2018

# Microfinance: A magic bullet for poverty alleviation and empowerment?

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## Publication Details

Tanima, F. A. & Hidayah, N. N. (2018). Microfinance: A magic bullet for poverty alleviation and empowerment?. Third Sector Review, 24 (2), v-xxvi.

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**Abstract**

In contemporary times microfinance is promoted by powerful organisations such as the United Nations (UN) and the World Bank as a cutting-edge financial innovation that has the potential to meet certain development ends and goals, including poverty alleviation and women's empowerment. Indeed, the UN officially declared 2005 the International Year of Microfinance. However, research on the impact of microfinance is often conf licting, with certain studies providing evidence of the empowering effects of microfinance, and other studies analysing its disempowering potentials. Such conflicting perspectives challenge the 'magic bullet' notion of microfinance and illustrate the richness of research in this field. In light of these conflicting viewpoints, the purpose of this special issue is to set out a platform for these debates, and to introduce papers appearing in this special issue on microfinance. This is a discussion paper exploring key issues theoretically. The paper finds that there are many aspects of microfinance that should be explored in greater depth in future studies.

**Keywords**

magic, microfinance:, bullet, alleviation, poverty, empowerment?

**Disciplines**

Business

**Publication Details**

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# Editorial
# Microfinance: A magic bullet for poverty alleviation and empowerment?

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## Abstract

*In contemporary times microfinance is promoted by powerful organisations such as the United Nations (UN) and the World Bank as a cutting-edge financial innovation that has the potential to meet certain development ends and goals, including poverty alleviation and women's empowerment. Indeed, the UN officially declared 2005 the International Year of Microfinance. However, research on the impact of microfinance is often conflicting, with certain studies providing evidence of the empowering effects of microfinance, and other studies analysing its disempowering potentials. Such conflicting perspectives challenge the 'magic bullet' notion of microfinance and illustrate the richness of research in this field. In light of these conflicting viewpoints, the purpose of this special issue is to set out a platform for these debates, and to introduce papers appearing in this special issue on microfinance. This is a discussion paper exploring key issues theoretically. The paper finds that there are many aspects of microfinance that should be explored in greater depth in future studies.*

## Keywords

Microfinance; poverty alleviation; women's empowerment; participation; accountability.

# Introduction

> *When Jayashree was a child, her family's poverty got so severe that she had to drop out of school and go to work at a garment factory. When she got married, her meagre earnings had to support her ailing in-laws. Small loans totalling [US]$550 saved Jayashree from a life of extreme poverty. She bought a rickshaw for her husband to drive and a sewing machine to start her own business. Jayashree's family income has almost tripled since and she was able to send her oldest son to college. He dreams of becoming a doctor and says that thanks to his mom's businesses, his dream could come true* (Grameen Foundation).

This excerpt highlights Jayashree as a successful participant in the microfinance revolution that is sweeping the developing world. Such personalised stories, portraying microfinance as the saviour of women, especially women in developing countries, have become the face of the global microfinance movement that is promoted by powerful organisations such as the World Bank. So what is microfinance? The term refers essentially to a range of different financial services (such as credit, savings, insurance and pensions) provided in small or micro amounts to people who form the lower-income bracket(s) of society. The primary argument of microfinanciers is that formal banking institutions have failed to meet the financial demands and needs (especially those of credit) of low-income populations (operating primarily within informal markets in developing countries). Therefore, the argument is that the small-scale provision of finance makes it possible for poor people to engage in a range of different activities such as 'farming, fishing or herding' or to 'operate small enterprises where goods are produced, recycled, repaired, or sold' (Robinson 2001: 9). Studies of microfinance programs around the world have shown that poor people can achieve strong repayment records (Hulme & Mosley 1996). Currently, there are various advocates of microfinance (such as educational institutions, non-government organisations, donor agencies and international financial institutions) who are involved in providing a combination of services and resources to their beneficiaries, including savings facilities, training, networking and peer support (Drolet 2010).

