Caught Between Two Worlds: Clusters, microfinance officers and accountability mechanisms in a Sri Lankan MFI

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Keywords
accountability, mechanisms, sri, lankan, officers, mfi, two, worlds:, clusters, microfinance, caught, between

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Abstract

This paper studies the accountability mechanisms and dynamics that exist within a microfinance context when microfinance officers (MFOs) interact with borrowers at the community level (MFO–community interface). In the Sri Lankan microfinance institution (MFI) used in this study, community units or clusters comprising of several peer or solidarity groups engage with MFOs in the field. Using Ritchie and Richardson’s (2000) accountability typologies (codified, contingent, assumed and collateral), this article explores how multiple and complex accountability relationships manifest at the MFO–community interface. The data collected from interviews, discussions, observations, document reviews and the primary researcher’s reflective notes demonstrate that both codified and contingent accountability associations are evident for MFOs. Peer groups, however, demonstrate both collateral and contingent accountability associations, while clusters show assumed accountability associations. These different types of accountability have implications for the empowerment potential of MFIs.

Keywords

Microfinance; accountability; empowerment; Sri Lanka.

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Introduction

In the microfinance context, a large number of organisations provide lending to the poor with the express aim of poverty alleviation through empowerment and active participation (Marini et al. 2017). Microfinance institutions (MFIs), in particular, provide small-scale financial services to those who have limited or no access to traditional banking services (Karlan & Goldberg 2011: 20). However, the pioneering Grameen Bank member-based model of serving the poor in Bangladesh has changed over time, with the emergence of more commercially oriented MFIs. These MFIs, which focus on financial performance and deliver microfinance loans at market-based interest rates (Christen 2001), have increasingly been criticised for profiting at the expense of the poor. For example, in the case of Banco Compartamos in Mexico and SKS Microfinance in India, the owners became instant millionaires by releasing shares at an extremely high price in their initial public offering (Rosenberg et al. 2009; Chen et al. 2010; CGAP 2010). These two incidents and similar financial-focused practices accumulated into a potential ‘tipping point’ for microfinance stakeholders, and led to a debate about whether MFIs use the poor to enhance profitability, especially through high interest rates. This brings into question whether commercially oriented MFIs should be a part of priority sector subsidies, and whether donors should always assist commercially oriented MFIs during their establishment phase (Rosenberg 2007; Chen et al. 2010). The perceived lack of client-centred practices raises concerns about MFI accountability relationships and the responsibility to deliver the objective of empowerment (and subsequent poverty alleviation).

The concept of accountability reflects both being ‘held responsible’ and ‘taking responsibility’ for actions (Cornwall 2000). It is defined as:

... the means through which individuals and organizations are held externally to account for their actions and as the means by which they take internal responsibility for continuously shaping and scrutinizing organizational mission, goals, and performance (Ebrahim 2003b: 194).
Within the MFI context, institutions are responsible for and to multiple stakeholders, therefore different types of accountability relationships have emerged and are well defined in the literature. In terms of vertical relationships, downward accountability refers to an institution’s responsibility towards its beneficiaries (Ebrahim 2003b). Downward accountability is often framed within a power dynamic with an emphasis on beneficiary empowerment (Kilby 2006), while upward accountability refers to the responsibility to donors and funding agencies. It is often referred to as hierarchical, since accountability is often directed upward to a defined group of powerful stakeholders (Taylor et al. 2014). To counter unidirectional responsibility, O’Dwyer and Unerman (2008) refer to a more holistic style that combines the interests of various stakeholders in both upward and downward relationships, allowing for alternative forms of accountability. This may also include a range of methods or models, such as oral or visual forms of giving an account.

At a horizontal or relational level, internal accountability refers to the commitment of an organisation to its institutional values (Ebrahim 2003a, 2003b). Sometimes referred to as identity accountability, it focuses on the integrity or values and mission of the organisation to its beneficiaries, since it allows organisational management, rather than the donors, to scope the boundaries of responsibility (O’Dwyer & Unerman 2008; Taylor et al. 2014). In practice, however, these accountability relationships manifest in complex ways. For example, reporting to donors and funders is often given priority over the needs of borrowers (Dixon et al. 2006; Walsh 2016), especially in circumstances where foreign sourced-funding exists (Mir & Bala 2015). Accountability, therefore, is always relational and contextual, and more often operationalised and practised in the field (Marini et al. 2017).

Given the controversial nature of commercially oriented MFIs, this article focuses on accountability relationships at the level where the MFI representatives interact with borrowers. With regard to how accountability manifests at the borrower interface, it explores how microfinance officers (MFO) interact with community groups (clusters), and how members of these groups engage with each other (peer or solidarity groups). Since this study involves a Sri Lankan commercial
MFI, the following section introduces the Sri Lankan microfinance sector, before a description of the MFI and its lending model. This is followed by a discussion of the relevant literature on empowerment and accountability, and the introduction of the analytical framework of accountability used in the study. It found that multiple dimensions of accountability exist at the MFO–community level of engagement, and the article concludes with a discussion of these findings and their implications for empowerment.

Background: Sri Lanka and the Hope Microfinance Institute (HMI)

Sri Lanka is a lower-middle-income country with 20.7 million people, of whom 77% live in rural areas (Central Bank of Sri Lanka 2015; World Bank 2015). Although the finance sector is dominated by banks following the Sri Lankan financial sector’s deregulation in 1977 (Charitonenko & De Silva 2002), the country has a versatile microfinance sector. A number of institutions provide microfinance services; these include cooperatives, such as the Cooperative Rural Banks; Thrift and Credit Cooperative Societies (TCCSs) (later revitalised as SANASA – the Sinhalese acronym for TCCSs); non-government organisations (NGOs); state-sponsored institutions; banks; and finance companies (World Bank 2006; Atapattu 2009; GTZ ProMiS 2010).

