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**Understanding the diversity and
complexity of demand for
microfinance services: lessons from
informal finance**

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Understanding the diversity and complexity of demand for financial services: lessons from informal finance *

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Abstract

There is growing consensus that microfinance supply is too standardised, inflexible and inadequate given the diversity of financial needs). As a result, microfinance is a very partial substitute for informal financial services and their comparative advantages. This paper aims to deepen understanding of financial service demand by learning from informal finance. Based on economic anthropology, our analysis shows that microfinance does not substitute informal finance for many reasons: because money and informal finance are multidimensional and context specific, because the boundary between saving and borrowing is blurred, because money circulates in small quantities and quickly in village economies, because informal finance is more flexible, and, last but not least, because informal finance is a vector of social inclusion.

Key words: microfinance, informal finance, debt, savings, social inclusion

JEL-classification codes: O17, O53, Z13

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1. Introduction

There is a growing consensus that microfinance supply is too standardised, rigid and does not adequately account for the diversity of financial needs. As a result microfinance is but a very partial substitute for informal financial services and their comparative advantages. This article proposes to deepen understanding of financial service demand by learning from informal finance. The work of Stuart Rutherford (especially financial diaries and tools developed by MicroSave) has advanced knowledge of how the poor manage money and use a wide variety of financial tools, both to save and borrow (Collins et al. 2009). Our approach, based on economic anthropology, seeks to complement this body of knowledge, drawing on empirical data from various contexts (especially Mexico and South India) to analyse the *social dimension of monetary and financial transactions*.

Analysis of informal practices--their diversity, modus operandi, comparative advantages and embeddedness in social relations--is informative for microfinance providers on several levels:

- It improves understanding how people perceive, judge and understand financial services. In many contexts, ranking debts and saving practices yields more than data on transaction costs; it reveals the cultural, social and emotional criteria that inform decision-making.
- It improves understanding of how microfinance services are used, abused and (mis)appropriated—or at least used in a way that was not intended by the providers. This is because informal arrangements reveal how people *appropriate* financial services—*i.e.*, not just how they use them, but how they assimilate them in a way that reflects their own frame of social and cultural references. The appropriation process occurs at the individual, household and group level (in the case of group lending).
- It improves understanding of how clients coordinate microfinance and informal finance, to either juggle loans (*i.e.*, use one loan to pay off another or create a leverage effect

whereby microfinance is used to improve clients' creditworthiness *vis a vis* informal lenders.

The first part of this article proposes a general analytical framework for understanding the social dimension of money, debt and saving. The second part describes some fundamental mechanisms of informal finance, whilst the third part demonstrates how this analytical framework leads to a better understanding of how people appropriate microfinance.

2. The social meaning of money, debt and saving

Money is the economic object of study *par excellence*: a means of individualization and obliterator of hierarchies and statutory privileges. The fundamental role of the monetary tool, defined as a unit of calculation and a standardised means of payment, is ostensibly to create contractual relationships between individuals as equals. But ethnological and historical analysis of monetary practices reveals that the impersonality and anonymity accorded to money is illusory (Guyer 1995; Villareal 2004; Parry & Bloch 1989; Zelizer 1989, 2005; Servet 1985, 1998). Money, and the practices stemming from it, are above all a social construct. Money is embedded in pre-existing relationships of rights and obligations, which it can influence but never destroy.

Money: a point of tension between the individual and the group

Money and finance are social institutions, in the sense that their access and use depends on a set of conventions, norms and formal rules (Commons 1989; Polanyi 1968; Servet 1984, 2006). As a consequence money is characterised by a permanent tension between the individual and the group, between personal aspirations and collective responsibilities. This ongoing tension takes several forms:

- Although economists generally define saving and indebtedness in terms of time, with the purpose of securing material gain, finance is often *a means of relating to the group or creating interpersonal bonds of dependence and domination*. Symbolically, the first forms of monetary exchange and payment in many societies served as material extensions of relationships where one is obliged to sever a bond whilst simultaneously recreating it. Indeed, many expressions refer to money as a type of bond. In various West African languages, the word “rope” refers to debt. *Obligation*, the French term for debt, has its root in “ligature” (a bond). *Stozzino* in Italian means both “usurer” and “strangler”, whilst a usurer is also referred to as a *cravattoro*, coming from the word *cravatte*. In China, the god of debt carries a rope in his hand, and some of the earliest means of payment included axes, knives and other cutting objects.
- Going into debt or lending money is a sign of social inclusion, assuming individual behaviours are not reduced solely to their economic dimension. Indebtedness and saving reinforces a sense of social belonging, whether characterized by domination, dependency or equality. As a result, in some societies, it is important for money to change hands quickly. The poor often accumulate debt and credit and repay loans according to their own informal hierarchies (Shipton 2007) and their own frameworks of calculation (Villarreal 2004). Such phenomena transcend questions of material or self-centred motivations and reflect issues of status, honour, power, and individual and group identity.
- Hoarding goes directly against the logic that money must change hands, which is why non-monetary saving practices are so common, whether in kind or in the form of exchanges or loans to others. This same logic explains why people tend to rank savings possibilities not only in terms of security but social considerations.
- The social dimension of finance does not preclude financial reasoning, in the economic sense of the term. Quite the opposite. The poor more than anyone need to keep accounts,

