Chapter 2
LITERATURE REVIEW

The literature review focuses and summarises the knowledge of transformation of rural areas and livelihood strategies of agricultural wage workers. The focus has different strategies include household financial practices, indebtedness, rural entrepreneurship and rural-urban linkages.

2.1 Debt in rural South India

From the 1990s, liberalization and privatisation policies led to severe credit rationing, which most severely affected rural areas and poor segments of the population (Ramachandran and Swaminathan, 2005, 2011; Shah, 2007; Shetty 2004). Microfinance raised new promises with its focus on sustainability and discipline, in terms of better-adapted incentives and collateral for the poor (mainly the joint-liability system and the focus on women). These was anticipated to guarantee repayment performance, while strategic partnerships between Self-Help-Groups, banks, NGOs and the government were considered to be an efficient means of lowering transaction costs and ensuring financial sustainability (Ghate, 2007; Hudon 2008). Since the early 2000s, the emergence of “commercial” microfinance financed by private capital gave a boost to the sector (Augsburg & Fouillet 2010). In 2009 around 86.2 million people were estimated to have had access to microfinance services in India (Sa-Dhan, 2009). Here too, however, it seems that quantitative objectives were achieved at the expense of quality. Although the great diversity of the microfinance industry precludes generalization (Armendariz & Labie 2011), a number of studies raise serious doubts about microfinance’s effectiveness and fairness in the Indian context. Subsidized microfinance has been found to act mainly as a substitute for other public expenditure (Rao, 2008) while reproducing caste, class and gender inequalities (Garikipati, 2008; Rao, 2008; Pattenden, 2010). As for commercial microfinance, the crises faced by Andhra Pradesh in 2006 and again in 2009, where dozens of over-indebted clients were driven to the brink of suicide, have highlighted mission drift in the industry, and a shift away from the poor towards increased profitability and commercialisation (Nair 2011; Sriram 2010). Census data indicates that informal debt as a share of
rural households’ outstanding debt significantly dropped from the 1970s to the 1990s (from 61% in 1971 to 36% in 1991) and that it then increased (Shah et al., 2007), albeit with wide variations between states and social groups. Such large-scale surveys probably underestimate the magnitude and diversity of informal debt (Jones, 1994), and various micro-level studies in different parts of rural India estimate levels of 70 to 90%.

Political economy focuses precisely on such questions of power and the broader social environment. While neo-institutional economics investigates the details of the debt transaction in a given framework, political economy examines the historical, social and institutional conditions that have shaped this specific framework, giving central importance to power inequalities. Numerous studies have documented in detail the role of debt in the reproduction of social hierarchies and exploitation, and how debt has evolved over time and adapted to the requirements of contemporary Indian capitalism. Political economy also sheds light on the diversity of the relations through which access is obtained to credit and on the role of social institutions in the emergence and continuous renewal of financial arrangements (Bouman, 1977, 1995; Bouman and Hospes, 1994; Servet, 1995, 2006). Financial arrangements are not analyzed in isolation, but in relation to changing legal-institutional, social-economic and agro-ecological environments. The main finding of this stream of literature is the differentiation and fragmentation of debt along various lines such as gender (Johnson, 2004), social relationships (Morvant-Roux 2009), age and education (Johnson and Nino-Zarazua 2011), localization and agro-ecological conditions (Johnson and Nino-Zarazua 2011; Bouman and Hospes, 1994; Lont and Hospes, 2004) and political systems (Tsai, 2004). In rural South India, it has been observed that debt fragmentation takes place along caste, class and gender lines (Harriss-White, 1996; Harriss-White and Colatei, 2004). This results in inequalities of access and use of debt, which have increased with the financial liberalization of the past two decades (Ramachandran and Swaminathan, 2005, 2010). It is also found that the outcomes of rural credit policies depend heavily on the structure of power in an agrarian society and the ways that financial and other exchange relations reflect that power (Copestake 1996).

Economic anthropology analyses debt in terms of social relationships and
examines the social meaning of debt. Painstaking ethnographies show that individuals often accumulate debt and credit and repay loans in accordance with their own informal hierarchies and calculation frameworks (Akin & Robbins 1999; Bloch and Parry 1989; Guérin et al. 2011a, 2011b; Morvant-Roux, 2009; Shipton 2007; Servet 2006; Zelizer 1994; Villarreal 2004). Such phenomena transcend material or self-centred motivations and reflect questions of status, honour, power, and individual as well as group identity. An important lesson from political economy and economic anthropology is to approach formal and informal finance along a continuum rather than to view them as distinctive spheres. The dualistic view of formal versus informal finance violates the empirical diversity of financial landscapes, which are “chameleon-like and kaleidoscopic in nature, catering to every taste, purse and preference” (Bouman, 1994: 6). Debt is not segmented into “formal” or “informal” practices but fragmented, in the sense that formal and informal debt is interrelated, with contagion, imitation and competition between one another.

2.2 Debt in rural household

High levels of indebtedness amongst Indian rural households have long been a matter of concern. Official British field reports regularly express surprise and concern about high levels of debt in villages (Breman 2007; Cederlöf 1997; Hardiman 1996). Many Christian missions have also sought to encourage the poor to save and to get out of chronic debt (Cederlöf 1997). While “financial inclusion” policies (i.e. policies aiming at providing formal financial services to all) are at now central to the political agendas of Indian public policy makers (Garikipati 2008), private stakeholders such as NGOs and banks (Srinivasan 2009), and international organisations (World Bank 2007), this concern remains extremely pressing. Tragic cases of Indian cotton producers being condemned to despair, and sometimes suicide, over unmanageable debts are well known (Government of India 2007; Mohanty 2005).

