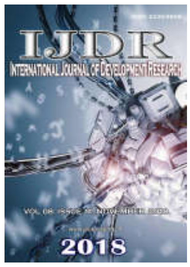
Available online at http://www.journalijdr.com

IJDR

ISSN: 2230-9926

International Journal of Development Research
Vol. 08, Issue, 11, pp. 24048-24055, November, 2018



ORIGINAL RESEARCH ARTICLE OPEN ACCESS

RECONSTRUCTING MICROFINANCE IN SUB-SAHARAN AFRICA: SEARCHING AMONG SOCIAL BUSINESS, SOCIAL BANKING AND "CO-MANAGEMENT MICROFINANCING"

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ARTICLE INFO

Article History:

Received 27th August, 2018
Received in revised form
19th September, 2018
Accepted 22nd October, 2018
Published online 28th November, 2018

Key Words:

Microfinance, Sub-saharan Africa, Social business, Social banking, co-management.

ABSTRACT

As institutionalized microfinancing has come under much criticism along its quest in Sub-Saharan Africa (SSA), not least globally, the search for a more sustainable pro-poor operational approach is being sought. Nobel Laureate Mohammad Yunus believes that social business offers a more multidimensional approach capable of addressing the most pressing social and environmental problems of especially, poor people in developing countries. Besides, social banking/finance is also being advanced for the social welfare of the poor-but-entrepreneurial. However, although the two concepts have some overlap: arguably, they all root for better 'impact investment' with both objective and normative benefits, microfinance cannot be wished away from being a viable part of an inclusive financial system. With recourse to past and current development approaches in most of SSA, which tends to believe that 'growth' requires a capitalist/entrepreneurial class to boost industrialization, the strategic development conceptualization seems to suggest the relevance of "successful creation" of individual livelihood initiatives at steady and reasonable wages as the most promising basis for self-employment. Taking a process perspective on sustainable livelihoods, induced by a thought-out financial system which works better for the poor, we present "co-management" microfinancing as a distinctive way of thinking about inducing the desired effect of microfinance to live up to its billing.

Citation: Yaidoo, Lindsay Isaac Kwamena and Dr. Vishwanatha, K. 2018. "Reconstructing microfinance in sub-saharan africa: searching among social business, social banking and "co-management microfinancing", *International Journal of Development Research*, 8, (11), 24048-24055.

INTRODUCTION

Microfinance is a way of providing financial services to a previously ignored, excluded and disadvantaged population who are also the poor, in order to make changes in their lives (Amin and Ntilivamunda, 2009).

Justification: Unlike conventional banks and other financial instruments, microfinance plays a decisive role towards financial intermediation, financial deepening, and financialization which is intended to provide resources to support the small business activities of clients and therefore promote financial inclusion. This concept is aimed at economic and social improvement and empowerment of the poor which integrates them, from being 'outcasts' working at the fringes of development, into the mainstreams of the economy. The overriding notion is that the poor, first of all, lacks access to wherewithal [capital/finance] and therefore has a perpetual struggle against the harsh economic, political and demographic forces that beset them. Yunus (1994) had stated that it is by making "poverty lending" to the entrepreneurial/ self-employed poor to invest in their micro-activities or microenterprises that they would escape not just from the economic dimensions of poverty but also from its ignorance, humiliation, and gender abuse. Yunus (1982) has earlier described [using microcredit] the stated objective of creating "a system to break the viscous circle of low income, low saving, low investment, to more credit, more investment and more income". This idea is in line with the UN's Sustainable Development Goals 2030 as well as the Africa Union's vision 2063 agenda. But more importantly, it incorporates the right to development for everyone on the planet; endorsed by the UN General Assembly- which proclaimed 'The Right to Development' in its 1986 Declaration. The Vienna Declaration and Programme of Action described development (through finance) "a universal and inalienable right and an integral part of fundamental human rights."

Financial Inclusion for Development?

Financial inclusion is the process of ensuring access to appropriate financial products and services needed by all