The vast majority of microfinance services are provided to women like Jayashree, with the underlying assumption that providing women access to financial services helps empower them (Wright 2006). However, women's empowerment is a complex concept, and judging whether and how much 'progress' has been made is relative to explicit or implicit goals that may vary substantially according to the evaluator's socio-political perspective (Davies 2007: 214). The next section examines some of the contesting debates in relation to microfinance and women's empowerment. This is followed by a discussion of the 'magic bullet' notion of microfinance, which summarises the key features and contributions of each paper in this special issue. We then conclude the paper and propose avenues for further research into microfinance.

## Microfinance and women's empowerment

What is distinctive about microfinance, as a development effort, is that, alongside the social goals of alleviating poverty and addressing women's empowerment, a major principle is the commercial underpinning of financial-self sustainability (Battilana & Dorado 2010: 1423). Within this rationale the focus is on maximising profits and fulfilling fiduciary obligations to investors and depositors, as opposed to addressing broader development concerns. Battilana and Dorado show how conflicts can arise in the microfinance context as a result of such competing objectives, which lead to mission drift, 'a credible possibility' because of the relative ease with which circumstances might cause these organisations to prioritise economic concerns over the social ones. Gender and development studies literature on microfinance recognises that competing rationales have considerable implications for how 'progress' towards women's empowerment is measured, and how accountability relationships are conceived and operationalised. Kabeer (2001) found several studies that have reached contradictory conclusions regarding the concept of empowerment. Some researchers conclude that microfinance helps empower women (Rahman 1986; Hashemi et al. 1996; Pitt & Khandker 1996), whereas others provide evidence that it disempowers women (Goetz & Sen Gupta 1994; Montgomery et al. 1996).

Kabeer (2001) concludes that such contradictory understandings are due to differences in the implicit and explicit meanings of empowerment as a development goal – that is, conflicts between economic and social rationales. Kabeer (2001: 83) suggests that while the positive verdict focuses on the 'outcomes' of the provision of microfinance services (for example, repayment rates, household income levels and assets), the negative verdict focuses on the 'processes' of how microfinancing services are provided (for example, the accountability relations flowing from microfinance organisations towards marginalised groups). Researchers such as Rahman (1999) and Mayoux (2002) claim that mainstream understandings of empowerment are typically based on narrow underpinnings of economic concerns, with a focus on simple statistical proxies (for example, repayment rates, household income levels and assets). They argue that understandings of empowerment should embrace socio-political, cultural and religious concerns. Within the literature, there is recognition of three competing paradigms in microfinance: financial self-sustainability, poverty alleviation and feminist empowerment (Mayoux 2002). Each has its own theoretical assumptions and allegiances (Drolet 2010); Mayoux (2002) argues that each has a distinct discourse arising from different values and political premises. Thus, studying these differences is essential for understanding how different programs are organised, and for considering the best means of addressing women's empowerment (Drolet 2005). As Drolet (2005: 24, drawing on Mayoux 2002) suggests, most programs attempt to combine one or more of these paradigms, 'often in uneasy co-existence', in order to satisfy the competing aims of wide-ranging stakeholders, such as staff members, women beneficiaries and donors.

## The financial self-sustainability paradigm

The financial self-sustainability paradigm, often referred to as the Washington Consensus, is the model promoted by powerful donor agencies, such as the United States Agency for International Development (USAID), the World Bank, the United Nations Development Programme (UNDP) Micro-Start Programme, the Consultative Group to Assist the

Poorest (CGAP), and the Micro Credit Summit Campaign (Drolet 2005). Mayoux (2002) argues that this paradigm focuses on incorporating empowerment concerns into a neoliberal agenda. The ideological basis of this paradigm depends on the increasing access by large numbers of poor people to financially self-sustainable microfinance services that enable them to increase their household incomes; therefore, its primary aim is to develop large-scale, profitable microfinance ventures that are fully self-supporting, like many private-sector banking institutions (Drolet 2010). These commercial programs often focus on raising funds from international financial markets, rather than from donor and development agencies' subsidies (Mayer & Rankin 2002). Under this paradigm, women are promoted as 'rational economic women', and the focus is diverted from male primary breadwinners to female clients with responsibilities to themselves and their communities (Mayer & Rankin 2002: 806). Thus, the heavy burden of development falls primarily on women's shoulders, releasing the state from considerable civic obligation (Drolet 2010).