This case study involves an NGO-MFI limited by guarantee, HMI. According to the institution’s 2014 annual report, HMI envisions creating an equitable and empowered society and alleviating poverty. HMI has eighteen branches in four provinces (out of Sri Lanka’s nine), and serves more than 70,000 borrowers with an outstanding loan portfolio of SLR 1.64 billion (Sri Lankan rupees). The portfolio-at-risk is estimated at 1.33% for one day and 0.8% for 30 days. For the period of the study (2014), HMI employed 215 staff.

HMI’s head office and branches have different functions. According to operational guidelines, a typical HMI branch has four or five MFOs, an enterprise development officer (EDO), two officers for administrative
and accounting functions, and a branch manager. MFOs’ roles and responsibilities include forming community-based borrower groups, conducting loan assessments, disbursing microfinance loans and collecting loan instalments. Thus, MFOs are in direct contact with community borrowers. Similarly, EDOs arrange and sometimes deliver enterprise-related services. The administrative and accounting functions are handled by two office-based staff at branch level. Branch managers oversee all field and branch level activities and report to one of four area managers, who in turn report to an operations manager at HMI’s head office, in Colombo. The head office also undertakes human resource, financial and information management functions.

HMI uses cluster-based lending to deliver credit services. This lending model is grounded in solidarity principles, where a group rather than an individual is responsible for loan repayment. This model closely resembles the lending mechanism used in the Grameen Bank in Bangladesh. Figure 1 provides an illustration of HMI’s credit delivery model.

**Figure 1  HMI’s credit delivery model**

*B: Borrower

**MFO: Microfinance officer

Source: Based on HMI’s 2014 annual report and operational manual.*
A cluster is an unregistered, community-based unit that acts as an intermediary for loan collection. A cluster has around eight to ten peer groups, i.e. three members who guarantee each other’s loans. MFOs visit these clusters once a month and collect individual loan instalments. One MFO has around 30 to 33 clusters. Thus, a branch usually has 120 to 165 clusters. HMI’s 2014 annual report highlights that, on average, there is a caseload of 750 borrowers per MFO.

Within this context, MFOs have the role of operationalising HMI’s development objectives, particularly empowerment, through their engagement with microfinance borrowers participating in cluster meetings. Hence, within an NGO-MFI setting, such as HMI, MFOs have to conduct activities beyond loan-related tasks to ensure empowerment and participation. The next section defines and examines the concepts of empowerment and participation in NGOs and NGO-type MFIs.

**Empowerment and participation**

In the development literature, empowerment and active participation are foundational concepts in sustainable poverty alleviation. Empowerment, within a microfinance context, is defined in terms of the engagement of the poor in income-generating activities (i.e. economic empowerment) (Saidu et al. 2014), increased access to power and resources at both community and household levels (i.e. social empowerment) (Torri & Martinez 2014), and involvement in political/legal activities (i.e. political empowerment) (Nawaz 2014). To achieve these goals, MFIs emphasise participatory decision-making and regular interactions with microfinance groups (Saidu et al. 2014; Bawole & Langnel 2016; Orso & Fabrizi 2016).

However, not all of these community/beneficiary participation initiatives have resulted in positive outcomes. For example, Bawole and Langnel (2016) found that community members who were not involved in the pre-planning of projects were not empowered, because the organisations had conceptualised specific projects with funders before visiting the beneficiary community. In addition, organisations often set the rules of participation and limited the role of the community
to endorsement of pre-prepared plans and prior decisions, and other mundane aspects of projects. Thus, beneficiaries became passive rather than active participants (Bawole & Langnel 2016). Further reasons for the lack of community engagement include: the perception that shifting accountability to beneficiaries may weaken institutional control (Kilby 2006); operational obstacles such as staff availability, leadership issues and the quality of staff and partners (Walsh 2016); local elites managing/working in communities that under-represent the beneficiary group (O’Dwyer & Unerman 2010); and a hierarchical social order (i.e. caste or class) that limits the participation of certain community groups (Krösschell 2013).

In this study, we operationalise empowerment as entrepreneurship – that is, the ability of borrowers (mainly women) to start or develop a business by taking decisions, undertaking actions and navigating complex economic, social and MFI norms and practices. Microfinance services improve entrepreneurship outcomes, such as self-employment leading to business income, profit and investment in assets; social ties and networks; and participation in decision-making and bargaining power (Khandker et al. 1998; Attanasio et al. 2015; Augsburg et al. 2015; Banerjee et al. 2015; Crépon et al. 2015; Ranabahu 2017). These outcomes, specifically the ability to contribute to family welfare and raise self-esteem, enhance the potential for empowerment (Osmani 2007). Therefore, while economic empowerment is often foregrounded, aspects of social and political empowerment are also evident in entrepreneurial practices. However, as Kilby (2004) argues, to achieve these objectives, organisations should have some level of accountability to the beneficiaries they aim to empower. For example, formal and structured accountability mechanisms and processes are found to have stronger links with empowerment outcomes (Kilby 2006). In cases where empowerment is not an explicit goal, and therefore not embedded in formal processes, the institution is less likely achieve this in practice (Kilby 2004). In a previous study examining entrepreneurial decision-making in HMI (Ranabahu 2017), having a microfinance loan contributed to the skill-set needed for borrowers to develop into expert entrepreneurs. While this link to empowerment was evident, what was not clear was the role of cluster-level engagement and
accountability practices with MFOs. To examine this further and extend our understanding of empowerment, we focus on both vertical and horizontal accountability dimensions at the MFO–community interface. First, however, we discuss concepts of accountability, with particular attention given to the context of developing countries and MFIs.

