Gareth A. Jones and Anthea Dallimore

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Wither Participatory Banking?: Experiences with Village Banks in South Africa

Gareth A Jones *
Department of Geography & Environment
London School of Economics
Houghton Street
London WC2A 2AE

Tel: UK + 20 7955 7610
Email: g.a.jones@lse.ac.uk

Anthea Dallimore
Department of Geography & Environment (LSE) and World Vision Australia

* Corresponding Author

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Abstract

Microfinance is widely advocated as a powerful tool to reduce poverty and improve social inclusion. How best to achieve these outcomes has been the focus of considerable debate, between supporters of minimalist finance-only and services-plus approaches, between the merits of client oriented models and member ownership. Many approaches to microfinance note the importance of participation within peer groups, the potential for empowerment and the support given by civil society organisations. Few studies however have analysed the nature and extent of participation, or whether this participation can be understood as democratic. In this article we examine four communities in South Africa that belong to a Village Bank, an organisation that promotes member ownership and control. The article examines members' experiences of participation, and specifically organisational transparency and conflict resolution. We argue that microfinance holds considerable normative and symbolic appeal to members but that participation in practice has been limited.

Keywords: Microfinance, Participation, Village Banks, South Africa

Introduction

In the past two decades advocacy for microfinance has "generated enthusiasm bordering on hysteria" with supporters and critics alike pointing to the evangelism of donors, civil society organisations (CSOs) and some academics (Mosley and Hulme, 1998: 783). The international policy calendar has become choked by microfinance related events, from the World Microcredit Summit in 1997, the UN International Year of Microcredit in 2005, the 2006 award of the Nobel Peace Prize to Mohammed Yunus, and activities to demonstrate microfinance's role in the delivery of the Millennium Development Goals (MDGs) (UN, 2005). Multi- and bi- lateral development institutions have increased funding to microfinance programmes and banks such as Citigroup, Deutsche Bank and ABN Amro have lent large sums. Against what seemed to be a naïve hope in the mid 1990s that microfinance institutions (MFIs) would be able to leverage over $US 20 billion in order to reach 100 million of the poorest people by 2005, some estimates suggest that these figures have been surpassed (ADL, 2008; UN, 2005).[1] The number of MFIs has increased dramatically to over 3,000 (Robinson,

2001) and the World Council of Credit Unions claim almost 50,000 groups with 177 million members (WOCCU, 2009).

Although forwarded as a technical exercise in innovative banking practice micro-finance is not divorced from the ‘politics of development’, even if it has not been subject to explicit scrutiny from a politics perspective. With major international development institutions and donors searching for pro-poor interventions with a minimum of state involvement, MFIs were able to claim, and with some justification, to reach poor households, to assist the alleviation of poverty by reducing vulnerability to cyclical or unexpected crisis, and provide assistance with short-term consumption needs (Copestake et al., 2001, Hulme and Mosley, 1996, Matin et al., 2002 although see Amin et al., 2001, Hulme, 2000). Microfinance’s potential for inverting the conventional resource pyramid by bringing the previously considered ‘unbankable’ poor into the ‘mainstream’ of financial services has been characterised as “financial democracy” by the Inter-American Development Bank (2005) or, through support to micro-enterprises, to what USAID refers to as a process of strengthening the “institutions of economic democracy” (see Cohen, 2002).

These rather nebulous terms elude to a *political* economy in which MFIs serve as ‘intermediaries’ between individuals, communities, other civil society and financial sector organisations, and strengthen access to markets. How far this intermediary role should extend beyond the confines of banking ‘good practice’ has been the subject of considerable debate with some writers advocating a finance-only ‘client knows best’ or institutionalist position, that promotes MFI sustainability, and others arguing that provision of services such as business training enhances the effectiveness of microfinance and delivery of welfare (Morduch, 2000, Robinson, 2001).[2] Both views, however, have resonated with a broad church of ideological standpoints towards development, from advocates of business models, promoters of less state or more decentralised intervention, and claims for greater roles for CSOs, and have been consistent with related conceptual shifts, such as from human to 'social capital' and women in development to gender empowerment approaches (see Dalgic, 2007, Rankin, 2002, Weber, 2002).

Amidst the considerable 'noise' surrounding microfinance, there has been little discussion of the relationship between or implications for micro-finance of democratic practice and participation. Robinson (2001: 40) does note that large-scale sustainable microfinance may help create an enabling environment for greater political participation and democracy but the point is not followed up. The omission is surprising considering the promotion of MFIs as non-state actors, the obviously political nature of the claimed effects in terms of, for example, gender empowerment, and institutional claims to practices which include participation and transparency, subject to light-touch regulation. In this paper we explore the political dimensions of MFIs as intermediaries, and in particular members' cognisance of concepts such as democracy and participation. To do so we look in detail at a member-based microfinance organisation in South Africa called Village Banks. Based loosely on the FINCA model developed by John Hatch and influenced by the South Africa agrarian co-operative movement, Village Banks support membership rather than client-ship, with local oversight and democratic practice.[3] Our principal interest is to scrutinise to what extent participants believed themselves to be 'owners' and how far their views held influence over local group governance. Rather than consider MFI participation in isolation however we wanted to explore the political embeddedness of member involvement, how the Village Bank sat within other civil society structures, including local institutions such as traditional authorities. In these circumstances how far is it reasonable to expect 'banking' to be participatory or democratic, or for microfinance to enhance the ‘space’ for inclusive community structures to emerge?

