Microfinance and Culture

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The Impact of Microcredits on Culture in Kenya

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Abstract

This research paper analyses the impact of microfinance on Kenyan culture and vice versa. The findings of the research led to the focus on the following variables: gender, social relationship, age groups, and peace and national cohesion. The research methodology adopted for the research combined a descriptive survey with a descriptive observation. The conclusion of this paper is that microfinance indeed does have an impact on Kenyan culture. In context of the post-election violence, the most significant finding concerns peace building: microfinance has the potential to have an important impact on peace building through social cohesion in presenting a unifying forum for people with different backgrounds.

Keywords: culture, gender, social relationship, age groups, peace and national cohesion.
1. Introduction

Up to now, few studies investigate the relation between microfinance and Kenyan culture. This is interesting because microfinance as a widely economic issue has a lot of cultural implications. This includes the client’s way of life which is deeply influenced for example by the mode of repayment and weekly group meetings. Therefore this paper attempts to examine the impact of microfinance on different cultural aspects. These aspects have been worked out through several interviews at the beginning of the research. According to the Center for Advanced Research on Language Acquisition of University of Minnesota (CARLA), culture consists of ‘shared rules for behaviours and interactions, cognitive constructs and affective understanding that are learned through a process of socialization’ and thus, quoting Damen (1987), CARLA defines culture as ‘the learned and shared human patterns or models for living’. It is therefore the total way of life and it includes what a group of people think, what they do and what they have (Ferraro 2010: 28). The research topic was then narrowed down on the following variables: gender, social relationships, age groups, peace and national cohesion.

2. Methodology

The research methodology adopted for the research was a descriptive survey. Descriptive design is relevant because it provides the real picture about the variables in question and the factors responsible without manipulating the variables. Using a convenient sampling method, a total of 40 individual interviews were carried out, 40 questionnaires administered, 10 expert interviews and 8 focus group discussions were performed. A further method was observation. The respondents were sampled from different areas representing different lifestyles such as rural areas¹, slums and metropolitan places. Ol Donyo Sabuk in Thika, Mathare and Huruma estates in Nairobi, Eldoret and Ruai in Nairobi.

The research was guided by several assumptions:

- Microfinance has affected gender through empowerment of the women and disempowerment of the men.
- Microfinance has an impact on social relationships by expanding the social network.
- Microfinance has strengthened some social bonds.
- Microfinance has weakened various social bonds.
- Microfinance has a symbiotic relationship with peace.
- Microfinance has ensured the participation of the youth.
- Microfinance has brought together tribes in Kenya under one common economic umbrella.

¹ Nowadays, still 70 to 80 percent of the Kenyan population is rural (Kabou 2009: 157).
The following chapters of this report show the results and their interpretation. Based on the assumptions mentioned above, the paper is structured as follows. The first chapter deals with the social impact on microfinance. After this a connection between tribalism, peace and microfinance is drawn. Then aspects of gender and age are looked at. The results are summarized in the conclusion.

2. The Social Impact of Microfinance

The aim of the following chapter is to present different levels of social impacts of microfinance. At first, it is stated that a loan group has an impact on an individuals’ behaviour and mentality. Since each of these individuals interacts in their personal social networks, it is assumed that there must be an effect on the group members’ environment.

In the following the results of the qualitative research are presented as hypotheses supported by the observations in the different microfinance institutions.

In order to create an adequate structure for presenting the results, a micro, a meso and a macro level are introduced. All findings that concern relationships and the social environment of the loan takers are allocated to a social micro level. Since changes in family relations are institutional, they belong to the meso level. Shared values of the groups which are carried outside to the communities and thus to society belong to the macro level. The findings are presented by moving-form micro to macro perspective. This allows a clearer illustration of the research finding.

Since micro credits are mostly given to groups, their formation and admission of new members must follow certain patterns or even rules, which are part of a social process. It is assumed that these patterns ensure stability and reliability of the group (UN-OSCAL 2000: 6). Based on this assumption it is proposed that stable family structures of an individual such as being married and having children are a predictor for acceptance in a microfinance group and also guarantee reliability of a long term period.