More recently, microfinance client over-indebtedness has also been highlighted. In various areas of Andhra Pradesh and Karnataka, it has been reported that thousands of clients have become trapped in vicious cycles of cross-debt from multiple microfinance institutions, which has led to worrying problems of extreme
financial vulnerability and some times suicide. There are others forms of over-indebtedness, examining the daily indebtedness of poor rural households in Tamil Nadu. Debt does not necessarily lead to the dramatic situations observed amongst cotton farmers or microfinance clients, but it can be nevertheless a source of impoverishment, pauperization and dependency. National sample survey data indicates that Tamil Nadu is one of the states where household debt is the highest (NSSO 2003). Over the second half of the last century, debt sources have evolved and diversified. “Traditional” forms of rural debt based around extreme dependency between landlords and labour are fading away (Cederlöf 1997; Marius-Gnanou 1993), as also observed in other parts of India (Breman 1974; Breman et al. 2009). Labourers now have a wide range of borrowing options. Empirical studies in the early 1980s highlighted the dynamism and diversification of the rural financial landscape (Bouman 1989; Harriss 1981). In rural Tamil Nadu for instance, professional lending, which had historically been the preserve of specific castes, has opened up to other communities. Many local elites also used their cash surpluses to invest as loans (Harriss 1981). More recent studies underline that the ongoing diversification of Tamil Nadu’s rural financial landscape is still going on (Ramachandran and Swaminathan 2005; Polzin 2009). Indian microfinance, having long been overshadowed by its Bangladeshi neighbour, has been growing exponentially since the 2000s. Tamil Nadu is, moreover, one of the states where microfinance has developed the most (Fouillet 2009). In March 2010, it was estimated that Tamil Nadu state had 12,641,706 clients (Sa-Dhan 2009), with a penetration rate ranging from 0 to 20 per cent (Fouillet 2009). On the demand side, even if inequalities remain remarkably intractable (Harriss-White and Janakarajan 2004), the poorest and lowest castes are expressing a growing desire for social mobility.

In Tamil Nadu, the increased importance of non-agricultural income and the implementation of wide set of social policy measures have clearly contributed to this (Harriss-White and Colatei2004; Djurfeld et al. 2008; Vijayabaskar et al. 2004). Such desire for social mobility creates an increasing culture of consumerism, including in rural areas (Kapadia 2002). This is incited and perpetuated through massive advertising campaigns (largely through television), and facilitated by urban commuting and public welfare policies (such as
bringing electricity to the countryside and the distribution of free televisions). Consumerism brings about genuine social competition between households and communities (Kapadia 2002). These social mobility aspirations serve to loosen and reconfigure ancient bonds of dependence, or at least alter expectations, bringing about the desire for a better position within existing local hierarchies (Djurfeldt et al. 2008; De Neve 2005; Heyer 2010; Gorringer 2010).

It is in such a context of socioeconomic and political change that debt relationships should be analysed. One of the hypothesis is that debt and over-indebtedness are both shaped by and constitutive of these changes. Consumerism creates norms, which many households are willing to follow without having the financial means to do so (the “paradox of aspiration” raised by Thorstein Veblen and also observed by Olsen and Morgan (2010) in Andhra Pradesh). Households are borrowing on a daily basis at slack financial times to make ends meet. They also borrow considerable amounts to marry their children, renovate their houses or invest in private education. Different research data shows that debt servicing takes up around half of their monthly income on average.

In Tamil Nadu traditional forms of patronage based on debt and extreme dependency are now fading away. On the one hand, the need for manual and permanent labour has considerably reduced with the development of capitalist forms of agriculture (Harriss-White 1996). Landowners are also increasingly likely to abandon agriculture to turn to urban activities. Moreover, landless labourers and marginal farmers have now increased access to non-agricultural labour (Djurfeldt et al. 2008; Harriss-White and Janakarajan 2004). A loosening of bonds of dependence has also been favoured by policy interventions based on affirmative action (Harriss-White and Janakarajan 2004; Heyer 2010) and in some areas by the growing political power of the low and middle caste (De Neve 2005; Harriss, J. 1999; Heyer 2010). Although it is likely that dependence bonds and hierarchy have always been contested, the poor now have a broader range of choices and opportunities to do so.

The issue of formality – whether or not debt transactions are recorded and debt providers registered as legal financial entities – is at the heart of the argument. This debate has been particularly important for India, from the ‘colonial obsession with debt’ (Hill, 1982) up to current policies of ‘financial inclusion’ (Srinivasan, 2009).
Although numerous rural credit policies have been implemented for over a century, rural Indian households in particular still largely depend on informal debt. As pointed out by Harriss-White and Colatei (2004), Indian rural credit policies have always been double-faced. On the one hand, efforts for the expansion and consolidation of the institutional infrastructure of rural banking – qualified as ‘unparalleled in financial history’ (Shetty, 1997) have led to the largest rural banking networks in the world (Tsai, 2004). These networks have helped to promote agricultural innovation and the green revolution, to push back informal finance and to raise rural deposits. They have however been criticised for servicing mostly the rural elite and for high administrative costs, poor recovery rates and weak governance (Shetty, 1997; Ramachandran and Swaminathan, 2005a).