For any society these questions should be important, but are especially so in South Africa where CSOs and community based organisations were in the vanguard to resistance against apartheid and the layers of exclusion experienced by low-income, black, households (CASE, 1998, Heinrich, 2001), and where the ‘democratic’ government’s record of poverty alleviation and attempts to reduce social and racial inequality has been criticised (Habib and Taylor, 1999, Niksic, 2004). In Section II we examine the prima facie case for the association between civil society, and micro-finance specifically, and more inclusive participation and democratic practice. In Section III we outline the importance of MFIs to the provision of financial services in South Africa and a brief overview of Village Banks. We then discuss, in Sections IV and V, how members of Village Banks assessed its record against a meter of participation and conflict resolution. We argue that while members of the Village Banks valued the opportunity to participate in their local branch, and held some high ideals for governance practice, they understood that practice fell short of expectation. Their comments reveal Village Banks to be less member and more client oriented, with daily operations circumscribed by the power relations with tribal authorities.

Microfinance, Participation and Democratic Practice

It is important to position microfinance within debates concerning critical understandings of processes such as participation and empowerment. Microfinance has become a key dimension of development practice in a context of democratic ‘deepening’ and as CSOs have pressed to incorporate ideas of participation into policy (Hadenius and Uggla, 1996). Nevertheless, there are calls to reappraise the definitions, discourses and achievements of key terms such as ‘participation’ and ‘empowerment’ that are according to Cornwall and Brock (2005) “warmly persuasive” buzzwords that convey no fixed meaning but rather a facility to communicate a sense of conviction and consensus to how development should take place. Despite their technocratic resonance, when deconstructed these terms are revealed to be highly ambivalent (what they call “fuzz-words”), are sometimes employed to contradictory ends, and which block off other ways of expressing problems and solutions (also Kapoor, 2002). Others have warned of the dangers of cultural relativism and have argued for more analysis of “actually existing civil society” rather than ascribe normative attributes of participation in practice (Lewis, 2002, Williams, 2004). As a battery of authors note, CSOs in practice can fall short of their own ideals, relying upon bounded rules and disciplined forms of participation with limited opportunities for spontaneous dialogue (Cooke and Kothari, 2001, Hearn, 2001, White, 1999).

An issue of particular concern has been expressed for the ways advocacy for and studies of civil society’s participation and empowerment potential invoke ‘the local’ which, as Mohan and Stokke (2000) note, is often employed as if co-terminous with ‘community’ and in ways that obfuscate power relations. A lack of cognisance to local power structures, notably to customary arrangements, and worse if it is assumed that ‘local cultures’ are somehow even-handed and consensual, threatens ‘elite capture’ and the darker sides of social capital (Khwaja, 2004). This critique is salutary for South Africa where there has been considerable pressure to incorporate civil society into policy-making and service delivery, as well as tensions between the political expediency of enhancing the representation of traditional authorities in local politics and a disquiet that ‘resurgent’ traditional institutions will be inimical to gender empowerment, the redistribution of wealth and opportunity, and freedom to express dissent and extend rights (Beall, 2005, Beall et al., 2005).

In these circumstances we need to consider carefully the ‘political’ claims sustained by microfinance advocates and research. Here we focus on the two most prevalent claims. The first argues that microfinance builds upon mutual solidarity, trust and the reciprocal flows of information, enhancing the best features of embedded institutions such as rotating savings and credit associations (Bennett et al., 1996, Chiteji, 2002). Researchers have noted, however, extension officers expending considerable effort to ‘recruit’ members and maintain group membership levels with gifts and rituals such as songs and prayers (Matin et al., 2002, Montgomery, 1996, Reinke, 1998). Officers have also been shown to discourage default by threatening the confiscation of goods and physical intimidation, or imposing rules to deny member access to savings in order to inhibit members from ‘voting with their accounts’ (Chiteji, 2002, Montgomery, 1996, Rahman, 1999). A number of authors indicate that even when group solidarity appears to be encouraged there is rule-setting to create ‘business like’ meetings, and efforts to channel discussion of social and political issues away from general meetings and to dedicated workshops (Fiebig et al., 2002, Montgomery 1996). Despite the centrality of solidarity to the microfinance story, it is remarkably unclear how we expect participation to be constructed and how we might take account of power relations and conflict.

A second claim is that access and use of financial services, and engagement with linked social programmes where available, raises opportunities to exercise agency or empowerment within household and community decision-making (see Bernasek, 2003, Mahmud, 2003). A version of this argument is that group or membership networks may serve as forum for discussion of issues from domestic violence, sexual rights, nutrition, independent money management, and wider political participation (Goetz and Gupta, 1996, Mayoux, 2001). There is evidence of a transformation of gender roles due to participation in credit programmes, with a reduced likelihood that women would be beaten by their partners (Schuler et al., 1996) and greater opportunities for groups to gain opportunities for income generation without sanction from men, community, religious or caste leaders (Bernasek, 2003). Nevertheless, the record would appear to be mixed. Studies note that women's participation has been a surrogate for men to access finance, that male-on-female violence may increase in situations of 'stress' or as women challenge patriarchal structures (Bernasek, 2003, Goetz and Gupta, 1996, Mahmud, 2003, Mayoux, 2001). Despite these concerns, however, relatively little ethnographic work has emerged that looks at the discussions taking place within member groups or how the least empowered within conventionally excluded groups such as the elderly gain their 'voice'.