Accountability

Accountability is concerned with ‘the giving and demanding of reasons for conduct’ (Roberts & Scapens 1985: 447). In a Western, capitalist context, accountability is linked to notions of responsible governance, stewardship and decision-useful information for economic decision-making. While both are enshrined in regulatory frameworks such as international accounting standards, they have been criticised as offering a partial economic perspective of accountability relationships (see Chwastiak 1999). Therefore, accounting scholars have considered alternative perspectives to explore accountability, which reinforces the idea that the concept is complex, contextual, political and multidimensional. For example, critical theorists explore the hegemonic potential or exploitation in financial accounting that privileges shareholder needs. In addition, accounting scholars often adopt a broad definition of ‘an account’. Examples include ancient stone tablets (Vollmers 2009) or counter accounts produced by social activist groups (Moerman & van der Laan 2015). The acknowledgement that accountability is a contextual and multidimensional practice means that researchers must consider the field in which the study is conducted and the type of relationship that is mediated, and take a broader view to include a range of ‘accounts’. This is more than evident in the microfinance context, where formal and informal, verbal and non-verbal accounts are evidenced.

Accountability and microfinance

To date, the microfinance accountability literature has given prominence mainly to horizontal and vertical institutional-level accountability relationships. For example, Hartarska (2009) studied how control was
exercised by external stakeholders and how those practices impacted internal governance and accountability mechanisms. Ahmed and Khan (2016) examined formal governance mechanisms and financial reporting and disclosure within the Bangladeshi context and found that frequency of board of directors’ meetings and directors’ qualifications contribute to high levels of financial disclosure. Similarly, the client protection card introduced by a South African MFI to borrowers was reflective of a downward accountability mechanism (Marini et al. 2017). Akanga (2017) studied institutionalised accountability practices in Cameroon and their impact on poverty alleviation. The author found that professional practices and bureaucratic structures introduced to manage accountability had resulted in MFIs counteracting these pressures by manipulating accounting systems, focusing operations into urban areas, and focusing only on short-term outcomes. Tanima and Brown (2016) found that oppressive social and organisational realities, such as class structure or authority or power of religious institutions, could slowly be transformed to create female empowerment through the creation of dynamic, collaborative and dialogic spaces in the Bangladeshi context.

Researchers have also focused on MFOs and their role in managing complex accountability mechanisms. Within the microfinance environment, Dixon et al. (2006) found that, on the one hand, loan officers represent institutional interests for timely loan payments, while also balancing both vertical (hierarchical) and horizontal (relational) accountabilities. Hence, these loan officers perform multiple, ambiguous and changeable roles, and often act as ‘debt collectors’ to protect their own interests at the expense of being the participative community ‘facilitators’ required by the MFI (Siwale & Ritchie 2011). As these studies demonstrate, MFOs are often managing or balancing competing accountabilities (Dixon et al. 2007; Siwale & Ritchie 2011). Therefore, within a microfinance context, research at the MFO–community interface is limited. We fill this research gap by focusing on clusters and peer groups at the community level of borrowers of HMI, since they shape accountability dynamics that occur internally within institutional boundaries. For example, borrowers use their personal connections, or form peer or solidarity groups, within a cluster; screen people; distinguish
‘good’ borrowers from ‘bad’ ones; ensure loan utilisation; and enforce repayment (Ghatak & Guinnane 1999). MFOs share information; collect loan repayments from borrowers during cluster meetings; and liaise with higher-level administration. Therefore, to examine the different types of accountability mechanisms within the MFI context, we need to adopt a typology that incorporates intra-organisational vertical and horizontal accountabilities.

**Accountability framework**

The principal-agent view is premised on the notion that individuals (principals) have their agendas carried out by other individuals (agents) (Ebrahim 2003b). In a corporate setting this is seen where management, as agents, act on behalf of the owners as shareholders. Therefore, the agency relationship can be at an individual or collective level. MFIs are accountable to multiple principals, such as funders, investors, regulators and beneficiaries (Ebrahim 2003b). In its relationship with external agencies (Dixon et al. 2006), the MFI is the agent. The MFI acts as principal as well as agent when addressing staff concerns and working with clients (Dixon et al. 2006). However, these vertical accountability relationships do not capture the unique relational dimension associated with microfinance lending. Nor do they take into account the more ethical stakeholder-scope accountability suggested by O’Dwyer and Unerman (2008). For example, microfinance loans are typically granted through peer or solidarity groups where a group, in addition to the individual, guarantee loans (Ledgerwood & Earne 2013). The presence and the use of diverse practices such as disclosure statements and reports, performance assessments and evaluations, participation, self-regulation and social auditing are used to enforce accountability to a range of stakeholders (Ebrahim 2003a, 2003b).

In the MFI context, the MFO is an agent for the MFI in a vertical relationship and a facilitator or principal in the horizontal relationship with borrowers. To overcome the difficulties of identifying a typical agency relationship and incorporating these important relational aspects, we use Ritchie and Richardson’s (2000) accountability framework,
developed for small business. Dixon et al. (2006) provided empirical evidence in their study in Zambia of the relationship between MFOs and joint liability credit groups and their ability to facilitate or manage competing priorities. In this paper, we also use Ritchie and Richardson’s (2000) typology to incorporate both vertical and horizontal accountability in a different lending paradigm, where MFOs formally engage borrowers at a community (cluster) level rather than at peer or solidarity level.

Ritchie and Richardson (2000) describe four forms of accountability – mandatory, contingent, compliant and collateral – to distinguish between vertical/hierarchical rule-based accountability and horizontal relational-based accountabilities (see Figure 2).

**Figure 2** Four types of accountability

![Diagram of Four Types of Accountability](image)


Type 1 – mandatory or codified accountability – is the most formal rule-based and least discretionary form (Ritchie & Richardson 2000). These are clear, recognised rules that are adhered to impersonally against the set agenda of an organisation (Ritchie & Richardson 2000). However, if the process becomes over-formalised, compliance may not have any real effect, and results in ‘creative compliance’ (Ritchie & Richardson 2000), or ‘construction of structures that comply with rules in form but
use it in unintended or unanticipated ways’ (McBarnet 2006: 1095). In a Zambian MFI, Dixon et al. (2006) found a strong Type 1 accountability to donors and external funders, since an institution is dependent on funding to support its resource position. In addition, ratings, audit and financial statement disclosure practices ensure strong accountability to external stakeholders, and in turn influence internal MFI practices (Hartarska 2009).

