introduced by other MFIs, but these had failed. In this model, ABC attempts to gradually delegate power to MFI-4 members/clients so that they can manage microcredit and BDS programmes on their own.

5.5.7 Summary of findings

MFI-4 is monitored and funded by ABC, an established government development bank in Sri Lanka. It provides BDS through its field officers, has a team of internal trainers to conduct training and collaborates with external institutions, mainly government ones, in order to provide training. The field officers (counsellors) have to perform both credit and BDS activities. MFI-4 also uses its social mobilisation and group structure to facilitate BDS delivery. It was found that its BDS programme had been affected badly by the lack of support from the Central Bank who had helped in the past.

5.5.8 Interviewee profiles

The interviewee profiles of MFI-4 are given in Table 20.

Table 20: MFI-4 interviewee profiles

Interviewee	**Background**
Assistant General Manger - Credit and BDS, ABC Government Bank	In charge of microcredit and the BDS of ABC and provides direction to MFI-4. Business Degree and 25 years' experience in banking.
General Manager - MFI-4	In charge of microcredit and the BDS of MFI-4. Also a senior manager of ABC. Reports to ABC about MFI-4's operations. Diploma in Agriculture and 2 years' experience in banking. Delivers training to both office bearers and owner managers (*i.e*. leadership, social mobilisation)
Field officer, MFI-4 (counsellor)	Provides counselling; additional work includes group forming and loan repayment collection. Passed Advanced Level examination and Association of Accounting Technicians examination, following an external degree and banking diploma. Has followed training given by MFI-4.
Trainer, MFI-4	Provides training, and is also an assistant manager for MFI-4. Passed Advanced Level examination and Association of Accounting Technicians examination, following a banking diploma.
Owner manager-rice mill	Manages a rice mill. Spouse also engaged in the business. Studied up to Ordinary Level examination. Held the post of president of one of the societies of MFI-4.
Owner manager-ornaments	Manufactures and sells ornaments. Spouse also engaged in the business. Studied up to 7^{th} Grade (*i.e*. very low formal education). Held the post of president of a society of MFI-4. Took part in vocational training linked by MFI-4 and attended treasurers' training given by MFI-4. Sold products at a fair organised by MFI-4.
Owner manager-ornamental plants	Buys and sells ornamental plants. Passed Advanced Level examination in commerce. Attended agricultural training course. Sold products at a fair organised by MFI-4.

5.6 Introduction to microfinance institution 5 (MFI-5)

MFI-5 is a non-governmental organisation registered under the Social Service Act. It was established in 1989 with the mission of offering both financial and non-financial services, including social, spiritual and environmental support for the empowerment of disadvantaged and distressed women and their families in selected locations through participatory and holistic processes.

MFI-5 caters for the Hambantota and Monaragala districts in Sri Lanka and uses group lending methodology. It is funded by Women's World Banking and the Stromme Foundation.

5.6.1 MFI-5 organisational structure

As can be seen in Figure 12, the General Manager based at the head office manages both microcredit and the BDS programmes. There are mobilisers based at banks and societies to provide microcredit and BDS to clients and an internal team of trainers led by a manager based in head office to provide training. The uniqueness of MFI-5's organisational structure is that all the employees, including the General Manager, are members of societies. The clients /members are organised in groups, societies, banks and zones.

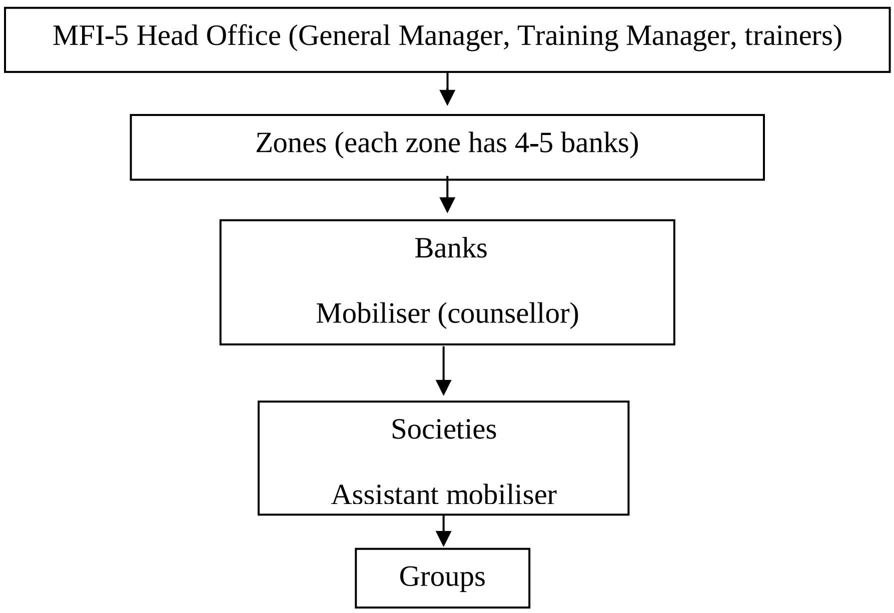

Figure 12: Organisational structure of MFI-5

5.6.2 How MFI-5 provides BDS

MFI-5 provides BDS through counselling and training. It provides these services only to its members. This section first discusses how MFI-5 introduces its microcredit and BDS programmes through a social mobilisation programme and group formation and then explains how it provides counselling and training.

Social mobilisation programme and group formation

MFI-5 pays much attention to its social mobilisation programme, through which it attracts members/clients. The programme provides awareness about the services offered by the MFI to potential clients. It then forms groups of clients who are willing to obtain services from it. A group consists of 7-10- members and 8-10 groups make a society. 10 societies constitute a bank and 4 banks a zone. MFI-5 also provides training to the office bearers of the groups/banks for them to carry out their functions, such as savings, accounting and lending to group members from group savings. Moreover, in the social mobilisation programme, MFI-5 provides BDS such as financial literacy and record keeping. Mobilisers attached to societies and banks visit clients at group and society meetings to provide microcredit and BDS.

Counselling

Counsellors (mobilisers) visit group/society meetings and clients' homes/operating bases to provide counselling. Society meetings are held in temples, schools and community centres close to clients' operating bases, and group meetings are held at group members' homes. Counsellors provide both group counselling and one-to-one counselling. Counsellors assist clients with loan applications, business plans, business registration and financial literacy. They also organise training and exposure visits to clients. Counsellors are familiar with all the clients to whom they provide counselling as they are also members of societies and live in the same village as other clients/members. Counselling is not compulsory for clients to obtain other services and is provided free.

Training

MFI-5's internal trainers mainly provide financial literacy and basic business training, such as record keeping and basic business plan preparation. They also provide training on accounting, book keeping and leadership to office bearers such as group and society leaders and treasurers to manage groups and societies. In addition, internal trainers provide Training of Trainers (TOT) on financial literacy and basic business management to officer bearers so that they can also give basic training to fellow members. External trainers are mainly used for vocational training and advanced business training, such as marketing and pricing. Training is provided at locations close to clients, such as community centres and the MFI-5 training institute and are mainly held on weekdays. However, MFI-5 is flexible in setting days for the training conducted for owner managers who sell products to pilgrims in Kataragama, making sure that training days and times do not overlap with their busy times with pilgrims. Training is provided free and clients are paid a food and transportation allowance. Training is not compulsory to obtain microcredit. Moreover, MFI-5 collaborates with external government institutions to provide training.

A summary of the BDS provided by MFI-5 through training and counselling is given in Table 21.

Table 21: Summary of the BDS provided by MFI-5

BDS*	**Counselling**	**Training**
Financial literacy	x	x
Basic business management[1]	x	x
Vocational skills[2]		x
Linking to outside training[3]	x	
Trade fairs	x	
Exposure visits	x	

*As can be seen from the table, MFI-5 provides a limited number of BDS
1 e.g. business plan preparation, business registration, record keeping
2 e.g. soap, yogurt manufacturing
3 e.g. government

5.6.3 Client selection for microcredit and BDS

Low income village people are selected by MFI-5 for microcredit and BDS provision following the government Samurdhi programme list (*i.e.* the government, through the Samadhi programme, caters for low income people in Sri Lanka). This selection is mostly made through the social mobilisation programme. Potential clients have to buy a share worth Rs. 500 to become a member of MFI-5 and thereafter have to save money in individual and group accounts for a period of 3 months to be eligible for a loan. Once someone has become a member, they are then eligible to obtain the BDS provided. MFI-5 provides credit mainly for income generating activities and for asset financing. When financing microenterprises, MFI-5 finances only existing businesses, not new ones. The loan sizes provided by MFI-5 are between US$100 and US$5000, with an annual interest rate of 28%. The duration of loans is between 6 and 36 months.

5.6.4 Planning and performance evaluation

The top management spearheaded by the General Manager prepare the annual BDS plan. When doing this, the views of all the stakeholders such as counsellors, trainers and clients are taken into consideration. MFI-5 evaluates the performance of the BDS programme against the performance indicators in the BDS plan, such as how many new and existing businesses are supported through BDS, and how many training programmes are provided. Counsellors' and trainers' performance is also evaluated in terms of how many businesses (new and existing) each counsellor supports and how many training programmes each trainer provides.

5.6.5 Sustainability

It was found that MFI-5 does not have a sustainability issue for the implementation of the BDS programme, as they set aside 30% of profits from the credit programme.

5.6.6 Successes and failures of the BDS programme

MFI-5 has not been able to concentrate much on business training and business development activities such as creating market linkages and forming producer groups, so this is a weakness. However, maintaining a sustainable BDS programme linked to the microcredit programme was found to be a main success factor of the programme.

5.6.7 Summary of findings

MFI-5 has an interesting organisational structure, one in which all employees are members of its societies. BDS are provided through the mobilisers. These mobilisers are selected from members and were found to have less expertise in providing counselling, as they do not have sufficient business knowledge and experience in counselling. They also have to perform both credit and BDS activities.

MFI-5 has a qualified team of internal trainers who undertake many Training of Trainers (TOT) programmes. However, it was noticed that they provide training mainly for office bearers of groups and societies in order to train their fellow members on business plan preparation, household management and financial literacy. MFI-5 works closely with government institutions to provide vocational training and other resources to clients. It places much emphasis on its social mobilisation programme, through which it creates awareness of its services and attracts new members. At the time of the data collection, it was planning to provide more business training, introduce market linkages and form producer groups, as they were less successful at these services.

5.6.8 Interviewee profiles

The MFI-5 interviewee profiles are shown in Table 22.

Table 22: MFI-5 interviewee profiles

Interviewee	**Background**
General Manager (GM)	In charge of MFI-5, including the BDS programme. Studied up to Advanced Level examination. Member of a society.
Microfinance Manager	In charge of microcredit. Studied up to Ordinary Level examination. Member of an MFI-5 society.
Zonal mobiliser	Manages a zone with few banks. Main responsibility includes managing credit and BDS programme in a zone. Oversees bank mobilisers and assistant mobilisers. Studied up to Advanced Level examination. Member of an MFI-5 society.
Bank mobiliser (Counsellor)	Provides counselling to owner managers as a part of his role. Also involved in group and society formation and loan recovery. Passed Advanced Level examination and has undertaken several training sessions given by MFI-5. Member of an MFI-5 society.
Administrative secretary	Assistant manager of a bank. Managed accounts in the bank. Passed Advanced Level examination. Member of an MFI-5 society
Trainer/manager training division	Provides training. In charge of the training division. Passed Advanced Level examination and diploma in microfinance; completed four Training of Trainers (TOT) and oversees the training function of MFI-5. Member of an MFI-5 society.

Owner manager – grocery	Manages a grocery store. Spouse is highly engaged in the business. Passed Advanced Level examination in Mathematics; has prior business experience; attended a business training programme; and an accounting training given for office bearers. Holds the treasurer post of an MFI-5 society.
Owner manager-Poultry feed	Manufactures and sells poultry feed, using sea shells. Spouse is highly engaged in the business. Studied up to Ordinary Level Examination. Received accounting and leadership training given for office bearers; holds assistant mobiliser post of an MFI-5 society.
Owner manager – garage	Manages a garage. Spouse is highly engaged in the business. Studied up to Ordinary Level examination. Followed training on entrepreneurship, leadership and food technology. Also followed office bearer training in accounting. Holds president and treasurer positions in an MFI-5 society.

5.7 Introduction to microfinance institution 6 (MFI-6)

MFI-6 is a government managed community development and livelihood improvement project funded by the World Bank. It was established in 2004 after successful pilot testing in Polonnaruwa in Sri Lanka. The mission of the project is to empower village communities to form, strengthen and maintain an institutional mechanism oriented to self-decision making, planning, resource mobilisation, implementation and monitoring and evaluation for community and livelihood improvement.

It is a community-driven project and its salient feature is the capacity building element. MFI-6 provides capacity building to its members so that they can manage the credit and BDS programmes by themselves. It has established village companies, in which Village Savings and Credit Organisations (VSCOs) are formed to provide credit and BDS. These VSCOs are owned and managed by the members and are independent companies. A total of 1034 villages were covered by MFI-6 up to 2013. Microcredit is provided through the group lending method.

5.7.1 Organisational Structure

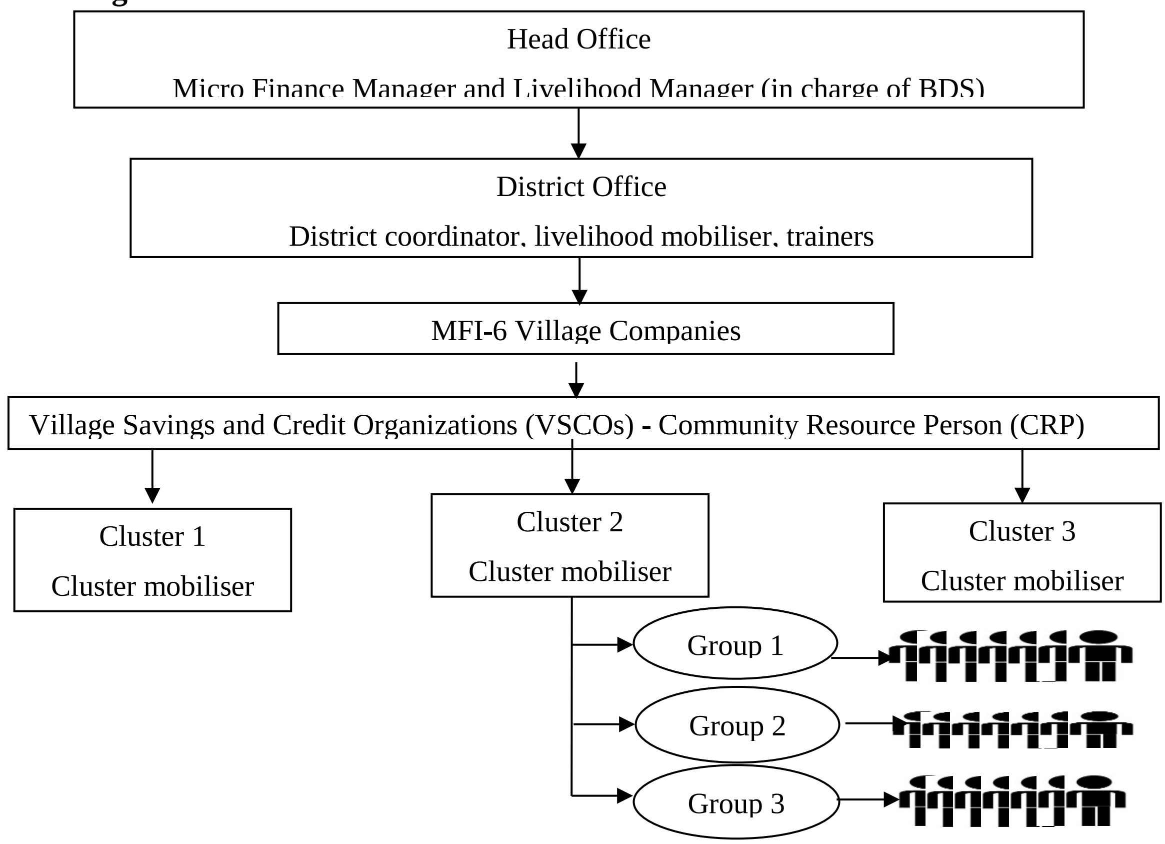

Figure 13: Organisational structure of MFI-6

Members

As can be seen in Figure 13, the microcredit and BDS programmes are managed by two managers at head office. However, MFI-6 has decentralised these programme to the Village Savings and Credit organisations (VSCOs) so that their members can manage them by themselves. The Community Resource Person attached to VSCO acts as a link between MFI-6 and VSCO. This person and the mobilisers attached to clusters provide counselling to members attached to VSCOs. The training is provided by internal and external trainers. Clients /members are organised into groups, clusters and VSCOs.

5.7.2 How MFI-6 provides BDS to clients

MFI-6 provides BDS to clients through counselling and training, but only to those who are members. A social mobilisation programme is provided to promote microcredit and BDS to potential village clients. In this programme, MFI-6 forms groups and clusters to deliver its services. This section first discusses how MFI-6 delivers its social mobilisation programme and how groups are formed. Then it discusses how BDS are provided through counselling and training.

Social mobilisation programme and group formation

The social mobilisation programme is the main component of MFI-6's microcredit and BDS provision. When it wants to reach out to a new village it conducts a programme for 3 months, in which it creates awareness of the services they offer. In the programme, MFI-6 forms groups, clusters and Village Savings and Credit Organisations (VSCOs) to deliver microcredit and BDS. Members are trained to manage groups, clusters and VSCOs and knowledge on financial literacy, record keeping and the importance of groups is given to members. The mobilisers provide microcredit and BDS to clients/members by visiting group and cluster meetings, which clients attend regularly.

Counselling

Counsellors (mobilisers) provide counselling to clients at cluster/group meetings and at clients' homes/operating bases. Cluster meetings are held in temples, schools and community centres close to clients' operating bases and group meetings are held at clients' homes. Counsellors provide both group and one-to-one counselling. Counsellors help clients with loan application forms and the preparation of business plans so that they can request microcredit. Counsellors also assist clients with financial literacy (e.g. loan interest rates, the importance of savings, investment), business registration, and organise training programmes. Since counsellors are recruited by MFI-6 from members of societies, they are familiar with the clients for whom they provide counselling. Counselling is provided free of charge.

Training

MFI-6's internal trainers mainly provide financial literacy and business training to its clients and external trainers are mainly used for vocational training. Members of VSCOs are also trained as internal trainers by the team of trainers employed by MFI-6 so that they can provide basic business training to fellow members. Internal trainers (who are at based at head office) provide training to office bearers, such as group and society leaders and treasurers, on accounting, book keeping and leadership in order to manage the groups and societies. Training is provided at locations close to clients, such as community centres and the MFI-6 training institute and is mainly held on weekdays. Training is provided free and at times clients are paid food and transportation allowances. Training is not compulsory to obtain microcredit. MFI-6 also collaborates with government institutions to provide training.

BDS provided by MFI-6

A summary of the BDS provided by MFI-6 through training and counselling is given in Table 23.

Table 23: Summary of BDS provided by MFI-6

BDS	**Counselling**	**Training**
Financial literacy	x	x
Basic business management[1]	x	x
Vocational skills[2]		x
Linking to outside training[3]	x	
Trade fairs	x	
Exposure visits	x	
Bank linkages	x	
Business conferences	x	
Exposure visits	x	

1 e.g. business plan preparation, business registration, record keeping

2 e.g. soap, yogurt manufacturing

3 e.g. government

5.7.3 Client selection for microcredit and BDS

MFI-6 selects clients using the Unsatisfactory Basic Needs Index (UBNI). They target 0 and 1 in the index, where 0 is very poor and 1 is poor. Based on this scale, clients are selected in the villages. Very poor clients are given a grant for income generating activities and are provided with help to carry out their business. Once the business reaches a satisfactory level, it is eligible for a loan from VSCO. However, MFI-6 mainly targets non-poor clients, who can service a loan. Non-poor clients (i.e. still low income people) have to save money in individual and group savings accounts for three months in order to obtain a loan from VSCO. Once someone becomes a member of MFI-6, he/she can obtain BDS. MFI-6 provides microcredit for income generating activities and only to existing business ventures. The loan sizes MFI-6 provides are between US$50 and US$500, at an annual interest rate of 18%. The duration of loans is between 6 and 36 months.

5.7.4 Planning and performance evaluation

The top management of MFI-6 prepare an annual BDS plan for the whole country, and committees of each VSCO in the country prepare annual BDS plans. There are two annual BDS plans: the head office plan and VSCO plan. MFI-6 considers all the stakeholders' views (i.e. managers, VSCO office bearers, officers attached to MFI-6 district offices) when preparing the BDS plan. In MFI-6's plan, items such as number of training programmes to be conducted, number of market linkages to be created, number of producer groups to be formed, and number of business conferences to be organised are considered as performance criteria to be evaluated. VSCO's BDS plan includes items such as number of training programmes to be conducted and number of businesses to be supported as performance criteria to be evaluated.

MFI-6 and each VSCO evaluate the performance of the BDS programme against the plan (e.g. number of market linkages created). In VSCO's BDS plan, each VSCO also evaluates the mobilisers' performance in terms of number of training programmes organised, number of clients' businesses supported etc.

5.7.5 Sustainability of the BDS programme

The BDS programme of the head office is funded by the World Bank, whereas that of the VSCOs is funded partly by World Bank funds provided by head office, and partly by microcredit profits.

5.7.6 Successes and failures of the BDS programme

It was found that successes of the BDS programme are the producer groups and business conferences. The weakness was the low expertise of counsellors delivering BDS.

5.7.7 Summary of findings

MFI-6 uses a unique model to provide BDS, offering capacity building to the chosen members/clients of VSCOs so that they can manage credit and BDS programmes. Thus microcredit and BDS programmes are run by members/clients. MFI-6 provides assistance to VSCOs by training members, forming producer groups, creating market linkages, and organising farmer and business conferences. The Community Resource Person attached to VSCOs acts as a link between MFI-6 and them. Mobilisers and Community Resource Persons attached to VSCOs (who are also members) provide counselling to clients. Mobilisers work on part time basis and they have to cover both credit and BDS activities. It was also found that the mobilisers selected from clients were not professional enough to provide counseling, as they lacked the required business knowledge and experience. The VSCOs financed their BDS programmes from microcredit profit and World Bank funding from MFI-6. However, it was found that the World Bank funding would soon finish, hence VSCOs would have to sustain their BDS programmes from own funding.

5.7.8 Interviewee profiles

The interviewee profiles of MFI-6 are shown in Table 24.

Table 24: MFI-6 interviewee profiles

Interviewee	**Background**
Founder CEO	Founder CEO and instrumental in establishing the MFI-6 project. PhD.
BDS Manager (livelihood)	In charge of the BDS programme. Degree and Masters in Agriculture
Microfinance Manager	In charge of the microcredit programme. Degree in Agriculture and MBA.
District livelihood coordinator	Oversees the district BDS programme. Degree in Agriculture.
District community mobiliser	Oversees the Community Resource Person (CRP) work and provides counselling to owner managers when requested by CRPs and when in the field. Degree in Agriculture.
Trainer	External MFI-6 Trainer. Degree in Arts; widely experienced in training, specialising in Accounting.
President –VSCO	In charge of VSCO. Manages credit and BDS programmes with the support of the committee members of VSCO. Passed advanced level examination. By profession he is a teacher.

Community Resource Person (CRP)	Oversees the cluster mobiliser's work and reports VSCO performance to MFI-6 district office. Voluntary post. Member of an MFI-6 society; not employed by the MFI-6 project. Occasionally provides counselling to clients. Studied up to Ordinary Level examination. Followed office bearer training programmes on accounting and Training of Trainers (TOT) programme on business plan preparation. Has knowledge of household management and financial literacy. Provides counselling to owner managers and office bearers.
Cluster mobiliser (counsellor)	Provides counselling in addition to other activities such as loan recovery. Voluntary post; not employed by MFI-6. Studied up to 4th grade. Member of an MFI-6 society. Does not have proper knowledge in business counselling, but can provide financial literacy and basic business counselling.
Owner manager – garments 1	Manufactures and sells ladies' and children's garments. Employs one worker. Studied up to 4th grade. Attended vocational training provided by MFI-6.
Owner manager – garments 2	Manufactures and sells ladies' garments. Spouse is engaged in the business. Studied up to Ordinary Level examination. Attended officer bearer training sessions on president and treasurer roles. Holds the position of president in an MFI-6 group.
Owner manager – grocery store	Manages a grocery store. Also undertakes a subcontract to manufacture shoe parts. Has a tea plantation. Studied up to 8th grade. Received vocational training on pastry making.

5.8 External trainer

The external trainer interviewed was a director of the Industrial Development Board of Sri Lanka, a government-owned institution. He has a management degree and more than 27 years' experience as a trainer in the SME and microfinance sectors. He is also an International Labour Organisation (ILO) certified master trainer and has a global license for training.

This trainer provides useful insights to the training provided by MFIs to owner managers of microenterprises. He highlighted the importance of following up with owner managers and providing feedback after training, mentioning that follow up and feedback is lacking in most of the training provided in Sri Lanka. He also highlighted the importance of trainers using adult learning and interactive training techniques in the classroom. The external trainer's views are used in the analysis (i.e. chapter 6).

5.9 BDS Consultant

The BDS consultant interviewed is a member of the Director Boards of a number of MFIs in Sri Lanka. He has a degree in Agriculture and is also specialised in development-related consultancy in microfinance and enterprise development (BDS).

The consultant expressed his views on the present situation of BDS in Sri Lanka, the importance of counselling and training, BDS outcomes, and the successes and failures of BDS. He further highlighted issues faced by MFIs in providing BDS, such as sustainability, lack of client demand and microfinance practitioners' perception of these services. His views are quoted in the analysis (i.e. chapter 6).

5.10 Summary of the chapter

This chapter has given an introduction to the cases and interviewees. In each case, how the organisational structure facilitates the BDS programme and its impact on the counsellors' role (i.e. whether counsellors need to provide only BDS or both credit and BDS); the role of social mobilisation programmes and groups in facilitating BDS delivery; client selection for BDS; planning and performance evaluation of BDS programmes; and the sustainability of BDS have been discussed. Moreover, the main points from the interviews with external trainers and BDS consultants have been mentioned.

The profiles of all the case interviewees and external trainer and consultant are given in the chapter so that interviewees can be identified in the analysis in chapter 6. For example, when owner manager –MFI-1 (wicks) is stated in chapter 6, it means the owner manager who was interviewed from MFI-1, who is in the business of wicks.

The findings from the in-depth interviews and secondary data (e.g. organisational structure, MFI missions) are used in the analysis of the findings in the following chapter.

Chapter 6. Findings: Cross-Case Analysis

6.1 Overview of the chapter

This chapter presents the findings of the study based on a cross-case analysis. This covers the research context (contextual factors) (6.2), co-production factors (6.3) and co-production outcomes (6.4), involving an examination of the conceptual framework presented in chapter 3. The research questions are therefore answered. Sections 6.2, 6.3 and 6.4 are focused on research questions 2, 3 and 4 in the analysis. How co-production in BDS is implemented through counselling and training (research question 1) is discussed in sections 6.2.3.2, 6.3 and 6.4, as counselling and training interventions are analysed around their context, co-production factors and co-production outcomes.

Figure 14 outlines the pertinent points in this chapter, with section numbers as well as interrelations, in order to guide the reader.

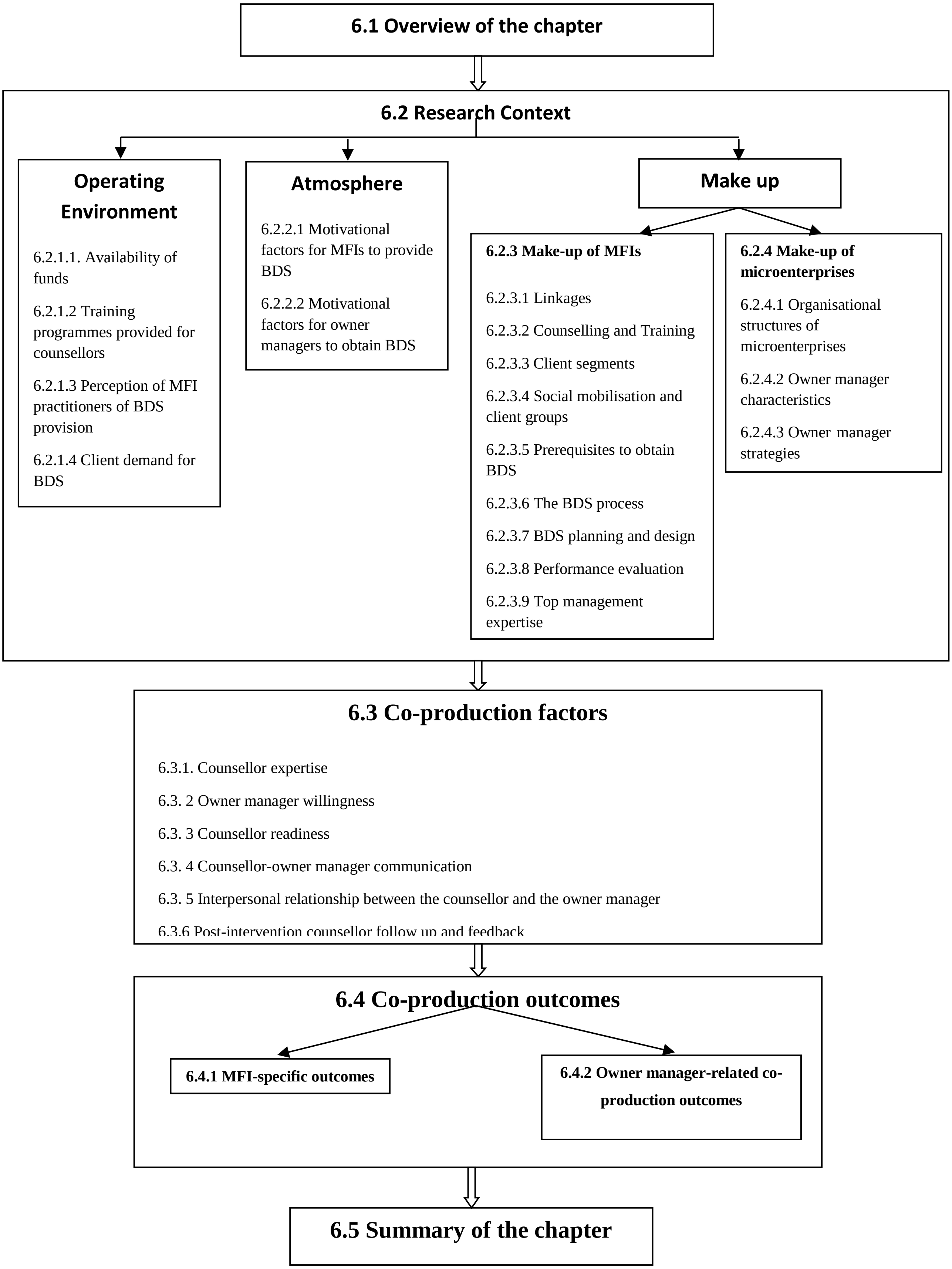

Figure 14: outline of the chapter

The quotations and views that are presented in this chapter are based on the in-depth interviews conducted with MFI officers, owner managers of microenterprises, an external trainer and BDS consultant. Profiles of the interviewees are given in chapter 5, which also gives an introduction to each case used in the cross-case analysis.

The findings from the cases reveal that the MFI counsellors and owner managers of microenterprises co-produce in BDS, whereas the MFI trainers and owner managers do not co-produce because the trainers do not follow up on owner managers after training. Despite there being no co-production in training, the study reveals that training is a very important intervention used by MFIs to provide BDS. The study also shows that training enhances co-production between counsellors and owner managers as it improves the latter's ability and motivation to co-produce with the former.

The findings show that there are a number of contextual factors, such as linkages, client segments, social mobilisation and client groups, and BDS planning and design, that influence co-production in BDS. Six themes/factors relating to counsellors and owner managers that influence co-production in BDS were established. These six factors are: counsellor expertise, counsellor readiness, owner manager willingness, counsellor-owner manager communication, counsellor-owner manager interpersonal relationships and post-counselling follow up and feedback by the counsellors. Co-production outcomes relating to MFIs and microenterprises/owner managers were also identified.

6.2 Research context

This section discusses the context of the study (i.e. contextual factors) in three areas: 1. operating environment; 2. atmosphere; and 3. interaction parties. These areas have been established using the Industrial Marketing Purchasing (IMP) Group (Hakansson, 1982) model. These areas influence co-production in BDS.

Operating environment refers to the macro and proximate environmental factors of MFIs and microenterprises in which co-production in BDS takes place. Atmosphere includes the factors motivating MFIs and microenterprises/owner managers to engage in BDS programmes. Interaction parties concern the make-up of individual parties: structures, strategies and people of MFIs and microenterprises that influence co-production in BDS.

Figure 15 illustrates how the BDS research context is examined by using the IMP framework. As can be seen from the diagram, co-production between the MFI counsellors and owner managers of microenterprises is influenced by their operating environment, atmosphere and make-up.

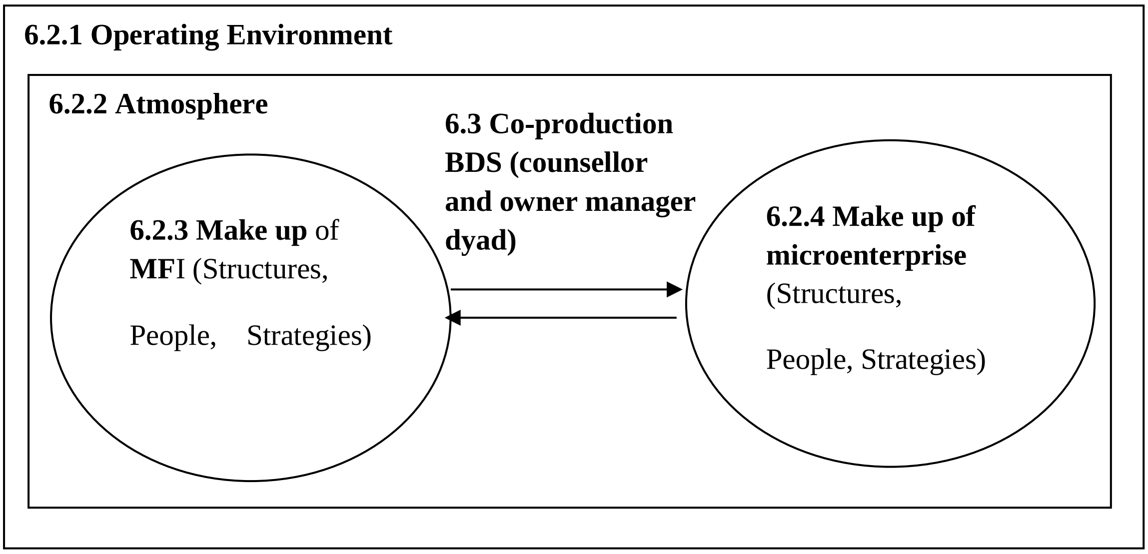

Figure 15: Context of the study

The factors identified in the operating environment, atmosphere and make-up areas are discussed in detail below.

6.2.1 Operating environment

The findings from the cases studied reveal that the operating environment has an impact on the provision of BDS by MFIs and hence co-production. It was also found from the interviews that the operating environment of the study consists of the availability of funds, the training programmes provided for counsellors, the perception of MFI practitioners of BDS and clients' demand for BDS. Each of these is discussed below.