calculate and anticipate. But they are not necessarily sensitive to the same criteria, constraints or rationale that apply to the wealthy. Interest rates, for example, are often addressed in a Manichean manner (“are the poor sensitive or not to high interest rates?”). In fact there are many ways to interpret interest rates. Some vernacular languages have no specific terms to designate the surplus paid by a debtor to his or her lender. In such cases, debt is seen not in relationship to time but in terms of commercial margin. Similarly, tolerance to the cost of money varies along cultural, social and religious lines. In many cultures, it is considered immoral for lenders to set a fixed-term rate without sharing the borrower’s risk. Indeed, Islamic prohibitions of usury date back to ancient history, were perpetuated in medieval Europe and can still be found in many other societies across the globe. Microfinance institutions, derived from western norms, often offer fixed-interest loans without realising certain populations consider the principle immoral.

- Financial transactions imply inclusion in one or more social groups, but the nature of this affiliation is far from simple. Not only can an individual belong to multiple social groups, ranging from the customary (family, ethnicity, caste, gender, religion) to the constructed (professional, neighbourhood, associative groupings), but membership is constantly evolving. The variety and vibrancy of financial practices reflect this diversity.
- Understanding financial behaviours requires for a temporal perspective. There are immediate needs associated with daily survival, needs associated with life-cycle events, needs associated with social and religious rituals, and needs that are in fact investments over a lifetime or even several generations.

The claim that microfinance clients are “financially excluded” and in need of financial inclusion and money management skills only holds true from a formal sector standpoint. Take into account informal finance and it becomes altogether dubious.

Informal finance: a diversity of practices and landscapes

Informal finance has kept pace with the monetarisation and financialisation of contemporary societies (Servet 2006), remaining vibrant and extraordinarily diverse. Indeed, the term “informal finance”—with its monolithic connotation—is almost meaningless: it makes more sense to refer to *informal financial practices* instead. Because informal financial practices evolve with society,¹ they are as diverse as the social settings where they are found. Their social embeddedness gives them a consistently distinctive form that underlines humankind’s imaginative and adaptive capacities.

Informal finance takes many forms, both collective and individual. Examples include rotating savings and credit associations (ROSCAs) and community organisations designed to cover funeral costs, collective celebrations or large community projects. A multitude of private intermediaries also exist. We now know that the cliché of exploitative and greedy usurers, a much-favoured caricature in the eyes of the media, decision makers and many MFIs, does not stand up to factual analysis. Professional lenders are only one category of a mosaic of lenders. First, there is the inner circle of neighbours, friends and family, probably used everywhere to varying degrees. The principles of solidarity and reciprocity prevail in such exchanges, which are organised such that everyone takes their turn as debtor and creditor. Next, there are individuals who lend by virtue of their status or privileged access to cash. These include private specialised lenders, pawn-brokers, shopkeepers who accord credit, traders who pay for harvests in advance, manual labourer employers or recruiters who advance payment, and salespeople who sell goods on credit and then immediately buy them back for less. Wholesalers may sell on credit to small shopkeepers, artisans or travelling vendors, and former employers may lend to apprentices wanting to start their own activity. Local elites may also wish to invest their liquidity surpluses and/or extend their social sphere: landowners,

¹ Before almost universal salarisation took place, informal financial ties were extremely common in European societies (Fontaine 2008).

employers or work colleagues, teachers and more generally civil servants, migrants or migrant's wives, local elected officials, religious leaders, doctors, etc. There are also those who safeguard money. Some are mobile and make house calls. Others have shops or simply belong to saver's social network. Savings collectors are often a more secure alternative to hoarding.

The prevalence and complementarity of these informal practices varies across regions and cultures according to legal, technical, cultural and social constraints. Hence the expression 'financial landscape' (Bouman 1994), which seeks to account for the diversity and interconnectedness of different practices.

These practices are termed 'informal' because governments cannot account for them statistically, as they do not conform to legal frameworks. Just as so-called formal financial practices incorporate an element of informality, the informal sector does not entirely lack formality (Villarreal 2009). There are established rules and practices--admittedly very different to those of formal finance--governed by principles, implicit codes and obligations. Informality has limits: some circumstances require crossing over into formality, such as making payments with legal currency. Indeed, most societies do not function in terms of financial dualism, with the formal sector on one side and the informal on the other. People often move fluidly between the two, not only the poor, but middle and high-income populations as well. Some informal financial practices use different accounting tools and payment forms than those legally in effect and, most importantly they may use non-monetary forms of saving. This is less and less a matter of archaism. Indeed, it constitutes a form of modernity when hyperinflation forces populations to protect themselves as best they can, by not only drawing on foreign currency but also durable goods to preserve the value of credits or debts.