The most well known example of an anti-poverty subsidised credit programme is the Integrated Rural Development Programme (IRDP), which was set up in the 1980s and 1990s. IRDP did lead to a significant transfer of funds to the rural poor (Chavan, 2007; Ramachandran and Swaminathan 2005a) but remains highly criticised because of low repayment rates, poor targeting and widespread corruption (Copestake, 1996; Dreze, 1990). From the 1990s, liberalisation and privatisation policies led to severe credit rationing among Indian rural households affecting mostly the already poor and marginalised categories (Ramachandran and Swaminathan, 2011; Shah, 2007; Shetty, 2004) and Dalits in particular (Chavan, 2007). Microfinance raised new promises with its focus on sustainability and discipline, better-adapted incentives and collateral for the poor illustrated by the joint-liability system and the focus on women (Ghate, 2007; Hudon, 2008). Since the early 2000s, the emergence of ‘commercial’ microfinance financed by private capital gave a boost to the sector (Augsburg and Fouillet, 2010). In 2009 around 86.2 million people were estimated to have access to microfinance services in India (Sa-Dhan, 2009). However, not only the share of microfinance in aggregate rural credit remains negligible, but it seems that quantitative objectives were achieved at the expense of quality. Although the great diversity of the microfinance industry precludes generalisation (Armendariz and Labie, 2011; Servet, 2006), a number of studies raise serious doubts about microfinance’s effectiveness in the Indian context. Subsidised microfinance has been found to act mainly as a substitute for other public expenditures (Rao, 2008) while reproducing caste, class and gender inequalities (Garikipati, 2008; Pattenden, 2010).
As for commercial microfinance, the crises faced by Andhra Pradesh in 2006 and again in 2009, where dozens of over-indebted clients were driven to the brink of suicide, have highlighted a shift away from the poor towards increased profitability and commercialisation, the so-called issue of mission drift (Nair, 2011; Sriram, 2010).

2.3 Financial practises

In both northern and southern countries, intra-household management systems have been the subject of numerous studies over the past three decades. Economists, sociologists and anthropologists have studied diversity of management systems and diversity of financial practices (which we define as who earns money? Who spends and for what purpose? Who controls money?). Among other issues (it is of course difficult to encapsulate the richness of the whole body of these works), two principle questions emerge. The first question relates to such management itself, addressing how individuals’ incomes are shared, centralized or conversely, how they are separately managed. Such analyses have shown the existence of a diversity of management systems (for instance “pooling system”, “allowance system”, “independent system”, “doling out system”, etc.) (In economics, see for example Kabeer [1995, 1997], Johnson [2004]. In anthropology, see for example Guyer [1995], Guyer and Peter [1987]. In sociology, see for example Pahl [1989, 2000], Vogler [1998], Zelizer [1994, 2005]. For an interdisciplinary collective work, see Bruce and Dwyer [1988], Burgoyne [2008].) The second question addresses the potential implications of these practices for individual and family welfare. With regards to women welfare, one of the most persistent findings is the striking disparities between men and in terms of the control and access to money. As rightly pointed out by Jan Pahl [1989], three components of income flows within households should clearly be distinguished: access (who earns what and how much?), control (who decides to allocate what income to which expense) and finally spending (which can be only an executive function). Beyond the question of control (the outcome of which varies depending on the sociocultural context, social setting and position of women in the life cycle), the subjective factors of female income appear to be a persistent reality: in numerous cases women's incomes are underestimated, with the notion of a "top-up" salary proving remarkably persistent. As for family wellbeing, numerous and widely diverse studies (from large scale econometric analyses to far more qualitative and anthropological approaches) have demonstrated
gendered use of incomes, their indispensability and a certain "feminine altruism". While explanations for this vary depending on authors and theoretical trends, empirical data converges on the point that women tend to allocate a greater proportion of their income to daily family subsistence. (See for instance Chant [1985]; Kabeer [1997]; Haddad et Hoddinod [1995]; Grasmuck et Espinal [2000]; Mencher [1988]; Lachaud [1998]; Lundberg et Pollack [1994]; Pahl [1989]; Senauer [1990]; Thomas [1990].)

### 2.4 Formal finances

The microfinance industry is becoming increasingly concerned by the nature of its social impact. Even though microfinance is still considered as an important instrument for anti-poverty policies, there is growing consensus among microfinance practitioners and donors that financial performances do not automatically correspond with positive impacts. More generally, the issue of household financial vulnerability (which is a specific form of social impact) is a matter of concern. The worry is that microfinance (and microcredit in particular) might leave some people worse off by pushing them into debt beyond their repayment capacities (Hulme 2007).

Impact studies focused on financial vulnerability provides mixed picture. On the one hand, various studies provide significant evidence of how microfinance services help their clients to protect themselves against risk, to develop income-generating activities and, more broadly, to exploit opportunities and to cope with economic losses (Armendariz & Morduch 2005; Bouquet et al. 2009; Collins et al. 2009; Sebstad & Cohen 2000). On the other hand, some studies argue that microfinance might lead to contrary effects, especially for the most vulnerable (Dichter & Harper 2007; Mosley & Hulme 1998; Mosley 2001). Because of their greater needs for consumption loans, their greater vulnerability to asset sales forced by adverse income shocks and their limited range of investments, the most vulnerable households may not be able to use microfinance efficiently (Mosley 2001).