6.2.1.1. Availability of funds

This section shows how a lack of funds for MFIs could affect the sustainability of BDS programmes and hence co-production. The findings reveal that MFIs do not now receive funding/subsidies from donors as they did in the past. Moreover, it was found that certain MFIs cannot access clients' savings (i.e. a cheap source of funding) due to a recent regulation introduced by the Central Bank of Sri Lanka.

Donor funds **-** The findings show that since Sri Lanka has graduated to a low middle income country MFIs are not now receiving funds from donors and social investors and as a result they are constrained in their provision of BDS. In the past, Sri Lanka was categorised as a low income country and thus there was an influx of money from donors and investors for microcredit and BDS. Most donors provided funds to MFIs with a condition that part of them should be utilised to provide BDS because they wanted to achieve broad development goals and believed that microcredit was not enough for micro-entrepreneurs to grow their businesses.

The following are some quotations to show how MFIs are constrained in providing BDS due to donor funds drying up and central bank regulations, and how they are therefore trying to sustain the programmes with new strategies.

The Senior BDS Manager of MFI-2 expressed the view that

> *"We used to get donor funds for BDS earlier. For example, we got funds for client training from "Plan Sri Lanka" for three microfinance projects conducted in the cities of Kandy, Polpitigama and Monaragala. But new funds that promote BDS are not coming anymore. So we have to cut down the number of client training programmes. Earlier, we did not charge for training, but now we have to charge for it to sustain the programme. Further, we charge the buyer for market linkages that we create for our clients. For example, when we link our garment clients to buyers, the buyers have to pay us a percentage of the sales. But still we find it difficult to sustain BDS programmes."*

The BDS consultant declared that

> *"Since Sri Lanka is a middle income country now graduated from low income status, we are not getting sufficient funds for microcredit and BDS as we used to get in the past. So a lot of MFIs struggle to provide BDS. Unlike microcredit, the sustainability of BDS is not easy[6]. MFIs have to come up with innovative ideas to sustain BDS. An example of an MFI that provides BDS successfully in Sri Lanka is MFI-1. They use a coupon system so that it is not a burden to the client. Through the coupon system, MFI-1 charges an upfront fee for the BDS provided when the loans are granted to*

[6] In the absence of cheaper donor funds, MFIs can receive commercial funds and lend these as micro credit as it generates income. But often BDS may not generate income.

clients. Now MFI-1 has got Rs.30 million worth of coupons distributed to 60,000 clients. Clients can utilize these coupons to attend the training that they desire. MFI-1 has created the demand for the coupon system."

Central Bank regulation **-** It was found that the Central Bank of Sri Lanka recently introduced a regulation which prevents some MFIs (e.g. NGO-MFIs) from accepting deposits from clients. MFIs use client deposits to finance their lending (microcredit) and BDS programmes. Thus this new regulation has posed a serious challenge for MFIs to finance their credit and BDS. This was evident by the following quotation from the Senior Manager- credit of MFI-2:

"Recently the Central Bank of Sri Lanka introduced a law which prevented certain MFIs from accepting deposits from clients. This has affected the microfinance industry drastically as certain MFIs may experience a serious funding issue to provide credit and BDS as a result of this law."

Thus the lack of funds from donors and clients has been found to be a serious threat for MFIs in providing microcredit as well as BDS, thus affecting co-production in BDS. Despite MFIs being constrained by funding, the findings from the cases show that they source funding in four ways to provide BDS, given the importance of BDS to clients and MFIs.

These four methods are: 1. MFIs issue coupons to clients when loans are granted and thereby collect funds to provide BDS (e.g. MFI-1); 2. Charge clients a fee for the training provided by MFIs (e.g. MFI-2); 3. Link BDS to microcredit programmes (by providing BDS, MFIs can expect better loan repayments so that they can set aside part of its microcredit profit for BDS programmes) (i.e. MFI-1, MFI-4, MFI-5, and MFI-6); and 4. Charge buyers a fee for clients' sales when an MFI creates the market linkage.

6.2.1.2 Training programmes provided for counsellors

The findings reveal that there are no proper training institutions in Sri Lanka to train counsellors, which hence affects the expertise (i.e. business knowledge and experience) of the counsellors. The MFI officers and BDS consultant interviewed stressed this point and the following is one of the quotations to substantiate this.

The BDS consultant expressed that

"A counsellor's expertise is very important to provide counselling to clients. The counsellor needs to identify the strengths and the weaknesses of the client and needs to give a solution. The counsellor has to understand the client's business and the environment. He needs to know the best practices and needs to work for a solution with the client. Rather than the counsellor proposing an idea, he has to create an environment in which the client comes up with the idea so that he owns it. Thus counsellors need expertise and they need to be trained. But unfortunately in Sri Lanka we do not have training institutions to provide training for counsellors. This is a big drawback."

The expertise (i.e. business knowledge and experience) of counsellors has been found to be a key element (see 6.3.1) that influences co-production. Thus providing training to counsellors is important to improve their expertise, but a lack of training institutions to provide training for counsellors could affect co-production in BDS negatively.

6.2.1.3 Perception of MFI practitioners of BDS provision

The BDS consultant and microfinance officers interviewed reveal that some MFIs do not provide BDS to clients, as practitioners of these MFIs have different perceptions about their provision of BDS to clients. The following quotation corroborates this.

The BDS consultant expressed the opinion that

"Some microfinance practitioners are of the view that clients have got the skills, which is why they are doing the business and what they lack is the credit. So they do not want to provide BDS. Some are also of the opinion that BDS are provided by other institutions, especially government institutions such as livestock, agriculture, and the Industrial Development Board (IDB). So, MFIs should link the clients to these institutions rather than providing BDS. Moreover, some believe that there is no concrete evidence to say that there is a relationship between BDS and improved client loan repayments. Some MFIs experience better loan repayments even without providing BDS."

The practitioners' views on BDS provision vary. According to the findings, some Sri Lankan microfinance practitioners think clients have the skills, but no credit, and thus MFIs should only provide credit, not BDS. The literature does not support this argument, because clients need BDS to grow their business ventures (Sievers and Vandenberg, 2007; ADEMCOL, 2001). Hence these microfinance practitioners must be educated about the importance of BDS in improving clients' skills and also the benefits that BDS offer to MFIs in order for them to provide these services. Moreover, it was revealed that some practitioners think that MFIs should not provide BDS but should link clients to external providers. This view could be challenged, as the findings from this study (6.2.3.1) and the literature (De Wildt, 2004; ADEMCOL, 2001) suggest that internal BDS programmes could be more effective than external ones, as internal counsellors and trainers can provide tailor-made BDS programmes to clients with follow up and feedback. The findings also reveal that some MFI practitioners believe that BDS do not improve loan repayments and hence there is no point in providing them. Clients may pay loan instalments even if the businesses are not doing well (e.g. taking a loan to repay another) due to the strict recovery system adopted by MFIs. Thus if MFIs have better loan repayments from clients it does not mean that they are doing well in their businesses. They need BDS in addition to microcredit. Thus practitioners' views on the impact of BDS on loan repayments could be wrong. However, the practitioners' view may be right when some MFIs provide credit only to creditworthy clients (e.g. clients who can provide collateral to MFIs). Further, these MFIs have a good recovery system in place and can expect better loan repayment without providing BDS, given the higher creditworthiness of their clientele (Hartungi, 2007; Nisttahusz, 2002). But the issue is whether these MFIs cater for the right clientele, because one of MFIs' main aims is to cater for poorer clients who cannot provide collateral to obtain credit from traditional financial institutions and clients often lack skills and resources for businesses. (Gunatilaka and de Silva, 2010; Christen and Cook, 2001)

6.2.1.4 Client demand for BDS

The findings reveal that there is a lack of client demand for BDS. It was found that owner managers' motivation to obtain these services often comes after obtaining microcredit. It was also revealed that clients are not that keen on BDS compared to credit and sometimes demand for them needs to be created. The following are quotations to substantiate this.

The General Finance Manager of MFI-1 stated

"Clients come to MFIs to obtain microcredit for their business ventures first and only then do they want to obtain BDS depending on their requirement. There is a big demand for credit compared to BDS. So sometimes counsellors may have to create demand for BDS."

Given the situation where there is a lack of demand for BDS compared to credit, MFIs need to create demand for the former.

The following is one of the quotations to substantiate this.

The MFI-1 counsellor stated that

"Sometimes clients may not know the benefits of BDS. So we educate them about BDS citing benefits (e.g. business training), then they are willing to obtain BDS."

Moreover, it was found that part of the problem of the lack of demand for BDS was that some MFIs do not provide demand-driven services to clients. For example, across cases it was revealed that clients prefer market linkages but some MFIs (e.g. MFI-4, MFI-5) do not provide these sufficiently. It was also found that when clients come to the performing stage they need advanced business training. Some MFIs, such as MFI-1 and MFI-2, provide such training, but others do not. The importance of providing demand-driven BDS was highlighted by all the owner managers and microfinance officers and the following is one of the quotations concerning this.

The owner manager (OM) (ornaments) of MFI-4 said that

"I wish MFI-4 could provide us market linkages as I am struggling to sell my products."

Thus the findings reveal that the operating environment poses several challenges for MFIs to deliver BDS in terms of lack of funding, lack of training for counsellors, practitioners' perceptions of BDS and lack of demand for these services from clients. Despite all these challenges, some MFIs continue to provide BDS to clients and some clients take them up because there are motivators that the atmosphere presents to MFIs and owner managers.

6.2.2 Atmosphere

Atmosphere represents what motivates MFIs to provide BDS and what motivates owner managers to use the services. The motivation would lead MFI counsellors and owner managers of microenterprises to co-produce. The following section discusses motivational factors for MFIs and owner managers.

6.2.2.1 Motivational factors for MFIs to provide BDS

The findings reveal that MFIs are motivated to provide BDS because they want to achieve certain performance objectives; it was found that achievement of these objectives is dependent on the profit orientation of MFIs. Moreover, it was found that they may be motivated to provide BDS as a requirement of donor funding. Each of these is discussed below with empirical evidence.

<u>Achievement of performance objectives</u> **-** The findings show that MFIs are motivated to provide BDS as it helps them to achieve broader socio-economic objectives such as employment generation, improvement in management and the assets of microenterprises, and other objectives such as client retention, client satisfaction, client graduation and better loan repayments.

All the microfinance officers interviewed agreed with these objectives and there follow two quotations to substantiate this.

The Enterprise Development Services Manager of MFI-1 stated that

> *"By providing BDS, we want to contribute to the national economy by employment generation, improvement of management and assets of owner managers etc. Further, BDS help us improve loan repayments, client relationships, client retentions and clients go for bigger loans."*

The senior manager – BDS of MFI -3 said that

> *"By providing BDS we want our clients to graduate to the SME level from the micro-entrepreneur level. That is why we provide them with management expertise and market linkages. BDS also improve client satisfaction loan repayments and client retention."*

This study found that these objectives could be achieved through co-production and hence these objectives become co-production outcomes as well. These outcomes are discussed in detail in section 6.4.

Profit orientation **-** Motivation to provide BDS and achievement of the above-mentioned objectives could be influenced by the profit orientation of MFIs, which is determined by the MFI category. The following table shows the MFI categories, examples of the categories from the cases and their characteristics.

Table 25: MFI categories and characteristics

MFI category	**Example**	**Characteristics**
Cooperatives / credit unions	MFI-3, MFI-4, MFI-5, MFI-6	Dual objectives. Governance tied to members. Profits distributed to members.
Guarantee company/NGO	MFI-1	Dual objectives. Non-distribution constraint. Governance tied to ownership.
Bank	MFI-3	Financial objectives. Governance tied to ownership. Profits distributed to owners.

Source: Prepared by the researcher based on Galema *et al.*'s (2012) study.

According to Table 25, apart from MFI-3, the other MFIs studied fall into the cooperative and guarantee categories, which aim to achieve dual objectives (i.e. financial (profit) and social). Thus these MFIs are motivated to provide more BDS under social objectives. The following is one of the examples to show how profit orientation could affect an MFI to provide BDS.

The Enterprise Development Services manager of MFI-1 expressed the view that

> *"We are a non-profit MFI. So we do not think spending money on BDS is a cost. It brings benefits to both MFIs and clients. That is why we provide BDS in addition to credit."*

In contrast, the following quotation shows how a profit-oriented MFI considers BDS.

The senior counsellor of MFI-3 stated that

"Our former CEO founded the BDS programme and he supported it immensely to become an award winning programme. However, the current CEO is not that concerned about the BDS programme. He wants MFI-3 to focus more on microcredit and recovery to earn profits."

MFI-3 is a for-profit oriented MFI. Thus the CEO must consider BDS to be a cost which reduces the bottom-line. MFI-3 also caters for clients who can provide collateral to it (i.e. financially better off/creditworthy clients compared to the other MFIs being studied). Thus MFI-3 can expect better loan repayments even without providing BDS because of the type of clientele being served, provided that it has a good loan recovery system. Hence this could be the reason for the CEO to consider BDS as a cost, even though BDS provide long term benefits to both MFIs and clients.

<u>Funding from donors</u> **-** As explained in the operating environment section, funding is given by donors on the condition that the MFI should provide BDS, so this could also motivate MFIs to provide BDS.

6.2.2.2 Motivational factors for owner managers to obtain BDS

The findings reveal that owner managers take part in BDS influenced by their economic drives, their ownership of MFIs and MFI-imposed sanctions.

<u>Economic drives</u> **-** The findings show that owner managers are motivated to obtain BDS because they help them improve the sales and profits of their business ventures. The following is one of the quotations from an owner manager interviewed to corroborate this. More empirical evidence is given in section 6.4 in the co-production outcomes section.

The OM (wicks) of MFI-1 stated that

"We like to obtain BDS from MFI-1 because BDS help us improve our profits and sales in our businesses. I attended a number of training programmes with the guidance of our counsellor. As a result of marketing training, now I can sell more products and earn more profits as I know how to communicate with wholesalers and

achieve more sales. Further, I changed the packaging of my products due to marketing training and due to record keeping training, I can now maintain separate accounts for personal and businesses transactions so that I can control my profits. The counsellor also introduced me to the bee-keeping business recently. This business gives me an additional income."

Ownership **-** The findings reveal that the owner managers would like to engage in BDS actively when they are shareholders/members of MFIs. As can be seen from Table 25, owner managers in the cooperative MFI category are owners of these MFIs. The following is one of the quotations to show owner managers' motivation to engage in co-production being members/shareholders of a MFI.

The OM (grocery) of MFI-5 said that

"*To join MFI-5 we have to buy shares (i.e. the value of a share is around US$5). At the end of the year MFI-5 pays us rich dividends (30% profit sharing) for our shares. We feel as if we are owners of MFI-5 and thus we always want to engage with MFI-5's activities, including BDS.*"

Thus the category of MFI which determines the clients' ownership of it could influence co-production in BDS.

Sanctions **-** The findings show that clients are motivated to take part in BDS due to sanctions (i.e. BDS pre-requisites) imposed by MFIs. For example, MFI-2 makes financial literacy training compulsory for clients to obtain microcredit. Thus clients should be motivated to take part in financial literacy training (i.e. BDS). However, sometimes these sanctions could demotivate clients from engaging in BDS. Sanctions are discussed in detail with empirical evidence in sections 6.2.3.2, 6.2.3.5 and 6.3.2.

6.2.3 Interaction parties: make-up of MFIs

This section discusses the structures, strategies and people of MFIs that influence their BDS delivery. In fact, these factors also influence co-production in BDS.

In these section linkages, client segments, social mobilisation programmes and client groups, BDS planning and design, BDS performance evaluation, BDS pre-requisites, BDS process, training and top management expertise are discussed.

6.2.3.1 Linkages

This section discusses how types of MFI linkage could influence counsellors' efforts in co-production.

If an MFI delivers both BDS and microcredit, it is known as a linkage. Though there are three types of linkage according to the literature (Dunford, 2001), only two types were identified for the MFIs studied, as given below. The third type is partner linkage, in which BDS are given entirely by an external institution and not by the MFI. This type does not apply to this study. However, the findings reveal that although MFIs do not use this third type, they collaborate with external institutions to provide some BDS while having their own programmes. This is explained in detail in the section below under the heading of who should deliver BDS.

1. Unified linkage: the credit department provides both microcredit and BDS functions under one manager. This is also called 'unified linkage'.

2. Parallel linkage: MFIs have two separate departments to deliver credit and BDS, which function under two managers; this is also called 'parallel linkage'. In this linkage, separate accounts are maintained, with different people delivering two services.

Table 26 shows the type of linkage adopted by the MFIs being studied.

Table 26: Types of linkage adopted by the MFIs studied

Unified (same MFI department provides both credit and BDS)	**Parallel (two MFI departments provide credit and BDS)**
MFI-3, MFI-4, MFI-5, MFI-6.	MFI-1, MFI-2.

The reason why some MFIs want to provide BDS through unified or parallel linkages is because of the synergy that provides benefits to MFIs and clients. For example, by linking BDS to microcredit programme MFIs can achieve better financial sustainability through improved loan repayments, better client retention and client outreach. Due to BDS, clients make loan repayments promptly, and they will stay with the MFIs because of the satisfaction BDS bring to them. Moreover, new clients will join MFIs due to the BDS provided (Sievers and Vandenberg, 2007; ADEMCOL, 2001). Given that there is a funding issue for BDS, if MFIs can manage linkages (i.e. unified or parallel) effectively, then it will ensure sustainability for their programmes.

The findings from the MFIs with unified linkage reveal that counsellors have to encounter the following three issues due to the linkage.

1. Counsellors have to do both credit and BDS work. This consequently reduces their counselling time (i.e. readiness) due to the added workload (e.g. spending time on debt collection and other credit work).
2. Because of their debt collection role, the counsellors have strained relationships with default clients, which could affect counselling badly.
3. As a result of the increased involvement in credit-related work (debt collection, achieving loan targets) counsellors may not have sufficient expertise to deliver BDS.

Thus counsellors in unified linkages could co-produce less with owner managers due to less readiness, weaker interpersonal relationships with clients and lower expertise. This is discussed in section 6.3 with empirical evidence.

In contrast, the counsellors in a parallel linkage could be more efficient, as they have to focus only on one discipline (*i.e.* credit or BDS). For example, counsellors attached to the BDS department with parallel linkage may have to concentrate only on business counselling and they do not have to concentrate on work related to credit, such as debt recovery and achieving loan (credit) targets (i.e. higher counsellor readiness and better inter-personal relationships with clients). Furthermore, counsellors working for BDS departments with parallel linkages have more expertise, as they have more exposure and experience in providing BDS compared to counsellors of MFIs with unified linkages. Thus counsellors in parallel linkages could co-produce more with owner managers due to their higher readiness, better interpersonal relationship with clients, and greater expertise. This is discussed in section 6.3 with relevant evidence.

Further findings show that the success of MFI parallel linkage depends on the collaboration between credit and BDS departments.

<u>Collaboration between credit and BDS departments</u> **-**The findings from MFI-1 and MFI-2 show that their credit and BDS departments work collaboratively to deliver microcredit and BDS to clients. For example, the microfinance officers (MFOs) of the credit department and the counsellors of the BDS department attend awareness sessions together at the outset to inform clients about the credit and BDS provided. When MFOs and counsellors work with the clients, they come to know their credit and BDS requirements. If a counsellor comes to know that a client needs a loan, he directs him to the MFO. Similarly, MFOs link clients to counsellors for business counselling and help counsellors to organise training programmes, create market linkages etc.

This was evidenced by statements made by the officers of MFI-1 and MFI-2. One of these statements is given below.

The Enterprise Development Services manager of MFI-1 stated that

> *"At MFI-1, credit and BDS staff have to work collaboratively. For example, counsellors and MFOs help each other provide credit and BDS. At the branch level, the counsellor of MFI-1 (who belongs to the BDS department), the MFO (credit department) and the branch manager (credit department) are given joint targets for BDS, such as the number of training programmes and awareness sessions to be achieved in a financial year. All are responsible for achieving BDS targets."*

As revealed in the study, collaboration between two departments (i.e. credit and BDS) helps counsellors to provide BDS effectively and efficiently. In particular, collaboration between counsellors and MFOs helps the former to co-produce in BDS. Although this study focuses on co-production between counsellors and owner managers, the literature (Alford, 2014; Bovaird, 2007) asserts that multiple stakeholders should contribute to co-production. Thus it could be argued that collaboration between credit department officers and BDS department counsellors improves co-production in BDS.

Who should deliver BDS-The findings from all the cases show that MFI staff often provides BDS to their clients through unified and parallel structures. No MFI provides an entire BDS programme through external institutions (partner linkage). However, it was revealed that all the MFIs studied collaborate with certain external government institutions such as the Industrial Development Board and the Agricultural Department to provide training to their clients. These government institutions provide business and vocational training to micro-entrepreneurs and would-be micro-entrepreneurs. Moreover, they often provide this training free. Thus MFI counsellors link selected clients to suitable training (e.g. bee keeping training) conducted by these institutions.

However, the findings show that MFIs prefer to have their own BDS programme rather than outsourcing their functions to external institutions. The following is a quotation to substantiate this.

The General Manager of MFI-4 stated that

> *"We always prefer to have our counsellors and trainers delivering BDS because we can maintain the quality of the BDS programme with internal staff. Moreover, clients prefer internal staff. However, we collaborate with external parties, especially with government institutions, to provide free training and vocational training to our clients."*

Thus based on the findings, it is clear that MFIs should have their own BDS programme. However, they can collaborate with external institutions to complement the internal BDS programme.

The findings show that counsellors attached to parallel linkage can co-produce better since they have more time for counselling, can maintain a sound relationship with clients and have more expertise compared to counsellors attached to unified linkage. Furthermore, it was found there should be good collaboration between credit and BDS departments to succeed in parallel linkage, which in turn improves co-production in BDS. Moreover, based on the findings, it is clear that MFIs should have their own BDS programmes. However, they can collaborate with external institutions to complement their internal BDS programmes.

6.2.3.2 Counselling and training (co-production modes)

BDS are provided through counselling and training. This section first discusses the counselling intervention of MFIs and then training intervention. Finally, the interaction between counselling and training and their relative importance are discussed. In this section, whether there is a co-production in counselling and training in BDS provision is also discussed, as this study focuses on co-production.

<u>Counselling</u> -In this section, types of counselling; client selection for counselling; counselling based on the stage of the business; characteristics of counsellors; and antecedent factors for counselling such as location and timing are discussed, with their implications to co-production. The findings reveal that there is co-production in counselling when counsellors and owner managers collaborate each other in the provision of BDS. Co-production factors relating to the counsellor-owner manager dyad are discussed in section 6.3.

<u>Types of counselling</u> **-** Counsellors provide two types of counselling: 1. one-to-one and 2. group.

In group counselling, the counsellors create awareness of the services provided by MFIs. For example, they may introduce a training programme that is being organised and its benefits to clients in a group counselling session. They also give an overview of the best practices that can be adopted by clients, such as savings habits. Group counselling is not training; it is a short (around ½ -1 hour) talk given by a counsellor to a group of clients who come to group and society meetings.

The findings show that counsellors provide one-to-one counselling to clients at group/society meetings, at MFI offices and by visiting clients at their homes/business places. This study focuses only on one-to-one counselling.

In one-to-one counselling, counsellors provide business assistance in six broad areas.

1) Business idea generation and business plan preparation.
2) Administrative processes (e.g. record keeping).
3) Human resource management (e.g. employee provident funds).
4) Market development, sales and distribution (e.g. market linkages, producer groups).
5) Accessing capital and financial management (e.g. financial literacy loan linkages, loan management).
6) Development and production of the firm’s products or services (e.g. input supplies, introduction of new technology, packaging).

The findings reveal that counsellors can provide more business assistance to clients if they have higher expertise. It was found that some counsellors provide only limited assistance (e.g. the first, second and fifth of the above areas) due to low expertise. This is discussed in section 6.3.1 with empirical evidence.

<u>Most preferred counselling area</u> **-** The findings from the cases reveal that clients mostly prefer the market linkages (i.e. market development area) provided by the counsellors. They are of the view that if MFIs can help them in marketing their products, it could improve their business performance.

Thus counsellors should provide more market linkages through counselling so that clients will be willing to engage in counselling more, and thus improve the co-production in counselling. This is discussed with empirical evidence in section 6.3.2

Client selection for one to one counselling **-** The findings show that counsellors from MFI-1 and MFI-2 select clients through selection sessions. They first conduct awareness sessions with clients on BDS and then subsequently hold selection sessions to select about 50 clients to provide one-to-one counselling to. This is a long term process (development counselling). Counsellors of all MFIs also provide one-to-one counselling at clients' request. Clients can also call counsellors or meet them at group /society meetings or MFI offices and request one-to one-counselling.

Client's business stage **-** The findings reveal that clients may need more counselling in the pre-/start stage of their business. The following is a quote from one of the counsellors to substantiate this.

The counsellor from MFI-1 declared that

"A client needs more counselling when he is about to start a business or has just started the business compared to the other stages of the business."

Thus the stage of the client's business could influence the counsellors' engagement with them and hence could affect co-production.

Counsellor characteristics **-** Six counsellors, one from each MFI, were selected for the interviews (see chapter 5 for more details). The empirical data shows that counsellor characteristics vary in terms of their selection method (*i.e.* counsellors selected through advertising or selected from the clients) and the nature of the counsellor's role (full time/part time) across MFIs. Each of these characteristics has a bearing on co-production (see 6.3.1, 6.3.3)

Counsellor selection **-** All the MFIs studied except MFI-5 and MFI-6 select counsellors from the public by advertising. MFI-5 and MFI-6 select them from clients (e.g. office bearers of groups and societies). The findings show that the method of counsellor selection influences a counsellor's business knowledge and the power distance that he maintains from clients. Counsellors selected through advertising were found to have better business knowledge and experience since they have to satisfy a stipulated set of qualifications and experience in business and counselling when they are selected. Thus counsellors selected through advertisements were better than those from client-counsellors in terms of expertise. The expertise of the counsellor was found to be a vital co-production factor that enhances the business knowledge and skills of the clients. This is explained in detail in section 6.3.1.

It was also found that counsellors selected through advertising maintained a higher power distance from clients due to the culture of Sri Lanka compared to the counsellors selected from clients. The findings show that clients tended to co-produce more with counsellors who maintain a higher power distance. This is discussed in detail in section 6.3.5.

Nature of the role **-** The findings show that counsellors who work for MFI-6 are part time, while all the others are full time.

Part time counsellors from MFI-6 are engaged in their own businesses or have a job in addition to being a counsellor. Thus they do not have sufficient time for counselling compared to full-time counsellors, which could affect co-production negatively. This is discussed in detail in section in 6.3.3

Counselling fee, compulsory/voluntary nature, timing and location **-**This section identifies certain contextual elements such as location and timing of counselling, which could influence clients' engagement and hence affect co-production.

The findings show that counselling is provided by all the MFIs free of charge and that it is not made compulsory in order to obtain services. Clients were shown to be concerned about the timing of counselling and thus counsellors were visiting clients at a time convenient to them. Moreover, group and society meetings are held at a convenient time and day for the clients so that they can obtain counselling at these meetings. It was also revealed that counsellors provided counselling at a location close to the clients' operating base. For example, group and society meetings at which counselling is given are held in clients' homes, nearby schools, temples and community centres. Counsellors also visit clients at home and provide counselling at MFI offices and on the phone.

Thus providing counselling free, at a convenient time of the day and at a location convenient to clients may motivate them to engage actively and thus positively affect co-production. This is discussed in detail with interviewee comments in section 6.3.2

Training - This section first discusses whether there is co-production between trainers and owner managers. It then discusses how training is provided by MFIs, with its implication for co-production.

Background to training **-** Training is different to counselling. Unlike counselling, training is not frequent and is provided to many owner managers in a training session. Training is also different to group counselling. In group counselling, only an awareness of a topic is given in a short period, whereas in training in-depth knowledge about a subject is given over a longer period (e.g. 1-3 days).

One of the objectives of the study is to establish whether there is co-production between the trainers and owner managers. This objective was set based on the literature and data gathered from the initial study made by the researcher. However, the findings show that there is no co-production in the trainer-owner manager dyad, as trainers do not follow up on the trainees (owner managers) after the training and reflection is not evident.

However, it was found that counsellors are highly engaged in training because they introduce it to clients and then they follow up on them later. Hence the findings from the cases show that the training provided by MFIs to clients through internal/external trainers enhances counselling, because the clients who take part in the training under the direction of the counsellors tend to have the motivation and ability to co-produce with them.

The following is a quotation to support this.

The counsellor of MFI-1 stated that

"When we work with clients, we identify their training needs. So we direct them to training programmes. After the training they come to us and seek counselling. Moreover, our duty is to follow up on the client after training. For example, after record keeping training for a client of mine, I have to visit him and see whether he has understood the training and implement what is learnt. We as counsellors may need to

have a sound knowledge about training to follow up on the clients. Sometimes we also attend the training with the clients. Moreover, we have seen that after training clients engage actively in counselling."

Types of training

The findings show that MFIs provide two types of training: 1. office bearer training and 2. client training.

1. Office bearer training **-** This is given by MFIs that use group lending methodology. MFIs provide office bearer training at social mobilisation programmes and later continuous training to improve the knowledge of office bearers.

In office bearer training, the clients are taught how to manage groups and societies, how to keep records and maintain final accounts for groups and societies and also how to take up responsibilities such as those of president or treasurer in groups and societies. Some owner managers interviewed had attended officer bearer training and held positions such as president or treasurer in the groups and societies.

The findings from MFI-5 and MFI-6 reveal that office bearer training help improve communication, leadership skills and record keeping skills, which in turn help improve business performance. The owner managers and microfinance officers interviewed corroborated the above statement. The following are two quotations to substantiate this claim.

The OM (garage) of MFI-5 stated that

"I have gone through many office bearer training courses, such as leadership training and accounting, which have helped me improve the communication skills, leadership skills and record keeping skills that I use in my business."

The District Office Livelihood Coordinator of MFI-6 declared that

"I have come across office bearers who have improved the record keeping skills of their businesses due to office bearer training."

Although the office bearer training does not fall into BDS, the improved communication, leadership and record keeping skills gained through it may improve the motivation and ability of the clients to take part in counselling and training, thus office bearer training may improve the incidence of co-production.

2.Client training **-** This includes financial literacy training, business training and vocational training.

Financial literacy training covers the knowledge, skills and attitudes required to adopt good management practices for earning, spending, saving, borrowing and investing.

Business training covers areas such as business idea generation, business plan preparation, record keeping, marketing, costing, business planning, buying, and inventory management. Business training also covers soft skill training such as leadership and communication training.

Vocational training includes training such as yoghurt making, soap manufacturing, mushroom cultivation, bee keeping and tea planting.

This study focuses more on financial literacy and business training.

Categories and intensity of training provided **-** The findings also show that the number of client training programmes provided by the MFIs studied in each category of training (vocational training, business training and financial literacy training) varies significantly between MFIs. For example, MFIs who provide social mobilisation programmes conduct more financial literacy programmes compared to those which do not.

Furthermore, it was found that all MFIs tend to provide more vocational training to clients compared to business training programmes, as clients feel that it is more practical than business training.

The following is an example to support why vocational training is provided more.

The Enterprise Development Services Manager of MFI-1 explained that

"In Sri Lanka clients like tangible training such as vocational training and they do not like entrepreneurship/business training that much and think that they do not benefit from such training. That is why many businesses fail. But entrepreneurship/business training is very important. Through counselling we have to educate clients on the importance of business training."

Some of the clients interviewed also mentioned that they preferred vocational training as it is practical.

It was also found that the lack of awareness of management about the importance of business training was a reason for MFIs to conduct few business training programmes compared to vocational training ones. The following is a quotation to support this.

The VSCO President of MFI-6 stated that

> *"We do not know much about business training and how it helps clients. That is why we always organize vocational training for our clients because we know that vocational training provides benefits."*

Thus educating MFI management about the importance of business training could lead to MFIs organising more business training programmes. They could also provide more business training with the support of counsellors, who can influence clients to take part in it, as business training is essential for owner managers to increase their managerial capacity in order to grow their businesses.

The number of training programmes provided every year and the category of training provided by MFIs may vary due to the availability of funds, profit orientation (i.e. profit/ dual objectives) and management's knowledge and awareness of training programmes.

Training has been identified as a key influencer for counselling. Thus MFIs should provide/facilitate sufficient training programmes covering all three categories (financial literacy, business, vocational) so that counsellors can co-produce with owner managers better. For example, if an MFI provides many training programmes covering the three categories, then counsellors can direct clients to these based on their needs, and later follow up on the training. Moreover, after attending training clients will be more willing and have the ability to take part in counselling.

<u>Client selection for training</u> **-** MFIs that have a group lending method use counsellors to inform about training programmes at the group and society meetings and individual counselling sessions. Counsellors then select clients who are willing to attend training.

The MFIs studied have not made training compulsory except for one instance when MFI-1 made its financial literacy training compulsory for clients in certain branches as a prerequisite to obtain credit. The MFIs give more preference to clients who have undergone training when providing microcredit. The following is a quotation to corroborate the importance of training and why MFIs cannot make it compulsory.

The trainer of MFI-2 declared that

> "*If we can make training compulsory then clients would make use of credit and other resources better in their businesses. But due to practical reasons we cannot do that. However, indirectly we urge clients to take part in training by informing them that it would be easy for them to take loans from us if they have done this.*"

Thus promoting training by MFIs (by making it compulsory or by indirectly urging them) encourages clients to engage in training more and as a result they will co-produce with counsellors.

In contrast, MFI-3 that has individual lending method, organised training with the leadership of counsellors. When counsellors are in the field they identify the training needs of clients and based on that they organise suitable training for them.

Clients' business stage **-** The findings reveal that clients need different business training modules depending on the stage of the business.

The counsellor of MFI-1 stated that

> *"Depending on the stage of the client's business, we need to change the business training modules. For clients who are at an early stage we provide basic business training modules such as Generate Your Business (GYB), which covers business idea generation, and Start Your Business (SYB), which covers preparation of business plans. For advanced clients we provide Improve Your Business (IYB), which cover areas like marketing, costing and inventory control. These are International Labour Organisation (ILO) certified business modules designed for microenterprises."*

Hence the business stage of the client can influence the type of business training needed and MFIs should be able to provide or facilitate different types of training so that counsellors can direct clients to the right type, which will enhance co-production between them.

Trainer characteristics **-** For the study, six trainers were selected, representing each MFI interviewed. One external trainer was also selected who worked for a government institution and had a wealth of experience in microfinance and the microenterprise sector. The findings show that trainers' characteristics vary in terms of them being internal or external, and full time or part time.

MFIs use internal and external trainers to provide training. All the MFIs studied have a team of internal trainers who are both full time and part time. Part time trainers work as full time officers in other disciplines. For example, a microfinance manager could provide training on a part time basis.

Table 27 further explains the nature of the trainer's job (full-time/part-time) and the types of training they deliver.

Table 27: Characteristics of trainers representing each MFI and type of training they provide

	Internal trainers		**External trainers**
	Full-time	**Part-time**	
MFIs	MFI-2	MFI-1, MFI-3, MFI-4, MFI-5, MFI-6	MFI-1, MFI-2, MFI-3, MFI-4, MFI-5, MFI-6
Type of training provided	Financial literacy training, business training, office bearer training.	Financial literacy training, business training, office bearer training.	Vocational training, business training.