The diversity of informal financial practices stems from all these elements combined: the social embeddedness of money, multiple group affiliation, the permanent tension between the individual and the group, and evolution of financial needs throughout the life-cycle. These elements form a framework to better understand how people *perceive* finance in their daily life, whether in the context of credit, saving or risk management. It also allows to better understand how people appropriate financial services offered by outsiders, and in particular microfinance institutions.

3. In what ways do people perceive and experience finance?

Analyzing so-called informal finance practices brings to light *la pensée sauvage* (the savage mind) – to employ Lévi-Strauss’s expression – with respect to money, debt and saving. It reveals conventions, habits and *local categories* of thought, *i.e.*, the ways people perceive and use finance.

Saving and credit: a false dichotomy

For a long time the “poor” were considered incapable of saving. While it is true that monetary hoarding is often limited, there is no doubt the poor do save to protect themselves from future risk and anticipate certain expenses (Lelart 1990; Rutherford 2001; Servet 1996). These include recurring expenditures (school fees, religious festivals) and life-cycle costs (housing, birth, coming of age ceremonies, marriages, funerals, pilgrimages, etc.). Other the other hand, their savings options—and the criteria they use to assess them—vary. Reasons for saving are also diverse and sometimes contradictory, given the permanent tension between social obligations and individual desires. The result is a plethora of complementary practices, sometimes impossible to substitute.

What accounts for the decision to use a particular form of saving? The following list is neither exhaustive nor definitive, and reflects tendencies observed in several regions of the world. Each factor's weight varies according to context, social groups and individual behaviours.

- **Security/thrift:** saving's primary function. Goods acting as a form of saving must be able to be stored safely without risk of degradation or depreciation.
- **Access to liquidity:** in urgent need, cash should be quickly and easily accessible.
- **Social identity:** as discussed above, some acts of saving are more an expression of one's social identity than an individual act.
- **Anonymity and discretion:** when saving is for a personal project, anonymity and discretion come into play. Even in families where individual members pool part of their income for common expenses, individuals often have savings practices and networks of their own. The desire for discretion is particularly great amongst women, who often seek to preserve a space, however tiny, for themselves, free from male intervention.
- **Illiquidity and incentives:** saving is difficult not only because cash is short and income irregular; the poor often face pressure to spend. Between demands from family members and a constantly needy entourage, people often say that cash burns their fingers. Given this pressure, families often look for mechanisms which incite, or even force them to save². This need can be so great that people are prepared to *pay* to save: hence the success of itinerant savings collectors in many countries. The same logic holds true for ROSCA members who prefer to receive their sum at the end of the cycle.

² This type of behaviour was studied by anthropologists in the 1980s and 1990s (see for example Guyer (1995), Shipton (1995)). Over the last few years, an increasing number of economists have been looking at this 'preference for illiquidity'. See for instance Bauer et al. (2008). See also Vonderlack & Schreiner (2002), Guérin (2006).

- To account for the tensions created by the ongoing balancing act between liquidity and illiquidity, individualism and group responsibility, Shipton refers to the “squawk factor’, which he describes in the Gambian context: “[...] saving strategies are mainly concerned with removing wealth from the form of readily accessible cash without appearing antisocial” (Shipton, 1995, p. 257).
- **Speculation:** “Money needs to multiply,” declare Indian women, explaining their membership in *seetu* (ROSCAs) or gold purchases. Similar ideas can be found in the practices of Cameroonian *tontines* or Chinese *hui*. Speculation often explains the preference for saving forms likely to appreciate over time, such as precious metals, cereals or cattle.

While saving forms vary from one context to another, monetary hoarding is a rarity. This is as much a question of safety as it is an effort to resist the temptation to spend and ward off requests from one’s entourage; furthermore, blocked money serves no purpose. In the English language and particularly in the work of David Ricardo, the term ‘circulation’ is used in reference to money. Indeed in Senegal, money is often said to ‘burn’, it circulates so quickly (Guérin 2003). Women frequently joke about the way money circulates without stopping: ‘*Money, yes, we see a lot of it, but it never stays for long*’. ‘*As soon as it arrives, it leaves*’. No sooner is it received, it is spent, released into the community circuit as an ‘investment’,—the women’s choice of term—liable to be recovered at any moment in the case of ‘pressing need’ or a ‘problem’. To the question ‘do you save?’ it is common for people to sincerely reply that they lend; it is considered a form of savings. In the indigenous communities of Mexico, all forms of wealth may be loaned if the owner does not have an immediate need for them (Morvant-Roux 2006; Villarreal 2000 and Zanotelli, 2004). This includes coins and notes, but also bricks, cereals or other food products, cattle, etc. Shipton (1995) has made the

same observation in rural Gambia, where the slightest riches, whether in cash or in kind, are loaned to conceal ownership and cement social bonds.