Although neither officially stated in any constitutions nor an official policy of the visited MFIs, it can be observed by the answers about the marital status in the questionnaire that all interviewed participants were either married with children or single parents. This could be interpreted as an indicator for security. This helps the MFI to identify an individual’s background as stable and thus to be a desirable client. A person that is not dedicated to a family or children might be associated with higher risks to run away or not take the full responsibility that comes with the loan (see also gender stereotypes by DISC women).

A further evidence for the above stated thesis are statements by some of the participants to be under pressure to support their children and pay their school fees. Here, the purpose of the loan was partly used for school fees and household issues.

Additionally, a spouse can also mean security for the MFI. Many interviewees claimed that their partner and family would support them in case the individual is not able to repay the loan. That is, a
partner with income is likely to provide an additional source of income which reduces the risk for the MFI. Especially if the loan taker is a woman, the husband also has to sign the loan contract because when defaulting, only his agreement to the loan guarantees access to their common possessions. According to many participants the planning of the loan taker’s business plan is a collective decision. For this reason, ideas for how to use the loan are also discussed and evaluated at home. This could lead to an increased quality and reflections upon how to handle the loan.

Loans in all visited MFIs are only given to groups. Here, one of the conditions is that at least two thirds of the members know each other. This is because the MFIs want to ensure that there will be pressure within the groups. This pressure of losing face ensures the payment even when struggling to pay. Through this the group becomes a sanctioning instance, thus, it becomes an influencing factor on the members’ lives. The group mechanism can also work in the opposite way: The group also can encourage its members into action both as strong individuals and as a strong collective. Due to these observations, a proposal for a further hypothesis is as follows: Since MFI groups are formed by social groups that know each other there is social cohesion in all groups.

However, this social cohesion varies according to rural or urban settings. It could be observed during the interviews at Eldoret town that the social bonds are weaker than in the rural setting. Interviewees claimed not to know each other too well and not to talk about personal issues. This might be explained by the high group size which is a minimum of 15 (this was the maximum in the rural areas) adding to the anonymity of the urban setting. Further, there was a stronger hierarchy within the groups which was reflected in their seating plan during the group meetings: The chairman and treasurer were seated like teachers of a classroom in front of the clients, who were positioned like students. However, in the rural settings opposite observations were made. Here, the maximum size of the groups was 15 members. Furthermore, the seating plan suggested a more equalitarian group structure. In their meetings, the clients and their officials formed one circle that allowed to face each other. Additionally, it was claimed by the interviewees that personal issues were discussed amongst the members. They said that all financial struggles can be traced back to personal issues and, therefore, must be brought into the group. This holistic way of dealing with problems in repayment was also observed at the DISC initiative, where one woman talked about a case of sickness where the group pressure was used to raise the money for helping out each other. This creates a more familiar atmosphere leading to a higher level of social control which could influence positively the rate of defaulting. At Juhudi Kilimo the group meetings took even place at the chairman’s house.

On the other hand, the slum, despite being an urban setting, showed similar characteristics to the rural setting. This strong social cohesion cannot be explained by the difference of rural and urban but rather due to its social immobility. The analysis of our research shows that the slum seems to be a special case. The reasons need further investigations.
Since all loan groups have to build up the capacity to handle a constant repayment, they have to attend mandatory trainings. These are always the precondition of getting the first loan. An examination of the contents of these trainings is therefore essential for identifying the cultural interference of microfinance. In an interview with one of the trainers of Equity Bank it became clear that before the trainings most of the women had no experiences with writing down their finances or financial planning. He furthermore claimed that these trainings have impacts on the women beyond the microfinance. According to him, one aim is to start a reflection process that also includes the way of doing things - managing the family budget as well as the household budget, being an entrepreneur and adding value to their products. This reflection process begins with the question of why they had been so long in business without any improvements in income. Another trainer from Faulu confirmed this and said that he is guided by the passion to see a transformation of the people. Since the training is emphasised so strongly by the MFIs, change in mentality and behaviour are expected to take place. Therefore a further hypothesis is that microfinance has a strong impact on the personal and social organisation. This is especially because most Kenyans have never been exposed to the workings of a bank account and lack any knowledge about financial education (Eberth 2010: 30).

