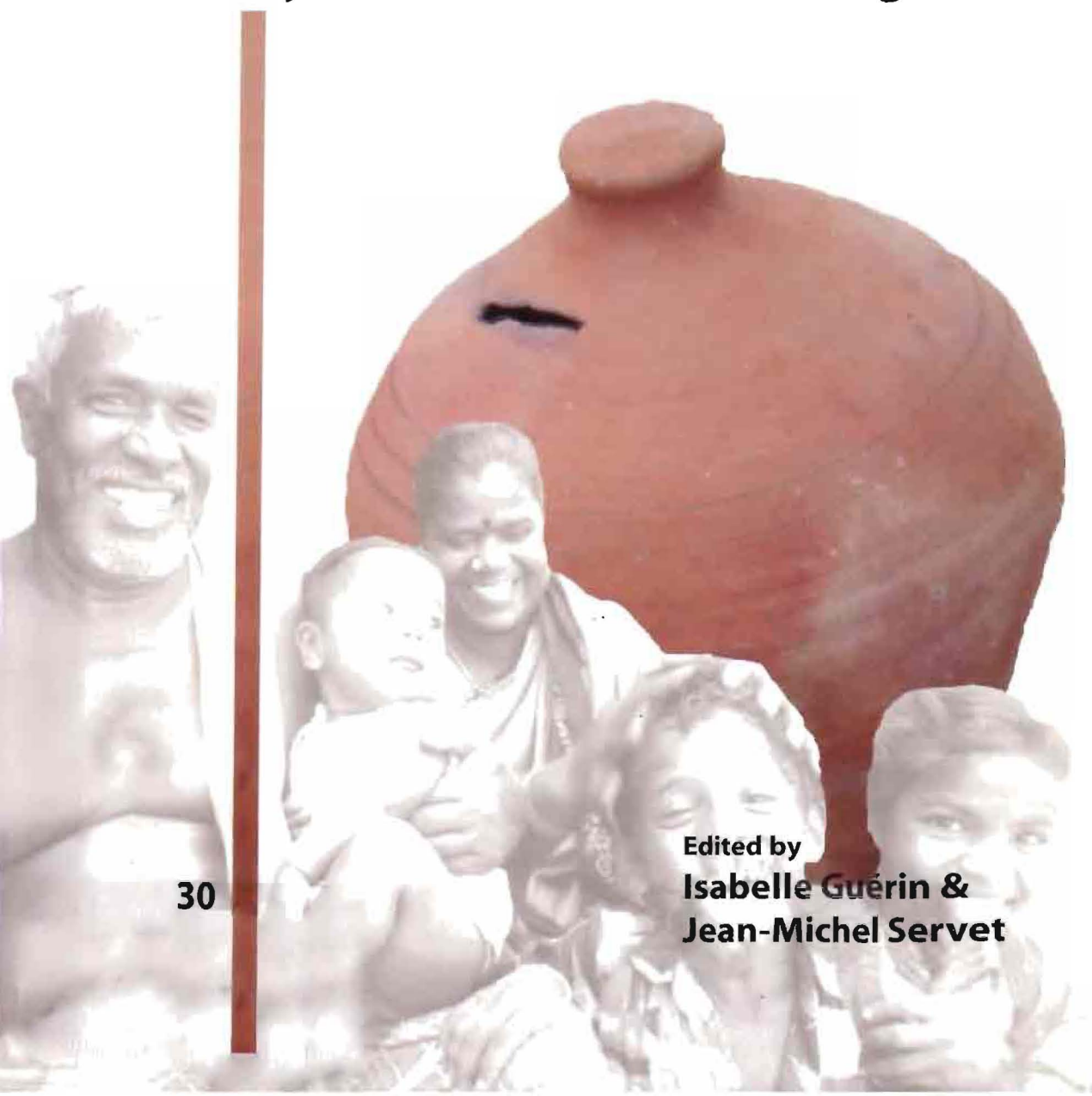




Institut  
Français  
de Pondichéry

*Pondy Papers in Social Sciences*

# **Microfinance: From daily survival to social change**



**30**

Edited by  
**Isabelle Guérin &  
Jean-Michel Servet**

**MICROFINANCE:  
FROM DAILY SURVIVAL TO SOCIAL CHANGE**

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A clay jar used for savings. This practice is observed in Indian, Bangladesh, Pakistan and probably elsewhere.

The opinions expressed in this paper are solely those of the authors.

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# Introduction

Isabelle Guérin, Jean-Michel Servet

Many people in the developing world are often denied access to banking and financial services. India is no exception. Constrained by State directives, the number of banking institutions in India is higher than that of other countries with a similar income per head. There are 66,000 banking institutions and 100,000 banking co-operatives throughout the country. However, actual usage is relatively low. According to the latest Indian census, 64.5% of Indian households do not have access to banking services (50.5% in urban areas and 69.5% in rural areas) and one can easily assume that the poorest are those who are excluded from such services. In addition, banking statistics in India often do not correspond to the ground reality: even if a person were to obtain a one-time bank loan under a public scheme, his/ her name would continue to be registered as an operational customer.

Access to financial services is not limited to the formal sector. In developing countries, the informal finance sector is omnipresent. This is due partly to the cultural inheritance of a country (which may differ from one country to the next) and partly to recent innovative breakthroughs brought about by specific needs of commoditisation. However, despite their strength (mainly flexibility, low transaction costs), these alternative financial services do not meet the requirements of the whole population. Based on small and short-term transactions, often oriented towards social consumption or, in the case of micro-enterprises, circulating capital, they don't meet all financial needs, especially in terms of investment. In addition, here again, the poorest may be excluded from these services.

The *raison d'être* of microfinance is to fight against banking and financial exclusion. Microfinance organisations target rural and urban people lacking easy access to mainstream financial institutions that are conditioned by laws of instant profitability and stringent funding policies. Most of these organisations offer saving and credit services. Some of them also provide



insurance, as well as remittances services used by migrants to transfer money to remote areas, but the implementation of these two are still at a preliminary stage. The prefix micro refers to the small amount of money involved in each operation and the local scale of operation (proximity and a close relationship between lender and borrower are key).

The number of microfinance schemes and organisations as also the number of beneficiaries has greatly increased in the last ten years. Though microfinance was pioneered initially by non-governmental organisations (NGOs), governments too are becoming increasingly involved, and it has also gained in popularity among multilateral and bilateral aid institutions that use local and international NGOs as delivery channels. As of December 2002, 2,572 microfinance organisations reported reaching 67,606,080 clients, according to the Microcredit Summit Campaign. 2005 has been declared the Year of Microfinance for all organisations presently working with the United Nations. This is in recognition of the progress made by a large number of them over the last decade. At the same time, the dangers of ignoring microfinance limitations are grave. Whereas there is no doubt about its relevancy, what microfinance promises does not necessarily reflect ground realities. In other words, it is not certain that the scope of microfinance as well as its potentialities have been correctly appreciated.

Too often, microfinance is perceived as a possible solution to the problems of economic under-development and may serve as a cheap public policy. However, the insufficiency of systematic and rigorous impact studies and the lack of transparency regarding the real costs of microfinance do not allow a believable comparison with other poverty alleviation public policies. In the same vein, the role of non-financial services, whether skills training, marketing or monitoring, is frequently under-estimated, though numerous studies have shown that such complementary services play a key role. At the same time, today the microfinance sector in Southern countries appears to be facing a growing challenge: an increasing number of bankruptcies of microfinance organizations; the emergence of clients' over-indebtedness due to excessive competition and saturation of local markets, as in some parts of Latin America and Asia; and the sudden doubtfulness of techniques so far considered "best practices": the Grameen Bank, following an increase of unpaid loans and decline in the number of clients, made the transition from collective loans to individual loans in 2002. Therefore, it is all the more urgent to analyse in detail the impacts of microfinance, while taking into account its diversity.

The role of academics in this instance can no longer be reduced to that of mere spectators or public speakers commenting belatedly on the significance of the event. Our general approach, one that has been successfully practised for almost 10 years in the European and in the West-African context, suggests an integration of the elements of social demand<sup>1</sup>. This is possible only by considering microfinance practitioners, not as research “subjects”, but as *partners*. In view of this, it is important to remain in constant touch with ground realities and to go ahead of the policies while interacting permanently with the field players. This form of collaboration serves two purposes: developing conceptual theories, that constitute the tools of research, and also arriving at realistic and operational proposals. The challenge obviously lies in accomplishing this task without being carried away by the diverse ideological currents that prevail in microfinance organisations. In other words, it is important to retain at all costs the analytical and critical eye of academics.

In May 2002, we introduced a research program specially focused on microfinance within the French Institute of Pondicherry. After Europe and West-Africa, why have we chosen the Indian sub-continent? The biggest potential market for microfinance lies here, with an estimated target population of over 400 million people. India also has a strong infrastructure, with more than five hundred active NGOs specialized in microfinance (Fisher and Sriram, 2002). The diversity and scope of Indian microfinance makes it a potentially rich area of study, particularly for a comparison of the techniques adopted by various institutions as well as for the assessment of its implementation in the context of interdependent and socially sustainable economic development. The Indian “model” consists of partnerships between local and small informal groups (usually called self-help groups or SHGs) and formal banks. This model, known as “Relationship Banking” or “SGH-bank linkage” model, avoids the creation of new and independent financial institutions as in the cases of Bangladesh and Indonesia. With around 460,000 Self-Help Groups currently credit-linked to banks (NABARD 2003), the SHG-bank linkage has emerged as the largest in the world. The field of survey in India is particularly rich for a comparative analysis, on a scale that is practically unheard of in Europe or in West-Africa.

At the same time, the notion of caste makes it possible to showcase the concept of empowerment. All societies, beyond cultural differences,

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<sup>1</sup> See Servet *et al.* (1999) and also the annual publication *Exclusion et liens financiers*.

follow certain social and moral specificities in financial matters that should be integrated in development policies. Finally, analysing microfinance gives us the opportunity to capture various components of social and economic change: organisation of the financial market and its interdependences with other markets (land, labour, commodities); interactions between State and civil society; decentralisation processes and the subsidiary of public action, in a context where new forms of social relations are emerging (urban/rural, gender, caste). Therefore, results are applicable not only for specific studies but also for India's culture and economy.

Let us be clear. Our purpose is not to export models that have worked in different contexts and countries. Providing credit to the poor has often failed because simplistic and standardised approaches have been used without taking into account local socio-cultural influences. What about contemporary microfinance? Standard financial techniques, evaluation tools, or training manuals for users are used and perpetuated by a few institutions and institutionalised pressure groups which, due to their ability to mobilise large numbers of players and donors, have a monopoly over power. These standardised discourses are then disseminated all over the world, largely due to new information technologies. In contrast, the ability of microfinance to adapt to local and regional diversities is striking. This can be measured quantitatively in terms of penetration levels. Some parts of Asia, for example, have reached a certain level of saturation (for example, Tangail District in Bangladesh) but in other regions, microfinance is on the verge of taking off (as in certain parts of China). The diversity of microfinance is also reflected from an organisational point of view. India and Bangladesh for example, although partitioned only 50-odd years ago, offer two very different facets of microfinance. It is now habitual to contrast the Indian model of "Relationship Banking" with the Grameen Model of "Parallel Banking" (Palier 2003, Servet 2003, Fisher and Sriram 2002). Population density, the banking infrastructure (large banking network, presence of cooperative organisations), the amount of international aid, the dynamism of civil society and grassroots organisations are all varied actors in the national and regional configuration. The role of research, in the midst of this diversity, lies in making concessions for historical and institutional factors and their more or less reversible character.

Finally, the opening up of research horizons in India also justifies our choice of location, with the increasing availability of precious academic resources and statistical data. In addition, the French Institute of Pondicherry,

by its bilingualism, bridges the chasm that separates the Anglo-Saxon world from the French world of microfinance research where the approach is both divergent and complementary. This is evidenced by research carried out in France on social finance in recent years.

The first seminar on microfinance at the French Institute of Pondicherry in January 2003, started with a wide topic: what is the diversity of microfinance tools and for what impacts? This question was discussed and debated for two days by a number of stakeholders: academics, microfinance practitioners, the National Bank for Agriculture and Rural Development (NABARD), the Reserve Bank of India, and the International Labour Organisation. The main challenge was to develop a dialogue between actors whose interests, strategies, constraints, values and norms are not only diverse, but also sometimes contradictory and therefore, conflictual. This challenge seems to have been taken up and it is already a result in itself. This illustrates how we define ourselves as researchers: not only as observers but also as facilitators for social dialogue. All the discussions turned around the two facets of microfinance. On the one hand, microfinance can be seen as a tool for daily survival, and it is already a first challenge. On the other hand, microfinance can be seen as tool for social change, thanks to its ability to promote new forms of governance and to democratize economic practices. The following section attempts to sum up the main topics of discussion.

*Vulnerability and daily survival: how can we innovate?* Since new approaches to poverty eradication focus more on the vulnerability of populations than their lack of financial resources, microfinance is increasingly perceived as a risk management tool. Irregularity of income and difficulty in managing external dangers (illness, loss of job, drought, etc.) are of more concern than income itself. Helping people to better manage risks requires innovation, as seen by the following examples developed by Indian microfinance organizations and described or mentioned at the seminar:

- micro-insurance (SEWA in Gujarat, ASA in Tamil-Nadu, to name only a few);
- remittances for migrants, as most of them are often excluded from microfinance organizations since they don't have permanent address; Dhan Foundation has started to provide remittance services for intra-state migrants in Tamil-Nadu;
- debt-consolidation (Dhan Foundation in Tamil-Nadu, SPEED in Chennai): for those who are over-indebted, the microfinance organisation buys back all his/her outstanding debts (usually informal debts) and

consolidates them in the form of a single loan. The objective is to lower the monthly scheme of loan repayment either by lowering the interest rate on a new loan or by lowering repayments from an extended repayment term, or both; the microfinance organisation can also negotiate the terms of the debt with the moneylender(s) (rescheduling, canceling or reducing interest rate);

- grants: for the poorest – we know that most of them don't benefit from microfinance services – starting with a grant may be the only option (SPEED in Chennai, through a sponsorship program).

All of these services are still at a preliminary stage; others would deserve to be tested, especially emergency loans. Time constraints explain the fact that the door-to-door service provided by informal financiers – the so-called moneylenders – remains the only option in case of emergency, whatever the cost.

*Beyond the opposition "State"/"Market": the relevancy of the Indian model but also its challenges.* Building partnerships between civil society, banking institutions and public authorities seems indispensable in the face of the helplessness of the 'market' and that of the governments vis-à-vis the problems of poverty and social exclusion. This is why the Indian model is so attractive. Beyond financial services, microfinance appears as innovative forms of concerted action and may be viewed as new forms of public action. During the seminar, the crucial role of public support was highlighted, in particular through the description of the facilitating role of NABARD and its policies, which could not be implemented without the key support of grassroots organisations and banks. This partnership system explains partly the unequal geographical distribution of microfinance across the country. 71% of SHGs are concentrated in four states of South India (Andhra Pradesh, Kerala, Karnataka and Tamil Nadu), and within South India, Andhra Pradesh has 67% of SHGs. This seems to be due to the dynamism of grassroots organisations and the density of the banking network. For all that, the field of interaction between these players is still unsure, difficult and often causing conflict and a large part of the discussion was on this issue. With regards to NGOs/banks partnerships, there is the question of how to bring together two "worlds" (i.e. "corporate" versus "social work"). Given the contrast, let's say the opposition, in terms of values and norms between these two worlds, more used to ignoring each other than being in collaboration, such partnerships necessarily imply a gradual process. Besides at present, it is mainly the public banking sector that is involved in microfinance. In the same vein, one should not underestimate the challenges faced by SHGs. There is no doubt

about the relevancy of SHGs. First, the group-based approach reduces transaction costs. According to a NABARD survey, transaction costs for banks reduce to more than half when they operate through an NGO and to one third if they operate directly. Second, the group-based approach acts as a vehicle for the empowerment process, both on an individual and collective level. But how do things stand in practice? An idealistic and functionalist approach to collective action alone is not sufficient. A collective loan may consolidate individual autonomy but may also reject it by emphasising existing links of dependency or even by creating new ones. It may strengthen social networks but also destabilize them. It may support collective capabilities of organization and management as also foster and encourage the creation of fictitious or monopolistic groups. Examples of SHGs failures given at the seminar are not anecdotal. In India, negative effects of the collective approach induced by the SHG movement have been described at length: exclusion of the poorest; manipulation by locally influential individuals; collusion between bank staff, Panchayat members, the selection committee for new members and higher castes; conflicts induced by large financial donations without prior social cohesion<sup>2</sup>. Like all manners of collective action, SHGs can produce good or bad results. They can act as catalysts in the creation of common norms, values and trust, leading to local public spaces committed to the building of a common vibrant civil society. However, they can just as easily be transformed into an arena of petty bickering over paucity of funds, social status and political values, thereby generating competition instead of social unity. All individuals, whoever they are, are simultaneously self-seekers, group members and civic actors. SHGs members cannot be expected to form an exception to this. This leads us to the following question.

*Social and economic discriminations: what should be the role of microfinance?* Can Microfinance lead to a sustainable reduction of social and economic discriminations? The answer to this is not “yes” or “no”, but how far and with what methods? Two main topics were debated, the discussion often taking on a rather acrimonious tone.

From an economic standpoint, should microfinance practitioners content themselves with individual support for income generating activities or should they also focus on regeneration of local economies? For some, the only solution would be to integrate microfinance within an active policy of

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<sup>2</sup> For general description, see for example Fisher and Srinam (2002). For a case study, see Gaiha (2001).

economic local development. Otherwise, microfinance would only create an over-exploited under-class of micro-entrepreneurs. For others, the chain reaction alone would suffice.

The second topic was on caste and tribal discriminations. Numerous Indian microfinance organisations confirm (at least officially and with the aim to satisfy their donors) that the offer of financial services is conducive to the generation of new forms of collective action capable of promoting voluntary solidarity among people who are otherwise divided by caste, tribe and religion. The reality, however, is much more complicated. First, very often, spatial distribution of the villages in conformity with caste discrimination makes this mixing extremely difficult. It is also to be noted that many NGOs are subjected to contradictory demands of their donors: while foreign donors appreciate and even insist on a transcendence of caste and religious barriers, Indian policies on poverty eradication in general, and microfinance policies in particular, are still based on positive discrimination policies, especially with regard to the Scheduled Castes and Scheduled Tribes. Consequently, it is not uncommon to find a number of policies targeting different groups based on donor expectations within the same microfinance organisation. Furthermore, is it possible to be “neutral” when powerful local landlords, most of the time belonging to upper castes, clash with microfinance organisations or even prevent them from functioning? Several examples of such resistances were given during the seminar. As a participant said, it is possible to help these poor people survive on a daily basis, but how does one fight against local monopolies on the land and labour market? Is it the role of microfinance organisations to fight against such inequities? Lastly, microfinance organisations, like several NGOs, are vulnerable to capture, both by local elites and various ideologist movements, especially political parties. SHGs present a unique and convenient opportunity to capture vote banks.

This debate goes far beyond microfinance and it cannot be ended here. This book, which features some of the papers presented at the seminar, aims to nurture the debate by focusing on the *social and cultural embeddedness of monetary and financial practices*. The issue of embeddedness is critical for the understanding of the potential and limitations of microfinance. It is also crucial for the understanding of the pressures between democratic principles and the hierarchy of values induced by participation in microfinance programmes, pressures which are probably more pronounced in India than anywhere else.

This specific issue is presented here through three different geographical contexts, the Indian subcontinent, China and Senegal. The specificity of the national context has been emphasised earlier: hence what is the relevance of a comparative approach between continents? While there can be no question of a literal comparison, the same theoretical tools need to be applied to different perspectives. The comparative approach was developed in the field of Social Sciences with the view to compensate for the vagaries of the experimental method: with laboratory testing facilities, the comparative approach became a sure-proof method of obtaining constant, abstract and general results. The interest of the comparative approach lies in highlighting the recurring processes as well as social construction. In this instance, a recurring hypothesis forwarded by all the papers is that money is not a purely economic, neutral and universal commodity. It is the end result of social construction. Money is generally perceived as the ultimate economic tool, an instrument of rational calculation that kills all social bonds. It owes its *raison d'être* to its ability to satisfy individual desires. This functional definition is only an *ideal-type*. A closer look at individual practices reveals the extent to which these practices are intertwined with social, cultural and political considerations. Thus money does not exist *per se*: it exists only in the diverse forms attributed to it by these individuals, hence the term monetary *practices*, which designates the various methods of perception and utilisation of the monetary tool. In the same manner, it is impossible to disassociate financial practices (defined here from an anthropological standpoint, as a set of debts, monetary or not, between individuals) from other considerations that largely supersede narrow personal interests.

What is the nature of the interaction between social and cultural dimensions of monetary exchange and microfinance? One is the offer of financial services: it is pointless to pretend to offer adapted financial services while ignoring socio-cultural implications. While there is no doubt that the demand for microfinance services exists, it is not otherwise certain that the corresponding supply would always be necessarily adapted. This is because formal microfinance services rarely bother to understand the resourcefulness displayed by the poor in managing their money informally. This understanding, however, is extremely necessary from the operational point of view; to be effective, financial services offered must attempt to mitigate the limitations of existing practices by drawing inspiration from the manner in which the targeted populations live, think and manage their finances on a daily basis. The first stage consists in admitting that the poor are capable of



saving and that they need *microfinance* and not just microcredit. Considerable ground has been covered in this regard over the last few years, both by academics and practitioners<sup>3</sup>. The next stage consists in recognising the social and cultural embeddedness of financial practices. Presented as sequel to a series of publications in French on the subject, the present book is a first step in this direction.

The second reason for which we need a socioeconomic understanding of money and finance concerns the issue of social change. Let's come back to our previous question: can microfinance be understood as a means to democratise economic practices? This question is not limited to India. It may be useful here to remember the general context of poverty alleviation policies. The actual policies initiated by the World Bank and the International Monetary Fund emphasise the concept of "participation". Listening to the "voices of the poor" is now considered an important index for the success of implemented policies. Participatory approaches constitute the driving force of the Poverty Reduction Strategy Papers jointly initiated by the World Bank and the International Monetary Fund in 1999. Microfinance is extremely revealing of this new form of development strategy planning and also of its ambiguities. Beyond poverty alleviation, microfinance is very often viewed as a vehicle of democratic principles. Two arguments are forwarded here. First, it is to be assumed that the offer of financial services will enable individuals to gain self-autonomy as opposed to the relations of personal dependence formerly indispensable to their material survival and as protection against external shocks. Hence microfinance would be a means of establishing contractual relations between individuals conceived as equals. The notion of money here is purely functional. It is the supposed qualities of money (universality, fungibility) that make it an important tool for personal freedom. Secondly, the approach is often group-based; mobilisation of savings and credit lending is undertaken in peer groups: SHGs, village banking, savings and credit groups, etc. In addition to the fact that this authorises large economies of scale, this group-based approach facilitates the emergence of the management of civil society local spaces and local governance institutions. Financial management (saving and lending) is often associated with the management of common resources (primarily healthcare, education, natural resources). It is to be hoped that financial management will eventually lead to the building and strengthening of the organisational

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<sup>3</sup> See, for example, the special issue of the *International Journal of Development*, 2002, n°14. See also, Rutherford (2000).

and leadership capabilities of the poor. As soon as the fundamental social dimensions of money and finance are recognised, the democratic potential of microfinance becomes more complex.

We hope to persuade the reader that the monetary and financial practices in all their complexities are deserving of a new and more innovative approach: the findings presented here follow this trend of thought. Going beyond geographical borders, the authors attempt to study the sociocultural embeddedness of money and finance and its implication for microfinance services, and this from three different perspectives: risk management strategies, since microfinance is increasingly perceived as a tool for facilitating risk management; gender issues, which is at the bottom of all microfinance debates since women constitute the main target; and debt bondage, since its relation with microfinance has been relatively ignored until recently.

## **Risk management and microfinance**

By illustrating the interface between empowerment, security, opportunity and poverty, the World Development Report 2000, has brought the concept of risk management to the fore of policy dialogue<sup>4</sup>. Social Risk Management has emerged as an innovative manner of studying poverty, risk and risk management. It was recently included in the World Bank's Social Protection Strategy. There is a dual objective: to combat inequalities in the face of risks, but also to develop less expensive means of social protection. The reasoning is quite simple. Social protection is too expensive. Statistics reveal that less than one fourth of the world's population have access to institutionalized social protection and less than 5% depend on private forms of aid. Measures to eradicate poverty through public transfers are mostly beyond the fiscal means of the majority of the countries. Hence, it is imperative that we go beyond passive redistribution of funds and view social protection more as an "investment" rather than a "cost". At the same time, it is equally important to motivate the people to assume more responsibility. The World Bank view on this is clear: "Social risk management is based on the notion that poor and vulnerable people manage risk and that government and markets cannot do everything for them" (Holzmann *et al.* 2001, p. 22).

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<sup>4</sup> This conception of social protection is particularly elaborated on in a paper of the World Bank (Holzmann *et al.* 2001).

Not only are the poor typically more exposed to risks, but they also have limited access to effective risk management tools. Consequently, they are more risk-averse, unwilling or unable to engage in high-risk/return activities. Hence, linking poverty alleviation with risk management serves two clear objectives: it proactively helps the poor cope with misfortunes as well as pursues higher income-generating activities. Helping the poor manage their vulnerability more rationally means providing them with more “efficient” tools of social protection as opposed to “traditional” tools, unavoidable in the short run, but expensive and inefficient in the long term as they compromise the issue of human capital of the poor. To cite a few examples (Murdoch and Sharma 2002):

- When children drop out of school and are forced to work in the labour market to earn additional income; such practices not only compromise the future of these children, but also lower the wage scale;
- Selling such productive assets as land, cattle or jewellery; where jewellery may be considered a productive asset, as it is frequently used as a pledge against cash from pawnbrokers or moneylenders;
- Cutting down on food intake or health expenditure; both of these have serious, long-term repercussions on the body and consequently on human capital and the capacity to earn a livelihood in the future;
- Migrating without any prior guarantee of the kind of work or environment and consequently running the risk of being cheated by brokers or prospective employers;
- Engaging in patron-customer relationships with the patron playing the role of “guardian”, but in reality exploiting the employee (we will study this in more detail in the issue of debt bondage);
- Failing to honor social commitments and communal duties, be they “vertical” *i.e.*, based on a centralization/redistribution mechanism (religious, political donations made to a local leader), or “horizontal” *i.e.*, based on reciprocal exchange (mainly participation in ceremonies related to life cycle events (birth, baptism, marriage, funeral, but also accommodation of nephews and nieces).

A closer examination of the daily habits of the poor reveals the extent of the uncertainties that dog their daily existence. These people are consequently driven by the permanent desire to stabilize their situation. Obviously, the risk and uncertainty management is unequal; the poorest are less supplied for. Of course, microfinance appears to be, in any case, in a

position to help the poor to better manage the risks they have to face especially through savings, emergency loans and, eventually, micro-insurance. Microfinance is also capable of helping them to take risks, especially through micro-income generating loans. However, it is important to carefully study the extent of the possibilities and limitations of microfinance. If one really wishes to propose adapted services, i.e. capable of fulfilling the needs while being sustainable, a starting point is to understand the nature of vulnerability and the ways in which communities and extended families try to cope with vulnerability in the absence of public intervention. One knows that kinship solidarity and community solidarity, as ambivalent they can be, still remain the main, if not the only, safety net. The text by Eveline Baumann, based on the Senegalese example is devoted to this question. Far from being an immutable notion fixed by so-called "tradition", the rules by which this solidarity and its limits function are constantly redefined. It seems that more and more, one witnesses the putting into question of this "solidarity" and a certain need to distance oneself from ties which are considered burdening. The offer of microfinance belongs to this distancing movement. As underlined by the author, it seems also useful to keep in mind the distinction between "risk" and "uncertainty". Since risk can be evaluated on probabilities – and therefore it is possible to anticipate – the degree of uncertainty cannot be calculated. On the one hand, Northern societies are characterized by an increasing capacity to transform uncertainty into risk: it is now possible to be insured against everything and anything. On the other hand, Southern societies continue to endure multiple forms of uncertainty. Now, can one ask people to save in order to protect themselves against the eventuality of a Government overthrow, against a salary freeze, because of lack of public funds, or further, against a sudden price explosion? In no way can microfinance be substituted for the setting up and the enforcement of basic social, economical and political rights and regulations. Even if it has already been said and repeated, considering the simplistic approaches still largely employed<sup>5</sup>, it doesn't seem useless to be reminded of them.

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<sup>5</sup> The last Microcredit Summit which was held in November 2002 in New York, is an illustration. The promoters of the Summit believe that by 2015, Microcredit will be able to reduce poverty by 70%, infant mortality by 75%, and will allow all the children to attain primary school level by 2012, especially the girls (Microcredit Summit Campaign 2002). For an analysis of this speech, we refer the reader to an article published in the review *Tiers-Monde* (Guérin 2002).

