

# Analysing various culture and microfinance practices



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Microfinance is different from other financial services. As its history, microfinance has always been double bottom line. The loftier goal of this financial innovation is not only based on the financial objective but also concerning with the social goal. Nowadays, microfinance has been growing and moving to reach a fine tune position either in financial industry landscape or in its role as community development tools. To achieve such position, there are some dimensions that microfinance deals with, ranging from economic, social and cultural to political aspects. All these things, at the optimal level should be well managed.

Cultural aspects is one of the important dimensions that microfinance institution (MFI) should be taken into account in its operation. The importance of giving much more attention to this matter because it may be known by many that in order to expand both financial services and non financial services ranging from poor people to unserved enterprises, in general microfinance institution has been focusing mainly in the marginalized region, in rural area or remote area with the possibility of facing different types of culture each other. Indeed this situation sometimes has pushed many institutions who involved in microfinance activities to study about local culture -in depth in such places before offering financial services.

Yet, several researches have been conducted in some countries with the purpose to know the importance of cultural understanding in managing MFIs. A research done by Phlong (2009) on informal credit system indicates that the understanding of local culture is the main reason of the effectiveness of microfinance in a society in Cambodia. Deubel (2003) shows how cultural

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aspects can be integrated in developing of microcredit in Mali. The similar thing also is supported by Rana (2008) in Bangladesh that confirms the need to understand cultural orientation in managing microfinance. Varghese (2001), argues that the success of Grameen Bank in Bangladesh is caused by the bank's understanding of cultural aspect embodied in women as their main client. In Indonesia, the success story of Bank Rakyat Indonesia (BRI) is much contributed by the way of this bank using cultural approach in its microfinance program such as BKD (Bank Kredit Desa/Village Credit Bank), P4K (Program Peningkatan Pendapatan Petani dan Nelayan Kecil/ Fishery and Farmers Income Generating Project) and BRI Unit Desa (Rudjito, 2003).

All those facts above showed that by understanding cultural aspects, especially the culture where a microfinance institution located, will contribute to the success of microfinance practices. Then the question raised here in more technically is, in which ways do cultures affect to microfinance practice?. Since culture is a broad topic with all elements and ways, therefore in this paper, the answer of this question will only be discussed by taking a look in some perspectives that associated with microfinance practice. They are regarding with human resources, institutional culture, product and service design, gender targeting, services environment and loan repayment.

## **Culture and Microfinance Definition**

To begin with, it is important to elaborate the definition of culture and microfinance. Basically, culture is a word that has many definitions since anthropologists and social scientists defining it on their perspective and interest. That is why like Williams (1983) argues that culture can be one of <https://assignbuster.com/analysing-various-culture-and-microfinance-practices/>

two or three most complicated words in English language. Culture means shared beliefs and values of the group, consisting of the beliefs, customs, practices, and social behavior of particular nation or people (MSN Encarta, 2010). Hoecklin (1995) emphasizes that culture is something that brings pervasive, deeply held and implicit beliefs and values. Other definition, Matsumoto and Juang (2007) opine that culture is as a set of dynamic system of rules which is explicitly and implicitly established by groups for ensuring their survival, covering beliefs, values, norms, behaviors and attitudes that shared by a group and communicated across generations. According to them, this set of rules is relatively stable but potentially to change in line with the civilization development across time. In practice, culture is often manifested in the daily life activities such as the way we are speaking, eating, thinking, learning, acting, socializing based on the attitude, values and norms that all defined in the culture.

Meanwhile, microfinance according to Consultative Group to Assist The Poor (2010), is broadly defined as financial services for poor and low-income clients. The term is often used more narrowly to refer to loans and other services from providers that identify themselves as “ microfinance institutions”. Many microfinance institutions forming as multilateral agencies, Non Government Organizations (NGOs), banks, cooperatives etc use microfinance either as programs or as products with double bottom line objectives. Microfinance, especially in the developing countries, can be used as an instrument to achieve the purpose of development with this double bottom line both financial benefit and social effects. Innovative microfinance institutions can attain objectives of financial sustainability and broadened

outreach, if they succeed in embedding financial operations with prevailing society rules and networks (Bastiaensen and D'Exelle, 2002).