The MFIs studied use internal trainers to provide financial literacy and business training and procure the services of external trainers for business training only when internal trainers lack the expertise for certain business modules, and/or if external trainers provide free business training under government entrepreneurship development programmes. It was found that MFI-5 and MFI-6 had used client-trainers (clients trained by MFIs) to provide basic training such as record keeping and basic business plan preparation. Vocational training was provided only by external trainers.

<u>Internal/external trainer implications</u> **-** It was found that MFI management interviewed preferred internal trainers as opposed to external ones. An excerpt from the interviews in support this is given below.

The Enterprise Development Services Manager of MFI-1 explained that

"We realized that it was difficult to get external trainers due to their time schedule. Further our clients sometimes cannot attend training by external trainers on the given dates. So we thought of having our own trainers so that we can set the dates based on the clients' convenience and we can do follow up training. We can also maintain the quality of the training, which meets both the clients' and our requirements"

Some of clients interviewed from MFI-5 and MFI-2 were also of the view that internal trainers were better than external ones, as they were familiar with the internal processes. This was evident from the owner managers interviewed from MFI-1 and MFI-6. The following is one of the quotations.

The OM (garage) from MFI-5 stated that

"I think internal trainers are better because they are familiar with us and the processes of MFIs."

Thus when it comes to business training and financial literacy, MFIs should try to use their own trainers to enhance the effectiveness of training, as it in turn also improves co-production in BDS.

<u>Expertise of trainers</u> **-** The findings show that the MFIs studied pay attention to the expertise of the trainers whether they are internal or external. The following is an example opinion.

The Enterprise Development Services Manager of MFI-1 expressed the view that

"When we recruit trainers we make sure they have got suitable expertise. They need to have good formal educational qualifications (e.g. a degree in business) and experience in providing training. Further, we provide them with Training of Trainers

(TOT) programmes. When we get the assistance of external trainers we always check whether they have the required expertise."

However, it was found that the client-trainers (MFI-5 and MFI-6) did not have sufficient expertise to provide advanced business training, only providing basic training such as record keeping and basic business plan preparation.

Thus MFIs should make sure they have trainers with expertise to deliver training, as this enhances co-production in BDS. They also need to provide training to internal trainers to update their knowledge.

Communication and training techniques of trainers **-** The findings from all the cases show that MFIs select trainers who can use non-technical language.

The Enterprise Services Manager of MFI-2 stated that

"We always hire trainers who can work with the community (i.e. who can speak the village language). Thus university lecturers may not be appropriate as they use technical terms in training."

The findings show that trainers need to use special communication tools (*i.e.* techniques used) to deal with clients who are illiterate.

The trainer from MFI-2 said that

"In the classroom, we find some clients who cannot read and write. So I then use the magi- board effectively and use numbers and pictures to explain things to them. I have explained business plan to these clients by using the board effectively."

The findings also show that interactive training techniques used by the trainers in the classroom allow the trainers and the trainees to interact and these techniques promote deep learning in owner managers.

The following are some selected quotations to show how interactive training affects co-production.

The MFI-2 trainer explained that

"We use adult learning techniques in the classroom. We always make training simple. We create an environment in which the trainer can interact with trainees in the

classroom while trainees can interact with other trainees in the activities. For example, to teach how to make use of resources efficiently, we introduce a game to trainees in which we ask them to make a ring from a sheet of paper to put around an elephant's neck. This is learning by doing and through experiences. In this process, owner managers first do it, then analyse it in the classroom and try to generalise it so that they can apply the knowledge and skills gained to their businesses. Interactive training is an effective training method."

The owner managers interviewed across cases agreed that interactive training sessions really helped them learn.

The OM (coir) from MFI-2 stated that

"Trainers used a lot of games, interactive sessions. It was fun and the things we learnt were practical and we can apply them in our businesses. During the sessions we were able to interact with the trainer and other trainees."

Thus trainers should use non-technical language in training and special training techniques to improve their effectiveness, which in turn enhances co-production in BDS.

Training location, duration, fee, voluntary/compulsory nature and subsidies **-** This section identifies certain contextual elements such as location and timing of training, which can influence clients' engagement and hence affect co-production in BDS.

The findings from the clients reveal that they prefer to attend training that is conducted closer to their operating bases and of shorter durations. The findings from the microfinance officers show that they always try to conduct shorter (half a day to 3 day) training programmes close to clients' operating bases. The clients also mentioned that they prefer to have training at night or during the weekend. However, the findings show that MFIs conduct training mainly on weekdays. Thus they need to think about the timing of this in order to improve its effectiveness.

It was found that MFIs use different strategies over charging clients for training. Some MFIs (e.g. MFI-2) charge for it and some (e.g. MFI-3) provide training free of charge. When the clients were asked whether they were willing to pay for training, most of them mentioned that they were. The following is an excerpt to corroborate this.

The OM (wicks) from MFI-4 declared that

"If I find training useful, I do not mind paying for it."

Thus given that MFIs struggle with funding to provide training, it would be wise to identify the pricing signals of clients so that they can charge in order to sustain their BDS programmes.

The MFIs studied often made the training voluntary and based on clients' willingness they were selected for training. The clients interviewed mentioned that they did not like training being compulsory and wanted to attend voluntarily.

The following is a quotation to substantiate this.

The OM (rice mill) from MFI-4 said that

"We do not like to attend training if forced by the MFIs. We only like to attend training if we want to."

Given that there is low demand for BDS, some clients may not attend training voluntarily. Thus by making training compulsory MFIs can encourage these clients to attend it, so that they will be interested in future sessions if they realise the benefits. In contrast, if clients are forced to attend training by the MFIs and find it waste of time, they will not co-produce with them in future. Thus MFIs need to think about these aspects when making training compulsory or voluntary.

The findings also show that MFI-5 and MFI-6 provide a food and transportation allowance for the owner managers to attend training. This has motivated those with financial difficulties to take part.

Thus the training location, duration, fee and its compulsory/voluntary nature could influence clients to engage in it and consequently these factors could affect its effectiveness. Since it was found that training enhances co-production in counselling, MFIs should pay attention to these factors in order to enhance co-production.

Interaction between counselling and training-The findings show that when providing BDS to clients there should be interaction between counselling and training. For example, it was revealed that counsellors play a major role in promoting training to clients. They introduce training programmes to them and also motivate the clients to attend training organised by the MFIs. Furthermore, counsellors link the clients to training programmes conducted by external institutions. It was also found from MFI-1, MFI-2 and MFI-3 that some counsellors also work as part-time trainers. Moreover, counsellors and trainers work collaboratively. For example, the trainer works with the counsellor in following up on training. The importance of interaction between counselling and training was evident from the in-depth interviews with the microfinance officers. The following is a quote from one of them to support this.

The counsellor of MFI-5 declared that

> *"Counsellors and trainers have to work collaboratively. For example, I work closely with trainers of our MFIs and external trainers when organising training programmes, conducting the programmes and following up on clients after training."*

Thus it is clear that there is close interaction between the counsellors and trainers and this interaction could have a positive impact on co-production in BDS.

The relative importance of counselling and training-The owner managers interviewed from the six cases mentioned that both counselling and business training were important for them to improve their businesses. The following is an excerpt to justify this.

The OM (ornaments) of MFI-4 stated that

> *"I think we need both counselling and training to develop our businesses. The counsellor helps us by giving us advice to develop our business and emotional support, whereas to develop a skill we need the support of a trainer."*

However, most of the officers interviewed from the MFIs and the BDS consultant were of the view that counselling was more important than training as it is essential before the training is given and counselling should be provided throughout until the owner manager becomes established in business. They emphasised that depending on the stage of the business the mixture of counselling and training should be changed. For example, initially the owner managers need more counselling than training. Furthermore, advanced counselling and training should be provided to clients to graduate to the next level (from microenterprise to SME level).

The following is a quotation to show that counselling is more important than training.

The BDS consultant expressed the opinion that

"I think counselling is more important than training. Some may need training, some may not need it. In contrast, in counselling, the counsellor has to identify the strengths and the weaknesses of the client and needs to give a solution. Counselling is one-to-one and it needs a lot of expertise. In training sometimes one person can easily train 100 people. The counsellor has to understand the client's business and the environment. He needs to know the best practices and needs to work for a solution with the client. Rather than the counsellor proposing an idea, he has to create an environment in which the client comes up with the idea so that he owns it."

Given the backdrop that there is co-production in counselling and MFI officers stated that counselling is more important than training, MFIs could focus more counselling intervention. However, the findings show that training is vital for co-production in counselling. Hence MFIs also need to focus on training to have better co-production.

6.2.3.3 Client segments

The findings reveal that the MFIs cater for three different client segments and that these segments need different BDS.

The following are the three client segments catered for by the MFIs studied.

1. Income-based client segments, with three categories: I. poor[7] II lower income [8] and III. lower income (upper level).[9]

2. Geographical area-based client segments (rural/urban).

3. Need-based client segments (clients who need services from MFIs for income generating activities (e.g. microenterprises, agriculture), and clients who need services for non-income generating activities (house construction and household asset purchasing).

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[7] Poor clients- those whose income is less than $2.5 a day (poverty line) and who do not have proper basic facilities such as housing and food.
[8] Low income clients- those whose income is above the poverty line, who have basic facilities but cannot provide collateral to a financial institution to obtain credit.
[9] Lower income (upper segment) - those who are capable of providing collateral to a financial institution, and are financially better off than the other two categories.

Table 28 shows the segments catered for by the MFIs studied.

Table 28: Client segments served by each MFI studied

MFI	Client segments served
MFI-1	Poor, mainly lower income, rural clients, income and non-income generating activities
MFI-2	Mainly lower income, rural and urban clients, income and non-income generating activities
MFI-3	Mainly lower income (upper segment), rural and urban clients, income and non-income generating activities
MFI-4	Mainly lower income, rural clients income and non-income generating activities
MFI-5	Poor, mainly lower income, rural clients, income and non-income generating activities
MF1-6	Poor, mainly lower income, rural clients, income and non-income generating activities

The findings show that the MFIs' main target client segment for providing microcredit and BDS is rural, lower income clients who are running a microenterprise. This is obvious, as MFIs in Sri Lanka mainly cater for lower income people living in rural areas (GTZProMis, 2010a). They also mainly provide credit and BDS to income-generating activities, in particular microenterprises (LMPA, 2012). Moreover, as shown in Table 28, MFI-3 is different to the other MFIs in terms of the client segments served, as it caters mainly for the lower income (upper) segment. This difference is due to the profit orientation of the MFI. As discussed in section 6.2.2.1, MFI-3 is a profit-oriented bank and caters for low risk clients who provide collateral, as opposed to the other MFIs that cater for riskier clients who cannot provide this.

The following section first discusses how income-based, geographical-based and need- based client segments affect co-production. It then discusses the effect of the education level of clients on co-production.

1.Income-based client segments **-** The microfinance officers interviewed from all the MFIs mentioned that they catered mainly for non-poor segments (i.e. lower income and lower income (upper)) because poor clients do not have qualities such as the commitment and courage to co-produce. The following are two quotes to show why MFIs do not often want to cater for poor clients.

The Enterprise Development Services Manager of MFI-1 stated that

> *"MFI-1 caters mainly for those who can repay the loan. Entrepreneurs need to have commitment, the ability to take risks and the courage to excel. But it is very difficult to find these qualities in poor clients. Poor people want to survive and further they have basic needs like housing to fulfil before starting a business. Therefore poor clients may not be willing to obtain counselling and training to start a business and hence counselling and training may not work for them."*

The senior counsellor of MFI-3 said that the

> *"Poor segment needs to be looked after by the government. We cater for clients who can pay the loan. We always visit the client and see whether he has got money to eat three meals. Then only can he service a loan."*

Despite the MFIs' reluctance to cater for the poor client segment, it was found from the in-depth interviews with MFI-1, MFI-5 and MFI-6 that they cater for a small percentage of poor people in addition to the non-poor. They are compelled to provide microcredit and BDS to the poor since one of their objectives is poverty alleviation. The following is a quotation to support this statement.

The BDS manager of MFI-6 stated that

> *"We provide one time grants to poor people in the village. Our mobiliser (counsellor) helps poor clients identify a suitable income generating activity. Once the poor client reaches a certain level in his new business then he is directed to a VSCO (i.e. MFI) and then asked to become a member of a group and start saving money to obtain regular microcredit. But the percentage of poor people we serve is very low."*

Despite the fact that MFIs cater mainly for non-poor clients as they co-produce better, they must determine how best they can cater for poor clients as well, as poverty alleviation is one of their prime goals. Thus MFIs can collaborate with the government to cater for poor clients rather than giving entire responsibility to the government.

<u>Lower income and lower income (upper) segment</u> **-** As discussed at the beginning of this section, compared to the lower income segment, the lower income (upper) client segment is financially better off and hence it may require a different approach to BDS. For example, clients in this segment may be willing to engage in BDS voluntarily rather than being forced by MFIs (i.e. MFIs catering for lower income clients are compelled to provide certain BDS). Further, this segment may have already graduated from the lower income one, may have experienced some BDS already, and thus may not need BDS such as financial literacy, which is given mainly to lower income clients. Perhaps the lower income (upper) segment may need advanced business training. Thus the lower income and lower income (upper) segments may need different BDS approaches to improve co-production.

<u>2. Geographical area-based client segments</u> (***<u>Urban/rural segments)</u>*** **-** The findings also show that MFIs cater for both rural and urban sectors. However, it was revealed that the target clientele of those chosen were often rural (see Table 26). Moreover, MFIs cater for rural clients mostly because their target clientele (mostly non-poor and poor) live in rural areas. The following is a quotation to justify this.

The BDS manager of MFI- 6 explained that

> *"We operate mainly in rural areas because we want to develop rural folks who are often under-privileged and need our support mostly."*

Moreover, it was found that rural and urban clients need different BDS. Below are two examples to substantiate this.

The counsellor of MFI-3 stated that

> *"I have worked for both rural and urban areas. Urban clients need fewer BDS. I think urban clients learn from the market itself. For example, here (Magaragama) clients are mainly engaged in the garment sector and competition is very high for this industry. So for them to survive they somehow have to learn necessary skills. For example, they attend training programmes and learn from peers. In contrast, rural clients are not exposed to this situation and they find it difficult to get business support. So they need more counselling and training from us."*

Rural clients may possibly need more counselling and training because they cannot learn from the informal environment (e.g. friends, customers) to the extent that urban clients do. This could be due to the lack of business knowledge that exists in the social capital in rural segments. Moreover, in rural areas in Sri Lanka the opportunities are low to obtain business assistance services compared to urban areas. Thus rural clients may seek more business assistance from MFIs.

The senior BDS manager of MFI-3 stated that

> *"We have two different approaches for rural and urban clients to provide BDS. We provide more financial literacy and vocational training to rural clients and more business training to urban clients."*

According to this manager, the reason why MFIs have to provide different BDS to rural and urban clients is due to the demographic profiles of the client segments in the two sectors. For example, rural clients may not have the necessary vocational skills to start a business and they also lack financial literacy knowledge. Therefore MFIs have to introduce more vocational and financial literacy training to them. In contrast, clients in urban areas already have the vocational skills but may be lacking business skills and hence need more business training. Since there is low client demand for BDS (as revealed in the operating environment), MFIs need to provide demand-driven services based on rural and urban sectors, which will enhance co-production as clients will be willing to interact with counsellors in demand-driven BDS.

3. Need based segment (Microenterprise segment) **-** It was found that MFIs mainly provide microcredit and BDS to income-generating activities, in particular to microenterprises. This means that clients who already have business knowledge and investment in their business are eligible to obtain credit and BDS.

The following is a quotation to substantiate this.

The General Finance Manager of MFI-1 stated that

> *"We provide credit to clients who have already got businesses. They have already got experience and business knowledge about their businesses. We do not know provide credit to someone to start a business who does not have business knowledge and experience. Further, we do not finance 100% of clients' projects; clients also need to*

contribute through their funds. However, we support existing clients (i.e. those who already have a microenterprise and have got a good track record with the MFI) to start new businesses, because in the microfinance sector we would like our clients to have more than one business so that they can diversify risk."

The reason why MFIs provide microcredit and BDS mainly to existing business ventures is clear, as they do not want to risk their money with someone with no equity, business knowledge nor experience. Counsellors may find it easy to co-produce with a client who already runs a business because that client may have some business knowledge and experience.

Client segment and formal education **-** The findings also reveal that the formal education level of the non-poor client segment is generally low. However, the formal education of clientele is not that important in order for them to follow counselling and training effectively, and hence does not affect co-production. The following are two quotes to support this.

The counsellor from MFI-1 declared that

"Clients who have got better formal education may absorb counselling and training faster. But I have come across many instances where clients with lower formal education also follow counselling and training equally well. Perhaps they were deprived of education due to their poor upbringing. But when willingness and commitment is there, formal education does not matter in following counselling and training."

The former CEO of MFI-6 stated that

"I have seen clients who have got 5th grade education (i.e. lower formal education) who were capable of preparing final accounts for VSCOs. They have got the skill. But we have to guide them. I do not think formal education matters that much if clients have got willingness to learn."

Thus the findings relating to client segments show that MFIs prefer the non-poor client segment because it has the willingness and ability to co-produce in BDS. It is also shown that the rural/urban and lower income/lower income (upper) segments need different BDS approaches for co-production to be improved.

6.2.3.4 Social mobilisation and client groups

This section discusses the impact of social mobilisation programmes and client groups on co-production. In addition, how competition between MFIs could deter social mobilisation programmes and hence BDS delivery and co-production in BDS is examined.

Social mobilisation programmes involve awareness building about MFI products, the formation of groups and societies of members/clients, the training of members to manage groups/societies and the provision of BDS such as financial literacy and record keeping knowledge to members/clients. It was found that the main part of the social mobilisation programme is group formation and training clients to manage groups. In general, MFIs conduct social mobilisation for three months and this programme is provided before microcredit is provided (see chapter 5 for more details of the social mobilisation process and related group formation).

Table 29 compares and contrasts MFIs' lending methods and social mobilisation programmes.

Table 29: Lending methods and social mobilisation programmes

MFI	Lending method	Social mobilisation programme provided or not
MFI-1	Group[10]	No
MFI-2	Group	Yes
MFI-3	Individual [11]	No
MFI-4	Group	Yes
MFI-5	Group	Yes
MFI-6	Group	Yes

As can be seen from Table 29, MFIs which use the group lending method provide social mobilisation programmes, apart from MFI-1. It is clear that the reason why MFIs using this method provide social mobilisation is because they want to form groups consisting

[10] The basic idea of group lending is that loans are given to the individual members of the group but the group is responsible for the repayment of the loans of the individual members to the MFI (group liability).

[11] Individual lending demands collateral and no client groups are formed. As a result of the collateral requirement, poor clients are not in a position to obtain loans.

of members in the social mobilisation programme to lend money (i.e. group liability). However, MFI-1, although it uses the group lending method, does not provide these programmes, as the nature of its groups is different to that of other MFI groups that use the group lending method. For example, members of MFI-2 groups that use group lending have to maintain accounts for group activities (i.e., savings, loans) and they have to lend money to members from savings (these are small instant loans, not microcredit provided by MFIs to members), whereas members of MFI-1 groups do not have to perform these activities and hence they do not need to be trained for them through a social mobilisation programme. Thus MFI-1 does not provide such a programme, although it does form groups, merely to get group liability. In fact, MFI-1 does not provide any BDS prior to providing microcredit and once it forms groups, only then does it lend money and provide BDS.

In addition, as can be seen in Table 29, MFI-3 does not provide a social mobilisation programme as it uses individual lending, which does not need group formation.

How awareness and BDS given in social mobilisation programmes improve co-production **-**The owner managers and the MFI officers interviewed were of the view that the awareness and BDS provided in social mobilisation make clients better co-producers.

The following are selected examples to substantiate this.

The counsellor of MFI-4 stated that the

"Social mobilisation programme helps our clients to be familiar with our products, counsellors and trainers. They are also exposed to counselling and training in this period. So this experience will help them later to engage in counselling and training confidently."

The OM (garage) of MFI- 5 said that

"I learnt how to keep records during social mobilisation programmes. We were also educated about MFI services in this programme and we were able to get to know our MFI counsellors and trainers better in this programme through the counselling and training that we received."

Thus the social mobilisation programme can improve the ability, clarity of task and motivation of the owner managers to engage in counselling and training and hence enhance co-production in BDS.

Competition **-** The findings from the cases (e.g. MFI-4, MFI-5) reveal that competition between MFIs to provide microcredit has resulted in them reducing the length of social mobilisation programmes. Thus MFIs cannot provide financial literacy during shorter periods, resulting in them experiencing higher default rates. The following is a quotation to support this.

The Microfinance Manager of MFI-5 explained that

> *"In recent times, we have come across more default clients. When we checked, we found that they had taken loans from other MFIs unnecessarily. Moreover, they do not know how to control loan amounts taken for their businesses. This is a big issue and happens due to the lack of financial literacy of our clients. Unfortunately, due to competition, we are compelled to curtail our financial literacy education given to our clients in the social mobilisation programme. We used to have a three month long social mobilisation programme, but now we have reduced it to one month."*

The study reveals that clients first want to join MFIs to obtain credit, therefore they want to join a MFI that gives credit faster. They may therefore be reluctant to take part in a 3 month social mobilisation programme in order to be eligible to obtain credit, and instead may join an MFI that gives credit without social mobilisation or with a shorter programme. The findings show that there are certain MFIs (e.g. MFI-1) which use the group lending method who do not provide social mobilisation programmes, nor BDS such as financial literacy, before they provide microcredit to clients. Thus MFIs who provide proper social mobilisation programmes with the BDS provided may have to face competition from those such as MFI-1 to win clients, because clients would like to obtain credit faster from MFIs such as MFI-1, who provide credit without clients having to take part in social mobilisation. The findings from MFI-5 and MFI-6 show the importance of providing financial literacy training prior to microcredit being provided, irrespective of MFIs providing social mobilisation programmes or not. However, the importance of financial literacy training may vary with the client segment being served. For example, the creditworthy client segment of MFI-3 may not need financial literacy training. But MFIs catering for poorer/lower income clients may need to provide financial literacy training prior to giving microcredit because these clients may not know how to manage the loan amount received from MFIs.

<u>How client groups improve co-production</u> **-**The findings from the cases reveal that client groups improve (1) the sustainability of co-production, (2) achievement of co-production outcomes and (3) the communication skills of clients. Each of these is discussed below.

<u>1. Sustainability of co-production</u> **-** MFIs require clients to conduct group and society meetings and attend them regularly (e.g. group meetings are held once a week and society meetings are held twice monthly). To obtain microcredit and BDS the client must attend meetings regularly. Counsellors also attend these and provide counselling to members. Thus these regular group meetings allow counsellors and clients to interact, resulting in sustainability of co-production. This was evident from the following two quotations.

The counsellor of MFI-2 stated that

> *“It is easy to provide counselling through groups because clients come to these group and society meetings. I create awareness about our BDS at these meetings. For example, I introduce our training programmes to clients and I provide one to one counselling to clients at them”*

The OM (rice mill) of MFI-4 said that

> *“We always want to attend group and society meetings. I never miss a one. Our family members call this as an “MFI-4 fever” (i.e. the client loves to attend meetings). We meet MFI officers there.”*

Thus the group and society meetings where the clients and counsellors meet regularly create a conducive environment to collaborate with each other and therefore enhance the sustainability of co-production.

<u>2.Achievement of co-production outcomes</u> **-** The findings from the MFIs which have client groups show that group members maintain very good relationships with each other as they meet at group meetings frequently and take part in group activities (i.e. managing groups, holding meetings, and peer to peer lending).

The findings show that interactions between group members help achieve co-production outcomes. The following is an example to illustrate this.

The OM (rice mill) of MFI-4 explained that

"At meetings we can interact with our group members. Group members maintain excellent relationships with each other. So they help each other in personal and business activities as well. For example, if a member starts a brick making business with the guidance of a counsellor, then we help that member to start the business by motivating him and providing labour to make the bricks."

3.Communication skills **-** The findings also show that through group activities clients are able to improve their communication skills, which helps them take part in counselling and training confidently and thus affects co-production positively. This was evident by statements given by the owner managers. The following is one of these statements.

The OM (garage) of MFI-5 declared that

"Before joining MFI-5, I was very shy. I could not talk in front of people. But having engaged in group activities and held officer bearer posts, my communication and leadership skills improved. Now I can talk to anybody without fear."

The MFI officers interviewed from the cases also agreed that group activities improve clients' communication. The following is an example to justify this.

The MFI-6 counsellor stated that

"We have seen a big improvement in clients' communication skills after they join groups. In general, most clients are naive in communication but group activities make them more confident."

The findings show that social mobilisation programmes and groups enhance co-production in BDS. Thus MFIs using group lending may have a favourable environment for co-production compared to those using individual lending (e.g. MFI-3), which do not have groups.

6.2.3.5 Prerequisites to obtain BDS

This section discusses how prerequisites imposed by MFIs for clients to obtain BDS affect co-production.

It was found that some MFIs provided BDS to clients before and after they provide credit, whereas others provide services only after they have provided credit (e.g. MFI-1, MFI-3). The findings also reveal that clients have to satisfy certain prerequisites to obtain BDS before and after the credit stages.

Table 30 compares the different prerequisites set by each MFI to provide BDS to clients.

Table 30: Prerequisites needed to be fulfilled by clients to obtain BDS

MFI	Prerequisites needed to be fulfilled by clients to obtain BDS	
	Before credit is obtained	**After credit is obtained**
MFI-1	No BDS are provided by MFI. Client needs to be an owner of a business venture. Client needs to become a member of a group. Client needs to buy coupons to attend training when microcredit is provided.	Client needs to attend group and cluster meetings regularly. Client receives BDS through counselling and training.
MFI-2	Owner of a business venture. Become a member of a group. Attend social mobilisation programme. Attend group and society meetings regularly. Obtain BDS such as financial literacy through a social mobilisation programme.	Attend group and society meetings regularly. Receive BDS through counselling and training. Need to pay for training.
MFI-3	Owner of business venture. No BDS are provided by MFI. Collateral	Become a client of the bank-MFI. Receive BDS through counselling and training.

MFI-4	Owner of a business venture. Become a member of a group. Attend social mobilisation programme. Attend group and society meetings regularly. Obtain BDS such as financial literacy through a social mobilisation programme	Attend group and society meetings regularly. Receive BDS through counselling and training
MFI-5	Owner of a business venture. Become a member of a group. Attend social mobilisation programme. Attend group and society meetings regularly. Obtain BDS such as financial literacy through a social mobilisation programme.	Attend group and society meetings regularly. Receive BDS through counselling and training. MFIs pay food and transportation allowance to clients to attend training
MFI-6	Owner of a business venture. Become a member of a group. Attend a social mobilisation programme. Attend group and society meetings regularly. Obtain BDS such as financial literacy through a social mobilisation programme	Attend group and society meetings regularly. Receive BDS through counselling and training. MFIs pay food and transportation allowance to clients to attend training

As can be seen from Table 30, apart from MFI-1 and MFI-3, all the other MFIs provide BDS to clients before and after providing microcredit. However, MFI-1 and MFI-3 provide BDS after they have provided microcredit. Moreover, it is clear that most of these prerequisites (before and after credit) imposed by MFIs are based on the lending method used by it. For example, MFIs that use group lending want clients to take part in social mobilisation programmes and attend group meetings regularly in order to obtain credit.

As explained in section 6.2.3.4., some of these prerequisites (i.e. group meetings and social mobilisation) enhance co-production. Moreover, MFI-1 clients are motivated to attend training since they have already paid for it (i.e. the coupon system BDS prerequisite) when they obtained credit. However, it was found that not all clients are following the prerequisites, such as attending social mobilisation programmes or group meetings willingly, and given the choice they would opt out of the prerequisites or join other MFIs that do not have them.

The following is a quotation to substantiate this, from an owner manager interviewed.

The OM (garments) of MFI-6 stated that

> *"I am really busy with my business. So I cannot attend group meetings regularly. I wish I could obtain services from a financial institution where I do not have to attend these meetings."*

Moreover, as explained in 6.2.3.4., some clients may not like to go through the social mobilisation programme as they want credit faster, but they may follow it in order to obtain microcredit.

Thus if clients engage in BDS because of prerequisites, not because they are willing, then they will not co-produce effectively.

Section 6.2.3.3 explained that if MFIs provide BDS to clients with existing businesses it will be beneficial for co-production as these clients already have some business knowledge and experience. Thus the prerequisite for clients to have an existing business to qualify for BDS is conducive for co-production.

BDS prerequisites may appeal differently to client segments based on income and geography. For example, clients who are capable of providing collateral (i.e. income-based) would like to join MFIs with fewer prerequisites and probably join an MFI such as MFI-3. Rural clients, compared to urban ones, may also like to attend social mobilisation and group meetings as they may lack business knowledge compared to their urban counterparts. Rural and urban clients' willingness to take part in BDS has already been discussed in section 6.2.3.3.

6.2.3.6 The BDS process

The findings show that MFIs follow a sequence (BDS process) when providing BDS to clients. This section identifies this process and examines how it influences co-production.

Figure 16 shows the general BDS process adopted by the MFIs studied.

According to Figure 16, most MFIs create awareness about BDS and teach financial literacy and record keeping during the social mobilisation stage of the process. They then provide vocational training (e.g. yogurt manufacturing) and finally business training is given.

However, the findings show that this process is a guideline only and MFIs do not follow this sequence in the process every time. For example, some MFIs might provide vocational training during the social mobilisation stage. Further, it is clear that this process has been influenced by the lending methodology adopted by the MFI. For example, MFIs that use group lending provide a social mobilisation programme at the beginning, in which they provide some BDS, whereas MFIs who use individual lending do not have social mobilisation programmes and hence do not provide BDS such as record keeping and financial literacy at the beginning.

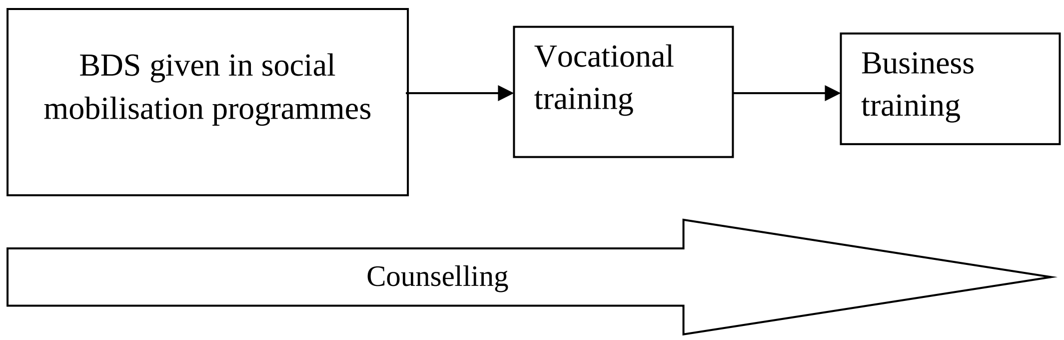

Figure 16: The BDS process

As can be seen in Figure 16, MFI counsellors are highly involved at each stage of this process. They provide counselling to clients, direct them to various training programmes and follow up on the training.

The findings also show that counsellors' intensity of counselling changes based on the stages of the above process.

The counsellor of MFI-2 said that

"We provide more counselling during the social mobilisation period. During this period, we help our clients to start or expand a business. We introduce our services to them. We educate them about financial literacy, business plan preparation and basic record keeping in this stage. Further, we have to provide counselling to clients who

have attended training during the social mobilisation period. For example, after attending yogurt training, clients expect a lot of advice from the counsellors."

Hence this process could influence the degree of engagement of counsellors with clients and hence affect co-production.

6.2.3.7 BDS planning and design

This section explains how clients' involvement in BDS planning and design enhances co-production.

MFI officers interviewed mentioned that they always try to obtain clients' views when planning BDS**.** When MFIs plan the BDS programme for a year, counsellors have to provide clients' BDS needs (i.e. training needs, market linkage needs) to the management. Counsellors who are always in the field with the clients know what their BDS needs are. Thus based on the BDS needs of the clients the management plans out the BDS programme for the financial year. The following is a quotation to support this.

The Enterprise Development Services Manager of MFI-1 stated that

"We have to plan out BDS programme for a year and therefore we have to prepare an annual plan for BDS. We always get clients' views in planning our BDS programme. We get clients' BDS needs through the counsellors."

The findings reveal that since credit and the BDS programme of MFI-6 is managed by VSCO (organisations of clients), clients play a major role in planning the BDS programme. This is evidenced by the following quotation.

The Community Resource Person of VSCO stated that

"We are empowered to decide our own BDS programme. So we discuss among ourselves and decide the BDS programme based on our needs."

Moreover, it was found that MFIs also secure clients' involvement in designing BDS programmes so that they will be motivated to engage in them.

The following is an example to substantiate client involvement in designing a training programme.

The counsellor of MFI-1 said that

"When we organize a vocational training programme, for example training for making spicy bites for clients, then we get them involved in organizing this training. Clients propose a location (e.g. their house) for training and sometimes provide equipment. So due to clients' involvement in designing the programme they feel a sense of ownership in BDS and therefore they actively engage in them."

Thus clients' engagement in BDS planning and design may improve the management of co-production and motivate clients to actively participate in the BDS programmes and therefore could enhance co-production.

6.2.3.8 Performance evaluation

The findings show that all the MFIs evaluate the performance of BDS programmes in terms of measuring how the objectives set out in the annual plan (i.e. number of new and existing businesses supported, number of training programmes conducted, number of marketing linkages created, number of business conferences and trade fairs etc) are achieved and by monitoring how individuals such as counsellors and trainers contribute to the achievement of BDS objectives. However, it was revealed that not all the MFIs systematically evaluate whether counsellors and trainers provide follow up and feedback after counselling and training as part of performance evaluation. It was noticed that MFI-1, compared to the other MFIs studied, had the best performance evaluation system which ensured that counsellors and trainers followed up on clients. This was evident from the following comment.

The Enterprise Development Services Manager of MFI-1 stated that

"We evaluate the performance of the BDS programme against our annual BDS plan. In our performance evaluation, we not only evaluate the overall BDS programme but also how individuals perform. For example, each counsellor has been given a target (i.e. number of training programmes to be conducted, number of market linkages to be conducted, and number of clients to be visited and given counselling). We also evaluate whether our counsellors provide follow up and feedback to clients (i.e. post counselling follow up and feedback) and whether they also do this with clients after training programmes undertaken by them."

Since counsellors' post intervention follow up and feedback have been found to be one of the important factors that enhance co-production in BDS, MFIs need to include this as a performance criterion to evaluate counsellors and trainers. Counsellors' post intervention- follow up and feedback is discussed in detail in 6.3.6.

6.2.3.9 Top management expertise

This section discusses how top management expertise affects co-production.

The findings show that certain MFIs (MFI-1 and MFI-2) have professional top management with higher expertise (i.e. educational qualifications and experience) to manage BDS, whereas others (e.g. MFI-5 and MFI-6) have a top management with lower expertise. The expertise of the top management could affect the successful implementation of BDS programmes.

The findings from MFI-1 and MFI-2 show that the higher expertise of their top management drives their BDS programmes. The following is a quotation from MFI-2 to support this.