## Financial and monetary practices: Gender issues

As women are important members of the microfinance organisations' clientele, it seems essential to attempt to better understand the specific nature of their financial practices. Kamala Marius-Gnanou proposes a historical perspective of rural credit lending in the Indian context and an analysis in a gender perspective. To be brief, Indian rural credit history is marked by clientelism, "loan gifts", a total absence of a culture of repayment, especially with regard to government programmes and finally, a total absence of gender issue considerations. Compared with the many past failures, be they cooperative movements or public programmes, the new microfinance wave and the SHG concept associated with it evoke great hopes. Many press articles cited by the author (in particular, *The Hindu*) strongly corroborate this. The SHG phenomenon has received tremendous media coverage and henceforth constitutes a large part of daily Indian life. Based on survey observations undertaken in Tamil Nadu, the author confirms the results presented by other studies: women are more mobile and mobility is of course a great source of strength (the very fact of going out of the village to attend meetings or to go to the bank); SHG actions transcend public and private boundaries and enter, at least sometimes, the private and family sphere of the members which in some cases may lead to the reorganization of relationships and decision-making; they also enter the local political arena and engage in advocacy and negotiation with local public authorities<sup>6</sup>.

Based on other studies, the author reflects also on the risks of adverse effects. Here also, taking into consideration the social implication of financial practices is indispensable simply because this implication necessarily has a gender connotation. No human society seems to be able to escape the following question: that of the place of women in the midst of monetary and commercial activities. Do they have the right to buy and to sell? It is compatible with their family obligations? Is it compatible with the image of femininity? Do they have the right to perform as professionals? Are the activities related to their obligations as women, mothers and wives able to earn them money? If yes, do they have the right to dispose of their income? Are they called upon to apply it to such and such a use? The answers to these questions vary infinitely, be it in the form of formal rules and legal conventions or norms of usage interiorized by all, less explicit but

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<sup>6</sup> For a desk review, see Palier (2003).

not less significant. It is certain that globally, women's access to monetary and market spheres is often limited and that the history of women's oppression was fed by this limitation. Beyond this common point, one can only observe the extreme diversity of rules and draw the conclusion as to their fundamentally arbitrary nature. This diversity is inseparable from more general norms governing the relations between men and women, particularly the division of space, the access to property, and the family structures.

The article of Thierry Pairault, based on the Chinese example, is a perfect illustration of the gender aspect of financial transactions and property rights. The author demonstrates that women are still largely considered as commodities, either because of matrimonial alliances or when they are used as pledges in case of loans. But this does not exclude the fact that they can also be the proprietors and/or in charge of financial transactions. For example, there are a great many women who manage the ROSCAs (rotational saving and credit associations).

If one really wants to rely on microfinance to fight gender inequalities, it is indispensable to ask oneself the following questions: What about the impact of microfinance on the gender question in the monetary and commercial spheres? What about the impact of microfinance on the gender question of access to property? What about the impact of microfinance on the fact that women are considered as commodities? To find an answer to these questions is all the more complex given the heterogeneous nature of the category "women". In any case, let us note that these questions are particularly relevant in India where the issue of the dowry system continues to be a topic of intense debate.

In the same way, a better understanding of intra-familial relations is necessary. Several Microfinance impact studies have indicated and denounced the appropriation and use of credit by males (*i.e.* husband, brother, guardian). Certainly this risk cannot be excluded. A better understanding of the different forms of household economy seems nonetheless to be essential if one wants a more constructive vision of the usage of loans and their impact in terms of intra-household redistribution. The concept of "family" does not correspond to any reality: multiple arrangements are possible in terms of marital relations, intergenerational responsibilities, organization of production and consumption, savings and investment. This multiplicity of arrangements goes hand in hand with a diversity of collective financial arrangements within the family. By collective financial arrangements within the family, we mean access to property, access

to revenues and opportunity of access (who earns what and who has the right to earn?), the control of decisions (who decides to apply this income to this expense?), the responsibility of expenses (who is charged with the responsibility of paying what?) and finally, the act of purchasing (it is simply a matter of execution). The empirical studies undertaken in this field show the many possible combinations with, consequently, a variety of autonomous choices for women as well as a diversity of attitudes concerning risk-taking. This remark leads us to the issue of vulnerability: men and women may be exposed to different risks or may experience varying degrees of vulnerability: obviously these differences in vulnerability are strongly influenced by differences in asset ownership; gender roles and social norms which may also determine whose labour is used as a buffer against shocks. It is customary to oppose two principal models: "the breadwinner model" versus "the segmented model"<sup>7</sup>. In the first instance, women have no financial responsibilities. However, they are allowed to earn additional money to complement their husband's income and ultimately both incomes are pooled together and managed by men. In the segmented model, men and women have separate responsibilities, and they are allowed to own and control their own assets and finance; traditionally in rural areas, such a model induces separate crops. The analysis by Thierry Pairault indicates that it is necessary to go further, since the model observed by him is a kind of hybrid.

## **Microfinance and debt bondage**

Informal financial practices, as we have underlined above, are partially found in the context of reciprocal relations. In the permanent play of gifts and counter-gifts, as observed elsewhere by Marcel Mauss, consisting of money as well as of objects, words, blows, honor or prestige, the extent of the network of relations in part determines the position of everyone in the network. In order to grasp the full ambiguity of this continual interplay, and still following Mauss, one should underscore the ambivalence of the relationships established. To be indebted is to manifest and express one's belonging to a group. In the context in which the access to credit is dependent on mutual acquaintance, to be indebted pays witness to the confidence of the other; the multiplication of debts is thus an incontestable sign of solvency and of credibility. However, and paradoxically, the creditor

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<sup>7</sup> Guyer and Peter (1987) ; Kabeer (1995).

can at any time turn against the debtor; he can at any time decide to “strangle” the borrower, who becomes obliged to him. A debt relationship – to take the expression of Ch. Malamoud (1988) – is at once both a “bond of life” and a “deadly embrace”.

Debt bondage brings this ambivalence to an extreme, insofar it oscillates between protection and exploitation. Broadly speaking, the term “bonded labour” refers to a worker who renders a service under considerations of bondage arising partly from economic considerations, notably indebtedness through a loan or an advance. Where debt is the root cause of the bondage, the implication is that the worker (and maybe his/her dependants or heirs) is tied to a particular creditor for a specified or unspecified period until the loan is repaid. Bonded labour can be found in many parts of the world even today, and especially in the Asian region. According to an ILO report on forced labour (and even though it is impossible to give precise data), India, Nepal and Pakistan are those which are the most affected by bonded labour (ILO 2001).

The article by Jean-Michel Servet proposes a first series of hypotheses regarding the phenomenon of bonded labour in the Indian context. It shows the extent to which the social embeddedness of debt bondage is decisive: even if servitude often results in the inability to repay the loan, the relation of hierarchy, based on caste relations between borrower and lender, is equally determining. While an ethnocentric and general economic view would see merely credit in this relation – it would then suffice to reimburse the creditor to free the borrower – it is a fact that certain debts are just not repayable. The liberating power of money is generally thought without limits because of its universal nature: money allows one to buy everything and is accepted by everyone. We are obliged to notice that this hypothesis of universality is only an ideal which doesn't override the sense of duty and obligation continuing to govern certain caste relations. Consequently, can we expect microfinance to combat debt bondage? Microfinance, however efficient it can be, makes sense only within an integrated approach and accompanied by complementary services, in particular in terms of education as well as sensitization, lobbying and advocacy with employers and public authorities. This is the purpose of the article, written by Isabelle Guerin, based on a preliminary analysis of a microfinance programme implemented by the International Labour Organisation in the Indian sub-continent.



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## Vulnerability and micro-insurance

### Reflections on “post-adjustment” Africa

Eveline Baumann<sup>1</sup>

Vulnerability of households and production units is undoubtedly one of the major handicaps to economic development and social wellbeing. People living or working together are vulnerable because they are exposed to economic stress and negative shocks which take the form of a sudden drop in income or an abrupt rise in expenditure. To a certain degree, some of these shocks are predictable, others are completely unexpected.

Production and consumption strategies in countries south of the Sahara have a long tradition of alleviating vulnerability, ranging from diversification of income sources to in kind savings. Yet urbanisation, growing monetarisation, weakening distribution patterns in the public and the private field, precariousness of the labour force and changing social relations call for new solutions for reducing vulnerability. Micro-finance is expected to act in this sense and it is vividly encouraged by international donor agencies and decision makers of low income countries<sup>2</sup>. At first, micro-

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<sup>1</sup> The ideas developed in this text were presented at the *Meeting on Micro-Finance: What Means and Ways for Micro-Finance for What Impacts?* at the French Institute of Pondicherry, January 9-10, 2003. I am most grateful to Jean-Michel Servet and Robert Furstenheim for their helpful comments.

<sup>2</sup> According to the World Bank, 39 out of 48 Sub-Saharan countries are low income countries with a gross national income per capita of less than 745 \$. Senegal is part of this group (World Bank 2003).

finance proposed especially growth-focused products related to savings and credit distribution, whereas there is now increasingly concern with risk-focused products such as insurance. This is why it is of utmost importance to understand vulnerability coping strategies.

This paper concentrates on African countries south of the Sahara. In these countries micro-insurance as a product of micro-finance institutions is still in its early stages, but there is evidence of growing interest for voluntary social protection, in particular in the health service sector. The sociological underpinnings of this interest are outstanding and show a shift from a system which is mainly characterised by reciprocity based on kinship and family relations towards risk pooling within a group of voluntary members, thus creating a new type of solidarity and fostering social cohesion.

Let us first look at the different sources of vulnerability people are exposed to and how they cope with them. Lessons from Senegal will contribute to better understanding of vulnerability south of the Sahara. As in other parts of the world, entrepreneurs of the informal economy are particularly vulnerable. Their economic and social environment is characterised more by uncertainty than by risk. This pleads in favour of micro-finance institutions as providers of insurance products. Yet, the impact of micro-finance products goes beyond savings, loans and insurance. Indeed, micro-finance institutions actively contribute to the introduction of new norms and the transition towards market economy. The final argument will be that micro-insurance is not a panacea for all variations of economic distress and that economic development needs more than financial techniques.

## **Types of vulnerability: examples from West Africa**

South of the Sahara, the events giving way to vulnerability are numerous. The sources of vulnerability are threefold in nature (Wright 1999). They may be related to life cycles and thus concern birth, education, marriage, divorce, widowhood, pilgrimage to Mecca, prolonged illness, retirement and death. To a certain degree these events are predictable, but if they are not adequately planned, they can generate crises. Secondly, vulnerability may be due to structural problems such as seasonal variation of income and expenditure characteristic of the primary sector and informal activities, or to religious ceremonies such as fasting. Long-term or permanent changes in the national

or international economy may also be put into this category. In low income countries, these changes can be due to structural adjustment programs and their measures such as freeing up prices and privatisation of education and health care. They have a profound impact especially on poor households. Thirdly, there are crises that provoke unexpected shocks to households and thus disrupt their ability of generating income. These unexpected shocks being accidental fire, drought, theft, accidents, bankruptcy. Women seem to be particularly vulnerable in these situations, especially if there is a lack of social safety nets. In this case, keeping up loan repayments might become difficult and debtors enter a poverty trap.

**Table 1. Some key data on Senegal (in comparison to India)**

	Senegal	India
Population	10 million	1.033 million
Density of population	51 per km <sup>2</sup>	348 per km <sup>2</sup>
Life expectancy at birth	52 years	63 years
Under 5 mortality rate	129 per 1.000	88 per 1.000
Adult illiteracy rate (% of people over 15)	63%	43%
Gross national income p.c.	480 \$	460 \$
Gross national income p.c. in purchasing power parity	1.560 \$	2.450 \$
Population below the national poverty line	33%	35%
Gini index	41	38
Informal workforce / non farm workforce (1991)	76%	74%
Informal product / gross domestic product (1991)	33%	32%

Sources. World Bank 2003 and Charmes 2002 (items related to informal activities)

## Sources of vulnerability in Senegalese society

It is well known that the poorer the people, the greater the risk of being exposed to economic stress. In Senegal, a country of 10 million inhabitants situated at the extreme Western part of Africa, one inhabitant out of three lives below the poverty line (Table 1). The situation is particularly preoccupying in rural areas where the population makes a living out of groundnut production, cotton and raising cattle. Adult illiteracy is one of the highest in Sub-Saharan Africa. Concerning human development, Senegal is ranked 154<sup>th</sup> out of 173 countries.

Vulnerability is partly related to social obligations or religious rules (Box. 1). Observing them is all the more necessary as they contribute to social coherence and as any deviation could be sanctioned<sup>3</sup>. Vulnerability is on the rise with urbanisation and the evolution of the labour market. In 2000, 47% of all Senegalese were citizens and they will be 57% in 2015 (PNUD 2002). Only 5% of the labour force benefit from protected labour relations. Modern social security<sup>4</sup> covers only 13% of the population in terms of personal and derived rights (Fall 2002). Three non-farming workers out of four are self-employed. To a large extent, they live on petty commodity production, street vending and personal services. This means that the largest job provider is informal in nature and does not guarantee any health care, family allowances or pension scheme. Moreover, the whole socio-economic and political context characterised by low purchasing power, political instability, and lack of trust in public institutions and laws, does not encourage these production units to turn into risk-taking enterprises affiliated to the public welfare system.

As in other African countries, structural adjustment programs have largely contributed to this situation. Their impact on poor households is all the more preoccupying as basic services such as health care and education have been downsized and partially privatised. Whereas the income gap between rich and poor is widening, even members of the middle class are

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<sup>3</sup> These sanctions include witchcraft. People unwilling to respect solidarity obligations are regularly accused of behaving like a "toubab", a white person.

<sup>4</sup> According to ILO, social security includes medical care, sickness benefit, unemployment benefit, old-age benefit, invalidity benefit, survivors benefit, work injury and family benefit (Social Security Convention n°102 1952). As in most low income countries, there are no unemployment allowances in Senegal. For the history of social security in Senegal, see Sooth, 1992.

exposed to pauperisation – or at least to the feeling of pauperisation –, thus creating a politically explosive situation.

## A variety of coping strategies

Production methods in Sub-Saharan countries clearly illustrate the subtle knowledge people have of their environment and its fragile, future-compromising character. In rural areas, according to the abundance or scarcity of production factors – land, natural resources, labour, technical equipment – farmers, fishermen and stock-breeders choose between extensive or intensive production methods. Their knowledge of the natural resources is generally built into their tools such as hoes, ploughs, fishing gear, etc. *Ex ante* vulnerability reduction is frequent. In the agricultural sector, it consists in the choice of resistant crops, planting in scattered plots and shifting cultivation.

### Box. 1

Most Senegalese are Muslims. The Lenten fasting is generally respected by the vast majority and gives way to lavish spending. After a long day of fasting, people are keen on copious and exquisite food. According to the rules, a sheep has to be sacrificed forty days after the end of Lent (Rs 3,500 for an acceptable-sized sheep for a middle-class family in the capital city<sup>5</sup>) and the animal is then divided among relatives and neighbours. For this Aid el Kebir day, people buy new clothes and dress up nicely (Rs 2,500 for an embroidered “boubou” for an adult).

The pilgrimage to Mecca is one of the keystones of Islam every Muslim should undertake at least once in his life. Nowadays the journey costs approximately Rs 100,000. In privileged circles, a big reception is given at the pilgrim’s return home, which costs as much as the pilgrimage itself.

Baptism and wedding ceremonies add to the expense in Senegalese social life. Gifts are exchanged between related families (damask and woven material, clothes, jewellery, money) and a big reception is given with generally at least fifty guests to be boarded and partially accommodated. For these occasions there is a whole system of mutual assistance combined with a bidding up system of gift exchange which can involve several subsequent generations<sup>6</sup>. Dowry is of special

<sup>5</sup> The financial director of an international company can earn a monthly salary of up to Rs 250,000, Rs 7,000. The currency of the ancient French colonies in Western and Central Africa is the so-called Franc CFA (100 Francs CFA = 7 Rs).

<sup>6</sup> This means that a gift offered by A to B will be multiplied in value if B “gives it back” to A (Mottin-Sylla 1991 & 1993).



concern for future husband who has to pay a sum is generally as high as his annual income.

Diversification of income sources within the family is another main characteristic of these strategies. Young household members often take up seasonal jobs in other parts of the country or even emigrate. Households may temporarily split up into several sub-units and have different economic activities such as agriculture and fishing. Income diversification may be due to age specific economic activities and technical equipment. For instance, only elderly people are allowed to use certain – generally highly productive – fishing gear, whereas young men have to put up with tackles producing less<sup>7</sup>. Another example is gender specific ownership of assets. Men own cattle and land, whereas women invest in rental rooms or household utensils. They thus withdraw from immediate consumption goods that might be sold or consumed in case of distress. Granaries at kinship or village level represent the most explicit and visible form of this future oriented attitude.

In urban areas where informal activities are ubiquitous, diversification of income sources within the family consists either in simultaneously running several businesses or in combining various types of income such as rental and informal income or salaries. In other words, the one man / one job equation does not work for low income countries. This also means that instead of realising economies of scale based on one single activity, people prefer combining several, possibly less productive activities, thus guaranteeing daily petty income over a long period.

Above all, investment in children's education and vocational training is undoubtedly the most common way of preparing future, insofar as family based solidarity includes gift exchange between generations. In other words, any young graduate working in a good job is supposed to respond to his parents' needs. Having a descendant working for instance as a civil servant is very often the parents' most effective social welfare<sup>8</sup>.

As in other parts of Africa, Senegalese also make active use of so-called traditional safety nets. Thanks to more or less codified rules centred on reciprocity and protection of those who have a lower social status, people can ask for help in case of emergency.

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<sup>7</sup> This is also as means of maintaining social hierarchy.

<sup>8</sup> To a certain extent, this is less true nowadays because structural adjustment programs and the negative discourse on public service have been detrimental to the financial situation and the reputation of civil servants.

So-called “tontines” (Rotating Credit Associations or ROSCAs), which may be compared to Indian chit funds, also play a crucial role in alleviating vulnerability. In Senegal, in four households out of ten, at least one member participated in the “tontine” system in 1995, collecting by this way Rs 138 crore at the national level<sup>9</sup>. Since the nineties, this informal savings system is completed – and sometimes rivalled – by micro-finance institutions. In one Senegalese family out of five, at least one person is member of such an institution<sup>10</sup>.

All these strategies have a common denominator which is the search of an acceptable compromise between short term and long term perspectives, thus guaranteeing the material and social survival of the community.

Let us make three final remarks concerning the different vulnerability coping strategies. First of all, these strategies make use of cash as well as of assets. Secondly, their wide spectrum includes savings, loans, gifts and insurance, but the borderline between them is very narrow. Thirdly, economic and social mobiles are closely linked or, as K. Polanyi put it, economic life is embedded in social relations. People do not necessarily make a distinction between social engagement and investment in the economic field. This can be outlined through the following example. Most African citizens are very keen on real estate investments. Does a palatial house correspond to protective savings because it can be sold if necessary? Is it an economic investment because rented accommodation is rare and can be easily leased, thus generating income? Or is it an object of speculation if the house is situated in a residential area where prices are constantly on the rise? And what about the house’s role as a status symbol, a signal addressed to possible professional partners or to the future bride and potential in-laws?

## **Vulnerability and the functioning of the informal economy**

Informal production units are undoubtedly the most outstanding example of the social embeddedness of economic transactions (Lautier 1994, Portes *et al.* 1991). Production units form a continuum with more or less strong characteristics of informality depending on historical, social and political underpinnings. Their functioning can be summed up as follows. They are

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<sup>9</sup> This is equivalent to 1% of the GDP.

<sup>10</sup> The amount of loans distributed in 2001 was as high as Rs 112 crore.

small-sized, use limited technology and work with family labour or members of families linked by social obligations. Their labour force is highly flexible, its status is often ambiguous and, at least as far as relatives are concerned, its marginal cost is almost nil. Generally speaking, there is not only collusion of professional and domestic assets, but also of working capital and the family budget. Subcontracting is very common and strong personal ties are typical for the relations with customers, suppliers and other business partners. Productivity is low and so is the accumulation capacity. Non-conformity with state regulations is widespread.

Although the informal "sector" is an analytically weak concept, it soon became recognised by decision makers, especially ILO and the World Bank. But the multi-criteria definition very quickly turned out to be non operational and finally two characteristics prevailed, the size of the production unit and its relationship with legislation. The normative component of this approach is evident. As non-conformity was considered to be due to lack of capital, political measures taken until the mid-eighties aimed at formalising informal activities and at pushing them towards a westernised model. This is why international donors launched micro-credit programs which were supposed to solve the problem of non-conformity to state regulation. The underlying argument was the following one: if a manager wants a loan, he has to accept certain rules. In the nineties, this view gave way to a much more subtle analysis. This is partly due to the adjustment programs. Indeed, the social effects of these programs made the discourse on informal activities change radically. It was then UNICEF's turn to become interested in the social benefits of informal activities. The latter were considered as more and more valid substitutes for public companies in terms of employment creation, income generation and distribution. We know now that this substitution process is limited to very specific professions. Moreover, the numerous credit programs have not necessarily contributed to the emergence of entrepreneurship, nor have they to poverty alleviation (Mosley and Hulme 1998).

Although informal activities have not really come up to the expectations of international donor agencies and national decision makers, they continue to be idealised because they are supposed to embody the "true market". But one of the paradoxes of the informal economy is that the closer informal activities come to the model of the "true market" the more they depend on personal ties (Portes 1994). Indeed, in opposition to the optimistic view, informal activities are not an active response to unemployment

problems, but a necessity to guarantee the survival of the family. But instead of being resolved inside the economic sphere of the enterprise, their vulnerability is transferred to others (Pourcet 1995, Servet 1996). Firstly, problems related to risk and uncertainty are transferred to the family and the close environment. In case of economic stress due to low demand or unexpectedly high production costs, household assets are sold, consumption is reduced, family members might be forced to emigrate, relatives and friends are solicited for financial help. The pressure is particularly high in case of illness of a family worker who continues to depend on the budget without being productive. Secondly, customers and suppliers have to bear the consequences of internal deficiencies concerning production and delivery delays and financial engagements. Whereas the former have to pre-finance the ordered items, the latter have to accept more or less "generous" payment schedules. Thirdly, as it would be too costly to respect ecological norms, the environment has to bear negative externalities in the form of pollution. And lastly, problems related to vulnerability are transferred to the state in so far as legal obligations related to taxation and norms are not respected.

Risk transfer strategies as they are worked out by the informal economy are only effective under a certain number of conditions which are less and less fulfilled. First of all, customers and suppliers must accept to endure the economic distress inside the informal production units. In times of tough competition between micro-entrepreneurs this cannot be taken for granted. Secondly, state power and the civil society has to be tolerant if rules are not followed. Although by-passing rules is one of the most outstanding characteristics of low income countries, there is growing awareness of problems linked to security<sup>11</sup>. Above all, personal ties and so-called traditional solidarity have to be strong enough in order to compensate for economic stress inside the households and the production units. This does not any longer seem to be the case. Indeed, field research carried out in West-African towns gives evidence of new attitudes concerning social obligations (Marie 1997, Leimdorfer and Marie 2003). Although solidarity is still a crucial element of social life, acts of solidarity are more and more limited to the nuclear family<sup>12</sup>. They frequently give way to implicit contracts: parents and relatives are only succoured under certain conditions.

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<sup>11</sup> In Senegal, a shipwreck in September 2002 killing more than 1.800 passengers, made people more conscious about security in public transport.

<sup>12</sup> The decreasing number of unemployed people accommodated by Senegalese households can be interpreted in this sense.

In other words, neither the welfare distribution system nor the so-called traditional kinship and family-based reciprocity are able to respond to the protection needs of the population nowadays. Generalised monetarisation, a highly competitive economic environment, unemployment, low income, growing monetary needs – due to the privatisation of health services and education – and new, imported consumption patterns could throw the system out of balance and thus generate conflicts. Owing to this new context, new forms of risk alleviation have to be found.

## **Micro-insurance as a response to the dilemma between risk and uncertainty**

Vulnerability is due to more or less predictable, measurable events situated on a continuum ranking from risk to uncertainty. Risks – such as climatic events – occur with a certain regularity or concern a large number of persons. For instance, thanks to observation over long periods, scientists are able to evaluate the frequency of rainfall and drought. Actuarial methods make it possible to calculate life expectancy, birth rate and the prevalence of disease, etc., and to propose adequate insurance coverage. On the contrary, events due to uncertainty depend to a large extent on human will. This is why political upheavals and voluntary degradation or misuse of assets cannot be the object of calculation.

Low income countries are more characterised by uncertainty than by risk, which handicaps the actuarial calculation of insurable events and seriously diminishes the profitability of modern insurance companies<sup>13</sup>. Indeed, in these countries, statistical data are limited and instead of circulating for the benefit of the majority, information is often controlled by rent-seekers and private consultants. The functioning of informal activities highlighted above, with vulnerability transfer to the most fragile elements of society, reveals the difficulties of risk evaluation in poor countries. Moreover, personal connivance and the absence of political will often distort the “objective probability” of an event. This is especially the case when security norms are not respected. As far as transport is concerned, cars which have not been officially certified as being safe, over-loaded boats and buses, non-operational first aid services, etc., are but a few examples of this

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<sup>13</sup> In opposition to the public insurance system which is subsidised by the state's budget, private insurance companies cannot rely on external resources.

difficulty.

Owing to the collapse of the modern welfare state and the public insurance system and the crisis of the so-called traditional solidarity system in most sub-Saharan countries, there is a demand for new vulnerability coping products, especially in the field of health protection<sup>14</sup>. Indeed, economic distress related to costly health services is one of the most frequently quoted sources of vulnerability (Manje and Churchill 2002, Steinwachs 2002, Wright 1999). Very often it also delays loan repayments, thus contributing to the fragility of the financial system and diminishing trust in banks.

Concerning the provision of private health insurance in low income countries, principally, the actuarial calculation of events related to health is feasible, but modern insurance systems are often too costly for the poor. This is due to the high transaction costs which these systems have to support. Indeed, gathering reliable information on customers and their economic constraints generates costs, the high level of which is due to the spatial, cultural and technologic distance between modern insurance institutions – including banks – and the vast majority of the population. On the contrary, microfinance institutions make use of much more simple technology and they are culturally close to the poor (Baumann and Servet 1996). Thanks to this multiple proximity, costs related to technical infrastructure and information are minimised. Moreover, like so-called traditional networks, micro-finance institutions are able to exert pressure on defaulters, which contributes to their trustworthiness and, finally, to their sustainability.

Until now, in countries like Senegal micro-assurance provision by micro-finance institutions is still limited. As highlighted above, the vulnerability coping strategies the poor make use of are multiple and include in kind savings, more or less targeted cash savings, loans and insurance. Or, as one micro-finance specialist put it, “the poor do not have a ‘natural’ preference for savings over loans, or vice versa – they have a need to turn small pay-ins into large take-outs.”<sup>15</sup>. Nevertheless, interest in micro-insurance is growing. For the moment, it seems that micro-insurance

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<sup>14</sup> See Aliber & Ido 2002, Atim 2000, Brown & McCord 2000, Brown & Churchill 2000, Churchill 2002, Fall 2002, Manje & Churchill 2002, Reynaud 2002, Seck 1993, Steinwachs 2002, Wright 1999. See also [www.ilo.org/step](http://www.ilo.org/step), [www.ilo.org/socialfinance](http://www.ilo.org/socialfinance), [www.mip.org](http://www.mip.org). For public welfare in Senegal, see Baumann 2003.

<sup>15</sup> Rutherford (St.), *The poor and their money*. New Delhi, Oxford University Press, 2000, p. 110 quoted in Fisher & Sriram, 2002: 50.

subscribers are those who already benefit from social security, but who wish for better insurance coverage<sup>16</sup>. It goes without saying that these better-off subscribers will be gradually followed by others, as is the case for consumption habits in other fields.

## **Micro-insurance and the introduction of new norms**

The adjustment programs carried out in low income countries like those situated south of the Sahara, are supposed to bring about the transition from a state controlled system to a market economy. In order to attract and maintain foreign investors and firms interested in subcontracting, positive signals have to be given. Among others, these signals consist in efficient measures alleviating poverty, protecting the labour force against vulnerability, and encouraging entrepreneurs to take risks. Yet, the impact of micro-finance goes far beyond the simple economic and financial sphere. Indeed, micro-finance and its products contribute to the introduction and generalisation of so-called universal norms. These are crucial for the integration of low income countries into a globalised economic system which is the final aim of adjustment programs.

The gradual separation between the public and the private sphere is of vital importance, which means that people are implicitly encouraged to separate social, economic and political considerations. Professional problems tend to be treated more or less apart, to the detriment of their social embeddedness and to the so-called traditional solidarity. Indeed, micro-finance leads to more functional ties. Legislation contributes to this evolution<sup>17</sup>. The members of a more or less formal credit and savings association have similar economic interests. The proceedings of their association are regulated by official rules and controlled by the central banking system. The annual report has to be certified by professionals. This is not the case with ROSCAs, because they bring together people because of affinity and kinship ties. ROSCAs therefor remain in the private field.

The separation between the public and the private sphere also concerns the production units. In other words, the petty commodity producers are encouraged to make a distinction not only between the working

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<sup>16</sup> See Atim 2000, Fall 2002.