The logic of constant circulation of debt and credit is neither exotic nor archaic and the blurring of savings and loans is found throughout the world (Guyer 1995; Lont & Hospes 2004). In zones characterized by heavy international migration such as Mexico, migrant remittances are often injected into the local economy as loans accorded by family members (particularly women) who have stayed behind. On the one hand, this is a form of saving. On the other, it is a way to integrate and appropriate external cash according to local social values. In rural Tamil regions, the question ‘do you save?’ is revelatory. Some immediately talk about their daughters, implying that saving is necessarily linked to a specific event such as puberty ceremonies or marriage. Others speak of their ‘reputation’, by which they mean their ability to rapidly procure cash! Ultimately, the widely entrenched distinction between saving and borrowing does not fully account for such strategies and perceptions. In fact, borrowing is simply a means to force oneself to save in the future (Rutherford 2001), just as lending is a form of saving that presupposes the right to borrow later. Microfinance institutions are but one of many strategies clients use when juggling various formal and informal finance opportunities accessible.

ROSCAs: individual projects and collective constraints

ROSCAs are a common financial form that exemplify the melding of saving and credit simultaneously. ROSCAs exist around the world, but their modalities, function and nomenclature are specifically local: there are the *esusu*, *osusu*, *oha* or *adashi* in Nigeria; *ekub* in Ethiopia; *paré* in Chad; *diari moni* in Côte d’Ivoire; *djanggi* in Cameroon; *chilemba* in Rhodesia; *chita*, *chitu*, *stokfel* or *mahodisana* in South Africa; *sanduk* ou *gameya* in Sudan and in Egypt; *arisan* in Indonesia; *kye* in Korea; *hui* or *houei* in Vietnam; *paluwagan* in the

Philippines; *kutu* in Malaysia; *pia huey* in Thailand; *hui* or *kongsi* in China; *seetu* or *bishi* in India; *bisi* in Pakistan; *kameti* in Sri Lanka; *tandas* and *cajas* in Latin America, etc.³ A vast body of literature confirms their extraordinary diversity and capacity to adapt to very different and rapidly evolving environments (Ardener 1964, Bouman 1977, Servet 1995, Lelart 1990, 2007). However, the success of ROSCAs probably stems largely from their ability to address individual financial constraints collectively (Servet 1996). Thus low rates of default as members force themselves to make regular payments.

Members who receive their sum in the early part of the cycle essentially receive uncollateralized loans from the others. If a debtor stops paying his or her share, s/he may be banished from the community, hence the importance of carefully selecting members, or at least the organiser. Moreover, the organiser is responsible for defaulting members, even if this means tracking down the defaulter, or calling on the police and courts. Herein lies the connection between group efficiency and individual rationale. The organiser must ensure the ROSCA's proper functioning and demonstrate his/her power by making sure the defaulter eventually repays. The obligation to pay, to employ Marcel Mauss's expression from his famous *Essay on the Gift* (1923), is stronger than most legal constraints. Not honouring one's word would amount to social suicide. ROSCA members know they must respect their obligations if they want to participate in other tontines or simply extend to other contexts the benefits of solidarity and protection that come with being a member in good standing. In ROSCAs, the act of saving is not about an individual relationship to time but rather a social relationship where reciprocal obligations are bound and unbound (Lelart 1990; Baumann 2003).

The subtle balance between the individual and group takes other forms. ROSCAs permit members to ward off loan requests from family members, whilst still allowing them, at least

³ For an analysis of this diversity, see Ardener (1964), Ardener & Burman (1996), Bouman (1995), Lelart (2005), Servet (1985).

in some cases, to respect social obligations (finance pilgrimages and ceremonies, support family members, etc.). In broad terms, ROSCAs express and contribute to the restructuring of social relationships. Indeed, various case studies on ROSCAs show how family ties are sometimes used and reinforced, but also times avoided, substituted or even weakened, depending on the region and community (Ardener 1996; Guérin 2006).

The circulation of money and juggling practices

Money is constantly 'lacking', but it also circulates with astonishing intensity. The tendency to take on debt clearly arises from a mismatch between income and expenses, but it is also a matter of maintaining credibility, one's reputation and social networks. Lending presupposes the two parties already share a relationship of trust, but it also serves to maintain, reinforce and renew this relationship. When describing their financial practices Senegalese women state: '*sab bukki, sulli bushidô*' (take a hyena, bury a hyena) or « *sab-sul* » (dig and bury), meaning they take new debt to pay off old debt. They also speak of 'drawers', whereby all the people or groups they lend to or do a favour for represent a 'drawer' they can pull at any moment. In Mexico, Magdalena Villarreal describes women's credit chains, in which any income is largely used to repay old debts, to maintain credibility and thus borrow again later (Villarreal, 2000). Morvant-Roux (2006) demonstrates how in rural Mexico, more than a third of 239 interviewees were concurrently indebted to at least two distinct financial sources. In Southern India, people say they borrow 'like they breathe', referring to a permanent game of loaning and repayment. The term 'overindebtedness' does not exist. An excess of debt does not pose a problem, even if certain forms of indebtedness are costly and result in servitude. Rather, it is the inability to take on debt that is problematic. Permanent juggling practices should not be understood as a sign of over-indebtedness or poor management. In many cases they reflect deliberate choices and strategies geared to multiply and reinforce social relationships and *maintain a certain balance*, considering the inherent ambiguity of all debt