Programs operating under this paradigm focus on setting high interest rates to cover costs and on increasing the outreach and scale of operations (Drolet 2010). Ensuring high repayment rates is a key defining feature of this paradigm. The underlying reasons behind targeting women concern risk and efficiency considerations (Mayoux 1999). Women (especially in the developing country context) are perceived as humble, compliant and shy, and hence as easily managed or controlled, compared to men. Therefore, targeting women is believed to increase the efficiency of programs and to contribute towards the financial self-sustainability of the organisation, and increases women's economic activities and ultimately their involvement in the economic development of the country (Mayoux 1999; Kabeer 2001; Mayoux 2002; Lakwo 2006). Hence, women's empowerment is understood as an expression of individual choice and the capacity for self-reliance within existing structures, rather than as a matter that requires examination of the underlying constraints (Drolet 2010). It is assumed that access to credit (through poverty targeting) and increasing the numbers of female clients are sufficient to promote poverty alleviation and women's empowerment (Drolet 2010). As well, women's control over income is thought to lead to the increased wellbeing (through, for example, better health, nutrition and literacy) of women and their children. Individual economic empowerment is thought to lead to wider social, political and legal empowerment (Mayoux 1999, 2002).

## The poverty alleviation paradigm

Drolet (2010) notes that the underpinning philosophy of the poverty alleviation paradigm, often referred to as the Bangladesh Consensus or the Grameen Model,[1] derives from supply leading finance and the widespread, subsidised credit programs that evolved from these theories in response to conditions after World War II. The literature suggests that the Grameen Bank's successful (pioneering) implementation of these theories led to the proliferation of massive, large-scale subsidised credit programs across the world (Roy 2010). There is a vast body of literature on the Grameen Bank since its inception in 1983 (Hulme & Mosley 1996; Todd 1996; Rahman 1999; Robinson 2001). Rahman (1999) indicates that the Grameen Model has been replicated in as many as 56 countries, and has been key in promoting the idea that the poor can be credit-worthy. This model has gained particular prominence across many countries in Asia (Roy 2010).

The primary aim of the poverty alleviation paradigm is to direct funding to the poorest of the poor. This model uses peer monitoring and joint liability in a group to overcome the supposed problems of screening, monitoring and repayment of loans (Sinha 1998). As Drolet (2010) notes, this model apparently helped establish the platform for credit as a mechanism for engaging people who live below the poverty line in economic activities. The model depends usually on subsidies to cover administrative costs, and (in contrast to the financially self-sustainable model) often provides training and social services to borrowers (Roy 2010). It views microfinance as a means of alleviating household poverty and vulnerability, and targets women because they are seen as being poorer than men, and more likely to spend income on the welfare of their families. While gender subordination is recognised as an issue, the main focus is on providing assistance to households. Also, in many programs the term 'women's empowerment' is considered best avoided, as being too controversial and political. It is assumed that increasing women's access to microfinance will increase women's decision-making power in the household and that access to income (for both production and consumption) and improvement in their status in the community will lead eventually to empowerment. Further, it is assumed that women's interests coincide with those of the household, particularly children's. The household is thus viewed as a cooperative site, where resources are pooled and shared equally. This paradigm is implicitly ambivalent about addressing gender issues, for fear they might lead to conflict in households or communities. Critiques suggest that it is insufficient to focus solely at the household level, since intra-household inequalities mean that women do not necessarily benefit from increases in household income, even if they are the major contributors (Mayoux 2002).