<sup>17</sup> See the legislation on credit associations, foundations, trade unions, etc.

capital and the household budget, but also between professional and domestic assets. Thus, as risks are pooled and covered by the micro-insurance, the entrepreneur's direct relatives are more and more protected from economic distress. Selling off domestic assets may thus be avoided or at least reduced. In this way, the entrepreneur's responsibility is bound to be strengthened.

Vulnerability alleviating products encourage risk-taking attitudes. This means that they can lead to increased labour division and, consequently, to economies of scale. This is not only the case for the entrepreneurs who benefit from micro-finance products, it is also true for the micro-finance institutions themselves. The more competence they acquire in their specific field, the more the products will be adapted to the customers' needs and the more profit they will generate. With society becoming more complex, they also contribute to its cohesion. This also means that new social actors will emerge in order to make this complex society more intelligible. These actors are intermediaries between micro-finance institutions, the state, donors such as NGOs and the customers of the micro-finance institutions. University graduates often play a vital role in this context.

At the same time, the civil society is enabled to progress because micro-finance key parameters must be discussed and agreed upon by the members, regardless of their social origin, religion or political convictions. Conflicting views due to ethnic origin or cultural difference may be voiced and thus be gradually overcome. Hierarchies based on gender may be broken up, particularly by female entrepreneurs. Financial help to family members may be turned down on the grounds that rules have to be respected and that membership obligations prevail. micro-finance institution.

Undoubtedly, one of the most radical innovations brought about by micro-finance products and particularly by micro-insurance is related to the perception of time. Income fluctuations due to agricultural seasons and religious events are reduced, which can generate future-oriented attitudes and long-term projects. Their common denominator is "western" time. Thus, time can be domesticated and the comprehension of temporality becomes more abstract.



## **Micro-insurance and its limits**

Micro-finance products and particularly micro-insurance open encouraging perspectives which may help to alleviate certain forms of economic distress in low income countries.

Yet, subscribers to micro-insurance do not always very well understand the principles of risk pooling, and individualistic behaviour may increase the frequency of moral hazard and adverse selection. People are reluctant to give up a portion of their hard-earned income in exchange for a potential future benefit they hope they will not need. This is not the case with the so-called traditional vulnerability alleviating strategies, such as savings because one can always rely on them.

Spatial and demographic constraints which are common in sub-Saharan countries, may handicap risk pooling and insufficient population density can be detrimental to good coverage. If the subscribers live in a limited area and make a living out of a very small number of activities, for instance life-stock breeding, they all may suffer from the same distress. This will give rise to the so-called risk of covariance and harden compensation, thus diminishing the subscribers' trust in the system. Generally speaking, the introduction of property insurance tends to encounter severe handicaps. On the contrary, health insurance caters more specifically to the expectations of micro-entrepreneurs. This is why the demand for this product is particularly high.

Nevertheless, insurance is not a panacea for variations of economic distress such as deficiencies in the health system, venality of civil servants, bad roads and weak output in agriculture. Real development needs more than financial techniques. Above all, it needs political will in order to get rid off rent-seeking attitudes which are still ubiquitous in sub-Saharan societies.

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## **Rural credit programs and gender issues: a case study from India**

Kamala Marius-Gnanou

Rural Indian women represent one of the most active social categories in the country – 27% are active in rural areas against 10% in urban areas (Shah *et al.* 1999, p. 153), yet they are one of the most underprivileged groups. In addition to their function of reproduction, women, especially the landless and lower caste agricultural labourers, are responsible for food security, often supplementing their husbands' insufficient resources. Economic empowerment of women is essential for raising their status in society, and can be achieved through giving them opportunities for employment. Research has shown that women's employment leads to better education, health and skill development of the family and certainly, better opportunities for girl children.

### **Feminisation of poverty in rural India**

India's policy of liberalisation in the 1990s marked its integration into the globalised economy. By favouring the development of export industries and their delocalisation, liberalisation has enabled the growth of women's employment in most countries of the South, particularly India. However, women have been the only ones to pay for the "hidden costs" of adjustment (SAP) and globalisation. Flexibility, an essential component of globalisation, has perpetuated casual labour among women. Between 1987 and 1994, the rates of increase of female casual labour were much higher than those of

men, indicating that women have been forced to enter into casual employment in order to supplement falling rural incomes and decreasing government support (Bhan 2001). The 1990s was a lost decade for agriculture and rural development. The average annual growth for agriculture in value added terms declined from 3.5% in the 1980s to 2.8% in the 1990s; preliminary NSS estimates on employment for 1999-2000 indicated that rural employment had suffered a serious setback during that decade (Majumdar 2002).

Globalisation has accentuated the vulnerability of women who face a threefold responsibility – daily care of children, maintenance of the household and subsistence activities. A working woman not only has to accomplish her paid work well, but also has to take care of her entire household. In most cases, the distinction between household activity and business activity is not clear, and the amount of time spent by a woman at work is difficult to evaluate. In rural areas, their situation is made more difficult by their isolation and lack of support from their husbands.

Globalisation has consolidated the old idea of feminisation of poverty. Barring educated women, the advantages of globalisation rarely benefit rural women. Though many studies have established a strong correlation between the emergence of a salaried class of women and the globalisation process, they also draw attention to the fact that a large number are employed in insecure conditions (temporary contract, domiciliary contract jobs, etc.) in both formal and informal sectors. In order to complement family incomes, women, who start working at a younger age, find themselves in underpaid, informal activities. In India, less than one woman in seven works in the organised sector and in rural areas they represent more than half the informal labour force. Dalit and tribal women account for half of female agricultural labourers and almost all of them are landless. Another glaring example is the *beedi*<sup>1</sup> industry where almost 90% of the workers are women. In the countryside, unit rate contract work in the non-agricultural sector (tailoring, rope manufacturing, tanneries, construction) is the least remunerative. Due to a lack of labour mobility, adequate education and job skills, there is an increasing tendency to displace female workers into the informal sector which results in their marginalisation and exclusion from traditional sectors of employment.

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<sup>1</sup> Cheap cigarettes, manually prepared by the villagers. They are made from dried and untreated tobacco which is rolled in a leaf (*kendu*).

Even though employment in the informal sector means a greater freedom in terms of earning and working hours for women who also have family responsibilities, the work done is unskilled and without guaranty, which increases gender inequalities in terms of employment income. In spite of many hours spent in these occupations, a number of women fail to mention these activities to investigators during surveys, considering such activities an extension of their domestic work. They are also rarely aware of their rights, and their isolation gives them little opportunity to press for the implementation of laws. A recent government-backed study by Das Gupta, *et al.*, 1995 indicates a rise of poverty, especially in rural areas, and among women. Poverty experienced by women is further exacerbated in the case of female-headed households (FHHs), which represent approximately 20% of rural households. The lack of property, inheritance laws, micro credit facilities and the absence of any pension make the situation more precarious. Gendered experiences of poverty also demonstrate that the mere transfer of income to people living in poverty does not change biases in inter and intra-household resource allocation. Intervention programmes must thus focus on the empowerment of women themselves, and enable them to gain decision-making powers (Bhan 2001).

## **Feminisation of labour and gender inequality**

The number of working Indian women is growing, but the majority, the poorest, work out of necessity, and for salaries which are distinctly lower than those of men, barring the public sector.

The increasing feminisation of agricultural labour mostly affects the lower castes. An example of this is the Vanyars in Tamil Nadu and Pondicherry. Research in rural Tamil Nadu for almost 15 years has shown that rural women are confined to poorly paid agricultural work (Marius-Gnanou 1998). The poorest work in the fields, under conditions that are often hard and unsatisfactory. In India, agriculture offers the largest employment to women: 35% of all working women are agriculturists, 43% are agricultural labourers and 5% are employed in non-agricultural sectors (animal raising, fishing and forests). In fact, 78% of women depend on agriculture, compared to 63% of men. In Tamil Nadu, the sex ratio among agricultural labourers favours women (53/47). With the increasing migration of husbands to towns, and the feminisation of farming activities, the feminisation of labour can only



increase. However, much of the increase in female employment, especially in agriculture and other forms of employment, is not due to increased demand, but seems to be the result of their distress, which augments the supply of labour. There is a growing casualisation of female labour, with a clear indication that the use of female labour has been associated with greater insecurity of labour contracts and inferior pay, compared to the situation prevailing for men (Papolan 1999).

In spite of the important and increasing participation of women in agriculture, hardly one third are agriculturists (Arora 1999). This is because, in rural India, as in all patriarchal societies, cultivable land is traditionally transmitted by right to sons, with the exception of some regions (Kerala and Meghalaya) where inheritance is matrilineal or not dependent on gender, and some Muslim communities. Today, in spite of the legal right of women to inherit land, only South Indian women inherit land through endogamic marriage (within the village, indeed the family); on the other hand, in the North where exogamy and *purdah* (the system of female seclusion) dominate, land remains out of the grasp of women. This exclusion from the right to land inevitably conditions a limited access to credit, equipment, popularisation and extension services.

There are several studies which show that all household work in poor families falls on girls, who take care of little children, cook, clean and fetch water. A recent study showed that a girl in the age group of 6-14 spends over 13 hours a week on activities involving household maintenance, management and shopping for her household, whereas a boy of the same age group spends about 5 hours a week on similar activities (Bhatia 2002). In a patriarchal society, this is a way to prepare the girl for household chores before her marriage. The older girls go to the fields with their parents to help sowing, transplanting, weeding, harvesting and gathering firewood.

Female child labour might be on the rise through the inclusion of domestic help and duties. This is mainly attributable to rising female poverty due to stagnation in agriculture and the marginalisation of female workers in manufacturing sectors, both of which force more women and children into the informal sector (Bhan 2001).

In the countryside, female child labour is most evident as 10% below 15 years work for miserably low salaries. Girls, with no technical qualifications, work in the match, rope-making, *beedi* industries, in incense stick factories, cotton ginning, shelling groundnuts, and cleaning cereals, among others, until attaining their maturity. There is much to be done by way

of political programmes, legislation and policies on education, before these working girls are given the opportunity to blossom, free from the shackles of child labour.

The Green Revolution has had a positive impact on agricultural growth and the contribution of women to this effort has been substantial, though they continue to be employed in agriculture mostly as marginal workers. The redistribution of benefits, especially to women, has not materialised. High yielding and short cycle varieties of rice and wheat, multiplication of farming operations, doubling of yield, have created more employment opportunities for women than men. Farming operations such as planting and weeding, reserved exclusively for women, are always manually performed in India unlike ploughing and puddling, which are mechanised. Specialists confirm that 77% women and 23% men are required for the cultivation of rice. Though salaries in monetary terms have increased for all categories taken as a whole, it is not so in real terms, because of large variations within these categories: for example, the purchasing power of female agricultural labourers has decreased, due to demographic pressure which is always strong on the poorest. While the nature of work differs according to the gender of the workers, (often more productive in the case of women), it is shocking to observe such exploitation of women, when it is known that they contribute not only to the daily activities of the household but also to its very survival. When interviewed, a large number of landless women demanded salaries equal to those of men, and preferred to manage the household money themselves because the money was otherwise squandered on alcohol and cigarettes. Interestingly, husbands present during these interviews did not refute the charges.

The negotiating power of women could increase because of agricultural diversification which is ever expanding. With the development of farming of cash crops (sugar cane, oil seeds, bananas, tea plantations and so on), women increasingly work on a contract basis, especially in farming operations such as weeding and harvesting. However, the increasing and irreversible mechanisation of several operations has penalised landless female labourers in spite of the strong pressure exerted by women's groups against mechanisation.

Studies on employment opportunities generated by the Green Revolution have not taken into consideration gender differentiation, which is concomitant of poverty. In the process of modernisation of agriculture, women can obtain employment, but in a large number of cases, since they

have hardly any control over their earnings, they have little autonomy or say in the decision making process at home. Changes in the relationship between men and women through shared responsibilities and the empowerment of women cannot be achieved by a development programme alone, because of the patriarchal nature of rural society.

In spite of the development of numerous activities in agriculture related fields that has mainly benefited men (artisans, small traders, owners of rice processing units), it is rare to find women *coolies*<sup>2</sup> who have been able to improve their lot. However, the feminisation of poverty is not a direct consequence of the Green Revolution; without it, rural misery would have been even worse. On the other hand, by reducing expenditure on social development, SAP has only aggravated the feminisation of poverty. According to studies by the NSS, two thirds of female agricultural labourers live below the poverty line; the situation in places like Tamil Nadu is even worse: on a sample of 17% of the poor, 57% were women (Arora 1999).

The condition of these women can only get worse as the Green Revolution has run out of steam since the 1990s. New investments are made for industrialisation of rural areas because of falling income from agriculture (Harriss-White 1997).

## **Emergence of a salaried class of women industrial workers**

Globalisation, which helps export-oriented manufacturing industries to grow, has been an impetus for the emergence of a salaried class of industrial woman workers not only in urban areas but also in rural areas. In the context of globalisation and international competitiveness, employers prefer locating their factories in rural or semi-urban areas in order to optimise the cost of production and to benefit from economies of scale. Women, whose labour costs less, are more dependent on employers, especially in rural areas. Female labour is cheap because of the difference between the wages of men and women and also because there is lack of security and protection; both are linked to the flexibility of the labour market. Women employed as low-skilled workers in the manufacturing sector tend to get easily displaced by new technologies and are either pushed out or pushed down when new skills are needed. On the other hand, women too prefer some flexibility in their

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<sup>2</sup> Manual labourer.

work, which allows them to take care of their families. Their docility is also a reason why employers prefer women labourers.

Globalisation has not had the same effect on women as on men. The flexibility of the labour market is the reason for feminisation of jobs long dominated by men, but several studies have also shown that women are paid less than men, and that they accept new types of employment (part time, temporary, domiciliary, unit rate) for which they cannot claim promotion, which make their jobs insecure. Nevertheless, none of the women interviewed were willing to give up their jobs in factories or fight for better wages, as according to them the exploitation in factories was insignificant compared to what they experienced at home. In rural areas, where some husbands do not fulfil their responsibilities as head of the family, women look upon their employers as benefactors as they provide them with the possibility of earning even though their salaries might be ridiculously low. However, this regular income has not enabled women to negotiate the sharing of power within the family or even to participate in decision making. The general deterioration of living conditions and patriarchal attitudes have forced them to look after their families and at the same time to take up an income generating occupation. On the other hand, women are often the first victims of the closure of industries. India has had only a mild experience of the Asian crisis, but the global crisis experienced by certain manufacturing industries has contributed to the loss of thousands of jobs among working women.

The example of a leather industrial district in rural Tamil Nadu fully provides an illustration of this phenomenon. Shoe factories have created job opportunities for women who represent unskilled labour in this sector, even though they are better educated than agricultural workers. Paradoxically, in these industrialised rural areas, they have been the only ones to have regular employment in the formal sector. In such rural areas, where employment is seasonal, men are forced to migrate temporarily to neighbouring towns for employment in construction and service sectors. In such rural areas, where the patriarchal ideology is deep rooted, the emergence of a female salaried class, even with the increased exploitation of women that it implies, may be a factor leading to emancipation, according to women interviewed about their condition. Salaried employment of women increases their power to negotiate their position and power both at home and in the economy and helps towards their social emancipation (Sen 2000).

After marriage, some women have to give up their jobs in factories to look after children. Some however, manage to get work which can be done at home until the children grow up, but for very low salaries (at piece rate) and do not get welfare benefits (bonus, allowance, maternity leave, retirement benefit, etc.). This system, which is highly prized by the mothers who have been interviewed, minimises in many ways the contradictions between the necessity to stay at home and look after the children and the necessity to leave the children in order to work outside. The system of employment through piece rate payment increases the exploitation of these isolated women who have no legal right to demand better working conditions and higher salaries.

Because of these conditions, the institutions involved in development such as the UNDP, the WB and the ILO have begun to understand that women's empowerment should be given greater importance in new economic programmes for rural development and for the eradication of poverty.

## **Ancient tradition of rural credit program in India**

Since Independence, those in power have fought against poverty, and the integrated rural development programme has been an important theme during electoral campaigns. Inspired by Mahatma Gandhi, community development aimed at stimulating the spirit of self help within a highly hierarchical system with block development as its core, the block comprising of about a hundred villages. Because of poor results due to the incompetence and corruption of officials, and in order to revitalise the spirit of rural people, a structure like the Panchayat<sup>3</sup> was established, where people could take decisions and whose members could be elected by universal suffrage. As the Panchayat was dominated and manipulated by elite men in spite of seats reserved for people of lower castes, it has recently been decided to reserve one third of the seats for women in local bodies like the Panchayat and Zilla Parishad<sup>4</sup>. However, there is resistance to the extension of this quota system to the State and National Assembly. The reservation system has brought about a perceptible change, even though many women have difficulty in affirming themselves in more traditional areas. Today, nearly one million women have

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<sup>3</sup> Village council.

<sup>4</sup> District committee.

been elected to Panchayats but this empowerment is not important, as it is the husbands of these elected women who take all political decisions. A recent study conducted in three villages of Uttar Pradesh and Karnataka disclosed that women merely signed the papers presented to them by their husbands and that they did not even attend political meetings (Nayar 2000, 2002). This is because women in many rural areas, especially in the North, are illiterate and have low incomes; given their lack of education and experience in conducting business matters, it is difficult for a woman to even access information. "Their political placement in these institutions in relationships of dependence to locally powerful persons prevents them from evolving a broader political agenda to push for the interests of the poor in the community. Effectively, the women remain tied to the project/grant discourse which reinforces the power of the local strongman" (Nayar 2002).

However, in Tamil Nadu, a little change was noticed during the last elections of the Panchayats; many women of Self Help Groups, whether sponsored or not by NGOs, were elected to their Gram Panchayats. In Thiruvallur district, 74 women members of SHGs decided to stand for elections in October 2001 as against merely 26 the previous time (Kannan 2001).

In order to curtail the hold of moneylenders, co-operative institutions for agricultural credit were set up in 1950-60, which too were used for their own benefit by better-off village leaders who control and operate the system of exploitation. Programmes for specific credit (cattle raising, local crafts) to the landless (small farmers agency, marginal farmers and agricultural labourers) were established from 1975 onwards; because of their interventionist, temporary and disorganised nature, the lack of monitoring and the small number of beneficiaries, the exercise inevitably ended in failure.

The government's biggest effort to give employment to women has, however, been in the rural development sector. In order to improve their efficiency, all the programmes for rural development were unified in 1979 into a single programme called the Integrated Rural Development Programme (IRDP), considered the largest rural development programme to fight poverty launched by any government in the world in the 1980s. Means of production through micro credit was a measure to ensure self-employment. Rural credit was provided for all types of economic activities: animal raising, hair dressing saloons, poultry, tea stalls, photography studios, tailoring shops, bicycle repair shops. 40% of the beneficiaries of credit,

(which is limited to a maximum of Rs 5,000/-, or selected by the block development officers from among heads of families of five persons or more whose annual income was less than Rs 6,400/-) were women. Over almost two decades, the IRDP extended assistance to about 55 million families (Fisher, Sriram 2002). Of the credit awarded to the 600 families benefiting from the scheme annually in each block, one third was reserved for the Scheduled Castes and one third for women. The total percentage of women assisted in the last decade rose to 25.01% (Seth 2000, p. 206). Though many of the beneficiaries (the majority of whom are men, as the credit was extended to heads of families) were able to increase their incomes, only 10% could raise their standard of living above the poverty line, and a non-negligible number could not even repay the loan in 5 years. During a survey in Tamil Nadu, some beneficiaries complained of the death of their animals because they could not meet the high maintenance costs (forage, veterinary aid, low yield – 2 litres of milk per day, at the most) and of lack of help and other services in general. The scheme that sought to attribute means of production to the rural poor, who have little motivation and no particular training, was bound to fail even before it began (Marius-Gnanou 1991). Other surveys (Swaminathan 1990) showed that the overall share of productive assets in total wealth remained unchanged between 1977 (before IRDP) and 1985 (after IRDP). On the other hand, providing milch cows to the most destitute widows, handicapped persons and unmarried mothers have shown better economic results, even if organisation of labour and management of milk co-operatives are mainly in the hands of men.

The relative failure of IRDP is attributed to excessive bureaucracy involving diversion of funds and delays (often more than a year) in awarding means of production, inappropriate identification of beneficiaries<sup>5</sup>, very low rates of repayment and the failure to take gender disparity and poverty into account. Though rural credit made it possible to limit the role of usurers, it failed to fix the responsibility on the debtors – mostly men – who tend to delay or even default in repayment of loans, which they consider to be subsidies by the state. In general, the IRDP experienced repayment rates of less than one-third and created 40 million defaulters (Fisher, Sriram 2002). In his field study in Tamil Nadu, Swaminathan (1985) found that only 12.5% of borrowers had fully repaid the loans. The low repayment of loan is also due

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<sup>5</sup> The Swaminathan survey (1990) in a village of TN showed that 24-27% of the beneficiaries were not eligible for assistance. Economically comfortable property owners belonging to the high caste, profited from this programme.

to the demagoguery of certain politicians, who did not hesitate to cancel all the loans of the villagers on the eve of elections. The government decided during the Eight Plan, that projects under the IRDP could be set up exclusively for women, to be manned by voluntary organisations.

## **Self-employment programmes and women**

A sub programme of the IRDP, the development of women and children in rural areas (DWCRA) was devised uniquely for women living below the poverty line. Funded in 1982 by the State and UNICEF, with a revolving fund of Rs 15,000/- (for purchasing material and for the salary of the organiser), this scheme aims to train groups of 15 to 40 women (belonged to SC or ST) in traditional and utilitarian crafts which may be commercialised locally and nationally (stitching, embroidery, making bags, cutting semi-precious stones) and at the same time takes the responsibility of their children. Besides, employment activities, the groups provide greater access for women to basic services like health, education, child care, nutrition, water and sanitation. It was started in the Sixth Plan and so far it has covered 23,09,848 women (Seth 2000, p. 207).

One of the women in charge of these training centres in Kuddapakam expressed her disappointment because very few women participated in this programme even though they were given the possibility of getting a certificate from the government on completion of the two-year training. According to her, the low rate of participation in this programme could be because the husbands do not allow their wives to participate in the programme. A new feature of these centres is the kindergarten, which accepts children from 2.5-5 years. In addition to activities that promote awareness, the children are given nutritious food, rich in protein (eggs, glucose biscuits and milk), and bathed every day. It is only in the peak agricultural season that women bring their children to the centres. Many of the women are dissatisfied because of the stereotyped activities, lacking in innovation, which generate little income and do not respond strongly to market demand. In addition, the skills imparted are too simple and there are many handicaps in marketing.

Other examples from Tamil Nadu (Kapadia 1997) also confirm that gender equity has not been taken into account in this programme. In two districts of Tamil Nadu, Pudukottai and Tiruchirappalli, the women



participating in the DWCRA programme who received training in cutting semi-precious stones, were able to obtain credit from nationalised rural banks in the form of technologically advanced semi-automatic stone cutting machines. Those in charge of the programme were disappointed because, in spite of the fact that women earned good income by working several hours a day at home in domiciliary jobs the earnings were monopolised by their husbands. An expedient change in these programmes was the award of loans to women of higher castes, whereas initially these programmes were meant only for Dalit women. Kapadia (1997) goes as far as to say that Dalit women, who are more demanding and assertive, have better control over their earnings than women of higher castes who, for long, have not had the habit of working.

However, in spite of many problems mentioned above, DWCRA seeks to encourage collective action in the form of group activities which are known to work better than individual efforts. The group approach (SHG) is useful for raising women's employment and empowerment. For example, DWCRA is more successful in Andhra Pradesh than in other States. For example, an experimental paper-making training and production unit was started at Anandapuram three months ago with investment from the AP Council of Science and Technology (APCOST). The factory, set up with a meagre investment of Rs 2.67 lakhs, provides employment to women belonging to a local DWCRA group. The centre currently has orders for 1,000 sheets of paper a day, but is able to produce only 100. An active DWCRA group could begin production practically without any investment, as there is heavy demand for paper in the market. The DRDA proposes to train them in value added techniques. Another example of a Training and Technology Development Centre (TTDA) in the Visakhapatnam district has provided skills improvement training exclusively for women, in order to empower them economically. This well-maintained centre has professionals who teach women methods to improve traditional skills, for gainful employment in their rural set-up. Emphasis is laid on encouraging thrift activity by the SHGs, so that the women can carry out sustainable group economic activity at their places of residence, utilising raw materials available in their vicinity, and also avoid depending on middlemen or some government agency for the procurement and marketing of finished products. The courses offered at the TTDA give the women enormous choices for starting self-sustaining entrepreneurial ventures. Production of jute bags and other jute products, for the fashion design industry, screen printing, hand-made paper production, vegetable farming and preparation of juices, jams,

pickles and papads are some of the popular programmes. In Andhra Pradesh, the government gathered 3,7 lakhs and odd DWCRA groups of women in corporate bodies in the self help movement to improve their skills for standardising the 450 identified items to produce and market them in the country and abroad. The Tata Group and Hindustan Lever have come forward to adopt districts and villages for this purpose.

Similarly in Gujarat, DWCRA under SEWA worked much better than other groups in the State (Papola, Sharma 1999). But some other studies (Nair 2002) in Gujarat have emphasised the inefficiency in input and service delivery and ineffective administration as the main reason for the lacklustre performance of DWCRA. In this context, the concept of group was used in a fairly loose sense. The program mission was narrowly translated to mean “give women some work during their free time”. As a result, in the majority of the cases, the scheme was routed through single individuals. However, in spite of numerous programmes for economic development and empowerment of women<sup>6</sup>, poverty has increased, particularly among rural women of underprivileged castes. The government policies of integrated rural development, favouring subsidised loans to a single category of the population indicates that it is more a problem of allocation of resources between men and women than a problem specific to women. When we analyse the policy formulation and planning for women’s development, one thing that is striking is the lack of conceptualisation about women’s needs. Initiatives and funding for women’s projects and schemes have mainly come through the Central Government.

## **Self-help groups: a new tool to promote rural development**

One of the most positive solutions is to encourage women’s organisations to collaborate by collectively borrowing: this is the principle of self help groups has been implemented in India since 1992 for the development and greater power of women. These SHGs, whose members are collectively responsible for the loan, are designed to promote repayment. In rural areas, members of a group, usually being neighbours, know each other well and thus can decide

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<sup>6</sup> For the first time, the final Ninth Plan (1999-2002) states categorically that for empowering women as the agents of social change and development, a National policy for empowerment of women would be formulated (Seth 2000, p.65).

among themselves about admitting a new member. The condition of the borrower is precisely assessed, which explains why there is almost no default; a borrower will be allowed to take a new loan only if the previous loan is fully repaid. Small groups with a homogenous socio-economic structure show a sense of solidarity, the success or failure of the group depending on the behaviour of each participant. Borrowing and saving in small groups of women, self regulation achieved through the knowledge of the situation of each member, principle of mutual security and solidarity in the event of a hardship are the fundamental values of the system of micro credit (Vincent 2000).

Being aware of the deficiencies of the government's programmes, mainly non repayment of loans by men and non consideration of gender related issues and of empowerment, the present government decided in April 1999 to unite all the programmes for rural development (IRDP, TRYSEM, DWCRA) into a single programme called Swarnjayanti Gram Swarozar Yojana (SGSY), favouring micro credit and empowerment of women through a participatory approach (Rao 1999), unlike the interventionist approach of the 1980s. SGSY is now managed by the Women and Child Development Departments. The handing over of management of these schemes for women to women's departments would ensure better performance and give management opportunities to a whole cadre of female functionaries, who are more sensitised to the needs of women (Seth 2000, p. 225). SGSY would seek to promote multiple doses of credit rather than a "one-short credit injection". It is stated that the subsidy will be minor and an enabling component of the program (Jha 2000). SGSY seeks to cover 30% of all rural poor families in 2004. The group approach through SHGs is the main focus in the SGSY. The SHGs are expected to act as financial intermediaries and vehicles for empowerment of women. But the need for greater extension efforts due to women's lack of education and exposure, social constraints and family responsibilities should be taken into consideration. Gender sensitisation of the delivery system is imperative (Rao 1999).

Banks will have to reach the rural poor through SHGs, providing essential micro finance. It is estimated that 1,600 non financial institutions operate in India to provide micro credit to women. This might appear a large number, but this is because all the 800 NGOs and Trusts which depend on the National Bank for Agricultural and Rural Development, have been included, as well as partners in the Grameen Trust (20) and Co-operatives

(860) (Nair 2001). Commercial and regional banks and the financial sector in general, provide the resources to NGOs, SHGs and the non-formal sector, which then act as intermediaries.

In contrast to bureaucrats, who were for long in charge of rural credit, NGOs are closed to beneficiaries and offer a range of services such as setting up mutual security groups, assistance with local banks, and job training. These NGOs are also involved in training the borrowers in matters connected with bank credit (help in understanding commitments, rates of interest, explain the various documents of the bank, bill book and so on). The new role of NGOs in microfinance has created closer ties between the State on one hand and NGOs and civil society in general on the other (Nair 2001).