Next, Type 2 – contingent or bounded accountability – strongly combines both vertical and horizontal accountability associations, meaning rules are combined with more accepted customary practices (Ritchie & Richardson 2000). For example, in an organisational setting, executive management may set performance targets for benchmarking strategy goals but allow middle-level management discretion over how these are measured or achieved. Within MFIs, internal management uses rules and regulations, combined with relational aspects (Type 2), to ensure that branch and field level officers are accountable to the organisation (Dixon et al. 2007).

Type 3 – compliant or assumed accountability – weakly combines both vertical and horizontal accountability associations. Thus, Type 3 accountability practices lack both formal rules and relational commitment (Ritchie & Richardson 2000). This is the potentially hidden side of Type 1 accountability and acts as a cover and/or supplement for Type 1 accountability practices. For example, this may occur when rules and procedures are weak on specific actions and the manager implements his or her own customary practices.

Finally, Type 4 – collateral or reciprocal accountability – relies upon the strength of mutual ties and relations (Ritchie & Richardson 2000). This is prominent within the microfinance sector, as clusters and/or peer groups are formed according to personal relationships and practices that exist beyond the rules and regulations (Dixon et al. 2006). For example, borrowers at peer-group level may rely on a mutual bond to repay each other’s loans, in order to prevent default at the cluster level. Social or cultural norms are often absent in formal rules that drive Type 1 and Type 2 accountabilities. However, in relational forms
of accountability, social or reputational loss has been demonstrated to
drive strong commitment and accountability (Ranabahu 2017).

This study examines how these four types of accountabilities manifest
at the MFO–community interface using the data collected from HMI.
The next section explains the data collection and analysis method.

Method

This study is interpretive and uses a case study approach to reflect the
contextual and relational nature of accountability. The subjective and
reflective experiences of both the primary researcher and MFI officers
and borrowers ‘in the field’ were used. The study was carried out using
a rapid ethnographic approach: ‘a form of multi-method ethnography
involving data collection from numerous sources over a relatively short
period of time’ (Baines & Cunningham 2013: 74). Pink and Morgan
(2013) point out that rapid ethnography is an alternative to conventional
ethnography when studying research issues within a natural context.
We selected this approach as it allowed us to gather ethnographic data
within a natural context for a limited period in the field.

A rapid ethnography approach involves the primary researcher
becoming familiar with the research context, and collecting data
using multiple methods to compensate for the short time spent in
the field. Since the primary researcher was a former employee of
HMI, and skilled in the local language Sinhalese, she used modern
communication methods (Skype, email and so on) to build rapport
with HMI staff, before going to the selected branches. In addition,
multiple data-collection tools (see Table 1) were used over a two-month
period (December 2014 to January 2015) to explore empowerment –
operationalised as entrepreneurship – as an outcome of microfinance
services. The focus was on how entrepreneurs make decisions and
acquire expertise using the products and services of HMI in particular,
and a microfinance context more broadly. The data collected included
institutional documents, observations, discussions with peer groups and
clusters, individual interviews, and the primary researcher’s informal
discussions and reflections. Use of these multiple techniques during
the data-collection period also reflects the ‘time deepening’ strategy of rapid ethnography.

The primary researcher visited HMI head office, four branches (one from each province in which HMI operates), clusters, peer groups and individuals to collect data. All the interviews and discussions were conducted in local languages (an interpreter was used for one interview with a Tamil-speaking person). All the interviews and discussions were later translated and transcribed into English.

Table 1 outlines the data-collection methods used at each level.

Table 1  Data-collection methods and details

<table>
<thead>
<tr>
<th>Level</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Organisational level</td>
<td></td>
</tr>
<tr>
<td>Head office</td>
<td>• Document review (mainly operational manual and strategic plans of the MFI).</td>
</tr>
<tr>
<td></td>
<td>• Informal observations and researcher’s notes.</td>
</tr>
<tr>
<td>Branch</td>
<td>• Researcher’s notes and informal observations.</td>
</tr>
<tr>
<td>MFO level</td>
<td>• Informal discussions and researcher’s notes.</td>
</tr>
<tr>
<td>Cluster level</td>
<td>• Three observations of cluster procedures. Each observation was conducted for 30–45 minutes by the primary researcher.¹</td>
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<tr>
<td></td>
<td>• Two focus group discussions (FGDs) with cluster members were conducted. All focus group participants were borrowers of loans. Each focus group discussion lasted around twenty minutes.</td>
</tr>
<tr>
<td>Peer group level</td>
<td>• Three group discussions with peer group members who guarantee each other’s loans. The group discussions lasted around twenty minutes.</td>
</tr>
<tr>
<td>Borrower level</td>
<td>• Twenty-four interviews with microfinance borrowers who operate businesses. Each interview was conducted at the borrower’s business premises/home and lasted 30 to 45 minutes.</td>
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</table>

¹ In this study, the first author is the primary researcher.
Since the researchers were interested in accountability practices at the MFO–community interface, we explored activities and policies of the MFI regarding: cluster formation and function; the role of cluster members and the cluster leader; peer groups and their function; and the MFO roles and responsibilities regarding cluster formation and operations. In addition, we explored the tasks carried out by MFOs at the cluster level, and compared them with the operational guidelines produced by HMI to contrast the level of engagement by MFOs with formal rules and procedures and the informal or customary practices used at the MFO–community interface. These findings are presented and discussed in the following section.

