10 Empowering or oppressing: the case of microfinance institutions

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INTRODUCTION

This chapter examines the origins of microfinance and the institutions which provide it, and it gives an overview of the research literature, showing the contradictory and competing objectives of microfinance institutions caught between the objective of poverty reduction and the pressures for profitability. Notions of field, capital and habitus are used to theorize the influences and impact of microfinance institutions on the poor and to explain in particular the role of accounting at the boundary and interface of different fields. The actual processes associated with microfinance are explored in three case studies of microfinance clients and three of microfinance lenders. From these cases it becomes evident that much of the accounting and controlling process is privatized to the individuals involved in the microfinance borrowing groups which monitor and control each other because they often share liability for loan repayment. While this can be empowering and supportive in some settings, it is also clear that there is potential for exploitation and abuse.

While accounting is sometimes represented as a tool of oppression or exploitation it has also been argued that it can function as a tool of social betterment (Gallhofer and Broadbent, 1997). Few other examples illustrate so clearly the balance between an empowering and an oppression role for financial models and institutions as the case of microfinance. Over the last two decades microfinance institutions have become one of the most notable responses to poverty alleviation and development, culminating in the United Nations declaring 2005 the 'International Year of Microcredit'. Microcredit refers to 'small loans', whilst microfinance refers to the provision of a wide range of financial services for the poor, often with no requirement for collateral. Microcredit and microfinance seem to promise to improve the lot of the most extremely poor in a way that is sensitive to community needs and still pose relatively little by way of financial burden on wealthy Western countries, as loans, unlike grants, generally are repaid. Given this, microfinance has been promoted as an effective way to reduce poverty and to improve development. Yet little attention has been paid to how the practices of control and visibility associated with microfinance create governable subjects and governable spaces.

According to the Credit Development Forum (CDF), the following are the characteristics of microfinance services (CDF, 2004): (1) small loans, typically for working capital; (2) informal appraisal of borrowers and investments; (3) collateral substitutes, such as group guarantees or compulsory savings; (4) access to repeat and larger loans, based on repayment performance; (5) streamlined loan disbursement and monitoring;

and (6) secure savings products. However, not all models of microfinance reflect these characteristics and not all institutions share the same commitment to development and poverty reduction.

The role of accounting in microfinance institutions is not immediately obvious, as it can be seen as an example of the absence as opposed to the presence of accounting (Choudhury, 1988; Jacobs and Kemp, 2002). This is so because these organizations operate beyond the framework circumscribed by traditional financial reporting and management control. However, this characterization is an oversimplification, as the process and practices of control associated with microfinance institutions have rendered new groups visible and calculable (Miller and O'Leary, 1994). This visibility and calculability occurs through the social and cultural process of lending to and collecting from village-based groups and organizations. It could be argued that these more direct forms of visibility through the loan collectors and more indirect forms of collective visibility and control through group registration offer a substitute to the relatively expensive (and in this context ineffective) processes of accounting measurement and control. To some extent the community arrangements associated with microfinance can be seen as a privatization of the costs of monitoring and control where these costs are transferred from the microfinance institution to the individual and the community.

There is a danger that accounting notions are used to legitimize the reduction of poverty to a solely microfinancial or economic issue – essentially a question of access to credit. As a consequence the broader structural, social and political questions associated with poverty are ignored. Miller and O'Leary (1994) particularly emphasize how practices of account render the actions of individuals visible and discipline them in conformity with 'wider political norms'. However, the second issue relating to microfinance and accounting is the construction of governable spaces. In effect the sovereignty of the economic is extended to new areas of social and personal life (Llewellyn and Walker, 2000). Watts (2003, p. 9) highlights this link between development or poverty reduction practice and the construction of governable subjects and governable spaces.

THE COMPETING AND CONTRADICTIONARY OBJECTIVES OF MICROFINANCE INSTITUTIONS

It is the dual construction of the governable subject and the governable space which so characterizes the emergence of microfinance. Microfinance has been lauded as the 'Holy Grail' of development and the solution to the problem of world poverty. However, it also exists as a form of governmentality, rendering the poorest and weakest subject to new and inescapable forms of external and internal visibility. Governable spaces are created as new aspects of life, and new communities are subject to visibility and control as part of a broader objective of 'economic development'. Yet these agenda are not fully aligned, and microfinance institutions face three different competing demands. The first is that the microfinance institution is expected to contribute to the economic development of the country as a whole by promoting economic activity and growth, the second is the requirement that the institution generates sufficient profit to survive (and possibly grow) and the third is that the microfinance institution provides the poor with a way out of their poverty.

In addition to balancing these competing and contradictory objectives there is a real danger that microfinance does not lead to development or empowerment, but rather represents a new way to exploit the poor. Even in the context of the best of motivations and intentions, pressures on aid agencies and on the microfinance institutions can lead to mission drift and developmental work being abandoned in favour of more profitable activities and visible target groups. As a consequence, the poorest applicants fail to receive loans, with credit provision directed increasingly at richer and, as a consequence, 'safer' applicants. There is a real and important empirical question as to the conduct of these institutions in balancing their legitimate objectives and whether they function as a tool of oppression or empowerment. While giving loans to the poor can reduce poverty, it does not necessarily maximize economic development, which might be more effectively addressed by giving loans to the not-so-poor. In contrast the objective of profitability might be best addressed by giving loans to the not-really-poor-at-all.

MICROFINANCE – A BRIEF HISTORY

The origin of the modern microfinance movement is generally attributed to Dr Muhammad Yunus. In the late 1970s, Yunus initiated the first microfinance programme as an experiment in rural Bangladesh, which formed the basis of the Grameen Bank. Yunus was awarded the 2006 Nobel Peace Prize for his anti-poverty efforts.¹ Yunus's experiments and their success led to the wider acceptability of the notion that providing access to credit can bring about change in the socio-economic situation of the poor (Khalily, 2004). Grameen's success has also been instrumental in encouraging more than 750 non-governmental organizations (NGOs) to operate small-scale microfinance programmes in Bangladesh (ADB, 2000a).