relations. Ambiguous, because while debt is a source of protection and solidarity, a means of expressing a relationship of trust and of reciprocal respect, when it is not honoured or too imbalanced, it can be a source of humiliation and shame, exploitation and servitude. It is both a lifeline and a death knot, to employ the expression of Charles Malamoud (1980). It is the “poison” Marcel Mauss speaks of, which he assimilates to a form of loan. Hence the existence of a subtle game to regularly reduce one’s debt whilst taking on debt elsewhere.

‘Saving-loans’ are always reciprocated (the lender eventually becomes the borrower and vice versa) and address both short term needs of survival, and long term ones like social and religious rituals: marriages, puberty or god parenting ceremonies, annual religious festivals, funerals, cave openings or re-wrapping of bones (for example in Madagascar). The exchange may take the form of cash or goods with social and symbolic value: jewels, clothing (for example *pagnes* in Senegal, *sarees* in India), animals (cows in among the Fulbe in Sub-Saharan Africa, pigs in Papua New Guinea and certain Indian tribes (Thanuja 2005), turkeys in Mexico (Morvant 2006), etc.). Paleo-monetary practices reveal how groups and their leaders exchanged goods in the name of investment, alliances and conflict. Numerous societies in Papua-New-Guinea have complex chains in which gifts are exchanged for gifts involving currency in the form of shells, animal teeth, or parts of sacrificed animals. These exchanges are as much investments in social capital as a challenge to the receiver, who is expected to reciprocate with a gift even more valuable (Servet 1984). Numerous *potlatch* practices, to borrow from *Chinook* word of Amerindians on the United States West Coast, also fit in this reciprocal debt framework whereby a gift is given against a gift, which is always of higher value than the initial loan.

Depending on the context and era, savings in kind takes extraordinarily diverse forms. Saving, whether in cash or in kind, has first and foremost an economic function. In many situations, goods simply offer a better way to save than cash. Poor people make decisions to save by

anticipating relative price variations of certain goods, and assessing their purchasing power. They also account for income fluctuations, planned expenditures, general uncertainty, risk, the degree of liquidity and indivisibility (cattle vs. cereal, for example). The cattle market may or may not be a reliable investment, depending on the extent of vegetarianism, which partly explains the varying importance of cattle as a form of saving. Goods used as a form of saving frequently have strong social and cultural connotations (Villarreal 2004). Here again, one observes the importance of identities and relationship to the group. Apart from cattle, precious metals (particularly gold and silver) are probably the most frequent forms of saving in kind. They are multidimensional: liquid, prestigious, discrete,⁴ and sometimes subject to speculation⁵.

Flexibility and negotiability

Many studies on how populations compare financial services have highlighted the importance of ‘negotiability’, defined as the possibility to negotiate transaction modalities and, particularly, defer repayment deadlines (Rutherford 2001; Johnson 2004; Servet 2006). Negotiability is important for two reasons. The possibility to adapt repayments to irregular incomes and expenses is a key advantage, particularly if income fluxes are seasonal and uncertain (as in agricultural production or migration). But negotiability is also a way to personalise a social relationship. The principle of standardised prices and terms allows for a contractual relationship between equals. The principle of negotiability, in contrast, expresses a personal relationship: here, the nature of the relationship and the relative statuses of the two parties influences the terms of the exchange. Anthropological literature has shown the extent to which not fixing prices *a priori* is standard practice (Bloch and Parry 1989). What at first glance appears to be a lack of transparency is ultimately a form of protection against

⁴ Even cattle can be a discrete form of saving if animals are distributed to disparate herds (Mazzucato & Niemeijer 2004).

⁵ For instance, in India the gold rate doubled between 2002 and 2006.

the anonymity of a commercial relationship in which the same price and terms apply to everyone (Toren 1989). In Africa, during the second half of the 20th century, Sarah Berry (1995) demonstrates that negotiability responds to two sources of major uncertainties: uncertainty linked to economic crisis and hyperinflation, but also uncertainty linked to the redefinition of the notion of ‘value’, status, hierarchies and identities as a result of monetarisation and ‘modernisation’ (education, migration). There is no shortage of information regarding the allocation of resources and wealth creation; what lacks is an understanding of the *meaning* behind this information; after all, the permanent negotiation of prices is first and foremost a negotiation of *value*.