## **Culture and Microfinance Institution's Human Resources Practice**

Effect of culture on microfinance institution's human resources practice mainly can be occurred when MFIs do recruitment of their staff. Many of microfinance institutions make an effort to hire their staff from local community. This preferential hiring is based on the reason that local staffs from local community are familiar with cultures where the MFI located. Local staffs tend to instill confidence in clients and make it easier for them to communicate with the MFI (Legderwood, 1998). Accordingly, often seen that MFIs accept the candidates, for example, if they are able to speak in the local language, understand the local custom and traditions as well as have good social skills in order to do the marketing well and effective. Otherwise MFIs will fail to communicate their programs or products. Non local people may be able to be hired in this purpose but it is costly and may not be such effective. As Woller and Parson (2002) argue that hiring local staff, who are more likely to spend in the local community, in some extent will increase the economic impact of microfinance. In this case, culture influences MFI's hiring decision making.

## **Culture and Microfinance Institutional Culture**

It is already known that the target market of microfinance is unserved or underserved enterprises and low income households, ranging from the microenterprises to small growing enterprises that provide employment in their communities. Sometimes also found that a number of microfinance

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institutions provide financial services to “ very poor people” living in poverty with all inherent challenges in handling such target, for instance physical barriers, economic barriers, cultural barrier barriers (self selection and self exclusion ) (Maes and Foose, 2006). According to Goode and Eames (1996), contend that culture is influential factor in the existence of poverty. Lewis (1998), states that the people with a culture of poverty is characterized by a strong feeling of marginality, of helplessness, of dependency, of not belonging.

All these facts constitute the differences between microfinance institutions with other formal financial institutions, such as banks. Here, on one hand MFI seeks to accomplish something extremely difficult to provide sustainable financial services to the poor. On the other hand, MFI has to deal with challenges working condition in which maintaining for a high staff productivity, low staff turn over , and even in low salary expenses (Craig and Frankerwiz, 2006). Accordingly, these unique challenges of MFI often have direct implication on the microfinance institutional culture creation.

Institutional culture or organizational culture is something that related to a system of shared meaning held by the members inside institution which affect the way of people carry out their work, how people interact with each other in their work, and ultimately how people feel about their work (Ledgerwood and White, 2006). If a MFI can create an effective institutional culture, it can be an effective tool for matching the inherent cultural characteristics of providing financial services to the target market with the challenges to create a pleasant working environment in which to have and

maintain the employees feel comfortable, valuable and respected to achieve best performance.

## **Culture and Microfinance's Product and Service Design**

It is important for microfinance institutions to assess the characteristics of target market, if they want to design and offer products and services. It is required because the product or service offered must respond to the clients needs and expectations. In this case, target markets assessment can be done by knowing and analysing some cultural characteristics of the clients, such as custom and tradition, religion, ethnicity, languages, illiterate or literate, collectivism vs individualism, etc. As D'Exelle et al (2004) argue that microfinance institutions should get to know about the prevailing local cultures or "rules of the game" of the society in order to tailor financial products to the need of the target as well as to safeguard the financial results.

For example, In Indonesia, microfinance institution should take into account the custom and traditions of farmer dan fisherman concerning with the offer of loan product. A farmer can only work and produce in his farming after 3 months of the initial planting and the fishermen's decision to go sailing would also be very much depending on the weather condition. However, some Indonesia's microfinance institutions often provide loan product with rigidity in payment time. It can be imagined that the farmer and fisherman will face difficult situation if they have such loan, that is, inflexibility of payment time. At the end, it will lead to non performing loan. This situation might be derived from the MFI's lack of understanding in the custom and traditions as well as problems faced by the client. The farther effect, the <https://assignbuster.com/analysing-various-culture-and-microfinance-practices/>

uncompatible microfinance service with the living patterns of the poor, whose economic activities have high level vulnerability, will cause the poor still living in the marginal life (Matin et al, 1999).