The innovative feature of Yunus's and the Grameen Bank's approach was that they were willing to lend to the poor lacking the assets required for collateral by other loan providers. Previous attempts at subsidized credit had not reached or benefited the poor, whilst arguably they did benefit the rich and were sometimes politically motivated (Vogel, 1984). For instance, in Costa Rica, 80 per cent of the US\$56 million subsidies provided to the largest bank during 1974 went to wealthy farmers (Khandker, 1998; Coleman, 2006). Moreover, monopolistic power, higher interest rates, and exploitation through undervaluation of collateral have restricted the informal financial sector's capacity to provide credit to the poor, hindering economic and social development (Ghate et al., 1992).

Yunus's idea was to target very small loans to the landless women who wanted to start a small business through buying a cow or a sewing machine. Such people did not have financial capital. The provision of credit was normally accompanied by training in both business and group dynamics. The major innovation was the notion of group lending, where groups of generally five borrowers form and, while loans are made to individuals, each member of the group is responsible for loan repayment. The group meets weekly with a bank officer and with a number of other such groups. If one member of the group defaults then all in the group are denied subsequent loans. The group structure takes advantage of local information and social capital networks associated with informal enforcement and risk sharing, and peer pressure is used generally to monitor and enforce

contracts, providing an incentive for borrowers to repay and therefore reducing the risks for the microfinance institution. This social-capital-based group mechanism constitutes a powerful tool to improve the loan recovery rate and minimize costs, thereby enabling microfinance institutions to improve profitability and sustainability (Del Conte, 2000).

While microfinance had its roots in Bangladesh it has now spread to both developing and developed countries (OECD, 1995). However, not all institutions reflect the Grameen Bank approach. For instance, Banco Sol in Bolivia started as a microfinance NGO in 1987 and became a bank in 1992. It serves the 'richest of the poor', offering larger loans and focusing on banking rather than social services and training (Morduch, 1999, p.1576). Morduch (1999) reported its interest rates as high at a 48 per cent annual base rate with an up-front commission of 2.5 per cent. Clients with a performance record are offered a better deal at 45 per cent per annum (Morduch, 1999, p. 1576). The organization is a financial success, although it is questionable whether it can be regarded as an agent of poverty reduction, and the levels of interest charged open it to accusations of exploitation. Bank Rakyat Indonesia also lends to the 'better-off' poor and non-poor and provides comparatively large loans. It does not use group lending structures, requires the borrowers to provide financial collateral for their loans, and does not provide training or social services to the poor. Annualized interest rates are around 34 per cent generally, although they were reduced to 24 per cent if the loans were paid without delay (Morduch, 1999, p.1578). The repayment rates and profit from loans to the 'poor' clients exceed those on the loans to corporate clients (Morduch, 1999, p. 1578). Bank Kredit Desa (BKD) in rural Indonesia is a sister organization to Bank Rakyat. It lends small amounts of money to the poorest and does not require collateral. Whilst it does not use a group lending approach, the funds are allocated through village-level management commissions under the authority of the village chief (Morduch, 1999, p.1578). The reported interest rate is 10 per cent on the weekly repayment, although this translates to a nominal annual interest rate of 52 per cent.

THE MICROFINANCE DEBATE – THE EVIDENCE

There is an extensive literature on microfinance's impact on development and poverty reduction which suggests a positive impact of microfinance on clients with regard to economic well-being and resilience. Grameen members in Bangladesh are reported to have had a significant increase in employment opportunities (Hossain, 1988), personal income (Hanifan, 1996), housing condition (Rahman and Hasnat, 1993) and nutrition (Rahman, 1986), a reduction in exposure to seasonal vulnerability, a contribution to lower volatility or smoothing of consumption, and better crisis management (Mustafa et al., 1996; Khandker, 1998; Pitt and Khandker, 1998; Khalily, 2004). Khandker (1998) found that a Grameen-type microfinance programme had an impact on both individual and household education, income, savings, expenditure, wealth accumulation and women's empowerment. Hossain (2002) shows that about 60 per cent of borrowers believe capital gained from a microfinance programme assisted them primarily in achieving a better socio-economic condition.

From the perspective of economic development, microfinance is seen as an 'inducer' in many community development activities, and an ingredient in many larger programmes, such as education and training, employment generation, empowerment of women, social responsiveness and political awareness (Alamgir, 1997; ADB, 2000a). It also promotes the growth of local enterprises and female entrepreneurs (Pitt and Khandker, 1998; Morduch, 1999; Bertaux and Crable, 2007). Grameen Bank's microfinance programme is augmented by social development programmes in maternal health, nutrition and childcare, which in themselves should provide beneficial impacts upon the poor (Pitt and Khandker, 1998; ADB, 2000a, 2000b; Mahmud, 2001; Holvoet, 2004).

Additionally, there appears to be an important symbolic impact on individual social capital arising from the effect of microfinance institutions on poverty reduction and economic development. The fact that a microfinance institution was willing to lend to a given individual is an important source of social distinction and therefore social status (Rahman, 2002a, 2000b). This lack of access to economic capital in the form of credit can directly affect social networks of individuals in settings such as rural Bangladesh. Rahman (2002b, p. 72) recounted a response from a Grameen Bank (GB) member:

I was starving. No one bothered to give me a handful of rice. I went to so many shop-keepers. They would not trust me. They would not give me a seer of rice on credit. Now that I have joined GB and I am doing fine in terms of income earnings, everybody cares for me. If I want a mound of rice, those very shop-keepers will possible [*sic*] send it to my house without asking for a penny. What a change.