Similar controversies can be found in India. The Indian microfinance sector has developed considerably over the past decade, both in scale and institutional diversity (Ghate 2007; Srinivasan 2009). The number of microfinance clients in
2008 is estimated to have been around 55 million, with an annual growth rate (in terms of number of customers) of approximately 10% (Srinivasan 2009). Indian microfinance can be distinguished from other countries in various respects: the importance of the Self-Help Group model, still dominant today, a focus on rural areas and a concentration in the south of the country. These three aspects are presently diminishing in importance, but nevertheless represent an important feature of the microfinance landscape. It is also worthwhile noting that the provision of services to the rural poor is not new: India has a long history of credit schemes and credit institutions entirely devoted to rural areas, also for the poor. However, the inefficiency of rural credit institutions and government schemes (very poor recovery rates, poor targeting) has been documented at length. Since the 1990s, liberalization measures have broadened the extent of credit rationing, rural areas and poor segments of the population being the most severely affected (Copestake, 1988; Ramachandran and Swaminathan, 2005; Shetty 2004). With a focus on sustainability and discipline, microfinance raises new promises (Garikapati 2008; Rao 2008): incentives and collaterals better adapted to the poor (mainly the joint liability system and the focus on women) are expected to ensure repayment performance, while strategic partnerships (mainly between banks and NGOs) are considered to be an efficient means of lowering transaction costs and ensuring financial sustainability (Ghate 2007; Seibel & Khadka 2002).

In practice it is impossible to dissociate the social and economical implications of debt as accumulation and impoverishment have a lot to do with social relations. One might think that financial vulnerability is primarily due to "unproductive" expenditures. This has been recently challenged by Collins et al. (2009). The distinction between "productive" and "unproductive" expenses is seen to have little meaning. First, there is now a consensus that poverty is multidimensional. Being poor means not only being unable to fulfil physiological and material needs but also social needs (Sen 1984). A social need, Amartya Sen suggests, means being able to participate in social life "without shame": in some contexts a television might be the minimum standard, while elsewhere it will be a herd of cows (or both). When people do not have the monetary means to access these needs (physiological or social), there are two options: privation or debt (when credit is available). Second, spending in order to maintain or enhance one's
productive capacity has now been recognized as a very productive expenditure (Strauss & Thomas 1995). Social needs have an intrinsic as well as an instrumental value (Sen 1984): renovating one's house helps to cope with environmental hazards, but it may also attract a better groom for the daughter; participation in religious festivals might be a source of pleasure and may strengthen self-esteem, but it is also a way to improve one's reputation and therefore the social support of the community, etc.

2.5 Informal financial practises

Data from the All India Debt and Investment Surveys indicates that informal debt as a share of rural households’ outstanding debt significantly dropped from the 1970s to the 1990s (from 61% in 1971 to 36% in 1991) but then increased again (Shah et al., 2007). Such large-scale surveys probably even underestimate the magnitude and diversity of informal debt (Jones, 1994). Various micro-level studies in different parts of rural India estimate levels of 70 per cent to 90 per cent. In our own study, informal debt represents almost 80 per cent of outstanding debt. The ‘rural credit problem’ – the term is from Ramachandran and Swaminathan (2005a: xxii) – has been widely discussed over the last five decades in India. Various analyses have been looking at the evolution and the dynamics of the Indian rural financial landscape, pointing out the persistence of informal debt, its resurgence after the liberalisation period and the various ways through which financial arrangements reflect broader inequalities.

Various studies outside rural India also shed light on the role of social institutions in the emergence and continuous renewal of financial arrangements. The latter are not analysed in isolation, but in relation to changing legal-institutional, social-economic and agro-ecological environments (Bouman, 1994; Bouman and Hospes, 1994; Servet, 2006). This suggests that financial markets are not the simple intersection of supply and demand, but are primarily socially regulated, as Harriss-White (2003) argues. The social structures of regulation include the personalisation of transactions Bhaduri emphasises (1973, 1977), which are differentiated along various lines such as gender (Johnson, 2004), social ties (Morvant-Roux, 2009), age and education (Johnson and Nino-Zarazua, 2011), localisation and agro-ecological
conditions (Johnson and Nino-Zarazua, 2011; Bouman and Hospes, 1994; Lont and Hospes, 2004) and political systems (Tsai, 2004).

By contrast with a segmented market, which describes a process of specialisation between products, a market is fragmented when risks and prices are not comparable between market segments (Aryeetey et al., 1997; Johnson, 2005). An important lesson from political economy is that formal and informal debt are not considered as separated but rather interrelated, with contagion, imitation and competition between one another (Bouman and Hospes, 1994). At the same time, informal debt includes a wide diversity of financial arrangements that need to be studied separately because there are no perfect substitutes (Guerin et al., 2012). Economic anthropology provides further insights on the debt issue by focusing on the social meaning of debt. Painstaking ethnographies show that the social meaning of debt – how debt impacts status, reputation and hierarchies – is important especially in rural areas. Debt reflects status, honour, power, and individual as well as group identity.5 Depending on the set of rights and obligations that link debtors and creditors, lending and borrowing may be a mark of respect, a source of honour and distinction, or conversely a source of humiliation and shame (Shipton, 2007; Villarreal, 2009).