The General Finance Manager of MFI-1 stated that

"Our director board and top management is well qualified (e.g. having masters degrees in business) with years of experience in BDS. They always support the BDS programme and that is why our programme is successful. They know the value of counselling and training. Two of our directors are also pioneers in introducing BDS to Sri Lanka."

In contrast, the findings from MFI-5 and MFI-6 reveal that they are managed by members/clients, who are not professional and qualified in terms of business knowledge and experience to manage the respective BDS programmes. Below are two excerpts to corroborate this.

The BDS Manager of MFI-6 explained that

"The Village Savings and Credit Organisation (VSCO) manages the BDS programme. VSCO consists of members of societies and they are not knowledgeable and often have low formal education. Further, they do not have the knowledge and experience to provide certain BDS. Therefore, we often have to intervene when organizing training, forming producer groups, and creating market linkages."

The General Manager of MFI-5 stated that

“We recruit our top management based on experience. We do not look at educational qualifications. I have passed only the Ordinary Level examination.”

Since the top management of MFI-5 and MFI-6 have more experiential knowledge than knowledge through qualifications, one can argue that they could manage the BDS programme better. However, the findings reveal that although the top management of these MFIs has business experience in the field, they lack exposure as to how to manage a BDS programme. Thus they must be provided with training on BDS so that they can implement a better BDS programme.

The findings show that the expertise of the top management can be influenced by the MFI category. For example, MFIs in the co-operative category, such as MFI-5 and MFI-6, use a business model in which clients are empowered to make decisions for credit and BDS by appointing them as members of the top management. However, the findings suggest that often clients/members are not as good at managing BDS programmes as professional managers. In contrast, in other MFI categories such as bank and guarantee, top management should have more expertise as it is composed of professionals. Thus the MFI category can also influence co-production as it can determine the expertise of top management.

6.2.4 Interaction parties: make-up of microenterprises

This section explains the structures, characteristics and strategies of the microenterprises/owner managers selected for the study. Organisational structure, and the characteristics and strategies of owner managers are discussed.

6.2.4.1 Organisational structures of microenterprises

The findings show that microenterprises do not have an organisational structure similar to that of bigger companies, which have separate departments for functions such as marketing and finance. In a microenterprise there are no separate departments and all the functions are carried out by the owner managers themselves; as a result, they need to have overall knowledge of all the functions in the business. Hence owner managers need to co-produce with counsellors in order to gain knowledge and ability in all the functions.

6.2.4.2 Owner manager characteristics

The findings show that the clients selected for the study possess low business knowledge and experience. Hence the counsellors, with superior expertise (more business knowledge and experience) are able to co-produce with them.

Fifteen owner managers, three from each of the five MFIs, were selected for the study. All the owner managers selected had obtained microcredit and BDS from MFIs. Only those engaged in microenterprises (1-10 employees) were selected for the study, thus they were non-poor clients (i.e. lower income and upper lower income). All the owner managers selected had more than two years' experience in the business and their formal education and business knowledge were often found to be low. None of them have a degree and the majority have learnt up to 11th grade. They represent both rural and urban areas (e.g. OM (garments) - MFI-3 (urban), OM (wicks) - MFI-1 (rural)).

6.2.4.3 Owner manager strategies

The majority of the owner managers work together with their spouses in their businesses and often have fewer than five workers. The owner managers and counsellors interviewed mentioned that their spouses play a major role in their businesses. The following are two quotations to substantiate this.

The OM (ginger sweets) of MFI-2 explained that

> *"My wife helps me in my business. She helps me with keeping records in my business and she is like my accountant."*

The MFI-2 counsellor stated that

> *"It is very important to have husband-wife engagement in business. When I provide counselling often both engage with me."*

Thus a spouse's engagement can enhance co-production between the counsellor and the owner manager.

The majority of owner managers operate their businesses from homes. Those interviewed were at either the start up or survival stage, which is why they needed counselling and training. It was found that 40% of them engaged in more than one business (multiple businesses). The counsellors interviewed mentioned that they encouraged microfinance clients to engage in more than one business as they could diversify their risk. The majority of owner managers interviewed did not use technology such as computers to keep records, or obtain and send information, as they were not technically proficient. This was mainly due to their low formal education.

6.3 Co-production factors

This section discusses the co-production factors/themes identified in the counsellor-owner manager dyad. All these are influenced by the contextual factors discussed above.

The in-depth interviews conducted across the cases, which included counsellors, managers of MFIs and owner managers (clients) of microenterprises, show that there is co-production between counsellors and owner managers (co-production in counselling). The following emerged as factors/themes relating to counsellors and owner managers that enhance co-production in BDS.

1. Counsellor expertise.
2. Owner manager willingness.
3. Counsellor readiness.
4. Counsellor-owner manager interpersonal relationship.
5. Counsellor-owner manager communication.
6. Post-intervention counsellor follow up and feedback.

The impact of each of these factors/themes on the counsellor-owner manager dyad from the points of view of the MFI managers, owner-managers and counsellors are described below, with supporting excerpts from the interviews.

6.3.1 Counsellor expertise

Counsellor expertise (business knowledge and experience) emerged as a theme/factor that affected co-production in the counsellor-owner manager dyad in all the cases analysed. This expertise is believed to be superior to that of owner managers. Thus counsellors can help owner managers improve their skills, knowledge and resources (i.e. ability of owner managers) through their expertise and hence enhance co-production.

The expertise of counsellors refers to their business and experiential knowledge. Their business knowledge refers to the knowledge gained through their qualifications, which include advanced level examinations preferably in commerce, degrees in business management and training programmes followed by counsellors relevant to business management and counselling. The experiential knowledge or experience of counsellors refers to the knowledge gained through years of working with the owner managers and with MFIs.

The following excerpts and the analysis show how counsellors can use business and experiential knowledge to provide business assistance to clients in different areas of business management, such as financial literacy, record keeping and market linkages. The section also compares and contrasts the expertise of the counsellors working for the MFIs studied.

The findings show that the business knowledge gained through counsellors' qualifications plays a pivotal role in co-production, as this knowledge can be used to help owner managers develop their businesses. The findings also show that counsellors use business knowledge to help owner managers, mainly in financial literacy, record keeping and business plan preparation.

Business Knowledge **-** The importance of business knowledge for counsellors was highlighted by the Enterprise Development Services Manager - MFI-1, the Enterprise Promotional Manager - MFI-2, the Senior Manager (credit and BDS) - MFI-3 and the General Manager – MF1-4. According to them, business qualifications are considered at the time of recruiting counsellors. This is evident from the following quotation.

The Enterprise Promotional Manager of MFI-2 stated that

> *"We recruit counsellors with diplomas and degrees in business and later we provide them training related to business disciplines. We believe that the business knowledge of counsellors helps them in performing their job."*

Several excerpts, extracted from the interviews with the counsellors, are given below and show the importance of business knowledge gained through qualifications to support owner managers.

The following example shows how a counsellor from MFI-3 gained business knowledge through qualifications.

"I have passed Advanced Level in the Commerce subject stream. Right now I am following banking exams. Our bank also gives us training in financial literacy, record keeping and business plan preparation. I always use this knowledge gained through qualifications when I provide counselling to clients."

Below is an example to show how a counsellor helped owner managers in **financial literacy** through his business knowledge.

The counsellor from MFI-3 said that

"Many microfinance clients do not know how to manage their cash flows and pay off loans. For example, sometimes the clients get payment for sales after two months (credit sales), but still they have to pay the loan. Further, when they get the money (excess cash) they do not know what to do. When it comes to funding they sometimes go to informal money lenders and pay very high interest rates. Hence we have to counsel them on how to manage cash flows, save, invest, manage loans etc."

The counsellor from MFI-5 highlighted the importance of the qualifications that he gained through training in gaining knowledge to provide counselling in **record keeping** and financial literacy by saying

"Most of the microfinance clients do not know how to keep records and often they utilise most of their profit for personal transactions. So when we provide counselling we always educate them on how to keep records separately for business and personal transactions and to calculate profits. We also educate them on how to save money because without the saving habit one cannot do business. All this knowledge I learnt through the training given by MFI-5 to us."

Owner managers (clients) interviewed across the cases also claimed that the business knowledge of the counsellor is important as it could help them in their businesses. The following is one of the quotations given by an owner manager to support this claim.

The OM (wicks) from MFI-1 said that

"Counsellors taught me how to prepare a ***business plan****. This is very important, not only to obtain credit from financial institutions, but also to manage my business."*

Experiential Knowledge **-** The experience of the counsellor was also found to be important in co-production in counselling. Counsellors gain experience by working with owner managers and with MFIs. The findings show that MFI-5 and MFI-6 pay more attention to experience than educational qualifications in recruiting counsellors. The general manager of MFI-5 stressed that it always gives high priority to experience in recruiting and developing counsellors.

"We always value experience when recruiting our counsellors. We believe that hands-on experience is more vital than qualifications. Our counsellors must be familiar with our lending and BDS having worked for us before being appointed as counsellors."

The findings show that the experiential knowledge of counsellors could be subject-specific, networking-specific or location/industry-specific. Subject-specific experiential knowledge refers to the experiential knowledge gained in subjects such as business registration, packaging and production. Networking-specific experiential knowledge refers to the knowledge gained in different networks (e.g. buyers, sellers, financial institutions). Location- specific experiential knowledge refers to the expertise of the counsellor in an industry in a city having worked in that city (location) for a number of years (in Sri Lanka certain cities are famous for certain industries).

The following excerpts highlight how **subject-specific experiential knowledge** is used by counsellors to handle problems in business registration and packaging.

The counsellor from MFI-1 indicated that

"Some clients do not know where to register their business. Some with a business already started a few years back do not have business registration. So, we advise them to register the business at the provincial council saying that they are going to start the business with the help of the MFI. Otherwise, the provincial council will fine them for delaying the registration."

The counsellor added that

"If the client does not know how to package I ask him to go to the supermarket and buy a packet of gram and observe the packaging. I tell him that customers first get attracted to the packaging then they buy. If the quality is good then they buy the product again. I ask the client to design a better packaging for his product after seeing the packaging at the supermarket."

The following examples show how counsellors use their **networking-specific** experiential knowledge to help clients in marketing, loan linkages and training.

The counsellor from MFI-3 mentioned that he used his networking-specific experience to help his pineapple grower clients to find buyers (**marketing**).

"I have been in this area (Kiridwela; an area famous for pineapple cultivation) for five years. Here you find mostly clients with pineapple cultivation. I know pineapple exporters since I am familiar with the sector. I introduce my pineapple grower clients to these exporters. So my clients do not have to worry about the market."

The counsellor from MFI-1 mentioned that he helped his clients by introducing other financial institutions for loans (**loan linkages**) and explained that

"When the client has used up the maximum loans that we provide, then we encourage the client to obtain loans from other financial institutions and we introduce such institutions (e.g. banks). Moreover, we advise clients to open an account with the bank and maintain the account for three months so that he can request a loan. Moreover, we ask the client to meet the manager of the bank and show the products he produces (e.g. a packet of gram) so that the client can develop a relationship with the manager. This is also counselling, as the client does not know these things."

The counsellor from MFI-2 stated that he used his networking experience to link his clients to various types of training (**training linkages**). He said that

"For example, a client who manufactures murukku (a spicy snack) may not earn a good profit due to his lack of knowledge in business. So I introduce him to business training programmes such as record keeping and marketing, which help him organise his business better and make more profit."

It was also found that experiential knowledge could be **location-specific**, as counsellors gain experience based on the location. The counsellor from MFI-3 mentioned that he worked in an area where pineapple cultivation was popular and as a result he has to mostly deal with pineapple growers. Having worked in this area he has gained experience in the pineapple industry, which he could use for counselling. This is evident in the following statement:

"Here in this area (Kiridiwela), we find many clients engaging in pineapple cultivation. So I need to be an expert on that. I know clients need Rs.130,000 to grow an acre of pineapples. I know what the profit margin is for one acre of pineapple cultivation. Similarly, a counsellor working in Maharagama should be an expert in garments, as most of the clients are involved in the ready-made garment industry there. Likewise, counsellors in different geographical areas are specialised in different industries. This industry/location-specific knowledge helps us counsel clients better."

Counsellors have gained experience not only by working with the clients, but also working with different MFIs. This was evident from the statement made by the counsellor from MFI-1.

"Everybody cannot become a good counsellor. I have got 20 years' experience as a counsellor. I started my counselling profession with an American Project in Mahaweli, where I had to give advice to farmers and to develop them. I had worked for 6 years there before I joined Mackwoods Agro Chemicals to counsel some farmers in Nuwaraeliya. Then I joined MFI-2 and worked there for 6 years before I joined MFI-1, my current workplace. I learnt enterprise development services from MFI-2, as earlier I was only exposed to agriculture."

Owner managers too have benefited from the experiential knowledge of counsellors and the following examples illustrate this.

The excerpt from the interview with the owner manager who runs a garment business attached to MFI-3 shows how he benefited from the location- and networking-specific experiential knowledge of the counsellor.

"Our counsellor has good knowledge in garments. He gives advice on the cost and profits on my business. Further, he has helped me find buyers for my business."

The following example illustrates how a client in the coir industry has benefitted from the networking-specific knowledge of the counsellor, having been introduced to loan linkage.

> *"When I wanted Rs.300,000 for my coir business, our counsellor arranged this loan amount from a bank as MFI-2 could not provide that amount."*

The findings also suggest that counsellors need both business and experiential knowledge to provide counselling in certain instances. The following example illustrates this point.

The counsellor from MFI-3 stated that

> *"Today a microfinance client came and requested Rs.500,000 for pineapple cultivation. However, I know that such an amount is not needed at the outset, and initially you need about Rs.75,000 to plant and after 7-8 months you need Rs.125,000 for fertilizer. I told her if she wanted Rs.500,000 she would have to pay interest and she needed to borrow the money in stages. You see, this type of counselling is very important."*

In the above example, the counsellor needs to know the pineapple industry through experience and needs to know about interest rates and loans through business knowledge (*i.e*. qualifications).

The findings also show that counsellors' expertise in many BDS may help them co-produce with clients effectively as they can help in different areas (e.g. financial literacy, marketing, loan linkages). However, the findings show that business knowledge and experience of handling a number of BDS vary across cases.

The findings from the cases reveal that counsellors from MFI-1 and MFI-2 can handle many BDS.

The counsellor from MFI-2 stated that

> *"Counsellors of MFI-2 are multi-skilled persons and have experience in many products. Counsellors have the ability to organize trade fairs, and business clinics. They can form producer groups, and create bank and market linkages. These are in addition to providing counselling on financial literacy and business start ups. Our*

counsellors have got the best exposure. If you compare them with the counsellors of other MFIs, most have worked for us before and got experience."

In contrast, counsellors from certain cases studied demonstrated lower expertise in handling many BDS. The BDS manager of MFI-6 and the general manager of MFI-5 mentioned that their counsellors could handle few BDS. The following example substantiates this point.

The BDS manager of MFI-6 stated that

"Our counsellors are mostly capable of providing financial literacy. They do not have the experience and exposure to create market linkages or organize trade fairs. We handle those things from head office."

The difference in expertise of counsellors could be due to their qualifications and experience, the type of linkage used by the MFI where they work and the counsellor selection method (characteristics of counsellors). This is explained below.

Table 31 compares the characteristics of counsellors and the BDS they provide.

Table 31: Counsellor characteristics and the BDS they provide

MFI	Business knowledge - qualifications (formal education, training undertaken), number of years of experience as a counsellor, method of counsellor selection and type of linkage	Business development service provided through counselling by each MFI (all BDS have been categorised into six areas[12])
MFI-1	1) Degree/diploma in Business Management. 2) Received training from MFI on financial literacy, business plan preparation and basic business management. 3) 20 years' experience in business counselling. 4) Through advertisements. Professionals are selected as counsellors. 5) Parallel linkage.	1) Business idea generation and business plan preparation. 2) Administrative processes e.g. record keeping. 3) Human resource management e.g. employee provident funds. 4) Market development, sales and distribution e.g. market linkages, producer groups. 5) Accessing capital and financial management e.g. financial literacy, loan linkages, loan management. 6) Development and production of the firm's products or services.
MFI-2	1) Degree /diploma in Business Management. 2) Received training from MFI on financial literacy, business plan preparation and basic business management. 3) 10 years' experience in business counselling. 4) Through advertisements. Professionals are selected. 5) Parallel linkage.	1) Business idea generation and business plan preparation. 2) Administrative processes e.g. record keeping. 3) Human resource management. 4) Market development, sales, and distribution. 5) Accessing capital and financial management e.g. financial literacy. 6) Development and production of the firm's products or services.

[12] Based on Rice (2002) and data from the study.

MFI-3	1) Advanced Level examination and banking examinations. 2) Received training from MFI on financial literacy, business plan preparation. 3) 6 years' experience in business counselling. 4) Through advertisements. Professionals are selected. 5) Unified linkage.	1) Business idea generation and business plan preparation. 2) Administrative processes e.g. record keeping. 3) Market development, sales and distribution. 4) Accessing capital and financial management e.g. financial literacy.
MFI-4	1) Advanced Level examination. 2) Received training from MFI on financial literacy. 3) 3 years' experience in business counselling. 4) Through advertisements. Professionals are selected. 5) Unified linkage.	1) Business idea generation and business plan preparation. 2) Administrative processes e.g. record keeping. 3) Accessing capital and financial management e.g. financial literacy. 4) Market development, sales and distribution, e.g. market linkages, producer groups.
MFI-5	1) No proper formal education and training received on financial literacy or business plan preparation. 2) 3 years' experience in business counselling. 3) Selected from clients. 4) Unified linkage.	1) Business idea generation and business plan preparation. 2) Administrative processes e.g. record keeping. 3) Accessing capital and financial management e.g. financial literacy.
MFI-6	1) No proper formal education and training received on financial literacy or business plan preparation. 2) 1 year of experience in business counselling. 3) Selected from clients. 4) Unified linkage.	1) Business idea generation and business plan preparation. 2) Administrative processes, e.g. record keeping. 3) Accessing capital and financial management e.g. financial literacy.

As can be seen from Table 31, the counsellors from MFI-1 and MFI-2 are able to provide more business assistance to owner managers. This could possibly be due to their greater business knowledge (e.g. degrees in business) and experience, and the type of linkage (parallel) of their MFIs. As discussed in the context (see 6.2.3.1), parallel linkage, as opposed to unified linkage, allows counsellors to become experts in BDS.

In comparison to counsellors from MFI-1 and MFI-2, it was clear that those of other MFIs are able to deliver less business assistance. This could be due to their lower business knowledge in terms of qualifications and training and the unified linkage that their MFI uses, which does not allow them to become experts in BDS as they also have to focus on credit aspects.

It was found that counsellors from MFI-5 and MFI-6 are selected from clients and are not professional counsellors, as in the other MFIs. However, these client-counsellors can have experiential knowledge, not only of working with MFI clients, but also working in their own businesses, which they can use in counselling.

The findings relating to counsellor expertise show that business knowledge gained through qualifications can help the counsellors to impart knowledge more in areas such as financial literacy, record keeping, and business plan preparation. Besides, counsellors can help owner managers more in areas such as business registration, market and loan linkages and input supplies through their experiential knowledge. The findings also suggest that both business and experiential knowledge are important for counsellors in co-production.

Thus it is clear that there is co-production between the counsellor and owner manager due to the expertise of the former. Therefore, MFIs should consider the entry qualifications (e.g. business qualifications) and experience when recruiting counsellors. They should also provide counsellors with training relating to business management and assist them in absorbing experiential knowledge quickly, perhaps allowing newly recruited counsellors to work with senior counsellors in order to increase the incidence of co-production.

6.3.2 Owner manager willingness

The findings from all the MFIs studied show that owner managers’ willingness is important in counselling co-production. Owner managers put effort into co-production (e.g. spending time with the counsellor, providing information, being pleasant) due to their willingness.

The counsellor of MFI-1 stated that "willingness" is important for a successful counselling session. Owner managers request counsellors to visit them due to this and also managers ask counsellors questions at cluster meetings for the same reason.

It was found that owner managers are willing to engage in counselling due to certain motivational factors, sanctions and contextual factors. The motivational factors are economic benefits, their sense of ownership and relationship with the counsellors. Regular attendance by owner managers at group and society meetings to obtain counselling is a sanction imposed by MFIs. The contextual factors are time-related, product-related, location-related and awareness and socialisation-related. The following section explains each of these factors, with examples.

Motivators **-** The following statement shows how **economic benefits** shape the willingness of owner managers to take part in co-production.

The owner manager (furniture) of MFI-1 explained that

"I was able to improve the sales and profits of my furniture business due to advice I got from our counsellor. So I always want to work with him."

The findings also show that owner managers may be willing to engage in counselling due to the **sense of ownership** experienced by them when taking part in the design of BDS. The following is one of the quotations to substantiate this.

The Enterprise Development Services manager of MFI-1 said that

"It is very important to consider clients' views when designing BDS. They should own the idea, and only then will they give their willingness and commitment to BDS. Some projects failed because they were not clients' projects."

The findings show that a **clients' relationship with the counsello**r also could motivate them to engage in co-production.

The owner managers interviewed mentioned they were willing to obtain counselling because they liked the relationship with the counsellor. The following is a quotation to substantiate this.

The OM (wicks) of MFI-1 stated that

"Our counsellor is a friendly person. I always like to interact with him."

<u>Sanctions</u> **-** The findings show that sanctions imposed by MFIs could motivate or demotivate clients to engage in co-production. It was found that clients of MFIs which use group lending have to attend group meetings regularly (i.e. a sanction) to obtain microcredit and BDS. The following quotation shows how group meetings motivate clients to engage in co-production.

The OM (ornaments) of MFI- 4 said that

"I love to attend the meetings regularly. I always wait impatiently until the meeting comes to attend. We can meet our friends and MFI officers, who provide us with counselling at the meetings."

In contrast, some clients stated that they could not obtain counselling because they were not able to attend regular meetings.

The OM (coir) of MFI-2 explained that

"Earlier I used to attend group and society meetings regularly, but now I cannot attend regularly since I am busy with business. So I miss counselling sessions."

<u>Contextual factors</u> **-** The findings show that the **time** at which the counselling takes place could influence the willingness of the owner managers to take part in counselling.

Owner managers are busy with their business activities and household chores. Thus time is very important for them. The majority of them mentioned that they would like to meet the counsellor either in the morning or the evening.

The OM (poultry feed) of MFI-5 stated that

"We prefer it if the counsellor visits us in the morning or evening. Generally, we are busy during lunch time."

The counsellors interviewed also mentioned that they were concerned about the timing of counselling.

The counsellor of MFI-4 said that

"Morning and evening sessions are the good times to meet the client. Sometimes the client may be busy with the business and household chores between 11am and 4pm. So I always visit clients either in the morning or evening."

The findings show that **product-related factors** could influence the willingness of the owner managers to engage in counselling. Most of the owner managers mentioned that they would prefer to have market linkages through the counselling. The following is an excerpt to support this statement.

The OM (ornaments) of MFI-4 stated that

"I produce ornaments to sell using traditional materials. Our MFI holds a trade fair once a month for us to sell our products. But this is not enough. If the MFI can provide us more marketing links then we can sell our products."

Owner managers would be willing to engage in counselling if its **location** is close to them. The findings also show that they prefer it if the counsellor visits them at home so that they can discuss things privately and it is more convenient for them. Moreover, owner managers do not have to spend money on transportation or think about dress code if the location is closer.

The counsellor of MFI-1 stated that

"I provide counselling at cluster meetings, my office and at clients' homes. When we visit clients at home then they do not have to worry about their dress code nor transportation. If they are to meet me at my office they have to wear a proper dress and spend money on transportation"

The senior counsellor of MFI-3 indicated that

"Clients do not like to discuss certain business matters at the bank branch (office). They always like to discuss them at their homes. So we visit them at their homes/business premises."

The OM (furniture) of MFI-1 said that

"We get counselling at cluster meetings held at nearby temples or the counsellor visits us. It is convenient for us."

The OM (grocery) of MFI-6 stated that

"I do not have time to go out and meet the counsellor because I have to always be in my business. So if the counsellor visits me it is convenient."

The findings from cases show that **social mobilisation programmes** conducted by MFIs motivate owner managers to engage in counselling. The following excerpts give examples of this.

The counsellor of MFI-5 explained that

"Social mobilisation programmes will enhance the client's engagement in counselling and training. The client who has undergone the social mobilisation process knows the importance of counselling and training because he has already seen a change in him."

The OM (poultry feed) of MFI-5 highlighted the importance of the social mobilisation programme.

"The social mobilisation programme has helped us. I was in a group of five members. We learnt how to work in a group. Besides, we were given knowledge on household and business management, savings and some other topics in this programme. This programme really motivated us to work with the counsellors and trainers later."

The findings show that only MFI-2, MFI-4, MFI-5 and MFI-6 have strong social mobilisation programmes. Thus the owner managers of these MFIs may be more willing to engage in counselling due to these programmes.

The findings show that an owner manager's willingness for co-production in counselling could be determined by certain motivational, sanction and contextual factors. Thus MFIs should concentrate on these factors to improve co-production. For example, counsellors can educate clients about the material gains of BDS to improve their co-production. Moreover, MFIs can provide counselling at a location and time convenient to clients to improve their willingness and thereby improve co-production.

6.3.3 Counsellor readiness

Counsellor readiness refers to counsellors committing sufficient time to co-production to achieve a level of intensity required for impact (*i.e*. number of hours available for counselling). Higher readiness allows counsellors to spend more time with clients to enhance their ability, role of clarity and motivation, which are key to co-production.

Results from the cases indicate there are two job-related reasons for the counsellor which impede his readiness:

1) The nature of the job, i.e. full-time or part time.

2) Activities which are not related to co-production.

The following example shows how **the nature of the job** affects the readiness of the counsellor.

The counsellor of MFI-6 stated that

"My job as a counsellor is a part time job. I work as a counsellor while engaging in my business (garments). So I do not have enough time to meet clients and follow up with them as I would like to."

The Community Resource Person (who supervises the counsellor) of MFI-6 said that

"Earlier we had full time counsellors. But now we have part time counsellors trained from clients. But they do not have time to work with clients as they are doing a job or doing a business in addition to being a counsellor."

Counsellors attached to MFIs, apart from MFI-6, are full time. The counsellors attached to MFI-6 work on a part time and voluntary basis and perform the counselling role while doing their jobs or businesses. Thus it was revealed that MFI-6 counsellors do not have enough time to provide counselling, thus affecting their readiness (*i.e*. low readiness).

The findings also show that due to **debt collection and loan targets (i.e. non-co-production activities)**, sometimes counsellors do not have time to provide counselling and hence this could affect co-production.

The counsellors of MFI-3, MFI-4, MFI-5 and MFI-6 mentioned that due to debt collection they could not focus fully on counselling.

The counsellor of MFI-3 explained that

"When recoveries are high, then the management wants us to fully focus on debt collection and we cannot provide counselling in this period."

As explained in the context section (see 6.2.3.1), lower readiness of the MFI counsellors is due to the unified linkage of the MFI.

In contrast, the counsellors attached to MFI-1 and MFI-2 do not have to engage in debt collection. Thus they have sufficient time for counselling and their readiness is consequently high. As explained in the research context (6.2), this is due to the parallel linkage of these MFIs.

It is clear from the findings that lower readiness could negatively affect co-production in counselling as the counsellors do not have sufficient time to engage with the owner managers. Thus MFIs should consider the nature of the job (full time/part time) of counsellors and the type of linkage (unified/parallel) in order to improve the readiness of counsellors, which is vital for co-production.

6.3.4 Counsellor-owner manager communication

The findings reveal that communication between the counsellor and the owner manager is important in co-production in counselling. The communication skills of the counsellor can increase the clarity of roles and motivate the owner managers to perform tasks. It was also revealed that the owner manager needs to communicate with the counsellor and provide all the relevant information, so that he can co-produce with him better.

Four sub-categories emerged from the interviews of counsellor-owner manager communication:

1. Counsellors' communication using non-technical words.
2. Counsellors' motivational communication.
3. Counsellors providing accurate information.
4. Owner managers' communication.

The respondents from the six MFIs felt that **communication using non-technical words** was important in counselling. Use of layman's language can enhance the clarity of tasks communicated to the owner manager.

The counsellor of MFI-2 indicated that

"We often deal with clients who do not have good business knowledge and with low formal education. Hence, we always use a simple language without using jargon in the communication with the clients. For example, when counselling we do not use words like "prgadanaya' (capital), instead we use a simple word understood by them."

The OM (coir) of MFI-2 expressed the opinion that

"The communication of the counsellor is very important. He needs to communicate by using a simple language that we can understand."

The respondents from all six MFIs believed that counsellors should be able to motivate the owner managers in a counselling session and hence **motivational communication** was important in counselling. Motivation is important to enhance co-production.

The counsellor of MFI-4 explained that

"I communicate in a friendly manner with the client. Further, I always motivate him in counselling sessions by asking about his business progress and recognising his achievements. I also mention that the MFI and I back the client's business."

The owner managers interviewed also were of the view that motivation from the counsellor is important in a counselling session.

The OM (ginger sweets) of MFI-2 said that

"Motivation and encouragement by the counsellor are very important for us. It boosts our morale. Whenever the counsellor visits me, she asks how best I can develop my business further."

The findings from all the cases reveal that it is important for a counsellor to provide **accurate information** in a counselling session as it clarifies the owner managers' role in co-production.

The following is an example to corroborate this.

The senior counsellor of MFI-3 stated that

"We always give the correct interest rates to the clients. We always quote effective rates. For example, our effective rate is 12% for microcredit. However, counsellors from some MFIs quote the flat rate instead of the effective rate. For example, they say their interest rate is 12%, but the correct rate is 24%. This is cheating. When we provide false information, say interest rates, then clients cannot plan their cash flows/businesses accurately."

The OM (grocery) of MFI-5 said that

"We always expect our counsellor to provide us with correct information."

The findings from the cases studied show that owner managers need to communicate with counsellors and also need to provide accurate information to them.

The following example shows the importance of the **communication of the owner manager** in counselling.

The counsellor of MFI-5 declared that

"Some clients are shy to talk with counsellors. Then we cannot help them. But most of our clients are very forward and communicate confidently thanks to the group activities."

In the research context section (6.2.3.4), how groups improved clients' communication was discussed.

From the findings it is clear that a counsellor's communication can increase the clarity of the role and the motivation of the client, which are important for co-production. The owner manager's communication with the counsellor was also found to be a key ingredient for the success of co-production. Thus MFIs should train their counsellors to communicate with the clients effectively to improve co-production.

6.3.5 Interpersonal relationship between the counsellor and the owner manager

The in-depth interviews with the counsellors and owner managers of the six MFIs revealed that the counsellor-owner manager interpersonal relationship influences co-production. The findings show that enhanced relationships will result in better co-production, as owner managers will provide more information to the counsellors (i.e. client information provision is key in co-production) and they will all exchange communal favours, which are beneficial to co-production.

The study reveals factors that improve the relationship between the counsellor and the owner manager and how enhanced relationships affect co-production.

The findings show that counsellors' expertise, similarities (dress code, attitudes), intensity of contacts, and power distance influence the relationship between them and owner managers.

***Factors which enhance the relationship*-**The following section describes the factors that help strengthen the relationship between the counsellor and owner manager.

The expertise of the counsellor was found to be a factor that enhances the relationship because this expertise enhances trust. The owner managers agreed that they wanted to deal with the counsellors because of their business knowledge and experience.

A statement extracted from the interview with the OM (furniture) of MFI-1 is evidence for this:

> *"Our counsellor is very knowledgeable and experienced. So we always want to work with him to get his advice."*

Similarities in terms of their dress code, social interaction and attitudes could enhance the relationship as they increases satisfaction between the parties.

The counsellors of MFI-1 and MFI-3 stated that they wear clothes similar to those of the clients (without wearing a tie and coat or formal dress), which encourages the client to become closer to the counsellor and which results in a better relationship. This **similarity in dress code** could enhance the owner managers' satisfaction towards the counsellor since they may think that the counsellor's life style is similar to theirs.

The counsellor of MFI-1 indicated that

"When we go to the field to meet clients we never wear ties and coats, as that will distance ourselves from them."

The findings show that the **social interaction** between the counsellors and owner managers improves the relationships, which could result in satisfaction between the parties.

The counsellors and owner managers interviewed highlighted the importance of social interaction in developing relationships. The following are two excerpts to show this.

The counsellor of MFI-3 stated that

"We always attend clients' weddings and other events. When we go to the field and meet the client, we always greet them and ask how their family is doing. So a client is delighted and in this way we keep in touch with them."

The OM (garments) of MFI-3 declared that

"Our counsellor is a very friendly with us. He is like a family friend; he even attends our family functions."

The attitudes of the counsellor in terms of looking at owner managers' problems from their own viewpoint (**Similar attitudes**) were found to be a factor that enhanced the relationship.

The counsellors of MFI-2 and MFI-6 were of the view that they need to look at clients' problems from their point of view. The similarity in the way of looking at things (i.e. attitudes) could enhance owner managers' satisfaction towards the counsellor, since the owner managers feel that the counsellor's way of thinking is similar to their own.

The counsellor of MFI-2 stated that

"Our clients are low income and uneducated people. So we have to put ourselves in the client's shoes when dealing with them. Then the clients feel comfortable and say everything. In this way we can establish a relationship with the client."

The OM (garments 2) of MF-6 corroborated the counsellors' view, saying

"We like it if our counsellor looks at our problems from our point of view."

Intensity of contact was also found to be a factor that improves the relationship.

The counsellors of MFI-1, MFI-2, MFI-4 and MFI-5 said that they maintained relationships with clients by visiting them frequently and staying in touch with them.

The counsellor of MFI-1 indicated that

"When you visit the client a few times the client becomes closer to you, resulting in a better relationship. This relationship helps me to have a better counselling session."

The following excerpt shows that despite the importance of meeting clients regularly, the counsellors cannot do this due to their high workload.

The counsellor of MFI-3 stated that

"Visiting the client regularly is very important. But unlike in the past, today we do not have time to visit the client regularly due to the high workload. I have to handle 300 clients."

Owner managers also need to maintain relationships with the counsellors by staying in touch.

The following selected statements from counsellors and owner managers show how the owner manager's (client's) intensity of contact improved the relationship.

The counsellor of MFI-3 stated that

"My good clients are always in touch with me. When they come to the bank branch to deposit money or any other thing, they come and say hi to me."

The OM (cars) of MFI-3 explained that

"I am always in touch with my counsellors. I call them regularly and if I go to the bank, I will definitely see them."

Power distance **-** The findings also suggest that clients maintained a submissive relationship with the counsellors of MFI-1, MFI-2, MFI-3 and MFI-4 due to the high power distance between them. It shows that in Sri Lanka there is a high power distance between superiors and subordinates.

The counsellors of MFI-3 and MFI-4 in particular stated that the owner managers respect them due to this power distance and listen to them. The following is an example to show this power relationship.

The counsellor of MFI-3 stated that

"When we go to the field the clients call us as "Mahatthaya" (Sir). This shows they are respectful to us and as a result they always want to listen to us."

However, the findings show that the counsellors of MFI-5 and MFI-6 do not have this submissive relationship with clients, as they were selected from clients and as a result clients do not perceive them as superior with high power distance.