In Southern India, a study on perceptions of the quality of financial services involving 170 families showed that ‘negotiability’ is the primary criteria (highlighted by over a third of those interviewed). Next was cost (26%) followed by “discretion” (17%). Negotiability is thus a major component of informal finance, and “contracts” between creditors and debtors are very often flexible: cost and duration are not always specified at the outset and are likely to evolve over time. Repayment methods can be adapted to the borrowers’ or lenders’ constraints and the latter may reclaim their due in an emergency. In vertical or hierarchical financial relationships (for instance loans from an employer, a landowner or a member of the local elite), the debt relationship is but one component of a larger relationship, which often resembles a form of patronage. The lender’s generosity and flexibility demonstrates his or her role as protector, but this protection is ‘repaid’ by material and symbolic compensations (favours or free assistance at a moment’s notice, patronage of a shop controlled by the lender, or recognition and gratitude). In the case of itinerant lenders, transaction terms can vary greatly on the basis of loyalty and trust (no different to commercial relationships in the West which employ client loyalty strategies). Regular clientele benefit from the best terms (such as low prices or greater flexibility), as do those who act as guarantor for other clients—

a very common practice, as trust is the main collateral. Benefiting from the best terms is implicit compensation for favours accorded.

Negotiability also applies to the loan amount. Microcredit providers usually demand regular interest payments along with the principal. Informal private lenders demand only regular interest payments, whilst retaining their rights over the principal. Such arrangements can last several years. The term 'rent' is more fitting than 'interest' in this kind of financial relationship. As a strategy, it compares to owners renting out a house that they have no interest in selling, even if they sometimes change tenants. What matters is that the balance is periodically paid off.⁶ The way the debt is settled depends on the context, era, and nature of the relationship between the creditor and the debtor. Sometimes the debt is never settled and is even passed on to the following generation. Sometimes, it is ultimately cancelled, if the debtor manages to show that the total interest paid is enough (in India for example, some creditors cancel the debt when interest payments represents two or three times the principal). In other cases, the principal is paid back after a few months or years.

Our purpose is not to idealise this personalisation of debt relationships, which can affirm solidarity but also reinforce subordination. Sometimes extreme flexibility or debt cancellation conceals relationships of subjugation and exploitation. We seek instead to draw attention to the fact that people *perceive* finance and manage their finances in this way.

4. The role of informal financial practices in the appropriation of microfinance

Analysis of informal finance allows for a better understanding of how microfinance is used. Interestingly, the fluid boundaries between saving and lending show up in use of loans. For example, clients commonly put aside a portion of microcredit for saving (in the form of

⁶ This analogy has basis in fact. In India for example, it is possible for a tenant to pay an owner a large sum of money in exchange for the occupation of a house. The owner must return this sum when the tenant leaves the property. If he does not, the tenant can retain possession of the house and can sublet it until the owner repays the debt.

liquidity, gold purchases, or loans to others, etc.)⁷. It is not surprising then that some MFIs struggle to collect savings: in many cases, informal practices match up far better to people's constraints and motivations. Some noteworthy innovations do exist. For short-term saving, SEWA's home savings programme in Gujarat, operating successfully since the 1970s, comes to mind, as does SafeSave in Bangladesh, betting on flexibility and proximity since the 1990s. For long-term saving, SEWA offers saving accounts remunerated in gold. There are probably other innovations worthy of documentation. But much remains to be done to design services adapted to how people perceive saving. Moreover, many informal saving practices are so much more advantageous, that the attempt to substitute is often in vain.

Finally, analysis of informal finance reveals how *microcredit* is used. Clients do not passively consume microcredit services. They translate and interpret them according to their own frame of reference, and then adjust and adapt them, often bypassing the rules to do so. A process of appropriation takes place, both at the individual and collective level (Morvant-Roux 2006).

Borrowing to onlend: abuse or a normal part of the system?

Some studies have found clients use microcredit for money lending. Instead of investing in a so-called productive activity or covering a family expense, clients onlend to their entourage, often with interest. MFIs that fight what they call 'usury' naturally condemn such practices. In our opinion, however, they should not be automatically seen as digressions or anomalies of the system, but normal.

For example, Perry (2002) has shown that in some rural zones in Senegal, the major impact of microfinance has been to facilitate the emergence of a new category of informal private lenders: middle class and poor women. The zone studied is characterised by reduced availability of credit due to a slowdown of cooperative banks and landowners moving away

⁷ This is common practice in Southern India. Sebstad & Cohen (2000) point to the same phenomenon in several regions of the world.

from agriculture to go into business and who no longer have liquidity to lend. In contrast, for several years now, microfinance has targeted women. A large number of loans are in fact onlent locally, mostly to men from the borrowers' extended kin. Several reasons explain this phenomenon. Productive opportunities are limited and risky (entry barriers, weak local demand, activities highly segmented along gender lines), whilst men's demand for credit is high. At the same time, the women explain that they are fulfilling a social obligation by helping their kin and maintaining bonds of reciprocity which they will be able to rely on in times of need. This type of activity is lucrative, but not considered 'immoral' by the community.