This change of manners can only be achieved, if everybody adopts rules of behaviour which are agreed upon in the group constitution. These rules concern the use of a particular language, the way of interaction, time management as well as absence from the meetings. Additionally, there are fines for the disregard of these agreements. Moreover, the rules establish new and common values of the group. In terms of organisation, different positions like chairman, treasure, etc. are elected. By this, the group obtains both hierarchical and bureaucratic elements which structure and standardise each group regardless of age, gender, community or geographical area. One could see the so called merry-go-rounds as a kind of pre-organisation of the loan groups which fulfil three functions. Firstly, trust is built by dealing with a common budget and by seeing how involved the group members are. Secondly, the complexity of individual biographies is reduced. Thirdly, first experiences of social group organisation in relation to finances are made.

Joining a group implies an expansion of each individual’s social network. Besides meeting new people it requires a new way of interaction by finding consensuses and compromises. Many interviewees claimed that they were not only perceived more positively by their community but that the interactions with their groups taught them how to behave socially in a more appropriate way than before. For instance, some women from the Youngsters group explained that in these meetings conflicts often arise but they are solved by respecting and negotiating other people’s ideas which was new to them. Further, they expanded their networks by accepting a friend’s friend in the group or came into contact with other people due to other business ideas. Thus, another hypothesis is that through microfinance people increase, maintain, and change their social networks and interactions.
Another feature of the impact of microfinance is that many participants, especially women, claimed that the relationship to their partner has improved since they joined a loan group. This leads to the assumption that microfinance institutions affect relationships among family members either positively or negatively. They are influenced positively by leading a successful business, negatively when failing to repay the loan. One reason for a positive impact on family relations is the fact that the loan allows the participant to have a broader area of economic decisions. Another reason is a higher individual involvement in contrast to former decisions that were made by economic limitations. At least this leads to a higher degree of happiness since clients are more independent in their decision making and also from other people. Moreover, due to their grown self-consciousness they are able to provide for their family, which also leads to respect from partners and children. On the other hand, if somebody becomes a defaulter, the whole family is affected because the group is enabled to reclaim valuables from the household. In extreme cases, a failure can even cause problems so crucial that they lead to separation, or even divorce and psychological problems.

Within the interactions and organizing themselves the constitution of each group plays a major role in establishing certain norms of interaction. Since members of the groups use them outside of their meetings as well, a further hypothesis is that Microfinance institutions popularise particular social norms and shared values. Statements of the interviewees show the significance of values such as discipline, focus, target orientation, hard work, endurance, and Christian values. Those do not only guide the group meetings but also the individual in their house. Many claimed that they wanted to teach their children these values as well. By diffusion of these values into the society through both a growing number of microcredit groups and the passing over to family members and friends, the meso level and even the macro level can be influenced by these values. Many interviewees believed that they were perceived as positive role models for the community since their loan, influencing others.

3. Impact of Microfinance on Peace

After the disputed elections’ results in 2007, Kenya experienced a huge wave of violence (Laurien 2010: 23). The opposing groups were different Kenyan tribes. One group, which was largely dominated by members of the Kikuyu community, supported the incumbent president, Kibaki who had also been declared the winner of the elections. Another group that mainly comprised of members from the Luo, Luhya and Kalenjin communities supported Raila Odinga who according to the results lost narrowly to Kibaki. The violence soon transformed to tribal war with the Non-Kikuyus being sent away from the areas largely dominated by the Kikuyus and the Kikuyus being also sent away from areas basically dominated by members from the tribes largely perceived to support Raila Odinga. Post

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2 It should be noted that Kenya consists of many different tribes that form a heterogonous nation and since its independence bears a lot of potential for ethnic struggles (Laurien 2010: 117-122).
Election Violence (PEV) had a major impact on the lives of over half a million people in Kenya: More than a thousand lives were lost, hundreds of children and women raped, and hundreds of thousands displaced. Years after the incidence still hundreds of thousands of people are internally displaced and suffer from the loss of property as well as from the loss of hope. The study therefore sought to explore the relationship between peace and microfinance.