<u>How the relationship improves co-production</u> **-** The findings show that the relationship between counsellors and owner managers results in better co-production. The relationship brings about not only personal favours to parties but also communal ones (i.e. co-production outcomes).

The following two quotations show how relationships improve **personal favours**.

The senior counsellor of MFI-3 stated that

"When I went to my grandfather's home when he passed away, one of clients had come before me and repaired the road, which was not in a good condition. So we maintain a very good relationship with the clients."

The OM (garments) of MFI-3 said that

"Our counsellor also helps us for our personal things. For example, last week he advised me on my son's education."

The following is an example to show how enhanced relationships bring about **communal favours**.

The counsellor of MFI-3 stated that

"I consider someone as a good client if he follows my advice, cooperates with me, pays the loan instalments regularly and conducts his business well. I maintain a good relationship with those good clients more and I help them more. For example, recently I came across a good plot of pineapple land to be sold. So I gave this lead to one of my

good clients who is in the pineapple business. Also, when I have marketing linkages, first I give them to clients who maintain good relationships with me."

The findings also show that enhanced relationships improve **owner managers' provision of information** to counsellors, which is vital for co-production. The counsellors of MFI-1, MF-3 and MFI-4 agreed on this.

The following is an example to support this.

The counsellor of MFI-5 declared that

"Clients provide information to us if there is a good relationship and a bond. If the client is close, then he reveals everything. So it is up to the officer to get close to the client."

The findings show that when the relationship is stronger, the parties will exchange favours reciprocally (e.g. helping each other with private things: e.g. the counsellor advises the owner manager's child on education; the owner manager helps with the counsellor's relative's funeral). The parties then work towards communal goals (e.g. owner managers pay loan instalments on time; counsellors give leads to buy land for business). It was also found that owner managers provide more information to counsellors as a result of their enhanced relationship.

Factors that weaken the relationship **-** The findings also reveal that there could be certain factors that undermine the relationship between the counsellor and the owner manager, which could badly affect co-production.

The findings from MFI-3, MFI-4, MFI-5 and MFI-6 show that their debt collection role could damage the relationship with clients. In contrast, the counsellors attached to MFI-1 and MFI-2 do not have to collect debt from clients. As explained in the context section (6.2.3.1), this happens due to the different linkages used by respective MFIs.

The following quotation shows how the job responsibility of a counsellor (e.g. loan recovery) could damage the relationship.

The counsellor of MFI-4 stated that

"Due to recovery work, we sometimes cannot provide business counselling to default clients as we have to chase up defaulters. Furthermore, we have to be harsh on clients

at times. When we visit default clients sometimes they hide. This damages the relationship between the counsellor and the client.”

The OM (rice mill) of MFI-4 expressed the view that

“Field officers (counsellors) help us with obtaining loans and give us knowledge. But sometimes when they chase up defaulters, visiting them in the night or early in the morning, it could be scary.”

Thus counsellors will lose the trust of default clients and in turn they will also lose the trust and satisfaction of the counsellors who are harsh on them. This situation damages the interpersonal relationship and counsellors may find it difficult to provide business counselling to default clients. Thus a damaged relationship will affect co-production in counselling negatively.

Since the interpersonal relationships between the counsellors and the owner managers improve co-production, MFIs must encourage their counsellors to maintain better relationships with the owner managers by focusing on the factors identified in this study (i.e. intensity of contact, dress code, social interaction). Further, MFIs should not use their counsellors to deal with default clients so that they can maintain better relationships with them.

6.3.6 Post-intervention counsellor follow up and feedback

The results from the study demonstrate that a counsellor’s follow up and feedback is imperative in counselling co-production. The counsellor needs to follow up on the owner manager and provide feedback on his business progress. Follow up and feedback improve the clarity of the task, and the ability and motivation of the owner manager and hence improve the incidence of co-production.

The following is one of the excerpts that shows how counsellors follow up on owner managers and provide feedback.

The counsellor of MFI-2 expressed the view that

“At the beginning of the year I hold selection sessions for societies in the region that I work for. From these sessions, I select about 50 clients to provide counselling to. I

follow up on these clients regularly and give them feedback on their businesses. Follow up and feedback are important in counselling."

The OM (wicks) of MFI-1 had the following to say on the importance of follow up and feedback.

"The counsellor identifies the next stage of my business and gives me a target. Then he follows up on that regularly. This motivates us. The counsellor and I have even drawn up a long-term plan for me; for example, what I should be doing in five years' time in my business. So I work with the counsellor to achieve my goals."

However, it was found that counsellors from MFIs other than MFI-1 and MFI-2 follow up on the clients in an informal way, not systematic as in MFI-1 and MFI-2.

The counsellor of MFI-6 stated that

"When the clients come to the group meetings, if they have problems in their businesses then they inform us or we ask them, and then we try to help them. Also, when we go to the field and meet clients, we inquire whether they have got any problems to see whether we can help them."

It was found that due to the workload (lower readiness) of the counsellors of MFIs with unified linkages (MFI-3, 4, 5, 6), they do not have time to follow up and give feedback to clients. This is evident from the following statement.

The counsellor of MFI-3 said that

"Due to credit work (e.g. debt collection) we do not have time to properly follow up on the clients' businesses."

Thus it is clear that the context (i.e. unified linkage) affects counsellors' follow up and feedback.

Moreover, it was found that management of some MFIs and counsellors (e.g. MFI-4) perceive that better loan repayments mean that clients are doing well in their businesses and hence they should not focus much on follow up unless the clients go into arrears. This is evident from the following quotation.

The counsellor of MFI-4 explained that

"We feel that when we are getting the loan instalments the clients are doing well in their businesses. So we mostly follow up on default clients."

However, clients with business failures can pay the loans due to the rigid recovery system adopted by some MFIs. Thus better loan repayments do not imply that clients are doing well in their businesses and thus follow up is important.

The responses and the observations made in the study show that the counsellors of MFI-1 and MFI-2 follow up on the owner managers and provide feedback on their business progress in a systematic way. They select owner managers who need counselling and work with them in a systematic way to improve their projects. In contrast, in the other MFIs studied the counsellors do not follow up on the owner managers in a systematic way. They provide business assistance if the owner managers ask for it or ask them whether they have any problems when they are in the field or at meetings. Moreover, the counsellors from MFIs using unified linkage are constrained by time as they have to engage with non-related co-production activities such as debt collection.

A counsellor's follow up and feedback motivate the client to pursue the goals agreed by both parties. Follow-up and feedback also improve the clarity of the task and the ability of clients to co-produce. Thus they result in better co-production. MFIs should therefore have a proper performance evaluation system in place that drives the counsellor to follow up on the owner manager and provide feedback in a systematic way. MFIs with unified linkage should also think how they can facilitate counsellors to spend time on the follow up.

6.4 Co-production outcomes

The findings show that co-production outcomes in BDS could be MFI-specific and owner manager-specific. Each of these outcomes is explained below with empirical evidence.

6.4.1 MFI-specific outcomes

The findings from the cases studied show that MFI management have broad socio-economic co-production outcomes in BDS. These outcomes were: during a certain period of time how many new businesses created; how many new employment opportunities were created; how BDS have improved the management of owner managers; and the business growth of the owner managers. This is evidenced by excerpts from the BDS managers interviewed from the six cases. One of the excerpts is given below.

The Enterprise Development Services Manager of MFI-1 stated that

"In November each year, the branch has to give me a plan for the next twelve months. This plan consists of how many training sessions they are going to conduct, how many market linkages are to be formed etc. When the plan comes to me I modify it if necessary, based on the overall strategy. Basically we look at the following goals as ultimate BDS outcomes:

1) How BDS improve client management.

2) How many new employment opportunities are created.

3) Client growth in terms of assets and income.

4) How many new businesses are created."

MFIs also had other co-production outcomes in BDS, such as better loan repayments, client retention, client satisfaction and client relationships, client graduation, access to low cost deposit base and social capital creation. Each of the outcomes identified is discussed below.

Loan repayment **-** The officers of MFI-1, MFI-3, MFI-5 and MFI-6 agreed that repayments of loans increase because of the BDS being provided. The logic is that when there is co-production in BDS due to increased business knowledge, skills and resources, the owner managers can perform well in their businesses so they can repay their loans promptly.

The following is an excerpt to support this statement.

The General Finance Manager of MFI-1 stated that

"We can clearly see a relationship between the BDS being provided (i.e. training, linkages etc.) and better loan repayment. The clients who obtain BDS pay loans better."

It was also found that MFI-2 and MFI-3 experienced better loan repayments by creating market linkages.

The Senior Finance Manager of MFI-3 said that

"We created a market linkage for our dairy clients who can sell their milk to the Fontra company, and Fontra sends us the money paid for clients' sales directly so that we can recover our loan repayments."

However, the BDS consultant interviewed was of the opinion that there was no evidence to confirm that BDS increased the repayment of loans. According to his experience, MFIs who did not provide BDS also sometimes experienced better loan repayments from owner managers.

The BDS consultant explained that

"There is no hard evidence to say that repayment has improved due to the BDS provided. For example, some MFIs provide loans for asset building (e.g. house construction) for which they do not provide BDS. But when it comes to recovery, that loan product is as good as income generating loans with BDS being given. Further, MFIs like BOLC do not provide BDS for their microcredit. But their loan recovery is still as good as MFIs who provide BDS. You can argue that the client who obtains training may pay the loan well but there is no evidence."

Thus further empirical studies need to be conducted to establish whether there is a relationship between loan repayments and the BDS provided.

Deposit base **-** The findings show that MFIs are able to promote savings among owner managers through BDS and as a result they can access a low cost deposit base. Managers of MFI-3, MFI-4 and MFI-5 were of the view that BDS helped them have access to low cost deposits. The counsellors and trainers interviewed highlighted the importance of savings to the clients in financial literacy education and as a result clients saved their money with MFIs. A low cost deposit base is important for MFIs, as Sri Lankan MFIs currently are not receiving funds from donors and funding from commercial banks is expensive.

The Assistant General Manager of MFI-4 stated that

"Through BDS, we educate the clients about the importance of savings. This is a mutually beneficial thing. We can access low cost funding and owner managers can utilise saved money for their business and personal matters."

The Branch Manager of MFI-3 added that

"BDS allows us to access a huge deposit base."

<u>Client/owner manager graduation</u> **-** The findings show that by providing BDS, MFIs want owner managers to graduate from microenterprises to the SME level, and from non-banking client status to banking client status.

MFI-3 and MFI-4 interview responses confirmed that BDS improved client graduation. Due to the BDS received, owner managers may graduate to the SME level from that of microenterprise.

The senior manager of MFI-3 explained that

"Our model is different. We want our microfinance clients to graduate. Today's microfinance client can be tomorrow's SME client or corporate client. So we think by providing BDS we can help them graduate."

However, the findings reveal that only MFI-3 and MFI-4 could cater for SME clients once their microfinance clients had graduated to the SME level. Other MFIs studied could not cater for SME level clients since they could not provide larger loans and other facilities. Hence they had to link the clients to other banks for larger loans.

It was found from MFI-1, MFI-2, MFI-4 and MFI-5 that owner managers could graduate to banking client status from non-banking client status thanks to the BDS provided because MFIs teach them the qualities needed (*i.e.* communication, relationships) to become a bankable client through BDS. This is corroborated by the following statement.

The Assistant General Manager of MFI-4 stated that

"We can develop a non-bankable client to a bankable one through BDS. Before we give them credit plus (i.e. BDS), the clients are scared to come and meet us in glass rooms (i.e. offices). Furthermore, these clients did not have recognition in society before. But after introducing BDS they could hold key positions in MFI societies, such

as president, and due to these positions they get invited to prestigious village events. This is big recognition for them. Thus after obtaining BDS, they are more confident, and know the society better. Now they are confident to go to a bank and discuss their banking requirements. Thus they become bankable clients. So BDS help develop the personalities of the clients and develop them into bankable clients."

Social capital **-** The findings from the cases show that BDS can create social capital favourable to both MFIs and owner managers. Social capital is active connections among people; networks based on trust, norms and values that facilitate coordination and cooperation for mutual benefit (Putnam, 1993).

The findings from the cases show that due to BDS, social capital favourable to owner managers can be created. For example, when BDS are provided through self-help groups, owner managers create relationships with other owner managers. BDS also help owner managers to link with government institutions and other banks *etc*. This group formation and linking activities create social capital favourable to owner managers. This is evidenced by the following statement.

The Microfinance Manager of MFI-6 stated that

"Due to BDS provision, a client's social capital goes up since the client is linked to many parties such as the government, NGOs, banks, groups, societies etc."

Since social capital is mutually beneficial, the findings show that if created through BDS it can also help MFIs. For example, when an MFI launches a new initiative such as a new branch in a rural area, then the clients help those initiatives voluntarily.

The Assistant General Manager of MFI-4 said that

"We had a meeting yesterday at our Polpithigama branch for microfinance clients. Around 1300 attended without being persuaded. They love the credit and BDS programme. Thus through credit plus (i.e. BDS), we have created social capital favourable to the bank. Even politicians cannot do this."

Client/owner manager retention **-** The interviewees from MFI-3, MFI-4, MFI-5 and MFI-6 held the common view that BDS improves owner manager retention. The owner managers who have received the BDS may continue to stay with the MFI, obtaining more microcredit and BDS.

The Branch Manager of MFI-3 stated that

"The clients who obtain BDS continue to stay with us and they take more loans."

The owner managers interviewed also mentioned that they had taken out a number of loans from the MFIs and stayed with them for a long period.

The OM (coir) of MFI-2 said that

"I have been dealing with MFI-2 for the last 5 years. I have obtained many loans and services from them."

Client/owner manager satisfaction and relationships **-** The findings from MFI-2, MFI-3 and MFI-5 show that BDS improve owner manager satisfaction and relationships.

The MFI-6 trainer stated that

"The client's satisfaction is improved due to the BDS."

The General Finance Manager of MFI-1 said that

"Clients who experience BDS tend to maintain good relationships with the MFI."

Comparison of MFI-related co-production outcomes with available MFI performance figures **-** MFI-1 and MFI-5 reported low Portfolio at Risk (PAR) (less than 5%) values (i.e. lower PAR means higher loan repayments), which could be due to the BDS provided by them. However, MFI-2 did not report a better PAR value despite their BDS programme being good. Since the PAR figure includes not only owner managers' loan default figures but also other clients' figures (e.g. clients who obtained loans for housing and consumer durables), it may not reflect the true relationship between the BDS being provided and loan repayments. Thus it would be interesting to establish whether the PAR of loans taken out by clients (i.e. owner managers) who have obtained BDS is better than the owner managers who have not received BDS at all.

MFI-1 and MFI-2 reported a number of new enterprises created through BDS in a given period. For example, MFI-1 had created around 31,000 new enterprises since 2007. Thus co-production could have helped achieve these milestones.

The key officers interviewed from other MFIs mentioned that they also achieved the co-production outcomes discussed above. However, the MFIs interviewed did not provide figures relating to these outcomes.

6.4.2 Owner manager-related co-production outcomes

Improved sales and profits of owner managers' businesses and improved business knowledge and practice emerged as the co-production outcomes for owner managers. All MFIs, the external trainer and the BDS consultant interviewed agreed that BDS improved the sales, profits and business knowledge and practice of the owner managers.

OM (ginger sweets) of MFI-1 highlighted the importance of counselling to their businesses.

The OM (ginger sweets) of MFI-1 said that

"Before, I used to dry ginger using the sunlight and I had to use manual labour. Having observed this practice, our counsellor wanted me to take part in dehydration training. Now I use a machine to dry the ginger as a result of the training. This move has not only improved productivity, but also the profits, as I do not have to pay for labour."

The counsellor of MFI-3 corroborated the importance of counselling by saying that

"A client's sales and profits will go up due to the BDS that we provide. Counselling is not all about giving advice on business such as business plans and record keeping; we also provide marketing linkages. I myself have introduced 15 clients to a pineapple exporter (i.e. market linkage). So these clients do not have to go through intermediaries now, hence their sales and profits have gone up."

The OM (wicks) stated the importance of training:

"I undertook four SIYB training modules conducted by MFI-1. This training programme was introduced to me by our counsellor. It really helps us in our business. Now we know how to keep records. Before going for training, we did not know much about business. We asked wholesalers to give us sales money immediately. But now we give time for wholesalers (i.e. credit sales). So they are happy and we also get a stable business as buyers do not buy from others. We learnt these things from training.

Besides, we learnt quality management and marketing as well. Now I can negotiate with business people better. I got this confidence through the training."

The trainer of MFI-2 corroborated the importance of business training for owner managers in achieving better business knowledge, sales and profits:

"Business training helps improve an owner manager's business knowledge, sales and profits. For example, in financial literacy training, we teach them how to save, earn, invest and borrow. So once clients know these things they can have more sales and profits in their business."

Comparison of owner manager-related co-production outcomes with the researcher's observations- The researcher was not given sales and profits figures by the owner managers interviewed (only verbal confirmation was given by them, saying that their sales and profits had gone up due to BDS). Hence without sales and profits figures one cannot show that co-production has impacted on the improved sales and profits of owner managers. However, the researcher observed better business practices (e.g. record keeping, business plan preparation, marketing, business diversification and inventory control) among the owner managers who spend more time with the counsellors and the trainers (e.g. the OM (wicks) of MFI-1 and the OM (coir) of MFI-2), compared to those who do not spend much time in counselling and training. Better practice will lead to better sales and profits of their business ventures. Thus co-production in BDS could have positively affected the business success of these owner managers.

6.5 Summary of the chapter

This chapter has presented the findings of this study based on cross-case analysis. The analysis has revealed that co-production exists in counselling but not in training. But it was found that training influences co-production between the counsellor and owner manager. The analysis first identified the contextual factors which have a bearing on co-production using the IMP interaction framework. It then identified co-production factors relating to the counsellor-owner manager dyad and finally the co-production outcomes. The findings also show that only qualitative data was available with regard to MFI and owner manager related co-production outcomes. However, based on the qualitative data available on co-production factors such as expertise; readiness and follow up of counsellors; and number of BDS provided by each MFI and the business practices of the owner managers interviewed, the researcher believes that MFI-1 and MFI-2 may have the better BDS programmes.

Chapter 7. Discussion of Findings

7.1. Overview of the chapter

The previous two chapters have presented the main findings of the study. This chapter proceeds with discussion of the findings, which are critiqued alongside other related studies, with discussion of their implications. In other words, the contextual and co-production factors and the co-production outcomes are reflected upon in the light of the literature. The chapter also describes the implications of the findings on the previously developed conceptual framework in chapter 3 and thereby presents a revised conceptual framework.

This chapter first discusses the contextual factors in the research context (focusing on research question 2). Secondly, it discusses co-production factors (focusing on research question 3), and thirdly co-production outcomes (focusing on research question 4). How co-production is implemented through counselling and training (research question 1) is discussed throughout the chapter, but especially under counselling and training in sections 7.2.3 and 7.3. Finally, a revised conceptual framework is proposed.

7.2 Research context

The co-production literature focuses on bilateral professional staff/service provider-customer/user relationships but has ignored the influence of context (Cepiku and Giordano, 2014; Verschuere *et al.*, 2012). Thus this study has filled this gap by identifying contextual BDS factors that influence co-production. This section discusses the contextual factors identified in the previous chapter under three headings: 1. issues of BDS provision; 2. motivators for BDS provision; and 3. BDS delivery.

7.2.1 Issues of BDS provision

The findings from the cases (see 6.2.1) show that there are certain factors that hinder Sri Lankan MFIs from providing BDS. These factors are: lack of funding for MFIs to provide BDS; microfinance practitioners' unawareness about BDS and its benefits; the fact that some MFIs think that they do not have to provide BDS because they can link clients to government institutions and private institutions that provide them; the issue that BDS do not improve loan repayments and hence MFIs should not provide them; and low client demand for BDS.

The Sri Lankan literature on microfinance is in line with the finding of lack of funding being a constraint for MFIs' and thus their inability to provide BDS to clients. It also reveals that Sri Lankan MFIs have not been receiving funds for microcredit and BDS from donors in recent times, since the country has graduated to a middle income economy from a low income one. Donors are more concerned about poverty reduction in low income countries and thus mostly provide funds to MFIs there (Attapattu, 2009). Furthermore, Tilakaratne *et al.*'s (2009) study on BDS reveals that 54% of Sri Lankan MFIs used to finance BDS through donor funds and grants. Thus the drying out of these is a big constraint for MFIs to provide BDS. The literature also reveals that the recently introduced regulations by the Central Bank, which prevent certain MFIs (e.g. NGO-MFIs) from collecting deposits from clients (i.e. they cannot maintain savings accounts), have impacted badly on MFI funding, which in turn negatively affects provision of microcredit and BDS (GTZProMis, 2010a). Moreover, the Sri Lankan literature shows that there are external institutions that provide BDS and some MFIs link their clients to these institutions without providing BDS on their own (Tilakaratne *et al.*, 2009).

The BDS literature focusing on other countries also shows that there are a number of constraints that hinder MFIs' provision of BDS to owner managers (Sievers and Vandenberg, 2007; Webster *et al.*, 1996). The literature shows that some MFIs do not know the benefits of BDS thus they do not provide them (Sievers and Vandenberg, 2007). The literature also shows that some MFIs think that unlike microcredit, BDS do not generate income and it is a cost which negatively affects the sustainability of MFIs, hence they are reluctant to provide BDS. Moreover, some MFIs perceive that the benefits-to-cost analysis of BDS is poor. The literature also shows that there is no conclusive evidence to show that BDS improve the loan repayments of MFIs (Sievers and Vandenberg, 2007; Karlan and Valdivia, 2006; Nisttahusz *et al.*, 2002). In addition, the BDS literature is consistent with the finding that client demand for BDS is low. It reveals that clients do not think BDS are as tangible as microcredit and as a result client demand is low (Sievers and Vandenberg, 2007).

The Sri Lankan literature reveals that only a few Sri Lankan MFIs provide BDS and only 5% of clients who received microcredit had obtained BDS (Attapattu, 2009). The reason why many Sri Lankan MFIs do not provide BDS and many clients do not have access to them is due to the supply and demand side issues of BDS identified in this study. However, more studies need to be made in order to identify the issues/constraints of BDS that discourage MFI provision of BDS and clients' use of them.

Despite all the issues of BDS discussed above, the findings reveal that some Sri Lankan MFIs provide these services and some clients obtain them due to certain motivators. Moreover, it was found that these MFIs use different strategies in their BDS delivery to overcome the issues of BDS identified in the study. The following section discusses the motivators for BDS provision, followed by discussion of the strategies used by MFIs to circumvent issues such as lack of funding and low client demand for BDS.

7.2.2 Motivators for BDS provision

The in-depth interviews with the microfinance officers and owner managers (see 6.2.2) revealed a number of motivators for MFIs and owner managers to engage in BDS.

1. Some funders/donors provide funding to MFIs with a condition that MFIs should utilise part of the funds to provide BDS.
2. Some MFIs (e.g. cooperative ones) have to achieve dual objectives (financial and social) and thus as social objectives they provide BDS.
3. Some MFIs provide BDS as part of Corporate Social Responsibility (CSR) objectives (profit-oriented firms in Sri Lanka do some activities under CSR that are good for society and the environment. This is somewhat similar to the social part of dual objectives, but a firm can decide on the activities under CSR, unlike MFIs, who need to fulfill certain activities under social objectives).
4. BDS provides benefits to both MFIs and owner managers, thus the former provide BDS and the latter use them. For example, MFIs could achieve broad socio-economic objectives such as improving the management of businesses, and other objectives such as better loan repayments and better client retention through BDS provision. The owner manager could achieve better sales, better profits and better business knowledge and practice through BDS.
5. Owner managers attached to cooperative MFIs engage more in BDS due to their loyalty to them.
6. Owner managers engage in BDS due to sanctions imposed by MFIs (e.g. clients must attend financial literacy training as a compulsory requirement (i.e. sanction) to obtain microcredit.

The findings are largely consistent with the literature. Sievers and Vandenberg (2007) assert that some MFIs provide BDS in addition to microcredit due to donor and government programme requests. This is because donors and policymakers believe that credit is the initial constraint for micro-entrepreneurs, but for them to graduate to the next level, owner managers need BDS and therefore MFIs should look beyond finance (Goldmark, 2006; Fisher and Sriram, 2002; ADEMCOL, 2001; ADB, 1997). Thus when donor agencies and government programmes provide funding to MFIs, they want MFIs to use part of their funds on BDS.

The literature also shows that the type of MFI category[13] could influence MFIs' BDS provision. MFI categories such as cooperative and NGO ones have to achieve dual objectives and hence tend to provide more non-financial services such as BDS as social objectives (Galema *et al.*, 2012; Maes and Foose, 2006; Jansson *et al.*, 2004). In contrast, MFI categories such as bank-MFIs and non-bank financial institution-MFIs who want to achieve financial objectives (i.e. profit-oriented MFIs) tend to provide fewer BDS (Galema *et al.*, 2012; Maes and Foose, 2006; Jansson *et al.*, 2004). The literature reveals that MFIs wanting to achieve financial objectives are funded mainly by commercial debt (fewer donated funds) and hence due to financial structure pressure they tend to focus more on lending money rather than on achieving social objectives, which include BDS (Armendáriz and Morduch, 2010). Moreover, the literature shows that some profit-oriented MFIs target only creditworthy clients (i.e. those who can provide collateral) thus they can expect better loan repayments even without providing BDS (Gunatilaka and De Silva, 2010; Nisttahusz *et al.*, 2002). However, the literature shows that some profit-oriented MFIs provide BDS to clients in order to face up to competition, as BDS can improve client loyalty and therefore allow them to retain clients (De Wildt, 2004; Rhyne and Christen, 1999).

The BDS literature is in line with the findings of the benefits that BDS provide both to MFIs and owner managers and which motivate both parties to engage in BDS (Karlan and Valdivia, 2006; Henry, 2006; De Wildt, 2004; Halder, 2003; ADEMCOL, 2001). ADEMCOL's (2001) study shows that by providing BDS MFIs can achieve financial sustainability through improved loan repayments, and better client retention and reach. Moreover, clients can achieve better business knowledge and practice, and

[13] MFI categories – NGOs, cooperatives/credit unions, banks, and non-bank financial institutions (NBFI) (Jansson *et al.*, 2004).

better sales and profits through BDS (Karlan and Valdivia, 2006; De Wildt, 2004; Halder, 2003).

The BDS literature does not reveal that the cooperative MFI category can motivate owner managers to engage in BDS more. However, the co-production literature supports this finding by showing that clients who have affective commitment (loyal to the service provider) co-produce more with service providers (Chen *et al.*, 2011; Auh *et al.*, 2007; Gruen *et al.*, 2000). Thus it is argued that clients of the co-operative MFI category tend to co-produce more in BDS.

Owner managers can engage in BDS due to certain sanctions such as compulsory attendance at financial literacy training in order to obtain credit. According to Alford (2009, 2014), these sanctions could either motivate or demotivate clients to engage in a service. This is discussed in detail below in the section on BDS pre-requisites.

7.2.3 Delivery of BDS by MFIs

It was found from the cases (see 6.2.3) that the success of BDS delivery and co-production in BDS is influenced by the factors identified in this study, such as type of linkage and client groups. These factors represent the structures, processes, strategies and people involved in BDS delivery. According to the service literature (Alford, 2009; Bovaird, 2007), the entire BDS delivery process (i.e. planning, design, delivery, evaluation) can be looked at from a co-production perspective and thus can be considered as co-production management in BDS.

Table 32 summaries the factors identified in the study and their implication for BDS delivery and co-production. Each factor is then discussed in detail with its implications. The table also shows whether these factors are influenced by the lending methodology and MFI category.

Table 32: Factors that influence BDS delivery and co-production

Factors	Implication for BDS delivery and co-production	Influenced by
Type of linkage	Type of linkage influences counsellor expertise, readiness, and the relationship that influences co-production. Collaboration between credit and BDS departments in parallel linkages improves BDS delivery and co-production. Collaborations with external BDS institutions can enrich internal BDS programmes.	-
Counselling and training	There is co-production in counselling. Training enhances counselling.	Lending methodology
Client selection	Type of client segment influences BDS delivery and co-production (poor clients and non-poor clients, rural and urban clients, non-poor clients (low income, low income upper segments)).	Lending methodology (group/ individual)[14]
Social mobilisation and groups	The social mobilisation programme improves clients' ability, motivation, and clarity of role to co-produce. Groups improve clients' communication, co-production outcomes, and sustainability of co-production.	Lending methodology
BDS pre-requisites	Pre-requisites such as group meetings influence BDS delivery and co-production.	Lending methodology
BDS process	The BDS process influences counselling and training efforts.	Lending methodology
BDS planning and design	Clients' involvement in BDS planning and design improves BDS delivery and co-production.	Lending methodology, MFI category
BDS	MFIs need to monitor whether post-intervention	

[14] [14] The basic idea of group lending is that loans are given to the individual members of the group but the group is responsible for the repayment of the loans of the individual members to the MFI (group liability).
[14] Individual lending demands collateral and there are no groups of clients formed. As a result of the collateral requirement, poor clients are not in a position to obtain loans (Denotes and Alexandar, 2004).

performance evaluation	follow up happens for counselling and training for better performance evaluation.	
Top management expertise	The expertise of top management affects the performance of the BDS programme.	MFI category
BDS demand creation	Given there is a low client demand for BDS, MFIs use strategies to create demand for them.	Lending methodology
Financial sustainability of BDS	As there is an issue of financial sustainability, MFIs use several strategies to sustain their BDS programmes.	-

Source: author's compilation

Linkages

The findings (see 6.2.3.1) show that the MFIs studied provide BDS using either unified or parallel linkage. In addition to providing their own BDS programme, MFIs collaborate with external institutions so that they can link clients to these institutions for free training and programmes such as vocational training, which is not provided by MFIs. The finding is largely consistent with Dunford's (2001) definition of the three categories of linkages that are used by MFIs to link microcredit and BDS and delivery to clients.

The three categories are:

—Unified: the same people from one institution deliver both credit and BDS.

—Parallel: an institution has two different organisational units that are separate cost centres and use different people to provide both credit and BDS.

—Linked (or partner): two distinct institutions; one offering credit, and the other BDS, operating in the same area. Normally these institutions are mutually linked by referring clients to each other, undertaking joint marketing, etc.

In this study, the linked category is somewhat different to that of Dunford's definition because external institutions do not link clients to MFIs, although MFIs link clients to external institutions.

Unified and parallel linkages **-** The findings reveal that parallel linkage is better than unified linkage because parallel linkage counsellors have more expertise, more readiness and maintain better relationships with clients compared to unified linkage counsellors. The microfinance literature is consistent with the findings (Sievers and Vandenberg, 2007; Rob *et al.*, 2007). Despite the fact that the findings show that parallel linkage is better than the unified structure, the literature (Sievers and Vandenberg, 2007) reveals that some MFIs use a unified structure to deliver microcredit and BDS due to its cost effectiveness and productivity (i.e. the same person provides both credit and BDS). Thus given that there is a BDS sustainability issue, it could be argued that it would be better for MFIs to use unified linkage to deliver BDS. However, MFIs using unified linkage need to improve counsellors' expertise, readiness and their relationship with clients in order to deliver BDS effectively and thereby improve co-production. The expertise of counsellors could be improved by giving them training and/or allowing them to work with counsellors with expertise. MFIs can improve the readiness of counsellors by allowing them to focus more on business counselling while carrying out credit work. Moreover, MFIs can allocate different staff to deal with default clients so that counsellors can maintain better relationships with clients.

The findings also reveal that there should be proper collaboration between credit and BDS departments in parallel linkage in order to deliver both credit and BDS to clients. The collaboration is important because unlike in unified linkage, credit and BDS are provided by different people in parallel linkage. According to the findings, proper collaboration gives advantages to both credit and BDS departments and improves co-production. Thus when MFIs use parallel linkage they should make sure counsellors working for both departments collaborate with each other (e.g. credit counsellors linking clients to BDS counsellors and BDS counsellors providing information on clients' business performance to credit counsellors). The literature does not show how collaboration helps both credit and BDS departments in credit and BDS delivery. Thus this finding is novel and further empirical studies need to be done on it.

Collaborations with external institutions **-** One of the issues of BDS discussed in section 7.2.1 was whether MFIs can link their clients to external institutions for BDS, rather than providing BDS on their own. The findings reveal that MFIs prefer to have their own BDS programme because they can control the quality of it as internal counsellors and trainers are familiar with the clients and context. Furthermore, counsellors can follow up on their clients. The BDS literature also shows that MFIs prefer to have their own BDS programme run by staff, as clients perceive MFI staff as partners of progress compared to staff of external BDS institutions (De Wildt, 2004; ADEMCOL, 2001). In addition, internal staff can give mutual support to clients in providing BDS compared to external staff (ADEMCOL, 2001). Thus it would be prudent for MFIs to have their own BDS programmes. However, it would be better to maintain collaborations with external institutions, as Sri Lankan MFIs do, so that they can provide a full range of BDS to clients with internal staff members' (e.g. counsellors) co-ordination and follow up.

Counselling and training

The findings (see 6.2.3.2) show that MFIs provide BDS through counselling and training. It was found that there is co-production between the counsellor and owner manager when providing BDS. It was revealed that contextual factors such as location, timing of counselling and the counsellor selection method influence co-production. Co-production between counsellors and owner managers is discussed in detail in section 7.3.

The findings from the cases show that there is no co-production between trainers and owner managers, as trainers do not follow up on owner managers after training (i.e. there is no reflection). However, the findings reveal that the training provided by MFIs enhances co-production in counselling as it improves an owner manager's ability and motivation to collaborate with counsellors. It is also shown that counsellors are actively involved in training by recommending suitable training to owner managers and following up with owner managers after training. Thus MFIs need to improve training intervention in order to improve co-production.

Few studies have been made on co-production in training (Abeysekera *et al.*, 2015; Davies *et al.*, 2014). Abeysekera *et al.*'s (2015) study on developing a model for co-production in training in the microfinance sector asserts that trainers need to follow up on owner managers after training in order to have co-production. However, the findings from the Sri Lankan cases do not show that trainers provide follow up after training and hence it is clear that there is no co-production found in this study. Davies *et al.*'s (2014) study on personality disorder awareness training given by a local NHS mental health trust in the UK shows that there is co-production in training, which it describes as a process in which professional staff and service users (patients) co-develop and co-facilitate services. This definition is in line with that of Boyle and Harris (2009).

According to this definition, co-production also takes place in the Sri Lankan study in this thesis, as MFI-5 and MFI-6 provide training to clients through professional staff and trained owner managers (service users). But this study defines co-production differently, focussing on the dyadic relationship between trainer and owner manager, ensuring that trainers follow up on clients after training. Thus according to this definition, co-production does not exist in training in Sri Lanka.

The case findings further reveal that MFIs need to consider factors such as trainers' expertise, whether the trainer is internal or external, location, timing of training, duration, fees, and the compulsory or voluntary nature of training in order to improve its effectiveness. All these findings concur with the literature (DPRN, 2009; Walker *et al.*, 2007; Sievers and Vandenberg, 2007; Karlan and Valdivia, 2006; De Wildt, 2004; Ladzani and Vauren, 2002; ADEMCOL, 2001; Goldmark, 1999). Since the findings reveal that training improves co-production in BDS, MFIs need to improve training intervention by focusing on the factors identified (i.e. trainer expertise). Importantly, MFIs also need to ensure that there is proper co-ordination between counsellors and trainers in order to improve co-production. For example, once training is delivered, MFIs need to have a mechanism which ensures that counsellors follow up on clients who attended training. Moreover, there should also be a mechanism that ensures that counsellors and trainers work collaboratively (counsellors referring clients to trainers and trainers referring clients to counsellors). Since the finding that training improves co-production is a novel proposition proposed by this study, further empirical studies need to be made to confirm this proposition.