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sections of the society, in general, but vulnerable groups such as weaker sections and low income groups, in particular. It connotes affordable cost of finance which is provided in a fair and transparent manner by mainstream institutional players. It is a stated goal not only by the World Bank but also as a development goal of many governments. A World Bank publication in 1998 blames the lack of access to financial services, the absence of convenient savings instruments and credit and payment mechanisms as a major constraint limiting the accumulation of assets by the poor and the development of indigenous enterprises. Beck and Demirguc-Kunt (2006) find that doubts about the causal links between SMEs and economic development can be allayed based on substantial evidence that small firms (and indigenous enterprises) face growth constraints because they have less access to credible finance. Scholars maintain that lack of access to external finance results in continuing poverty (Nissanke, 2002; Hermes and Lensink, 2007). But despite the need for financial inclusion in SSA, research facts paint a woeful proportion of those having access to finance among the population l*et al*one ensure the stated qualities of such inclusion. For example, Chaia *et al*. (2009) found that in SSA, 80 percent of the adult population, 325 million people remained unserved with financial services. Another research finds that 13 percent of individuals aged 15 years and older saved at a financial institution in the period of one year, and only 5 percent received a loan from same (cited in Ledgerwood with Earne and Nelson (eds) (2013), The World Bank). These information reveal a low propensity of financial inclusion and yet, microfinance is often considered the apex organization and the strategic imperative for financial inclusion leading to innovation and progress. Current thinking of economic development, financial administration/ green financing, social and political inclusion etc suggests that financial inclusion is not about just attracting more numbers of clients to the range of providers. "Responsible" financial inclusion increases access to financial services but ensure that it is transparent and 'safe' for consumer/clients based on providing adequate information to enhance their knowledge and choice. This proposition connotes enhancing the bargaining power, especially, of 'vulnerable' users of finance.

Microfinancing with Respect to the Issues at Hand

Currently, the relevance and impact of microfinancing in much of Sub-Saharan Africa (SSA) is being called into question. Client indebtedness and microfinance operations failure are often reported. "Indebtedness was central to the desperation conditions that prevailed" as per the "Marikana Massacre" (Bond, 2012). Van Rooyen, Stewart and Wet (2012) finds that microfinance in SSA has mixed results of good and bad. Addae-Korankye (2014) finds that default rates are high in Ghana. For most of SSA, the problem of poverty is actually about underemployment: about working poor(ly) and making low incomes through livelihood activities. The key conceptualization of microfinance suggests that it is geared towards those within this category. However, such individuals often struggle and become strangled in paying back microfinance debts. In perspective, it is a situation where there is over-abundance of poor entrepreneurs (self-employed persons) of low abilities constantly increasing in number. This situation creates a negative externality on other sectors and limits the quest for industrialization or better job creation. The high proportion of low ability entrepreneurs also hinder development because they are less productive and earn reduced wages as a result. In a report on the job creation activities in Africa, the issue of large informal and corresponding self-employment sector is often described as too "poor quality" jobs and insufficient "good quality" ones (African Economic Outlook, 2012; Teal, 2014). Meanwhile Sririaram and Upadhyayula (2004) had clarified that only if an institution has developmental roots and is non-exploitative, predominantly serving the poor can it be termed as a microfinance institution.

Putting Microfinance under the Spotlight

Several recent studies on microfinancing in SSA suggest that microfinancing leaves a lot to be desired (see for examples Diagne and Zeller, 2001; Kessy and Urio, 2006; Matovu 2006; Alemu 2007; Turay, 2008; Sayang and Huang, 2008; Ngehnevu and Nembo, 2010; Audu and Achegbulu, 2011; Khoda, 2011; Kane, 2011; Mishi and Kapingura, 2012; Olowe, Moradeyo and Babalola, 2013; Electrin *et al*. 2013; Ntibashirwa, 2013; Okurut *et al*. 2014; Kaseva, 2014; Giesenow and Colomeet, 2014; Selome and Tshuma, 2014; Kasali, Ahmad and Lim, 2015; Kazimoto, 2016; Kamusaala, 2016; Thylen and Selen, 2016; Mngadi, 2016; Mutua, 2017. Other researchers recommend the need for MFIs to have better structures in place and have more capable staff: Chirwa, 2002; Nathan, Margaret and Ashie, 2004; Banwuesigye, 2008; Guruswamy, 2012; KPMG, South Africa 2013; Toh, 2013; Okafor, 2014; Chetama *et al*. 2016; Akanga, 2017.

Direct Criticisms: A Good Idea Gone Awry?

Hulme and Maitrot (2014) state "Microfinance has lost its moral compass," Sinclair (2012) in "Confessions of a Microfinance Heretic" outlines a documented profile about the tragic reality of how a good idea was derailed by a same mindless pursuit of profit and financial gains driven by capitalists that led to the worldwide credit crunch about a decade ago. He points out that the poor are being deceived about the impact of an over-priced loan to them. Kohn (2013) in "Microfinance 3.0", points out how previously microfinancing was regarded to be one of the most promising concept to lift poor people out of poverty. Today, however, the reverse is the case: "too much/easy access" resulted in over-indebted clients." Roodman (2012) has observed that the pendulum of public opinion is swinging against microfinance. "That leaves the thoughtful observer, weary of extreme claims in any direction, with a puzzle". Mohammad Yunus (2011) said "I never imagined that one day microcredit would give rise to its own breed of loan sharks. But it has" (cited in Sinclair page 8). Bateman (2010) writes, "Microfinance is largely antagonistic to sustainable economic and social development, and so to sustainable poverty reduction". Arguably, then, people making success through the provision of microfinance services is the number-one goal and justification for a microfinance proposition. One success story should lead to more success stories. As it is said, *markets create more jobs when they are fuelled by people making success*.