Gaining critical insight into the experience of group solidarity (and liability) and empowerment may appear to be moot given that some commentators identify a "second revolution" in microfinance whereby the new emphasis is to treat members as 'clients' or 'customers' rather than members or 'owners' (Fiebig et al., 2002, Woller, 2002). Nevertheless, while a number of high-profile MFIs – notably the Grameen Bank and FINCA - have dropped group solidarity/liability from their modus operandi, the vast majority of MFIs continue to use a membership structure and/or stress the importance of participation and involvement in institutional management. Indeed, even in client oriented institutions, Cohen argues that "…nothing can replace the voices of the clients and the importance of ongoing and upward flows of information to enable institutions to be more responsive" and "..also brings benefits that can improve the bottom line" (2002: 342). This approach is predicated on an appraisal of the costs of participation to the MFI that retains a vertical transmission of information rather than encourage horizontal and extra-group linkages, or a concern for the wider effects of participation or democratic practice on empowerment. But as the 'second revolution' encourages membership and participation to wither we should consider how members have experienced participation in a situation where it has been encouraged.

Financial Services and the Case Study Communities

South Africa's commercial banking sector was set up to serve the country's high-income population and corporate sector, but until the early part of this decade left nearly 60% of the population and especially the black African population 'unbanked' (Nigrini, 2001, Paulson and McAndrews, 1998). The reasons for this market and institutional failure have been the subject of repeated regulatory reforms, establishment of public wholesale finance institutions and introduction of ATM technologies to encourage banks to go 'downmarket' (Kirsten, 2006, Paulson and McAndrews, 1998). In 2008 close to 38% of households remained 'unbanked' with services especially deficient for the poor, non asset holders and those living on tribal lands (Finmark, 2008, Kirsten, 2006). Without access to financial services there are few methods of keeping cash secure. One woman in a case study community stated that her mother used to put money in a tin can which would be flattened and hidden under a rock, and another woman described how people would wrap their money in an old cloth that would then be stitched inside clothing, "like an old cloth inside her body". Many respondents mentioned that these methods would lead to the money being damaged, found and spent by children, forgotten about or stolen. It is hardly surprising that respondents to a Participatory Poverty Assessment identified access to financial services as vital to their ability to deal with poverty and cover consumption shortfalls without recourse to moneylenders or intra family borrowing (Van de Ruit et al., 2001). As anyone who has witnessed a 'pension day' will attest, the difficulty of saving in secure forms encourages immediate consumption.[4]

MFIs have set up in unserved areas but most people use a range of embedded 'informal' or semi-formal financial organisations. Perhaps the best known is the *stokvel* (also known as *gooi gooi*, *mogadisano* or *umgalelo*) which operates as a rotating savings scheme through regular payments over a given cycle from which members can either make withdrawals on demand, usually subject to group approval, or by an agreed rotation. Many variations of stokvels exist, including as burial societies, to accumulate *lobola* (marriage wealth) or to draw down remittance incomes from migrants working away (Nigrini, 2001). The National Stokvels Association (NSASA) calculates about eight million South Africans are stokvel members making contributions of R1 billion per month. Alarmingly, the newspapers regularly report on stokvels collapsing. The alternative to a stokvel is a credit union, locally managed organisations capitalised by members holding shares and paying a user fee to make or withdraw deposits. Unlike the stokvel, unions do not require members to meet on a regular basis and there is no rotation component. Members may organise independently to apply for group credit, but loans are not made on the basis of group solidarity and supervision is usually limited to oversight of accounts by, for example, the Savings and Credit Cooperative League (SACCOL) (see Schoeman et al., 2003).

Our research looked at a hybrid credit union called Village Financial Services Co-operative, known as Village Banks. As the name suggests Village Bank emerged from the co-operative movement but was formally established in 1994 in North West Province with financial support from the International Fund for Agricultural Development (IFAD) and the Department of Agriculture, and regulated by The Financial Services Association (FSA) that was also charged with providing staff training and to develop new financial products (IFAD, 1997, Schoeman et al., 2003).[5] The Village Bank concept aimed to encourage poor people to save either individually or as a stokvel, with the branch depositing funds at a 'link bank' to ensure against theft and to provide an audit trail. Member funds would be accessible on demand by individual account holders although for larger sums, in the case of a burial society for example, a few days notice would be required. The fees for deposits and withdrawals were expected to cover the salary of a day-to-day administrator (IFAD, 1997). The FSA received funding from the Department of Welfare to expand operations, and by 2002 there were 62 branches with R80 billion deposits and perhaps as many as 80,000 members. When further funding for the FSA was denied, prompting the Association to collapse in 2004, Village Banks were left to operate independently.[6]

In principle, the governance of Village Banks was to be democratic and participatory, with the branches owned and managed by their members who would be shareholders: each branch would be capitalised by the purchase of one share per member (costing R10 at time of field research) with no gate keeping to determine ‘ownership’ according to income, job or gender for example. Shareholding qualified each person with the right to vote for a board of management that would be responsible for the recruitment of an administrator, determine the balance between cash and deposits, approve loans, set fees, and compile the annual accounts (Nigrini, 2001). The boards are subject to the scrutiny of the shareholders through an annual general meeting and extraordinary meetings where called by a quorum of shareholders (IFAD, 1997). The original idea was to build upon local institutions and support solidarity within the community, and to respond to beneficiary needs in a transparent manner (IFAD, 1997). As such, Village Banks aimed to ensure that members ‘own’ their branch and participate in its management, thereby promoting democratic practice internally as well as a broader sense of empowerment. In a context in which most South Africans are reported not to trust ‘informal’ savings and lending groups (Porteous, 2005), the oversight offered by Bank membership, participation in Board selection, decision-making and account approval should be important both to bank function and member financial security.