Client selection

The findings (see 6.2.3.3) reveal that MFIs mainly cater for the non-poor segment (the MFIs studied use different methods to define this segment (see chapter 5)). In general, it has basic needs such as housing and food satisfied, in contrast to the poor segment. However, they still belong to the lower income category. MFIs ignore the poor segment as they have noticed that poor clients want their basic needs such as food and housing satisfied through outside assistance rather than engaging in income-generating activities through the support (i.e. credit and BDS) of MFIs. Moreover, the microfinance officers interviewed believe that the poor segment needs to be looked after by the government. The literature supports the finding that MFIs should focus on non-poor clients. It asserts that very poor people benefit very little from solely microenterprise development activities due to their risk-averse attitudes, low skills and resources (Shaw, 2004; Gunatilaka, 1997). The literature also shows that their well being can be improved by services which support continuity of access to basic survival needs and empower disadvantaged individuals (Hashemi, 1997; Hulme and Mosley, 1996; Montgomery *et al*., 1996; Rutherford, 2000; Sebstad and Cohen, 2000; Zaman, 1999). The microfinance literature relevant to Sri Lanka also shows that MFIs target non-poor clients, as promotion of income-generating activities among the poor has proven illusive (Shaw, 2004; Gunatilaka, 1997).

The co-production and small business assistance literature shows that selection of the right client segment is vital for effective co-production and business assistance programmes (Bettencourt, 2002; Davidsson, 2002; Chrisman and McMullan, 2000). Osborne (2010) emphasises that when selecting clients for co-production, particular attention should be given to both their skilfulness and representativeness. Although the MFIs studied pay attention to the skilfulness of the client segment, it was found that most of them pay little or no attention to the representativeness pointed out by Osborne, as they often ignore poor clients. Since one of the main aims of microfinance is poverty alleviation, MFIs must see how best they can develop poor people by introducing income-generating activities with support, rather than giving the entire responsibility to the government. In fact, it was found that MFI-1 and MFI-6 make some effort at also catering for poor clients.

Thus MFIs which provide BDS need to pay attention to client selection, focusing on both skilfulness and representativeness in order to deliver BDS effectively and thereby to achieve better co-production. The co-production literature reveals that empirical evidence is lacking with reference to selection (characteristics and representativeness) of clients involved in co-production (Cepiku and Giordano, 2014; Verschuere *et al.*, 2012). Thus by focusing on client segments this study fills this gap.

The findings also reveal that the formal education level of the target client segment served by MFIs is low. None of the clients interviewed have degrees. All have completed primary education but only 53% secondary level. However, it was found that the education level of clients has not affected them following successful counselling and training. The Sri Lankan literature also supports the finding that the formal education level of micro-entrepreneurs served by MFIs is low (Shaw, 2004). Despite this, the study shows that education level does not affect co-production, although some studies have shown that it does (Yukichi *et al.*; 2012; Halder, 2003; Rice, 2002). Rice's (2002) study on co-production in business incubators shows that the education level of entrepreneurs enhances co-production. A number of studies show that entrepreneurs with higher formal education tend to follow training programmes more and use the knowledge gained from training effectively in their businesses (Yukichi *et al.*; 2012; Halder, 2003). Thus more studies need to be made in order to establish the relationship between the formal education of clients and their co-production with MFIs/business assistance providers.

The findings also reveal that rural clients need more counselling and training as opposed to urban clients, as they may not learn from the environment to the extent of the urban ones. This finding is supported by Martin's (2006) study on social capital, which shows that entrepreneurs who have access to social capital which is not favourable to obtaining business knowledge need more business assistance compared to those who have access to this type of social capital. Moreover, the Sri Lankan literature shows that rural areas lack the networks and markets that are needed for microenterprises to thrive (Shaw, 2004). Thus rural clients may need more business assistance from MFIs compared to urban ones.

The findings further show that clients from rural/urban, low income, and low income (upper) segments need different BDS. Thus MFIs should provide tailor-made programmes to these segments to improve co-production. This finding is consistent with the BDS and co-production literature. The BDS literature indicates that most BDS programmes fail because they are not client-driven and thus MFIs need to provide client/demand-driven services to engage clients, which in turn improves co-production (Etgar, 2008; Sievers and Vandenberg, 2007; Goldmark, 1999). Thus MFIs who are providing BDS must be aware of the different client segments and their diverse needs in order to provide services that are suitable for each segment.

Social mobilisation programmes

The findings (see 6.2.3.4) reveal that MFIs using the group lending method (MFI-2, 4, 5, 6) use a social mobilisation programme to attract new members/clients by creating awareness about MFI services, group formation, training members on group activities and educating clients on financial literacy and record keeping. It was found that social mobilisation programmes are run before clients obtain microcredit.

The findings reveal that clients are more willing and have more ability to co-produce in BDS due to the counselling and training provided in social mobilisation programmes. It was also found that BDS such as financial literacy training provided in social mobilisation programmes help MFIs to increase loan repayments.

The finding that social mobilisation improves clients' ability and willingness to co-produce is consistent with Kotze and Plessis' (2003) study on higher education. They reveal that organisational socialisation programmes provided by educational institutions positively correlate with students' clarity, ability and motivation to engage in study programmes, thus making them better co-producers. Moreover, the co-production literature considers clients as partial employees and hence need to be trained as co-producers by providing training and socialisation programmes (Hsieh *et al.*, 2004; Kotze and Plessis, 2003). Thus social mobilisation programmes provided by MFIs can be considered as ones that prepare MFI clients as partial employees. According to Hulme and Mosley (1996), the social mobilisation provided by MFIs aims to empower the poor through psychological, social and political empowerment. Thus it could be argued that through empowerment clients are better motivated to engage in co-production.

The literature supports the finding that underlines the importance of providing financial literacy to clients before microcredit is provided so that they know how to manage credit wisely and repay their loans (Guérin, 2012; Hermes and Meesters, 2011). It has been reported that some microfinance clients in India had committed suicide because they were unable to repay the multiple loans taken out (Sinha, 2011; Microcredit Summit, 2011). Part of the problem in this instance is the lack of financial literacy provided by MFIs before microcredit is provided. Thus giving financial training in the social mobilisation programme is vital.

Despite the importance of these programmes, it was found that MFIs face several challenges in conducting them. For example, competition from MFIs which do not provide social mobilisation programmes prompted certain others to reduce the duration of the social mobilisation period to attract clients, as clients want credit faster. The reduction in the duration of social mobilisation programmes in turn has increased loan defaults, as the shortened programmes have not allowed MFIs to provide financial literacy training and evaluate clients' creditworthiness by getting closer to them.

It is clear that certain MFIs are compelled to provide social mobilisation due to the group lending method they use, as group formation and training members to manage groups is part of the social mobilisation programme. But the concern is whether these MFIs can provide certain BDS such as financial literacy and record keeping in the social mobilisation programme, given that clients prefer to have speedy microcredit delivery in a competitive environment. The other concern is whether MFIs which do not provide social mobilisation programmes can provide BDS such as financial literacy before they provide microcredit to clients. It is prudent for MFIs to provide certain BDS such as financial literacy before they provide microcredit, irrespective of whether they provide a social mobilisation programme or not. At the same time, all the clients may not need BDS prior to receiving microcredit (e.g. creditworthy clients of MFI-3) (ADEMCOL, 2001). Given the complexity of providing BDS prior to microcredit provision, irrespective of whether MFIs provide a social mobilisation programme or not, MFIs need to decide on whether they should provide BDS before microcredit is provided, considering all the costs and benefits. The social mobilisation programme as a whole is important for MFIs who choose to provide one because it improves clients' engagement in the BDS programme and it also improves co-production.

Groups

MFIs form groups of clients in their social mobilisation programmes. The findings (see 6.2.3.4) reveal that they enhance co-production in three ways: 1. by improving communication between group members; 2. by improving the sustainability of co-production; and 3. by improving members' achievement of co-production outcomes. These findings are consistent with the literature (Pestoff, 2014; Hermes *et al.*, 2005; Auh *et al.*, 2007; Ostrom, 1994).

The finding that group activities improve communication between members is also in line with the literature. Ostrom (1994) asserts that regular meetings, and repeated interaction featured in group structures, can facilitate communication. Moreover, the microfinance literature reveals that members' interaction in the groups formed by MFIs improves communication (Sundaram, 2012; Ramaachandar and Pelto, 2008). The studies made on co-production also show that a client's communication with the service provider is vital in co-production, as communication improves the interpersonal relationship between parties and their willingness to share information (Auh *et al.*, 2007, Bettencourt *et al*., 2002). Thus it is argued that groups influence co-production by improving clients' communication.

The co-production literature reveals that the group structure which facilitates collective action enhances the sustainability of co-production (Pestoff, 2014; Sanyal, 2009; Rich, 1981). Moreover, the microfinance literature shows that client groups facilitate collective action and the sustainability of microcredit and BDS programmes because microfinance officers and clients meet each other on a regular basis at group meetings where MFIs provide services (Schrieder and Sharma, 1999; Anderson *et al*., 2002). Thus the finding that groups enhance the sustainability of co-production concurs with the co-production and microfinance literature.

The findings show that members of groups help each other to achieve co-production goals. For example, when a member starts a business with the guidance of a counsellor, other members help him/her to improve the business. The co-production literature shows that groups improve the trust and reciprocity of group members because they network with each other (Boyle *et al.*, 2006). Thus it is argued that members of groups help each other to achieve co-production goals.

Given that groups provide benefits to enhance co-production, MFIs which do not have groups (e.g. MFI-3) cannot enjoy these benefits. MFI-3 uses the individual lending method, so does not have groups, meaning that counsellors of such MFIs do not meet clients at group meetings and neither do clients meet each other. Thus counsellors of these MFIs may have to visit clients regularly to enhance co-production. It was also found that MFI-1 has a different group structure to other MFIs, despite using the group lending method. Since no group activities take place, such as client management of groups or peer-to-peer lending in the MFI-1 groups, there can be no strong bonds between members compared to other MFI groups. Thus members of this group structure may not have improved communication and reciprocity to the same extent as other groups. Thus future studies need to be conducted to examine how types of group structure influence co-production.

This study did not investigate co-production between members of groups (i.e. collective co-production); for example, how members who have undertaken training share their knowledge with other members informally. Future research needs to be made to investigate this type of collective co-production. It was found that MFI-5 and MFI-6 use group and society members to provide counselling to fellow members. This situation can be considered as a form of collective co-production, which is beneficial for the sustainability of BDS programmes and co-production. When MFIs cater for many clients (e.g. MFI-6), it would be impossible for them to use their own professional staff to provide BDS to all clients. Thus MFIs need to train some clients to deliver the services to fellow clients in order to achieve the sustainability of the BDS programme.

BDS planning and design

The findings (see 6.2.3.7) reveal that client involvement in the planning of BDS programmes improves co-production management and their involvement in BDS design improves their motivation to co-produce in BDS.

The findings reveal that the degree of client involvement in BDS planning varies with the category of MFI. It was found that it is higher in the cooperative MFI category as clients are involved in the management of credit and BDS programmes with professional managers. MFI-6 is an extreme example of the cooperative MFI category, in which BDS planning is done by the clients themselves. The literature also shows that client involvement in BDS planning improves co-production management (Pestoff, 2014, 2012). Pestoff (2014) asserts that unlike Goods-Dominant (G-D) logic, the Service Dominant (S-D) logic embraced by co-production ensures that there is active client participation not only in the delivery of services but also their planning and design, which suits the services being provided better. Pestoff's (2014) study on collective action and co-production also highlights the importance of client involvement in decision making in organisations, which promotes governance and sustainable co-production.

The findings also reveal that clients are motivated to co-produce in BDS when they take part in BDS programme design (e.g. clients give inputs to MFIs to design a training programme) due to the sense of ownership. According to Etgar's (2008) study on modelling customer co-production, clients are motivated to co-produce due to psychological drives such as enjoyment and self-control. Thus it is argued that the sense of ownership experienced by clients who have taken part in BDS design (i.e. psychological drive) could motivate them to co-produce more.

Thus when evaluating the performance of BDS programmes, it is necessary to consider the degree of client involvement in BDS planning and design. However, further studies need to be made on this.

BDS performance evaluation and monitoring

MFIs evaluated the performance of BDS programmes by measuring whether the performance goals set out in the annual BDS plan (e.g. number of businesses to be supported, number of training programmes to be conducted, number of market linkages to be created) are being achieved and by monitoring how individuals (e.g. managers, counsellors, trainers) are contributing to the achievement of the goals.

Despite the fact that MFIs monitor counsellors' and trainers' efforts in achieving goals in the BDS plan, the findings (see 6.2.3.8) reveal that not all MFIs studied have a mechanism to monitor their post-intervention follow up on clients and to provide feedback systematically in their performance evaluation system. According to the co-production literature, firms should evaluate service performance as part of co-production management; the literature also highlights the importance of the follow up and feedback given to clients by the service provider (Bovaird and Loffler, 2012; Bettencourt *et al.*, 2002).

Therefore, for a better BDS programme, MFIs should include follow up and feedback as a performance evaluation criterion for counsellors and trainers in their BDS performance evaluation system. The importance of post-intervention follow up and feedback for co-production in BDS is discussed in detail in the co-production factors section (7.3.6).

Top management expertise

It was found from the cases (see 6.2.3.9) that top management expertise varies and that MFIs that are managed by clients (e.g. MFI-5, MFI-6) did not have the required expertise in terms of business knowledge and experience to manage their BDS programmes successfully, compared to MFIs managed by professional managers. The co-production literature highlights the importance of management and leadership for the successful implementation of co-production, but does not discuss how top management expertise impacts on co-production management (Cepiku and Giordano, 2014; Pestoff, 2014). Thus this study fills this gap. Clients who manage BDS programmes may have experiential knowledge but may lack managerial knowledge and exposure to managing a BDS programme. Thus they need to be given training or exposure by allowing them to work with professional managers to gain experience to manage BDS programmes.

BDS process

The findings (see 6.2.3.6) reveal that activities in the BDS process demand different degrees of efforts from counsellors and trainers. For example, when providing financial literacy at the time clients join the MFI, counsellors need to spend more time with them compared to later stages, when they need less counselling. Thus MFIs need to manage counsellors' and trainers' time depending on the BDS process in order to maximise BDS delivery, which in turn improves co-production. Managing the BDS process is part of BDS and co-production management. The literature (Cepiku and Giordano, 2014; Verschuere *et al.*, 2012) reveals that there is a dearth of studies on co-production management. Thus focusing on the BDS process in this study fills this gap.

BDS prerequisites

The findings (see 6.2.3.5) reveal that BDS prerequisites can either motivate or demotivate clients to co-produce in BDS. According to the co-production literature, these prerequisites are similar to sanctions that either motivate or demotivate clients to co-produce (Alford, 2009, 2014). Thus MFIs need to be aware of the impact of BDS prerequisites on clients' motivation to engage in BDS and thus co-production. For example, the coupon system used by MFI-1 could motivate clients to take part in training, whereas regular attendance of group meetings could prevent others from co-producing. Given that there is a low client demand for BDS, MFIs can use sanctions such as the coupon system, making some training compulsory (e.g. financial literacy), in order to encourage clients to engage in BDS. When clients identify the benefits of the BDS they have participated in, they will co-produce in BDS willingly. However, when clients take part in co-production unwillingly because of the sanction, the self-serving bias effect comes into effect. Self-serving bias refers to a person's tendency to claim more responsibility than a partner for success and less responsibility for failure in a situation in which an outcome is produced jointly (Bendapudi and Leone, 2003). For example, if an owner manager takes part in training because of a sanction, and if the skills gained through the training do not work for his business, then the client will find fault with the MFI for wanting him to attend training, whereas if the client attends training as a joint decision with the counsellor, then even if the training fails he will not assign responsibility to the MFI. Thus MFIs need to be aware of the pros and cons of sanctions, which will have a direct impact on co-production.

Demand creation for BDS

The findings (see 6.2.1.4) show that MFIs use their counsellors to create demand for BDS by fostering awareness and showing their benefits as there is a lack of demand for the services. It was found that counsellors working for MFIs with groups have more opportunities to create demand for BDS as they meet clients at group meetings on a regular basis. Moreover, it was found that part of the lack of client demand for BDS is that some MFIs do not provide demand-driven services. For example, MFI-5 does not provide market linkages to clients. However, most of the MFIs studied have tried to provide demand-driven BDS to clients (e.g. market linkages for all the clients, and for rural clients more vocational training) so that clients will demand these services from them.

The BDS literature supports the findings, as it is shown that MFIs need to create demand for BDS by creating awareness and showing their benefits and that they also need to provide demand-driven BDS given that there is a lack of demand (Tilakaratne *et al.*, 2009; Sievers and Vandenberg, 2007; Goldmark, 1999). According to Etgar's (2008) study on co-production, clients are willing to co-produce with products that they perceive to be important for them (i.e. product-linked factors). Thus MFIs need to create demand for BDS by educating clients and providing demand-driven services in order to have a successful BDS programme and co-production.

Financial sustainability of BDS programmes

As revealed in section 6.2.1.1, the lack of funding for BDS is affecting their financial sustainability and is a major issue that MFIs need to address.

To overcome the financial sustainability issue of BDS, the MFIs studied have used the following strategies.

1. Charge clients a fee for the training provided (i.e. client has to pay for the training attended, e.g. MFI-2).
2. Charge an upfront fee from the client for training when the loan is granted so that clients can attend a number of training programmes (e.g. MFI-1's coupon

system). This coupon method is highly recommended by the BDS consultant interviewed as a strategy that other MFIs could also follow.

3. Obtain a commission for the clients' sales from the buyer when the MFI has created the market linkage between the client (seller) and buyer.
4. Link microcredit and the BDS programme (i.e. linkages) so that clients will pay the loan installments promptly. For example, due to business training clients may use their credit wisely, manage their business well and as a result make their loan repayments. Another example is when an MFI, client (seller) and buyer come to an agreement (a market linkage is created by MFI) which ensures the buyer sends money paid for sales directly to the MFIs' client accounts so that the MFI can recover the loan installment (e.g. MFI2, MFI-3). When MFIs receive loan repayments promptly as a result of the BDS provided, then they will be financially sustainable. They can set aside part of the microcredit profit for the BDS programme.

The BDS literature discusses all these strategies found in the study (Sievers and Vandenberg, 2007; Hansel, 2007; Lepenies, 2004; Halder, 2003; ADEMCOL, 2001; Goldmark, 1999). Further, the literature reveals that investors are increasingly looking for MFIs which maintain double bottom lines (i.e. dual objectives) when investing in them (MIX, 2014; Evans, 2011; Sinha, 2011). Thus given that funds are not coming from donors, provision of BDS would help MFIs to achieve this double bottom line and therefore access to funds provided by investors. Moreover, the co-production literature shows that financial sustainability is critical for co-production, as co-production requires resources and investment for its full potential to be realized (OECD, 2011).

Given that financial sustainability is a big issue for BDS programmes in Sri Lanka, MFIs can use the best practices/strategies discussed above to achieve the financial sustainability of their BDS programmes and thereby achieve co-production.

7.3 Co-production factors

The findings from the cases (see 6.3) show that there is co-production between MFI counsellors and the owner managers of microenterprises. This section discusses the factors identified from the cases (see 6.3) relating to counsellors and owner managers that influence co-production in BDS and critiques these alongside the literature. The co-production factors discussed in this section are influenced by the contextual factors identified in the previous context section.

The following are the factors identified in the counsellor-owner manager co-production dyad.

7.3.1 Counsellor expertise

The study findings (see 6.3.1) reveal that a counsellor's expertise affects co-production between him and the owner manager in BDS. In this study, counsellor expertise is defined as the business knowledge gained by them through their qualifications (formal education and training) and the experiential knowledge gained through working with owner managers and with MFIs. The findings show that the business knowledge of counsellors, gained through qualifications, helps them assist owner managers in areas such as business plan preparation, financial literacy and record keeping, whereas their experiential knowledge helps them to assist owner managers in networking (e.g. creating market linkages, network-specific experiential knowledge), certain subjects (e.g. business registration, subject-specific experiential knowledge) and clients' industries (e.g. garments, industry-specific experiential knowledge). The expertise of counsellors is believed to be superior to owner managers' expertise. Thus counsellors could help owner managers improve their skills, knowledge and resources (i.e. the ability of owner managers) through their expertise and this expertise could therefore enhance co-production.

The literature (Rice, 2002; Chrisman, 1989) on co-production and small business supports the findings. Rice's (2002) study on business incubators shows that counsellor expertise in terms of having better qualifications such as business degrees and experience is vital to co-produce with entrepreneurs. Studies made to investigate the impact of outside assistance given by Small Business Development Centres (SDBC) in USA on small business owners also show that a counsellor's expertise in terms of educational qualifications and experience is important to help entrepreneurs improve their abilities (Chrisman, 1989; Chrisman and McMullan 2004; Gill, 2007).

Although the co-production literature highlights the importance of the expertise of counsellors in terms of improving co-production, it has not properly defined expertise and how the business and experiential knowledge parts of expertise help counsellors to assist owner managers in different areas (e.g. financial literacy, market linkages). Thus this study has attempted to fill this gap.

The findings also show that the expertise of counsellors is influenced by the types of linkage and the counsellor selection method. For example, counsellors attached to MFIs with unified linkage have low expertise. It was found that certain MFIs (e.g. MFI-6) use their owner managers as counsellors (i.e. counsellor selection method) and they demonstrate low expertise due to their low formal education, lack of training and lack of experience in providing counselling, as opposed to counsellors working for other MFIs who are professional counsellors. However, the study does not inform how the experiential knowledge of these owner manager-counsellors (i.e. when they do business) helps them in their counselling roles. Although the studies show how the expertise of counsellors improves co-production, it has not examined how context influences their expertise. Thus this study fills this gap.

Given that the expertise of counsellors improves co-production, MFIs need to enhance this. This can be done through their recruitment methods, making sure that they recruit counsellors with business knowledge and experience, by giving counsellors on the job training (i.e. allowing them to work with senior counsellors) and by providing them with continuous training programmes on subjects such as business management and counselling. Since MFIs are confronted with a sustainability issue in BDS, MFIs should look for cost effective training methods such as mentoring to enhance the expertise of counsellors.

7.3.2 Counsellor readiness

The findings (see 6.3.3) show that counsellors' readiness in terms of having sufficient time to spend with the owner managers in order to achieve a level of intensity required for impact affects co-production. The MFI counsellors should be able to spend sufficient time with the entrepreneurs so that they can improve their business performance by instilling ability and motivation in them and improving the clarity of their roles. If counsellors do not have sufficient time to spend, then there will not be effective co-production.

The literature on co-production and small businesses supports the findings. Rice's (2002) study on business incubators shows that incubator managers' readiness in terms of being able to spend sufficient time with entrepreneurs affects co-production and incubator managers with higher readiness can co-produce effectively with entrepreneurs. The literature on BDS supports the findings. According to Sievers and

Vandenberg's (2007) study on linkages in microfinance, the added workload of MFI officers due to the type of MFI linkage limits officers' time spent with clients, affecting counselling intervention badly (Sievers and Vandenberg, 2007). The literature on business counselling given by business assistance providers to entrepreneurs also reveals that there is a positive correlation between number of counselling hours given by counsellors and the business performance of entrepreneurs (Cumming and Fischer, 2012; Chrisman *et al.*, 2005). These studies highlight the importance of time spent by counsellors with entrepreneurs and hence readiness. In fact, the researcher observed better business performance by four owner managers in MFI-1 and MFI-2 who had spent more time with counsellors, compared to those who had not. Thus readiness of counsellors is vital to provide sufficient time to owner managers to achieve the level of intensity for impact and thereby to improve the incidence of co-production.

The study findings further reveal that counsellor readiness is affected by the type of MFI linkage and the nature of the job. For example, it was found that counsellors working for MFIs with unified linkages have lower readiness, as they have to engage in work additional to counselling (eg. debt collection), whereas counsellors working for MFIs with a parallel structure have higher readiness, as they only focus on counselling. Moreover, it was found that counsellors attached to certain MFIs (e.g. MFI-6) work part time and hence they do not have sufficient time for counselling. The fact that counsellors working for MFIs with unified linkages have lower readiness is supported by Sievers and Vandenberg's (2007) study on linkages.

Given the importance of readiness in improving co-production, MFIs should make sure their counsellors spend enough time with clients. In particular, MFIs with unified linkage should allow their counsellors to spend more time with clients by redesigning their job description.

7.3.3 Interpersonal relationships

The interpersonal relationship between the counsellor and the owner manager emerged as a co-production factor (see 6.3.5). An interpersonal relationship for this study is defined as the bond between counsellor and client based on trust and satisfaction and which improves co-production. The findings show that enhanced interpersonal relationships improve co-production in terms of enhanced communal cooperation between the counsellor and the owner manager and owner managers' enhanced information provision to counsellors. The study findings have shown that the intensity of contacts between the counsellor and owner manager, counsellor and owner manager similarities (i.e. dress code, social interaction and attitudes), counsellor expertise, and counsellor-owner manager power relationships are constructs of interpersonal relationships. The findings on the constructs of interpersonal relationships are in line with the literature (Doney and Joseph, 1997; Bove and Johonson, 2000; Crosby *et al.*, 1990; Byrne, 1969; Tan, 1981).

The literature shows that intensity of contact between service personnel and client enhances the relationship (Bove and Johonson, 2000). As early as 1961, Homan, reported by Evans (1963), stated that the more frequent the interaction between people, the stronger their affection or liking for one another, provided that the relationship is mutually rewarding. Further studies show that frequent contacts between service provider and client result in trust, satisfaction and commitment, which all enhance the relationship (Doney and Joseph, 1997; Crosby *et al.*, 1990). Similarity between people, for example in terms of appearance (dress code), social interaction and attitudes, enhances the relationship between the service person and the client (Tan 1981; Byrne 1969). Similarities between people also lead to satisfaction, which also enhances the relationship (Byrne 1969; Tan 1981). Thus similarity between people could be a cue for other parties to facilitate one’s goals.

The marketing literature shows that sales/service personnel with high levels of perceived expertise are viewed as more trustworthy by the customer and as a result the client maintains a relationship with them (Busch and Wilson, 1976; Taylor and Woodside, 1981; Crosby *et al.*, 1990). Moreover, Kremer and Tonkens (2006) assert that professionals such as teachers and healthcare workers are trusted on their distinct knowledge and skills due to their education and training. Thus it could be argued that counsellors working for MFI-1, 2, 3 and 4 are able to maintain a better relationship with clients due to the higher expertise they possess, compared to counsellors working for MFI-5 and MFI-6, who possess low expertise.

Power distance is defined as the extent to which the less powerful members of institutions and organisations within a country expect and accept that power is distributed unequally (Hofstede and Hofstede, 2005). With a high level of power distance, people accept the hierarchical order in which everybody has a place.

Subordinates expect to be told what to do. In societies with higher power distance individuals tend to be more submissive to supervisors (Hofstede, 1980). Sri Lanka has a high level of power distance (Hofstede, 2014) and hence it is assumed that counsellors working for MFIs could use this to influence the owner managers of microenterprises. This is reflected when owner managers call counsellors of MFI-1, MFI-2, MFI-3 and MFI-4 “sir” (owner managers are submissive to counsellors, because the latter hold a superior status in society in terms of expertise and status). However, it was found that the owner managers do not call counsellors of MFI-5 and MFI-6 “sir” as they are selected from the owner managers, who perceive a low power distance with their fellows. This could sometimes affect co-production badly, as these counsellors cannot wield influence to the same extent as counsellors of other MFIs, who maintain a higher power distance.

The findings of the co-production outcomes show enhanced communal cooperation and enhanced owner manager information provision (i.e. communication) as a result of inter-personal relationships and they concur with the literature. Guo and Ng’s (2011) study on equipment-based services shows that interpersonal relationships between managers of two firms help achieve co-production outcomes. This study reveals that initially interpersonal relationships help individuals achieve personal favours (i.e. with respect to the Sri Lankan study; a counsellor may advise a client on his/her child’s education, and the client helps the counsellor to fix his car. These favours, however, are irrelevant to BDS). Later, when interpersonal relationships have been established, they help to achieve communal goals (i.e. co-production outcomes of parties).

Information provision by a client (i.e. a client’s communication) has been identified as a critical factor in co-production (Hsieh *et al.*, 2004; Bettencourt *et al*., 2002; Bitner, 1997). Hawke and Heffernan’s (2006) study on good interpersonal relations between lender and client in banking in Australia supports the finding, as it shows that due to the enhanced relationship, clients are more open with the business lender and communicate better. Thus it is argued that interpersonal relationships improve client communication (i.e. information provision), which is critical to co-production.

The findings also show that the debt collection role of counsellors of certain MFIs (those using unified linkage) badly affects the interpersonal relationship between counsellor and owner manager, resulting in counsellors finding it difficult to provide counselling to default owner managers. This was noted by Rob *et al.*'s (2007) study on loan officers and loan delinquency in microfinance, a case study in Zambia. They show that a loan officer's debt collection role badly affects his/her relationship with the client. The study further reveals that default clients are afraid of meeting the loan officers. This is very much the case in the Sri Lankan study, and hence counsellors handling debt are not able to co-produce with default clients effectively due to this bad relationship.

It can be observed that the interpersonal relationship factor is linked to the counsellor expertise theme discussed above, and the communication theme discussed below. For example, a counsellor's expertise improves the interpersonal relationship between him and the owner manager. Moreover, the relationship improves communication between owner managers and counsellors (i.e. intensity of contact) and consequently improves interpersonal relationships.

Given the importance of interpersonal relationships in enhancing co-production, MFIs should educate their counsellors on the findings, such as dress code, expertise and frequency of contact, which all enhance co-production. MFIs with unified linkage can also use separate staff members to deal with default clients so that counsellors can maintain better relationships.

7.3.4 Owner managers' willingness

The findings (see 6.3.2) from the cases show that an owner manager's willingness is needed to co-produce with counsellors. Owner managers spend time and money and put effort into co-production due to willingness. It was found that there are certain factors under the broad headings of motivators, sanctions and contextual factors which improve an owner manager's willingness to co-produce in BDS. For example, an owner manager will be willing to co-produce with a counsellor because counselling helps him/her to increase sales of the business venture (i.e. motivators).

The findings are consistent with the literature. The table below illustrates how the literature supports the findings.

Table 33: Factors affecting owner managers' willingness and supporting literature

Study findings on factors that affect owner manager willingness	**Relevant literature**
Economic benefits gained by owner managers engaging in counselling; e.g. better sales, profits and knowledge (motivators)	Material gains (Alford 2009, 2014) and Sharp (1978); economic drives (Etgar, 2008)
Sense of ownership (by participating in the BDS design, an owner manager is motivated to co-produce in BDS) (motivators)	Psychological drives (Etgar, 2008)
Relationship between counsellor and owner manager; the relationship with the counsellor will motivate the owner manager to co-produce in BDS (motivators)	Situational factors (Etgar, 2008)
Location, time, social mobilisation programmes, groups and product-related factors motivate owner managers to engage in counselling (contextual factors)	Contextual elements (Pestoff, 2012; Eijk and Steen, 2014)
Owner managers' compulsory attendance at group meetings either motivates or de-motivates their counselling (sanctions)	Sanctions (Alford, 2009, 2014)

Source: author's compilation

As can be seen from Table 33, the findings relating to economic benefits, sense of ownership and interpersonal relationships, which enhance the willingness of owner managers to co-produce with counsellors, are in line with the work of Alford, Etgar and Sharp on co-production. The co-production literature also shows that contextual factors can improve the willingness of clients to co-produce (Pestoff, 2012; Eijk and Steen, 2014) and hence the study findings of location, time etc., which improve the willingness of owner managers to co-produce, are in line with the literature.

The findings show that MFIs have made group meetings compulsory for clients to obtain services such as credit and BDS. According to Alford's work, this is a sanction imposed by the MFI which could motivate and sometimes demotivate the clients to engage in co-production. For example, if clients attend group meetings willingly, then they co-produce in BDS effectively. But if clients attend group meetings unwillingly, they do not co-produce.

Although the co-production literature discusses willingness as a factor that is important for co-production, it does not discuss factors affecting the willingness of clients which have a bearing on co-production with empirical evidence. Neither has the literature shown how context affects the willingness of clients. Thus this study fills this gap.

Since owner managers' willingness improves co-production, MFIs can use certain strategies, as revealed in the study, to improve this. For example, MFIs can highlight the economic gains of BDS to improve the willingness of clients through counsellors in their awareness sessions and group meetings. Furthermore, they can involve clients in designing BDS programme and making sure that the location and timing of counselling are convenient for clients, therefore enhancing their willingness. Moreover, MFIs need to pay attention to sanctions such as group meetings, and making certain training programmes compulsory, as they influence the willingness of clients to co-produce.

7.3.5 Communication between counsellors and owner managers

The findings (see 6.3.4) show that communication between counsellors and owner managers help to improve the clarity and motivation of owner managers to co-produce, and hence enhance co-production. Counsellors' communication with owner managers using non-technical language, provision of accurate information to them and use of motivational communication emerged as subthemes in the main communication theme/factor relating to co-production between counsellor and owner manager in BDS. The literature supports the findings.

The co-production literature shows that communication between client and service provider affects co-production (Auh *et al.*, 2007; Bettencourt *et al.*, 2002). According to Lengnick-Hall *et al.*, (2000), the service provider's communication improves the role of clarity in the client. Auh *et al.*'s (2007) study on financial services shows that communication by financial advisors with clients improves clarity and hence they propose that non-technical language be used by financial advisors to improve the incidence of co-production. Auh *et al.*'s (2007) study also shows that service providers should provide the pros and cons of the service to clients. In other words, the service provider needs to provide accurate service information to clients without hiding anything in order to co-produce effectively. According to Rodie and Kleine (2000), motivation is one of the factors, along with the role of clarity and ability needed by clients, needed to co-produce with service providers. Thus it could be argued that the motivational communication of counsellors which motivates owner managers will enhance the latter's co-production in counselling. The literature also shows that not only the service providers, but also the clients, need to communicate with service providers through provision of information for effective co-production (Bettencourt *et al*., 2002; Hsieh *et al.*, 2004; Bitner, 1997). For example, patients have to provide correct information to doctors for them to prescribe medication.

The research context of this study (see 6.2.3.3) also shows that group activities help owner managers improve communication so that they can co-produce with counsellors effectively. The co-production literature has not shown how context improves communication between customer contact staff and customers. This study therefore fills this gap. Moreover, motivational communication, which emerged as a sub-theme in this study, has not been discussed in the co-production literature. Thus further studies need to be conducted to investigate this factor.

Given the importance of communication between counsellor and owner manager in improving co-production, MFIs need to educate the counsellors on the findings on techniques, such as using non-technical communication, providing accurate information and motivational communication, which improve co-production. MFIs also need to think about contextual factors such as groups that improve clients' communication, which is important for co-production.