**Accountability in practice**

As Marini et al. (2017) argue, accountability is operationalised in practice and is therefore social and contextual. Our data highlights that MFIs and MFOs use clusters as avenues to enforce vertical accountability, and rely on borrowers’ relational ties to ensure horizontal accountability. The following section presents the findings according to the four typologies described earlier.

**Type 1. Codified accountability: HMI formal rules and operational procedures**

Mandatory or codified accountability is the most formal rules-based form of accountability (Ritchie & Richardson 2000). At the MFO–community interface, HMI used clear and specific institutional rules and guidelines to ensure mandatory accountability from MFOs. These rules/guidelines covered activities related to cluster formation, management and evaluation, and the roles and responsibilities of MFOs. For example, MFOs mobilised individuals, formed clusters and explained the organisational vision, the lending mechanisms and loan features.
It was explained that there should be three-member groups, then loans could be obtained, and there need to be 30 members per cluster; those were explained there [at the initial community gathering] (FGD 1).

At that gathering, they [HMI officers] explained that HMI has low-interest-rate loans, the MFI was started by a foreign person who had money with the objective of improving the livelihood of poor people, and so on (Peer group discussion 2).

Beyond these tasks, MFOs were responsible for cluster functions. At cluster meetings, MFOs conducted a specific set of activities as outlined in the operational manual (such as religious observance, welcome, institutional announcements, discussion of a specific topic, and loan collection) and focused on providing convenient financial services to borrowers:

> The officers themselves come and fill all the loan forms with us. They come and collect the instalments as well. So, we think this is convenient (Peer group discussion 3).

Operational aspects related to HMI emergency loans and hospitalisation benefit schemes were also handled by MFOs at the community interface. Although the MFOs’ role included both borrower mobilisation/facilitation and debt collection, priority was given to debt collection. This was visible during field observations, where some MFOs did not discuss a specific topic, as required by the operational manual:

> Then, the MFO welcomed everyone and started the meeting. During that time, the MFO introduced me and mentioned that I am doing the study. Then the MFO started collecting the money . . . Towards the end of the meeting, the MFO mentioned that ‘regularly checking the eye sight is important’ and said that this is the daily topic. Only one sentence was said about the topic (Field notes, 3 December 2015).

Specifically in remote locations, MFOs considered time and their own priorities, and focused on debt collection. For example, as observed by
the main researcher, in one of the hilly areas the MFO only conducted debt-collection activities. When an inquiry was made as to why, the MFO mentioned that due to travelling difficulties and the time required to come to the remote location, there was not enough time for him to carry out all the cluster functions, as specified in the HMI operational manual. Since performance evaluation and bonuses related to credit services (such as disbursements and on-time debt collection), the MFOs focused on the completion of debt-related tasks.

To ensure mandatory (Type 1) accountability, HMI’s internal auditors monitored branch and cluster activities. They conducted regular branch audits to assess clusters and verify individual repayments against the branch records, and assessed MFOs’ activities. This was an observation made by the primary researcher at one of the branches (Field notes, 15 December 2014). Therefore, HMI had rigorous procedures in place to safeguard its interests, and to evaluate whether MFOs carried out some of these tasks at the cluster level.

**Type 2. Contingent accountability: HMI formal rules and procedures and socially sanctioned customary practices**

Type 2, contingent or bounded accountability, combines both vertical and horizontal accountability associations strongly (Ritchie & Richardson 2000). At the community interface, both MFOs and peer groups used contingent accountability practices.

**MFOs**

MFOs used a mix of formal strategies and ‘custom practices’ in debt collection. This is consistent with Ritchie and Richardson’s (2000) findings for contingent (Type 2) accountability. For example, MFOs used formal strategies, outlined in the operational manual, such as collecting money from borrowers during the cluster meeting. In case of non-repayment, the HMI operational manual required MFOs to send a formal letter, remind guarantors and even take legal action. However, in practice MFOs used their own strategies to ensure borrowers attended
cluster meetings and subsequently maintained loan repayments. For example, one MFO was firm about on-time cluster meeting attendance:

*Some people are there, who attend the meeting when it is almost finishing. Then, the officer is strict on that. We have been informed to arrive here, at least 1–2 minutes earlier* (FGD 1).

As observed, a few MFOs did not start cluster meetings without the presence of all the cluster members. If these attendance standards were not met, there were social and financial implications for borrowers:

*In HMI, attendance is compulsory. I could not attend the group meetings around two times. Then the officer as a punishment approved only 30,000 [SLR] [though the maximum loan amount is 50,000 SLR]* (Interviewee 19, a bra manufacturing business owner).

*If the meeting has 30 members, all 30 or their representatives should be present. If not, the meeting will not start. Even for two hours, you have to wait until the members come. That is the punishment . . . There were instances where we had to wait. Few times . . . Once we had to wait one and a half hours for the meeting to begin. The meeting would not start until everyone is here* (Peer group discussion 1).

Another MFO excluded cluster members and devised social penalties such as asking latecomers to wait outside the meeting premises (Field notes, 3 January 2015). When asked why, the branch manager and MFOs mentioned that customised strategies were required to maintain repayment discipline:

*They [branch manager and the MFO] said that loan recovery takes time and too little is collected too late. They have to go a few times and it is not time- or cost-effective. If the officers insist on discipline and show that they are serious in loan repayments, then loan repayment culture improves. Then, it is easy in future* (Field notes, 6 January 2015).
Some of the strategies MFOs used were not an HMI requirement and did not appear in the operational guidelines, and so created incongruities between MFOs’ actions and MFI policies. Other strategies were interpreted differently. For example, microfinance borrowers could arrange for a representative to attend meetings:

When I asked for a loan, the meetings in HMI were also on Wednesdays. The payment day [for the goods supplied] in Colombo was also Wednesday. I have to be at Colombo at that time . . . I could not arrange someone for around two days. Then, for the next round [of loans], I arranged a representative for the meeting. Now, I send one of the people working here [in her business] as my representative for the meeting (Interviewee 19, a bra manufacturing business owner).