Fieldwork to assess the democratic and participatory record of Village Bank was conducted in four communities in order to capture a diversity of social, political and cultural contexts. The four communities were selected taking into account demographic profile, length of Village Bank operations and services offered. At the time of fieldwork, Village Banks were located principally in KwaZulu-Natal (seven branches), North West, Mpumalanga and Eastern Cape (six branches each), with two branches in Limpopo. Most branches were located in areas that ranked among the poorest nationally either by measures of income-expenditure or vulnerability attributes (May, 1998). In KwaZulu-Natal we selected Bhambanana, located 22 kilometres from Ingwavuma and 38 kilometres from the regional hub of Jozini both of which possessed branches of Ithala, a provincial development bank. Bhambanana had a petrol station, two Cash & Carry's, two liquor stores, one supermarket, one café, and a fruit and vegetable market. The Bhambanana Village Bank opened in June 2000 and there were 3,060 members drawn from a 25-50 kilometre radius. The branch offered savings accounts, fixed deposits and a funeral scheme, which was only being utilised by 15 people, and they had just started offering loans to small businesses. The branch had approximately R290,900 in deposits held at First National Bank, and charged of R1 for every R100 deposited, R2 for withdrawals less than R100 and R1 per additional R100.

The second site was Motswedi situated in the North West province near the border with Botswana and 35 kilometres from Zeerust. The branch was opened in 1996 and during fieldwork had 1,451 account holders, accessing savings, fixed deposits and funeral scheme benefits. State old age pensions and disability grants were also paid directly into the accounts which held approximately R1.8 million. Motswedi was referred to by the FSA as a “success” because of its level of accumulated deposits. The third community was Sakaletfu, located in eastern Mpumalanga close to Malelane (25km), and consisted of a number of densely populated townships. The Sakaletfu Village Bank started in 1999 and had 515 account holders. Eligible account holders were able to have pension and disability payments transferred directly into accounts, and the branch had begun to provide loans (36 people had loans up to R200 repayable over four months). Finally, Mathabatha situated in Limpopo near to Lebowakgomo township and 80 kilometres from Polokwane was chosen. The Village Bank was formed after one of the board members heard of the concept at a meeting in Kgautswane and the community supported her idea, officially opening a branch in May 2000. Mathabatha Village Bank had 279 account holders. No charges were made on deposits but a R3 charge was levied on withdrawals between R10-500 and R6 on withdrawals over R500. The Bank had deposits worth approximately R47,000.

In each of the communities focus groups were organised with separate groups for men and women, and with participants of different ages, educational attainment and vocational status. A third focus group was held with the board members, in order that branch members would not feel intimidated to speak at their meeting, and a fourth focus group was organised with pensioners.[7] Focus groups were prompted to discuss the meaning of democracy in general terms before moving on to discuss how participants understood the rules and constitution of Village Bank, how they engaged with the branch on a day to day basis and through more formal decision making. The research did not attempt to suggest a particular definition of democracy or participation, and nor did we expect that experience of Village Banks would meet the wishes of all members or that everyone would have the same relationship with the branch. Conversations were encouraged about how the Village Bank compared to other organisations within the community in the expectation that participants might recognise the branch as being owned and managed by its members. A broad set of questions were asked about people influential within the local branch, the election of board members and feedback on how the board made decisions. We wanted the focus groups to discuss how or if Village Banks provided an opportunity for members to express their wishes and concerns among themselves or to the board, for diverse and even contradictory social interests to be expressed, and if consensus was reached for these views to be acted upon. We were interested as much by the range of opinion and how ideas of bank operation were expressed as whether views were unanimously held.

The Experience of Participation

Not surprisingly, on the subject of democracy responses varied widely across the groups. People from at least one group in each community made reference to broader concepts such as equality, freedom of expression, freedom of rights and freedom from oppression. Some went so far as to assimilate the concept of democracy to freedom itself and one pensioner from Mathabatha stated that "Democracy is Unity" - a relatively non-specific synonym in the South Africa context lifted from political slogans. Others referred to relationships within their own community. The Motswedi Men's group commented,

> I think democracy means the system at which government is transparent in this community, including the freedom of speech, including transparency at which they respond to the community in time.

Some made direct reference from general discussion to the Village Bank without being prompted. A common sentiment was that the whole community was involved in the establishment of the Village Bank, therefore it was democratic, and because the branch allowed anyone to join without needing a job.