7.3.6 Post intervention follow up and feedback

The findings (see 6.3.6) show that after providing counselling, counsellors should follow up on the owner managers and provide feedback. Follow up and feedback enhance the clarity, ability and motivation of the owner managers and are key for effective co-production.

The findings concur with the co-production literature. According to Bovaird and Loffler (2012), co-production covers monitoring and/or evaluation, along with other activities such as service, planning and delivery. Thus follow up and feedback (monitoring and/or feedback) given by counsellors could be vital in co-production. Rice's (2002) study on business incubators shows that incubator managers not only provide counselling to enhance knowledge and skills, but also follow up on the entrepreneurs to see whether they have improved their knowledge and skills in order to improve performance. Despite the importance of follow up and feedback in co-production, Bettencourt *et al.*'s (2002) study on co-production in knowledge management services claims that follow up and feedback could be perceived by clients as intrusive and that the firm is trying to control the client, so they could undermine co-production. However, Bettencourt *et al.*'s study was conducted in a context in which both parties engaging in co-production were knowledgeable (i.e. knowledge-intensive business firms) and hence they needed minimum follow up. But in this study, owner managers have less formal education and have not been exposed to learning through formal methods. Thus follow up and feedback are very important for them to learn business knowledge and practices.

The findings also show that counsellors' follow up and feedback can be hindered by factors such as type of linkage, the BDS performance evaluation system and perception of management and counsellors on follow up and feedback.

As revealed in the context section, counsellors working for MFIs with unified linkage may not have sufficient time (i.e. lower readiness) to follow up on clients. In addition, some MFIs may not evaluate the performance of counsellors in terms of their post-intervention follow up with clients. Moreover, management and counsellors of some MFIs perceive that better loan repayments mean that clients are performing well in their businesses and hence there is no need to follow up on them. However, the literature reveals that better loan repayment does not mean that clients are doing well in their businesses, as some with business failures may pay back their loans due to group and MFI pressure for prompt loan repayments (Bruton *et al.*, 2011; Smriti,, 2008; Garikipati, 2008; Ahmed *et al.*, 2001; Aminur, 1999).

Given the importance of post-intervention follow up and feedback, management of MFIs must ensure that their counsellors are following up on clients. MFI management using unified linkages must also redesign counsellors' jobs so that they have sufficient time (i.e. readiness) to follow up on clients. There is a dearth of studies made on co-production focusing on follow up and feedback; future research can therefore focus on this area.

7.4 Co-production outcomes

The findings of the six cases studied (see 6.4) reveal that co-production outcomes in BDS are twofold: 1. MFI-related and 2. owner manager-related.

7.4.1 MFI-related co-production outcomes

The findings (see 6.4.1) from the cases show that MFIs want to achieve broad socio-economic co-production outcomes such as creating new businesses and new employment, improving management and increasing the assets of owner managers through the provision of BDS. These findings are in line with the co-production literature. The literature on business incubators shows that the sponsors and management of business incubators are more concerned with aggregate socio-economic impact through co-production, as measured by factors such as job creation, neighbourhood revitalisation, technology transfer, and improvement in the economic condition of disadvantaged minorities (i.e. broader co-production outcomes) (Rice, 2002; Schroeder, 1990). Similar patterns can be observed in other examples of co-production, such as anti-crime measures, solid waste collection, health services, education programs, and the finance industry.

These findings are also consistent with the BDS literature on the microfinance setting (ADEMCOl, 2001; Halder, 2003; Karlan and Valdivia, 2006). ADEMCOL's (2001) study on BDS centred on an MFI in Columbia reveals that by providing BDS it is attempting to achieve enterprise productivity and competitiveness, job creation, poverty alleviation, and social mobility. Karlan and Valdivia's (2006) study on FINCA, a Peruvian MFI, indicates that by providing BDS it wants to improve the social-economic situation of the poor and to empower clients.

The findings also show that MFIs want to achieve other co-production outcomes (i.e. secondary ones), such as better loan repayments, access to deposit bases, creation of social capital, client graduation, owner manager retention and owner manager satisfaction through their provision of BDS.

The co-production literature is line with these types of objectives, as it shows that other than broader socio-economic outcomes there are other secondary co-production outcomes for co-production partners (service provider and client) (Rice, 2002; Schroeder, 1990).

The findings from the cases relating to secondary co-production outcomes of MFIs are largely consistent with the BDS literature.

Most of the studies conducted on BDS show that they the improve loan repayments of MFIs (Sashi, 2011; Karlan and Valdivia, 2006; ADEMCOL, 2001). However, some studies do not show a relationship between BDS and loan repayments. Sievers and Vandenberg (2007) assert that the relationship between BDS and loan repayments is inconclusive. Future research needs to be conducted to investigate this relationship further.

The findings of this study show that by providing BDS, MFIs can create social capital favourable to both MFIs and owner managers. Researchers have used the concept of 'social capital' to describe how relationships between individuals or organisations could generate value for both parties (Sanyal, 2009; Coleman, 1988; Bourdieu, 1977). Thus it could be argued that by providing BDS to owner managers (i.e. relationships between MFI individuals and clients), MFIs could create social capital favourable to both parties. Anderson *et al.*'s (2002) study on microfinance, social capital and common pool resources emphasises that MFIs use social capital existing in groups to provide services and also create social capital through meetings and other services. Thus it is argued that MFIs can use existing social capital in groups to provide BDS, and MFIs can create this capital by providing BDS through groups. According to Pestoff (2012), small groups in co-production programmes could promote the growth of social capital due to frequent interaction between group members and collective actions. In a similar vein, in this study small groups are key to the implementation of BDS programmes and group members interact with MFI officers and with each other in collective actions that create social capital. Furthermore, OECD (2011) emphasises that co-production can result in enhanced social capital, through cohesive communities and shared values which are the basis of active citizenship and generation of mutual trust. Sashi's (2011) study on marketing financial services for poverty alleviation asserts that counselling provided by MFIs will help build strong rapports between MFIs and owner managers and thereby increase social capital.

The BDS literature coincides with this study finding on improved client retention due to co-production in BDS. A number of studies in the microfinance setting show that BDS help improve client retention through enhanced loyalty (Sievers and Vandenberg, 2007; Karlan and Valdivia, 2006; De Wildt, 2004; ADEMCOL, 2001).

This study shows that BDS improve client satisfaction and this finding is supported by the studies of ADEMCOL (2001) and De Wildt (2004), which reveal that BDS have improved client satisfaction.

The case study findings also show that BDS improve client graduation in terms of developing owner managers from the microenterprise level to the SME one and by developing them into bankable clients from non-bankable ones. Although the literature does not give direct evidence for this, Fisher and Sriram (2002) and ADB (1997) assert that credit alone is not enough for microenterprises to grow to the next level and hence MFIs should look beyond microcredit to include BDS in their product portfolio. Thus it can be inferred that MFIs can help clients graduate to the next level through provision of BDS. Karlan and Valdivia (2006) find that the two objectives of client retention and client graduation conflict, because MFI clients who do well in their businesses (i.e. graduation) could go to banks for larger loans and hence MFIs could lose clients. However, the findings show that bank MFIs (e.g. MFI-3) could retain the microfinance clients even if they graduate to the SME level, as bank MFIs are capable of catering for larger loans and the services required from them, unlike other MFIs that provide smaller loans, which are not sufficient for clients who have graduated.

The findings show that access to deposits is an MFI-related co-production outcome. Given that there is an issue of funding, this could be an important outcome. However, the literature does not support this and hence further studies need to be conducted to confirm this finding.

7.4.2 Owner manager-related co-production outcomes

The findings (see 6.4.2) show that due to co-production in BDS, owner managers are able to improve their business knowledge and practice. They are also able to improve the sales and profits of their businesses. The literature supports these findings. Karlan and Valdivia's (2006) study of Peruvian MFIs reveals that BDS had improved the business knowledge, practice and income of entrepreneurs. Halder's (2003) study of BRAC in Bangladesh shows that skills training had improved the income of those who had undertaken training compared to those who had not. McKernan's (2002) study examines the impact of credit and BDS on entrepreneurs' business performance in Bangladesh. He uses BRAC and the Bangladesh Rural Development Board's RD 12 program for the study. The results show that the BDS given by the two programs had significantly improved the profits of entrepreneurs. Nisttahusz *et al.* (2002) examine the impact of BDS given by a microfinance program in Bolivia by studying 140 micro-entrepreneurs. Half of them only had access to credit and the other half access to both credit and BDS such as skill and management training and marketing support. The findings show that the entrepreneurs who received both credit and BDS were able to graduate to subsequent loans while earning better profits. Copestake *et al.* (2001) investigated the microcredit program in Zambia. Although the study is not about BDS, it includes a variable for training and the results show that this is positively and significantly correlated with the growth of enterprise profits.

7.5 Impact evaluation of co-production

This study mainly collected qualitative data from MFIs and owner managers with regard to their performance (i.e. co-production outcomes). For example, MFIs would say they were able to improve loan repayments through BDS provision. Owner managers would say they were able to increase the sales of their business ventures thanks to BDS. However, quantitative data from both MFIs and owner managers are needed to confirm that they have achieved co-production outcomes. OECD (2011) explains that impact evaluations are rare and quantified evidence on the costs and benefits of co-production is lacking. Thus this is an interesting area for future studies.

7.6 Revised conceptual framework

The revised conceptual framework is formulated based on the findings of this study that are critiqued alongside the literature. The study was guided by the initial conceptual framework developed in chapter 3. In the initial framework, a number of contextual and co-production factors relating to counselling and training, and co-production outcomes, were considered. The revised conceptual framework, in addition to the contextual factors identified in the initial framework, considers many other factors revealed in the findings. In the revised framework, training does not feature as a co-production intervention; instead, it features in the context as a factor that influences co-production in BDS. In the initial conceptual framework, an owner manager's expertise was considered as a factor that influences co-production. But the findings of the study reveal that this expertise is not that important in co-production, so it was not considered in the model. Furthermore, the findings identified some new co-production outcomes (e.g. access to new deposits, client graduation) that are not in the initial conceptual framework and were hence included in the revised framework. Figure 17 presents the harmonised or revised conceptual framework, which is more suitable to represent BDS provision by MFIs in the light of the concept of co-production, as evidenced by the findings.

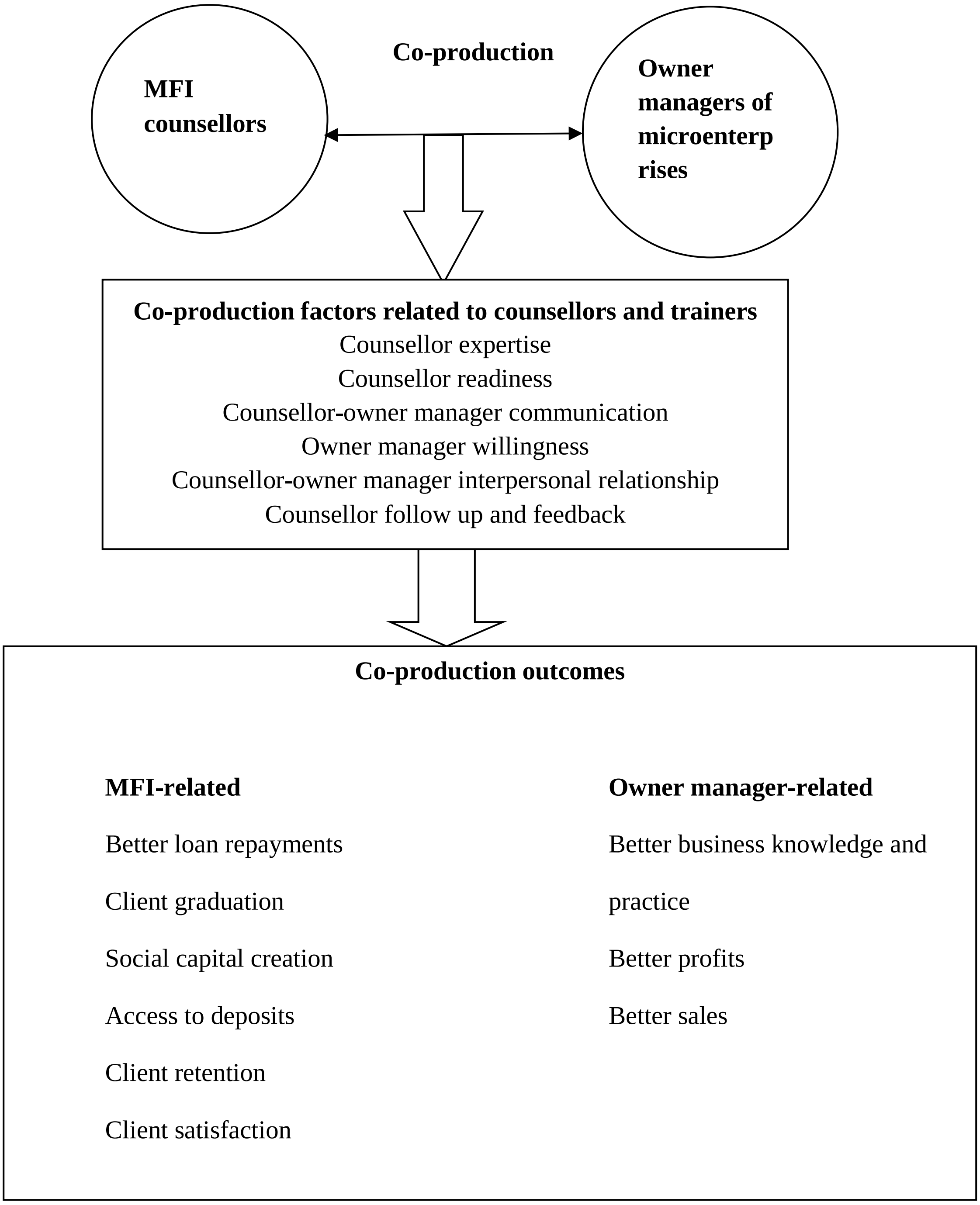

Figure 17: Revised conceptual framework

The study shows co-production factors identified in the study are influenced by the contextual factors. The study uses the IMP interaction framework as a guide to identify the contextual factors that influence co-production. Figure 18 illustrates the integration of co-production in the study within the IMP interaction framework.

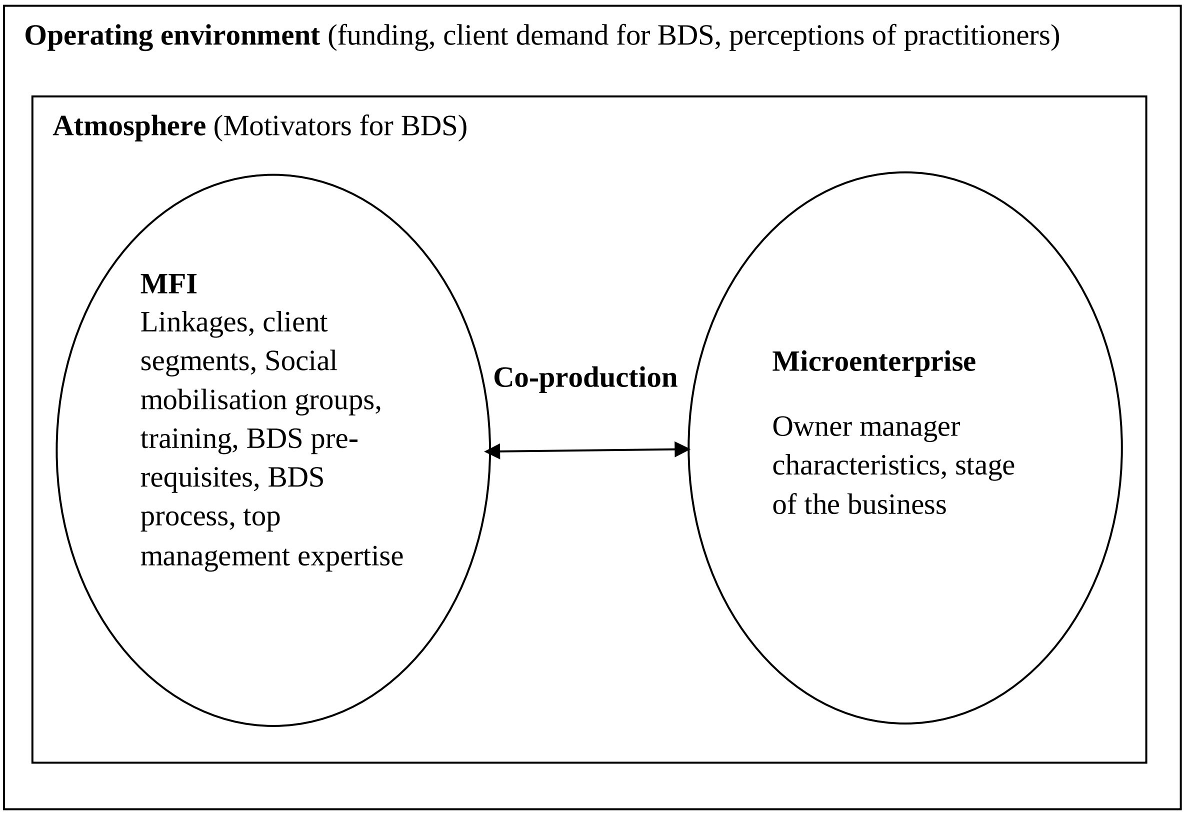

Figure 18: Integration of the concept of co-production within the IMP framework

7.7 Summary of the chapter

This chapter has discussed the findings and implications of this study. These have been critiqued against other studies. It has been revealed that there is a dearth of studies on co-production which examine the relationship between context and co-production, thus this study fills this gap and provides a stepping stone for researchers to research contextual factors influencing co-production in different disciplines. Co-production factors/themes identified in the counsellor-owner manager dyad in this study concur with the co-production literature. However, this study introduces some new sub-themes (i.e. constructs) in the co-production factors section. For example, in the expertise theme, experiential knowledge is identified with three sub-themes (i.e. subject-specific, networking-specific and industry-specific knowledge) and motivational communication emerged as a sub-theme related to the communication theme. Co-production outcomes identified in the study are consistent with the literature. Based on the generated information from the findings, this chapter has presented a revised conceptual framework. Based on the study findings and implications, the following chapter makes recommendations.

Chapter 8. Conclusions and Recommendations

8.1 Overview of the chapter

Having discussed the implications of the findings in the previous chapter, this chapter presents the conclusions and recommendations. This largely involves issues related to the BDS provided by Sri Lankan MFIs to owner managers of microenterprises, considered from the aspect of co-production. The chapter first discusses the answers to the research questions, then the summary and recommendations of the study, and finally its contribution to theory and practice. In conclusion, the limitations of the study and suggestions for future research are discussed.

8.2 Answers to the research questions

Research question 1 focused on how MFIs implement co-production in BDS. The findings show that although MFIs use counselling and training to deliver BDS, co-production in BDS can be found only in counselling intervention, as counsellors and owner managers co-produce in BDS provision. However, it was found that training enhances co-production in counselling and hence the relevance and effectiveness of training in the overall success of counselling. Research question 2 required the researcher to examine contextual factors that influence co-production in BDS. The study found a number of contextual factors, such as funding, types of linkages, client segments, and client groups, that influence co-production. Research question 3 focused on counsellor and owner manager related co-production factors. The findings revealed that counsellor expertise, counsellor-owner manager communication, counsellor-owner manager interpersonal relationships, owner manager willingness, counsellor readiness and counsellor post intervention follow-up and feedback were the co-production factors relating to counsellors and owner managers. Co-production outcomes were identified in response to research question 4. MFI-related co-production outcomes such as employment generation, better loan repayments, client graduation and owner manager related outcomes such as better sales, better knowledge and practice, were the co-production outcomes identified.

Although the study findings answer the research questions, there are a number of limitations in this study that could have possibly affected them. These limitations are explained in section 8.5. Thus future researchers could focus on these limitations when answering similar research questions.

8.3 Summary and recommendations of the study

The findings show that a lack of financial sustainability of BDS programmes and lack of client demand for them are the main challenges faced by MFIs. Despite these challenges, it was found that a number of MFIs are motivated to provide BDS due to the benefits that they provide to MFIs and owner managers, donors' requests and achievement of social objectives.

The study shows that MFI counsellors play a vital role in providing BDS to owner managers of microenterprises. It has also been revealed that counsellors and owner managers should collaborate/co-produce in order to have an effective BDS programme that helps MFIs and microenterprises improve their performance. According to the qualitative evidence gathered through the in-depth interviews, co-production provides numerous benefits to both MFIs and owner managers. For example, MFIs can achieve broad socio-economic objectives such as employment generation, improvement of management and increases in the assets of owner managers, as well as achieving other objectives such as higher loan repayments, greater client retention, better client graduation and social capital creation through co-production in BDS. On the other hand, owner managers can achieve better business knowledge and practice, higher sales and greater profits for their business ventures through co-production.

The findings reveal that co-production management/contextual factors are vital for an effective BDS programme. Thus MFIs need to manage linkages, client selection, social mobilisation programmes, groups, training, planning, performance evaluation, BDS pre-requisites, expertise of top management, demand creation and financial sustainability in order to improve co-production in BDS.

The findings show that MFIs provide BDS to clients either through unified or parallel linkage. MFIs also collaborate with external institutions to provide some BDS, such as vocational and free training to its clients through these institutions. It was found that MFIs prefer to have their own BDS programme rather than outsourcing fully to external institutions because they can manage the quality of the programmes through internal staff. Clients also prefer BDS delivery by internal staff. Thus it is proposed that

MFIs conduct their own BDS programmes. Moreover, they should establish and maintain relationships with external institutions so that internal BDS programmes can be complemented with other services provided by external institutions.

Although the findings reveal that MFIs mainly select non-poor clients for credit and BDS programmes due to their higher risk taking attitudes, skillfulness and resourcefulness, MFIs should not rule out catering for poorer clients who do not have these qualities, as one of their main objectives is poverty alleviation It was found that MFI-1 and MFI-6 make some effort to cater for a small percentage of poorer clients by giving them grants/interest free loans and business support. Since the government of Sri Lanka promotes microenterprises as a means of poverty alleviation (NEDA, 2013; IPSL, 2012), it can collaborate with MFIs to provide low cost funds and training in order to cater for poorer clients.

The findings reveal that the social mobilisation programmes provided by MFIs using the group lending method improve clients' ability, motivation and clarity of task, which are key for them to co-produce in BDS. Furthermore, it was found that financial literacy knowledge given through these programmes improves loan repayments. However, some MFIs had to shorten the period of social mobilisation programme to face the competition, as clients prefer to obtain credit faster, rather than spending a considerable time on the programmes. Some MFIs have reduced the period of these programmes by not providing BDS such as financial literacy, which has resulted in an increase in loan defaults. Thus MFIs need to devise a strategy to provide important BDS such as financial literacy in social mobilisation programmes, while facing the competition successfully. For example, they could provide non-urgent services that are conducted in the social mobilisation, such as health-related awareness and training, after providing credit, in order to shorten the period of the programmes, but making sure that, given its importance, financial literacy training is provided.

The findings reveal that client groups formed by MFIs using the group lending method improve the sustainability of co-production. Groups also help members improve their communication skills and achieve co-production outcomes. Thus MFIs must manage their client groups by giving training to group members and monitoring their activities. Furthermore, MFIs can train group members to provide counselling and training to fellow members so that they can achieve the sustainability of BDS, as well as cost benefits. Since MFIs using individual lending do not have client groups, they need to use different strategies to enhance co-production. For example, counsellors of such MFIs could visit clients frequently in order to improve the incidence of co-production.

It was found that training provided by MFIs improves clients' ability and motivation to co-produce with counsellors. Thus MFIs should strengthen the training intervention by providing demand-driven training. The government can intervene in the training provided by MFIs by paying for programmes undertaken by poorer clients so that MFIs can sustain their BDS programme and poorer clients will also benefit. In providing training, MFIs need to consider the expertise of trainers, and the location, duration, timing, and fees of the training programmes in order to improve their effectiveness. Since the findings show that there should be good collaboration between counsellors and trainers for effective co-production in BDS, MFIs should ensure that counsellors and trainers work hand-in-hand in delivering counselling and training. For example, they should work collaboratively to organise training programmes for clients and follow up on clients after training.

The findings show that clients' involvement in BDS planning enhances co-production; the degree of client involvement varies with the type of MFI category. For example, clients in the cooperative MFI category are more involved in BDS planning as they represent the management. Other MFI categories such bank MFIs must try to involve their clients in BDS planning through the counsellors, as they can obtain clients' views on the process when they meet them at group meetings and in person.

Not all MFIs monitor counsellors' and trainers' post-intervention follow up in counselling and training in their performance evaluation systems, despite the fact that they evaluate how counsellors and trainers contribute to the achievement of the overall BDS performance objectives, such as number of new and existing business ventures supported, number of training programmes conducted, and number of market linkages created. Thus MFIs should ensure that counsellors and trainers follow up on clients after counselling and training. This could be done by including 'follow up' as part of the BDS performance evaluation criteria and monitoring counsellors' and trainers' follow up on clients.

It was found that BDS prerequisites imposed by MFIs either motivate or demotivate clients to co-produce in BDS. For example, charging a fee for training at the time of microcredit being provided could motivate clients to engage in training (e.g. MFI-1). In contrast, some clients may not like to attend training by paying a fee (e.g. MFI-2). Thus MFIs should consider BDS prerequisites, as they have a bearing on co-production.

The findings reveal that the expertise of top management varies with MFI category and top management consisting of clients in the cooperative MFI category showed low expertise. Thus these client-managers should be given training to improve this. Since providing training could be costly, these managers can be given opportunities to learn through professional managers who volunteer to provide free mentoring.

As there is a lack of client demand for BDS, MFIs need to create this demand. It was found that this lack could be due to unawareness of the benefits offered by BDS and the fact that MFIs do not provide demand-driven BDS. For example, they need to create demand for business training as clients are not aware of its importance, compared to vocational training. It was also found that clients demand more market linkages and certain MFIs (e.g. MFI-5) do not have these in their BDS delivery. For example, the findings from MFI-5 reveal that they did not focus on market linkages before in their BDS delivery, but now they want to introduce them through counsellors, having understood their importance. Thus MFIs can ensure the provision of such demand-driven BDS through counsellors by making it a performance criterion for them (i.e. counsellors need to create a number of market linkages every year). Counsellors should also inform management about demand-driven BDS as they are in touch with the clients, which will help management provide these services. Moreover, MFIs should monitor whether counsellors are educating clients about BDS and their benefits on a regular basis in order to create demand for BDS.

It was found that MFIs use different strategies to sustain their BDS programmes, such as charging clients a fee, using a coupon system, and linking BDS to the microcredit programme in order to strengthen both credit and BDS programmes through improved loan repayments. Given that there is an issue of BDS financial sustainability, MFIs should share best practices. In particular, the coupon system used by MFI-1 and the market linkages which ensure loan repayments used by MFI-2 and MFI-3 can be used by other MFIs in order to sustain their programmes. Moreover, MFIs with parallel linkage can make use of their specialised BDS staff to provide services to external MFIs and institutions by charging a fee in order to support their programmes. To provide BDS cost effectively, MFIs should consider cost effective methods. For example, they can use social media and the internet to provide BDS, especially to younger entrepreneurs who are more proficient technically. MFIs can also use media such as radio, television and newspapers to provide some BDS to clients with the collaboration of the government, as the government owns some popular media houses.

A number of factors relating to counsellors and owner managers that influence co-production were revealed. These factors are the expertise of counsellors; their readiness; communication and interpersonal relationship between counsellor and owner manager; the willingness of the owner manager; and post-intervention follow up and feedback by counsellors. The findings also show that these factors are influenced by the contextual factors identified, such as types of linkage, MFI category and lending methodology.

The expertise of counsellors working for MFIs with unified linkages and that of client- counsellors working for some cooperative MFIs needs to be improved. Thus they need to be given training. Given that MFIs are often constrained by lack of funding for BDS, they could train these counsellors by providing on-the-job training and mentoring. They could also make sure that they consider educational qualifications, especially in business and business experience, when recruiting counsellors.

It was found that counsellors working for MFIs with unified linkages often have low readiness due to their added workload. Thus these MFIs need to think about strategies; for example, releasing counsellors from part of their credit work (e.g. debt collection), so that they can spend more time on business counselling.

The findings show that communication between counsellors and owner managers increases co-production. Thus MFIs should educate the counsellors about the importance of using non- technical language, provide accurate information and use motivational language in order to improve communication and thereby co-production.

Since the interpersonal relationships between counsellors and clients were found to be a factor that enhances co-production, MFIs should educate the counsellors about the importance of their dress code, frequent client visits, power distance, and their expertise, in order to improve interpersonal relationships. Moreover, MFIs using unified linkage could release the counsellors from handling default clients so that they can maintain better relationships with clients.

It was found that owner managers/clients' willingness is very important for co-production as they spend time on and put effort into co-production due to their willingness. It was revealed that clients are willing to co-produce due to the economic gains that BDS offer, such as increased profits and sales. Furthermore, clients are willing to co-produce thanks to their sense of ownership of the BDS, having engaged in their design, and contextual factors such as the location and timing of counselling. Thus MFIs could use their counsellors to educate clients about the economic gains from BDS, and involve clients in BDS design in order to improve their willingness. They can also ensure that counselling is provided at a convenient location and time so that clients will be motivated to co-produce with counsellors.

The findings also show that the post-intervention follow up and feedback given by counsellors increase co-production. Moreover, this follow up and feedback could be affected by the performance evaluation method and type of linkage. As previously explained in this section, MFIs can make sure that counsellors follow up on clients by including this in the performance evaluation criteria. MFIs using unified linkage should allow their counsellors to spend more time on client follow up by easing their workload.

Since the findings reveal that the counsellors, managers and trainers who are involved in BDS need to have better expertise and thus need to be trained, microfinance practitioners could set up a training institution to provide cost effective quality training programmes to MFIs.

8.4 Contribution to theory and practice

This section discusses the study's contribution to theory and practice.

8.4.1 Contribution to the theory

This study has made a number of contributions to the theory. First, it contributes to the business development services literature in the microfinance setting as there has been a dearth of studies on this field. The literature on BDS (Karlan and Valdivia, 2006; De Wildt, 2004; ADEMCOL, 2001) mainly focuses on their performance, but it has not considered how the dyadic relationships between counsellors and owner managers affect their delivery of BDS, and hence performance. Thus this is the first study conducted on BDS performance using the concept of co-production to examine dyadic relationships. The framework developed in this study provides a starting point for empirical research on co-production in BDS within the microfinance setting; other settings and can be used for the development of a testable hypothesis.

Second, this study contributes to the counselling literature by identifying factors relating to counsellors and clients that improve the effectiveness of counselling. Although a study has been made of counselling using the co-production concept in the incubator setting (Rice, 2002), according to the researcher's knowledge this is the first study of counselling using the concept of co-production in the microfinance setting.

Third, this study makes a contribution to the theory of co-production. In the co-production literature (Cepiku and Giordano, 2014; Verschuere *et al.*, 2012) the way in which contextual factors affect co-production has been ignored. For example, empirical evidence is lacking with reference to how the operating environment affects co-production and how the selection of clients influences it. Moreover, studies (Cepiku and Giordano, 2014; Verschuere *et al.*, 2012) tend to focus more on direct management issues such as motivation and drivers for co-production, without considering the strategic management of co-production. There are also few studies (Guo and Ng, 2011; Rice, 2002) which analyse dyadic relationships using co-production. Thus this study fills all these gaps in the literature by contributing to the theory of co-production. It also contributes to the IMP framework as it uses this framework to analyse the context of the study.

8.4.2 Contribution to practice

Understanding of the concept of co-production is important for policymakers and MFI managers so that they can deliver BDS programmes effectively. This gives insights into how the concept of co-production can be used in BDS programmes. Furthermore, the conceptual framework developed could aid microfinance policymakers and pratctioners to implement BDS programmes as it provides a basis for formulating strategies based on co-production.

Based on the findings, this study proposes some key strategies that MFIs can use to conduct effective BDS programmes. These strategies have been designed with consideration of the issues surrounding BDS, such as their lack of financial sustainability and low client demand for them. Some notable strategies proposed in section 8.3 are that MFIs should

- Use innovative methods such as coupon systems and low cost BDS delivery methods (e.g. social media) to sustain BDS programmes.

- Introduce demand-driven BDS such as market linkages.

-- Introduce low cost training methods such as on the job training and mentoring to improve the expertise of counsellors.

- Ensure post-intervention follow up is available for counselling and training.

-Train clients as counsellors and trainers to improve the sustainability of BDS programmes.

-Collaborate with the government to cater for poorer clients.

Based on the findings, some recommendations for policymakers who deal with BDS programmes in microfinance initiatives can be derived. They should focus on:

- Providing funds for BDS programmes, since funding is an issue for BDS programmes. Donors/investors must look at BDS as a long term investment.
- Providing training for the counsellors and trainers (i.e. capacity development) of MFIs.
- Encouraging MFIs to provide BDS to poorer clients by imposing conditions when providing funds.
- Encouraging MFIs to provide financial literacy to clients before micro credit is given.
- Creating a linkage between the governments of developing nations and MFIs so that both parties can collaborate in the delivery of BDS.
- Advising governments to improve microfinance initiatives, such as the creation of market linkages, and the development of infrastructure (e.g. roads, electricity), which are key for BDS to thrive.

8.5 Limitations and areas for further research

This study mainly focuses on the dyadic relationships between counsellors and owner managers by using the concept of co-production. However, it is clear that many other parties are involved in co-production other than counsellors and owner managers; for example, other BDS stakeholders such as trainers, officers, MFI management, external trainers, external BDS providers, family members, friends, relatives of owner managers, and other service providers such as banks who help owner managers are also involved in co-production in BDS. In other words, there is a wide scope for future study of BDS which goes beyond the dyadic perspective of relationships to include the wider network.

This research was cross-sectional in nature and hence it is proposed that a longitudinal research over a longer period be conducted by using a method such as ethnography that would generate more useful data. Moreover, this study focuses mainly on identifying co-production factors and outcomes but pays little attention to how co-production has helped improve the performance of MFIs and microenterprises with reference to performance data. Thus future studies should focus on the performance of BDS by obtaining the data pertaining to performance such as sales, profit figures from microenterprises and level of employment generated, and the number of new businesses introduced by MFIs.

The study has identified factors relating to the counsellor-owner manager dyad which have ramifications for both theory and practice. However, it has not investigated the relative importance of the factors identified. Thus it would be wise to identify these in future studies, which would help policymakers supporting counselling interventions.

The study also paid little attention to vocational training and group counselling. Thus future studies could consider these areas to investigate BDS and its impact on co-production.

This study is limited to Sri Lanka. Future research could therefore be conducted on different countries to examine co-production in BDS. Moreover, based on the study findings, the concept of co-production can be applied to different industries and contexts. Nevertheless, this study is the first to investigate co-production in BDS in the microfinance context.

The findings of this study show that BDS improve loan repayments. There is a dearth of studies on this and the findings are not conclusive about the relationship between BDS and loan repayments. Thus future research should focus on this. The findings do not highlight the importance of an owner manager’s expertise (i.e. formal education and experience) in improving co-production, although the literature (Yukichi *et al*, 2012;

Auh, 2007; De Wildt, 2004; Halder, 2003) contradicts this. Thus future research needs to be carried out to investigate whether the expertise of owner managers affects co-production in the microfinance setting. This study has made a major contribution by investigating how contextual factors affect co-production. However, more empirical studies are needed to investigate how factors such as lending methodology, linkages, social mobilisation programmes, top management expertise, BDS pre-requisites and BDS processes influence co-production. Moreover, further studies could be made of different disciplines to examine the impact of contextual factors on co-production. This study reveals that there is no co-production in training, but that training enhances co-production in counselling. Thus more research should be conducted on the microfinance setting to examine whether there is co-production in training and how training enhances co-production in BDS.