Accusations of "bloodsucking" interest rates are empirically founded. For example Yunus (2007) argues that MFIs charging more than 15 per cent above their cost of funds are operating in "the red zone". Gonzalez (2010) tests the Yunus limit on data from the Mixmarket and finds that three out of four MFIs worldwide fall into "the red zone" (cited in

Mersland and Strom, 2011). A key question to ask about microfinancing may be whether it promotes sustainable 'bottom-up' development. Robinson (2001) is one of many arguing that microfinance helps to build thriving hubs of entrepreneurial activity, with many clients escaping poverty by growing their informal microenterprises into small and medium enterprises. La Porta and Schliefer (2008), however, show that this is rare. Storey (1994) notes that policy-makers should consider the dangers associated with the very high failure rates for microenterprises, particularly new start-ups who associate with microfinance institutions.

The Relevance Finance

The financial sector in Sub-Saharan Africa and the link between financial development to support entrepreneurship growth, income generation, savings, expanding markets, and economic growth has been known for some time. That was a key premise for structural adjustment in most of SSA in the early 80s and 90s. In fact, the strategic bottomline was to enhance the propensity of the private sector to play a leading role as the impetus of growth. However, the review of Adjustment in Africa by the World Bank (1994) acknowledged the limited progress in financial sector reforms and called for some rethinking of strategy. Financial restructuring alone did not prove sufficient to improve financial intermediation or increase savings and investment by the private sector. Poor access to reliable finance was found to be related to institutional weakness and structural obstacles.

The Relevance of Microfinance

Woller (2001) states that microfinance provides loans to poor people for self-employment projects that generate income. Others argue that credit market interventions are justified because of their efficiency and their effects on the distribution of resources (example Armendáriz de Aghion and Morduch, 2005). The establishment of the Consultative Group to Assist the Poorest (CGAP) was considered as a major indication of the World Bank's interest in sponsoring Grameen-style microcredit programs to address poverty (Khandker, Khalily and Khan, 1995).

Inferences from 'Microfinance'

- The poor wants to earn a better standard of living and are willing to work for more income
- With access to finance, self-employment is the easier option open to poor persons (seen as production input)
- Promoting livelihood activities through self-employment can lead to creation of successful micro-small or medium enterprises
- In Sub-Saharan Africa, existence of poverty is high among self-employed persons
- Poor persons are disadvantages in accessing finance and because of their situation they face barriers to exit poverty
- There is high risk associated with lending to the poor.

Moving Away from the 'Microfinance Models'

Earlier conceptualizations of which model of microfinancing could work best for poverty reduction centered on the lending mechanisms which were somewhat determined by a microfinance institution's philosophy. Bhatt and Tang (2001) describe the minimalist service delivery approach and integrated service delivery approach. The minimalist approach was based on the call to transform microfinance from non-governmental organizations (NGOs) into for-profit commercial banks. The 'integrated services', however, recognizes that financial institutions that only offer traditional 'microfinance services' are not as effective as those which also help borrowers overcome the psychological burdens of poverty.

The Welfarist and Institutionalist approaches

Welfare-oriented microfinancing tends to insist that depth of outreach and alleviation of material and non-material poverty are key to building a sustainable development apparatus through provision of financial and integrated services. Meanwhile, it acknowledges that the provision of some of those services might require subsidies. The institutionalists, on the other hand, believe that the role of microfinance is financial 'broadening' which means helping to build a system that can provide financial services to large numbers of people on a sustained basis. In this latter perspective, effect of microfinancing on borrowers and their community development is scarcely considered and MFI performance is generally gauged through institutional movements toward achieving financial sustainability. Here, a discussion about these viewpoints provides differing schools of thought as basis to envisage what proposition needs to be considered given the need for microfinancing that delivers. For example, Bhatt and Tang (2001) recommends 'institutional plurality' but we find that in current SSA context, that approach seems too vague. The current delivery of microfinance services in much of SSA is observed as often being a small 'one-man' business with limited institutional capacity, coupled with the profit motive which may not hold sway as an effective development institution or tool in this context. Meanwhile, Hulme and Mosley (1996) sought to justify operational subsidies from government and other stakeholders to enable MFIs provide efficient non-financial services.