> It is important because I am able to open a bank account for my child, I do not have a formal job or a payslip but that did not stop me from opening a bank account at the Village Bank. The Village Bank does not have rules that stop me from opening a bank account. The other banks have rules that prohibit people who do not have payslips from opening accounts with them; here anyone could open an account at anytime. (Mathabatha Women)

There were some signs that groups were aware that inclusivity was a challenge to the status quo. Describing non members as richer households who wanted ATMs and regarded a Village Bank as beneath them one group stated:

> They have no confidence in us. They want to see us working with the computer. They don't trust us with our pencils and paper, they say their money is not safe. (Bhambanana Board)

Residents from Mathabatha seemed most vocal and confident in their understanding of democracy and how it applied to their lives, with some groups drawing detailed links between the transparency and accountability of the Bank and democratic principle.

> In the light of the Village Bank, it is a concept that was developed by the people for themselves. They have full access to all information regarding the bank; they have the right to demand the financial statement of the bank at any time without fear. It is much easier to address a person that you know on a personal level. If at the end of the day a person feels a sense of ownership as well as belonging and is comfortable with the set up, *that to me describes democracy*. (Mathabatha Board, emphasis added)

The diversity of this general discussion already revealed tensions that would be more evident later. In Motswedi, for example, the board members offered a limited interpretation of democracy "as freedom", whereas participants of the male and female focus groups gave detailed and personal descriptions of the concept.

Responses to the meaning of participation followed a similar pattern. Members from Bhambanana stated that participation meant 'being involved', to work together and to get along with people. Members of the board from Mathabatha discussed how various clubs, associations and surrounding communities were using the branch. The board members from Sakaletfu discussed participation in terms of “making a contribution” whilst the women’s group said that it involved co-operation with other people. Similar themes emerged from Motswedi, where mention was made of working together and taking part in community development.

> I think participation deals with, amongst other things, transparency. I mean if the management of the community is not more transparent to this community I do not think the community will speak more into what they decide. So I think if there is transparency, there is also participation. (Motswedi Men)

Yet when prompted to discuss the relationship between the shareholders and board members, and who made decisions and how, some focus groups became confused, a precursor to what was later to be revealed as an uneven picture of participation and inclusivity. Most groups were able to recognise the role of board members and offered some indication, seemingly more an aspiration, that the shareholders ultimately took decisions:

> It gives me power to put forward my suggestions and if I get support from fellow shareholders it would mean we could implement them. (Bhambanana Men)
>
> It gives me the right to ask questions if I am dissatisfied about something. (Bhambanana Women)

In the case of Mathabatha, the board members and women’s focus group seemed to concur.

> The decisions are announced through the Chairperson but in any association there is a protocol and policies as well as administrative matters. In terms of administrative matters the Bank Manager sees to that.. When it comes to the policies of the bank, the shareholders are the main decision-makers. We as the Board Directors, we act on what the shareholders want, the decision making process is not centred on certain individuals. It comes from the ground until it gets to the administration and the chairperson. (Mathabatha Board)

In other instances considerable disagreement was expressed. The women’s group at Motswedi for example discussed a deep-seated unhappiness with the board,

> The Village Bank operates properly, but we have a problem with the board. Normally these people in the board don't consult the community members, they are the ones who decide what to do about the Village Bank who should do this and who should be doing this. (Motswedi Women)

The board members recognised that some decisions might require community input but that they have the authority to make decisions.

Discussion of Village Bank governance revealed an ambivalent picture. Each branch was supposed to have an agreed constitution which one group related directly to a sense of ownership:

> We have our own constitution, which is different from their constitution [commercial banks]. The other banks don't meet up with their clients to solve the problems. The members know everything about the bank. We want to see this bank develop. (Sakaletfu Men)

As might be expected, board members gave more detailed responses and were able to identify something equivalent to a constitution. Board members from Mathabatha stated that their constitution was similar to that recommended by the FSA, whilst the Bhambanana and Sakaletfu boards mentioned that the constitution described the different responsibilities of the board members. The board members from Motswedi however discussed a range of rules that they claim were written down but not discussed with members. These rules spoke to the exertion of board control over the communities, preventing members from forming new branches for example. Yet, most focus groups were unaware of any constitution, interpreting 'rules' as referring simply to opening and closing times, the use of an ID book and the different fees levels. The men from Motswedi and the pensioners from Bhambanana both emphatically stated that there was no constitution whilst the men from Bhambanana and the pensioners in Sakaletfu said there was one but they knew nothing about it.

Further discrepancy emerged to challenge the claimed 'membership', and corresponding accountability, of Village Bank. It was revealed that not all account holders were shareholders and vice versa. Thus, for example, the Sakaletfu Board commented:

> It's very important to have the Village Bank. People have something that they can identify as their own thing. This bank has an intention to develop this community. The other banks, like Standard Bank serves the interest of the White people. The community is empowered and they appreciate that they own the Village Bank. (Sakaletfu Board)

Such an ethos might explain why Sakaletfu Village Bank had 515 account holders but 580 shareholders. By contrast, in Motswedi there were only 237 shareholders compared with 1,451 account holders and in Mathabatha there were 279 account holders but 216 shareholders.[8] Some of the focus groups commented on their confusion as to the distinction between accounts and shares.