Therefore entities such as Grameen are an important source of symbolic social status and recognition (Rahman, 2002b, p. 72) and reduce feelings of social exclusion (Habib and Jubb, 2010).

Chowdhury, Ghosh and Wright (2005) studied the impact of microfinance programmes on both subjective and objective poverty in Bangladesh. The study took place in 1999 among the clients of three major Bangladeshi microfinance institutions, namely Grameen, BRAC and ASA, and found that microcredit borrowing is associated with lower poverty. It is not clear whether this was a direct effect of the symbolic and social capital effects of the increased social standing or the benefits of economic productivity arising from the microfinance loan. Chowdhury et al. (2005) also argued that short-run impacts of microfinance loans were limited and long-term arrangements of at least six years were required to have a real benefit. The danger of short-term arrangements is that when the money is spent people fall back into poverty.

Alamgir (2000) studied the 20 partner microfinance institutions of the Palli Karma Sahayak Foundation (PKSF) (Rural Employment Support Foundation) in Bangladesh. That study found that most (97.51 per cent) borrowers had an improvement in their overall quality of life, with membership in microfinance programmes bringing improvements in family income and expenditure, quantity of food, housing condition, child education, sanitation, and social awareness.

Existing studies suggest that microfinance programmes have the capacity to address socio-economic and developmental problems in the lower strata of the population (Mustafa et al., 1996; Khandker, 1998; Pitt and Khandker, 1998; Rutherford, 1998; Rahman, 1999; Mosley, 2001; Wright and Dondo, 2003). Rahman (2002a, p. 236) found

a significantly lower incidence of diseases among Grameen members' children aged under nine years compared to children of non-Grameen Bank members.

Habib, Hartel and As-saber (2006) found that the Grameen approach to microfinance with a commitment to credit, training and broad-base social development has the broadest impact on the income, housing and children's education of the poor because of the broad range of social, health and business skills training it provides. However, institutions which lack delivery of the social provision and skills training have a more limited impact. The question of the nature and extent of training and social services provided is one of an important distinction between different types of microfinance provision and may be a significant factor in explaining the tension between microfinance as a form of poverty reduction and development and microfinance as an example of exploitation of the poor. Even Yunus has started to express concerns about businesses and big commercial banks that see money-making opportunities in cultivating low income borrowers. The danger is that these businesses will become too focused on the bottom line and forget the customer (Wilhelm, 2009).

While several authors and institutions extol the virtues of microfinance and its positive impact on community and individual welfare, some have raised concerns about microfinance generally and the operation of some microfinance institutions specifically. Issues such as the impact of microfinance on the very poor and especially women, the wear and tear of social trust among individuals and communities as a result of negative loan experiences, and the impacts of particular loan institutions, especially the for-profit lenders, have been debated widely.

A major issue of debate is the extent to which microfinance benefits the very poor. A cross-country study (Hulme and Mosley, 1996) revealed that microfinance loans increase income for the 'upper poor' or 'entrepreneurial poor' and non-poor participants (who are above the national poverty line). However, they found that 50 per cent of the 'poorest' or 'core poor' could not participate, while these of the 'poorest' who did participate experienced only a small and short-lived increase in income. Wright (2000) argued that Bangladesh is the only place where microfinance is considered a mature market (CDF, 2004), and elsewhere most microfinance institutions are not reaching the 'poorest of the poor'. This can be attributed to an overemphasis by microfinance institutions on credit delivery with limited consideration of the needs of the poorest (Wright and Dondo, 2003; Datta, 2004).

While participants in microfinance generally report an increase in their income, some report falls (McNelly and Dunford, 1998, 1999; Capestake, Bhalotra and Johnson, 2001; Mosley, 2001). By participating in microfinance programmes, poor households can become poorer as they fall into additional debt (Chowdhury et al., 2005). It can be argued that, for them, opportunities for productive use of loans are often limited, the requirement for weekly meetings too time consuming, and the risk of taking loans repayable on a weekly basis unacceptably high (Rutherford, 1998; Wright, 2000). It is also evident that the poorest of the poor lack the educational and social capital required for business success and are very vulnerable to a change in personal or environmental conditions (Jacobs and Kemp, 2002). Generally microfinance borrowers work in low-return activities in a saturated market and are vulnerable to various environmental (for example, flood, drought and crop failure) and socio-economic (for example, sickness, bad business ventures, unfavourable market situations, theft and violence) shocks

(Hulme, 2003), often beyond their control, causing some borrowers to encounter great difficulty in repaying their loans on time.

The operation and approach of different microfinance institutions are also the subject of debate and criticism. Grameen is the 'gold standard' approach, combining a broad programme of social development with education and microfinance loans at reasonable rates. However, not all other institutions include similar social development or educational projects, and the effective interest on loans can be as high as 50 per cent (Morduch, 1999; Ulvila and Hossain, 2002; Chowdhury et al., 2005). Yunus observed that if an institution is charging above 15 per cent on a loan it has perverted microcredit's charitable intentions and is now no longer a microcredit provider but a loan shark (Wilhelm, 2009). Thus for-profit institutions risk exploiting the very people they are claiming to help. However, non-profit institutions supported by charity and international aid funders are also criticized for becoming too focused on the needs of the donors and being distant from the needs and expectations of beneficiaries (Shobhan, 1982; Task Force, 1991, p. 379). Based on their study of a Zambian microfinance institution, Dixon, Ritchie and Siwale (2006) argue that microfinance institutions find it difficult to accommodate multiple stakeholders and that the demands for top-down vertical accountability and good governance, as articulated by official aid and development agencies, can stifle more horizontal or relational forms of accountability, thereby undermining core organizational values.