## The feminist empowerment paradigm

The feminist empowerment paradigm is rooted in the development of some of the earliest microfinance programs, such as the Self Employed Women's Association (SEWA) and the Working Women's Forum (WWF) in India (Drolet 2010). This paradigm views gender discrimination and subordination as complex, multi-dimensional, all-pervasive processes, affecting all aspects of women's lives, which are embedded in many different and mutually reinforcing levels (Mayoux 2002). The underlying approach is based on equity, empowerment and equality (Drolet 2010). Definitions of empowerment emphasise the importance of gender and development (GAD)[2] (Mayoux 2002; Drolet 2010). Women's empowerment is therefore seen as being about more than economic empowerment, and signifies a transformation of power relations throughout society; the focus is on gender and class relations and other social divisions, rather than only women or men as individuals; aspirations and choices here are viewed as being constrained by structural power imbalances. It therefore stresses the importance of raising consciousness of the structural barriers that hinder empowerment in addressing empowerment related concerns. The assumption is that, if given the opportunity, women would challenge gender inequity in the ways envisaged by the wider international feminist movement (Mayoux 2002). Empowerment here is therefore seen as a process of internal change at the individual level and of organisational/institutional change at the macro level (Mayoux 1999).

## Synopsis of paradigms

The three competing paradigms in microfinance direct attention to the different perspectives and understandings of development for women (Drolet 2010). Given the support from powerful donor organisations, such as USAID, the World Bank and CGAP, financial self-sustainability is arguably the dominant paradigm underpinning the practice of microfinance today. As Roy (2010) notes, a prominent feature of the Washington Consensus (orchestrating this paradigm) is the establishment of guidelines around microfinance 'best practices' and the best practices book, which have been adopted by practitioners worldwide. A ritual of the Washington Consensus is the annual announcement of the 'Global 100', a ranked list of 'top performing microfinance institutions throughout the developing world' (Roy 2010: 50) created by the Microfinance Information Exchange (MIX), a virtual market-place established by CGAP. The ranking is based on 'outreach, scale, profitability, efficiency, productivity and portfolio quality' (Roy 2010: 51). The benchmarking is strictly financial, with minimal focus on social criteria. However, critics argue that relations between the financial self-sustainability and poverty alleviation paradigms are tenuous (Fernando 2006; Roy 2010). For example, a key text of the Washington Consensus on Poverty, *The Microfinance Revolution* (Robinson 2001), published by the World Bank and often referred to as the 'red book', criticises openly the poverty alleviation paradigm (arguably Grameen Bank–led) as imposing too many rituals and conditions on poor people, giving rise to norms of supervision and surveillance, rather than liberating the poor by introducing them to financial markets. Such benchmarking, ranking and published best-practice guidelines have created an authoritative body of knowledge surrounding the Washington Consensus, making the financial self-sustainability paradigm the predominant paradigm in the microfinance movement.

As Fernando (2006) notes, by the early to mid 1990s the Grameen Bank had become known as the leading non-government organisation (NGO) in Bangladesh. By 1993, donors had disbursed US$85.92 million to Grameen Bank. The Grameen Bank's success led many NGOs to focus (or shift) their programmatic aims on microfinance. Despite tenuous relationships between Grameen and the international community (led primarily by the World Bank), the World Bank had on several occasions tried to incorporate the Grameen Bank as a partner agency. After resisting calls from the World Bank, the Grameen Bank eventually became a member of CGAP. Yunus, the founder of Grameen Bank, subsequently played a leading role in the 1997 Microcredit Summit, held in Washington DC (Roy 2010). At the 2006 Global Microcredit Summit, in Halifax, Canada, two new goals were proposed: 'that 175 million of the world's poorest families, especially their women, receive access to credit by 2015; and that 100 million of the world's poorest families rise above the US$1 per day poverty threshold by 2015 (Roy 2010: 94). Such efforts challenged the Washington Consensus, making it consider the poverty alleviation paradigm. This illustrates how the two conflicting paradigms, financial self-sustainability and the poverty alleviation, have informed and shaped each other.

As Drolet (2010) notes, both paradigms operate primarily within a neoliberal framework; both view credit as the missing piece in development and promote the idea that providing women with access to credit will not only help alleviate poverty, but also increase women's empowerment. For instance, the financial self-sustainability paradigm aims to develop sustainable programs that reach many people, whereas the poverty alleviation paradigm operates on subsidies designed to lower interest costs to very poor clients. Only the feminist empowerment paradigm questions the standard narrative of whether credit is the missing piece in development; arguably it offers a more comprehensive understanding of the constraints women face – for example, those that emanate from their productive and reproductive roles. The literature appears to distinguish between two broad approaches to empowerment. The first, following financial self-sustainability and poverty alleviation paradigms, reproduces a perception of empowerment that assumes that access to microfinance will serve as a catalyst for positive changes in women's socio-economic status. The second, following the feminist empowerment paradigm, acknowledges a broader approach, appreciating the linkages between intra-household dynamics, the community, market and the state; it also recognises the need to address the structural (social, economic, political and legal) factors that impede women's abilities.