2.6 Rural credit market

Participation in credit markets can allow household to alleviate their liquidity constraints. However rural credit markets is characterised by the phenomenon of rationing which can also cause liquidity constraints for households. Calomiris and Longhofer (2008) define rationing as “a situation in which lenders are unwilling to advance additional funds to borrowers at the prevailing market interest rate”. According to this definition, rationing is a phenomenon which emerges from supply side (credit restriction, credit refusal…) and related to information asymmetries between households and credit institutions (Stiglitz and Weiss, 1981). Rationing can also emerge from demand side when households take into account their risk aversion, transaction costs (credit application) in their decision to participate or not in the credit markets (Boucher and Guirkinger, 2007; Conning and Udry, 2007; Guirkinger, 2008). Rationing increase households liquidity constraints and this may have effect on their tenancy market participation.
Theoretically, households’ liquidity constraints can have different effects on their tenancy market participation. On the supply side, landowners who faced urgent need of liquidity may require a fixed-rent with an ex-ante payment of the rent. When liquidity constrains is related to the financing of production costs, landowners can seek for a rich tenant (reverse tenancy). On the demand side, liquidity constraints make fixe-rent contract difficult to have for poor households. Sharecropping with cost sharing can help both landowner and tenant overcome some liquidity constraints (Braverman and Guasch, 1986; Eswaran and Kotwal, 1986; Shetty, 1988; Basu, 1995; Deininger, 2003).

2.7 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 (Gayer 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 relations relationships of rights and obligations, which it can influence but never destroy.

2.8 Social dimension of finance

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).

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.
2.9 Microfinance impacts

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).

As many authors argue, commercialization might lead to a ‘mission drift’, where MFIs turn to more profitable customers, that is. mainly urban, upper poor, and male (Christen, 2001; Copestake, 2007; Cull et al., 2008; Dichter and Harper, 2007). Others argue that female targeting and financial sustainability are perfectly compatible, since female targeting within microfinance has often been attributed to increased efficiency through high female repayment rates (Armendariz and Morduch, 2005; Mayoux, 1999). Although the win-win principle, that is, microfinance being profitable while still targeting the poor, is often heard in this respect, it remains highly contested (Balkenhol, 2007; Morduch, 1999).

In sum, the link between female targeting and microfinance performance is highly controversial. Some fear that female targeting might not be profitable enough and might lead to female exclusion. Others argue that microfinance would instrumentalize women by using their discipline and docility to ensure good repayment rates and therefore increased profitability (Fernando, 2006; Molyneux, 2002; Rankin, 2002). These two counterarguments might not even be contradictory: they simply reflect the fact that profitability is both a matter of repayment and costs and it is likely that female targeting has contrasting effects on each aspect.

2.10 Gender and repayment

The relation between gender and repayment has been analyzed in a number of studies. However, the evidence is mixed and usually anecdotic or very limited in geographical and/or institutional scope. On the one hand, a number of studies find that
women consistently outperform men in terms of repayment. For instance, Armendariz and Morduch (2005) report that in its initial faze the Grameen Bank also included men as customers. However, the bank decided to move over to a nearly full concentration on women due to repayment problems related to male customers. In a first empirical investigation, Hossain (1988) reports that in Bangladesh 81 % of women encountered no repayment problems compared to 74 % of men. Similarly, Khandker, Khalily and Kahn (1995) find that 15.3 % of Grameen’s male borrowers had repayment problems compared to only 1.3 % of the women. Also from Bangladesh, Sharma and Zeller (1997) report that credit groups with higher percentage of women had significantly better repayment rates. From Malawi, Hulme (1991) reports that 92 % of women pay on time, compared to 83 % for men, and Gibbons and Kasim (1991) find that in Malaysia (1990). 95 % of women repay their loans compared to 72 % of the men. Finally, in a study from Guatemala Kevane and Wydick (2001) report that female credit groups performed better than male groups.

On the other hand, a number of studies find that there is no significant relation between gender and repayment. In Bangladesh, the analysis carried out by Godquin (2004) shows that correlation between gender and repayment is positive but not significant after controlling for a number of MFI-specific effects. In a study reporting from four of the oldest microfinance programs in the US Bhatt and Tang (2002) find that gender is in fact not a significant determinant for loan repayment. The work done in Ethiopia by Brehau and Fufa (2008) leads to similar conclusions. Finally, BRI, a most reputed MFI in Indonesia, has never had any specific focus on women, but still it has achieved nearly perfect repayment rates over several years (Aghion and Morduch, 2005: 139). So in spite of popular belief, perhaps the women repayment argument is not as clear cut as promoters seem to believe

When it comes to theory, a number of arguments have been put forward to explain gender-differences with respect to repayment rates (Armendariz and Morduch, 2005). For instance, based upon her experience in Grameen-villages in Bangladesh, Todd (1996) argues that women are more conservative or cautious in their investment strategies, and therefore have better repayment records. Also from
Bangladesh, Rahman (2001) and Goetz and Gupta (1996) argue that women are more easily influenced by peer-pressure and the interventions of the loan-managers. For matters pertaining to reputation and honor, women are believed to be more sensitive to verbal hostility on the part of the loan-manager, while men are able to default with a sense of impunity.