That many microfinance institutions lend primarily to women raises particular issues, as the cultural context of many developing countries (particularly in the poorest areas) has tended to be less supportive of female involvement in commercial activity. Goetz and Gupta (1996) illustrate that, in 63 per cent of the cases they studied, women reported 'partial', 'very limited' or 'no involvement' in production processes. Yet borrowers (women) are liable for making the repayments, which could potentially position them in a problematic and vulnerable situation. There are reports that pressure for repayments from microfinance institution credit officers can result in increasing physical and verbal abuse in the household (Rahman, 1999). Montgomery (1996) also claimed that members with payment difficulties can be subject to abuse and threats from credit officers and having their possessions (for example, pots and pans, and roofing iron) seized. Dixon et al. (2007, p. 63) describe the use of police officers to enforce loan repayment, which resulted in the client being imprisoned. While this reflected the use of direct force, the primary objective was to generate embarrassment and shame. Dixon, Ritchie and Siwale (2007, p. 64) also relates how loan officers harassed clients by making regular visits to defaulting families at 4.00 in the morning and again at 7.00 in the evening.

However, while external controls are used occasionally, the most powerful force was the internal pressure from other loan group members, who could become abusive and threatening to group members who were late in their repayments (Montgomery, 1996). The consequence is that, if one group member does not pay, the entire group can be denied future access to credit. Hence the very group lending structure and social capital resources which enable the microcredit loans can be a powerful and damaging force when directed against offending individuals. Hulme (2003) illustrates how far this can go, with claims that female suicides have resulted from problems in repaying loans in Bangladesh.

Concerns have also been raised about the contribution of microfinance to long-term

sustainable poverty alleviation (Elahi and Danopoulos, 2004). It is argued that the microfinance short-term objective of poverty alleviation may undermine development financing in rural areas and hence distort rural financial markets (Adams, Graham and Pischke, 1984; Braverman and Guasch, 1989; Meyer and Nagarajan, 2000) and divert attention from the need for investment in social and physical infrastructure (Shaw, 2004).

In addition there are concerns about the financial viability and managerial competence of microfinance institutions. A study conducted by UNDP (1988) revealed that NGOs advocating microfinance programmes in rural Bangladesh had high cost structures and institutional limitations, while some NGO managers have been criticized for being inefficient and lacking the required competence (ADB, 1993).

THEORIZING MICROFINANCE

Llewellyn and Walker (2000, p. 447) argued that accounting is an interface activity which allows objects and artefacts to attain value (in use or exchange) across the boundaries of different domains. Llewellyn and Walker's (2000) analysis highlights the importance of the use of calculable technologies by individuals and families and the interface between different realms of existence such as the public and the private (p. 448). Instead of the notion of domains or the binary distinctions between the public and the private realm, Bourdieu (1990) used the term 'field' to describe a network of social relations – structured systems of social positions within which struggles or manoeuvres take place over resources, stakes and access.

Jacobs and Kemp (2002) used the notions of social capital to explain the relative success of micro-entrepreneurs in Bangladesh, drawing on the work of Putnam (1993), Coleman (1990) and Bourdieu (1977a, 1977b). Putnam (1993) defined social capital as 'socially accepted norms of trust or reciprocity' and illustrates it by using the example of a rotating credit association which reflects closely the group lending arrangements found in microfinance. Microfinance institutions carry new forms of visibility and calculability into areas of life, bridging the public and the private domains and rendering the private visible. That other community members are willing to be formal or informal guarantors for a loan and enforce loan repayment significantly reduces risk for financial institutions and provides an alternative to traditional asset-based security. However, Bourdieu (1986) argued that social capital associated with networks and relationships is only one of the resources available to agents and that there is also economic capital (as understood by the economics discipline and which is convertible into money) and cultural capital (embodied in long-lasting dispositions of mind and body, objectified in cultural goods and institutionalized in qualifications and titles). Bourdieu (1977a, 1977b) claimed that social status and social success were based on manipulation and transfer between generations of different forms of capital. In addition dispositions, attitudes and skills (which Bourdieu calls 'habitus') are required to use the capital resources successfully, but the same dispositions and skills are also the embodiment of social divisions and therefore the social and the cognitive are linked (Everett, 2002, p. 58).

Because Bourdieu seeks to transcend the distinction between structure and agency, the notion of field is closely aligned to the notion of habitus. In that sense what is real is not institution or structure but relationship, and thus relationships are mediated by

the habitus of the respective participants. Therefore a field is where those relationships can be 'played out', respective capitals exploited, and the rules followed or rewritten to benefit one person or another. Thus particular kinds of capital might be valued more in one field than another. Further, a field reflects the subjective habitus of the participants, who incorporate into their habitus the necessary knowledge to maintain the field in order to maintain or improve their social status. In effect, legitimacy is generated by acting according to the implicit habitus embodied in a particular field.

This theoretical approach goes some way to accommodate the position of both advocates and detractors of microfinance. First the world of banking and the household or the village community can be seen as separate fields. In the former there is a relatively plentiful supply of financial capital, as all the key players in the field will have access to financial capital as a condition of their entry. The traditional requirement to demonstrate a strong asset base in order to receive a loan is evidence of this. The arrival of microfinance institutions means that financial capital is made available in the field of the village community, where there has previously been little access to credit and this form of capital has been in short supply. The control over access to financial capital places the microfinance institutions in a powerful position, with potential to perpetrate both harm and good.

Individual community members can gather status from being associated with a microfinance situation. The social networks associated with the microfinance loan can significantly enhance the social standing of an individual within his or her community and thence others' willingness to engage and to lend them further financial or physical resources. However, it is apparent that microfinance institutions play out their own status game with funders and shareholders. This is particularly problematic where microfinance institutions have a for-profit focus, because their powerful position in poor villages and communities makes them able to exploit the poor, who have relatively little recourse.