According to Mrs Selline Korir (Director of the USAID Kenya Tunauwezo Program), ‘unstable livelihood is a major threat to peace’. Livelihood includes natural resources (e.g. land), technologies, skills, knowledge, capacity, health, access to education, financial resources and social networks. The access to these resources is strongly influenced by external circumstances, including economic, political and technological change, shocks (e.g. natural disasters or epidemics) and seasonality (e.g. prices) (Bhuiyan et al. 2012: 330). This leads to the assumption that the peace building processes can be in danger if livelihood cannot be provided and sustained. On the other hand sustainable livelihood cannot be provided in times of violence. Therefore, Mrs Korir submits that livelihood and peace relate in a two way traffic manner.3

Taking these events and assumptions into account, two main hypotheses can be drawn, which were relevant during the research process. The first hypothesis states that microfinance can have an important impact on peace building by social cohesion. This can broadly be explained by the ‘group approach’ Microfinance Institutions (MFI) use, which in particular means group lending and the use of group dynamics to ensure repayments. In this approach one can find several unifying factors: Most members of all observed groups shared the same motivation to take a microcredit (expansion of business as well as household purposes and school fees), stated how sharing each other’s experiences helped avoiding problems, and emphasized finally the opportunity how to learn financial services as a group and not as an individual. Therefore, the examined MFIs also offer training programs focussed on group management and teambuilding to reduce conflict potential within the groups.

In addition to that and as stated above, the groups have to constitute themselves before their application for a loan. In this matter the reason to democratically accept or to reject a new member was mostly the reliability of this potential member (chapter 2), especially regarding the weekly repayment of loan and the presence in the weekly meetings. This, on one hand, in the observed cases led to a higher social cohesion and trust within most groups. It also increased social networks which ranged from various tribes, age groups and gender. Furthermore, in this group approach there lies as well the potential not only to bring together different people that have to adapt to the common values (as seen above e.g. discipline, responsibility, respect) but also people from different tribes. One group of Opportunity Kenya implemented in its constitution explicitly that the membership is ‘open to all aged 18 years and above irrespective of colour, gender and race (...’). On the other hand people tend to

3 Statement of Selline Korir (Director of the USAID Kenya Tunauwezo Program) in an interview.
maintain relating with members from their social communities. The MFIs, as for example one of the Equity Bank’s branch manager from Ol Donyo Sabuk stated, offer different approaches according to different cultural needs in order to be able to adjust the different members’ cooperation among each other and to bring people with different backgrounds together.

Regarding the first hypothesis, the observations reveal this potential on three levels: The statement of the examined MFIs, the perceptions of the clients, and the actual social context that the groups are located in. All examined MFIs stated that their institute actually wants to provide unity – no matter what’s the client’s tribal background. Some of the examined MFIs emphasized further their vision of having a unifying effect on communities and a small group belonging to an MFI in the rural area went ahead to charge a fine of Ksh.200 if any group member spoke another language other than English or Swahili. During the interviews some clients confirmed a positive effect on the interaction between the group members in the communities in general and between different tribal members in particular, though it also has to be mentioned that the clients noticed only a slight change in those relations.

Following the statement of most clients one can come to an similar conclusion: Tribes do not matter; ‘all belong to the same tribe - poverty’ and according to the clients’ statements microfinance can give ‘the role model of living together peacefully’. Despite this, looking more into detail and taking into consideration the groups’ social context, these statements have to be put more into perspective: Either all questioned group members belonged to the same (or a related) tribe or there was just a small minority to one village’s majority – where the minority adopted to the language of the majority. This can lead to the conclusion that regarding tribal unification there is a potential. But in reality, especially because the groups have to constitute before the application for a microcredit, the impact is rather limited. Though it also has to be mentioned that the group constellation often cannot only be ascribed to tribal membership but to the local community the clients live in. Therefore this microfinance not only bears the potential of bringing people together but also at the same time of hindering the process of national cohesion. According to the observation mentioned above, microfinance groups tend to constitute themselves from social communities living in the same area and belong to the same tribe. These observations count for some rural areas as well as for the research findings in the slum groups.