In India, the principle of the *Self-Help-Group* also leads to parallel lending. Borrowing to onlend is relatively common, but difficult to quantify because women know that MFIs condemn this practice. Disbursement dates do not necessarily correspond to a precise need, however, and women clearly state that they do not know what to do with their money and that onlending is a way to put it to good use. Group leaders and loan officers are also active lenders, but their role is in fact much broader and includes a number of additional services. Clients use the English term 'adjustment' to account for these additional services.

Adjustment is when the group leader or loan officer introduces a degree of negotiability. It is difficult to obtain reliable data on repayment rates but it is likely that on-time repayment rates are relatively low (around 50%), and readjustments the rule rather than the exception. Official rates of 95% refer to 9 or 12-months. Loan officers and group leaders negotiate and jointly decide readjustments. Adjusting can involve helping clients find additional credit sources when microcredit is insufficient (in the case of certain investments or health/ceremonial expenses) or disbursement delays are too long. Adjustment may be necessary when clients have trouble repaying their loan. In absence of an official grace period, the loan officer or group leader's occasional assistance helps the borrower "save face" and maintain credibility.

This may involve facilitating access to other credit sources by acting as guarantor for dealings with private lenders or physically accompanying women for certain transactions. This assistance may also consist of direct loans. The source of funds is not clear, but it appears common that money comes from the group itself. What might appear an abuse of the system is deemed legitimate by group members as long as they have regular access to liquidity. Members even expect this practice: efficient group leaders and loan officers should be able to make loans: it is their duty!

Group lending: internal arrangements and the reproduction of pre-existing practices

Once considered a major innovation, group lending is increasingly criticized as overly rigid, incapable of adapting to diverse needs, a source of hidden costs, and catering to the better-off⁸. Our purpose is not to compare individual and group loans. Either one is likely to prevail, depending on context, target population, and the objective. Instead, we aim to show how group members adjust to the group ethos and adapt it to their own habits.

In Mexico, a study of *Grameen*-type groups highlighted various arrangements between members (Morvant-Roux 2007). Whilst officially, individual loan amounts are determined by the MFI, the actual distribution is often very different. For example, clients tend to ask for the maximum amount even if they do not need it; the difference is given to another group member (who is in charge of repayment). “This amount must not be wasted,” is how clients justify this practice. In India, analyses of SHGs gave similar results: whether for internal or external loans, financial circulation within groups is more intense than the account books indicate. Such lack of transparency is deliberate: the women are all implicated in multiple and mutual debt relationships that they prefer not to reveal, to avoid suspicion or jealousy.

⁸ See for example Coleman (2006), Harper (2007), Mayoux (2001); Molyneux (2002); Morvant-Roux (2007); Rankin (2002); Wright (2006).

These appropriation practices occur all the more readily given some groups tend to mirror pre-existing social and therefore financial networks. In Mexico as in India, our observations show that borrower groups are grafted over debt and credit relationships that already exist. To form groups, leaders select members based on need and solvency—information only available to people already in similar financial circuits. Such mutual knowledge is exploited when the groups are created. The goal is not to contort financial supply, but rather to address the diverse needs within the same borrower group.

This appropriation process is not entirely surprising. The principle of group lending is to exploit borrowers' mutual knowledge to compensate for information asymmetry. But this process also has two major implications. Such informal internal arrangements render financial service supply more flexible and adaptable. But they are also liable to reproduce and to reinforce pre-existing financial arrangements between members and/or between members and the group leader. It is not unusual for leaders themselves to be or to become moneylenders. Such internal arrangements have the potential to increase pre-existing inequalities in terms of financial access. Indeed, several quantitative studies indicate microfinance clients already have the best access to informal finance (see the example of Thailand (Coleman 2006), Mexico (Morvant-Roux 2006), Bangladesh (Sinha and Matin 1998)). The ambivalence of group lending—flexibility and negotiability but also the reproduction of power relationships—is also highlighted by Susan Johnson (2007) as regards SHGs in Kenya.

Substitution or leverage effect?

Ample literature demonstrates that microfinance does not substitute informal finance. Not only are microfinance clients already well integrated into informal circuits, but several studies point out juggling practices between various sorts of finances and cross-financing:

microfinance is used to pay back the informal, and vice versa (Sinha and Matin 1998; Zeller et al. 2001). In rural Mexico, juggling is rule rather than the exception. Informal lenders are regularly approached for a 'bridging loan' and reciprocally microfinance is partly used to repay them (Morvant-Roux 2006, 2009).

These various studies analyse cross-indebtedness and the coexistence of microfinance and informal finance from a predominantly economic and financial perspective (transaction costs, flexibility, risk). We would add two further arguments.