As there was no clear direction about the age of a representative in the operational guidelines, it was observed that children under the age of sixteen were sometimes representatives for their parents (Field notes, 2 January 2015).

These customised strategies need to be assessed within the context they operate. The findings highlight that a number of MFIs, in addition to HMI, operate in the same areas, and borrowers sometimes have multiple outstanding loans:

I have obtained a loan from Kanrich, then HMI and SEED Lanka [all MFIs]. I have a 100,000 rupees loan from Kanrich [MFI]. For that, I have to repay 2000 rupees as instalment for a week. I am in the second loan cycle (Interviewee 1, a vehicle upholstery business owner).

In these areas, multiple loan borrowers compared services, and this influenced the actions and activities of the MFOs, since borrowers were in a ‘take it or leave it’ position (Ebrahim 2003b):

The officer was saying to me [the primary researcher] that in the next area, since it is really close to the town, a number of microfinance institutions operate. That is a difficulty for them. Borrowers always
say that how other institutions conduct meetings such as attendance is not compulsory, how they can send money with someone else and repay the loan, etc. (Field notes, 3 December 2015).

This demonstrates that the type of strategies used to ensure loan repayments is a further consideration in the HMI context.

**Peer groups**

Peer groups, theoretically, demonstrate Type 2 (contingent) accountability, with both strong vertical and horizontal accountabilities. For example, peer groups are bound formally, through a loan contract, for loan repayment:

> All three members have to pay back. So, their [HMI] rules are like that. If someone cannot pay back the instalments, the other two have to contribute and repay the loan. That’s how three members have signed the agreement. So, no one complains and everyone pays back (Interviewee 5, a garment seller).

This reflects strong formal, rules-based accountability. However, in addition to the formal agreement, peer groups comprised of self-selected borrowers and were formed with the basic principle of solidarity; thus, they reflect strong horizontal accountability. For these reasons, peer groups demonstrate Type 2 accountability at the MFO–community interface (see Type 4, collateral accountability, for more details).

**Type 3. Assumed accountability: MFOs’ informal rules and taken-for-granted social norms**

As Ritchie and Richardson (2000) explain, Type 3 (compliant or assumed) accountability weakly combines both vertical and horizontal accountability associations. This is evident in the way clusters were formed and functioned.

Clusters are informal community units without legal registration. There were no formal rules that legally bind all the cluster members
for loan repayment. Both cluster members and cluster leaders have limited and largely symbolic roles. For example, when asked at a focus group discussion to describe their responsibilities with regard to cluster meetings, borrowers responded with the following:

_Borrower 1: To attend the meeting on time._

_Borrower 2: Check the availability and accompany all three group members to the meeting._

_Borrower 3: To repay the loans on time (FGD 2)._ Therefore, cluster meetings were perceived as a way of ensuring on-time debt payment. Even the cluster leader’s responsibilities were confined to arranging meetings and facilitating the HMI meetings:

My role . . . Hmm . . . To check and verify whether all the members of the groups are present at the meeting. Sometimes, I have to inform about the meeting by going to houses. The leader should also arrange the meeting space, by placing chairs to conduct the meeting here. In addition, if the leader attends any meetings or any events, those details are shared with the members. If some documents are handed to distribute, those are given to other members (FGD 2).

However, in the absence of formal rules, informal practices were ‘norm’-alised to become taken-for-granted informal rules. For example, although there was no HMI requirement for cluster members to be responsible for payments of members’ loans, they adhered to an informal expectation of repayment in cases of imminent default. At the cluster formation stage, and even during the cluster functions, MFOs verbally (informally) enforced loan repayment as a responsibility of cluster members:

_In our cluster, there was once, that all the cluster members had to contribute money, as that member did not pay. If there is something like that, sir [the MFO] says that the group members should be accountable to other person. The loan instalments of the other two group members are also not collected. Then, the three people have to somehow_
find money, from somewhere, and repay the instalments (Interviewee 8, a dressmaking business owner).

Therefore, vertical accountability was weak, and the informal rules shaping the accountability relationships at clusters allowed MFOs to create their own norms and expectations for the cluster.

While the use of informal rules could be perceived as evidence of strong relational accountability, this is not the case with Type 3. Horizontally, relational ties are weak at the cluster level, since borrowers have insufficient information to develop trust among members. In some cases, clusters were externally facilitated by MFOs and members. For example, when there were not enough borrowers to form a cluster, MFOs merged nearby clusters:

Here this meeting has attendance from two villages: RB2 and 6 Ela. Earlier there were two clusters. But, cluster members of both the villages were not enough, and the two clusters were merged. Now, there are 33 members in the cluster (Peer group discussion 3).

However, the hidden side of Type 1 is evident in the tensions observed within clusters:

One member said that this [members not attending the meeting regularly] happened because previous staff member [MFO] merged two clusters; and the cluster members from the other village were not very reliable. Then, one person got offended and said not to generalise everyone (Observation note 1).

Cluster members accepted and complied with the MFO practices because of the power embedded in taken-for-granted norms and procedures. In this case, the potential for practices that foster empowerment are limited, since borrowers and MFOs perceive their relationship and responsibilities as merely debt-related.
Type 4. Collateral accountability: Mutual ties in solidarity groups

Type 4 (collateral or reciprocal) accountability relies upon the strength of mutual ties and relations (Ritchie & Richardson 2000). In HMI, peer groups are formed with the basic principle of solidarity, which reflects being held accountable for their actions. Borrowers trust each other to repay their loans in case of an emergency:

Initially, the [HMI] program informed us that we should have three members to obtain loans. That is the guarantee – the trustworthiness. Then we formed three-member groups with people we like. In my group, we still have the same members (Peer group discussion 3).