Another argument put forward is that female customers tend to stay closer to their homes rather than going out to work. They can therefore be more easily monitored and followed up by the MFI (Aghion and Morduch, 2005; Goetz and Gupta, 1996). Aghion and Morduch (2005) also argue that since men can more easily access credit in other formal or informal channels, women have more at stake when enrolling in a credit-program. They thus have to repay to ensure continued access to credit. Ameen (2004) argues that women have a lower opportunity cost of time than men making their time less valuable than for their male-counterparts. As a result, they are more inclined to have more contact with the MFI (including group-meetings, meetings with loan-officers) which altogether has a positive impact on their repayment. Goetz and Gupta (1996) suggest that women may have a higher incentive than men for loan repayment since it allows them to retain access to village groups, whereas men have many more opportunities for social contact.

However, theoretical counter-arguments of women being better credit risk can also be put forward. For instance, Philips and Bhatia-Panthaki (2007) argue that women entrepreneurs tend to be over-represented in traditional sectors with relatively lower profits, fewer growth opportunities and harsher competition. This should make them less able to honour credit contracts. Somewhat in line with this argument, various studies point out that many women borrowers don’t have any control over their own microcredit: loans are in fact used and controlled by men within the household (Goetz and Gupta, 1996; Rahman, 1999; Kabeer, 2001; Mayoux, 2001; Montgomery, 1996). This could have a negative impact on women repayment-rates. The previous discussion shows that the relation between gender and repayment remains largely unresolved. Based upon the arguments put forward in the above literature review we propose the following main hypothesis:
2.11 Women and repayment in formal and informal finances

Microfinance, financial services tailored for poor people, has been celebrated for its ability to reach out to women and enhance their welfare. From the starting point of experimental schemes in Asia and Latin America in the 1970ties microfinance has been above all a matter of women. Even today, the gender argument continues to be at the forefront. The objective of the Microcredit Summit Campaign, which plays a central role in the promotion of microfinance, is “to ensure that 175 million of the world’s poorest families, especially women, receive credit for self-employment and other financial and business services” [our emphasis]². When the Nobel Prize was awarded to Mohammad Yunus and the Grameen Bank the Nobel committee highlighted the role of microcredit in women liberation (Norwegian Nobel Committee, 2006).

Among many Morduch (1999) argues that one of the main reasons for the success of microfinance in the public eye is because the targeting of women. Indeed, Micro Finance Institutions (MFIs) do target women. In this study’s dataset covering 350 MFIs from 70 countries women represent 73% of microfinance customers on average. This figure is close to what has been found in previous literature (see for instance Cull et al., 2007; Daley-Harriss 2007: among others).

Another strong appeal of microfinance is the success of achieving high repayment records. From an historical perspective this is not surprising. After all, modern microfinance was born as a response to the frustrated development resulting from subsidised rural credit in the 1950s-1980s. For example, Hulme and Mosley (1997) report default rates of up to half the loan amount on small loans in Indian state banks in the late 1980’s. In addition to the use of group collateral (Ghatak and Guinnane, 1999) and dynamic incentives like sequential loans (Aghion and Morduch, 2003), the targeting of women has been put forward as a main determinant of microcredit repayment. In this paper we test this assertion empirically: Do MFIs targeting women experience higher repayment rates than other MFIs

The assertion of women being good credit risks is regularly put forward by microfinance advocacy networks and sponsors. For example ever since its first
report in 1997 the Microcredit Summit reports that “women are consistently better in promptness and reliability in payment” (Result, 1997: 8). The argument is repeatedly taken up by bilateral and multilateral development aid agencies, including the World Bank “[…] experience has shown that repayment is higher among female borrowers, mostly due to more conservative investments and lower moral hazard risk” (World Bank, 2007: 124). Armendariz and Morduch (2005: 139 sq), when they assess the different techniques to reduce repayment defaults, consider targeting women as a technique in its own right alongside group lending or dynamic incentives.

Strangely, the question of the link between the efficiency of the MFI and the targeting of women has barely been rigorously studied and the existing empirical evidence is mixed. Sponsors seem to evoke the repayment argument without ever furnishing it with empirical evidence. Beside a lot of anecdotic evidence as well as the analysis of one or two MFIs in a given country (see for instance Khandker, Khalily and Kahn, 1995 in Bangladesh or Kevane and Wydick, 2001 in Guatemala) no paper of which we know has provided a detailed empirical analysis of the gender-repayment issue within an international and longitudinal context

2.12 Microfinance

Microfinance owes its success in the media to its supposed capacity to help the poor create or increase “income-generating activities” and thus to step out of poverty. In short, it is seen as enough to lend a few hundred Euros to the poor to enable them to develop their entrepreneurial potential. It is on this assumption of “popular capitalism” (developed in particular by the Peruvian Fernando De Soto) that Mr. Yunus, founder of the Grameen Bank, justifies his vision of development in general and of microcredit in particular (Yunus 2007). He states that the premise of microcredit is that the poor have enormous creative power to successfully fight the challenge of poverty, provided however that we help them to utilize their skills. By extending small loans, microcredit helps the poor unleash their energy and skills and overcome poverty.