Firstly, substitution is limited for economic and financial but also social reasons: cutting oneself off from certain sources of indebtedness would amount to social suicide. Exclusive dependence on a single provider is unfeasible—and even more when the provider is a foreign institution. Such dependence would require unlimited confidence in the institution's ability to satisfy all financial needs in the long term. Indebtedness can occur in response to a need, but can also serve to maintain, reinforce or create a social tie. The choice of creditor can partly be explained by the desire to maintain, reinforce or create a bond, sometimes regardless of the cost: for instance, being indebted to an employer or a labour recruiter as a guarantee of getting work; being indebted to a local 'boss' who might be able to facilitate access to various forms of assistance (like governmental programmes); becoming indebted to a itinerant lender because s/he favours loyal clients; or quite simply becoming indebted to maintain a desired link for what it is (and not for what it can bring). Conversely, refusing a loan with *a priori* advantageous terms to avoid dependence is also common practice, particularly amongst certain employers, suppliers or private lenders but also with respect to the entourage or family. Some people prefer to become indebted to a private lender at a higher interest rate rather than 'beg' from family members.

Secondly, it is our hypothesis that in certain contexts and for certain clients, microfinance not only does not substitute the informal, but has a leverage effect and thus increases informal access. Our inquiries in Southern India indicate that clients do not think in terms of substitution, but rather multiplication of finance sources (Guérin et al. 2009a, 2009b). Before microfinance, households juggled with two or three different options; now they have five, six or even more. There is a true leverage effect via various routes:

- The repayment of past debts (depending on the zone and population, this represents between a tenth and a quarter of microcredit use⁹) can lead to contradictory effects. Using microcredit to repay an informal lender can have a substitution effect, but it is often temporary. It also serves to preserve the borrower's reputation and recover jewels or land pledged, allowing him or her to borrow again later from the same creditor.
- Improved creditworthiness among potential creditors. The indirect role of microfinance is confirmed both by SHG members and informal financial providers. Some women say that they remain microfinance clients to maintain creditworthiness *vis à vis* other creditors. Even if amounts are limited compared to what they can obtain elsewhere, some women use their status as a SHG members to convince private lenders. In Orissa, David Mosse (2005) has observed exactly the same phenomenon. SHG loans do not substitute other loans. On the contrary, they improve access to private lenders "by providing a sort of collateral substitute [...] It is enough to show their passbooks in order to be eligible" (Mosse 2005: 213). Some door-to-door moneylenders explicitly state that members of SHGs are privileged clients for two reasons. Firstly, they know that the clients can request a microcredit in the event of

⁹ These figures come from various studies carried out by the French Institut of Pondicherry team in 2006 and 2007, which covered 1395 families, clients of various microfinance organisations, and recipients of 3457 loans.

repayment difficulties; conversely, they know that some SHG members will require their services in order to pay into their obligatory savings or for loan repayment. Other studies conducted in Kerala confirm these findings (Sunil 2005). Some door-to-door lenders even choose to visit the village on the day of the SHG meeting.

- Improved understanding of local financial markets. The financial market is diversified and dynamic. But it is also segmented and opaque. Information circulates through the SHG. (For instance, who are the “good” and the “bad” lenders? What arguments should one use during negotiations?) Women who are accustomed to borrowing and mobile stand as guarantors for others (in the case of door-to-door lenders or pawnbrokers, for example)—thus increasing their access. While such mutual assistance is common in SHGs, repayment obligations and joint responsibility reinforce this type of practice.

Conclusion

The empirical results discussed in this article highlight the limits of the dichotomized approach to informal and formal finance based on economic criteria (transaction costs, risk, interest rates, etc.). The enmeshed relationship between informal and formal financial practices explains, in certain contexts, the overindebtedness of populations who juggle more or less deftly the sources of finance available to them. Understanding this relationships calls for studies that address all facets of finances, not just economic, but cultural political and psychological.

Microfinance practitioners are not totally unaware of these practices. It is not uncommon for MFIs to use ROSCA-style expressions in advertising new products, to name their institution after the village granary, or employ logos that evoke the idea of a “good” community finance institution that does its clients favours and builds relationships between individuals. Conversely, “bad finance” (which is just as community-based) is concurrently vilified, in the

form of “usurers”. Many MFIs have the mission of eradicating this “bad finance”, even when the latter are themselves very good clients of microfinance institutions. This discourse has always resonated amongst decision makers (Bouman 1989) and continues to do so today. For example, the World Bank report *Finance For All* considers financial inclusion as a process that allows for the gradual suppression of informal finance, deemed both inefficient and unfair (World Bank 2007: 66). It is true that certain forms of informal finance are a source of poverty entrapment and servitude. But to truncate informal finance to the usurer or exploitative and greedy landowners is extremely reductive. Moreover, it ignores the questions of social construction, social embeddedness and social meaning of informal finance. The rationale behind the strategy to multiply social and financial relationships and the intense circulation of cash is twofold: to preserve or maintain one’s social identity and share risk.

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