## Addressing the 'magic bullet' notion of microfinance

The conflicting perspectives on microfinance addressed in the previous section suggest that 'opinions on the impact of microfinance' are 'divided between those who see it as a "magic bullet" for women's empowerment' and others who are not convinced of its capabilities (Kabeer 2005: 4708). The papers presented in this special issue provide empirical evidence on the impact of microfinance with regard to poverty alleviation and women's empowerment. It is evident that while access to finance has the potential of making contributions to the 'economic productivity' and 'social wellbeing' of poor-class people, it does not lead to automatic empowerment.

### Poverty and empowerment

Poverty is not just an economic phenomenon but is also entrenched in social nuances such as class, ethnicity, religion and gendered structures. Viewing poverty as static and separate from empowerment concerns is therefore problematic. Gendered inequities manifest across several social structures in differing manners, giving rise to complex realities for poor-class women and marginalised sections of society. In the South Asian context, men are generally considered primary breadwinners within households, putting women in dependent positions (Kabeer 2005). This is detrimental for women, whose roles are viewed as subordinate, and puts 'considerable stress and demoralisation' on men leading to several issues such as 'domestic violence', 'high levels of alcoholism' and 'abandonment of families and responsibilities' (Kabeer 2005: 4710). The subordinated social position denies women 'equal access to resources', puts 'cultural restrictions' on physical mobility and opens them up to several patriarchal issues, such as dowry-related practices and child marriage. In light of this, a crucial question is whether access to microfinance on its own has the potential to address these deep-seated structures? The Grameen Model, based on the innovations of the Grameen Bank in Bangladesh, institutionalised solidarity groups through which poor-class people, particularly women, receive loans collateralised by group guarantee (Rankin 2002). This 'rhetoric of solidarity' implies that women who participate in group lending will identify collectively to resist their common oppression'. However, practice suggests that 'financial imperatives for sustainability often lead microfinance programs to engage the collective only in the most instrumental manner' (Rankin 2002: 2). Processes of consciousness-raising and empowerment are often perceived as more time-consuming. Cornwall and Edwards (2014: 8) argue that:

> *At the heart of this discourse is a belief that women's business success is enough to overcome all other barriers to equality; once women hold the purse strings, their spending power will automatically translate into a capacity to be those 'agents of change' in their communities and countries that we hear about in speeches by prominent development officials.*

Thus, by reducing empowerment to measurable outcomes, the relational dimensions of empowerment – as being entrenched in complex social power structures, and as a result being far more 'contingent' and 'contextual' – are ignored to make room for 'quick fit solutions' (Cornwall & Edwards 2014: 11). In light of these critiques, Ranabahu and Moerman (2018) scrutinise mainstream understandings of economic empowerment and situate their study within a framework for entrepreneurship, which operationalises economic empowerment as 'the ability of borrowers (mainly women) to start or develop a business by taking decisions, undertaking actions and navigating complex economic, social' and organisational norms and practices. By undertaking a case study of a microfinance NGO in Sri Lanka, which involved interviews, discussions, observations, document reviews and the researchers' reflective notes, the authors show that economic empowerment potentials in a purely financial context can be limited. While members participate in meetings and repay their loans, the underlying tasks and activities do not provide the skills or opportunities for borrowers to become expert entrepreneurs. The study argues that in order for the microfinance institute to successfully foster entrepreneurship among members, it needs to be involved in the processes of planning, developing ideas and managing challenges, which are key stages when establishing a business. The study further suggests that these processes could be enabled through training and capacity-building programs.