Bourdieu's notion of habitus, field and capital also explains why the impact and benefit of microfinance loans can be variable. While microfinance loans represent the possibility of access to financial capital, not everybody is equally equipped to use it. For those with the appropriate training and family background (habitus) and access to business or commercial networks, this access provides an important opportunity for economic enhancement. However, in contrast, those who lack the skills and dispositions to utilize the loan effectively are unlikely to benefit either economically or socially from the microfinance process. Business start-up research shows that entrepreneurs with access to appropriate business and social skills are more likely to succeed than those who have access just to financing (Bates, 1990; Baron and Markman, 2000; Musyoki, 2010). Therefore microfinance clients from families with a history of a particular business or with access to effective training and support from the microfinance lender are more likely to be successful. In addition, community and family networks (social capital) relevant to the particular enterprise undertaken are likely to be beneficial.

CASE STUDIES IN MICROFINANCE

This section describes six case studies purposively selected from original fieldwork based in Kenya and part of a wider project (Musyoki, 2010). Interviews were audio-recorded

and later transcribed. All names have been changed because of confidentiality requirements. The three case studies involving microfinance clients demonstrate how micro and small enterprise owner-managers' disposition (*habitus*) and access to various forms of capital, that is, social and economic, influence the chance of success in business. In addition, the three microfinance lenders' case studies reflect variations in microfinance operations consistent with changing microfinance institutional aims.

Microfinance Clients

Matata the fish trader

Matata is a single mother of two. She is now in her mid-forties and all she has known in her life so far is struggle. Matata lives in the lakeside city of Kisumu in Kenya where she grew up. Like most women living in Kisumu, Matata became interested in the fish trade. Equipped with basic literacy skills from high-school-level education and a donation of KES 20 000 (AUD 400) from her uncle, Matata was ready to trade in fish. Initially she had to rely on the good will of close acquaintances in the fish business to find her way round in getting fish supplies. She reiterates that this was a good indicator of what lay ahead. Although she has now managed fully to penetrate the supply chain, she reckons this is still a major challenge in the fish business.

By 2000, 16 years after starting her business, Matata was in a position to sell an average of at least 10 tonnes of fish per week, an operation mode she had established for several years. Later that year Matata received some unexpected visitors: credit sales executives from the local branch of a microfinance bank. They convinced Matata to open an account with their bank, and six months later Matata secured her first loan of KES 50 000 (AUD 1000) at an interest rate of 0.5 per cent per week (which is equivalent to 26 per cent per annum).

Matata invested three-quarters of her first loan to set up a small restaurant and the remaining quarter to pay school fees for her children. To Matata, the restaurant was a good opportunity to expand and add value to her business by offering fish-based dishes to the city's working class. Matata managed to repay the loan fully within six months, after which she applied for a second loan of KES 100 000 (AUD 2000). As at the end of 2008, Matata had borrowed more than 10 times from the same bank under similar terms. However, Matata was getting a little worried because, although she could repay the loans, her businesses were not doing so well. The restaurant was in rent arrears and she had difficulty paying her three employees regularly. As for the fish trade, the daily volume of supplies was declining because she did not have enough working capital.

Matata is determined to fight on, because the businesses are the only source of livelihood for her and her two children. She however regrets having got herself into a debt cycle. Matata says: 'I was poor when they came, but now I am not only poor but also in debt!'

Matata's relationship with the microfinance industry is at best ambiguous. Her business was established through the application of her educational skills, social networks and family finances. The collective good will or social capital of the community was essential in the establishment and success of her fish trading, and despite being a single mother she had built her business skills and developed an effective business. The microfinance institution was visible in the form of the loan officer, who provided capital

and encouraged Matata substantially to extend her business enterprises. However, the microfinance loan provided was not clearly targeted, since only three-quarters of the money was used in the business while the other quarter was used in personal expenses. In addition there was no evidence of support or training or even the requirement for an effective business plan reflecting how the loan would be used. Matata did repay the loans, but rather than facilitating rapid development and poverty reduction it locked her into a cycle of debt and servicing the significant interest burden of the microfinance lender. In some ways her situation is similar to the relationship with the money lenders and loan sharks which existed prior to the arrival of the microfinance institutions.

Through processes of accounting, Matata's family and life have become visible and governable. From an economic development and growth perspective this would be presented as a success story. This previously insignificant single mother was converted into a significant business person but more importantly into a significant and ongoing source of profit for the microfinance lender, who was receiving 26 per cent interest. The benefit to Matata was more ambiguous. It is also evident that Matata was not the poorest of the poor, as she had some access to financial resources and networks in the fish trade and skills (*habitus*) and she had access to the social capital network (contacts) in the industry.

Mama Bidii the shopkeeper

In 2000, in a Kenyan town called Chongoria lived a 'Mama', who was running a small grocery shop. This Mama was a member of a local women's group. Through her group she was able to access modest business training from Ukweli, a local microfinance organization. Having been an active member of her group, Mama was enlisted to apply for her first loan of KES 15 000 (AUD 300). She used the money to boost the business and she fully repaid the loan within just six months. Mama then applied for a second loan of KES 30 000 (AUD 600). She again contributed it to the shop and again paid it back in six months, and then borrowed KES 45 000 (AUD 900) and again repaid it within six months. Then she decided to take KES 75 000 (AUD 1500) to diversify her business by opening a small butchery next to the shop. She also fully repaid the KES 75 000 within six months.

Then Mama decided to go for a bigger loan of KES 120 000 (AUD 2400), with which she bought a dairy cow and started also planting vegetables on a commercial basis. Then from KES 120 000, she went for KES 150 000 (AUD 3000) and diversified further and opened a hotel! These three businesses were running concurrently, as well as the farming one. Then from KES 150 000 she took KES 250 000, then KES 450 000 (AUD 9000), KES 600 000 (AUD 12 000), and KES 900 000 (AUD 18 000), and managed to repay each of these loans² within nine months.