Commercialization

Commercialization of microfinance means "the application of market-based principles to microfinance" also "the expansion of profit-driven microfinance operations" (Christen, 2001). It is "the adoption by MFIs of market-based principles in their microfinance activities regardless of whether they are under prudential or non-prudential government regulations" (Almario, 2002). But "the emphasis on financial sustainability by the donors and opportunity for investors/capitalists compels development agencies to change their ethics, or at least it creates an internal tension between 'compassion and capitalism . . ."(Rahman, 2001).

"Mission Drift?"

One strong criticism of "Commercialization of microfinance" is that it places return-on-investment/profit as the primary motive for microfinancing. Some critics liken commercialization of microfinance to the sub-prime mortgage sector in the USA (see Harvey, 2006; Mader, 2015). Other critics make the following accusations:

- It amounts to 'accumulation by dispossession' (Harvey, 2006).
- It results in over-charging of interest to borrowers (Seibel, 2005; Rosenberg, 2007).

- Higher dividend payments (Rozas, 2013).
- Stifles social mission (Rosenberg, 2007).
- It sometimes lead to public tensions through a vicious circle of indebtedness and frustration (Bond, 2012).
- Microfinance institutions tend to serve relatively well-off clients at the expense of other potential beneficiaries (Nawaz, 2010).
- Gonzalez-Vega (1977) points out that during this dispensation, "larger, safer and older borrowers are preferred over smaller, poorer and riskier clients and concentrate loan portfolios in fewer hands;" ultimately defeating the philosophy behind microfinancing.

Arguably, all these conditions exist as it regards the lackadaisical and lackluster performance of MFIs in SSA.

Grappling with the Issue of Neoliberalism

Benedikter (2011) points out three capitalist risk factors: social irresponsibility, intransparency, and unsustainability within the context of the dominance of finance through "neoliberalism." To him they lead poor borrowers to indebtedness, low/poor livelihood income generation cum asset building. He argues for some new thinking of positive perspectives.

The Case for Social Business

A foremost advocate of the social banking proposition as an alternative to existing microfinancing is Nobel laureate Professor Yunus who is widely regarded as the god-father of contemporary institutionalized microfinancing. Yunus (2007) points out the limitation of a government to tackle poverty all by itself. Besides, he adds, "Charity is trickle-down economics; if the trickle stops, so does help for the needy." Social business (according to Yunus) aims at goals other than putting profit-motive at the forefront: one that is totally dedicated to solving social and environmental problems. Its operational structure may be the same as existing profit-maximizing businesses (PMBs). But their difference is found in their respective set of objectives. Like other businesses, it employs workers, creates goods and services, and provides these to customers for a price consistent with its objective. But its underlying objective- and the criterion by which it should be evaluated- is to create social benefits. Of itself the company may earn a profit. However, the investors who support it do not take any profits out of the company except recouping an amount pegged to their original investment over a period of time. A social business is not charity; it is business in every sense. It has to recover its full costs while achieving its social objective (Yunus 2007). Once social objective-driven project overcomes its financial dependence, through full cost recovery, it is ready to truly serve its purpose. Within this dispensation, a social business is designed and operated as a business enterprise with product, services, customers markets, expenses and revenues- but with profit-maximization principle replaced by the social-benefit principle. Rather than seeking to amass the highest possible level of financial profit to be enjoyed by the investors, the social business seeks to achieve a social objective.

Potential shortcoming of this approach: While Professor Yunus, is a pillar as regards the international voices on pro-poor economics, the social business concept may be out of place in Sub-Saharan Africa due to the following reasons: The question of whether such 'social business' would be large enough to be replicated with branches across the important towns and villages to rope in the large number of poor self-employed persons to become employees seems daunting. Besides, such a business with directors, managers and staff receiving relatively low remuneration as compared to other financial profit-maximizing institutions- offering other 'benefits'- would either be unable to attract committed talents or would be unable to retain key staff due to a potential high staff turnover in the midst of a seemingly dynamic labour environment in SSA. Also, current SSA business environment seems to present both opportunity as well as fragility. When much effort is invested in such social business and it fails to live up to its billing, the whole structure soon crumbles and would be viewed with suspicion. From the description of social business, it may have the potential to undermine human effort, enterprise and creativity by subjecting a large number of labor-force to "depend" on the sustainability of a single company within the locality. Such company would have to be singled out and closely guarded to succeed but in doing so would stifle competition. Besides, it seems practically impossible to assume that such a company would not have to invest in such costs as for advertisement or marketing and so on. It has been established that a greater number of the self-employed, who constitute some of the poorest workforce in SSA, have low education. By being employed by a 'social business' one wonders what would be the nature of their employment if not as petty or casual sales personnel- making paltry remuneration. In effect, the notion of social business seems to be a somewhat deviation from the current practice of microfinance which has gained wide patronage in SSA despite its limitations.