Knowles and Luke (2018) situate their study within the conflicting accounts previously referred to in regards to microfinance's potentials in empowering women, and examine policy and practice within microfinance programs adopting a self-help group (SHG) model in India, and the impact on social order. The SHG model involves small groups which receive training from NGOs on financial and social issues. These training programs on personal rights and awareness were instrumental in fostering a sense of independence within individual households and the wider community. This further provided a platform for initiating various community development projects, in which both members and non-members of SHGs could participate. For example, stemming from the efforts underpinning SHGs, women had worked together on over forty-five development projects, including construction, advocacy, health and welfare. Hence, as the authors emphasise, SHGs, 'when facilitated appropriately by NGOs, can be a powerful vehicle for developing both social and financial capital, promoting harmony within communities'.

As emphasised by Hopper and Tanima (2018), there is a danger of confining development to poor countries only. In many rich countries, income differentials are increasing and pockets of poverty are becoming widespread. In line with this, Godinho, Eccles and Thomas (2018) conduct their research in the Indigenous Australian context, emphasising that although Australia is a developed economy with a high standard of living, almost 2.4 million of its population experience severe financial stress, and more than 18 per cent remain financially excluded. Godinho et al. make similar claims to those of Ranabahu and Moerman (2018) and Knowles and Luke (2018), through their learnings from Good Shepherd Microfinance's (Australia's largest microfinance provider) experiences in delivering microfinance to Indigenous clients in remote Australia. The study finds that access to a loan does not lead to automatic empowerment, and that there are three potential ways in which the process of delivering microfinance can foster empowerment. Firstly, through the access to the loan itself, which enables clients to safely and affordably acquire household items they have reason to value, while at the same time setting and achieving goals. Secondly, via personal support provided by microfinance workers through interactive conversations. Lastly, by delivering microfinance in ways that are culturally aligned. For example, making loans flexible with regards to usage (for products such as camping equipment and generators specific to remote contexts). Hence, financial services delivery in remote contexts, when supplemented with culturally informed, user-centred financial capability and resilience-building exercises, can respond better to local, Indigenous needs and priorities. These nuances set the stage for Indigenous clients and communities to enhance their financial resilience and wellbeing.

## Empowerment, participation and accountability

> *If you have your hand in another man's pocket, you must move when he moves (African proverb)* (Heijden 1987).

Dixon et al. (2005: 406), drawing broadly on the feminist empowerment paradigm, argue that the importance of microfinance as a targeted strategy for poverty alleviation and empowerment of marginalised voices lies in its ability to reach the grassroots with financial services, based more on 'bottom-up', as opposed to 'top-down', approaches to development that keep poor beneficiaries at the forefront of such innovation. Within the bottom-up approach, NGOs have been a favoured institutional form for delivering these services. For example, the practice of 'group methodologies' in microfinance is often orchestrated in the NGO accountability literature as a crucial way of promoting bottom-up, downward accountability. Dixon et al. suggest that through such methodologies the poor can ensure their own gradual empowerment towards independent survival and self-management. Microfinance, as a development aim, is thus widely envisioned as a mechanism for helping overcome the limitations inherent in more orthodox development programs by working actively and building relationships with the poor themselves and empowering them in the process. Hence, the question of accountability in development organisations is a matter of the social conditions under which accountability 'relationships' are constructed.

However, as Lehman (2007) argues, development organisations such as NGOs and microfinance organisations are prone to being co-opted by the very forces that they try to change. Thus, in order to appraise the accountability of these organisations, it is imperative to examine the fabric and structures in which they operate. Further, the dilemma faced by development organisations concerns principally the nature of work they undertake, and the problems in relation to measuring performance, 'particularly if the objective is empowerment' (Edwards & Hulme 1996: 968). These organisations tend not to have any evident 'bottom line', which often makes it harder to follow any sense of direction in relation to measuring performance. Given the dominance of the financial self-sustainability paradigm, there can be an 'obsession' with measuring performance, using narrow, superficial constructs such as 'size' and 'growth', which give simplistic indicators of success. In the microfinance context, constructs such as loan repayment rates and household consumption levels are often unproblematically evaluated as measures of program success. Such a narrow focus makes it difficult for development organisations to achieve their mission and vision of empowering the poor. Furthermore, this is exacerbated by existence of upward accountability norms that signify the relationships between microfinance organisations and relatively more powerful bodies such as donors and funders. Here, the principal function of accountability includes providing reports to donors (such as annual reports, logical framework analyses, results-based management, disclosure statements, performance assessments and evaluations) about how funding has been used for a particular project (Goddard & Assad 2005). Brown (2009: 316) suggests that such accounting mechanisms tend to be monologic, with a strong focus on the production of financial reports and the attainment of a 'true and fair' view. The accounts usually focus on outputs in terms of the objectives that the donor set when it provided the NGO with the funding (Unerman & O'Dwyer: 2012). This form of accountability is narrow, with little or no scope for reporting on other matters, making it immensely difficult to provide feedback on broader, structural issues (Ebrahim 2003).