> Since I am not educated, when I went to open an account I was just told that I should also buy shares as well and I did. But I did not understand what it meant. I did not even think about asking. (Mathabatha Women)

The Village Bank model stipulates that account holders own a share, and may hold more without gaining additional voting rights or obligations. Hence it is possible for there to be more shares than accounts but not more shareholders and not more accounts than shares. Extending availability of accounts without the requirement of shareholding might be interpreted as a sensitive response to the limited income of potential members – participants of the Sakaletfu women's focus group had mentioned a lack of income as one reason why some did not have shares - and a desire to raise account numbers. However, the experience of Motswedi indicates a less generous explanation. The men's focus group revealed that the board had stopped the purchase of shares a number of years ago. As this discussion went on members of both the men and women's focus groups began to change their comments regarding the 'democratic' nature of the Village Bank. The men in particular now felt strongly that the board was running the branch and criticised the control exerted by elders closely linked to the traditional authority. In reappraising some of their earlier views they argued that:

> I think democracy in the village is a controlled one because we are not exercising some of our rights, most of the people who are here, all the decisions are taken by the tribal people. (Motswedi Men)
>
> The elders of the village are the ones who elect the board. After they have been elected they are told to lead us. …We are oppressed by the members of the board, they don't give us the right to say anything. That is wrong and it is unfair. (Motswedi Women)

The board defended the decision but confirmed the suspicion that controlling membership was functional to wider political interests.

> Initially when we started, we only allowed people who resided in Motswedi to buy shares. But we came to a point where we decided to spread our services to the neighbouring villages, since there were a lot of demands from them and they wanted to become members of the Village Bank. It was then up to the board to decide whether or not we should sell shares to members of the neighbouring villages as they will be standing a chance of being elected as members of the board of directors. Then the board decided that we can't sell shares to the people from neighbouring villages, we rather sell to the people who reside in Motswedi, in case [of] problems. When you have shares, you can be a member for a period of 12 months unless the board rules you out on certain conditions that will be known to that particular client and the board, so they could stand a chance of being elected. We don't want to be governed by somebody from outside. (Motswedi Board)

In this particular case governance was determined by relations with the embedded institutions of the tribal authority and their perceived need for autonomy.

With question-marks hanging over the governance of Village Banks it was important to consider if people felt their opinions were heard and taken into account by boards. In all cases, however, it was clear that few meetings ever took place. In Mathabatha, and to a lesser extent in Sakaletfu, there had been meetings and confidence was expressed that opinions were heard and acted upon. The Sakaletfu men's group noted that meetings involved discussion, with the floor open to whomsoever wished to contribute. But when asked about what kinds of issues came up for discussion few concrete examples were offered. Indeed, the unevenness of the record casts doubts on the quality of participation. Pensioners in Bhambanana for example claimed to have no knowledge of who formed the board, the protocols for meetings, or could confirm if there had been meetings. Instead of meetings the branch administrator was identified as the principal channel of information between board and members. In Mathabatha the administrator had taken it upon herself to produce a quarterly statement that was given verbally to shareholders due to a shortage of paper and widespread illiteracy. Account holders seemed to appreciate the effort the form this information sharing took:

> There is respect from the employees in the Village Bank whereas in other Banks there is no sense of respect where they do not use the language that I would understand. Sometimes they call us "Grandmother" and "Aunty", it’s an insult. (Bhambanana Women)

The sense of ownership through participation therefore is related to social relations with the administrator rather more than a conscious effort to promote shareholding and dialogue.

Branches in two communities stand out as operating according to more democratic and participatory principles. In Sakaletfu the board had held its second elections in February 2002 and at the same time presented a financial year-end report. About half of the shareholders had attended the meeting and a vote took place via nominations and a show of hands. The previous elections had been in 2000, with no election in 2001 because the chairman had avoided calling one. When it was revealed that the chair had borrowed money without permission from the branch the board was pressured to hold elections, which removed the chairman from office, an event that raised awareness among the board members of their responsibilities to hold elections. Moreover, since the removal of the chairman, it was claimed that there had been a growth of interest in the branch and the new board was actively encouraging the purchase of shares, including as a form of investment. A similar picture emerged in Mathabatha that had also experienced its second election in January 2002. According to the board, the election was attended by shareholders who had voted via a show of hands and this had brought some changes to board membership. Current board members felt that people would not re-elect those who had under performed.

Although the experience of Sakaletfu and Mathabatha might be considered participation redux, an even more cautionary insight is offered by the other two communities. The Motswedi branch had not held an election since the board was established in 1996 because, as a board member explained, while the original intention had been to limit service to one year it was felt that board members were learning how to do their job and branch stability was paramount. Yet, descriptions of the only election to have been held in Motswedi from two of the focus groups argued that no vote to elect the board had taken place and the board had appointed itself based on members' position in the traditional authority. Subsequent to this 'election', the men and women's groups said no shareholder meetings had ever taken place although intriguingly the pensioners stated that shareholder meetings did take place.

The chiefs (*Amakhosi)* were also instrumental in the formation of the board in Bhambanana. It transpired that the board was constituted in May 2000 at a meeting which, according to board members, was called by the Department of Social Welfare, the FSA and the chiefs. At the meeting, the purpose of the Village Bank was explained by the representatives of the Department of Social Welfare and the FSA, and those attending were requested to elect the board. Members then pointed out various people, stating that they wanted certain people on the board and, apparently, agreeing that the board should include representatives from each of the four traditional authorities.[9] Retrospective accounts of participation at this meeting were divided. The women's group mentioned that they participated in the election process, but the men's group made no mention of it, and the pensioners stated that they were not present and seemed indifferent. No subsequent election has taken place, no annual shareholder meetings have been held and no dividends have been paid. The continued control of the tribal authority in Bhambanana and Motswedi was reflected in the gender and age composition of the boards which were all male in the case of Motswedi, where most of the board members were over the age of 70, with the eldest being 82, or possessed only one female member (the administrator) in Bhambanana. Sakaletfu had two women on the board and Mathabatha had five women on the boards including the chairperson.