The second hypothesis is closely related to the statement by Mrs Selline Korir, mentioned above: Microfinance can help to provide stable and sustainable livelihood which is a crucial condition in the peace building process (Bhuiyan et al. 2012: 329). According to the observations, microfinance is the first access for most clients to formal financial services. Moreover, through microfinance many interviewed loan takers, regardless which MFI, experienced a change in their saving and investment habits. This can also be linked to the gain of knowledge in the obligatory training programs the clients have to attend. This gain of knowledge, though, can only be applied if all group members are trained equally by an expert (e.g. loan officer) the same way in regular meetings.
The concept of education was implemented as good as possible by a small MFI in a rural area: All group members received financial training in the first six weeks before the group took a credit. Even though the trainings did not occur regularly and new members only got the opportunity being trained occasionally, almost all loan takers of this MFI experienced an expansion of their businesses which enabled them to provide education for their children by affording the school fees and better living conditions for their families. Moreover it should not be left out to mention that the relation between clients and officers was 29 clients to three officers who can be interpreted as a very close supervision.

As a negative example, one examined MFI located in an urban area provided training programs only for the officials of the groups who then have to teach the other members – without supervision of the responsible loan officer. The reason for this strategy of that particular MFI can be explained by its structure: One loan officer has to supervise up to 22 groups whereas each group has a minimum of at least 15 members which might not leave enough space to train all of the group members. The outcome of this is that some of the group members of the observed group have not felt well trained and claimed that they were already in debt. To conclude from the long term perspective, it would be more advantageous for both clients and MFIs if there is expert training provided for every single group member equally and continuously. For the MFI there has to be a trade-off between the costs and the advantages of the trainings.

4. Youth and Microfinance

When dealing with Kenya, one of the main issues that occur is youth. A glance at the demographic structure reveals that 42.5% of the population are less than 15 years old (CIA 2012). Therefore, it is vital to analyse the inference of microfinance and youth. The first hypothesis is that microfinance institutions can provide empowerment to the youth and ensure participation of the youth in the development agenda. Since a lot of young people lack opportunities, microfinance offers chances as opening businesses or financing education. At the research in Ol Donyo Sabuk there was one group of young women that formed a group consisting only of youth. This group was founded in order to find alternatives after the women’s access to school education was denied due to financial matters. The idea of education through microfinance mentioned earlier can be especially fruitful because young people are not that settled in their beliefs, behaviour and values yet. The risk of making decisions without support is reduced by the group method of microfinance, so that ideas can flow within several individuals and positively influence each other. In addition, microfinance provides the chance of becoming mature and realise own ideas and projects that can better one’s life. Furthermore, young people have the potential to be innovative. Since youth is crucial in Kenya’s cultural and political development it seems necessary to give them the opportunity to participate.
However, youth is often excluded from microfinance. Paradoxically, the reasons for this are the same as mentioned above. The “Youngsters” loan group of the DISC Initiatives in Ol Donyo Sabuk first failed due to their high expectations and immaturity. They needed to be given a second chance and to be mentored by elder women from their community. This of course is not a very profitable solution for MFIs. As found out through the questionnaires, the second Youngsters group consisted of married mothers, so their responsibility in life was quite high and a more promising group since they were unlikely to run away without repaying. To accept only clients that are in this particular situation can lead to an exclusion of a high number of the youth. Therefore, the second thesis concerning age is that microfinance institutions also inherit the possibility of excluding the youth.

5. Impact of Microfinance on Gender

Microcredits are often believed to be an ultimate source of empowerment for poor people and especially for women (Diallo-Sahli 2003: ii). As Diallo-Sahli points out, women’s roles in Eastern Africa are diverse: They are responsible for their children in terms of reproduction and for raising them. Further, women are active in trading the products of their agricultural profit. Thirdly, women take care of community managing work which secures the communities supply of water (Moser 1993: 33ff.). It is important to understand this gender role when dealing with microfinance and the gender aspect of it.

