

# Microfinance as a field of practice: practice variation and position-taking behaviour

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# Significance of microfinance

- Mid eighties, microfinance conceived as a response to poverty afflicting millions of people around the world.
- 2005, declared the year of microcredit by the General Assembly (UN).
- 2007, more than 100 million poor families received a microloan
- 2008, as the world was grinding slowly into a global financial crisis, donors committed \$11.7 billion to the course of microfinancing [The Economist, 2009].
- 55 to 90 million more people are likely to be living in extreme poverty, following the recent global financial crisis [United Nations, 2009].

# Microfinance - definition

Seibel and Kumar [1998; pg,4]

- *"Microfinance is defined as a sector of formal and nonformal financial institutions providing microsavings, microcredit and microinsurance services to the microeconomy, hereby allocating scarce resources to microinvestments..."*
- *The microeconomy includes such target populations as microentrepreneurs, small farmers and the landless, women and the poor."*

# motivation

- Results of research on the impact of microfinancing on poverty are inconclusive.
- Whereas commissioned programme evaluators suggest that microfinancing is having a substantive positive impact on the poverty situation [e.g. Snodgrass and Sebstad, 2002]
- Contrary view held by independent analysts, especially economists and academics [e.g. Morduch, 2000, Schmidt, 2010].
- Concerns - that the extent to which microfinance institutions (MFIs) can enable poor people to exit poverty sustainably is not yet established [Gibb, 2006].
- Most studies on microfinance are predominantly atheoretical [exceptions, for example, Dorado-Banacloche, 2000].

# purpose

- invoke a critical conception to explain practice variation underlying microfinancing.
- outline the pressures behind the apparent lack of consensus on 'best practice' in microfinancing and criticisms of its so-called 'mission drift' [Christen, 2000].
- draw insights for regulatory policy
- paper is a pull out from my PhD thesis

# paper - outline

**Theoretical framework**

**Neo-institutionalism**

**Bourdieuian views**

**Microfinance as a field of practice: emergence, practice variation, and position-taking behaviour**

# Neo-institutional Theory

- a synthesis of concepts explaining how organisational structures and processes become institutionalised and acquire legitimacy from society [e.g. Scott, 2008]
- Conceptually the theory has two leading versions;
  1. old institutionalism - known popularly as isomorphism, and
  2. new institutionalism - named neo-institutionalism.

# Isomorphism

- DiMaggio and Powell [1983] describe three mechanisms that explain structural similarities in organisations namely:
  1. coercive isomorphism,
  2. mimetic processes, and
  3. normative pressures.

# Neo-institutionalism

- focuses more on logic and rationality to explain change, innovation, and practice variation within institutions in a field [e.g. Wry, 2008].
- practice differences among institutions may be due to two approaches to rationality in decision-making [Lounsbury, 2007];
  1. Instrumental - strategic
  2. Institutional - rationalised myths
- logics are sets of cultural beliefs that direct cognition and influence decision-making and behaviour among actors in a field [Lounsbury, 2007].
- multiple logics exist and compete, leading to divergent practices among organisations, e.g. social vs commercial logic in microfinancing.

# 'Theory of practice' by Pierre Bourdieu

- institutions represent structured positions in social space [ Bourdieu, 1977].
- as actors, institutions engaged in power struggles to enhance chances of their reproduction and dominance [e.g. Everett, 2002].
- At the heart of Bourdieu's view of the dynamics of power contests within and between social structures are three concepts;
  1. fields,
  2. capital, and
  3. the habitus.