Social Banking

Social banking implies 'banking with rigorous ethical standards ' as it regards the operations of financial institutions such as cooperative banks and credit unions, the so-called new social banks, private and community shared development banks, and microfinance banks. However, De Clerck defines social banking as a situation in which provision of financial services ensures positive results in the social outcomes and effects of finance. Social banking is conceived of as a broader philosophical construct "that the pursuit of economic efficiency and social progress are complementary".

Support

Benedikter (2011) believes that social banking and social finance is an effective way for finance to become a humane and humanistic activity, where interpersonal relations (not to be confused with mere social interactions) and ethical values occupy the center of the stage. Alistair Newman sees it as being "combination of business, non-profit organization and social justice to bolster general consumer trends and social causes that appeal to consumers to shop ethically." Stessa Cohen comments "social banking will emerge first where social cultures have high levels of acceptance for social welfare and potentially where the underserved or unbanked client segments need capital and market access" (all cited in Benedikter, 2011).

The Concept of Co-management

Co-management is defined by the Cambridge English Dictionary as "to organize an activity together with another person, company etc." Within the context of microfinancing, this implies common involvement and understanding as it regards the allocation of tasks, risk sharing, reduction of transaction costs, and power-sharing which is meant to enhance relationship capabilities and support the microfinance undertaking- especially for clients. We argue that a strategy to give the 'vulnerable' user of finance the necessary bargaining power lies within this concept. Co-management[1] lays emphasis on client[2] involvement in the design and services delivery of microfinancing (see Dabholkar 1990; Bendapudi and Leone 2003). Rodie and Kleine (2000) defines "co-production" as being the clients' actions and resources that are used in the production and delivery phases. Bettencourt *et al*. (2002) define "co-management" in terms of the investment of clients in the production process of services leading to a successful outcome. Groth (2005) defined "co-management" as being the behavior that clients need to perform in order to complete the service delivery. The benefits of 'co-management' as it regards MFI/client relationship includes building trust, risk sharing, cost reduction and efficiency which leads to enhancing and/or complementing efforts on all sides. Effectively, this proposition may tackle the issue of 'moral hazard'. Clients' role in "co-management" is especially relevant and useful as the basis for participation in "co-creating" a more viable proposition for solution when a service is deemed lacking in efficiency and effectiveness to fulfill its desired purpose. Vargo and Lusch (2004) states, " the client is always a co-manager which serves as one of the foundational premises for the emerging dominant logic of marketing." In effect, this means truly putting the client of microfinance at the focal point and center of microfinancing in order to ensure their 'success'.

Conclusion

There is a strong belief that providing 'responsible microfinancing' is a more sustainable means of providing productive resources to clients for generating income, improving livelihood employment and reducing poverty in SSA than any other approach. Institutional microfinance which came along decades ago, through the pioneering works of Professor Muhammad Yunus, as a key anti-poverty tool is being tempered today by the realization that more than 'small loans' traditionally seen as microfinancing is needed to prop up poor livelihood activities among the vast self-employed population in SSA. As it stands, microfinance or MFIs by themselves cannot tackle the myriad of social and economic, thus multidimensional, challenges facing both clients and MFIs in an environment often characterized by poor livelihood activities, underemployment, over-reliance on primary production, low living standard and human capital among clients, limited amounts of credit to go around, and MFI weaknesses. Here, microfinancing needs to be propped up and reinforced. Particularly, the effort to provide broad-based standardized microfinancing, which provides the gamut of financial services, for poverty alleviation requires a holistic and indepth understanding of the interplay of multilateral extracts of the development process. This requires an organization or reorganization of microfinance that adopts "co-management" which co-opts wider set of stakeholders and actors to pursue microfinance objectives. Here, bringing together transformation initiators (MFIs), community leaders, identifiable institutions, and resource users (clients) results in more and better contact, better information and resource sharing, strengthen best practices, contribute to issue resolution and resource networks. This approach seems to result in effective empowering of clients through the common standards that will be set together with the broader set of support and synergies that would be employed to ensure desirable and measurable outcomes.

[1]We use "co-management as a catchall terminology for co-management, or collaborative management, or co-production and/or co-creation as used in similar situations by different scholars.
[2]We use "clients" instead of customer.

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