

Culture matters in microfinance

By Hans Dieter Seibel

Cultures are immensely complex and influence institutions and behavior, but not in simple and determined ways. Social, political, economic and religious culture are all intertwined, but may differ in various ways. Eg, there are marked differences between (a) stratified, centralized, hierarchical, or closed, societies, which tend to be oriented towards status, social stability, tradition and obedience; and (b) segmentary, decentralized or open societies, which are oriented towards individual achievement, competition and social mobility. The differences between such societies are mirrored in closed vs. open organizations, which were the object of much research during the 1960s and 1970s. In many countries, particularly in Africa, hierarchical and segmentary societies exist side by side. Yet, culture is not among the topics discussed in the microfinance community – as if the belief in *best practices* (rather than good practices!) ruled out culture as a determinant of variation in rural and microfinance.

That financial institutions have their own corporate culture and that such cultures widely differ goes almost without saying, taking for example the cultures of the Grameen Bank in Bangladesh with its group lending approach, headed by a leader venerated as charismatic, as opposed to the BRI Microbanking Division in Indonesia¹ or Centenary Rural Development Bank in Uganda², which both do very well with individual lending in terms of profitability and outreach to the poor and have no venerated leader. But the influence of a national or ethnic culture on rural and microfinance (probably less so on commercial banks) is another matter. There is one obvious exception: the influence of religion in a number of Islamic countries, where banks (as in Iran and Northern Sudan) and microfinance institutions (as the *sanadiq* in Jabal al-Hoss, Syria)³ adhere to Islamic finance principles.

During the 1950s and 1960s, social scientists revisited Max Weber's classical study about *The Protestant Ethic and the Spirit of Capitalism*. Interest in culture might have been due to the struggle between communism and capitalism and the emergence of Japan as yet another culture with a different corporate ethic; but that interest seems to have been eliminated by the convergence of systems during the 1990s.

In my own first studies during 1967-68 of informal finance among 17 ethnic groups in Liberia, I found that hierarchical societies like the Kpelle tended to form well-organized savings and credit associations with regular meetings, while segmentary societies like the Krahn are more individualistic and unstructured in their approach to savings and credit.⁴ In a more systematic comparative study of the hierarchical Igala and the segmentary Tiv in central Nigeria during the mid-1980, we arrived at similar results, but also found that the Igala oppose experimentation and change, preserving the prerogatives of their elite; while the Tiv experiment with a variety of financial institutions and are oriented towards competition, growth and progress.⁵ The main conclusion was that according to culture, there are two fundamentally different approaches to development, a finding which differed at the time from conventional wisdom:

¹ H. D. Seibel, Bank Rakyat Indonesia: A Flagship of Rural Microfinance in Asia. In: Malcolm Harper & Sukhwinder S. Arora, eds., *Small Customers, Big Market: Commercial Banks in Microfinance*. ITDG Publishing, Warwickshire, 2005.

² H. D. Seibel, Centenary Rural Development Bank, Uganda: a Flagship of Rural bank Reform in Africa. *Small Enterprise Development* 14/3, Sept. 2003: 35-46

³ Omar Imady & H. D. Seibel, Sanduq: a Microfinance Innovation in Jabal Al-Hoss, Syria. *NENARACA Newsletter* (Amman), September 2003: 16-25.

⁴ H. D. Seibel, Indigenous Economic Cooperation and its Developmental Function in Liberia. *Cooperative Information* (ILO, Geneva) 3/1970:7-53 (also in French and Spanish)

⁵ H. D. Seibel with S. Dédy, S. Herwegen & D. M. Kadja, *Ländliche Entwicklung als Austauschprozess: Einheimische Sozialsysteme, staatliche Entwicklungsstrukturen und informelle Finanzinstitutionen in der Republik Elfenbeinküste*. With an English summary. Breitenbach Publishers, Saarbruecken & Fort Lauderdale 1987

- **Development from above**, through the established authorities, is more effective in hierarchical or closed societies, which are oriented towards status, tradition and the preservation of stability
- **Development from below**, through participatory processes, is more effective in segmentary or open societies, which are oriented towards competition, experimentation, individual achievement and social change

During the 1980s, GTZ supported a dialogue on sociocultural factors of development; but this did not focus specifically on financial systems and institutions. When the focus shifted to financial systems, rural and microfinance, it seemed more important to work on the fundamentals of finance than cultural differences. The topic has rested, perhaps long enough. Given the consensus on fundamentals in the microfinance community and the current terminological shift to *inclusive finance*⁶, has the time come to revisit culture – as a societal framework which defines inclusion and exclusion not only of categories of people but also of financial institutions?

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⁶ UNCDF, Building Inclusive Financial Sectors for Development: a Global Meeting Shaping the „Blue Book”, Geneva, May 4-5, 2005