Microfinance is by no means a new idea, although has been very widely covered in the media over the past two decades. In India in particular, there is a long history of credit schemes, as well as credit institutions entirely devoted to rural areas,
aiming to help diversify rural economies and household livelihood. However the inefficiency of rural credit institutions and government schemes (poor debt recovery rates and poor targeting) has also been documented in depth. Since the 1990s, liberalization measures have led to credit rationing, which has most severely affected rural areas and poor segments of the population (Copestake, 1988; Ramachandran and Swaminathan, 2005; Shetty 2004). Microfinance promises new things by way of its focus on sustainability and discipline (Garikapati 2008; Rao 2008; Shah et al. 2007). Specifically, it promises incentives and collaterals that are better adapted to the poor (mainly a joint-liability system and the focus on women). It also expects to ensure repayment performance, while strategic partnerships between mainly banks and NGOs are viewed as an efficient tool for lowering transaction costs and ensuring financial sustainability (Ghate 2007; Seibel & Khadka 2002).

2.13 Women-led monetary and financial circuits and practices

Georg Simmel, and others before him such as Karl Marx or Max Weber, described forcefully and with precision how the use of money, by measuring all things with a single measure, not only abolishes hierarchy and statutory privileges, but also dissolves social bonds and founds a society based on calculation and cold rationality. However through the analysis of monetary practices, the conception of money as impersonal and anonymous in nature, ultimately appears as an illusion. The functional and security aspects of money are very real. Beyond giving the possibility to access goods and services, the possession of money allows a completely different type of relation to time: anticipation and projection into the future are henceforth possible. Keynes [1969, p. 295]. Nevertheless, it is essential to take into account the social significance and social implications of money. Money, and particularly the use to which it is put, is above all a social construction, overlying pre-existing relations of rights and obligations upon which it can impact but not dismantle. Going back to Viviana Zelizer’s [2005] position, we are making the assumption that transactions and monetary and financial practices are at the core of the permanent tension between conflict and cooperation that punctuates family relations.
2.14 Saving and credit

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).

Various schools of thought, each with their own rationales, definitions and objectives, have tried to unravel the determinants for financial services (Johnson, 2005). For instance, neo-classical economics focus on economic efficiency, collateral, transaction and information costs. Households are seen to opt for informal credit because they lack of access to formal credit (credit rationing), or because they can lower transaction and information costs, since procedures are usually simpler and faster for informal credit.

On the other hand, economical anthropology highlights the social meaning of debt. People often accumulate debt and credit and repay loans according to their own informal hierarchies and frameworks of calculation (Bouman & Hospes 1994; Guérin, 2006; Morvant-Roux, 2006; Bloch & Parry 1989; Servet, 2006; Shipton, 2007; Zelizer, 1994; Villarreal, 2004). Such phenomena transcend material or self-centred motivations and reflect issues of status, honour, power, and individual as well as group-identity. Money is not entirely fungible: it is “earmarked” in the sense that different sources serve varied purposes, and it is argued that moral factors are instrumental in compartmentalizing money uses (Shipton 2007; Bloch & Parry 1989; Zelizer 1994). Along the same lines, political economy sheds light on the social regulation of finance, by looking at how institutions such as gender, caste or ethnicity shape the demand for and the access to financial services (Johnson, 2004; Harriss-White, 1994). Other studies that focus on operational issues and do not refer to any specific school of thought, have shed light on various other debt-characteristics such as negotiability and flexibility (Rutherford, 2001; Collins et al., 2009; Johnson, 2007; Schreiner and Vonderlack, 2001), reliability (Bouman, 1989; Collins et al., 2009), discretion and anonymity (Schreiner and Vonderlack, 2001), structure and self-discipline (Collins et al., 2009; Schreiner and Vonderlack, 2001).
Looking at formal and informal finance as a continuum rather than distinctive spheres is another important lesson from political economy and economical anthropology. As suggested by Bouman, the dualistic view violates the empirical diversity of financial landscapes, which are “chameleon-like and kaleidoscopic in nature, catering to every taste, purse and preference” (Bouman, 1994, p. 7-6). In India in particular, various studies have emphasized the dynamism but also the diversity of Indian informal finance and highlighted both its strengths and weaknesses (Collins et al., 2009; Harriss-White, 1994; Bouman, 1989). Drawing on these theories, our purpose is to focus on the differentiation of borrowing practices according to how the money is used. In line with economical anthropology, we find a continuum of local financial arrangements and a compartmentalization of borrowing uses. The observations suggest that economical criteria certainly matter. However the cost/benefit framework used by neo-classical economics is too narrow and does not allow capturing the diversity of criteria and rationales underlying borrowing practices and borrowing strategies.

2.15 Financial services:

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 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.

2.16 Land and financial capacities

Land and financial capacities are critical inputs for agricultural production and income of rural households in developing countries (Deininger and Feder, 2001; World-Bank, 2007; Demirgüç-Kunt et al., 2008). Land and credit markets are often dealt with separately in the literature on development economics, although empirical data on household strategies and behaviours indicate that land and finance interact in many ways. This article sets out to explore the interaction between these two markets based on original household data collected in Madagascar.

Credit markets imperfections cause differential access to credit for households. This differential access to credit may have different effects on how individuals participate in tenancy market (Bardhan, 1980; Braverman and Stiglitz, 1982; Deininger and Feder, 2001): restrictions on contractual choice (it might be difficult for poor households to rent in land with ex-ante payment of the rent), interlinked contracts (landowner may provide credit to tenant who faced liquidity constraints in the financing of production costs), distress rent (credit markets imperfections may influence the insurance mechanisms of tenancy market).

Liquidity constraints can influence the tenancy market participation of “Constrained Households” and tenancy can allow them to overcome liquidity constraints some of which derive from credit market imperfection. These strategies can be an institutional response to credit markets imperfections (Bardhan, 1991).