# Bourdieu's view of power struggles

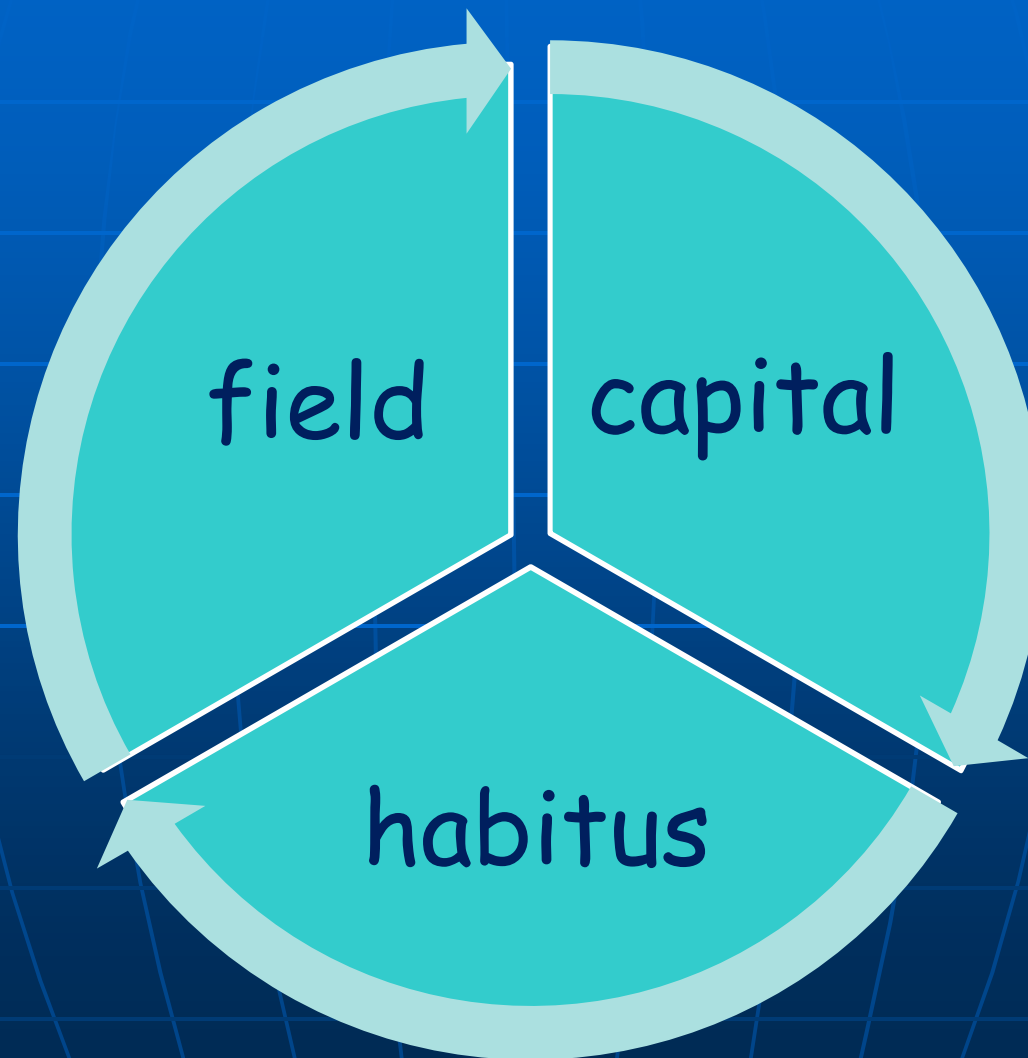
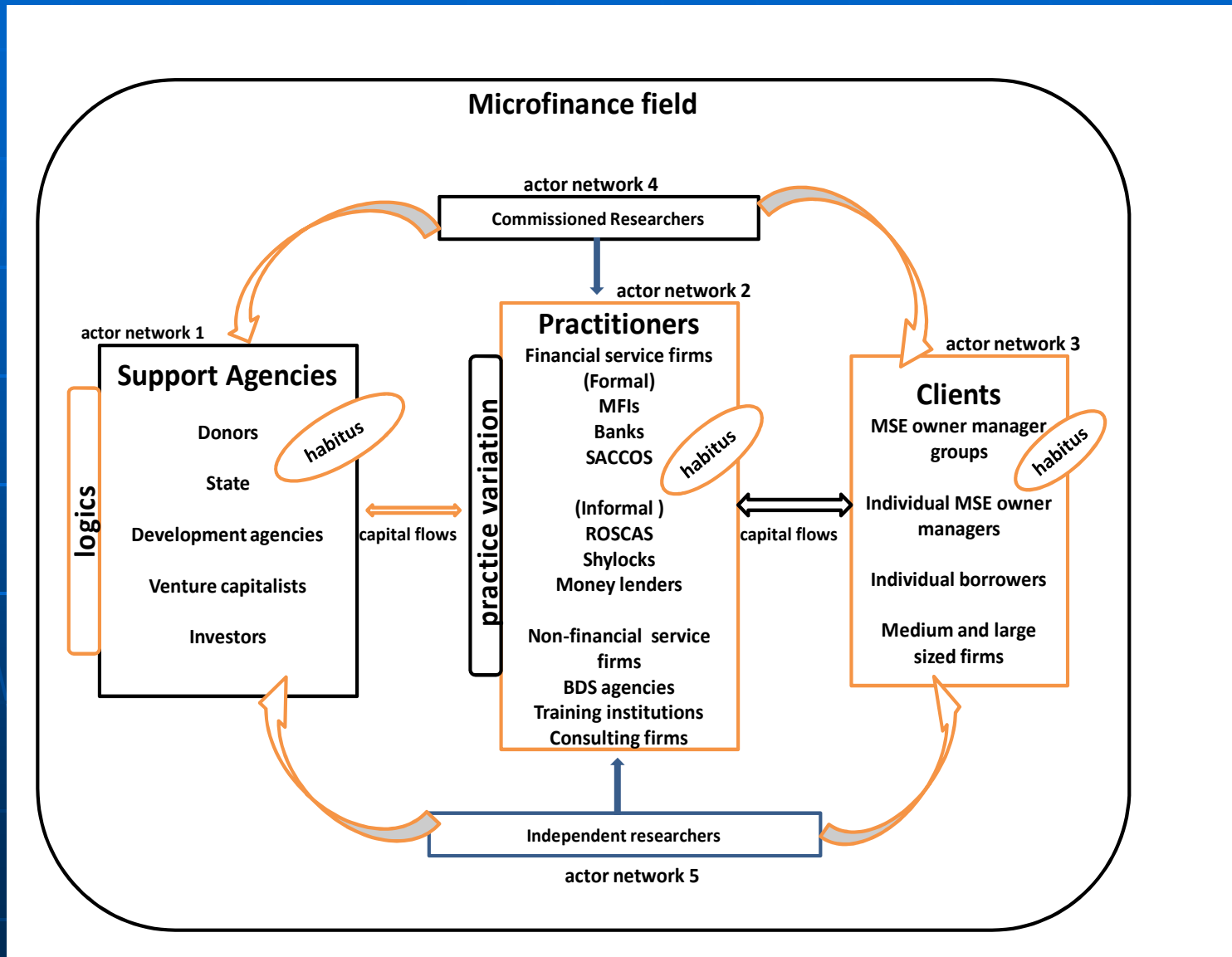