During field trips undertaken in Vellore district in Tamil Nadu in 1999 and 2001, it was possible to see a lot of SHGs. Thanks to one of the persons in charge of the Tamil Nadu Women's Development Project (Mahalir Thittam), it was possible to meet many groups of women in the villages of the region. The principle is simple; the group in the village should gather 10 to 20 married Dalit women. The group formation process may be facilitated by a recognized NGO or by the MFO or bank itself. The group is constituted from the moment when each woman has placed Rs 20/- in the common fund. The SHG opens a saving account in the group's name with the MFO or bank. The MFO or bank makes a loan to the SHG in the name of the group. In effect, the SHG functions like a micro-bank, undertaking all the familiar intermediary tasks of savings mobilisation and lending. The small saving which will be deposited in the bank enable them to begin small activities and borrow from banks at an attractive rate (4%). Many of them hope to get either a sewing machine, a cow, or even a job as a weaver. The dynamism of the assistants in TNWDC and NGOs, instrumental in setting up SHGs, augurs a promising future. Tamil Nadu is one of the most advanced States in setting up SHGs, and a lot of SHGs interact directly with banks or through NGOs which are very active in the region (Care, Dhan, Assefa, Lead).

The government authorities, aware of the success of these schemes and the interest shown by people in them, have set up a new fund called the Rashtria Mahila Kosh (RMK) in the department of Woman and Child Welfare, and a new autonomous body called Women Economic Development Corporation. Today, they support projects of several hundreds of thousands of women in India. These foundations and NGOs, financed since 1990-95 by the Indian government (NABARD and the Small Industrial

Development Bank of India) or by international agencies, act as intermediaries between financiers and borrowers. They help considerably reduce the administrative costs as well as the risks that the formal financing sector in India did not wish to cover. In April 2001, more than 285,000 SHGs (as opposed to hardly 250 SHGs in 1992), predominantly with women members (15 to 20 women per group), borrowed directly from commercial banks or through NGOs,<sup>7</sup> an average sum of Rs 18,000/- per group. It is estimated that 300,000 rural families have directly benefited from micro credit and that the repayment has been 100% (NABARD 2001). During the year 2000-2001 alone, 171,000 SHGs took loans from banks, of which 149,000 were first-time borrowers, suggesting a rapid acceleration of this process towards NABARD (Fischer *et al.* 2002). Because of the unquestionable success of the scheme, it was then planned to promote this system of micro credit to cover 200,000 SHGs in 2002-3. By 2008, more than 25,000 branches of rural banks, 4,000 NGOs, 2,000 federations of SHGs will be involved in setting up more than 1 million SHGs, which are expected to absorb at least Rs 50,000 millions worth of funds, which is a huge challenge for the banking system (Fisher, Sriram 2002).

SHGs can be credited for their ability to negotiate directly with the banks the amount of money as well as the rate of interest required to finance any activity. The bankers are also ready to offer lower interest rates inasmuch as they are sure that the loans would be repaid and the groups committed to their responsibility. Also, because their clients deposit their profits in the same bank, resulting in significant savings often kept for a long term, the banks have little reason for lending at a high rate of interest. These strategies of fighting the feminisation of poverty have been particularly successful as there has always been a formal banking sector in India. Thanks to the establishment of SHGs, the State is making efforts to revitalise the widespread rural banking sector (Regional Banks, Co-operative Banks, Commercial Banks) by increasing the number of branches in the villages which are estimated at more than 150,000 branches today. According to NABARD, the strategy of SHGs, of negotiating with the banks directly has helped reducing the management costs by 40% and the procedures and the time required for transactions by 85%. Both SHGs and micro credit institutions need to be widened greatly. Considering the fact that India is home to the largest number of underfed and undernourished people in the world, the existence of a mountain of food grains can provide an excellent

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<sup>7</sup> SHGs may borrow directly from banks or through NGOs.

opportunity to promote rural development through SHGs, NGOs and PRIs<sup>8</sup>.

## NGOs and development of alternative activities

Microfinance practice was developed by NGOs. However, with the increasing criticism about the development of NGOs, their lack of effectiveness, management and efficiency, they are often more tolerated than admired. Within this sector, alternative organisational structure like financial companies and banks are regarded as preferable (Fisher, Sriram 2002, p. 331).

In addition to providing micro credit, NGOs, foundations, and other organisations have another role to play in the development of alternative activities, that are innovative and can generate income. For landless Dalit women of Tamil Nadu, the Swaminathan Foundation<sup>9</sup> has come up with proposals for cultivating mushrooms on a co-operative basis, using an original technique of cultivation in dark huts and for pisciculture in unused ponds. The importance of these cultivations is that in addition to their commercial value, they are also eco-friendly and can become part of a sustainable programme. Unfortunately, it was observed during surveys in the 1990s that such an experiment was confined to a few villages around Pondicherry.

In addition to their role in reducing the feminisation of poverty, micro credit programmes have also provided the start to a larger mobilisation of women, particularly in the social and political arenas. An example from Tamil Nadu illustrates this new behaviour: A project for the improvement of economic conditions of the most destitute women, based on minimalist credit and supported by the International Fund for Agricultural Development was launched in 1989. Less than four years later, more than 42,000 women in three districts formed syndicate-like groups which, besides improving their personal living conditions, brought about improvements to their village

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<sup>8</sup> For more details, see N.A. Majumdar, 'Rural development: new perceptions', *The Hindu*, September 28, 2001.

<sup>9</sup> M.S. Swaminathan, father of the Green Revolution in India, has been the director of the International Rice Research Institute in Manila for many years. Since his return to India in the 1990s, he has decided to develop his concept of bio villages in the villages around Pondicherry by introducing innovative activities meant particularly for women who were left out of the Green Revolution.

(water, health, education).

The inaccessibility of the poorest women to credit has encouraged diverse initiatives in India particularly by women's organisations, the best known among them being SEWA (self employed women's association) This organisation, founded in 1974, is an NGO dedicated to advancing the interests of low-income working women who are active in either self-employment, subcontracting or casual labour. SEWA first started in the slums of Ahmedabad, but now has over 200,000 members, formed into a union, initially meant to gather women working on their own so as to get proper remuneration for their jobs in the informal sector. SEWA members are categorised into 3 groups: hawkers and vendors (vendors of flowers, vegetables and fruits, household goods), home-based workers (weavers, carpenters, *bidi* rollers) and manual labourers and service producers (agricultural labourers, construction workers, domestic workers). Established essentially in urban areas, SEWA, in partnership with other organisations within the SEWA movement, today supports many savings and credit groups (SHG) in rural areas. Compared to the SHG model, SEWA provides an entire range of flexible products for collecting savings to meet the needs of individual members. Services include daily deposits, savings accounts, recurring and fixed deposits. SEWA bank is therefore part of a family of SEWA organisations: a union, a bank, a range of cooperatives (over 80) mostly organised around economic trades, but also some health-and child-care providing institutions; producers groups (200) of producers, rural savings and credit groups (1600 federations of these cooperatives and groups); a housing trust and an academy for research and capacity building. At the end of 2001, the SEWA bank had over Rs 30 crores (300 millions) in 120,000 deposits (Fisher, Sriram 2002, p. 54). These savings and credit co-operatives which are present all over the country have brought together hundreds of thousands of women in India. They are generally well managed and their rates of interest are lower than market rates.

Because of various risks (death, illness) SEWA includes in its interest on loans not only the bank interest but also a premium to cover such risks. In order to ensure that its rate of interest is lower than the market rate, the SEWA Bank has tied up with the government to create an insurance system that covers all risks and is accessible to the poorest women. Thus for a premium of Rs 65/- per year, they are insured against illness for (Rs 12,000/-), against losses due to riots (Rs 5000/-), and also against accident to and death of husband (Rs 3,500/-). However as many of them failed to pay

their annual contribution, the SEWA Bank urged them to save Rs 30/- per month for two years; the interest earned each year on the Rs 720/- deposited in the bank insures them for life (Ficquet 2000). In the SEWA bank view, insurance services not only help women to sustain financial shocks and reduce their losses, but also enables them to continue the process of building their capital and assets, and inculcates habits of planning (Fisher, Sriram 2002, p. 60).

NGOs still need to enhance their understandings and skills in finance to play a role within the microfinance sector, but the centrality of their value bases, for example of democracy, inclusivity, empowerment, equity and justice, is often conducive to facilitate developmental groups at the community level (*Ibid*, p. 333).

Experiences with microcredit bring out the necessity for taking the gender factor into account in the programmes meant to fight poverty. The institutions active in this field seem to have finally understood this fact which is reflected in the latest reports of the UNDP and the WB. Beyond the evidence of poverty reduction and improvement of the well-being of families that benefited from obtaining credit, it is also necessary to look at the impact of minimalist credit on the empowerment of women.

### **Empowerment, gender relations and microfinance policies: mixed successes**

Empowerment is a term increasingly being used by the agencies promoting globalisation, notably the WB, the UNDP and the UNIFEM, as seen in the latest report (Progress of the World Women 2000). This report contains new ideas and insists that development programmes must contribute to the empowerment of women. These ideas focus on an understanding of the structure of decision making in particular contexts: who decides, by what process? How can this process be modified? How can people excluded from the decision-making group influence the outcome? Empowerment is a process meant to establish equality between men and women; different levels of action can be distinguished according to the objectives to be achieved in five different areas: well-being, access, consciousness, participation and control.



Within the framework of microfinance three hypotheses<sup>10</sup> regarding empowerment are proposed:

- Individual economic empowerment: it is hypothesized that greater access of women to (financially viable) micro credit could increase their incomes (possibly through micro enterprises) and increase their control on income and resources;
- Improvement in well-being and status: greater access to micro finance would enable women to improve their status at home and in society. This should give them a greater self- confidence, a greater share of the expenditure and a greater say in domestic decisions;
- Social and political empowerment and the ability to challenge the distress of women and change their situation. Empowerment tackles the strategic interests of the sexes and micro finance is considered a useful starting point in the process. Empowerment is seen as a process of change of increasing everyone's capacities at all levels (work, access to land, mobility) and of collective mobilisation of women and men, when possible, with the aim of challenging and changing the state of distress by controlling credit, income, and household expenditure.

Only few studies have been carried out yet, and within the framework of the current study in Tamil Nadu, it is difficult to draw any conclusion about the impact of micro credit on empowerment and gender relations in general. However, on the basis of research carried out in Bangladesh, a number of feminist researchers assert that in spite of easy access of women to micro credit and their active participation, their rapid integration in these programmes and the subsequent increase in their incomes, empowerment is not still obvious. But the Grameen system of Bangladesh is very different compared to the SHG system of India<sup>11</sup>.

The fact that women are registered as borrowing members does not necessarily mean that they control the utilisation of the loan. Many women hand over their loans to their husbands, because for the most distressed of them, it is unthinkable to have any control over possessions or take decisions in general. For some of the husbands these loans represent some form of

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<sup>10</sup> Linda Mayoux (1999, 1998) is possibly the first researcher and professional in development to thus conceptualise empowerment in the frame work of microfinance. She is regularly solicited by the WB and the UN for her expertise in this area.

<sup>11</sup> For more details, see M. Harper, 'SHG and Grameen Bank groups: what are the differences' in Fisher and Sriram, (eds.), 2002, pp. 169-198.

dowry, and the credit could also be a source of tension, or even violence at home if the husband cannot control it. Repayment can also cause tension and put an enormous pressure on the wife when the husband who has appropriated the loan does not have the means to reimburse it. Even if the credit falls in the hands of the husband or is jointly managed by the family, the living conditions of the family are certain to improve, but the degree of the wife's emancipation could be insignificant. On the other hand, the additional burden of work and sacrifices are often the price to be paid for the possibility of an extra income. To prepare the daily food and look after the children's needs, many women start their day at 4 a.m. One could expect that because of the contribution of their wife's income, a new model of family relationships would spread among men, but as recent surveys show, few men are prepared to take part in household work, even if, thanks to the micro credit, the only person in the family to undertake any activity is the wife.

Whatever the perverse effects of micro credit may be, and despite the unchanging gender inequality, most of the women encountered would not like to give up micro credit, as they attach a great importance to the opportunity of contributing to the family income and to improving the living conditions of the children. Moreover, the increase in income can improve their status in the family and society. Our survey of some SHGs in Vellore district showed that the activities resulting from micro credit have enabled many women to step out of their private surroundings, increase their mobility either to go to work or visit relatives, be less dependent on in-laws through their involvement in the decisions about the use of both credit and income, all factors that help them gain respect in the society. More and more husbands had come to accept women of any community (Muslims, Hindus and Christians) going out of the home even at night (after 6 p.m.) and attend regular meetings. Our survey shows some changes in the decision-making. At the beginning of the SHG process, the decisions were taken exclusively by men, but after some years, we noticed that more decisions were taken by women.

As observed during our surveys, SHGs which are the pivot of these microcredit programmes, can in certain cases even provide a basis for organising the fight against other social problems, such as domestic violence, alcoholism of husbands, and the dowry system. For example in rural areas of Tamil Nadu, women SHGs plan to launch a massive campaign to urge the government to scrap the cheap liquor scheme. According to activists, the failure of the authorities to check illicit distillation and the hooch tragedy

should not be used as an excuse for the supply of cheap liquors in small sachets.

The weekly meetings held as part of the microcredit programme inevitably encourages creation of ties between neighbours who share each other's confidence to discuss family problems. For widows and women abandoned by their husbands, speaking out in public gave them greater self-confidence and self-respect.

SHGs provide women with an opportunity to express their desire to create a forum for speech and collective action and thus to establish their autonomy and scope for negotiation. Besides the benefits resulting from micro credit, these SHGs can also provide the impetus for positive changes in the views of individuals, families or the society at large about the role of women.

These SHGs promote formal democratic processes and have provided concrete examples of women taking an active part in local governance bodies. In Andhra Pradesh, there are more than 55 lakh poor women enrolled in over 4.23 lakh SHGs. In each district, there are approximately 20,000 to 25,000 groups of women covering 7 to 10 activities like education and water use. These SHGs in each village interface with a large number of government and elected institutions at the grassroots level, particularly the Panchayati Raj institutions (PRIs). And, the efficacy of these SHGs would be considerably enhanced if a symbiosis could be worked out between the SHGs and the PRIs. The key to this is to integrate these existing groups with the democratically elected and empowered Panchayats<sup>12</sup>. For example, in Tamil Nadu, in September 2002, the formation of a federation of SHGs was completed at the Panchayat level in over half the village Panchayats: Out of the 12,619 village Panchayats in Tamil Nadu, PLFs had been formed in over 6,000 Panchayats. The PLFs are being formed to take over some of the responsibilities of the NGOs and to become sustainable, self-reliant and independent after the withdrawal of the project partners. The main task of the PLFs will be to monitor the functioning of the SHGs in their respective village Panchayats and ensure that the privileges of government schemes reach the rural areas. Moreover, the Tamil Nadu corporation for women's development tied up with government and private polytechnics to provide skill training to the SHGs members.

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<sup>12</sup> For more details, see Bandhopadhyay *et al.*, 2002.

The new economic opportunities can give these women a sense of recognition and a freedom in their negotiations with family. The relationship between the micro credit obtained by women and their place and role within the family can be a worthwhile approach to the question of gender in the social structure.

In contrast to the Grameen Bank which has a minimalist programme with respect to empowerment, large women's organisations such as SEWA and WWF (Working Women's Forum) have used micro credit programmes together with programmes of the government (DWCRA) towards the empowerment of women. These powerful organisations (existing since 1975), with hundreds of thousands of members, initially aimed at enabling poor women to obtain the credit required to start or expand a venture. Today, these organisations function simultaneously as unions, and credit co-operatives for women belonging to low castes or employed in the informal sector, as a mutual aid structure for the members and above all as a group of pressure to help solve women's problems. In addition to various social activities (vaccination of children, providing literacy, training sessions, programmes to provide information about family planning, setting up of day-care centres), these organisations help women to know and defend their rights, improve their living conditions and their social status and encourage the spirit of unity among them through the intermediary of SHGs. The basic element in these organisations is the neighbourhood group consisting of 10 members on an average. The person in charge of the group, elected by the members, is of course responsible for the repayment of loans, and should also create a climate of emulation and of mutual help and pressure. The role of the person in charge of such a group is also to help create other groups and structure them in a federation. The simplicity of the procedure for membership – it is enough to gather a group of 10 women of low caste – and the essential role of the State as financier and advocate of these programmes, explain the rapid growth of these organisations in India.

One criterion concerning empowerment is the control over loans. In their interesting survey, Chen and Snodgrass (1999, p. 38) investigated three aspects: who took the decision to take the last loan, who took the decision as to how to use the loan, and who took the decision as to what to do with the profits generated from the loan. In answer to these questions, over half the borrowers said that they took the decision jointly with their spouse. Another 25% to 33% of the borrowers said they took the decisions themselves. Only 6-7% depending on the question, said their husbands made the decisions

without consulting them. But, in the context of evaluation studies where valued resources are at stake, personal testimonies on impact have to be interpreted with caution, given that there may be a strong incentive among beneficiaries to present impact in a positive light. At the same time, participatory impact assessments can help to enrich academic theorisations on gender subordination by providing important insights into inequality as lived experience (Kabeer 2001, p. 68).

Participatory approach in microfinance is fundamental to the reduction of poverty as well as to empowerment. It is only by extensive consultation with women about their needs, strategies and constraints, and by establishing a dialogue between the women and development agencies, that the best possible combination of empowerment and viability can be achieved (Mayoux, 1997). Microcredit programmes that target women exclusively with a view of overcoming men's irresponsibility about saving and repayment of loan, might tend to make men even more irresponsible and increase the pressure on women. A study conducted in Bangladesh has shown that, in situations where loans are seen to be more easily obtained by women than men, the men use the women to get loans, and the women, as the registered borrowers, become vulnerable in the event of death or illness of their husbands or of separation from them (Goetz and Sen Gupta 1996).

Development programmes should incorporate to a greater extent schemes concerning gender related problems, in order to resolve the conflicts between husbands and wives, and to strengthen co-operation between them by fostering the men's own desire for change. During our surveys, many men came forward to support their wives by contributing to the setting up of the required fund and the wives sought the involvement of their husbands in the utilisation of micro credit. The support of men should be further stimulated by developing new types of roles for them, and by developing a network for men desirous of change while ensuring that the scarce resources are not diverted away from women (Mayoux 1998).

Though micro credit through SHGs has proven to be an effective tool in reducing poverty of the less poor among the poor, it is still not certain whether micro credit has reached down to the most destitute. It is therefore important that the donors should now think of targeting better, the poorest and that the Indian Government takes further advantage of the micro finance sector by putting in place more efficient rules regarding interest. The Government should also evolve rural development programmes for empowerment of women in conjunction with NGOs and large organisations

(SEWA, WWF) that have been active in this field for more than 25 years. For SHGs to act as agencies of poverty alleviation and empowerment, there needs to be a far more supportive environment. Compounding the enormous iniquities of class and caste in villages are measures that have sharply eroded living standards, namely a shrinking PDS, increasing costs of power, fertilizers, etc. Under these circumstances, it would be unrealistic to expect SHGs to act as safety nets in time of drought and as agents of economic change and women's conscientisation in normal times. The lack of marketing support for the products of the SHGs and other government-sponsored programmes is another major problem. Marketing under a common label could be a solution.

In conclusion, good governance a concept extensively promoted by the World Bank and the IMF requires that the government authorities be more attentive to women's needs and to their situation, and this has little chance to be implemented, going by the discourses of the actors on the globalisation stage. This defies the mainstream policies and calls for a greater participation of women in all spheres: political, economic, social and cultural.

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# 3

## Women, property and social practice in China

Thierry Pairault

This paper is an attempt to examine the relationship between women, property and the Chinese social practice. One can focus on women who could be bought or sold like property, or can concentrate on women who manage their own private properties in spite of infringements upon their rights by their husbands and their in-laws, or can give attention to women who convert their properties into a kind of economic and financial power. The status of women in China is even now rather contradictory, it has repeatedly been vacillating between *patrimonialisation* and *paraphernalisation*.

Discussing this relationship is like entering an ongoing conversation. This preliminary work will mainly put together bits and pieces of information gathered through various readings. I shall only quote those authors whose works dawn my research which, I expect, will contribute its own light.

### Women as capital goods

It is a cliché to compare a marriage to an economic transaction during the span of which the bride-to-be is conveyed to her bridegroom's family. Nevertheless, a survey tells us that to have their son married, in Shanxi province 山西 nowadays, a family has to invest a huge sum of money (See table 1). Therefore it should come at no surprise that a peasant family has to

save for about ten years to accumulate enough money<sup>1</sup> which then should be used to buy, among others things, the “three big things” (*san da jian* 三大件) *i.e.* bicycle, wristwatch and sewing machine<sup>2</sup>. Cash itself – spent for or given as betrothal gifts by the groom’s family at the time of marriage – is actually a small part of the whole investment as the bulk of it has to be devoted to the building of a dwelling for the new family.

**Table 1. Evolution of the marriage cost in PRC Shanxi**

	Expenses supported by (yuan)					GDP per capita	
	groom's family		bride's family		groom /bride	current prices	constant prices
	current prices	constant prices	current prices	constant prices			
1950s	365	365	46	46	8	150	150
1960s	1,706	1,507	107	95	16	240	212
1970s	1,283	1,205	186	175	7	327	307
1980s	19,633	14,086	2,100	1,507	9	853	612

Sources: *Zhongguo tongji nianjian* 中国统计年鉴, 1999, p. 55 & 57 Qiao Runling 乔润令, *Shanxi minsu yu shanxiren* 「山西民俗与山西人」, 北京: 中国城市出版社, 1995, pp 97-102

As shown in table 1, expenses supported by the bride’s parents are far lower than those supported by the groom’s parents. During the 1990s, a peasant family in the province of Shanxi on the average would spent 12,000 *yuan* (about 1,350€) for presents given to the bride’s family. This amount does not include the cost of the new house to the groom’s family which represents a transfer of family wealth to the new couple<sup>3</sup>. Underpinning this situation is the abolition of the dowry (*jiazhuang* 嫁妆) system under the

<sup>1</sup> Qiao Runling 乔润令, *Shanxi minsu yu shanxiren* 「山西民俗与山西人」 (Customs and people of the Shanxi province), 北京: 中国城市出版社, 1995, pp. 97-102.

<sup>2</sup> Nowadays, these “three big things” are called, at least in the wealthiest areas, the “old three big things” for they have been replaced by the “new three big things”: washing machine, colour television set and refrigerator (see *Taizhou Daily* 台州日报, 2002-12-16, <http://www.taizhou.com.cn/cntz/homepage.nsf/documentview/2002-12161900872F43D5A48DC1EA948256C91000B148F?OpenDocument>, accessed on February 9, 2003

<sup>3</sup> Qiao Runling, *op cit.* p. 101-102.

provisions of the 1950 Marriage Law<sup>4</sup>. Such abolition means that a daughter was no longer to be given her share of property at the time of marriage: farmland (if any of course!) or right over its use, money, furniture and movables<sup>5</sup>. “Since the prestige of the daughter in her husband’s house will depend, to a large extent, upon the wealth she has brought with her”<sup>6</sup>, this new legal provision could not but lower her position in her husband’s family. Formerly, *marriage* means the conveyance of a daughter who receives a dowry (as much as twice the value of the presents given by the groom’s family according to Fei Xiaotong’s surveys<sup>7</sup>), which has to be seen as a pre-mortem inheritance as it was in Europe from the X<sup>e</sup> century onwards when a tenet prevented women from inheriting if she have been granted with a dowry (*exclusio propter dotem*). Latterly, *marriage* means the assignment of an extra-labour force to the groom’s family but with full retention by the bride of her right to inherit her share of her parents’ patrimony<sup>8</sup>. Both strategies differ dramatically in their timing but not in the amount given as dowry/inheritance, nor in their “merchandising” of women. This is clearly apparent for the results from a national survey about women’s status which reveals that even today Chinese women on the Chinese mainland consider that daughters should not inherit from their parents (see table 2)<sup>9</sup>.

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<sup>4</sup> See <http://law1.hotoa.com.cn/lawv2/1/2-1/0061AC92-18C9-4F9D-A7A32A2A5ADB882C.html>, accessed on February 9, 2003.

<sup>5</sup> Jennifer Holmgren, *Marriage, Kinship and Power in Northern China*, Aldershot: Variorum, 1995, p. II(14)-II(22).

<sup>6</sup> I will not speak of “bride’s price” or “bride-price”. The presents the groom’s family gives to the bride’s family are a pledge for the faithful performance of the marriage covenant. So was the part played by the *pretium nuptiale* in the early Frankish society, which *pretium* was also called *arrha* (from which derives the French *arrhes*) that is to say a deposit left in possession of a person as surety. Therefore it comes at no surprise that this pledge is retroceded as part of the dowry when the wedding is performed. Fei Hsiao-Tung and Chang Chih-I. *Earthbound China: A study of Rural Economy in Yunnan*, London: Routledge and Kegan, 1949, p. 110.

<sup>7</sup> *Ibid.* p. 110. A Taiwanese proverb states that “to marry a daughter is even worse than to be burgled three times in a row” 嫁一個查某子,較慘三年著賊偷.

<sup>8</sup> The Guomindang *Civil Code* promulgated in 1929-1930 bestowed, for the first time in Chinese legal history, the right of inheritance upon the females “lineal descendants by blood” (*zhi xi xue qin bei qin shu* 直系血親卑親屬) as well as on the males (art. 1138).

<sup>9</sup> Tao Chunfang *et al.* 陶春芳等, *Zhongguo funudiwei gaiguan* 「中国妇女社会地位该概观」 (On the Social Status of Women in China), 北京: 中国妇女出版社, 1993, p. 307.

**Table 2. Women's attitude toward daughters' inheritance (1990)**

	whole female population	urban	rural
best is no inheritance rights	15,20%	12,00%	16,00%
should absolutely not inherit	37,60%	11,80%	44,00%

I did not write “selling” but “merchandising” as the latter falls squarely within the domain of “product promotion” rather than “product sale”<sup>10</sup> as the buying and the selling of women and young girls. Guomindang *Penal Code*, as the Qing Law before it, forbade the sale of female to someone as a wife, a concubine or a prostitute if she is unwilling, married or minor by the law<sup>11</sup>. According to the number of cases heard by Chinese courts, it appears that the selling of women was a very usual practice. To anyone leafing through the pages of Ba county 巴县 archives, trafficking in women and girls seems to have been particularly widespread in eighteenth-century China. Almost half the marriage-related cases heard by this county’s courts involved such transactions. One 1788 record, for example, tells the story of a brother, Yan Weiwan, in search of his sister, her daughter and two sons. She was “contractually” given as a wife when she was still very young to a man called Dong Chaoxian<sup>12</sup>. She gave birth to three children. Back home after a long business trip, Yan Weiwan found that his sister, her children and her husband had all left letting nobody knows where they would go. He then investigated and discovered that his sister and his fourteen-years old niece have both been sold, the former as a concubine to a rather old man called Zhao Mingzhang, the latter as a daughter-in-law to-be to a man known as Lou the Fifth<sup>13</sup>.

The fate of pawned females is not even better so that it may cause envy to those who have been sold. The novel *My mother's enslavement* (*Weinuli de muqin* 为奴隶的母亲) written in 1930 by the famous novelist and

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<sup>10</sup> Fei Hsiao-Tung, *Peasant Life in China: A Field Study of Country Life in the Yangtze Valley*, London: Routledge and Kegan, 1939, pp. 43-44.

<sup>11</sup> Phillip Huang, *Code, Custom and Legal Practice in China: The Qing and the Republic Compared*, Stanford: Stanford UP, 2001, pp. 180-183.

<sup>12</sup> *Zi you xupei wei Dong Chaoxian wei qi* 自幼许配董超现为妻

<sup>13</sup> 清代巴县档案汇编—乾隆卷 *Qingdai Baxian dang'an huibian* – Qianlong juan (A collection of Qing period Ba county archives – Qianlong volume), 北京: 档案出版社, 1991, pp. 136-138.

translator Rou Shi 柔石 tells us how her mother was pawned to an old scholar, *xiucai* 秀才<sup>14</sup>, in order to repay her husband's debts. According to the deal, she was to provide her labour force to the scholar, to bear a son for him and to breed his son till he was two years old<sup>15</sup>. The following quotation will illustrate a more recent situation; it is an excerpt from a study surveying mendicancy in Taiwan during the 1970s<sup>16</sup>:

"[She] needed money to finance the wedding of her second son. She also sent her daughter to Taoyuan teahouse [*i.e.* a brothel], but later on, she 'redeemed' her, buying out what was left of her contract, and put her in a local teahouse, where she makes more money and is closer to home. She also has a younger daughter working in the same teahouse. That girl is too young to become a prostitute yet, but it was widely believed in 1974 that she eventually would".

The pawning of women follows rules which reproduce in the main those performed when pledging ordinary goods. There are two different pledging procedures, one named *dian* 典 and the other baptized *tai* 胎:<sup>17</sup>

- The *dian* procedure means that the possession of some thing (*res*) is transferred as security for a claim to the creditor who has a right to use and take the fruit provided by this thing; the debtor is under no obligation to pay a recurring interest (each month *e.g.*) for the loan. This principle literally applies when the "thing" is also a female: the pledgee has the right to use her labour force and body and take their fruits – children included. In fact, this procedure is quite similar to a sale with option of redemption: the pledge (thing or woman) is actually sold to the pledgee but the pledger has the right to redeem it within a given period of time as set by the sale agreement. This

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<sup>14</sup> One having passed the imperial examination at the county level in the Ming and Qing dynasties.