At this point Mama Bidii could buy more dairy cows, and she expanded the operation of her butchery, supplying meat to the neighbouring schools. As at the beginning of 2009 Mama had 10 dairy cows, was still running the shop, a hotel, and the butchery, and was doing horticultural farming! She had repaid the last instalment of the loan of KES 900 000, and was asking for KES 1 million (AUD 20 000) in order to buy a lorry to engage in the livestock trade on a wholesale basis. Given her impressive track record, Ukweli has used Mama Bidii to train other women in business.

Mama Bidii has created a business empire employing 22 people within 10 years, including some of her group members. For example, at the hotel there are 10 employees,

at the shop she employs one person, at the butchery she employs five people, and then at home she has six people working on the farm. In every sense her story is a success. The microfinance credit provided the opportunity for Mama Bidii to develop her business, and all the money borrowed was spent on the expansion of the business. Many people in the community have benefited and been lifted from poverty because of this process.

The accounting process made Mama Bidii visible and subject to financial calculation by bridging between the field of the household and the field of the commercial. Mama Bidii was both active and keen to access financial capital through a succession of loans from Ukweli and used these loans almost entirely to build her business. There was a significant interest rate (19 per cent), but the small size of the initial loans (and associated repayments) gave Mama Bidii the opportunity to develop her business habitus and social capital networks before more substantial loans with more onerous repayment burdens were allowed. Her business skills are clear from the growth of her activities and that she is now used to train others. However, Mama Bidii was not the poorest of the poor. She was a significant local person who was well respected in the community and had considerable business experience and networks from running her shop. Ukweli, the local microfinance lender, provided her business training as the first stage, which enhanced her skills and abilities.

Ujuzi the furniture maker

In 2002, Ujuzi heard about a microfinance organization (Lengo) that had set up offices in his home town of Machakos in the eastern part of Kenya. Ujuzi had been running a furniture business for five years. Before starting his business Ujuzi was a grade three carpenter who was laid off from T-Joint Limited (a furniture company) in Nairobi, where he had worked for close to 10 years. He had not been able to access the money (financial capital) he needed to buy machines and tools to move his business to a 'take-off' stage, a dream he had always cherished. Determined to succeed, Ujuzi formed a group with his close business friends with the aim of benefiting from the financial services of Lengo. After six months of training on group dynamics and business proposal writing, the group was challenged to nominate one of its members to apply for their first loan. Ujuzi was nominated, and he still remembers that day vividly. He states: 'It was all joy for me, having struggled to raise money to expand my business for many years; it could not have come sooner!'

Ujuzi's first loan was only KES 50 000 (AUD 1000), for which he paid an interest rate of 1.75 per cent per month (equivalent to 21 per cent per annum). Ujuzi has since successfully accessed and repaid five other loans, taking nearly double the previous loan amount every time. Besides the money, Ujuzi also decided to improve his management skills by enlisting the services of a small business advisory agency (Biashara Masomo) recommended to him by his financier, Lengo. Through Biashara Masomo, Ujuzi has received one-on-one training on basic accounting, marketing and management with special reference to his business. Ujuzi recalls that, before seeking help from Lengo and Biashara Masomo, 'My business was in a deplorable condition and I could not meet the daily household needs of my family of six members – just me, my wife and four children. In addition to lacking basic tools and machinery, my business did not have decent premises where I could store and display products. Moreover because of a lack of working capital, I relied on asking customers to make deposits (when placing orders) to buy the necessary materials.'

By the end of 2008, seven years later, Ujuzi boasts of having transformed his business into a medium-sized furniture factory. He has expanded his product lines. Whereas previously he relied on household (home) sofa sales, he now offers dining sets, beds, desks, wall units, wardrobes, various types of chairs, and just about any furniture made from wood. Ujuzi has acquired a sizeable yard, which houses a workshop of more than 30 carpenters, a storage warehouse, and a front display shop which can hold close to 50 units. Ujuzi feels his future looks brighter; he says: 'My kids now go to school without much struggle. My business is growing and I can now serve markets far beyond my home town. I am building a house for my family. What more could I want in life?'

Ujuzi's case shows how access to accounting skills and to financial capital laid the foundation of the effective growth and development of his business. It was clear that he already had some business skills and a well-established business, but the lack of access to financing was a significant constraint on the development of his business. As a consequence he was willing to invest the time and resources in developing the social network associated with the microfinance loans. Ujuzi provides a virtually 'textbook' case for business development built on an existing business base combined with a steadily increasing series of loans over an eight-year period that allowed him to develop the networks, expertise and experience to manage the larger loans and the substantial interest expense (21 per cent) successfully. It is interesting to note that while the loans were not used for personal and family-related expenses it was the direct benefit to the family, their housing and their education which Ujuzi highlights as the real benefits of the microfinance loans. However, it is also clear that Ujuzi was not among the poorest, as he had access to resources, expertise and networks.

Microfinance Institutions

The microfinance institutions as lenders are the counterpart to any account of individual borrowers. Existing literature suggests that these organizations are not the same, but differ in their approach, interest rate and attitudes.

Maendeleo was an initiative of 50 street families in Nairobi, Kenya and was registered as a charitable trust in 1999. The mission of Maendeleo is to assist its clients to get out of poverty, and it is focused on building a better life for families. At the core of this mission is a belief that any family, however poor, is capable of this. Maendeleo argues that this transformation can take hold if people are willing to utilize their skills, and are determined enough to commit themselves to hard work. Maendeleo has currently more than 200 000 member clients, most of whom are street beggars, ex-street beggars, and destitute families from both the urban and the rural communities. Wanza the operations manager said: 'Nobody is too poor to become a member of Maendeleo.'