Some borrowers preserved trust and ensured loan repayments by including neighbours or extended family members in their peer groups. For example, interviewee 11 (the owner of a mobile toy, sweets and fruit business) had family members in his group, while interviewee 10 (a pillowcase and cement flowerpot business owner) chose neighbours for her group.

However, the strength of these relational ties varied. For example, peer groups with strong ties met to enquire whether loan repayments could be made (interviewee 10: a pillowcase and cement flowerpot business owner), and contributed money for loan repayments in cases of need (interviewee 6: a confectionery business owner). In contrast, the primary researcher observed one peer group explaining to an MFO that they had problems in contacting one of their group members (Field notes, 11 December 2015). Hence, as explained, although Type 2 accountability exists in peer groups, in practice Type 4 relational accountability is the driving force. In this study, being held to account for loan repayment included peers monitoring each other, with a strong social reputation dimension:

If I have any doubt that some members will not repay, this happened with XXX company once. There was a member [who did not repay], so I informed the field officer of the time when that person is at the house. So
the officer went to the home and stayed at the doorstep. Then the officer met the client to collect the money. That happened some time ago . . . In such cases, we assist the field staff. If someone does anything like that, it is not good. We do not allow anything like that to happen. Now we do not have anything like that (Interviewee 9, a mobile tea seller).

Therefore, peer groups used their social knowledge about each other in a close-knit community to ensure strong collateral accountability.

**Discussion**

This paper has examined types of accountability mechanisms and the way these different relationships manifest at the MFO–community interface. We have explored the cluster formation and functions, peer groups and their functions, and MFOs’ roles and responsibilities at the community interface at the level of practice. Our analysis demonstrates that multiple and complex accountability relationships manifest at this level. First, MFOs’ actions and tasks at community reflect Type 1 (codified) and Type 2 (contingent) accountability associations. MFOs’ roles and responsibilities are bound by MFI rules and guidelines, and practices embedded in these formal rules demonstrate Type 1 accountability. MFOs are required to conduct both facilitation and debt-collection tasks, including visiting communities, establishing clusters, facilitating loan delivery, collecting loan instalments, providing a convenient service for rural people, and implementing the HMI vision. Aligning with NGO accountability mechanisms (Ebrahim 2003b), and consistent with monitoring and bonding costs associated with agency relationships, MFI management use performance-based compensation and branch monitoring to ensure Type 1 accountability.

Consistent with the findings of Siwale and Ritchie (2011), this study found that, beyond establishing clusters, MFO responsibilities were focused on debt collection rather than on fostering empowerment (and ultimately poverty alleviation). Hence, in organisations where dual objectives such as loan repayment and entrepreneurship exist, tensions arise. MFOs struggle to manage accountability to both the
institution and borrowers (Dixon et al. 2006), and inevitably MFOs may concentrate on their immediate survival as a priority (Siwale & Ritchie 2011). Thus, hiring and socialisation policies are important to manage these tensions (Battilana & Dorado 2010). For example, Battilana and Dorado (2010) show that recruiting MFOs who have prior experience either of working with the poor or of banking led to tensions between lending tasks and development objectives in the long term, as these MFOs prioritised the activities they were comfortable with. In addition, the same authors found that recruiting relatively inexperienced MFOs and providing training to foster the organisational goals facilitated their dual roles and hybrid identity, at least in the short term.

Although MFI rules and guidelines shape MFOs’ roles and responsibilities, in practice MFOs use a mix of rules and ‘custom practices’ to ensure loan repayment (Type 2: contingent accountability). HMI expectations for MFOs differ from the traditional role of field officers in other MFIs – for example, limited activities related to community mobilisation and enterprise development, as they are handled by an EDO. At HMI, MFO performance is measured according to indicators associated with loan disbursements and on-time repayment. Thus, MFOs use bespoke strategies, unspecified in the operational manual, to enforce accountability for borrower actions related to attendance at cluster meetings and loan repayment. Although we did not find MFOs rearranging their daily tasks to recover loans from delinquent clients, as Dixon et al. (2007) did, our findings show that MFOs’ primary focus was on loan repayments at clusters. While MFO tasks may have been consistent with the objectives of HMI in practice, there are signs of incongruities between MFOs’ actions and the MFI’s mission, particularly in situations where MFOs bypass formal vertical accountability mechanisms that exist in rule compliance.

Nevertheless, the role of MFOs and accountability issues associated with their tasks need to be assessed within the context in which MFOs operate. The study highlights that, in some geographical areas, there are a number of MFIs in operation and borrowers may have multiple loans. In these areas, the actions and activities of the MFO were influenced by local exigencies. Ebrahim (2003b) argues that, in highly competitive
environments, clients have a stronger voice as they have a number of service providers to choose from. Hence, consistent with Ebrahim’s (2003b) argument, borrowers are empowered by the ‘take it or leave it’ position in relation to MFOs. Therefore, to maintain the borrower base and meet performance targets, MFOs adjust their practices beyond the standards or procedures set by HMI.

In addition to Type 1 and Type 2 accountability associations, MFOs act as both agent and principal, depending on the relationship. For example, MFOs implement institutional programs and provide services to borrowers; hence, MFOs act as agents for HMI. In addition, internal auditors assure that the interests of HMI are carried out by MFOs through monitoring. Furthermore, MFOs assume the role of the principal when dealing with borrowers, and so have the ‘right’ to demand an account from borrowers with regard to meeting attendance and loan repayment. Therefore, whether the MFO acts as the principal or agent in hierarchical relationships is defined by practices.

Type 3 and Type 4 accountability relationships also manifest at the MFO–community interface. For example, at the cluster level, although relational ties are weak, all members adhere to the norm of repaying a loan in cases of imminent default (Type 3 accountability). This is mainly because, in the absence of formal rules, verbally enforced informal practices are ‘norm’-alised and become the taken-for-granted unquestioned informal rules that shape accountability relationships and practices. These pseudo-rules are weak, though, as they are not legally binding. In addition, relational ties with Type 3 (assumed) accountability demonstrate a similar weakness, since MFOs prescribe the rules of cluster formation rather than develop socially sanctioned norms through engagement with cluster members. Within these clusters, borrowers lack sufficient information to develop strong trust relationships. Therefore, externally facilitated relational ties (such as merging clusters) cause social tensions that contribute to weak relational ties.