There are also cases in which a certain group within a community can not or will not take part in a financial services due to religion, ethnic, or other cultural influences. It is important to understand all these restrictions when identifying a target market, so that products and services can be developed that take into account the limitations on some groups (Ledgerwood, 1998). For example, in countries where the majority of the population is constituted by Muslims, conventional microfinance products often neglect Muslim religious sensitivities. The reason according to Khayat (1996) is that Islamic finance is based on sharia (Islamic law and council of advisers), which determine the products and services that are Islamically correct. With sharia, the money cannot be treated as a commodity. Money must be used productively (like labor and land), with the return based solely on actual profit or loss not on interest rate (riba). Meaning that the financial provider and the client share the risk on a project. Of course, there is need for an appropriate model rooted in Islamic beliefs and cultures if microfinance want to achieve the success in such Muslim societies (Obaidullah, 2008).

Different ethnic groups have very differing experiences and expectations in a range of factors, including financial services. Microfinance product can adjust their products and/or services as well as their advertising messages to the specific characteristics and needs of cultural or ethnic groups . According to Romer in Koeman, et al (2009), this is what called as Etnomarketing. For example, PRODEM FFP, a microfinance institution in Bolivia has taken into <https://assignbuster.com/analysing-various-culture-and-microfinance-practices/>



account the client's ethnicity aspect in developing multilingual SMART ATM microfinance to target a significant number of rural villagers speak only the indigenous languages of Quechua and Aymara. A traditional ATM that uses on-screen text as its primary communication mechanism was not a realistic approach (Hernandez and Mugica, 2003)

Setting up microfinance products is often quite difficult if the majority of of the clients are uneducated and illiterate. These kind of clients have forced microfinance to find solution. However, thanks to technology solutions, microfinance nowadays can provide the services to them, for example by using biometrics technology. Rosenberg (2007), notes NCR, an internationally company of ATM provider, has tried to creatae an ATM's inovation to target illiterate people in the rural India. With thumbprint and voice guidance in NCR's ATM, illiterate or barely illiterate clients are able to get the benefit from financial product using biometrics to a considerable extent.

Another challenges in creating microfinance products is concerning with individualistic and collectivist cultures. In microfinance practice, these characteristics have effect on the lending methodology and eventually to the products and services that microfinance offered. They are individual lending product or group lending product. In the countries where collectivist cultures are much placed in their life, microfinance institutions have the possibilty to succeed in introducing group loan product. According to Burger (2008) countries such as in Asian, African, Central America and South American fit the collectivist culture. People in these countries are easy to be gathered since they are happy about belonging in a group. They have a tendency to <https://assignbuster.com/analysing-various-culture-and-microfinance-practices/>

balance their life in community and to give contribution as part of group. In contrast, in most Northern European countries and the United States, individualistic culture has penetrated in their life since people in these cultures are more independent and a great emphasis on individual accomplishment. The implication on microfinance so far can be witnessed that the products of group lending, in many cases perceived as the strength of microfinance, are spreading in the countries where the story of microfinance world began, that is, from Bangladesh to Bolivia.

### **Culture and Microfinance's Gender Targeting**

A vast of majority microfinance programmes is intended to women as the target client . The reason, according to Food and Agricultural Organization (2002), was because the women tend to be timelier payers than men, especially in the poor community. In addition, in many cases women can be more trusted and dedicated more to their families' well being. However, concerning this gender targeting, a microfinance should be carefully noticed, since gender roles in a certain society is a problematic issue. In some countries, gender role is much affected by the culture. For instance, in men lead society, a father is the owner of wealth. This fact brings a result that he can dominate in the family, including the decision to take a loan/credit from a financial institution. Women often are placed in the inferior position, and indeed many studies revealed about it. Conversely, in some places, mothers are involved in the family's decision as their choice. In this society, generally women have income generated business activities to support family.

## **Culture and Microfinance's Services Environment**

The effect of culture on microfinance practice is not only seen in all aspects previously mentioned, but also indirectly in the issue of microfinance's services environment. In general, it is believed that culture can contribute to strengthening social ties among the members of community. Based on this opinion, for example, many companies attempt to customize their activity by adopting the form of building, the colour, or the local material life-related culture in order to be accepted by the community. It is something strange, but sometimes it can work well. The real example is BRI/ Bank Rakyat Indonesia (Rudjito, 2003). BRI unit's buildings spreading across remote area in Indonesia are rented or built in the folksy style. Sometimes the office buildings of BRI unit have the similarity with the local people's houses, with the sign board as differentiator. By this way, local community feel eager and comfortable to come to the bank, since the building model is not "frightening" them.