Conflict Resolution, Traditional Authority and Autonomy

A reasonable test of actually existing participation is how an organisation resolves conflicts. Ideally, there should be procedures in place and widely known about to deal with conflict or misconduct in a timely, fair and transparent manner. When asked, however, participants were unable to identify a procedure that should be followed should a conflict arise with only the Mathabatha women's focus group describing a series of warnings from the board to a possible wrongdoer. In Bhambanana, the board members opined that concerns would be raised first with the administrator who in turn would notify the board if s/he could not resolve the issue. The obvious difficulty here is that the absence of shareholder meetings makes sanctions emanating from the board unaccountable. Hence, in all four case studies we learned that 'discipline' depended upon the status of board members with the traditional authorities. In Motswedi the board claimed that disputes would be taken to the chief who had attended the first meeting of the members to indicate that the bank would "run smoothly". Similarly, pensioners in Mathabatha believed that the chief would be called in to deal with conflict and in Sakaletfu it was suggested that the board resolved problems but the *Izinduna* (headmen) would attend such a meeting.

The symbolic and coercive power of the tribal authority might provide legitimacy to forms of dispute resolution in the absence of more participatory methods of branch governance generally. From the example of disputes, however, such a view appears optimistic. In Mathabatha, participants expressed dissatisfaction that they had not been informed when the bank had been robbed and blamed the board for the lax security. The response of the board indicated a concern with textbook procedure.

> Normally, if it is a security problem, the person in charge of security would inform the Chairperson of the Board and the Chairperson would pass the information onto the board where it will be discussed. But if it were a security issue, we would have to take measures that would reach the shareholders regarding what happened. In the case of a robbery for instance, after the Head of Security informed me, I am the Chairperson, I told the Board of Directors and we discussed the issue and opened a case. We then reported it to the shareholders where we gave them a report of the incident. We are responsible and accountable to them, so we must take initiatives to their advantage. (Mathabatha Board)

But the comments from the other focus groups suggest this procedure had been followed, or not quickly enough, and despite the apparent reassurance of ‘correct’ practice implicit in the quote the reference to “Normally” hardly inspires confidence.

We have already noted how boards and tribal authorities maintained close, occasionally almost indistinguishable, relations. In the case of Motswedi one effect had been the exclusion of people from outside the immediate village from the purchase of shares and both women and men’s focus groups claimed a degree of ‘capture’ by older members in how the bank was run. As one group put it:

> I think they are the rich people because most of [them] are pensioners. You see that is my worry that what I say will last. We’ve got to change this board because they are all pensioners, they are earning money every month and they don’t worry about the progress, they don’t even know that the money we save, we save it to develop something but not to save the money to be proud that we have money. [In] my view the money that the bank is making it is made so that it should develop the youngsters, it should not be collected to be a lump sum of money that has got no use. (Motswedi Men)

In both Motswedi and Bhambanana views were expressed that the banks beholden to football clubs and burial societies that held deposits with the branch.

> Because they [Burial Societies] are taking their income to save here and they withdraw at the time when they need the money. That is how they influence the Village Bank. (Motswedi Men)

In Mathabatha by contrast, the traditional authority appeared to have less influence:

> He [the chief] does not have the power to control how the bank should be managed. His responsibility is to see that the community and the Village Bank have a good working relationship as well as to ensure that the community is satisfied with the Village Bank. If he were to realise that the two parties were not working well together, then he would intervene. (Mathabatha Women)

In Sakaletfu and Mathabatha it was stated that the bank held its autonomy from local institutions, whereas in Motswedi and Bhambanana the embeddedness of the branches within local institutions appeared to be a simmering dispute that undermined claims to ownership and participation.[10]

Conclusions

Although occasionally referred to as a 'movement' microfinance is not usually included in either celebratory or critical accounts of civil society. The sense is that MFIs are not politically progressive and despite claims to empower and in some cases operate in participatory ways, microfinance institutions' convenience or complicity to the neoliberal agenda suggests an inherent conservative ethos. Yet, MFIs represent important agents in civil society, possess rapidly growing numbers of members or clients, and are able to mobilise significant resources. Moreover MFIs exist within, and indeed rely upon, other 'local' embedded institutions and may be networked to private commercial banks nationally and internationally, multi- and bi-lateral donors, church groups, trade unions and co-operative movements, as well as government agencies while being 'non-state actors'. Conspicuous by its absence in the research on civil society, there has been similarly little attention afforded to investigating the quality of participation from researchers principally interested in microfinance.