In reference to the impact of microfinance on gender, the observations made in the interviews revealed three different possible impacts that are somehow linked to each other: Gender empowerment through microfinance as well as disempowerment. Moreover, strongly connected to the aspect of gender empowerment there is the potential of establishing gender equity. All in all, from the findings it can be stated that the degree of each impact might depend on the geographical membership to one community. The observed cases differed from each other in their structural character as following: While the microfinance groups in Ol Donyo Sabuk were only women groups, observed groups in Eldoret and Nairobi consisted of both men and women.

Regarding the hypothesis, that microfinance can enable gender empowerment, the women interviewed in Ol Donyo Sabuk noticed not only an improvement in their social relations in her community but also within her family. While some interviewees stated that before taking the microcredit their husband was the only person in the family that took responsibility on financial matters, it is now rather balanced: Financial issues now require a mutual decision in the household between both partners and the husband even encouraged his wife in their decision of taking a credit. Besides the financial side

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4 Empowerment seen as a process by which those gain greater control over their lives (e.g. capacity building, greater participation and decision-making power) on different social levels including family, community, market and state (Adu-Okoree 2012: 262).
most female interviewees from all examined regions perceived increased self-confidence since they took a credit.

Though this aspect of empowerment can lead to disempowerment. By providing microfinance services only for women, men are automatically excluded. All interviewed loan takers of the groups and the officers of the MFI in Ol Donyo Sabuk shared the opinion that men are less responsible, less reliable, and do not take business serious enough. Despite this point of view, it can be assumed that these opinions might be based on prejudices since the women, according to the interviews, would definitely trust their own husband and the spouse of their fellow members. From this it becomes clear that similar general statements and the exclusion of men can actually create a pit between the genders instead of empowering either of them. In addition to that, the research revealed that in some both male and female dominated groups the dominant gender occupied all or at least most of the groups’ offices.

Despite this, there was one mixed group in Roai (Nairobi) with male domination (3 female, 8 male) that stated in their constitution a gender balance regarding the offices. This constitutional setting can be one way of creating gender equity.

6. Conclusions

Various observations at different geographical settings in Kenya were made. The findings of those revealed several hypotheses according to the identified issues of gender, age, social impacts, peace and national cohesion. At this point it is therefore tenable to make the following conclusions in respect to the impact of microfinance on culture in Kenya. One conclusion of the subtopic of impact on peace building is as follows: By focusing on groups MFIs bear the potential to have an important impact on peace building through social cohesion in presenting a unifying forum for people with different ethnic background. Here, livelihood is one important condition for sustainable peace building processes and vice versa. It cannot be reliably supported by microfinance without universal financial education and close supervision.

In terms of social bonds, microfinance can bring people in similar situation together and teaches them how to learn from each other. It has the potential to promote social cohesion. The need to interact with each other results from the necessity of consensus. Moreover, microfinance has the potential to educate and teach people how to do things such as planning, time management or doing business. In addition, clients are likely to pass on knowledge to their family and friends and thus promoted values are circulated. Another conclusion that can be drawn is that microfinance can be used as an opportunity for self-reflection. Here the professional and personal level can benefit from the effect of the trainings. Microfinance, in that way, can lead to a standardization of social norms and values such as discipline or working mentality. Regarding the aspect of family structures, an individual with stable
family structures has a higher potential to be successful. On the other hand people without family are more likely to fail and therefore might bear a higher risk potential for both MFIs and groups. This is also because the MFIs cannot demand possessions and alternative incomes of other family members. As an effect, microfinance can also destroy family structures and lead to separation and divorce. The age and the gender aspect can be bundled since both bear the same contradictory structure of empowerment as well as disempowerment. On the one hand, microfinance can lead to empowerment of both women and youth due to exclusiveness in terms of participation. On the other hand, empowerment can be ensured by the opportunities the clients can gain through microfinance. Concerning the aspect of gender, the concept of internal group constitutions can be a way of implementing gender equity.

Since all microfinance institutions in Kenya are trying to increase their market share, it can be expected that the cultural diffusion of microfinance will accelerate. By identifying these potentials, it is obvious that the whole process of giving loans to small scale entrepreneurial groups has strong cultural side effects. Due to the short time of research in the field the impact cannot be reproduced in its whole extend. The results show that this field of research contains much more cultural implications and thus further research should be done.

References