At the cluster level, members as well as leaders demonstrated limited responsibilities and opportunities for empowerment. Members were held to account only for continuous participation at cluster meetings and the maintenance of loan repayments, while cluster leaders merely
arranged meetings. The leadership role was often symbolic or tokenistic, as it did not increase the bargaining power of the cluster, and thus lacked political empowerment potential. Consistent with the findings of Bawole and Langnel (2016) and Walsh (2016), passive participation is a function of MFO time constraints and the imposition of bottom-up accountability practices.

As discussed, Type 4 (collateral) accountability relationships manifest at the peer or solidarity group level. Within peer groups, borrowers rely on trust; groups often consist of neighbours and family members. Peer group members contribute funds to repay loans that demonstrate strong relational ties. However, peer group members are also bound by a loan contract, so formal requirements are also evident. Therefore, while formal mechanisms exist, in practice strong relational ties within a peer group are dominant. The social monitoring and reputational loss as the penalty for non-payment at cluster-level meetings are strong motivators to draw on relational ties.

**Conclusion**

This study highlights several theoretical and empirical contributions to the accountability literature within the microfinance sector. First, this study is one of the first to explore accountability mechanisms that manifest at the MFO–community interface (particularly within clusters and peer groups). The study found that MFOs’ actions reflect both codified and contingent accountability. That is, while MFOs are bound by MFI formal rules, in practice they use customised strategies to ensure debt collection, and a mix of strong vertical and horizontal accountabilities. In addition, this study demonstrates that clusters reflect assumed accountability; that is, norms act as pseudo-rules when the mutual bond among cluster members is weak. Hence, both vertical and relational accountabilities are compromised at the cluster level. Finally, peer groups demonstrate both contingent and collateral accountability; that is, although group members are bound by a loan contract, in practice strong mutual ties shape individual actions. This study also demonstrates that relational accountability acts as a buffer
through customary or socially accepted practices, or taken-for-granted assumptions when hierarchical accountabilities are inadequate. Brown (2009: 314) recognises the need for new forms of accounting ‘that facilitate more participatory forms of decision-making and accountability’. In this case, forms of accountability that are empowering may need to include greater participation by borrowers at the cluster level.

Next, this study provides empirical evidence for accountability in the Sri Lankan microfinance context. Researchers have primarily focused on countries such as Bangladesh, Zambia, South Africa and Cameroon to study accountability mechanisms (see Dixon et al. 2006; Siwale & Ritchie 2011; Ahmed & Khan 2016; Akanga 2017; Marini et al. 2017). Our study extends the available evidence base from an under-researched context, and supports the applicability of Ritchie and Richardson’s (2011) accountability framework.

Third, this study illustrates that the empowerment potential in terms of entrepreneurial outcomes at the cluster level is limited. Although cluster members participated in meetings and repaid their loans, the tasks and activities associated with a cluster did not provide the skills or opportunities for borrowers to become expert entrepreneurs. While microfinance loans foster entrepreneurship, the practices of planning, developing ideas and managing challenges about business processes are important in entrepreneurial thinking (Ranabahu 2017). Therefore, thinking about a loan, cost-benefit analyses and opportunities for investment are not activities that occur at the point of debt collection, where borrowers only account for a monthly loan repayment. At the cluster level, participation occurs because of strong vertical accountability relationships, where HMI stipulates the roles and routine tasks of MFOs and members. In peer groups, where relational accountability is strong, on-time repayment through formal and informal accountability mechanisms is ensured, and the work of economic empowerment occurs. MFIs must ensure that empowerment is embedded in alternative ways besides peer groups. For example, training and capacity-building programs for MFI borrowers conducted by HMI enterprise development services or EDOs at the branch level enhance
economic empowerment potential, and participation in decision-making ensures social empowerment.

Fourth, this study demonstrates that accountability is defined by practices in the field. MFOs act as both the principal and agent, and adopt roles interchangeably depending on the task and associated accountability relationship. Thus, accountability is both contextual and practice-based. In addition, MFOs normalise informal practices in the long run that may create incongruities between MFOs’ actions and MFIs’ policies and overall social objectives. Similarly, MFOs adjust their actions when borrowers are in a stronger bargaining position and are politically empowered. Therefore, training programs and socialisation practices should examine why and how officers implement operational guidelines, and also consider the empowerment potential in relational forms of accountability consistent with the objectives of the MFI to mitigate the tensions of being caught between two worlds at the MFO–community interface.

Finally, future research in this area could focus on whether these accountability relationships exist in other types of microfinance lending models. One example, in India, is that of self-help groups – where groups save regularly, accumulate funds, manage accounts, and link with banks and other MFIs. This mechanism is different from the Grameen-type cluster-based lending by reinforcing relational accountability associations. Hence, exploring the way accountability relationships manifest at the borrower level with different microfinance lending models assists in future policy formation and MFI practices in the field. Furthermore, studies involving other products and services beyond microfinance, such as micro-savings, micro-insurance and micro-leasing, could generate further insights into the management of complex accountability relationships. Finally, the management of vertical and relational accountability when MFIs use new technologies, such as mobile payments or agent banking, that limit the role and power of MFOs provides an interesting example of non-human agents in accountability relationships.
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NOTES

1. A pseudonym.
2. HMI is owned by its parent NGO. While it is a not-for-profit entity, it does have a commercial focus.
3. ‘Portfolio-at-risk’ is the value of all loans outstanding that have one or more instalments past due by more than a certain number of days (CGAP 2003). In this case, it is one day and 30 days, respectively.

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