<sup>15</sup> Rou Shi 柔石, *Wei nuli de muqin* 「为奴隶的母亲」 (My mother's enslavement), <http://www.net-sky.com/book/content/378/13704.html>, accessed on February 13, 2003. This novel has just been adapted for the cinema, it will make its screen debut on May 2003.

<sup>16</sup> David Schak, *A Chinese Beggar's Den: Poverty and Mobility in an Underclass Community*, Pittsburgh: University of Pittsburgh Press, 1988, pp. 96-97.

<sup>17</sup> This development is based on *Taiwan xiguan jishi (zhong fan ben)* 「臺灣習慣記事 (中翻本)」 (Notes on Customs in Taiwan – Chinese edition), 臺北: 臺灣省文獻委員會, 1988, vol. 3a, p. 174. These notes were originally published in Japanese at the eve of the nineteenth century when Taiwan was under the Japanese rule, they have been translated in Chinese under the government of the island by the Guomindang.



must have been the most popular procedure as in Chinese the usual phrase to describe the pawning of a female is “pawned and hired as a concubine”, *diangu wei qie* 典雇为妾.

- The *tai* procedure is somewhat different for it does not convey the possession of the thing itself; the creditor is only given the title-deed proving the debtor's right over this thing and without which the latter cannot sell the thing. As the pledgee cannot use it nor take what it yields, the pledger has to pay a recurrent interest for the loan. The word *tai* means “embryo” and should be understood as Aristotle's τόχος – *i.e.* the interest which has been *given birth* through the lending of money<sup>18</sup>. When applied to human beings whose possession can not be claimed with a title-deed, the solution usually adopted is to hold someone in hostage, preferably a woman. Old Chinese historic records vouch for such a common practice. For example in 588 B.C., as reported by a commentary to the old *Spring and Autumn Annals*, Prince Cheng “gave his mother as hostage to bolster his credibility” (*zhi qi mu yi wei xin* 質其母以爲信)<sup>19</sup>. It is worthy to note that the word *zhi* 質, which means “to give as hostage”, is one of the few Chinese words meaning today “to pawn”, “to give as a pledge”.

The above two pawning procedures have been rather theoretically set out; in practice the matter is not so clear-cut. Two cases from Tainan city (situated on the south-western coastal plains of Taiwan island) will exemplify this situation<sup>20</sup>. In a first case, from 1906, the impoverish Chen Yongfu had to pawn his seven-year-old daughter as security for the repayment of a loan. In the meantime, Chen Yongfu had to pay every month a fixed interest to his creditor. Furthermore, the agreement stated definitely that if the little girl were to fall ill, her father should immediately repay his loan – *i.e.* to buy back his ailing daughter. In the second case, from 1903, a Mrs Zhang who felt unable to support her beloved fourteen-years-old daughter, pawned her to Madame Huang. The agreement does not organize

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<sup>18</sup> See *Politics*, book 1, where Aristotle condemns interest loan. About the etymology of τόχος, see Émile Boisacq, *Dictionnaire étymologique de la langue grecque étudiée dans ses rapports avec les autres langues indo-européennes*, Heidelberg: C. Winter, 1907-1914.

<sup>19</sup> Séraphin Couvreur, *Tch'ouen Ts'iou et Tso Tch'ouan : la chronique de la principauté de Lou* [春秋左傳], Paris: Cathasia-Les Belles Lettres, 1951, pp. 16-17 (Prince Cheng 成公, 2<sup>nd</sup> year: 588 B.C.).

<sup>20</sup> Zhuo Yiwen 卓意雯, *Qingdai Taiwan funü de shenghuo* 「清代台灣婦女的生活」 (Daily Life of Taiwanese Women during the Qing period), 台北: 自立晚報出版社, 1993, pp. 117-120.

any monthly instalment but stipulates that the madam had to teach the girl how to sing and other skills of this particular craft, once she had qualified, her mother and the madam would share her earnings till the former redeems her. Should she failed to do so within four years, her daughter will be left at the madam's disposal.

The last practice treating females as mere capital goods is the purchase of young girls as future daughters-in-law (*tongyangxi* 童養媳, phrase which should literally be rendered into English as "child brought up to be a daughter-in-law"<sup>21</sup>). In hard times peasant families were forced to have their daughters adopted. These "daughters-in-law in bud" might be older than the boys to whom they were betrothed. In fact they were compelled to work hard, to endure the dominance of their future mother-in-law, and to nurse their infant "husband". This custom has never been formally acknowledged by the *Qing* code even if the imperial courts did tolerate it in the name of compassion for the poor<sup>22</sup>. The *Civil code* promulgated by the Nationalist government in 1930 put a legal end to this practice but its actual impact might have been rather small outside the cities. From 1949, when the Nationalist government flight from the Chinese mainland and established itself on the island of Taiwan, the Guomindang *Civil code* began to apply to islanders<sup>23</sup>. Nevertheless Taiwanese courts and administrations still have to deal with cases resulting from the old *tongyangxi* system as some "supplementary regulations" point it out – see for example rules 38 to 42 in the *Regulations supplementing the Law on the Registration of Inheritance* (*Jicheng dengji faling buchong guiding* 繼承登記法令補充規定) promulgated on 21 March 2002<sup>24</sup>.

It is important to see this problem from a global (*i.e.* non feminist) perspective. Till 1949, China was known to have one of the largest markets in the trade of human being in the world and to have experienced one of the

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<sup>21</sup> There are numerous ways to call these young girls in Chinese: "adopted spouse" (養婦 *yang fu*), "daughter-in-law in bud" (苗媳 *miao xi*), "little daughter-in law" (小媳婦 *xiao xifu*), "infant daughter-in-law" (媳婦仔, *xifu zai* in Mandarin but *sim-pu-a* in Taiwanese). See Ministry of Justice 法務部, *Taiwan minshi xiguan diaocha baogao* 「臺灣民事習慣調查報告」 (Civil Customs in Taiwan), 臺北: 法務通訊雜誌社, 1984, p. 125-130; hereafter referred as *TMX*.

<sup>22</sup> Philip Huang, *op. cit.*, p.184.

<sup>23</sup> See Ministry of Justice, *op. cit.*, pp. 130-132.

<sup>24</sup> See <http://land.hccg.gov.tw/law/law17.htm>, accessed on the 20 February 2003.

widest ranges of forms of human bondage<sup>25</sup>. Unfortunately our knowledge is not comprehensive enough to assess to which extent the historic importance and economic role of the male slave labour were at variance with the female one. The very fact that prosperous Cantonese merchants were supposed to show up their wealth through the number of their concubines<sup>26</sup> reminds us that elsewhere the number of heads of cattle is what discloses one's wealth; therefore this teaches us that in China females human beings might have been more likely marketed than their male counterpart.

## Women as capital holders

The usual pattern of capital holding in a Chinese family is its collective possession by the whole kin (*jia*家) under the father's tight control. To explain this behaviour, Chinese glossators will quote two canonical teachings which appear in the *Book of Rites*: "While his parents are alive, [he will not] have wealth that he calls his own" 父母存...不有私財 「禮記 曲禮」; "A son and his wife should have no private goods, nor animals, nor vessels; they should not presume to borrow from, or give anything to, another person" 子婦無私貨, 無私畜, 無私器, 不敢私假, 不敢私與 「禮記 內則」<sup>27</sup>. According to Myron Cohen<sup>28</sup>, the collective

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<sup>25</sup> See James Watson, "Transactions in People: The Chinese Market in Slaves, Servants, and Heirs", in James Watson (eds.), *Asian and African Systems of Slavery*, Berkeley: University of California Press, 1980, pp 223-250.

<sup>26</sup> Once upon a time, there was a rich and successful Cantonese who had 108 pepper-plants and 108 concubines, See *Zhonghua quanguo fengsu zhi, xia pian juan qi* 「中華全國風俗志」, 下篇 卷七第八-九頁 (Customs of China, volume 2-7, pp. 8-9), reprint in 1990 of the 1926 original edition by 中州股中州古籍出版社 (鄭州市). For a list of secondary sources relating wealth to concubines, see Rubie Watson "Wives, Concubines and Maids: Servitude and Kinship in the Hong Kong Region, 1900-1940" in Rubie Watson and Patricia Ebrey (eds.), *Marriage and Inequality in Chinese Society*, Berkeley: University of California Press, 1991, p. 237.

<sup>27</sup> The classical English translation is the one by James Legge, <http://www.100jia.net/texte/liji/liki/liki01.htm> (first quotation), <http://www.100jia.net/texte/liji/liki/liki10.htm> (second quotation); the Chinese text can be read at [http://www.yasue888.net/kuk\\_lai.html](http://www.yasue888.net/kuk_lai.html) (first quotation), [http://www.yasue888.net/noi\\_jak.html](http://www.yasue888.net/noi_jak.html) (second quotation). These sites were accessed on the 24 February 2003. For a book with the Chinese text and translations (French and Latin), see Séraphin Couvreur (trad.), *Mémoires sur les bienséances et les cérémonies* [texte avec transcription et traduction en français et en latin], Paris: Cathasia, 1950. vol. 1 p. 14 et vol. 2, p. 636.

economy of the household is uphold by the father who is the sole recipient of the income derived by the household members who exploit the estate or contribute outside earnings. The father's role involves monopolization of the power to allocate funds for the entire group's welfare and the estate's management. In other words, kin's property was a trust in such a way that heirs were attached to property rather than property to heirs.

The kinship system, which stresses the importance of male descent lines and family solidarity, is the underlying principle of inheritance devolution to males: a daughter had few or no inheritance rights, a wife had no property rights over her husband's property. Attitude toward the marriage of daughters and the dowry allocated to them are the result of inheritance procedures. Following the deductions of Jennifer Holmgren<sup>29</sup>, one would state that the traditional dowry system grows out of four basic principles:

- A daughter is to be provided with a dowry.
- The dowry belongs to the bride and is not to be counted as part of the husband's property until it passes to her children.
- All natural children are to receive an un-predetermined share of the property of both father and mother – dowry being considered as a pre-mortem inheritance.
- A widow remaining in her deceased husband's family is endowed with the right of control and usufruct over his property (cf. *loi gombette*).

The above description of property ownership system shows that there is a very clear-cut difference between the kin's property and the personal property. No member of the kin may own kin's property (at the best they may manage it) before its distribution; no member of the kin may possess any personal property with the exception of brides who may bring some property with them when marrying. To put it more bluntly, males as well as females have rights over their respective kin's property, but only married females may have personal property. From that very point of view, the lawmakers of the Guomindang had long been hesitating between adjusting and abrogating the old patrilineal inheritance system. The second draft of the *Civil code* had still not got rid of it in 1925, but the final version promulgated

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<sup>28</sup> Myron Cohen, *House United, House Divided: A Chinese Family in Taiwan*, New York: Columbia University Press, 1976, p. 135.

<sup>29</sup> Jennifer Holmgren, *op. cit.*, p. II (15)-II(16).

in 1930 did it<sup>30</sup>.

In Taiwan, when the Japanese were ruling the island (1895-1945) their colonial government intended to somewhat refashion (*i.e.* first to compile case-law, then to codify) the “Taiwan’s old customs” (*Taiwan kyūkan*台灣舊慣)<sup>31</sup>. This “modernisation” actually leads to a clarification of women’s rights over their own properties. Judgments passed by the colonial courts in Taiwan recognized that married women are:

- the lawful owners of their own dowry and others properties they brought with them when entering their husband’s home<sup>32</sup>;
- the lawful manager of their own property, and therefore may keep cash in hands and freely sell and purchase their own movables<sup>33</sup>;
- lawfully liable on their own property for their own debts<sup>34</sup>.

Furthermore, kin’s income and property must bear any charges caused by the wedding of the daughter born in the kinship group, *i.e.* courts recognize that daughters have a right over the kin’s property and should be endowed with a dowry<sup>35</sup>.

In his study of 229 title-deeds signed between 1834 and 1949 in the region of Chaozhou, province of Guangdong, Cai Zhixiang found that whenever women were involved in the selling or the buying of a piece of land, they were acting on their own behalf for one third of the cases, as a mother or a spouse for a half, and as a member of a kin for the remaining sixth<sup>36</sup>. This computation clearly stated the economic importance of the

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<sup>30</sup> See Pan Weihe, 潘維和, *Zhongguo jindai minfa shi* 「中國近代民法史」 (History of Contemporary Chinese Civil Law), 臺北: 漢林, 1982, p. 125.

<sup>31</sup> See *TMX*, p. 305-509. This modernisation finds its rationale firstly in the respect for the old Chinese customs in Taiwan, secondly in the Japanese faith in the westernisation of the law and thirdly in some sociological observations. To some extent it leads to a more accurate analysis of ownership relationships, to a clarification of women’s rights and to the recognition of forms of personal property even for males.

<sup>32</sup> *TMX*, p. 258 (judgment passed on 1918).

<sup>33</sup> *TMX*, p. 246 (judgment passed on 1902).

<sup>34</sup> *TMX*, p. 245 (judgment passed on 1900).

<sup>35</sup> *TMX*, p. 252 (judgment passed on 1910).

<sup>36</sup> Cai Zhixiang 蔡志祥, “Cong tudi qiyue kan shiji shiji mo ershi shiji chu de ChaoShan shehui” 〈从土地契约看十九世纪末二十世纪初的潮汕社会〉 (ChaoShan society as seen from title-deeds signed between in late 19th century and early 20th century), in *Chazhouxue guoji yantaohui lunwenji (xia ce)* 「潮州学国际研讨会论文集 (下册)」 (Proceedings of

brides' private property commonly known as *sifangqian* (私房錢, literally "private house/room money"). The magnitude of *sifangqian* is usually kept concealed from the family, as mothers-in-law are always anxiously watching it, it often becomes a source of conflict<sup>37</sup>. Margery Wolf argues that *sifangqian* is the property of the uterine family, i.e. the woman and her children, and is held in reserve for their exclusive benefit<sup>38</sup>. Women take great care in managing their own wealth, they will protest if their husbands or their mothers-in-law infringe upon their right to it. They will also take any opportunity to make money on their own and to increase their riches<sup>39</sup>.

What was true yesterday remains true today. The *Merit Times Daily News* 人間福報 tells us the story of a ninety-three-years old lady living in Miaoli county (Central Taiwan) who has been accumulating bank notes as *sifangqian* under her mattress for forty years without no one being aware of it! She has been forced to reveal her secret for she was illiterate but have to go to the bank for the first time in her whole life to change her old bank notes to new ones before the end of 2002. She earned the money by selling at the nearby market the vegetables she was able to dig up in the early morning. She also spent some of it to buy candies or to have her hair combed<sup>40</sup>. The famous Japanese anthropologist Kataoka Iwao, 片岡巖, made a similar statement when he compiled a collection of descriptions of Taiwanese customs in 1921<sup>41</sup>:

"Every day, [Taiwanese women] would feed chicken, dogs or pigs with the leftovers from meals [... In addition] there is other ancillary activities such as weaving straw hat, bleaching straw, stitching shoes, dressing flowers, picking tea leaves, collecting seaweed for agar-agar, papering boxes... The income from all these activities [...] is accumulated bit by bit

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the International Conference on Chaozhou Studies), 广州: 暨南大学出版社, 1994, pp. 798-800.

<sup>37</sup> Fei Hsiao-Tung, *op. cit.*, p. 62.

<sup>38</sup> Margery Wolf, *Women and the family in rural Taiwan*, Stanford: Stanford University Press, 1972, p. 33.

<sup>39</sup> Fei and Chang, *op. cit.*, pp. 110-111.

<sup>40</sup> Renjian Fubao 人間福報 (Merit Times Daily News), 9 October 2002, See <http://www.wfdn.com.tw/9110/021009/01-06/100906-3.htm>, accessed on 27 February 2003.

<sup>41</sup> Kataoka Iwao (translated by Chen Jintian) 片岡巖 (陳金田譯), *Taiwan fengsu zhi* 「台灣風俗誌」 (An account of Taiwan Customs), 臺北: 眾文圖書公司, 1990, pp. 126-127.

to form the *sifangqian*.”

Once the 1930 *Civil code* abrogated the old patrilineal inheritance system, the Guomindang lawmakers had to establish a new matrimonial property regime called “union of property” (*lianhe caichan zhi* 聯合財產制)<sup>42</sup>. It ruled that, unless otherwise stated in an antenuptial settlement, each spouse retained the ownership of the property he or she had at the time of his/her marriage (art. 1005, art. 1016 and art. 1017). The wife’s property is split in two parts. The first part is her contribution to the “union property” which is legally managed, used and alienated by her husband (art. 1018 and art. 1020). The second part is her “special property” (*teyou caichan* 特有財產) which includes her trousseau, jewellery, cash, etc., she brought with her, the gifts she might have received, the earnings from her own labour (art. 1013). As expected, she is severally liable for the debts arising from her management of her “special property” (art. 1047). Considering that husbands are legally required to assume full charge of the household expenses (art. 1047), one can conclude that the 1930 *Civil code* made it easier for women to expand their *sifangqian*. This definitely explains how and why informal webs of female finance have been able to spread over Taiwan.

Lawmakers in Taiwan grappled with this issue and produced on 26 June 2002 a new statutory matrimonial property regime based on the Swiss example: henceforth an “income-sharing property regime” (*suode fenpei caichan zhi* 所得分配財產制) is to replace the old “union property regime”<sup>43</sup>. The new rules put an end, firstly, to the exclusive management of the household assets by the sole husband (new art. 1018) and, secondly, to the financial independence of the wife who from now on is to share the expenses of the household according to her financial potentialities (new art. 1003). Today what obviously did puzzle Taiwanese wives is they fear to loose their grip over their traditional *sifangqian*. Women organisations in Taiwan are fully aware of this situation and try to “educate” their audience<sup>44</sup>. Every argument is at work and these organisations try to overcome their potential opposition by linking this legal revision with the “contracting of mistresses” (*bao er nai* 包二奶) by Taiwanese investors in Mainland China. They argue that under the new statutory property regime, it would be very difficult for a

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<sup>42</sup> See <http://www.shanhua-house.gov.tw/law/113.htm> accessed on 4, march 2003.

<sup>43</sup> See <http://www.lawformosa.com/tforum/viewtopic.php?TopicID=47>, and <http://www.judicial.gov.tw/90moj10.htm> both accessed on 04 March 2003.

<sup>44</sup> See [http://warmlife.womenweb.org.tw/OrgNews\\_Show.asp?OrgNews\\_ID=258](http://warmlife.womenweb.org.tw/OrgNews_Show.asp?OrgNews_ID=258) accessed on 04 March 2003.

husband to use and misuse the household property to the benefit of his mistress and mistress' children<sup>45</sup>.

Crossing the Strait to look at the solution adopted by the government of the People's Republic of China in 1950. The *Marriage Law* stipulated (art. 10 and art. 23) a community of property, called the "family property" (*jiating caichan* 家庭財產), that merged the pre-nuptial property of each spouse with the property acquired jointly or individually during their marriage<sup>46</sup>. Obviously, the socio-economic background prevailing in Mainland China from the 1950s till the 1970s did not foster any accumulation of property and, therefore, civil disputes over sharing property must have been rarities if any. That is why dispositions related to matrimonial property regime remained unchanged when the *Marriage Law* was revised in 1980<sup>47</sup>, except that the regime was henceforth named "common property" regime (*gongtong caichan* 共同財產)<sup>48</sup>. The rising living standards and the correlative accumulation of wealth, the dislocating of the old "work unit" (*gongzuo danwei* 工作单位) and its impeding social control altogether with other social moves, each contributed to an upsurge in divorces and then in disputes about division of property (see insert) to the extent that the Supreme Court in 1993 not only had to specify expressly the contents of spouses' property but also had to widen its field of implementation<sup>49</sup>. This clarification of spouses' property division has been ratified by the promulgation of a revised *Marriage*

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<sup>45</sup> The new dispositions firstly establish the exclusive right of each spouse over his/her own pre-nuptial property, secondly impose as a rule that any decision about their post-nuptial common property has to be taken by the both spouses.

<sup>46</sup> See <http://law1.hotoa.com.cn/lawv2/1/2-1/0061AC92-18C9-4F9D-A7A32A2A5ADB882C.html> accessed on 6 March 2003.

<sup>47</sup> See <http://www.people.com.cn/GB/channel1/11/20001024/283771.html> and <http://www.people.com.cn/GB/shehui/46/20010601/479454.html>, accessed on 06 March 2003.

<sup>48</sup> See art. 13, "Hunyin Fa" 《婚姻法》 (*Marriage Law*) in Liang Shuwen *et al.* (ed.), 梁书文等主编, *Minfa tongze ji peitao guiding xinyi xinjie* 「民法通则及配套规定新译新解」 (*New Interpretations of the General Principles of Civil Law and its Implementation Rules*), 北京: 人民法院出版社, 1996, p. 812.

<sup>49</sup> "Zui gao renmin fayan guanyu renmin fayuan shenli lihun anjian chuli caichan fenge wenti de ruogan juti yijian"

最高人民法院关于人民法院审理离婚案件处理财产分割问题的若干具体意见 (The Supreme Court about the division of property in divorce cases) in Liang Shuwen *op. cit.*, pp. 824-828. See also <http://www.people.com.cn/GB/shehui/46/20010426/452304.html>, accessed on 7 March 2003.



Law on the 28<sup>th</sup> of April 2001<sup>50</sup>. This law set the scope of jointly owned (*gongtong suoyou* 共同所有) and individually owned (*gezi suoyou* 各自所有) property in its articles 17 and 18. Property acquired within the span of marriage, such as wages, bonus, commercial profits, intellectual property rights earnings and inheritance other than those specified by the *Marriage Law*, is considered as jointly owned property. Conversely, pre-nuptial private property, medical compensation, living allowance for the disabled, inherited or granted property designated to only one party and daily necessities exclusively for one party are considered individually owned.

Then what about *sifangqian*? This custom is obviously conflicting with the rules stated by the revised *Marriage Law* as far as the statutory matrimonial property regime is concerned. Should husband and wife settle an antenuptial agreement, they might retain as *sifangqian* a given percentage of their own income<sup>51</sup>. Even in that case, one should conclude that *sifangqian* has been wiped out from its traditional practice for it is no longer a female privilege nor its amount a well-kept secret. But the certainly most striking effect of the new dispositions is that male secret *sifangqian* have been spreading rapidly these last years<sup>52</sup>! One oft-given reason is that men have been speculating on the stock market (*chaogu* 炒股, literally “to fry stocks and shares”) and made some profit out of it<sup>53</sup>. A more obvious reason is that some of them is keeping a concubine (*bao ernai* 包二奶), phenomenon which has been in recent years becoming rampant in the more developed provinces<sup>54</sup>. Thus we are back to the “good ol’ days” when the poorest guys could not afford a wife and when the poorest girls scraped their living as the concubine of some old but well-off man.

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<sup>50</sup> Cf. <http://www.people.com.cn/GB/shehui/43/20010429/455250.html>, accessed on 7 March 2003.

<sup>51</sup> See [http://www.legalinfo.gov.cn/gb/school/2002-07/25/content\\_315.htm](http://www.legalinfo.gov.cn/gb/school/2002-07/25/content_315.htm), [http://www.legaldaily.com.cn/gb/content/2002-03/23/content\\_34082.htm](http://www.legaldaily.com.cn/gb/content/2002-03/23/content_34082.htm) and <http://www.people.com.cn/GB/shehui/46/20010212/393899.html>, accessed on 7 March 2003.

<sup>52</sup> See <http://www.people.com.cn/GB/shehui/46/20010212/393899.html>, <http://daty.uhome.net/cool/nrsfq.htm>, etc., accessed on 7 March 2003.

<sup>53</sup> See <http://lawyer.zglw.com/shuofa/>, [www.people.com.cn/GB/shehui/46/20010212/393899.html](http://www.people.com.cn/GB/shehui/46/20010212/393899.html), etc., accessed on 7 March 2003.

<sup>54</sup> See <http://www.sanqindaily.com/news/ReadNews.asp?NewsID=9541>, <http://lawyer.zglw.com/shuofa/>, etc., accessed on 7 March 2003.

*In April 1998, two young people got a marriage permit but did not get officially married at that time. Five months later, the boy's parents paid down 24,000 yuan (a huge amount of money) for a flat where the engaged couple would live once built. In January 1999, the wedding was performed and they began to live together at the groom's parents' home. One more year later, the flat is at least completed so they moved in their new dwelling for which the husband's parents have spent more than 70,000 yuan – as for the wife's parents, they have not spent even a penny for it. Not long after the two young people are on the verge of asking for a divorce, then what they start arguing about is whether the flat is jointly or individually owned, etc.*

*See <http://www.people.com.cn/GB/shehui/212/2191/3924/20010208/391686.html>, accessed on 7 March 2003.*

It does not matter whether they are living on the island of Formosa or on the Chinese mainland, women before the legal revision of their matrimonial property regime were entitled to some financial independence which should be looked at minutely.

## **Women as capital lenders**

A major incentive to make *sifangqian* blooming was certainly the fear that one might be widowed (wife or concubine), divorced (wife) or repudiated (concubine). The fate of a widow, a divorcee, etc., was always a bitter one if she had no property even if (or especially if) she was to stay with her husband/paramour's family. Therefore one should understand the greed with which the already quoted 108 concubines might have been accumulating bits and pieces of wealth. In the nineteenth century, Hongkongese concubines were said to participate in tontines (*hehui* 合會) called *dipu hui* 地鋪會 so to hoard some money in anticipation of harsher days<sup>55</sup>. These *Spread on the Ground Association* were so called for it was believed that the inventor of this kind of association was too poor to have any place where to treat his friends and had to *spread* a mat on the *ground* to receive them and collect their contributions. Whatever the legend narrates, this rotating saving and credit association is slightly different from its more common counterparts.

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<sup>55</sup> See the "Note" written by R. A. do Rozario, *The China Review*, n°5, pp. 1876-1877, pp. 205-207; J. Dyer Ball, *Things Chinese: being Notes on Various subjects connected with China*, London: Kelly and Walsh, 1900 [3<sup>rd</sup> edition], pp. 545-547. This kind of tontine was usual in Annam too, see Buu-Loc *L'usure chez les paysans en Annam*, Paris: Recueil Sirey, 1941, [Thèse de la Faculté de Droit de Montpellier], pp. 102-103.

The head of this kind of association is out of it altogether, he or she is not a borrower/saver who is to benefit from the first drawing as elsewhere; he or she is a trustee acting on behalf of the members. In the *dipu hui* no dinners or wine parties are given, the legend meets up with the practice. In fact, whenever members are married women or concubines they might not even know anything about each other. The trustee goes round personally, discreetly takes orders from every member and manages the subscriptions at his/her best. If members were women, the trustee was more likely to be one too for she had to gained entry to the women quarters. The participation of women in tontines and the growing part they are playing nowadays is attested by various sources both Taiwanese and Continental.

In the late 1980's, the Nationalist government on Taiwan appointed an appropriate committee in order to investigate the ins and the outs of the informal finance and its practice on the island. The committee reported its findings in August 1990 and published them in 1991<sup>56</sup>. These experts noticed that informal financing activities were often managed by women. The whole process begins with a group of women participating in a tontine but none of them wishing to draw the pot for their main purpose is to accumulate their savings not to ask for a loan. When they became aware that the tontine could not work out any profit for them, they will decide to lend money to outsiders, preferably to housewives. According to the committee, it is one of the ways which frequently leads to the setting up of small underground banks (*dixia qianzhuang* 地下錢莊). The "bank" once set up, the following sequence of events is likely to happen, after a more or less long period of excitement and success, the former tontiners rapidly run short of working capital for they are not actually qualified to be in charge of such a business nor they are loan sharks by nature; bankrupt is the inescapable outcome of their venture<sup>57</sup>. In most cases, these females "bankers" were unaware of the risks they were taking and were acting *bona fide*; on the other hand, this should not conceal the fact that the most provoking insolvencies as reported by the news media

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<sup>56</sup> Li Zhongxiong *et al.* 林鐘雄等, *Fangzhi dixia jinrong huodong wenti zhi yanjiu* 「防制地下金融活動問題之研究」(On the prevention of underground financing activities), 臺北: 行政院研究發展考核委員會, 1991. For a summary of this report, see <http://www.rdec.gov.tw/res/project/rdec71.htm>, accessed on 14 March 2003.

<sup>57</sup> *Ibid.* p. 38, 71 *sqq.* The deposit of *sifangqian* in underground banks was quite usual and incurred risks have frequently been denounced, see e.g. Huang Yongren *et al.* 黃永仁等, *Taiwan dixia jinrong wenti minjian hehui yu dixia qianzhuang* 「臺灣地下金融問題: 民間合會與地下錢莊」(On the issue of underground finance in Taiwan: tontines and underground banks), 南投: 基層金融出版社, 1983.

were all done deceitfully. Even so, numerous insolvent “bankers” were females<sup>58</sup>.

