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ScienceDirect
Accounting Forum 31 (2007) 47–71
ACCOUNTING FORUM
www.elsevier.com/locate/accfor

Loan officers and loan ‘delinquency’ in Microfinance: A Zambian case

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Received 12 April 2006; received in revised form 11 October 2006; accepted 18 November 2006

Abstract

The paper seeks to promote greater understanding of the importance of loan officers in group-based microfinance by explaining their actual roles, dilemmas and tensions when working with poor clients. Few existing studies have used data outside Bangladesh and most focus upon relatively well-performing institutions. Using data from Zambia this study focuses on the recent crisis of Christian Enterprise Trust of Zambia (CETZAM) and the effects of its practices for accounting for and dealing with defaulters. The findings firstly show that loan officers faced powerful hierarchical accountability pressures and pursued inappropriate methods to compel further repayments to resolve this crisis. Its approach to borrower default was found to be stressful for loan officers and potentially detrimental for CETZAM’s own short and long-term survival by reducing client loyalty and trust.

Keywords: Finance; Loan delinquency; Loan officers; Microfinance Institutions; Poverty; Zambia

1. Introduction

> “Microfinance is a powerful tool for reducing poverty. It enables people to increase their incomes, to save and to manage risk. It reduces vulnerability and it allows poor households to move from everyday survival to planning for the future”
> (Paul Wolfowitz, World Bank President, November, 2005).

2005 was a critical year for microfinance. The declaration of 2005 as the ‘International Year of Microcredit’ by the United Nations, the endorsements by the G8 at the Gleneagles’ Summit

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0155-9982/$ – see front matter
doi:10.1016/j.accfor.2006.11.005

and the Commission for Africa Report (2005), all demonstrated its official support as a means of increasing access to financial services.[1] The World Bank and the International Monetary Fund likewise have both embraced it as part of their strategy for alleviating poverty (Microfinance Matters, November, 2005, p. 3). Microfinance is based upon providing small loans, often under $100, to the poor and very poor to enable them to earn additional income by investing in the founding or growth of "micro-businesses". More broadly, it aims at supplying micro loans, savings, and other financial services to the poor. It operates on the premise that the poor will invest loans in micro enterprises, repaying those loans out of profits, and their businesses will grow, thereby potentially lifting large numbers out of poverty. These expectations are based on the premise that the poor will be 'empowered', encouraged to participate and equipped to self-manage their activities.

However, microfinance is not yet widespread because a vast majority, in particular in Africa, cannot access financial services (Beck, Demirguc-Kunt, & Martinez Soledad, 2005; Honohan, 2004; Spencer & Wood, 2005) even though poverty is officially widespread and acute (Paxton & Fruman, 1999; World Bank, 2005). There are also great disparities in the level of development and performance of microfinance. While the developed microfinance institutions (MFIs) of South Asia and Latin America now face the challenge of becoming more commercially viable, emerging MFIs in sub-Saharan Africa face other challenges to their very survival and core methodology (Barr & Fafchamps, 2006; Nissanke, 2002).

Institutional sustainability has lately become a priority. This is arguably a response, in part, to the growing donor 'fatigue' with continually subsidizing developmental work. It may also reflect an apparent shift to 'commercialisation' from earlier 'charity' (Charitonenko & Rahman, 2002; Fernando, 2003; Prahalad, 2005; Rhyne, 2005). Microfinance institutions are responding by prioritizing repayment rates, creating good loan books, and managing client numbers rather than social intermediation. Repayment performance is a particularly key variable for the donors and international funding agencies on which many MFIs (especially in sub-Saharan Africa) still depend for their funding (Godquin, 2004, p. 1909). These indicators may nevertheless conceal the intervening process by which these much sought after results were achieved.

Disappointing performance characterises MFIs in Southern Africa (Lafourcade, Isern, Mwangi, & Brown, 2005 p. 9). Formal evaluations of microfinance projects throughout Africa suggest that they have often been less successful here than they have in Asia and Latin America (Basu, Blavy, & Yulek, 2004; Pal, 1999; Porter, 2003). However, these evaluations have hitherto been preoccupied with impact assessment, program replication, client outreach and financial sustainability (Cloke, 2002; Copestake, 2002). As Mosley and Rock (2004) also note, most evaluations to date derive from the same South Asian context while other regions such as the SSA are relatively underresearched. In addition, there are few case studies of failures (Fisher, 2002). In Zambia, microfinance performance is problematic and MFIs are particularly confronted with the problem of default (Likulunga & Simonda, 2001, p. 4; Musona, 2004), which threatens their own sustainability and further provision of financial services to the poor.

While still relevant to understanding microfinance, and also sought by and/or attractive to donors, evaluation research may also place more emphasis upon its original strategy and later outcomes than its intervening implementation. Research itself particularly neglects the role of field

[1] The immediate success for the Year of Microcredit was in raising awareness of microfinance, its potential for alleviating poverty and increasing availability of data on its performance (Vanessa Ward, editor, Microfinance Matters, November, 2005).