Figure 1: Conceptual framework of microfinance  
(a Bourdieusian perspective)



# What does it all mean?

1.

- emergence, practice variation, and position-taking behaviour; case of microfinance field

2.

- case of an emerging 'Field'

3.

- logic and capital struggles in the field of microfinance
- Position-taking behaviour and regulatory challenges in microfinancing

## Microfinance: case of an emerging 'Field'

- genesis, motive, and actors behind the microfinance practice
- a framework to promote entrepreneurial activity among poor people (the dominated)
- microcredit, social empowerment of women, and business development services - underpin microfinancing
- group mode of service delivery, an example of *social capital*, is a key feature
- Following the success of Grameen Bank in Bangladesh<sup>14</sup>, microfinance has diffused mimetically

## Microfinance practice variation: logic and capital struggles

- across actors - are varied shades of salient features distinguishing microfinance from traditional banking
- enhancing *cultural capital* through inclusion of Business Development Services (BDS) in microcredit schemes
- aid - a form of *symbolic capital*- is used coercively to shape relations among actors in the field.
- the not-for-profit habitus of NGOs and their pursuit of development, a *social logic*, has won microfinance practitioners legitimacy among stakeholders
- some NGO-linked MFIs prefer an integrated approach to microfinancing
- group vs individual mode of service delivery

## Logic and capital struggles - continued

- early 1990s marks a new dawn in the field of microfinance
- resource-constrained donors, question legitimacy of the social logic driven microfinancing
- financial self-sustenance is seen as imperative in 'institutionalising' microfinance practises
- significant shift in the delivery of microcredit and BDS to MSEs
- a minimalist approach - in which credit (*economic capital*) is the only product becomes the *modus operandi*.
- apparent de-institutionalisation of BDS is clear example of devaluation of *cultural capital* and, an act of *symbolic violence* exercised by agents of *economic capital*.

## Microfinancing: position-taking behaviour and the regulatory challenge

- contestations between social and commercial logics, appear pronounced
- both camps claim to be 'fighting poverty', largely a *symbolic position* aimed at legitimising actor practises
- practises largely influenced by individual actor's habitus embedded within the specific logic position
- partly credited for innovative service delivery, position-taking behaviour by MFIs poses a major regulatory challenge
- introduction of prudential vs non-prudential regulations
- low uptake reinforces apparent position-taking behaviour embedded in the diverse institutional structures in the field

## Conclusion & Contribution

- microfinance- the delivery of microcredit and business development services among poor people - is a popular anti-poverty practice
- encourages the poor to pursue self-employment by creating micro and small enterprises.
- impact results contested, and attempts predominantly atheoretical.
- paper employs a critical relational framework informed by Pierre Bourdieu and neoinstitutional views to explain apparent variations in the practice of microfinancing.
- multiple capital species are noted
- two contending logics- social and commercial- are seen as responsible for the diverse practices in the field of microfinance.