Unlike other microfinance institutions in Kenya, Maendeleo offers a savings facility and loans to poor street mothers and the less fortunate. Maendeleo also offers housing, and life and health insurance services. Besides financial services, Maendeleo microfinance trains its clients on how to run a business successfully. In addition Maendeleo clients get access to mentorship and counselling that encourage them to lead a productive, self-reliant life. It funds its operations with financial support from member savings and donor funding. Maendeleo is fully owned by its members, and therefore the issue of a gap between the profit expectations of investors and the needs of the clients does not

arise. However, the provision of these services does increase costs, which together with increasing lack of access to affordable long-term finance either from government or from donor agencies means that Maendeleo is forced to charge high interest rates for its loans, which may impede long-run objectives of poverty reduction and development.

Maendeleo connected with several different areas which have the potential to alter the lives of members. First and most obviously it provides access to financial capital to its members. However, this functions through a process of social networks which build the social capital resources available to members. Access to financial capital and development of social capital are combined with extensive training in business practices, which equips members with the *habitus* skills to start and run businesses. However, because of the secretiveness and fluidity of the lives of the target group, informal and face-to-face approaches are taken rather than traditional formal accounting controls to gain people's trust. Thus people who would never otherwise be part of the economic system are made visible and calculable.

Kenda-Kumi microfinance had its origin in a 1983 USAID study. Today Kenda-Kumi, the financial services arm of the Kenda-Kumi Group, is registered as Kenda-Kumi Bank, whose credit terms of around 18 per cent per annum compare favourably with those of other microfinance institutions. Its management insists that the aim is not profit maximization but financial sustainability through the provision of deposit (savings) and loan facilities to its clients. The bank uses social security (peer group member guarantors) as alternative collateral, besides chattels for the low-income borrowers who form the bulk of its clientele; however, it is not involved in training or social development activities.

Given the nature of Kenda-Kumi activities it continues to receive considerable financial and institutional support from international donor agencies, for example the Danish International Development Agency (DANIDA), Plan International, and the Department for International Development (DfID). Kenda-Kumi illustrates that microfinance institutions must balance competing interests and demands. They must be economically viable to receive grants and funding from international development agencies so they can lend money to the poor at a lower interest rate, but to become economically viable they had to abandon the training and social development activities which contribute to their development and poverty reduction goals.

Mavuno transformed from a microfinance institution to a bank in 1984, and at the end of 2008 it controlled more than half of all bank accounts in Kenya. While its reputation is as the largest microfinance institution in Africa, it now functions as a 'financial supermarket' which combines banking, insurance and stock brokerage. In effect it goes where money can be made.

For the millions of Mavuno's clients, before they can access credit they need to have operated a business account (with the Bank) for a minimum of six months. Loan approvals are determined strictly by how active one's account is. The average loan amount offered by Mavuno is KES 40 000 (AUD 800), with an interest rate of 18 per cent per annum on a reducing balance. The loan term is strictly one year with mostly weekly repayments.

Since its establishment the Bank has won several awards. In June 2009 it won the Emerging Markets Most Sustainable Bank of the Year in Africa and the Middle East. Later that year, Mavuno received the African Business of the Year award from the Commonwealth Business Council and was voted the best microfinance bank in Africa

by the Africa Banking Awards group. However, it now functions as a commercial enterprise, with little explicit development agenda, and it targets the marginally poor and 'wealthy' who are economically active.

While some microfinance institutions such as Maendeleo have a clear link to the community and community development and poverty reduction, it is evident that others like Mavuno no longer have a development or poverty reduction focus but instead function like other profit-focused banks and financial institutions. Both of these entities have the effect of bridging the field of banking and finance with the field of the domestic and private life. However, the objective and focus of this process of bridging are different between Maendeleo and Mavuno. Maendeleo aims to shift financial capital into the domain of the poor to facilitate development and poverty reduction, while Mavuno aims to render the realm of the poor to a new field of profitability and exploitation. Within both examples the accounting systems make the borrower visible. However, the purpose and impact of that visibility differ. In effect the role of accounting in the microfinance processes is divergent and contingent.

ACCOUNTING PROCESSES AND MICROCREDIT

Llewellyn and Walker (2000) highlight the role of accounting as an interface activity, which allows objects and artefacts to attain value across the boundary of the private and the public domain. Therefore, in the language of this chapter, accounting can provide an interface between the field of the household and the field of finance and business. However, in the three cases presented this was not an interface activity. The microfinance institutions bypassed the expected processes of formal financial control and accounting-based monitoring and transferred the monitoring and control activities into the private domain of the borrowers. This is sometimes explained in terms of social capital, whereby existing networks and relationships are used to monitor and control behaviour and therefore to ensure that loans are repaid on time. Although programmes vary, generally low income people, whether in business or not, are encouraged voluntarily to form groups of between five and eight members before they borrow funds. When forming groups, emphasis is put on leveraging existing social ties. In particular, prospective microcredit borrowers are advised to form groups either with other people they have worked with previously or with neighbours where possible.

Once a group is in place, members proceed to formalize it. Initially members must nominate a chair person to lead discussions during group meetings, a secretary to take notes and a treasurer, as a minimum. The group then becomes official, in some cases by registering with the relevant government ministry (for example, in the case of Kenya) or simply by filling in formal registration documentation from the respective microfinance institution. Either way, a newly formed group generally drafts a constitution, assisted by staff from the microfinance institution, stipulating its objectives, rights and responsibilities to members. The group then opens an account (under its name) with the microfinance institution and commences compulsory weekly savings, commonly referred to as shares, which continue indefinitely. At this stage each group member has to furnish the microfinance institution with some form of official identification to help account for individual savings over time. This establishes these individuals as calculable entities in

the microfinance institution's accounting system. Official member identification documents also are used to control fraud. Because identity is clearly established, a visibility is created, and the implication is that the police may be involved if necessary. Rendering borrowers visible in the accounting system also renders them controllable. The process provides an accounting identity to individuals who might otherwise escape such accounting. Rather than the creation of the governable self, it is an example of the creation of governable space. Individuals must account to each other for their financial activities in a manner similar to the processes of confession and examination observed in the Iona Community (Jacobs and Walker, 2004). In order to function within the microfinance context members must form a family-like setting.