While Village Banks does not profess to follow the peer group methodology associated with many MFIs, and nor does it burden members with regular meetings or ‘bonding’ exercises, it does claim to be owned by its members and to be democratically organised. Village Banks is normatively client led through shareholding, information exchange and the regular election of board members. Our research looked at how far these procedures had meaning to Bank members. The focus groups articulated ambitious understandings of what democracy meant, including notions of freedom, equality and unity, and some, if few, links between these concepts and the specific ‘belonging’ to or working of Village Bank were drawn. Specifically, members felt that the Bank was democratic because the community had participated in its inception although this was not actually true. However, participants rarely described themselves as owners and some claimed that the focus groups were the first occasion they had reflected upon their relationship with the branch. The principal reason why ‘ownership’ was not more strongly felt appears linked to the uneasy relationship between board members and the rights of shareholders. This was evident in Motswedi where a number of account holders did not know that they were entitled to shares. In this instance, the board members had altered the rules to protect their interests which involved the deferment of decision-making to the traditional authority, although this was a feature of all four communities to some extent.

Does this mixed record of participation and transparency matter? At one level democratic structures within an MFI should make little difference to the delivery of financial services and seeking the opinions of members at every turn would impose transaction and opportunity costs which will be most keenly felt by the poorest. It is revealing perhaps that Motswedi has the most impressive savings record despite not having held a board election since its inception in 1996. Nevertheless as the best capitalised of the four banks, with substantial funds held at the ‘link bank’ earning interest all ‘members’ as shareholders should receive a useful dividend. So far as we could establish no dividend had ever been paid, effectively meaning that the deposits of poor savers were funding the operation of the branch when funds might have been better used. Of course, were a dividend to be paid the decision of the board to deny shareholding to non Motswedi residents would have had a punitive material distributive outcome.

While people in the four communities therefore placed value in ‘democratic banking’ as a normative ideal the record of MFI governance suggests significant failings in participation and quality of oversight. At best, as expressed in the focus groups, the daily engagement with an MFI such as Village Banks presented members with a low quality ‘political space’. In part we can explain this condition in terms of the embeddedness of the banks in the power relations determined by the tribal authority, and with consequent effects in terms of deferment to age and gender in decision making. Bank governance was not fundamentally autonomous from local institutions, it rather reflected them. This leads to the paradoxical situation in which the poorest people in our villages were women and those men who had not moved away for work, the better off were older men and pensioners more generally. While all were potentially ‘unbanked’ their inclusion into a membership oriented organisation was unequal, with the poorest given the least voice in how their resources should be managed. This inequality of outcome was not a matter of design but it was a feature of how Village Bank design was operationalised, with the FSA overseeing the initial formation of the banks in close cooperation with the tribal authorities, and its subsequent inability to regulate operations.

Finally, if the experience of the banks is at all generalisable to other cooperative or membership styled organisations then the identified shift from membership to clientship as announced by the so-called “second revolution” may capture the intentions of donors and large umbrella MFIs but is less adequate as a means to appreciate what is happening in ‘actually existing civil society’. In practice members of Village Banks seem to have been treated as clients, and not terribly valued ones at that, almost from the outset. The discussion in the focus groups, and additional conversations with administrators, revealed pride at the achievement of establishing a banking organisation, at maintaining savings deposits and support for the relative security and accessibility that the Village Bank offers poor households. For now, peoples’ experience of participation however suggests that catchy terms such as ‘financial democracy’ should be considered open metaphors rather than accurate labels of microfinance’s political dimensions.

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Endnotes

[1] One estimate puts the demand for microfinance at approximately $US 250 billion with outstanding loans worth around $US 25 billion (ADL, 2008).

[2] Microfinance has been associated with improvements to literacy and malnutrition, and as a tool to extend HIV-AIDS awareness and to ease the financial burden of those infected (Kirsten, 2006, McDonagh, 2001).

[3] According to John Hatch "Village banks are highly democratic, self-managed, grassroots organizations. They elect their own leaders, select their own members, create their own bylaws, do their own bookkeeping, manage all funds, disburse and deposit all funds, resolve loan delinquency problems, and levy their own fines on members who come late, miss meetings, or fall behind in their payments" (Hatch, 2004).

[4] Means-tested pensions are received by over 80% of age-qualifying African households who receive a sum equivalent to about 50% of average household income. On pension days people wait for hours for the truck with an ATM machine welded to the back and armed guards. Even before funds are distributed sites become itinerant markets mostly selling clothes, domestic goods and food.

[5] A separate support system for Village Banks was provided by FINASOL, established by the South African Sugar Association's Financial Aid Fund, and which operated a franchise arrangement in which FINASOL took a stake in the branch (Schoeman et al., 2003).

[6] Personal communication, David de Jong, FSA Regulator, South African Microfinance Apex Fund, Department for Trade and Industry, Government of the Republic of South Africa, 10 March 2009. Almost simultaneously FINASOL also collapsed.

[7] Groups were facilitated by field staff of Development Research Africa, a private research consultancy, with meetings conducted in local languages.

[8] There may be a different but equally alarming discrepancy in play in Bhambanana where a survey conducted by Dallimore in 2002 could only locate 85 account holders within five kilometres of the town when the bank claimed over 3,000 members. Although attrition in all four banks was significant the more likely explanation is the bank had encouraged set up of 'ghost accounts'.

[9] It was argued that the high number of members in Bhambanana was partly because the Inkosi (traditional leader) had instructed everyone to buy shares.

[10] The sense of greater autonomy from the chief in Mathabatha seems largely contextual as he was described as a drunk and lacked credibility generally. The claimed involvement of the chief in event of dispute seemed more likely here to deference to the office than to the holder.