Another customization in the practice of microfinance, according to Ledgerwood and White (2007) is related to front office management and working hours. A typical front-office environment, particularly in a rural or semiurban microfinance office, has fairly irregular levels of activity-at some times of the day, week, or month, banking halls can be filled to capacity, while at other times they are empty. The situation can also differ from one MFI's office to others, depending on the local market and environment.

Managing microfinance office or branch is particularly important in providing financial services for low-income clients, because transactions tend to be in smaller amounts and of greater frequency. Therefore, an MFI's ability to

manage peak loads in the front office is a key determinant of its service quality to the clients. Extended working hours are also extremely beneficial for clients who would otherwise have to take time from their business activities to perform financial transactions. However, the ability of a microfinance institution to extend its business hours depends on how long end-of-day processing takes, and in some countries, it is regulated

## **Culture and Microfinance's Loan Repayment**

Do cultures really affect on loan repayment? In fact in many cases, the success of loan repayment is precisely associated with culture. In this case, some cultural values or traits that are still maintained by the community often contributing to the high repayment rate. Thus microfinance can take the benefit fro the inherent cultural values, such as the description in the countries below.

In Philipines, there are two cultural traits which well known by most Filipino, Pakikisama and Sakop. Gorospe in Gripaldo (2005), defines Pakikisama as a kind of sense of belonging and loyalty to a group and more particularly owned by Filipino. In general , this trait is manifested by “ getting along well with people”. However, this Filipino's trait plays prominent enough role in creating harmonious relation among the member of community from the level of nation to small group. According to Hariharan (2010), this trait also permeates in every aspects of Filipino's life, ranging from political, social and economic activities, including the microloan practice. In Philippine's small group, called barangay, which consisting of 50-100 families, the same pakikisama behavior pattern among members much potential to help financial problem faced by one family. For instance, if one family has a <https://assignbuster.com/analysing-various-culture-and-microfinance-practices/>

financial problems or loan payment problem, then this can be shared between community members to find a solution. Of course, in such a way contributes on the success of the microfinance program in that society.

The second trait is *sakop*. This word is closely related to "inclusion" which means one is included in a group. In practice, the implication is one has to care for family, share happiness and sacrifice at any given condition either stand or fall always with them. Likewise *pakikisama*, the spirit of this trait plays important role in the Filipino's community. Again Hariharan (2010) notes that when there was a drought in Northern Philippines caused by El Niño, and brought so much damage, the members of barangays united and helped each other during the difficult time. For those whose problem loan repayment as a result from that disaster, through *sakop* spirit, can be overcome. At least the repayment rate was still high.

Another cultural value which still traditionally strongly held in some countries where majority of population hold Hinduism and Buddhism as their main religious practice is known as *karma*. As cited at Freedictionary (2010), from the perspectives of Hinduism and Buddhism, *karma* is defined as the total effect of a person's actions and conduct during the successive phases of the person's existence, regarded as determining the person's destiny. In simple definition, what you sow is what you reap, if you do good thing you will harvest a good thing as well and vice versa.

In Cambodia, as Phlong (2009), notes that the belief in *karma* becomes the principle guiding one's behavior in everyday life, including credit practices. For examples villagers strongly believe that "one should not steal or take

what is not given” because it is a serious demeritorious action (bab), that will create bad karma for the borrowers in their next lives; thus when one borrows objects or money, he/she needs to repay it back

All facts explained above clearly can be concluded that the inherent cultural values often help the microfinance practice, especially for lending activity.

## **Conclusion**

To conclude, microfinance inevitably has a consequence to interact with many dimensions. One of dimensions is concerning with cultural aspect especially for those MFIs who want to expand their operation in the marginalized region, in rural area or remote area with the possibility of facing different types of local culture.

Knowing effects of culture on microfinance practice is a must for MFIs in order to succeed in achieving double bottom line, both financial services and non financial services for the low income clients. Cultures affect to microfinance practice in some perspectives. They are from human resources practice when MFIs hire staff, institutional culture creation, products and services design, gender targeting, services environment development and loan repayment.

Indeed, if MFIs can integrate between their goals with cultural aspects that are associated with the life of community, it would bring positive effects on the operation sustainability of MFIs for long time.