The financial autonomy of women is such that classified advertisements appearing in Taiwanese dailies distinguish between moneylenders. Some ads would emphasize that the lending company is “managed by women” (*nüren jingying* 女人經營). Some would state that “Mrs So-and-so”, “Madam what’s-her-name”, “Ol’ mother Jane Doe”, or “the manageress” provides lending facilities to meet the financing requirements of their sisters. Some point out that the money to be lent come from “idle female-owned cash” (*funü xian qian* 婦女閑錢), “females funds” (*funü jijin* 婦女基金), “women associations” (*funü hui* 婦女會). Others will specifically use the informal feminine pronoun (i.e. using *nǐ* 妳 instead of *nǐ* 你 or *nín* 您 – the last one being the formal but neutral pronoun) to address their potential customers ensuring they only wish to “honestly help” them<sup>59</sup>.

Female control over their properties and returns to property foreshadowed control over their wage-earning labour and wages; both controls are strong predictors of women’s economic autonomy as well as relative equality in family life decisions. The fact that they can rely on their husbands’ regular income furthermore allows them to take more risks than they would be able to take without this backing. Consequently, money that women’s private property can provide would not only be lent but also invested in entrepreneurial pursuits; women’s properties are therefore often converted into industrial properties. Hill Gates has noticed this new state of affairs<sup>60</sup>. The capitalist transformation of Taiwan’s patriarchal society engendered genuine social novelties as the feminisation of labour-intensive manufacturing and of small businesses as well as it produced a new class of women entrepreneurs. Admittedly, only few women do operate large factories in the formal sector, they play a more significant role as owners and managers of the shops and workshops that make up the informal sector. For

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<sup>58</sup> See *inter alia* a survey in Lin Guangyu 林光裕, *Minjian huzhuhui zhi tantao* 「民間互助會之探討」 (On tontines), 臺北：第一銀行徵信室, 1979, pp.33-36.

<sup>59</sup> Thierry Pairault, « Obolostatique et finance informelle en Chine » in Michel Lelart (eds.), *Finance informelle et financement du développement*, Beyrouth: AUPÉLF-UREF, 1999, p. 113.

<sup>60</sup> “Taipei Family Businesswomen: experiences with commoditization” in Edward. Chen *et al.* (eds.) *Taiwan: Economy, Society and History*, Hong Kong: Centre of Asian Studies, 1991, pp. 327-337; “Small Fortunes: Class and Society in Taiwan” in Denis Fred Simon et Michael Kau (eds.), *Taiwan: Beyond the Economic Miracle*, Armonk: M.E. Sharpe, 1992, pp. 169-185.

example, between 1993 and 1998, the number of women who manage the stalls – which flood the streets in Taiwan – has grown by 18.25% and, thus, the number of female owners overcame that of male owners (53.03% and 46.97% respectively)<sup>61</sup>.

Continental sisters of Taiwanese women are experiencing quite similar evolutions: roads might have been rather distinct but the overall direction is the same. The planning of the Chinese economy resulted in an overprotection of women and in an apparent equality of rights. Conversely, the economic reforms launched in 1978 lead to a new deal inducing a “big abortion of female worker” (*nü gong da liuchan* 女工大流产) out of their urban “work unit” (*gongzuo danwei* 工作单位) which in turn showed them the way to entrepreneurship<sup>62</sup>. In the countryside, as husbands flew into cities too often in the vain attempt to strive for a living, wives may have gained economic control over agricultural and ancillary activities as well as a growing financial independence; a short phrase sums up this situation: “males go the factory, females go to the fields” (*nan gong, nü geng* 男工女耕)<sup>63</sup>. The sad stories female tontines organisers in Wenzhou could exemplify the new role women might have played when providing with capital those households wishing to undertake petty commodity production.

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61 *Taiwan diqu tanfan jingying gaikuang diaocha baogao* 「台灣地區攤販經營概況調查報告」 (Survey of the management of stalls in Taiwan), 臺北: 行政院主計處, 1999

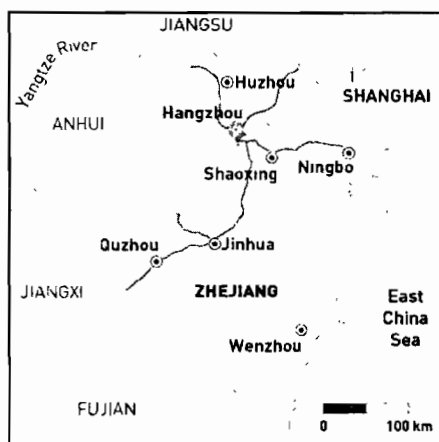
62 Meng Xianfan 孟宪范, *Gaige dachaozhong de Zhongguo nixing* 「改革大潮中的中国女性」 (Chinese women in the high tide of Reform), 北京: 中国社会科学出版社, 1995, pp. 48-62. Fully 60% of the laid-off population are women.

63 *Ibid.* pp. 218-220.

Wenzhou 温州, not very far from Shanghai, is a southern coastal district as well as a city in Zhejiang province. The local cadres are well-known for their permissive attitude toward the private-sector development; their experiments are nationally referred to as the “Wenzhou model”. Even after the launching of economic reforms, the financial system in Wenzhou – as in others areas – has been kept rather unreformed. The interest rates were fixed at relatively low rates

so that there was excess demand for credit at these subsidized rates. Therefore, privately-owned businesses had a very low priority getting credit from the state banks. To fill this gap, the financial market in Wenzhou developed new forms which offer credit at rates that reflect supply and demand on the local market. The revival of tontines is the sheer evidence of these institutional changes as well as a significant feature of a financial frenzy that mainly seized the most illiterate among the women<sup>64</sup>.

The unfortunate heroines, whose story is told here<sup>65</sup>, are named Ye Sanfeng (叶三凤), Li Wuhua (李吾华), Shi Xiyu (施希玉), Cai Yu'e (蔡玉娥), Qian Yueying (钱月英), Zheng Lefen (郑乐芬) and others, altogether more than twelve almost illiterate women who thought themselves lucky for they did not die of hunger or cold. Amidst the high tide of reforms,



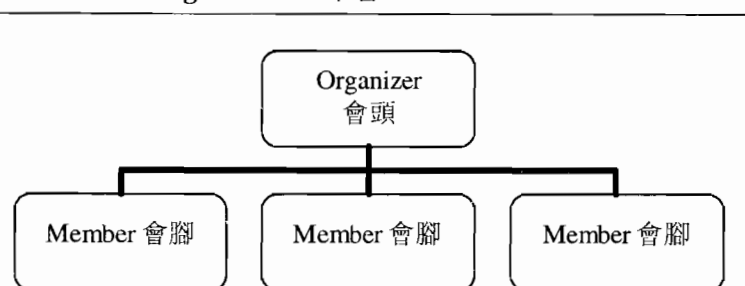
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<sup>64</sup> See a truly dispassionate but fascinating paper [http://www.66wz.com/webportal/portal.po?UID=DWV1\\_WOUID\\_URL\\_56680697&TOC=COLUMN\\_56680697&OBJ=56684894](http://www.66wz.com/webportal/portal.po?UID=DWV1_WOUID_URL_56680697&TOC=COLUMN_56680697&OBJ=56684894), accessed on 17 March 2003.

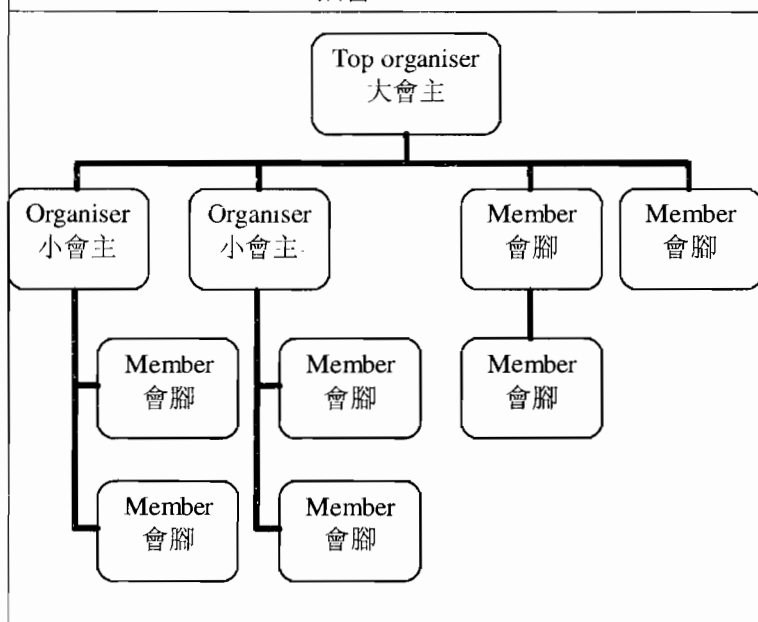
<sup>65</sup> Jiang Xuchao 姜旭超, *Zhongguo minjian jinrong* 「中国民间金融研究」 (Informal Finance in China), 济南: 山东人民出版社, 1996, pp. 55-78; Hu Hongwei 胡宏伟 and Wu Xiaobo 吴晓波, *Wenzhou xuannian* 温州悬念 (The Wenzhou puzzle), 杭州: 浙江人民出版社, 2002, pp. 161-190. There is a fictionalised report by Jia Lusheng 贾鲁生 and Lu Wajue 鲁娃, *Jinrong de dizhen* 「金融大地震」 (Finance Quake) formerly appearing in *Zhongguo de yaohai* 「中国的要害」 (Ailing China), 华岳文艺出版社, 1988 now at <http://www.shulu.net/js/js36.htm>; see also <http://law5.hotoa.com.cn/lawv2/5/192-2/12C9DDC6-EC8A-43BB-8A82-A3236E6D0109.html>; <http://www.wzrzz.com/china/taihui.htm>, accessed on 19 March 2003.

they were caught up in a relentless spiral condemning in the end two of them (at least) to a death sentence.

**Table 3. “Ping” Tontine 平會**



**Table 4. “Tai” Tontine 抬會**



Zheng Lefen (Happy Fragrance) was 36 years old and unemployed in 1985 when she started organising a tontine, at that time it was a “flat tontine” (*pinghui*, 平會), that is to say the most common type (see table 3) in

which one organiser brings together a given number of participants who would each contribute a given amount of money each month or whatsoever the specified period of time between two meetings. Shortly after, in order to collect more money, she started building a pyramidal scheme in which she had to manage several tontines simultaneously. This kind of tontine has been called the “tontine which is carried between several persons” (*taihui* 抬會) for the organiser must subcontract parts of the tontine to sub-organisers (see table 4)<sup>66</sup>. The typical *taihui*, that is to say as its said-inventor Ye Sanfeng conceived it, were to last month till the hundredth month, this member has to contribute 3, almost nine years. Rules were as follows:

- a member has to make an initial deposit of 11,600 *yuan*;
- from the second month till the twelfth month, this member is to receive 9,000 *yuan* each month from the organiser;
- from the thirteenth month till the hundredth month, this member has to contribute 3,000 *yuan* each month.

To the very end, the organiser had received 275,000 *yuan* and paid 99,000 *yuan*, she made a profit of 176,600 *yuan* (see table 5). Conversely, any member should have a negative return of 176,600 *yuan*, in other words, any member have to bear an interest rate of 34% on a yearly basis<sup>67</sup>. It does not really matter how high are interest rates<sup>68</sup>; what is actually at issue is the effective synchronisation between inflows and outflows. For the organiser, a positive balance between both flows is maintained during the first two periods, then a negative balance appears from the third period till the forty-second period, and once again a positive balance is reached which lasts till the ultimate period.

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<sup>66</sup> This appellation is rather recent. Formerly, this kind of tontine was called “plural tontines” (*zongshi hui* 總式會). About the ins and outs of these tontines, see Thierry Pairault, « Approches tonitinières (deuxième partie): formes et mécanismes tontiniers », *Études chinoises*, vol. IX, n°2, 1999, pp. 89-97.

<sup>67</sup> I calculated a break-even interest rate in order to take into account inflows as well as outflows. (A break-even interest rate is that interest rate that make all incomes and expenses cancel out).

<sup>68</sup> According to microfinance operators in francophone Africa, the main problem is the access to financial services much more than their cost. Surveys show that the interest rate is not a constraint expressed spontaneously by borrowers but tends to be put forward by civil servants or politicians. Furthermore, financial costs should be compared with the profitability of the operation financed by the loan; *i.e.* to an economic standard not to a moral standard (see <http://microfinancement.cirad.fr/fr/news/BIM/FichDak4Txd'int.pdf>, accessed on 18 March 2003).



To carry on the huge stream of payments generated during the first periods, the organiser have no choice other than seeking new participants and sub-organisers to set up new *taihui* in order to achieve a favourable balance. Table 6 shows the “exponential” needs in new capital flows during the first months. Prospective participants are lured by the appeal of quick money, they utterly forget most elementary prudential rules and show a confidence in complete strangers which is mere herd instinct. “Even simple-minded people are participating in tontines for there is a lot of money to earn” (*daizi dou ru hui le, kanlai zhen neng zhuanqian* 呆子都入会了, 看来真能 赚钱) such was the decisive argument as Jia Lusheng reported it. As a result, five months after she had launched her first *taihui*, Zheng Lefen was heading 427 sub-organisers operating in the various districts under the City of Wenzhou and in districts to be found as far as Jiangsu or Shandong provinces. Local governments became aware of the extent of the crisis for people were emptying their bank accounts so to bring “cart-loads” (*chezai* 车载) of bank notes to the nearest tontines’ organiser. Some organisers were then arrested and tried for fraudulence and deceit; tragically some of them, as Zheng Lefen, were sentenced to death and shot.

**Table 5. Month-end balances**

Month	Contributions from a given member	Repayments to a given member	Balances
1	11,600	0	11,600
2	0	9,000	2,600
3	0	9,000	-6,400
4	0	9,000	-15,400
5	0	9,000	-24,400
6	0	9,000	-33,400
7	0	9,000	-42,400
8	0	9,000	-51,400
9	0	9,000	-60,400
10	0	9,000	-69,400
11	0	9,000	-78,400
12	0	9,000	-87,400
13	3,000	0	-84,400
14	3,000	0	-81,400
...			
40	3,000	0	-3,400
41	3,000	0	-400
42	3,000	0	2,600
43	3,000	0	5,600
.			
99	3,000	0	173,600
100	3,000	0	176,600

**Table 6. Looking for new sources of money**

	Contributions from sub-organisers			Repayments to sub-organisers			Balance according to the number of <i>taihui</i>		
	1 <sup>st</sup> <i>taihui</i>	2 <sup>nd</sup> <i>taihui</i>	3 <sup>rd</sup> & 4 <sup>th</sup> <i>taihui</i>	1 <sup>st</sup> <i>taihui</i>	2 <sup>nd</sup> <i>taihui</i>	3 <sup>rd</sup> & 4 <sup>th</sup> <i>taihui</i>	1	2	4
1	11,600	0	0	0	0	0	11,600	11,600	11,600
2	0	0	0	9,000	0	0	2,600	2,600	2,600
3	0	11,600	0	9,000	0	0	-6,400	5,200	5,200
4	0	0	23,200	9,000	9,000	0	-15,400	-12,800	10,400
5	0	0	0	9,000	9,000	18,000	-24,400	-30,800	-25,600
6	0	0	0	9,000	9,000	18,000	-33,400	-48,800	-61,600

## By way of conclusion

In patriarchal societies, women derive social status from fertility and work ability. Therefore, there is no immediate correlation between their social status and their potential financial might: a low social status does not imply a lack of economic control. As seen above, gender equality<sup>69</sup> does not automatically result in a rise of women's social status. Furthermore, it might cause a loss of financial autonomy and economic control. Thus, the question should be how to reach a higher social status without giving up their economic "privileges"? The promotion of microfinance programs may pave a way toward a solution.

Given the failure of formal banking institutions to reach needy rural and urban populations, microfinance programs have emerged in China as a potential mean for bridging the gap between the supply and demand for financing. These attempts have mainly taken the form of subsidized loans in government-supported poverty alleviation programs<sup>70</sup>. Their effectiveness is

<sup>69</sup> The government of China has just introduced laws banning sex-selective abortions, under the new regulations, it will be illegal to have an ultrasound scan purely to determine the sex of a foetus (see <http://china.scmp.com/china/ZZZELIULMDD.html>, accessed on 26 March 2003).

<sup>70</sup> Providing subsidized loans directly to households did not start until a few years ago, PRC's National Poverty Alleviation Plan was introduced in 1993.

relatively slight for subsidized micro-credits tend to have low repayment rates and frequently do not reach the intended clientele.

Nevertheless, there are enough examples of sustainable microfinance institutions and programmes to argue that successful microfinance implies financial self-sufficiency rather than distribution of cheap credit<sup>71</sup>. Microfinance institutions should be established as micro-savings institutions even before being efficient micro-credits institutions. From that very standpoint, Chinese women benefit from a somewhat “advantageous” position. They traditionally enjoy some financial autonomy and frequently hold a stock of social capital, both incentives bolstering them towards business endeavours. Thus, spreading microfinance institutions in China should empower Chinese women even more straightforwardly than elsewhere.

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<sup>71</sup> See the website manage by the CIRAD at <http://microfinancement.cirad.fr>.

## 4

### **Debt bondage, as a form of voluntary slavery. Hypothesis for a definition of so-called debt bondage in India**

Jean Michel Servet

*The greatest force of domination always resides in  
the consent of the dominated towards their domination.*

Prof. Osiris Cecconi

*Debt bondage* may be defined as the state of a debtor under the obligation to work for a creditor for free or for a very small remuneration (not only compared to the legal minimum wage when that has been defined by public authorities, but especially relative to average remunerations received within his community and within his society) because of a debt which he has contracted from this creditor; the debtor can be the person himself or a member of his extended family who is substituted for him (a brother or sister, wife or husband, child, niece or nephew); in the same way the benefit of the credit can be transmitted to an employer by the creditor. The debtor, or the person substituted for him, subsequently finds himself in the situation of an employee, in the sense that, in the execution of his work he, or she, is in a

subordinate position when working, but at the same time, receives only a small fraction of the legal remuneration generally recognized for this type of activity; at the same time he is deprived of the liberty to choose his or her employer and is compelled to work for the creditor or the one designated by him.

It would be wrong to imagine, as is often the case among mainstream economists, that all forms of indebtedness are likely to induce debt bondage and that the debt burden is the essential cause of an economic relation of over-exploitation, and that it is therefore an extreme situation. It seems essential here to develop a certain number of hypotheses going against this economic interpretation. We will examine five.

*Hypothesis # 1:*

Debt bondage is a social relation in the sense that it constitutes a personal bond of subordination which in its most common form, pre-exist to the debt relationship itself: it is the consequence of this relation and its expression. This is the reason why, if the phenomenon appears general in the sense that it is widespread in the sub-continent and beyond, it occurs only in geographically delimited areas, areas larger today, because of the forced migrations that debt bondage induces. It is right then to reverse the assumption generally made, placing the debt at the very origin of the subordination. These populations are not in a situation of bonded labour because they are involved in debt, but because they are in a situation of subordination (which includes the economic conditions of their exploitation, but not only) where they find themselves overburdened by debt, a situation leading to bondage. In India, the question of debt bondage is therefore intimately connected to personal status and more precisely to caste hierarchy.

*Hypothesis # 2:*

Debt bondage in its current forms is not an archaism which the current understanding of wage earning would make suddenly intolerable. Public authorities, including those of the colonial period and since independence, sought to eradicate debt bondage, with limited success, because the same economic ideology was prevalent in its interpretation, putting debt at the origin of bondage. The history of debt bondage can be seen as an evolution of ancient forms and is not an archaism, but a multifaceted and advanced form of labour exploitation, taking different forms and names according to the region.

- *Hypothesis # 3:*

Taking into account migration and the shifting of the profit centers, the cultural and geographical areas of debt bondage are changing. However, the phenomenon is changing without affecting all the populations, because there are a certain number of ideological and cultural conditions which make certain communities invulnerable to the development of debt bondage.

*Hypothesis # 4:*

The endemic under-employment and the state of physical and financial distress in which some families and some people find themselves can lead those people to get involved, against advanced funds, in a relation of bonded labour. For these people, debt bondage is then a new social relationship in the making. This expansion of bonded labour was legally possible because of the way in which the British colonizers legitimized it as a work benefit against remuneration; *i.e.*, the fixing of a contract of exchange to indicate a subordinate, personal relation. However, this trivialization in the form of a work contract against advances is limited if one compares it with the dominant forms of debt bondage based on a prior interiorized and inherited relationship of subordination.

*Hypothesis # 5:*

The systems known as informal financing must be analyzed, not in order to understand the development of ties leading to debt bondage, since it is only a small part of these financing activities which leads to it, but because these practices can themselves indicate appropriate solutions to meet the needs of populations likely to find themselves in a state of debt bondage.

These five hypotheses constitute the basis of the synthetic analysis concerning the social relationship of debt bondage which we present here.

## Debt bondage as advance or as a temporary transfer of rights

Apparently, debt bondage results from taking a loan and it can *a priori* be understood only if it is placed in the context of the prevailing loan system used by the communities practicing it. With this intention, one can distinguish four main loan categories:

- loans with interest, having real deposit or personal guarantee;
- loans which are an advance on harvest or production;
- loans which are characterized by a temporary change of rights during the period of indebtedness;
- and loans which are a contractual relation binding a debtor and a creditor and based on trust (many loans from *moneylenders* today are of such type, as well as the deals made within a great number of tontines, in India often called “shit funds”).

All the different types of loans are centrally linked to one of these categories. In some cases, they present a hybrid character insofar as the prevalent categories get mixed with one or the other of the first three categories. The classification of a loan determines the understanding of its morality by the contracting parties. This categorizing has in itself a very significant meaning since the degree of interiorization of the debt to the refunding of a loan will not be the same one according to the position in the moral hierarchy of the loans.

This moral hierarchy of loans differs from one culture to another and this can place bank loans and microfinance in a category which can be more immoral than what in the West is regarded today as usurious loans, those in particular which lead to situations of debt bondage.

The loans allowing debt bondage concern categories 2 and 3, *i.e.*, the advance or the transfer of property.

It is possible to regard the loans inducing debt bondage as an advance, since the debtor receives a certain sum at a given moment and works then during a certain period of time for the creditor. One must note here the advantage the debtor expects to find in this situation: the creditor, in order to recover his debt, is obliged to employ the person or a member of his family for a certain time and reciprocally, the debtor or the person who is substituted for him is obliged to work for the creditor. Thus, this position

offers to those who get involved in debt a guarantee of employment and to the employer a guarantee of workforce.

This helps to clarify *a priori* unexpected situations of debt bondage, such as:

- the debtor ignores the exact amount which he has to pay back and consequently the number of months, even years, which bind him to his employer; he trusts him completely for this calculation; obviously, what matters most to him is the guarantee of being employed and the recognition of his status as a subordinate;
- Persons who have been “freed” from their debts thanks to the intervention of a non-governmental organization (for example by paying capital to the employer) fall back very soon into a situation of bondage by creating debts with their creditor.

One can also regard this type of debt as a temporary transfer of rights. The model of this kind of loan is the temporary loss of property rights to the land. In exchange for a loan, the debtor gives up his rights over a piece of land. Until the debt is cancelled, he pays a rent to have the right to use his own land. Note that the ancestral and communal link with the land is not broken but the income from the property is transferred. Interest in this case is assimilated to what economists have designated as rent. To understand this temporary transfer of rights, one has to go beyond the common distinction between land owner and tenant in order to situate the land rights in a hierarchy of accessibility to the use and income of that land. In the case of debt bondage, it is the work capacity itself which is offered for a given period of time. The indebted person (or the one who is connected through the family) becomes then a dependant or a voluntary slave.

In the case of a loan as an advance or a loan with temporary transfer of property, we do not really find ourselves in a situation of loan with interest. This distinguishes these loans from those of the first category, those with real security or personal, and those from the fourth category.

The actual difference between the moment of indebtedness and that of its repayment plainly justifies in the eyes of the debtor the margin which is deducted to compensate the financial service thus provided. The difference between the value here and now and the value later is strongly integrated. However, this type of loan differs considerably from the category of loans with interest, those which allow interest to build up, *i.e.* when the debtor



finds himself unable to repay the debt, the repayments remaining unpaid carry, in their turn, interest. One must point out that in a great number of societies these accumulations of interest are limited (for example up to the doubling of the debt). This indicates the moral reprobation attached to the category of the interest bearing loan<sup>1</sup>.

## The social hierarchy of the debt

Colonization has been a period during which the personal relationships of subordination could evolve into relations known as economic – processes not completed – relationships in which property relations objectify the subordination, and the “goods” glorify it. This servitude isn't what it appears to be, a social relationship of production, but as the consequence of rights of access to things put on the “market”, the land or actual work. Consequently, debt bondage which we have placed in the traditional loan category, burdens the people unable to offer as security a plot of land or something else having a monetary value, except their own capacity to produce, thus on the poorest sections of society. However, the personal elements that this subordination implies have not totally disappeared and bonded labour is found in certain geographic areas or more precisely in some particular socio-cultural zones, where this type of bondage can develop to a certain extent. It is necessary that the worker accepts this constraint and does not run away if he is overburdened and swell the huge mass of people living in the Indian shantytowns; thus, debt bondage can develop mainly only in the zones where communal rights and personal bonds of subordination<sup>2</sup>, products of a historical evolution, are still strong enough to make it acceptable, even desirable.

To be in debt in India doesn't even mean, in fact, to be in a situation of subordination. Almost all levels of society, including some of the lenders

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<sup>1</sup> “Interest from money-lending paid at one time should not exceed double [the principal], but on grain, produce, fleece, or draught animals it should not exceed five times [the principal].” *The Laws of Manu*, chap. 8, 151 (trad. Wendy Doniger, Brian K. Smith, Penguin Books India, 1991).

<sup>2</sup> To avoid any misunderstanding, let us make it clear that a relation of subordination functions like a personal relationship, but that as a social relationship, the ones who dominate can be substituted according to their capacities to make advances. Perhaps it would be appropriate to bring together these Indian concepts with those of the first classical economists (those of “*travail stipendie*” of the physiocrats and Turgot or those of “command labor” of Adam Smith).

who lend over again what they borrow, are in debt; through the caste system, for centuries, particular segments of the population in India had the duty to save and the moral obligation to lend a portion of the income they drew from the interests<sup>3</sup>.

One can schematically represent a social hierarchy of debt, from the jewellery owners and the landlords having a real production capacity to those who are completely deprived.

In the higher category of debt, the objects pawned are jewels, very often inherited or brought as dowry by the wife. This form of loan guarantee, if it is capable of demonstrating the superior status of the family, does not undermine the economic capacities of the debtors to produce. Pledging jewels can even prove to be a relevant strategy for benefiting from opportunities in speculative deals. The paid interest corresponds to some extent to the transfer of this eventual profit to the creditor. Thus, the dowry doesn't always have, as is often thought, an anti-economic character, since it can ensure a higher status in the logics of debt. The problem is for all those who have the pretense to reach it without having the means and who one finds in the lower socio-economic debt categories

In the case of loans guaranteed by land, two cases must be distinguished. If it is a loan with interest for which the debtor offers land as a guarantee, the risk involved is for the debtor if he does not manage to refund the *interest* and the *capital* which leaves the farmer not only without land but also indebted, the interest due itself carrying interest. In the case of a temporary transfer of land rights, the debtor's status changes; he finds himself as a tenant who has to pay rent to the creditor, but by this, he keeps the right to use "his" land. With colonization and the introduction of so called market principles which goes together, it seems that this type of loan, (except for tribal areas where there are limits on the transfer of land rights outside of the community), has considerably disappeared to the advantage of the first type of loan, that with a guarantee, which can imply a full and final transfer of the land. This means that essential communal rights to the land have disappeared.

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<sup>3</sup> It is most probably possible to speak about the Indian populations from a Freudian point of view of a marked anal nature evidence of which one finds in the near-public defecations on the beaches, around railroad entrances, roads and houses, etc.

In the Indian rural areas, more than 80% of the population called poor are without land or own less than a hectare. The *scheduled tribes*<sup>4</sup> have the greatest proportion of poor (54%) followed by the *scheduled castes*<sup>5</sup> (50%). The *scheduled castes* represent 18% of the total Indian population, but 27% of the total poor in India and the *scheduled tribes* 8% of the population and 11% of the poor. These global statistics explain the reasons why the probability of a *tribal* or a *dalit* being in a state of debt bondage is much higher than for other castes of the Indian population.

Debt bondage thus strikes the poorest categories of the population, those who are unable to offer jewels or land as security, in other words the *proletariat*, close in meaning to the old or Marxist term, those who can offer only their own labour or the labour of their family members in advance.

“A debtor, if he is of the same class or of a lower class than his creditor, may pay off his debt to him even by physical labour; but if he is of a higher class, he should pay it off gradually”<sup>6</sup>

In so doing, they are not only in a reproductive but also cumulative process of proletarianization, since they are not capable, because of their very small amount of assets, to accumulate. This historic movement falls under the vast process called *previous accumulation* by the classical economists, that is to say a progressive expropriation of individual and collective rights.