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Appendix

Annex 1

Module 1: Training for Success

Session Title
1 Training for Success
2 What is a business?
3 How does a business work?
4 The Market
5 Who are my customers?
6 Who are my competitors?
7 Review Session 1
8 Business game: Module 1
9 My business' position in the market
10 Product and Price Commercial Strategy
11 Marketplace and Promotion Commercial Strategy
12 My Commercial Plan
13 Review Session 2
14 Business Game: Module 2
15 Business Game: Module 3

Module 2: The Business and the Family: Costs and Finances

Session Title
1 The Business and the Family
2 Income, Costs, and Profit
3 My Costs of Production and Operating Resources
4 How Do I Calculate the Cost of Production of My Product?
5 Prices and Price Equilibrium
6 How to Make a Good Price Decision
7 The Registers and Controls in My Business
8 The Growth of My Business
9 Will I Be Able to Pay My Loan?
10 Taxes

Module 1: Manage Your Business Money

Session Title
1 Separate Business and Personal Money
2 Use Business Loans for Your Business
3 Calculating Profits
4 Track, Plan and Invest Your Business Money
5 Decide How to Use the Profits of the Business to Satisfy the Needs of the Business and Your Personal Needs

Module 2: Increase Your Sales

Session Title
1 Know Your Customers
2 Treat Your Customers Well
3 Sell to Different Kinds of Customers
4 Improve Your Products and Services

	5 Sell New and Complementary Products and Services
6 Prevent Business Losses	6 Seize Opportunities to Sell
7 Manage Credit Sales	7 Sell Where Customers Buy the Most
8 Review of the Learning Sessions of “Manage Your Business Money”	
	8 Set the Right Price
	9 Promote Your Business with Good Selling Practices
	10 Plan for Increased sales

Module 3: Plan for a Better Business
Session Title
1 Use Planning Steps to Grow Your Business
2 Examine How Your Business Is Doing
3 Decide How You Can Improve Your Business
4 Develop and Test New Business Ideas
5 Plan How Much to Make and Sell
6 Plan Business Costs
7 Plan for More Profit
8 Find Resources for Your Business
9 Prepare for Unexpected Events

Annex 2

Review of key literature on co-production

The following table x summarises the key literature on co-production

Table x: Review of key Literature on co-production

Author(s)	Sector	Focus	Nature of Study	Findings and conclusions
Parks et al. (1981)	General	Identifies a formula for co-production.	Conceptual.	Coproduction can be defined as $Q= cRP^{d}CP^{e}$ Where Q= Output, RP= Regular Producer inputs, CP= Consumer Producer inputs, c = scaling factor, d, e= output elasticities of each input. This formula highlights the joint efforts between two parties who jointly determine the output of their collaboration.
Bitner et al. (1997)	Health	Examines the role of customers in creating quality and productivity in service experiences.	Case studies.	Customers who have undertaken training are more knowledgeable and need less assistance. Monitoring customer contribution by encouraging them, giving them feedback and rewarding them improve participation. The customers are satisfied with their own and the service provider's outcomes as a result of effective participation in service delivery.
Gruen et.al (2000)	Insurance	Identifies members' commitment (normative, affective and continuance) impact on co-production and member participation.	Quantitative 2535 responses received. Administrated questionnaire	Normative and affective commitments partially mediate the effects on co-production and member participation.

			primarily to obtain the data in addition to some exploratory interviews being conducted.	
Rice (2002)	Business incubators	Understanding of the dyadic relationship between the incubator managers and entrepreneurs through the co-production concept.	Empirical, multiple case study.	The allocation of the time of the incubator manager, the intensity of intervention, the breadth of co-production modalities deployed, and the readiness of the entrepreneur to engage in co-production are revealed as factors affecting the output elasticities related to co-production inputs.
Bettencourt et al. (2002)	Knowledge-Intensive Based Services (KIBS)	Proposes a model for the client co-production management process.	Qualitative, case study based.	The model proposed by the study can be applied to various KIBS firms which need tailor-made solutions. The model illustrates the notion of considering clients as partial employees. Effective co-production improves the project success, client satisfaction and competitive advantage.
Bendapudi and Leone (2003)	Manufacturing and	Examines the effects of customer participation on	Quantitative, based on two	Findings show that a customer who participates in production is subject

	service.	customer satisfaction based on self-serving bias.	studies.	to self-serving bias and that this bias is reduced when a customer has a choice (autonomy) of whether he or she will participate in production.
Kotze and Plesis (2003)	Education	Students as co-producers in education.	Conceptual.	Presents a model which explains how student participation and socialisation contribute to co-production.
Heish et al. (2004)	Restaurants	Examines the relationship between customer participation and service provider's workload.	Quantitative. Data were collected from 293 customer contact employees at 64 restaurants in Taiwan.	The findings indicate that customer participation is positively related to the service provider's workload.
Etgar (2008)	Services	Identifies stages in customer engagement in co-production.	Conceptual	The article discusses the basic linkages between co-production and customisation and presents co-production as a dynamic process which is composed of five distinct stages.
Auh et al. (2007)	Financial and medical	Identifies the factors enhancing the level of co-production and investigating	Empirical, quantitative sample consisting	Customer expertise, customer-advisor communication, customer affective commitment and interactional justice are identified as factors that have an impact on co-production

	services.	the link between co-production and customer loyalty	of 1197 customers from a large multinational financial services organisation and 100 patients from medical services. Data were collected through self-administrated questionnaires sent.	and in turn customer loyalty.
Mc~~C~~Culloch(2009)	Education.	Students and lecturers as a co-producers in universities/	Conceptual	Students should not be considered as consumers but co-producers. Deep learning should be promoted as opposed to surface learning. Students, lecturers and others focus on the production, dissemination and application of knowledge, and parties who support the learning process should focus on the production, dissemination and application of knowledge,

				and the development of learners, rather than merely skilled technicians.
Cheung and To (2010)	Financial services.	Identifies the moderating role of co-production between customer involvement and perceived service performance.	Quantitative. The study was made on 349 Chinese bank customers.	The relationship between customer involvement and perceived service performance is stronger when there is high co-production.
Guo and Ng (2010)	Equipment- based services.	Co-production through individuals between two companies.	Empirical, discourse analysis.	Co-production can be enhanced through the interpersonal relationships between individuals in the service provider and customer firms. With the increased interpersonal relationships cooperation can go from reciprocal to communal.
Chen et al. (2011)	IT industry.	Explores the influence of business-to- business co-production on service innovation.	Empirical, quantitative study based on 157 questionnaires received from IT firms.	Co-production positively influences service innovation to a degree that depends on the collaborative partner's compatibility and history of business relations, affective commitment, and expertise. Moreover, the business's innovation orientation enhances (moderates) the relationship between co-production and service innovation.
Peters et al. (	Entertain	Identifies consumers' search	Qualitative, case	The findings identify three stages of co-production process

2012)	ment	for meaning and fulfillment via collective co-production.	study method.	(design, production and consumption). During the design stage consumers try to shape their self-concept (eg. social inspiration). Consumers learn during the production stage and share their experiences with others during the consumption stage.
Ford and Dickson (2012)	Service.	Customer self-efficacy in co-production.	Conceptual.	Customer self-efficacy is important in service co-production and thus the service providers have to use strategies such as employee training and environmental cues to enhance customer self-efficacy.
Pestoff (2014)	Public services.	Collective action and sustainable co-production.	Conceptual.	Small groups can help achieve sustainable co-production. Collective action is key to making co-production sustainable.
Cepiku and Giordano (2014)	Communi ty health.	Co-production in developing countries.	Case study.	External context is often ignored in co-production studies. Lack of selection criteria for users of co-production. It is possible to find out the overall impact of co-production but usually not possible to attribute the results to specific aspects such as co-production management or contextual elements. Co-production benefits from a high level of social capital and a strong community spirit. Co-production needs to be integrated into normal planning and management systems.

				Regular integrated planning and supervision are key to the sustainability of co-production. When selecting clients for co-production, one has to trade off between the most skilled and the most representative users.

Source: author's compilation

Annex 3

The initial study made on BDS in Sri Lanka

The researcher was able to visit and collect data pertaining to microfinance and BDS provided by five microfinance institutions (MFIs) in Sri Lanka. This study was done in 2012. (MFIs-1, MF-2, MF1-3, MFI-4, and MFI-5). In the study, an attempt was made to find answers to the following questions through in-depth interviews with the managers of the respective MFIs.

The questions pertained to geographical coverage, clientele, sectors, loan size, interest rates, gender, lending methodology, BDS provided, how they are provided, qualifications of the trainers/counsellors, charges for training, whether there is any follow up and specialisation (These questions were determined in consultation with Professor Dean Patton, the first supervisor, as we felt it would be better to have some questions in these interviews). The findings show that MFIs catered for clients in both rural and urban areas. Further MFIs chosen for the initial study catered for both men and women though they gave more priority to women. MFIs used both individual and group lending to provide microcredit to clients. MFIs provided range of BDS such as business training, market linkages, technical assistance, vocational training to clients. Some MFIs provided BDS free of charge (e.g. MFI-3) whereas some MFIs charged a fee (e.g. MFI-1). The qualifications of counsellors and trainers attached to MFIs chosen varied. For example, some MFIs (e.g. MFI-1) had counsellors and trainers with higher educational qualifications. The in-depth interviews further showed that counsellors and trainers who provided BDS followed up on the clients after they provided services.

Annex 4

Semi-structured questionnaires

Questionnaire for Microfinance Manager

1. Explain the purpose of the study
2. How does MFI select the clients to credit facilities? (If not mentioned outright, probe for): based on poverty index, sector, collateral, gender, geography
3. Should clients undergo an initial training (social mobilization) to obtain credit? (*i.e*. prerequisite) If so, what is the importance of this initial training and how is it provided?
4. How does MFI select clients for the BDS program?
5. Describe how you provide BDS to clients? (If not mentioned outright, probe for): linkages
6. Can you explain the role of the loan officer?
   Does he engage in BDS activities other than credit? If so, probe for the workload
7. How does BDS staff (i.e. counsellors/trainers) help the loan officer/MFI improve the loan repayments and lending of more loans?
8. Why do you provide BDS?
9. How do BDS affect the performance of MFI and clients?
10. What are the qualifications of the BDS manager?

Questionnaire for BDS Manager

1. Explain the purpose of the study
2. What are the BDS you provide? (via counselling and training)
3. How do you select clients for BDS?
4. How do you provide BDS to clients? Do you collaborate with external BDS providers?
5. How do you plan and design the BDS?
6. Do you provide counselling to clients? If so can you explain how counselling is provided?
7. How do you evaluate the performance of the counsellor?
8. Do you provide training to clients? If so can you explain how training is provided?
9. How do you evaluate the effectiveness of training?

10. Can you explain new BDS initiatives you have introduced recently and how you implement them?
11. Why do you provide BDS? (If not mentioned outright, probe for):
12. How do BDS affect the performance of MFI?
13. How do BDS affect the performance of the client/owner manager?
14. Do you conduct different training programs for different clients? If so, why, and what are the different training programs?
15. What is the most effective BDS you provide? What is the least effective BDS you provide? Which mode is most effective in providing BDS (counselling or training, combination)
16. How is the sustainability of the BDS program?
17. What are the successes and failures of the BDS program? How do you learn from the program?
18. How do you evaluate the performance of the BDS program?
19. How do some MFIs succeed in their BDS programs?
20. What are the qualifications and experiences of trainers and counsellors? (including external trainers)
21. Qualification of BDS manager

Questionnaire for Trainer

1. Explain the purpose of the study
2. What types of training do you provide?
3. What types of skills and knowledge do you want to impart to clients through training?
4. How do you select clients for training?
5. Can you explain how you conduct a training session?
6. How do you collaborate with clients in training? (If not mentioned outright, probe for): communication, expertise, interactive training
7. What are qualities that a client should possess in order to collaborate effectively in training? willingness, communication, expertise
8. What are the factors that encourage/discourage clients to engage in training? (If not mentioned outright, probe for): location, fee, duration, timing
9. How does MFI monitor the performance of training and how is follow up done?
10. What client information do you provide to MFI based on training?

11. Can you explain whether you perform activities other than training? If so what are they?
13. How do MFI and clients benefit from training?
14. What are your educational qualifications, training undertaken, experience and expertise as a trainer?

Questionnaire for Counsellor

1. Explain the purpose of the study. Can you explain how you provide counselling to clients?
2. How do you select clients for counselling?
3. What types of counselling do you provide? (assisting in loan applications, registrations, forming producer groups, marketing linkages)
4. How do you collaborate with the client in a counselling session? (expertise, communication, relationship)
5. What qualities do you expect from the client to collaborate effectively in counselling? (communication, willingness, relationship, expertise)
6. How is follow up done and performance monitored in counselling?
7. What client information do you provide to MFI based on counselling?
8. What factors encourage/discourage clients to come for counselling? (location, time)
9. Apart from counselling do you engage in other activities? (*i.e.* credit), If so explain
10. How does BDS affect the performance of clients and MFI?
11. What are your qualifications and experience as a counsellor?

Questionnaire for Owner Manager/Client

1. Explain the purpose of the study; can you describe your business?
2. What criteria did you use to select the MFI?
3. Why do you obtain BDS provided by MFI? Who motivated you to select BDS?
4. What are the BDS provided by MFI? (awareness)

Counselling

5. What types of counselling do you receive?
6. Can you explain your latest experience in counselling?
7. How do you collaborate with the counsellor? (communication, relationship, willingness)

8. What qualities do you expect from a counsellor to collaborate effectively? (expertise, communication, follow-up, relationship)
9. What factors motivate you to obtain counselling provided by MFI? (location, timing)
10. How is follow up done in counselling?

Training

11. What are the training programs you attended provided by MFI?
12. If you have undergone an initial training provided by MFI, how did it help you?
13. Can you explain your latest experience in training?
14. How do you collaborate with trainers? (communication, willingness)
15. What qualities do you expect from a trainer to collaborate effectively? (expertise, communication)
16. Does the trainer follow up with your work? If so, explain how?
17. What factors motivate you to attend training? (location, duration, internal trainers/external trainers)
18. If you had to pay for training provided by an MFI, would you pay to attend training?
19. Can you explain how you collaborate with MFI/BDS staff with activities like producer groups, market linkages etc.?
20. Please give your opinion for the following statement (to check affective commitment):

"I feel emotionally attached to MFI (name), I feel a sense of belonging to MFI (name) and I always want to engage in BDS provided by MFI"

21. Please give your opinion for the following statement (to check client expertise):

"I am familiar with all the BDS provided by BDS, so I can pick and choose the best BDS for me"

22. Please give your opinion for the following statement (to check the autonomy) "I can select the BDS on my own (voluntarily), so I take the responsibility for the outcome of the BDS"
23. Explain how your group members collaborate with you to engage in BDS.
24. Can you explain how you have used the knowledge and skills received through training and counselling in your business and household activities giving examples?

25. Do BDS help you improve sales and profits? Explain
26. What is the most effective BDS you receive? What is the least effective BDS you receive? What is more important, counselling, training or both?
27. How do you share your BDS experience with others?
28. What are the qualifications, experience and prior business knowledge of the owner manager/client? How do these qualities help in making use of BDS?

Annex 5

Transcript of an MFI counsellor (only a part of the transcript is given in here)
R : Can you explain how you select clients for counselling and how you provide counselling? (Location, meeting, how often)

B : Micro credit is given to a cluster consisting of groups. Each group has three members and a cluster consists of 10 groups. I go to cluster meeting with the microfinance officer (MFO) to create awareness about business development services (BDS). In a cluster meeting we target clients with and without businesses. For clients with businesses, we tell them they can obtain enterprise services provided by us. Those who do not have a business can undertake training provided by us and start businesses. When I inform the clients about our services, then some are willing to obtain them. So I take down the names of the interested clients and follow it up.

R : Can you explain how you visit clients?

B : This branch employs five microfinance officers (MFOs.). Each MFO is responsible for handling 30 clusters (30x30). I am invited by MFOs to cluster meetings to create awareness about enterprise development services. Cluster meetings are held once a month. Sometimes I attend 2-3 cluster meetings a day. The client comes to the branch only to obtain the loan. All the other services, such as receiving loan applications, enterprise development services and payments, are provided at the cluster meetings. I maintain a database of client details on my phone. So I can contact clients and even organise training for them easily. Otherwise, I have to wait one month to meet them. I also give dates to clients before I visit them.

R : Do you visit clients according to a plan?

B : I have to visit 15 clients a month. That is the target. When there is a cluster meeting, I may select clients to give counselling to. 15 clients can represent different clusters. In addition, when other clients (not the clients selected by me) request counselling, I provide it. Sometimes I visit 30 clients a month.

R : Do you visit the clients even without them requesting it?

B : No, I visit client if there is a request most of the time. Clients have got my mobile number and the MFO's number so that they can contact me.

R :. Where do you hold the counselling sessions?

B : I hold counselling sessions at cluster meetings. When MFOs collect money, I conduct a group counselling session for half an hour. After the group counselling session, I give individual counselling; for example, how to obtain business registration forms, to 3-4 clients. These meetings are held at clients' homes, temples or community centres.

R: When do you hold cluster meetings/group counselling sessions?

B : We hold group counselling sessions at weekday morning sessions.

R : . What types of counselling do you provide?
Some clients do not know where to register their business. Some with a business already started a few years back do not have business registration. So, we advise them to register the business at the provincial council, saying that they are going to start the business with the help of the MFI. Otherwise, the provincial council will fine them for delaying the registration. For the business registration the Public Health Inspector has to inspect business premises. So we advise the client how to make the business premise hygienic (e.g. rearing dogs, whether there is a ceiling etc). Moreover, sometimes clients want to register the business only for one product, say 'murukku' (a spicy snack). But we advise them it is better to register for example "Vasana (a name) food products" so that they can introduce more products later under the same registration. Once the business registration is obtained, then we counsel them to focus on labelling since a registration number is needed to be shown on the label."

If the client does not know how to package I ask him to go to the supermarket and buy a packet of gram and observe the packaging. I tell him that customers first get attracted to the packaging, then they buy. If the quality is good then they buy the product again. I ask the client to design a better packaging for his product after seeing the packaging at the supermarket.

R : what about loan and training linkages ?

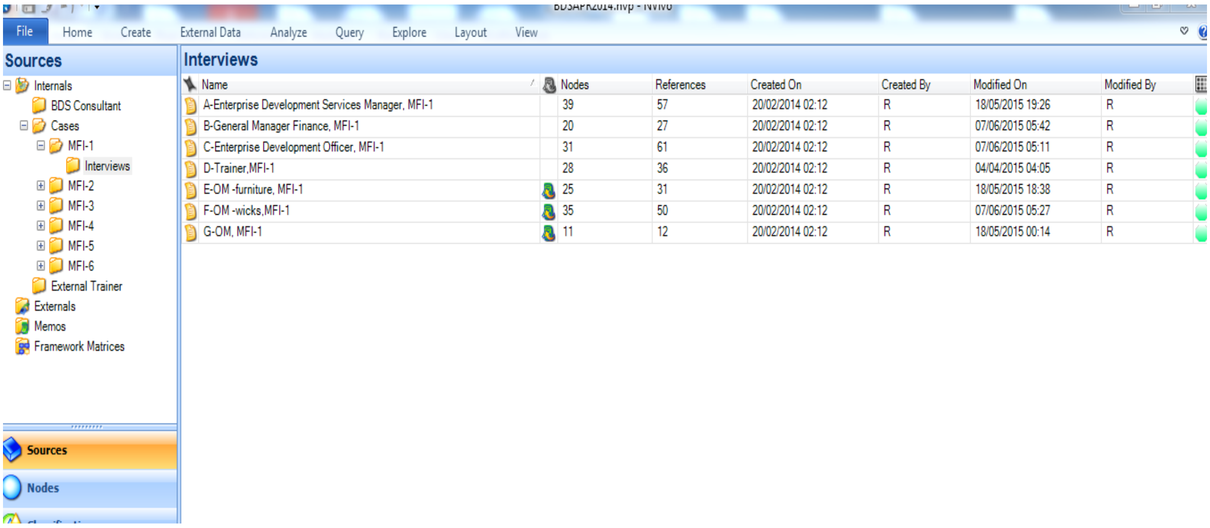
When the client has used up the maximum loans that we provide, then we encourage him to obtain loans from other financial institutions and we introduce such institutions (e.g. banks). Moreover, we advise clients to open an account with the bank and maintain the account for three months so that he can request a loan. Moreover, we ask the client to meet the manager of the bank and show the products he produces (e.g. a packet of gram) so that the client can develop a relationship with the manager. This is also counselling, as the client does not know these things.

When we work with clients, we identify their training needs. So we direct them to training programmes. After the training they come to us and seek counselling. Moreover, our duty is to follow up on the client after training. For example, after record keeping training for a client of mine, I have to visit him and see whether he has understood the training and implement what is learnt. We as counsellors may need to have a sound knowledge about training to follow up on the clients. Sometimes we also attend the training with the clients. Moreover, we have seen that after training clients engage actively in counselling.

Annex 6

Nvivo screen printouts

Sources



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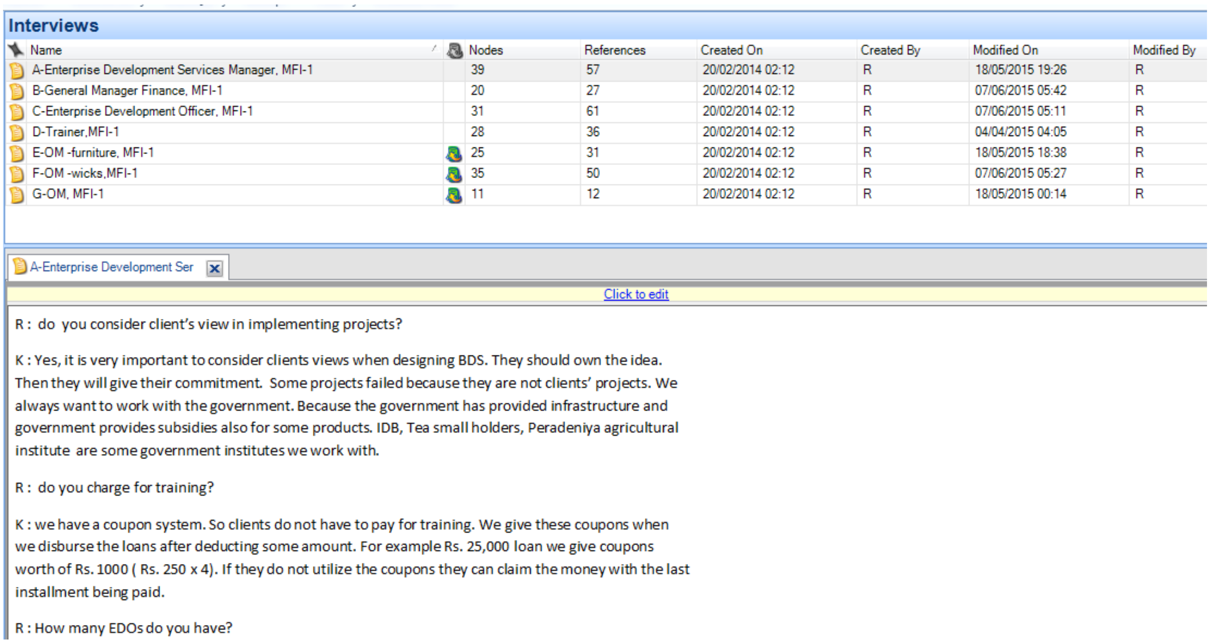
B-General Manager Finance, MFI-1	20	27	20/02/2014 02:12	R	07/06/2015 05:42	R
C-Enterprise Development Officer, MFI-1	31	61	20/02/2014 02:12	R	07/06/2015 05:11	R
D-Trainer,MFI-1	28	36	20/02/2014 02:12	R	04/04/2015 04:05	R
E-OM -furniture, MFI-1	25	31	20/02/2014 02:12	R	18/05/2015 18:38	R
F-OM -wicks,MFI-1	35	50	20/02/2014 02:12	R	07/06/2015 05:27	R
G-OM, MFI-1	11	12	20/02/2014 02:12	R	18/05/2015 00:14	R



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F-OM -wicks,MFI-1	35	50	20/02/2014 02:12	R	07/06/2015 05:27	R
G-OM, MFI-1	11	12	20/02/2014 02:12	R	18/05/2015 00:14	R

R : do you consider client's view in implementing projects?

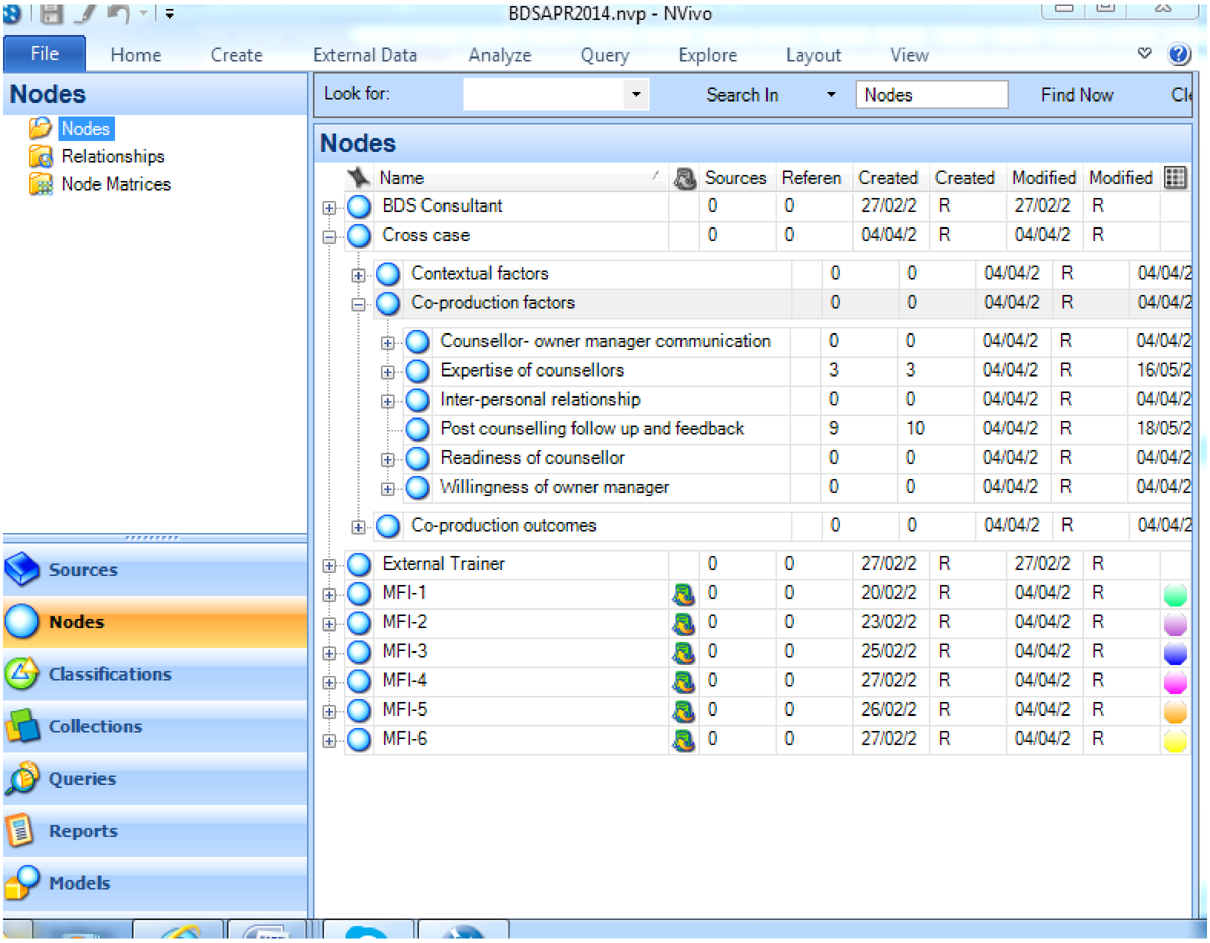
K : Yes, it is very important to consider clients views when designing BDS. They should own the idea. Then they will give their commitment. Some projects failed because they are not clients' projects. We always want to work with the government. Because the government has provided infrastructure and government provides subsidies also for some products. IDB, Tea small holders, Peradeniya agricultural institute are some government institutes we work with.

R : do you charge for training?

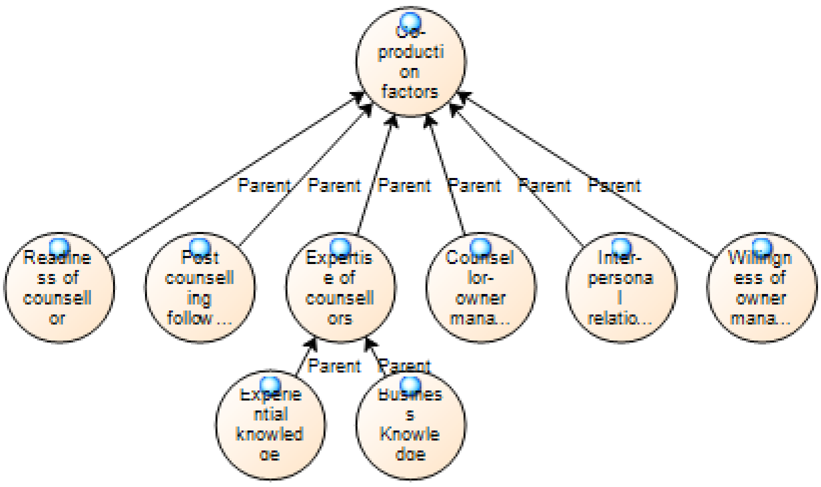
K : we have a coupon system. So clients do not have to pay for training. We give these coupons when we disburse the loans after deducting some amount. For example Rs. 25,000 loan we give coupons worth of Rs. 1000 (Rs. 250 x 4). If they do not utilize the coupons they can claim the money with the last installment being paid.

R : How many EDOs do you have?

Nodes



Models



Annex 7

Additional quotations to support the themes

The table below shows additional quotations to support the themes which emerged in the cross- case analysis (chapter 6).

Theme	Sub theme	Representative quotations
Operating environment	**Client demand for BDS**	The BDS consultant expressed the view that "The lack of client demand for BDS is a major problem for MFIs to provide BDS. Clients do not see a value in them. So sometimes MFIs need to create demand for BDS among clients."
Expertise	**Business knowledge**	The counsellor from MFI-1 1 indicated "For the business registration the Public Health Inspector has to inspect business premises. So we advise the client how to make the business premise hygienic (e.g. rearing dogs, whether there is a ceiling etc") Moreover, sometimes clients want to register the business only for one product, say 'murukku' (a spicy snack). But we advise them it is better to register for example "Vasana (a name) food products" so that they can introduce more products later under the same registration. Once the business

		registration is obtained, then we counsel them to focus on labelling since registration number is needed to be shown on the label." The OM (garage- motor vehicle repair) from MFI-5 stated that "A counsellor needs to have good business knowledge. I gained a lot from the business knowledge of the counsellor. As a result of counsellors' guidance, I keep records for my business (garage) and personal transactions separately, so that I can manage my business income wisely. I also save part of my business income."
Owner manager willingness	**Motivators -economic benefits**	The OM (cars) of MFI-3 stated that "I always like to work with our counsellor because he gives me tips to improve my sales and profits in my business."
	Motivators/- Sense of ownership	The counsellor of MFI-2 stated that "I recently formed a producer group for photographers in the area. When forming this group, I was given ideas and assistance by them. It was easy for me to work with this group as they work as if this is their own project."

	Contextual factors -Time	The counsellor of MFI-3 added that "Before I visit the client, I also give him a call and see whether he is free."
Communication	**Motivational communication**	The counsellor of MFI-5 stated that "We as counsellors always motivate the clients and never allow them to be demoralised."
Interpersonal Relationship	**Intensity of contact**	The counsellor of MFI-4 said that "It is very important to establish a relationship by visiting clients. However, the cost and time do not allow us to do that. If the client is close, then he reveals everything. So it is up to the officer to get close to the client. Always good clients, not default clients, like us visiting."
Counsellor-owner manager communication	**Owner managers communication**	The counsellor of MFI-3 highlighted the importance of accurate information provision by the owner manager, saying: "Talking about OM (cars), he took a Rs 500,000 loan from an informal money lender for his business, paying huge interest and faced difficulties in his business. Had he told me about this, I would have never let him take money from an informal moneylender. So with my recommendation, later

		MFI-3 lent him the money to settle the moneylender's loan and for the business. Now, his business is doing well. So accurate information provision is very important from the client's side. The client has to tell everything without hiding." The OM (service centre) of MFI-3 added that "I have to provide accurate information to the counsellor. Just like providing all information to the doctor when we are sick. Only then can he help me."
Follow up		The counsellor of MFI-5 stated that "When I feel some clients are weak in record keeping, I direct them to training conducted by our MFI. After training, I will visit clients and see whether they maintain records as per the training and help them if they have got any queries regarding record keeping." The counsellor of MFI-1 declared that "We have to follow up and provide feedback on the clients. For example, with the client (wicks) we have planned out how his business should progress for the coming 5 years. We have jointly

		decided important milestones for his business (e.g. employment he should generate, increase in assets). I always give him targets and follow up on him. These targets motivate and drive clients.” The Enterprise Development Services manager of MFI-1 commented on the follow up and feedback as follows. “A counsellor has a form to fill in when he follows up on the clients. The EDO (counsellor) and the client have to agree on a plan to go forward. Both have to sign and the client keeps one copy. When I go to the field, I check the book copy, which is kept in the branch. The EDO has to follow up on the agreed plan in the coming months.” Counsellors from MFI-1 and MFI-2 mentioned that they could follow up and give feedback on the phone, as they maintained a database of clients’ contact numbers and give their mobile number to all the clients. The counsellor of MFI-1 declared that “I maintain a database of client details on my phone. So I can contact them. Thus, it is easy for

		me to follow up on the clients. Clients also have my mobile number. So they can also contact me." Counsellors and owner managers mentioned that the former follow up and provide feedback at group and society meetings. The following are selected two quotations to support this. The counsellor of MFI-4 stated that "We attend group and society meetings where we can follow up on the clients and provide feedback easily." The OM (garage) of MFI-5 explained that "We meet our counsellor at group and society meetings and he always inquires about our businesses and gives feedback."
Co-production outcomes	**Owner manager related outcomes**	The OM (cars) of MFI-3 stated that "Two years back, I was planning to start a farm; the counsellor said that I should focus on the automobile business as my skills are in that field. When I was buying and selling old vehicles in my car business, the counsellor told me that I should buy and sell newer cars instead of old ones. So I am doing it right now and I am

		earning better sales and profits." The OM (service station) added that "I keep records for my business and personal transactions. I set aside a salary for myself. Furthermore, I consider myself as an employee of the business. As you can see here, I have introduced the 5S quality concept to my office. I have introduced and designed a customer records system from which we send reminders to clients. We also send New Year cards to our clients. I learnt all this from the counselling and training that I received."