In light of this, NGO and microfinance accountability literature calls for enhancement of downward accountability norms, which describe the extent to which development organisations are accountable to those lower in the aid chain, generally to organisations which receive funds or to intended beneficiaries (Awio et al. 2010; Jacobs & Wilford 2010; Kilby 2011). The primary ethos of downward accountability is that powerful actors should establish and submit themselves to downward accountability, which may involve 'releasing some of their power' (Jacobs & Wilford 2010: 799). Downward accountability is therefore closely associated with empowerment (Awio et al. 2010; Kilby 2011). As Kilby (2011) suggests, for downward accountability to be successful, it should involve people with limited power engaging more effectively with those who have more power. Therefore issues of accountability, participation and empowerment are closely related. Microfinance organisations arguably have opportunities and obligations to put this theory into practice (Jing 2000). Also, given that a central aim of microfinance is to empower women, any discussion of downward accountability must be closely linked with gender analysis (Jacobs & Wilford 2010). For example, UNIFEM's Progress of the World's Women Report 2008/2009, entitled *Who Answers to Women?*, is a direct question about accountability. Downward accountability in the microfinance context must therefore be gender-responsive.

Drawing on these notions of accountability, participation and empowerment, Chu and Luke (2018) review mechanisms for beneficiary participation for ten international NGOs operating microenterprise development (MED) programs in Vietnam. The findings reveal a three-tiered framework for accountability, including consultation, partnership and delegated control. With regards to consultation, NGOs focused on familiarising themselves with the local scenes, cultural norms and values, and socioeconomic factors, before designing programs. To facilitate this, the NGOs met with potential local partners (for example, private businesses, local NGOs and local authorities) and beneficiaries in order to understand their needs, capacity and conditions. The NGOs focused on developing partnerships in various forms, such as between the NGOs and beneficiaries, within working groups and with public-sector and private-sector actors. Partnerships with beneficiaries involved providing trainings on agricultural techniques and identifying market opportunities. The NGOs worked on forming networks between beneficiaries within working groups to foster learnings and potential business partnerships. Partnerships with the private sector involved connecting working groups with suppliers, traders, companies and factories. This provided beneficiaries with a platform for selling their products. This further enabled the process of transforming the nature of support from temporary development assistance (via NGOs) to long-term commercial relationships with the private sector. Partnerships with local authorities, such as the Women's Union, enabled the NGOs, which often had limited local knowledge upon commencing, to engage with local cultural norms and practices in a more nuanced manner. Lastly, NGOs focused on progressively delegating control for decision-making within a commercial business context, and supporting projects in less visible ways – for example, by organising initial risk-sharing arrangements with private-sector companies that transacted with microenterprises. This paved the pathway for operating, maintaining and growing microenterprises after the NGOs formally completed their projects. The authors suggest that this gradual approach to building capacity and handing over control is essential in fostering more empowering pathways to addressing poverty and accountability.

Recognising the interrelations between accountability, participation and empowerment, Ranabahu and Moerman (2018) study the accountability mechanisms between microfinance officers (MFOs) and individual borrowers at the community level within a Sri Lankan microfinance institute (MFI). The study suggests that multiple accountability practices exist within the organisation. For example, while the MFOs are bounded by formal MFI rules and regulations, in practice they use customised strategies to ensure loan collection, signifying a mix of upward and downward accountability norms. While the MFOs' roles include beneficiary mobilisation/facilitation and loan collection, the practice of loan collection seems to sideline the other practices, shaping upward accountability norms and overtaking downward accountability spaces. This in turn limits the empowerment potentials of microfinance within the MFI, owing to the lack of opportunities for beneficiaries to develop skills in relation to entrepreneurship.