It is, from this point of view, appropriate that we analyze the causes of their debt. It is not only following disease, drought, insufficient production, loss of assets (due to fire, death of cattle, theft, etc.) that these people are involved in debt. Several of them are involved in debt because of celebrations related to the coming of age of the girls, marriages, funerals, etc. in other words the primary reason is their desire to take part fully and entirely in the essential rites of their community. The borrowers thus voluntarily reproduce the economic and ideological basis of their own loss, dispossession and subordination.

This loss and this dispossession took a very different meaning with

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<sup>4</sup> A term often used today to indicate the *adivasi* known also as “tribals” or *aboriginals* of India, whose territory is very often found in mountainous areas or forests.

<sup>5</sup> The term “untouchable” having become politically incorrect in India, it is by this expression that one administratively indicates those who generally recognize themselves as *dalits*.

<sup>6</sup> *The Laws of Manu*, chap. 8, 177 (trad. Wendy Doniger, Brian K. Smith, Penguin Books India, 1991).

the new financial system of social relations brought about by the colonial establishment (the institutionalization of “markets” of “labor”, of “land” and of “money”) and by the development of the capitalist relation to production (in regard to salary or to the rise of export activities).

In its old forms, debt bondage had as a consequence the reproduction of the situation of dependence of a section of the population and one can say that it was even itself the cause (thus building a vicious circle of dependence, a circle from which it is almost impossible to escape). The dominant sections of society had, reciprocally, by their loans, the moral obligation to ensure the material and non-material conditions of their dependents (in particular, from an ideological point of view, by their financing of certain rites and from a material point of view by the provision of certain reserves in the event of shortage).

Debt bondage thus fits into the whole mechanism of exploitation, which leads to a transfer of surpluses from the “exploited” to the “exploiters”. The exploitation particular to bonded labour, changes in degree but not in nature from what one can observe in the relations with the landless tenants, who are also obliged, in order to survive, to work for a very small remuneration on the land of the masters<sup>7</sup>.

One should see debt bondage as a part of the whole mechanism of exploitation (in the sense of a transfer of surplus that could take place due to the energy of someone used for the profit of another, as well as thanks to commercial profits).

New forms of debt bondage are tailored according to old forms, which allow them to have a strong hold on the people, to the point where this form of bondage is often denied. But what is new is that the finished work is generally not meant any more for reproduction within the local community (for example farm work, for which the landowner secures for himself access to manual labour when the time comes). The tasks carried out by these bonded labourers are intended for commercial production<sup>8</sup>. More and more

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<sup>7</sup> One should note here the disputed origin of the word “coolie”, someone bound to a state of dependence by the fact of working for others (originally a Sanskrit or Tamil term designating a slave and than an indigenous worker, especially in Asian ports).

<sup>8</sup> Contrary to what is often thought, “salarization” isn’t opposed to slavery because these two forms of employment can have two modalities, not only complementary but articulated, of management of the labour force available in a society. In Brazil, until the legal prohibition of servile work at the end of the nineteenth century, newspapers published small advertisements

frequently, the lenders themselves do not come from the higher castes any more; members of lower castes can become lenders, a social evolution which also causes the moral obligation of the masters to help their dependants in case of need to disappear; the relation then tends to become strictly an economic relationship. The problem is that these workers, not having the capacity to compete with their employers - a strong characteristic of the modern salaried worker - their productive activity takes place under not only very difficult conditions, but also without any or almost any health protection. This is emphasized by the fact that part of this labour force is not exploited directly by its creditors, but that those workers give the whole or part of the capacity to work available to them to another employer. The exploitation of labour can then take the most despicable forms, for example when these people are sold as sex objects. The moral obligation which bound the creditor to his debtors within the context of the old, local communities is broken, the phenomenon being strengthened by migrations-deportations which the workers are subjected to.

### **Degrees of moral legitimacy of the various types of loans**

The definition of archaistic and economic examples of debt bondage explains that these practices are interpreted as excesses of a system, a kind of aberration; they are not thought of as a bond of subordination which has fundamentally changed its nature because of the development of wage-earning - from which they will borrow the economic character leading to exploitation - and of globalization which offers new potentialities for the marketing of the products.

The changing nature of debt bondage justifies fully that it be fought against today. Not because it would be the perpetuation of an archaism, but because its social function, its nature has fundamentally changed since the protection which it brought to the communities in exchange of submission tends to disappear. The main difficulty is that this changing nature is not necessarily clearly perceived by those who benefit from it nor by those who are subjected to this form of bondage.

Another difficulty, paradoxically, is due to the fact the loans which

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for the sale of slaves. Those who acquired them gave - against the equivalent of wages - their exploitation to the factory owners who employed them for productive ends.

microfinance proposes appear within the framework of Western culture and are perceived as having the moral integrity of the "market culture" whereas it is very uncertain that it is thought of like this by those who are the potential beneficiaries. Microfinance loans are indeed loans with interest which, because there is the addition of interest in the refunding, can appear as more unacceptable because, in short, one can only label those cultures as traditional loans systems, for example, of which debt bondage forms a part.

The comparison and the evaluation, from a moral point of view, on the one hand, of advances which induce a situation of bonded labour and on the other hand, the loans of the various microfinance organizations, very much puts into context the spontaneous classification in a binary opposition: microfinance/usury, as an opposition: good/bad. This hierarchy is not spontaneously revealed by the populations and it even hides, insofar as the people know, to some extent at least, the expectations of the outside suppliers of funds "to fight against the usurers", insofar as the local, non-governmental organizations play the role of filter to create the expected representations and where the people have a thirst for credit and are ready to absorb these loans which are granted at rates relatively advantageous.

The fact remains that the contact between different worlds (which could bring us closer to the analyses of Boltanski and Thevenot) create an ambivalence because on the one hand the interest rate of an NGO cannot fully be compared to the old forms of usury (in particular because of accompanying practices) and on the other hand the contemporary forms of debt bondage are not the exact reproductions of the old forms, mainly because of forced migrations meant to fulfill productive activities and produce goods intended to be sold<sup>9</sup>.

However, this question of interest must be treated with lots of caution because the moral understanding of the various loan terms and the fact of amassing wealth which it allows must also be placed in the evolutive framework of the major discussions on the rate of interest. From this point of view, one can witness an evolution of its understanding over a long period. If the Islamic cultures, than British, brought with it a disapproving notion of

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<sup>9</sup> It follows that the standardization of imports by the Northern countries, by not allowing, for example, the sale of goods which seem to have been produced outside of the legal framework (for example by children or bonded labour), can be an extremely efficient means of eradicating the modernization of debt bondage. Insofar as these products represent a source of income, albeit tiny, for those who create them, it is essential that accompanying measures are taken for the development of their own activities and to liberate them from their own debts.

usury, the local Hindu cultures do not reject, contrary to what has been often claimed following a quick interpretation of certain texts,<sup>10</sup> the loan with interest and thus in a general way, the fact of becoming rich through loans. This does not exclude the hierarchy of loans that we have mentioned above. In the functional division of the village communities, the caste of the lenders fulfills an essential role,

The moneylender, as we have seen, has the function and the obligation to save. From this point of view, British colonization broke the existing balance. On the one hand, the British come with a morality which condemns excesses of usury and the exploitation of loans, and on the other hand they transform the obligations between creditors and debtors and the rights to the exploitation and loss of the land, setting up the model of the economists, of the "markets" of "money", of "labor" and of "land". While in ancient systems, the debtor could keep his usage rights over his own land in exchange for the payment of rent, in the new system, the expunging of the financial debt is accomplished by his eviction.

In some ways, it is possible to see the new forms of debt bondage involving population displacement as a transposition, into an informal framework, of the new rights of property and market. Here again we find one of the offshoots of the global process of "*previous accumulation*".

Nevertheless, this *transformation* is not finished since on the one hand, the worker is obliged to make available to others his work capacity (he is free in the sense of available) and on the other hand he does it under conditions which bind him to a particular employer; he is not free to choose his "exploiter", he is not potentially available for those likely to employ him. There is no labour "market" because the link is that of a "*customer relationship*" and not one of the "*marketplace*". The main features of this contract are, on the one hand, that the price depends entirely on the particular relationship existing between the employer and the worker (there is no objectivation of the price of the "work") and on the other hand, that the relationship perpetuates itself, in this case as a form of subordination.

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<sup>10</sup> For a well-documented, critical review, see David Hardiman, 1996 and Shishir Sharman and S. Charmala, 2003.

## Conclusion

If the relation of debt bondage has its origin essentially in a social relationship of subordination of which the debt is a device allowing its recurrence, it follows:

- that the simple fact of expunging debt (by canceling those declared illegal or by substituting loans through the action of public authorities and/or NGOs) cannot by itself eradicate the cause of the debt;
- and that the so-called “accompanying” *empowerment* and financing measures are not accessory elements, but are essential to create conditions for a change of status which can eliminate the personal, social relationship which constitutes *bonded* labor status.



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## 5

### **Can microfinance free debt slaves? First hypothesis**

Isabelle Guérin<sup>1</sup>

Can microfinance help fight debt bondage? If so, to what extent? The first step towards an answer is to consider the origins of debt bondage and to recognize its complex, various, and evolving forms. There is no archetype for bonded labour. This phenomenon is not only extremely heterogeneous but furthermore, extremely dynamic. Therefore, a single definitive understanding of debt bondage is impossible, but efforts to improve the problem must of course be based on some understanding – even if preliminary and incomplete – of what debt bondage is, where it comes from, and what perpetuates it. Right away, various ideological answers are advanced from different sides. Some – in particular, certain public authority figures – flat-out deny the existence of debt bondage: it belongs to the past and it has been resolved either by legislation (as in the example of India) or by land reform and the development of an effective supply of microfinance (as in the example of Bangladesh). A quick glance at some villages, however, is enough to establish that debt bondage is still real. For others, the problem exists, but is purely economic in nature: to combat poverty – understood in a strictly monetary sense – would be enough to eliminate the problem. They might also point a finger at the “choices” of the poor, especially with regard to

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<sup>1</sup> The author thanks Patrick Daru, Mark Schreiner and Jean-Michel Servet for their useful comments on earlier drafts of this paper.

seemingly “irresponsible” large sums – often equivalent to several years’ wages – spent on rituals and, especially, on dowry. “Educating” the poor would therefore be a priority. Finally, for others, debt bondage is first and foremost a relationship of exploitation, and so abolishing it would require some means of upsetting the current balance of power.

In June 2000, the Social Finance Unit of the ILO launched “Prevention of family indebtedness with microfinance schemes and related services”, targeting families vulnerable to debt bondage in Bangladesh, India, Nepal and Pakistan. By providing microfinance and complementary services to families who are at-risk of becoming bonded or of selling their children into bondage, by combining direct support to families with lobbying and advocacy towards employers and governments, the project hopes to reduce the vulnerability of the very poor to debt traps.

Given the fact that causes and facilitators of debt bondage are multidimensional, any interventions would necessarily be integrated, or we can say, holistic. Of course, microfinance seems, on the face of it, to be a good candidate, since it provides a form of financing that does not lead to debt bondage to the lender<sup>2</sup>. Nevertheless, taking into account the complexity of the phenomenon and the degree of vulnerability of the families, joining together financial services with non-financial services is impossible to avoid (in particular in terms of education, health, raising awareness, and training). Combining direct support to families with advocacy and lobbying public authorities and employers is also crucial. The programme of the ILO is based precisely on this type of approach. It remains to be seen, in practice, what is the range of this type of intervention, and what could be the potential, but also the limitations.

The objective of this article is the following: first of all to propose a preliminary analysis of the bonded labour phenomenon while insisting on the diversity of the phenomenon: then, to propose the first hypotheses concerning the potential and the limitations of microfinance. Based on the first series of data, this article takes up again the main lines of research which started in December 2002.

Besides a permanent interaction with the personnel of the project since December 2002, we rely on two types of data:

- secondary data: different academic studies carried out mainly in India

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<sup>2</sup> Not to release the families, but first of all to promote prevention and to accompany their rehabilitation.

since the 70's; most of them are monographs of villages or sectors; a range of studies carried out by ILO in the framework of this project, combining quantitative and qualitative data. Those studies aimed mainly at a better understanding of the phenomenon of bonded labour, by focusing on some areas and sectors (all the references are given in the bibliography);

- primary data, of a qualitative kind and collected during several encounters in the field, carried out since December 2002 in the farming sector in Andhra Pradesh and in Bangladesh (Sirjaganj District), in the weaving and prostitution sector in Bangladesh (Tangail District), in the brick kiln sector in Tamil Nadu (starting from the analysis of the migrants village of origin, Saravanapakkam Village, Villipuram District), and of former bonded labourers in the farming sector now free and residing in Pakistani camps (Sindh District, near Hyderabad)<sup>3</sup>.

## **How can we define bonded labour?**

### **Official definitions**

Let's start with official definitions. According to the ILO Convention 29 on Forced Labour, forced labour is a service for which the worker has not offered him/herself voluntarily, and that he/she has to perform under the threat of a penalty. The 1956 Supplementary Convention Against Slavery defines debt bondage as the combination of a credit and a labour contract in which the value of labour services as reasonably assessed is not applied towards the liquidation of the debt (e.g., only interest is repaid by the labour but principle is never repaid) or if activities are neither defined nor limited (e.g., the labourer can be required to work at any time day or night).

The four countries involved in this project have ratified both above-mentioned treaties, so the definitions they contain are applicable to the national context. In addition, related national legislation enacted in three

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<sup>3</sup> According to the proximity of the fields, the surveys are done in a more or less intensive and thorough manner. The data have been collected during short field trips in Bangladesh (December 2002, November 2003), in Pakistan (October 2003) and Andhra Pradesh (November 2002). In Tamil Nadu, insofar as I reside in Pondicherry since July 2003, the data collection goes on in a much more regular and thorough manner, currently in the brick kiln sector. In all the cases, a qualitative approach is preferred, combining open interviews and observation. A quantitative part is planned in the second phase.

countries includes further descriptions of bonded labour, as summarized in Table 1.

**Table 1. National Definitions of Bonded Labour**

Country	National Law	Definition
India	Bonded Labour System (Abolition) Act, 1976 (amended in 1985)	Bonded labour is caused by a debt or by social customs and results in restriction of freedom of movement, and/or restriction of freedom to look for alternative employment, and/or reduction of wages and/or product prices
Nepal	Kamaiya Labour (Prohibition) Act, 2001	Kamaiya labour is caused by a debt and results in the payment of low wages. It also includes abusive traditional forms of labour.
Pakistan	Bonded Labour Act, 1992. Bonded Labour System (Abolition) Rules, 1995	Bonded labour is caused by a debt or by social customs and results in the restriction of freedom of movement, and/or restriction of freedom to look for alternative employment, and/or reduction of wages and/or product prices

Source: Daru *et al.*, 2003

### **Bonded labour as a process**

Now, when one attempts to understand the phenomenon, it becomes crucial to take into account the diversity of situations and also to define bonded labour in a global, dynamic, multi-faceted way.

First, bonded labour is a phenomenon whose expressions range from exploitation to protection, with no clear border along the continuum between the extremes, and indeed with many cases representing some mixture of the two. Consequently, bonded labour is very heterogeneous, with a *continuum* of situations, from relatively “soft” forms which are, to a certain extent, chosen, to much “harder” forms, where there is a total absence of freedom. In the first case, the bondage is temporary and corresponds to the refunding of an advance generally intended for a definite need (to face an immediate situation, to obtain shelter, to marry off a daughter). It seems simply to resemble another form of survival strategy. To a certain extent, one can speak about “choice” insofar as some people would rather borrow and repay with labour than borrow and repay with money, because that way they do not

lose the money that they have managed to save so far. In the second case, on the other hand, the period of bondage is unknown, or rather with no foreordained conclusion – sometimes with debts passed from parents to children – no alternative is possible<sup>4</sup>. Describing such relations in terms of “free choice” may seem puzzling and somehow disturbing, but these labour relationships typically concern very poor workers whose set of opportunities appear so limited that these contracts may well represent their best options. A number of studies report that, while far from being well treated, bonded labourers often have a more enviable life than they would have had otherwise (Genicot 2002). Describing the erosion of patronage relations in South Gujarat, Breman offers the following conclusion: former bonded labourers are now “free”, but “free to starve” (Breman 1996). Our own observations provide other examples of this “voluntary servitude”. While in some cases, it is the landowner or the employer who deliberately provides an advance, in other situations, the advance is requested by the employee him/herself, mainly for two reasons. The first one is, of course, the lack of credit facilities, be it for daily survival, housing, marriage or other life-cycle events. The people have real difficulties saving, borrowing is then the only solution to maintain their status on the social ladder, or simply to survive. In addition to this difficulty of saving, the fear of not being paid, is also a determining factor, since payment delays and simply no payment at all are quite common, whatever the sector. In such a context, asking for an advance ensures part of the payment, although this advance may push the employee into debt bondage.

The quality of the work conditions is another distinct element. Here also, we have a continuum of situations. In the mildest form, the worker is “simply” deprived of freedom of movement. When the work conditions are appalling (too many work hours, exposure to hazardous activities, to insecticides, pesticides, toxic chemicals, accidents, no health care), when the employer makes use of verbal, physical and sexual abuse, when the family, and particularly children, are implicated, then one can speak of “worst forms”.

Finally, and this point is the result of the previous one, debt bondage is evolutionary, with the combination of “traditional” and “modern” factors. Debt bondage results from both “traditional” factors (stemming in the first

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<sup>4</sup> From investigations carried out in the Western areas of the Indian Himalayas at the end of the 70s. J-C. Galey already highlighted these two categories of bonded labourers (Galey 1980).

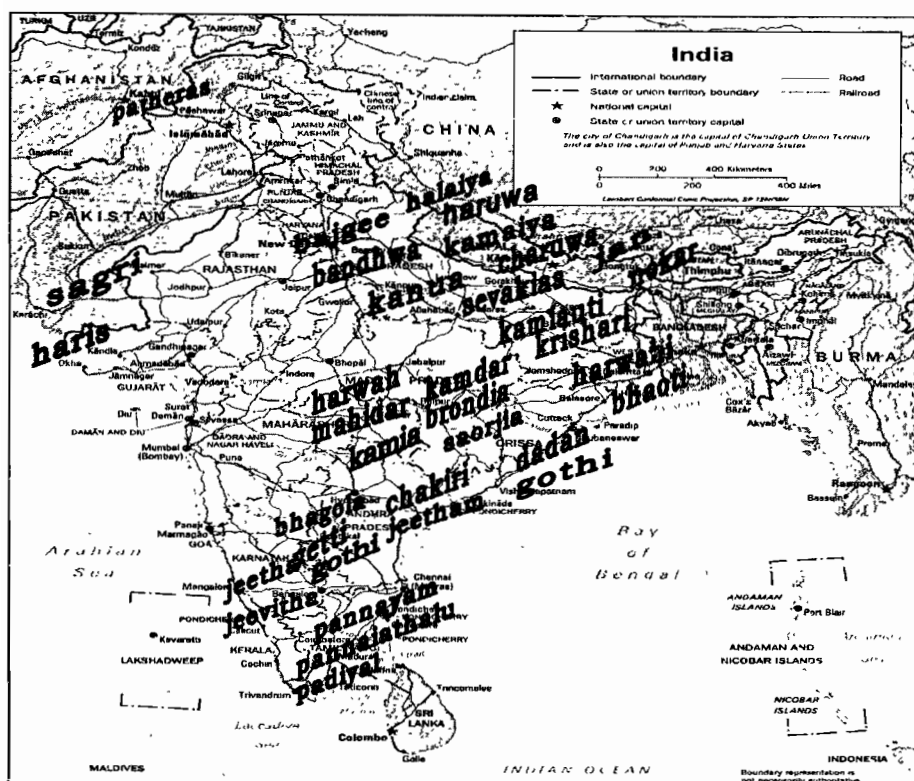
instance from caste relationships between employers and employees<sup>5</sup>) and “modern” factors (stemming from the increased monetization of exchanges – and even of social relationships – and also from the access to new consumer goods – as well as shifts in production process (mechanization, employers’ desire to move towards new forms of production oriented for export, etc.). As Jean-Michel Servet suggests in his previous paper, the evolutionary and heterogeneous dimension of the phenomenon probably masks two radically different forms of debt enslavement: a purely contractual form which is primarily of an economic nature, for which the payment of the debt in monetary form is enough to close the relation; and a form of the client relation type, entangled in rights and obligations, where the status of the two partners of the exchange determines the conditions of the exchange, so that any form of payment would not extinguish the debt which binds the two parties. These “traditional” forms of bondage have different names according to the region (see the map below).

Of course, reality is a continuum and hybridization of the two extremes, between the “traditional” form of bondage (based on caste and hierarchical relations) and the “modern” one (based on economic compulsion). But this simple typology is useful for framing thoughts about the nature of debt bondage and thus how interventions might affect it. As soon as the debt is not thought of in terms of monetary payment but of *duty*, liberating the worker becomes a real challenge, simply because in the mind of the person, the debt cannot be repaid. For the NGOs devoted to the liberation of bonded labourers (for example Action Aid in Orissa; Social Justice Mission in Chennai), a key question is: how to persuade the labourers that they have the *right* to get rid of their debt.

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<sup>5</sup> The interdependence between castes, based on relations of the patron/client type and defined through a set of rights and obligations, precisely constitutes one of the principal bases of the caste system, the two others being those of exclusion and hierarchy.

**Table 2. Regional bonded labour appellations**



Source: ILO, 2002a

## Bonded labour, mode of accumulation and market interlinkages

Obviously, social discrimination (based on caste, tribe or religion affiliation) continues to play a central role. The data available show that caste differences play a major role in India and in Nepal, while in Bangladesh, it is religious differences which seem determining, at least in certain sectors: for example, for the weavers of the district of Tangail, the employers are mainly Hindu and the employees Moslem<sup>6</sup>. But one has to take into account also the constraints linked to the production system. Within one sector of activity, the

<sup>6</sup> This is one of the first results of the studies conducted at the start of the ILO project (see all the references in the bibliography). A number of other studies have also pointed out the role played by the castes. See for example Breman (2003).



mode of accumulation can be defined as the way to organize the production and to distribute the surplus between the different stakeholders. This mode of accumulation depends on the organization of the totality of the production system and at the same time of the configuration of the local employment market.

### *The organization of the production system*

Besides a range of altogether classical factors (mainly the degree of capitalistic intensity and the existence of production cycles, the financing method, the method of recruiting the work force, the commercialization method, the degree of openness to trade competition), two specifics of the sectors concerned by bonded labour reinforce the existence of a surplus distribution going largely against the interest of the workers. The great number of intermediaries (brokers) is one factor: the brokers, coming usually from the same community as the workers, have not only to find the workforce (especially in the case of migrants), but also to "supervise" them and keep them in a system of credit<sup>7</sup>. They are sometimes themselves bonded to their employer or to their manager: the system of subordination appears then like a chain. The second factor concerns the alliance, sometimes unavoidable, with certain organizations/institutions (public authorities, political parties, etc.) who benefit in this way from the situation by deducting a part of the surplus.

### *The configuration of the local labour market*

Three specificities have to be noted. The first concerns the segmentation of local labour markets<sup>8</sup>. This segmentation is done according to the ethnic, religious, caste, gender, affiliation or geographical origin (locals/migrants). Note that this segmentation is the result of socio-cultural factors (strict division of tasks between different castes, between men and women, etc.) but it is also strongly induced by the employers themselves, particularly through the organization of migrant workers' networks.

The second specificity is the interlinkage of credit markets, land

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<sup>7</sup> Two recent studies insist on the crucial role played by the intermediaries in the appropriation of surplus: an essentially theoretical study focused on child labour (D'Mello 2002), a case study focused the carpet weaving sector in North-India (Levison *et al.* 1996).

<sup>8</sup> We use the term "market" although this term is obviously inappropriate.

markets, and labour markets<sup>9</sup> – all with a single, monopolistic employer/owner. Furthermore, the employer may use a “social monopoly” as the only effective intermediary between the labourer and the outside world. Some research has shown that the breakdown of these patron-client relations have indeed led, on the one hand, to reduced dependence and subordination but on the other hand to greater social isolation (Breman 2003)<sup>10</sup>.

The third specificity concerns the asymmetric information between employer and employee. Simply because they are illiterate, the employees are unable to verify the accounts. They merely put a signature (most often a thumb imprint) on a blank paper.

Market segmentation, market interlinkages and asymmetric information make defection (looking for other employment) or protest (claiming for wage augmentations) extremely difficult for individuals, who, to use the expression of A. Hirschman, are “captive”. The workers are kept in a position of dependency and therefore in an unfavorable negotiating position, even during the periods where the need for a workforce is strong.

### **Is it possible to quantify?**

As one would suspect, with such a range of types of debt bondage, any ideological position can find grounding in the “evidence”. In India, for example, the estimates of the *Gandhi Peace Foundation* in 1980 were twenty times higher than that of the government (2,617,000 against 120,519)<sup>11</sup>. In 1989, the estimates of the government for the whole of the country were 242,618, that is to say approximately 0.02% of the population, whereas the NGOs regularly announced a proportion from 8 to 10%<sup>12</sup>. What is certain is that there are genuine “pockets” of bonded labour, whether sectorial or geographical. Is bonded labour increasing or diminishing? Numerous academics debates have taken place over the last ten years on this issue. Although some assert that bonded labour is slowly disappearing, others on the contrary find that bondage is becoming more prevalent<sup>13</sup>. Given the high diversity of the phenomena, obviously no definitive response can be given.

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<sup>9</sup> See on this point P. Daru *et. al.*, *op.cit.*

<sup>10</sup> The analysis of J. Breman concerning the south of Gujarat.

<sup>11</sup> ILO, 2002a, p 39.

<sup>12</sup> See for example the articles which appear regularly in *The Hindu*.

<sup>13</sup> See notably Brass (1995).

Even within the same sector and within the same region, strong discrepancies can be found<sup>14</sup>.

In India, the data available (the most reliable data are coming from sectorial and/or geographical monographs) give divergent indications concerning the quantitative evolution of the phenomenon. It is now generally accepted that bonded labour is very present in some sectors of activity regarded as “modern” and some recent monographs seem to indicate that the phenomenon tends to reinforce itself, for example in the brick production and the cotton weaving sector<sup>15</sup>. In the farming sector, we can witness the progressive eradication of the old forms of bonded labour among men<sup>16</sup>. A number of factors tend to erode the phenomena: growing self-assertiveness among the workers who don’t openly dare anymore to refuse attachment; increasing integration of the rural economy into the broader market and alternative employment opportunities outside; erosion of patronage and loyalty, authority traditionally exercised by landholders being eroded by changes in the local/regional power structure (Jodhaka 1990: 108, 294, 324). However, and paradoxically, all these new trends may also explain the intensification of the debt mechanism, which becomes the only way for the masters to balance the new bargaining power of the workers. According to Brass, and based on his field work in Haryana, because workers are more and more aware of their rights, landowners need all the more to resort to the mechanism of debt to control and discipline agricultural labour, specially during peak seasons (Brass, 1996). Searching for bank votes also explains the intensification of the debt mechanism: during panchayat elections, large landholders compelled indebted casual and attached workers to vote for candidates favored by their employers precisely by threatening to demand debt repayment (ILO 2002b, Jodhaka 1990). The new tendencies mentioned above do not therefore prevent the continuation of pockets where bondage concerns almost all the population of some social groups on a local scale (*dalits* or *tribes*)<sup>17</sup>. This bondage sometimes takes extremely violent forms,

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<sup>14</sup> Let’s give the example of brick kiln factories: the description given by Gupta (2003) is very different from the one given by Deliege (1989).

<sup>15</sup> Recent study summarised in Gupta (2003).

<sup>16</sup> See for example in Gujarat Berman (2003). For Uttar Pradesh, Andhra Pradesh and Bihar, see Byres *et al.* (2003).

<sup>17</sup> Example of the *Madaiti* system which concerns a tribe from the Jharkhand region in Bihar (Sharan, Dayal, 1993). Example of the *Korku Adivasis* in Madhya Pradesh, Harda District (“Escape from Bondage”, *The Hindu Magazine*, September 7, 2003). Other examples of this

in particular sexual violence against women (our own observations in Villipuram District, Tamil Nadu). In the farming sector, we can obviously witness the transformation of debt bondage with a shift in the immobilizing function of debt from a continuous and intergenerational basis to a more period and context- specific basis. Because of new production cycles and less labour-intensive technologies, debt bondage is confined to the months of peak demand in the agricultural cycle, when sellers of labour power would otherwise command high prices for their commodity. These new forms of debt bondage are based on new forms of market labour segmentation mentioned earlier: in addition to caste divisions, which still remain prevalent, employers increasingly resort to female and migrant labour force, considered as more “disciplined” and less organized. To quote Breman (2003), one can speak about “neo-bondage”, which involves the re-tying of female labour and migrant labour, while permanent forms of bonded labour are becoming increasingly rare.