The next step in preparing new group members involves training. Regardless of whether the members are in business or not, normally initial training focuses on managing group cohesion. These training sessions, which often last for up to six weeks, are facilitated by staff from the microfinance institution. The training is mostly interactive, and members use it to familiarize themselves with the mission of the microfinance institution and with their collective and individual roles in the microcredit delivery process. Where members of a new group are not in business, their initial training is tailored towards business idea generation, name registration, and basic ground rules on managing government regulations. Then for this category of microfinance clients, training may relate to cottage industry skills, taking into account existing talents, skills and individual member resources. However, for members with operational businesses, the focus of training is mostly basic bookkeeping, that is, maintaining a sales ledger and a cash register and other generic business development services.

After the six weeks of training, the next step is preparation for a loan application. Although practice varies across institutions, this normally entails mobilizing members' savings for a minimum of six months. The savings serve as collateral against borrowed funds, and normally members are not permitted to withdraw these funds. Although the amount saved is modest, given that group members are permitted only to borrow in turn, collective group savings are likely to provide substantial loan security. In addition, loan applicants are required to prepare a basic business plan. Whether for an entire group or an individual member's business, it provides documentation of the basis for how the loan will be used to generate funds. Upon submission, the business plans are evaluated by designated credit officers, and the member with the best plan is the first to apply for a loan, all other things considered, for example transaction history and value of pledged collateral. These individuals can now be measured, quantified, analysed and disciplined.

Once a loan application has been approved, a designated account tagged to the borrower's savings is created and credited. The field officer then notifies the group chair and respective member about the 'good news'. For the member, though, the hard work of repayment begins immediately in the following week. Like savings, microfinance loans are payable in weekly instalments. All weekly collections (savings and loan repayments) are submitted to the microfinance institution either through an appointed field officer or by the nominated group treasurer. The emergence of both internet and mobile phone banking has greatly eased the time burden on poor microfinance clients. Using modern technology, clients can now make their 'remittances' direct to their microfinance account without having to meet credit officers regularly or visit branch offices.

To minimize the risk of default and to ensure group members continue to secure credit

through the schemes, members are expected to meet at least once a week and minute their deliberations. It is in these meetings that members record attendance, compare notes, and ensure the accuracy of the records of member contributions and loan repayments. In a sense, the microfinance institution enlists its members to conduct its accounting processes.

If a member confides with his or her peers about possible financial distress, a resolution can be passed to bail that person out. In the unlikely event that this does not happen, the chair must immediately notify the respective microfinance field officer about the development. Where a default is reported, the microfinance institution holds group members collectively responsible for the full amount owing. Nevertheless, all affected members are expected to recover their money by taking assets (such as household goods) belonging to the member in default. Assets can be taken by microfinance institutions where a defaulting borrower is not affiliated with a group.

CONCLUDING REMARKS

While the processes and structures of empowerment and exploitation are far from clear, the consequences are fairly obvious. The interest rates charged by some local and many international microfinance institutions are excessive and exploitative. In these cases the term 'microfinance' and the development rhetoric just legitimate this exploitation (see, for example, *Economist*, 2009). The tragedy is that many well-meaning aid and development agencies are supporting and funding these exploitative institutions. However, the story as a whole is more complex. Some microfinance institutions have worked hard to maintain their values and sustain the focus on development and poverty reduction. To achieve this they have invested in extensive training and community development. However, this commitment to training and social development is costly and likely to push up the interest rates charged. Because these institutions focus on development and poverty reduction, the institutions are not profitable and therefore are not deemed to be economically sustainable. There is evidence that international aid and development agencies are more reluctant to provide funds and support, which also increases the interest rates. As a consequence organizations with the strongest commitment to development and poverty reduction can end up charging high interest rates which disadvantage the very poor they seek to help.

In contrast, some microfinance institutions that have embraced the notion of economic sustainability have increased their emphasis on profitability. Consequently they have been diverted from the objectives and business practices embodied in their mission as microfinance institutions. They have reduced the emphasis on training and developmental activities and focused more strongly on the provision of microcredit loans. This has reduced their overhead costs, made them more appealing to external funders and aid agencies and therefore increased access to loan funds. In some cases the microfinance institutions have shifted away from the no-collateral approach which has barred the very poor from receiving loans. Hence many have already shifted from a focus on the very poor to those considered to be economically active and who have more education and access to financial or personal social capital.

From an accounting perspective, accounting makes aspects of life previously not

subject to economic and financial control visible and controllable. Access to financial capital is a source of power (Bourdieu, 1986). However, financial capital needs to be combined with business networks (social capital) and accounting or business skills (habitus) to be successful.

While individuals are constructed as calculable and visible, it is evident that much of the accounting and control is privatized to the microfinance borrowing groups. These groups monitor and control each other, because they often share liability for loan repayment. Formal at-a-distance accounting shifts to mutual face-to-face accounting. While this can be empowering and supportive in some settings, there is potential for exploitation and abuse. This case does illustrate the danger that noble objectives of development and empowerment can be subverted by demands for profitability and economic sustainability, sometimes driven by the very international bodies which have the term 'development' in their name.

NOTES

1. The Nobel Peace Prize in 2006 was jointly won by the Grameen Bank and Yunus.
2. All the loans were obtained from Ukweli microfinance and were charged at a base interest rate of 1.25 per cent per month plus an additional 4 per cent per annum for administration fees. This translates to an effective annual interest rate of 19 per cent.

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