These contradictory accounts from two studies in this issue raise a question about the optimal organisational structure for microfinance organisations to disburse accountability towards beneficiaries in fostering empowerment. Should working towards an optimal structure even be a goal, given that empowerment as a construct requires contextualised attention? Accordingly, Creedy and Hoang (2018) construct a taxonomy of microfinance organisations. The study suggests that, within the mainstream development rhetoric, the credit 'market' for poor-class people is characterised by asymmetric and costly information, and hence default risks are considered to be relatively high. As a result, conventional, joint-stock banks only serve those borrowers who are able to signal their creditworthiness by providing collateral and accounting information. Consequently, microfinance organisations are considered the main leaders for poor borrowers. To deal with the problems of 'information asymmetry' and 'moral hazard', microfinanciers have come up with and operate under a range of different organisational structures, which can be categorised according to their funding, lending and regulation characteristics. These heterogeneous organisations 'deal' with the problem of 'default risks' in differing ways. For example, donor and government-owned organisations use joint liability lending and subsidised loans; credit cooperatives and microfinance organisations that aim to operate on a commercial basis tend to use individual lending more often, as this makes it easier for loans to be guaranteed by physical collateral; and organisations that serve small-scale borrowers depend more on donor funds and apply group lending arrangements. Ultimately, the underlying goal that shapes these organisations is a concern with ensuring high repayment rates. In light of this overarching goal, the question is: can microfinance on its own pursue the broader goal of women's empowerment? As this section shows, unless it is teamed up with capacity-building, awareness-raising and accountability exercises, this is not possible.

## Concluding thoughts

The papers in this special issue illustrate the need for exercising 'caution in talking about the impact of microfinance' (Kabeer 2005: 4717). Microfinance organisations might be effective in providing financial services to the poor, but there cannot be any substitute for 'broader policies to promote pro-poor economic growth, equitable social development and democratic participation in collective forums for decision making' (Kabeer 2005: 4717). In the absence of such an environment, microfinance can only operate as a tool to provide temporary relief without challenging the patriarchal structures surrounding poverty. The overwhelming concern with repayment rates also has the potential to introduce new forms of dominance in poor people's – particularly women's – lives, in the form of intense pressures being put on by fieldworkers during loan collection processes. Hence, it is important to understand that microfinance does not 'automatically empower women – any more than do education, political quotas, access to waged work or any of the other interventions that feature in the literature on women's empowerment' (Kabeer 2005: 4717). As such, microfinance should not be seen as a 'magic bullet', as doing so can reinforce the very notions it seeks to challenge. Rather, it should be seen as part of a larger project on social transformation, 'contingent on context, commitment and capacity' (Kabeer 2005: 4717). Hence, as emphasised under the feminist empowerment paradigm, more attention needs to be paid to the macro contexts surrounding microfinance. For example, what kinds of governmental policies, capacity-building programs and other interventions, such as education and skill development programs, could microfinance be linked with? What would be the roles of individuals in designing these strategies? What are the interlinkages between the macro politics and micro contexts surrounding microfinance within a particular organisational setting? How can internal organisational processes, such as beneficiary selection, loan collection and group meeting procedures, be designed in more empowering ways? How should these phases be transformed for disbursing accountability towards beneficiaries, and in turn fostering participatory spaces for empowerment?

In summary, while microfinance as a development aim has the potential to bring poor-class people into the development and financial inclusion dialogue, much work remains to be done. We hope this special issue – through reflections and practical demonstrations – challenges the 'magic bullet' notion of microfinance, and opens up spaces for further dialogue and research.

## NOTES

1. The key focus of the Grameen Model is specified as poverty alleviation. Adherence to this norm is often highlighted as the 'Bangladesh Consensus' (Roy 2010).
2. This is addressed later in the chapter.

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