Households’ participation in tenancy market can be influenced by a set of factors (Holden et al., 2009). For some authors, it can be motivated by an
adjustment to the land and labour endowments. Household who have small areas compared to their labour force can be motivated to increase their farmed areas or rent the surplus labour on the labour market. On the other side, those who have important land areas compared to their labour force, can lease out all or a part of their land in the tenancy market or seek for hired labour (Otsuka et al., 1992).

Another factor that may also affect household participation in the tenancy market is the availability of factors other than land and labour: oxen, productive assets... For Skoufias (1995), the key element of all models on factor endowments is that the costs associated with transactions involving these factors are such that they lead to imperfections or lack of markets on these factors. Household who participate in tenancy market may solve this problem by looking for a partner who has the assets he don’t have (Eswaran and Kotwal, 1985). Credit (and insurance) market imperfections can lead household to have different access to credit market and then to tenancy markets (Eswaran and Kotwal, 1986). Interlinked contracts where transactions concerns credit and land is often related to an opportunity for landlord to internalise externalities generated by moral hazard considerations when production uncertainty and information asymmetries between agents prevail (Bardhan, 1980; Braverman and Guasch, 1986; Eswaran and Kotwal, 1986; Shetty, 1988; Swain, 1999). This view is derived form only landowner point of view. On the demand side, interlinked contracts can be an opportunity to solve the liquidity constraints he faced.

For Holden et al (2009: 22): “A broader perspective on land market participation takes into account trust, reputation, and availability of potential partners (landlords and tenants) in assessing the functioning of the market. If the initial fixed costs for farming are high, this may also contribute to a land market entry barrier. Likewise, transaction cost related to search for partners, negotiation, monitoring, and enforcement of contract can hinder and reduce the degree of participation.”

On contractual choice: sharecropping versus fixed-rent contracts In the literature on tenancy markets, sharecropping is often presented as an inefficient mode of production (Marshall, 1920). In considering others factors such as risk, transaction costs, market imperfections, neo institutional theories provide an
analytical framework for the analysis of contractual choice.

The risk aversion of households can affect their contractual choices. Risk adverse households may prefer a share contract than a lease contract because in lease contract only landowner or tenant bear all the production. In share tenancy contract, output sharing permit to deal the production risk between the landlord and the tenant (Stiglitz, 1974; Allen and Lueck, 1995). Differences in factors endowment (indivisible assets, mechanization, land and family labour) of household and their characteristics (managerial ability, access to credit) may lead household to choose share tenancy contract (resource pooling) in order to have access to the factors they don’t have. The others households who would enhance their skills may choose fixed-rent contracts (Eswaran and Kotwal, 1985; Shetty, 1988; Skoufias, 1995).

Tenure security can be also a potential determinant of households' participation. Household in many studies consider fixed-rent more riskier than sharecropping contract (Bellemare, 2008; Macours et al., 2010)

Some transaction costs may result from the monitoring of hired labour. Information asymmetries about hired labour and labour market imperfections may increase transaction costs in looking for skilled hired labour (Eswaran and Kotwal, 1986; Otsuka et al., 1992; Deininger, 2003). When they might be too high, landowners are more likely to choose a share tenancy contract than a process of production with hired labour (Murrell, 1983; Allen and Lueck, 1993). Landowners may also rent out their land but this can lead to an overexploitation of land quality (Dubois, 1999).

Another factor that may affect contractual choice is liquidity constraints. In this case, sharecropping is rarely seen as the result of financial constraints (lack of access to credit and low accumulation) faced by the tenants or owners. Indeed, in these circumstances a fixed-rent contract with an ex-ante payment of the rent is excluded and individuals are thus more likely to engage in sharecropping contracts, while better-off tenants can seek for fixed-rent contract (Colin, 2005).
2.17 Household assets

More generally, the consequences and significance of debt should be viewed in a more holistic perspective that takes into account all the strategies for managing vulnerability and assets. The “asset vulnerability framework” designed by Caroline Moser (1998) is well adapted to our purpose. The asset vulnerability framework is based on the following arguments. First, vulnerability is a dynamic concept: in contrast to poverty (which is usually a measure fixed in time), vulnerability captures processes of change. Second, vulnerability is closely linked to asset ownership. Of course the amount of assets matter (the more assets people have, the less vulnerable they are, and conversely). However more than the amount of assets as such, it is the combination and the ways in which they are used which determine vulnerability: how people combine these assets and find the right “mix” (Moser 1998: 16; see also Villarreal 2004). Third, the definition of assets is a broad one, including a vast range of tangible as well as intangible assets. Tangible assets include labour (how people are able to mobilize additional labour force or to work more in order to cope with crisis and to fulfil needs), human capital (especially related to health and education) and productive assets. Intangible assets include intra-household relations and social capital. Household relations may help to pool income and share consumption.

2.18 Gap in literature

There is an extensive research on one of the various sources that households rely on, namely the micro credit schemes or on remittance for generating finance and also about the issues of indebtedness, there is little comprehensive research about the financial practices of rural households. Further research on rural finance is limited to themes like debt problem and other frame with in the dualistic lens of formal and informal finances.

This research seeks to contribute towards this gap in knowledge in terms of, a comprehensive understanding of household practices of mobilising resources for meeting their basic needs and investment is limited.