## **The ILO Project**

### **To Join Pragmatic and Political Action**

Regardless of how effective microfinance might be, it is not so effective that it can by itself eliminate debt bondage. To get governments to pass laws (and to enforce them) requires intervention both within the government and with other participants, in particular the employers and the trade unions. After all, in the West, slavery did not disappear until it was abolished. The ILO’s primary goal is precisely to work on this political level and to dialogue with governments, trade unions, and employers to come ever closer to a state where everyone can have a decent work situation. Of course, when consciousness-raising and dialogue are not enough – as has been the case with debt bondage – then direct interventions with the affected population can speed up the process. This programme is an example of the ILO strategy on both fronts. Let us really be clear on this point: beyond any help provided to specific people, the *raison d’être* of the ILO programme is as a demonstration of a model from which lessons could be learned and then applied on a large scale.

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type exist also in Tamil Nadu (example of the *Parias* of the village of Siruthondamadevi, Villipuram District).

This marriage of political and practical interventions seems to be a strength of the ILO programme, insofar as it responds to the thorny issue of how to provide access not only to formal rights but also to real freedom, that is, the capacity to transform rights and resources into real potentialities. The recent renewal of the theories of social justice, in particular the work of Amartya Sen, insist on the inequalities of aptitude for the conversion of formal rights into real freedom: the universality of rights, in spite of the idea of equality which is attached to it, can prove fundamentally unequal insofar as the people do not have the same capacities to transform their rights and their resources into real potentialities. Of course, when going from rights and resources to transformative capacities, we leave the domain of the purely economic and enter the domain where social structures also matter. The personal characteristics of each, as well as being part of such and such social group (in particular ethnic, religious, caste or gender membership) come into play.

Debt bondage seems like a good example of the failure to transform rights into potentialities. Just having laws on the books (as is the case in India since 1976) does not mean that the laws are enforced. The failure can be traced not only to the coalition between public authorities and employers – as activist groups so regularly denounce – but also to the “consent” of the bonded workers. This attitude of “consent”, as mentioned earlier, is similar to the process of alienation.

So debt bondage is caused and perpetuated by a range of factors: what to do about it? Following Sen, there can only be one answer: promote both economic and political freedom at the same time<sup>18</sup>. Not only do they reinforce each other, but their interactions produce the type of freedom that deserves that name. So, while higher incomes and better living standards are certainly priorities, the realization of the fullness of human potential in the long term requires interventions to make people aware of their rights, to express their needs and their “preferences” – to borrow a term dear to economists – and even to change their preferences that were originally forged in the fire of oppression. Of course, no one thinks that they can impose a new way of living and ignore existing social structures. Rather, the goal is to support the development of an environment that nurtures the exercise of free

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<sup>18</sup> This idea revives the associationist thought of the end of the 19th and the first half of the 20<sup>th</sup> century, developed by the pragmatic philosophers, particularly that of John Dewey (Bazzoli 1994, Chanial 2001), as well as by socialists like Marcel Mauss or liberals like Alexis de Tocqueville (Ferraton 2002).

choice, where people know the full extent of life's possibilities, and do not need to have their desires spoon-fed to them. When the inertia of social standards and "tradition" are opposed to social progress which, obviously, is the case here, the only possible escape is public debate. The democratization of economic practices concerns necessarily a democracy of the *participatory* type (and not only representative), the only way to encourage the transformation, necessarily progressive, of conventions and social obligations. This is the reason why the first concern of this programme lies in the anticipated demonstration effect. Far beyond the clients currently served, it acts first and foremost as a promoter of dialogue. The tripartite approach specific to the ILO gives it an obvious comparative advantage: the act of including employers, trade unions and public authorities is an advantageous way to start this social dialogue by going beyond the usual ideological divisions.

As the ILO project has progressed, it has become clear that the involvement of employers is crucial in areas with a large labour supply and limited employment opportunities. If one wishes a long term change, the involvement of the employers is decisive. Otherwise, one faces the risk of merely displacing the problem. To involve the employers is easier said than done. A first step has been to identify the *motivations* of the employers. Different studies are ongoing, let us simply mention here the diversity of the employers, taking the example of the farming sector. Among the employers who make use of bonded labour, we find of course big land owners. To have access to a work force is still a way to assert their power and also represents a voting bank. But one can also find small land owners who have suffered a lot from the drought of these last years, who run into debt, sometimes while modernizing their system of production, but also while simply trying to survive. They find themselves bonded to money lenders. To control a cheap work force through a system of credit is the only answer which they found for survival.

The second step which is just starting, relies on a dialogue with the employers. Rather than denounce bad behavior, the project has deliberately chosen a non-confrontational approach. The project will invite a number of employers to take part in small demonstration projects to try out alternatives to bonded labour arrangements. These pilot projects are intended to secure the continuity of employment for labourers, with improved conditions, while providing examples of economic substitutes and "good conduct" to other employers. This type of approach is legitimate only on one condition, which

the managers of the project are aware of: that it is complemented with measures aiming to enforce the law.

The project has placed considerable emphasis on dialogue and building trust to make an impact at the policy level. Although other factors influenced a general trend towards more openness to bonded labour in South Asia, the project has contributed to positive changes in governmental attitudes on the subject, as indicated in Table 3.

**Table 3. Policy changes regarding Debt bondage: 2000-2002**

	Situation 2000	Situation 2002
Nepal	Kamiyas freed on 17 <sup>th</sup> July without rehabilitation plans	<ul style="list-style-type: none"> <li>• Comprehensive rehabilitation plan drawn</li> <li>• Karnaiya Act adopted</li> <li>• Informal recognition of Kamaiya-like situations beyond the group identified</li> </ul>
India	No technical Approval of cooperation project on bonded labour	<ul style="list-style-type: none"> <li>• The first technical cooperation project on bonded labour by the central government</li> <li>• Invitation by 3 states to initiate activities: Andra Pradesh, Tamil Nadu and Karnataka</li> <li>• All 3 state governments have pledged to contribute 20% to the budgets of bonded labour projects</li> </ul>
Bangladesh	<ul style="list-style-type: none"> <li>• Existence of bonded labour not recognised</li> </ul>	<ul style="list-style-type: none"> <li>• Concept of Indebtedness linked to labour exploitation accepted</li> <li>• Recognition of the need to undertake research on the subject</li> </ul>
Pakistan	<ul style="list-style-type: none"> <li>• Bonded labour sensitive topic</li> </ul>	<ul style="list-style-type: none"> <li>• National Action Plan Against Bonded Labour adopted</li> </ul>

Source: Daru *et al.*, 2003

Although little appears to be happening on the surface, different areas of improvement in government policy are recognizable. The very fact that the Indian, Nepal, Bangladeshi and Pakistani governments have accepted this project and are becoming involved in it is evidence of the inroads it is slowly making on governmental consciousness. The very fact that they have approved the findings of the baseline studies where several results indicate that bonded labour exists far beyond what was officially recognized (particularly in Bangladesh and Nepal), should also be acknowledged. There

is also improvement in terms of action, notably the support provided by certain states for the programme (especially in India, see below), and the development of the *National Action Plans* (Pakistan), whose definition has been elaborated in dialogue with the ILO.

### An Integrated Approach

The second characteristic of the ILO programme, closely related to the first (the combination between pragmatic and political action), is the integration of a wide range of services that are both economic (microfinance services and support to income-generating activities) and social. Such services are implemented by local NGOs. After a period of research and discussion with the public authorities of the four countries concerned, the ILO has selected partner NGOs whose task is to set up direct support services for the families prone to debt bondage (Bangladesh, India) or just released (Pakistan, Nepal).

**Table 4. Implementing Partners (NGOs)**

Area	Sector	Clients	Partners
Bangladesh, Tangail	Sex workers	100	Society for Social Services (SSS)
Bangladesh, Tangail	Weavers	275	Society for Social Services (SSS)
Bangladesh, Sirajganj	Agricultural Workers	375	Thengamara Mohila Sabuj Sangha
India, Andhra Pradesh, Ranga Reddy District	Agricultural Workers	1020	Ankuram Sangamam Puram (ASP)
India, Tamil Nadu, Terivellure District	Agricultural Workers	2000	Integrated Rural Development Society (IRDS) and Madras Social Service Society (MSSS)
Nepal, Banke District	Agricultural Workers (mainly former Kamaiyas)	985	Mahila Upakar Munch (MUM) and Rural Reconstruction Nepal (RRN)
Pakistan	Agricultural Workers (former Haris)	850	National Rural Support Programme (NRSP)

Source: Daru *et al.*, 2003.



Among the microfinance services, the stress is increasingly on the supply of risk-management services such as savings<sup>19</sup> and emergency loans. Already, there are some innovative services being offered and producing tangible results. One example is the individual savings account targeted at prostitutes in Bangladesh that aim at allowing them to escape the constant “protection” racket of their pimps. Also, let us cite the “dump boxes” proposed to the families of farmers in Tamil Nadu and in Pakistan: whereas the majority of the families had, it seems, never saved money in cash, proposing a voluntary savings service, very accessible because simple, without any formalities and located in the vicinity (kept within the family or by the leader of the saver's group) which had an immediate success and even provoked a true competitive spirit between the members. Other experimental services include leasing services for access to property, combining loans with subsidies in the form of food packets for former bonded workers (now released) in Pakistan. Also let us mention the bonus-savings accounts intended for the Kamayias in Nepal (again, former bonded workers who have been released).

As for the supply of non-financial services – it combines, in different ways according to the NGO in charge of the implementation: health services, adult literacy, child education, and training, this last one reinforcing the potential for collective action and improved awareness, both of which of course are requirements from the point of view of social empowerment. Two ideas support this integration. First, financial services alone are unlikely to solve all the problems that provide a fertile field for debt bondage. Second, once people have gathered into groups for the purpose of participating in microfinance programmes, it is practical to use the groups to transmit messages that increase awareness and that may eventually start social, cultural, and policy changes. The content of non financial services is defined as the project advances, according to the needs expressed by the beneficiaries or noticed by the staff. Especially, it became necessary to use different innovative pedagogic methods for the transmission of messages. Let us mention for example the method of learning “conversation” and street theatre

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<sup>19</sup> It is certain that the most vulnerable people need savings services. Nevertheless, as L. Mayoux indicates (Mayoux 2003), to mobilise the saving of the poorest makes sense and is legitimate only if the mobilised amounts are indeed recycled for the profit of the savers and not of the more well-to-do employees or the men. It is also very appropriate to keep in mind the fact that even the most vulnerable people have a know-how as regards savings and did not wait for the services of microfinance in order to save, even if it is in a specific form (see Vonderlack and Schreiner 2003).

concerning human rights, role plays aimed at strengthening the capacity of people to negotiate.

Of course, the challenge is to do in practice what, in theory, is the best response. Even though it may be required to integrate financial and non-financial services, actually doing it is tricky and likely requires more “art” than technical skills (Fisher and Sriram 2002). In the same way, the tripartite approach makes the question of governance more problematic. Likewise, the ILO’s tripartite approach is challenging: how to work effectively with various groups whose interests, strategies, and even value systems are different. This inevitably leads to compromises and inertia, but this simply may be the price that must be paid. We will come back to it in the conclusion.

## **What could be the results?**

Given the newness of the programme and the scarcity of the data, it is impossible to claim that such-and-such impacts have already been accomplished. Still, we can describe the effects already evident and observed through case studies. We distinguish between two effects, each with a distinct time frame.

1. *A reduction of the risks and life's daily uncertainty.* Poverty can be seen as vulnerability in daily life due to unforeseen events and constraints on anticipating and then managing problems. It is precisely this lack of room to maneuver that can trigger the slide into debt bondage. Therefore, a first step consists of offering the poor the financial services of risk management (savings, emergency loans), enabling them to buffer their income and smoothen their consumption. Microfinance for risk management seems to help participants feel secure. One of the first effects of the programme resides in the sense of security which the recipients feel; we provide some examples further on.

2. *More Access to Basic Rights.* Debt bondage is not simply constant uncertainty; it is a fundamental lack of rights, economic as well as social and political. As we saw above, this stems not only from a lack of laws, but also from a failure of the laws that do exist. Beyond political action directed at public authorities and employers, to which we will come back in the conclusion, one requires several complementary results which are mutually reinforced: the capacity to save, the acquisition of material property, the

development, reinforcement or diversification of income generating activities and finally, the acquisition or reinforcement of human and social capital, on an individual as well as on a family and community level, this being the only means of stopping the condition of alienation experienced by a section of the population concerned.

- Increase, Stabilization and Diversification of Incomes

For certain families and in certain areas, a strong potential for increasing income exists. It can be by investment, which makes it possible to circumvent certain intermediaries. Let's look at the example of the weavers of the district of Tangail in Bangladesh. The bondage system comes from the interconnection between the credit markets, raw materials and trade. The handlooms are bought on credit and the creditor is also the supplier of the raw material as well as the buyer. Officially, the credit is without interest, but the exploitation is done through very low prices. Through a microcredit allowing them to buy a hand loom with cash, the weavers avoid a primary source of dependence. The next step, currently discussed, will be to help the weavers to organize themselves in cooperatives so that they have direct access to the raw material and to the clients.

Thanks to the offer of complementary services, increasing incomes can also come from a better profit margin. For example, for farming families of Sirajganj district in Bangladesh, the offer of veterinary services together with credit makes it possible for breeding to be more profitable.

It can be by diversifying income generating activities. The ILO programme has helped some families diversify from a sole income source (for example, weaving, farming, or prostitution) into multiple sources (adding, for example, sewing, livestock breeding, small grocery shops, rickshaw transport). For the poor, diversification is the key. When uncertainty is great, people prefer to bet on several weak activities than to throw their entire lot to strengthen one of them. For those who depend on farming, this question of diversification is absolutely determining: it is precisely during this period that they enter into a situation of bondage. Concerning the prostitutes, to incite them to diversify their activities in order to limit child prostitution is one of the main objectives. From about thirty years of age, competition already begins to be felt, and beyond forty, the women are generally obliged to find an alternative: to diversify their activity, but the opportunities are rare; or to hire a younger girl (their own girl or a young girl from outside whom they will look after through a broker).

Furthermore, programme impact goes beyond merely increasing

income: people also aim to stabilize income, to manage their budget more effectively, increase the quantity of food or improve the quality of food, or add to savings or buy some assets.

- To save regularly

One of the first advantages of the programme mentioned by the beneficiaries is the satisfaction, confidence, and sense of security engendered by the use of formal savings services. If they need money, they know that they can count on their savings – as their *right* – rather than be reduced to begging from private lenders or employers. For some families, especially those accustomed to “living on credit” and perpetual debt in which any income goes to pay back past debts, this newfound sense of security is quite valuable. Many beneficiaries say that for the first time in their lives, they have the feeling of holding in their hands the cash which belonged to them. Savings also engenders hope, the feeling that one can build a better future. For example, hope is a new feeling for some of the prostitutes; for the first time, some plan to save in order to acquire a house outside the city and thus be able to leave the brothel. Finally, it is likely that the act of saving increases “future orientation” and even the ability and desire to make a budget. Clearly, people who save sacrifice current consumption in exchange for a hoped-for return in the future, clearly signaling a desire and ability to make long-term plans. To encourage people to save without helping them to build a project has every chance of being doomed to failure. But promoting the savings training while offering the assistance necessary to carry out these projects, as it is done here, may be more successful.

- Accumulating assets

Remember that accumulating assets is savings, just not in a financial form. Just like financial saving, saving *via* the accumulation of physical assets (such as buffalo or poultry) is valuable both because they increase income potential and because they provide security through a safety net. As we have seen, having a safety net is so important that some families will choose bondage – to the extent of being unable to change employers, to place the entire family at his beck and call, and to be at his/her mercy – rather than to part with savings or assets<sup>20</sup>. That is, in some cases people would rather repay loans through bonded labour than through financial means, even though they have the financial means.

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<sup>20</sup> Example encountered in the village of Lakmeapur (Ranga Reddy District, Andhra Pradesh).

From a more long term perspective, why do people decide to accumulate assets? The main objective, whatever the context, is the marriage of the children, particularly the girls, because of the dowry. Insofar as the payment of dowry is one of the factors leading to bonded labour, the effect in terms of prevention is real.

- The Acquisition or Reinforcement of Human Capital

Whether in India or in Bangladesh, the majority of women had never taken part in a collective action<sup>21</sup>. The project field workers report that many women who, when they joined the group, could not express themselves in public or even say their own names have since grown in confidence and can – at least within the group – express themselves without hesitation. Of course, debt bondage has, quite apart from its economic costs, severe psychological costs. Reducing the dependency on private lenders helps improve self-esteem and personal dignity<sup>22</sup>. Asking for a private loan can be humiliating and the women dread describing their personal situation and exposing themselves to criticisms (“you aren’t capable of anything”, “you spend too much”, etc.). Loan applicants may have to make several visits to the lender; a frequent complaint from the women is that “One has to prostrate oneself before them and kiss their feet”. When repayments are late, sanctions can be severe: remonstrance, threats, confiscation of goods. Of course, this is why some families choose, from the start and with full knowledge of the consequences, to repay with bonded labour.

The literacy classes have three main advantages. First, the women can understand better what their children are doing at school and thus can encourage them more effectively. Second, the women have greater physical mobility. Even though the culture still restricts their mobility to a very great extent, being literate removes the further handicap of not being able to understand maps or transportation schedules. Third, literacy helps the women – especially those with small enterprises – to bargain more effectively with their customers and suppliers. Of course, the simple ability to read in and of itself, quite apart from any practical or economic benefits, is valuable and undoubtedly improves self-esteem.

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<sup>21</sup> The programme mainly targets the women.

<sup>22</sup> Let us emphasise, nevertheless, the heterogeneity of the private lenders. In the Indian context, several recent studies showed that it was indeed advisable to go beyond the prejudices: all do not have “exploitative” practices and the versatility and flexibility of the proposed services largely compensate for the price required (Patole and Ruthven 2002, Servet 2003a).

- The Acquisition or Reinforcement of “Social Capital”<sup>23</sup>

Social capital involves social networks, collective solidarity, confidence, and access to social institutions and civil society. For several years, certain villages of Andhra Pradesh have gone through a process of social decay, combining poverty and alcoholism (among the men but also the women). One of the first effects of the programme makes it possible for the families to find a minimum of guidelines and to rebuild certain social bonds, within the families as well as within the local communities. According to the field workers, already there has been some improvement in some basic indicators like hygiene and housing.

Both in India and Bangladesh, the groups emphasize that the programme has helped them to assert their rights and obtain greater recognition from village leaders. The very creation of the groups themselves provides a way to express solidarity, means which before did not exist. For example, after a group member gives birth, the women may – as a group -- contribute to the mother financially. In Andhra Pradesh, several groups went to some families to convince the parents to stop their children from working; the women of a group contributed by buying a dress for a young girl and sent her to school themselves. Elsewhere, the women of a group succeeded in demanding that a large landowner stop paying part of the wages in the form of coupons for alcoholic drinks (common practice), while others convinced the village health center to start stocking medicine. In Bangladesh, *purdah* continues to limit female mobility considerably. For example, in certain villages of the Sirajganj district, *purdah* results in an almost total absence of freedom of movement for the women; they are allowed to move in a perimeter of a few hundred meters. In such a context, the simple fact of allowing the women to gather (after a long process of discussion and negotiation with the men, husbands and leaders of the village) is already a great leap forward. Whereas movement beyond the strict borders of *purdah* had been unthinkable, some groups have already decided to mobilize in order to fight against the oppression of the *Mohajans*<sup>24</sup>.

- Results which depend on the nature of debt bondage

Having said this, it is advisable then to note that the potential impact of this programme is very diverse according to the type of people concerned

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<sup>23</sup> We will not enter here into the definition of the concept “social capital” which has provoked many academic debates.

<sup>24</sup> Term employed to indicate the people possessing economic power: large local employers, but also businessmen, lenders.

and more precisely according to the nature of the debt bondage which characterizes the various populations targeted by this programme. Programme impact depends in two main ways on the type of debt bondage:

- The extent of the employer's monopoly power and whether it extends simply over income-generation in the labour market or whether it also encompasses other markets – in particular, land and housing – or also access to basic infrastructure such as water and health services, and finally even over access to the outside world.
- The type of financial need which leads to debt, because this affects how well formal, financial services can respond to it.

In both cases, debt bondage involves both economic and social mechanisms. The monopoly of the employers depends not only on the nature of the local employment market, but also on the whole relation of rights and obligations which govern the relations with employees as a function of caste membership. The type of financial need is also a hybridization of economic and social mechanisms insofar as the requirements in question (in particular the expenses for rituals) are – at least in part – determined by the need for affirming one's caste or class membership (Servet, in this book).

Two examples from Bangladesh will serve as illustrations. The first is the “soft” bondage of the weavers of Tangail. Lenders and employers are often different, and this limits the employer's monopoly power. Of course, this does not eliminate debt bondage – especially for children – but having a source of loans distinct from the source of employment allows the development of alternative income-generating activities and circumvents the monopoly of the employers in the weaving industry. The second example is the “hard” bondage of the prostitutes, also in Tangail. These women depend on the “master” in multiple ways, so developing alternative income sources is tricky. Even so, the programme still has real potential, because simply enabling women to save something – and therefore giving them the hope of getting out of the brothel – is a remarkable accomplishment.

Some positive effects at the individual, family, community level have already been observed. Certain political decisions also testify to the beginning of change<sup>25</sup>. By offering financial and non-financial services, by pairing direct aid with the work of raising awareness and communication among the decision makers and employers, this programme presents some strong possibilities, on the condition however, that a certain number of measures are

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<sup>25</sup> See on this point Daru *et al.*, *Op. Cit.*

respected and kept within certain limits.

Let's us start to mention the limitations linked to the complexity of the bonded labour phenomenon and which stretch far beyond the capacity of a simple project like this one, even if steps have already been taken to go beyond those limitations:

*The thorny question of dowry.* The accumulation of assets, as we have seen, aims primarily at financing the dowry; in the short run, the positive effect is immediate: to avoid debt bondage and/or to marry off the daughter under the best circumstances. In the long run, everyone knows that the dowry system leads to gender inequality, and more generally to social inequalities. Sessions of awareness-raising on this question have been contemplated by this project, not only within the families but also involving the whole village.

*Which skill training?* When people have been used to one single occupation – be it farm labour, weaving or prostitution – thinking of alternative occupations is tricky. It is crucial to offer appropriate training, thereby allowing people to be competitive in these income-generating activities. All the implementing partners offer training in skills, but not always in an adequate manner: intensity is sometimes lacking because of budgetary constraints, or the content is inappropriate for a population which is socially, psychologically and economically highly underprivileged.

*Marketing.* When there is interlinkage between different markets, to combat bonded labour also means to intervene in the marketing, for example by helping the employees to organize themselves in the form of cooperatives. We have mentioned earlier the example of the weavers.

*Which balance between flexibility and discipline?* A question then arises linked specifically to the dimension of microfinance and the vulnerability of the targeted people: how to combine flexibility (indispensable considering the fragility and the vulnerability of the target population), and discipline (indispensable to avoid the problems of moral risk) in relation to repayment enforcement mechanisms?

Microfinance must also provide safety nets because otherwise it could lead, ironically, to its own form of debt bondage. After all, any debt entails risk of not being able to repay. Furthermore, if the cost of debt is reduced (as it would be by microfinance replacing debt bondage), people may take more ill-considered risks. One would arrive thus at a result completely opposite to that anticipated, the programme leading to the reinforcement of the curse against which it is supposed to fight. The



challenge consists in finding the “right” balance between flexibility (indispensable considering the fragility and the vulnerability of the target population), and discipline (indispensable to avoid the problems of moral risk) in relation to repayment enforcement mechanisms. Up to now, this balance rests mainly on two elements: a combination of public threats and consequences for the borrower’s reputation on the one hand – although that may not seem excessive in the light of what has been observed elsewhere<sup>26</sup> – and a personal and private approach on the other (the loan officer goes to the home to help the family carry out a budget analysis and find a solution, sometimes with a technical expert, for example, a veterinarian is present at the purchase of a buffalo, to ensure its healthiness and quality). This is often a gradual process (a stranger would rarely have the right to enter the family home), but many field workers have come to be viewed as “sisters” or “cousins”, as proof of their adoption by the family and their ability to create a trusting relationship. Safety nets exist already – for example the fact of proposing emergency loans, although usually loans are provided for income-generating activities only. Nevertheless it is not certain that it is enough. We are aware that this question of flexibility is a real challenge: how can we demonstrate flexibility and at the same time ensure a certain “discipline”? When the borrower has difficulties paying back the loan, what is the part played by opportunities and what is the part played by insolvency? How to identify the clients already overburdened at the beginning? To answer these questions is not only a question of good will.

Taking into account all these limitations, a variety of scenarios have been observed: some very positive, others negative. There seems to be few negative cases. However, because of the risk of drifting off course, one can only plead for putting in place a system of follow-up and permanent monitoring: the vulnerability of the target population must be a subject of constant concern.

These different scenarios are summarized in the illustration presented below:

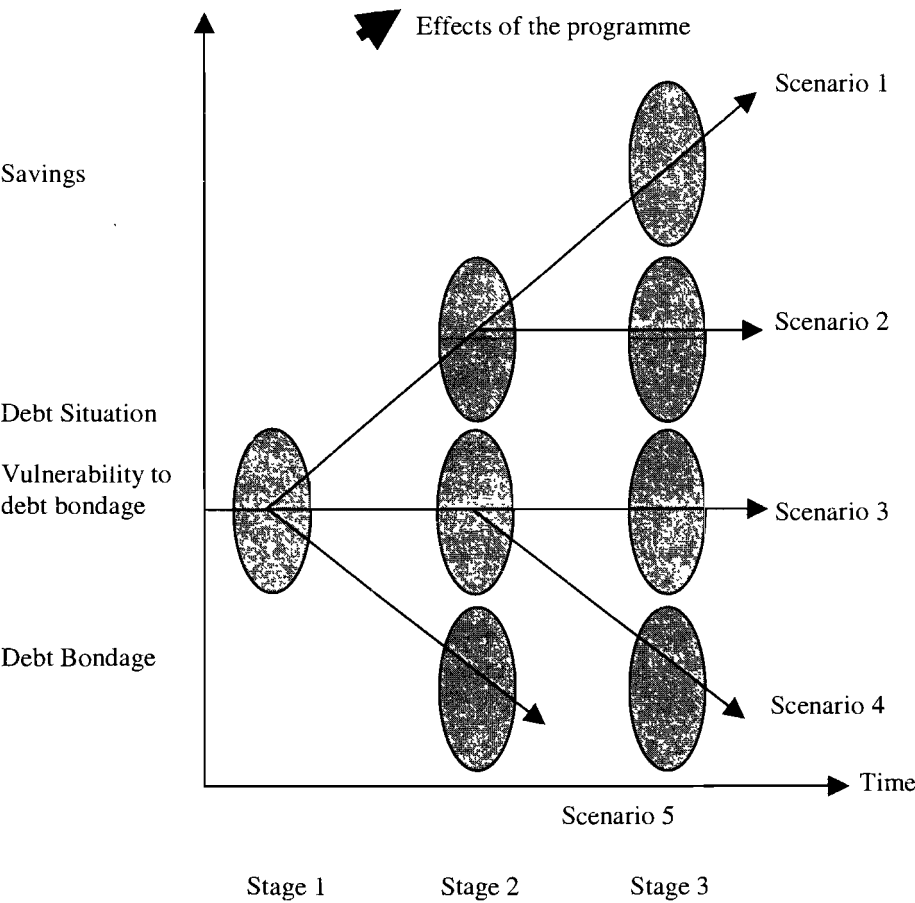
- *Virtuous circle* (scenario 1);
- *Immediate failure*, resulting in debt bondage (scenario 5) because of insufficient safety nets, or later (scenario 4) because the financial needs exceed the financial services proposed (housing, dowry);
- *Stagnation*, from the start, because of the absence of income generating

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<sup>26</sup> See A Raman’s descriptions of some Grameen Bank agencies (Rahman 1999).

activities (scenario 3) or later, because of the saturation of local markets (scenario 2).

**Figure 1. The potential and limits of microfinance used to fight debt bondage: the different scenarios**



## Conclusion

The first phase of this programme lasted three and a half years (June 2000-December 2003) and its renewal is being negotiated. If the programme was to stop now, there are unfortunately few chances that the dynamics set in motion would continue by themselves. One of the first effects of this programme is the emergence of a certain kind of hope: families, until now crushed by a feeling of fate, start to imagine the possibility of a change. For all that, they are not naive and display a certain realism towards the potential for collective action: they await the continuation of the programme and its evolution. They are conscious of the fact that their group is fragile and that without lasting, outside support, it will not be able to function. This mistrust is all the more pronounced in India, where recent history is marked by public programmes of all kinds intended for groups of villagers, but whose success has hardly been shown (altogether fictitious groups created, conflicts, etc.)<sup>27</sup>.

To fight persistently against debt bondage is necessarily a long process because debt bondage is a huge, complex problem at the intersection of the economic, social, cultural, and political dimensions. One has to be realistic: for the most vulnerable people, the only result of the project at the moment, is to allow them to survive. A first stage, which will probably last a few years, consists of stabilizing their situation. Therefore the funders should be patient. Patience serves two purposes. First, it reduces disappointment and disillusionment, which could encourage funders who mistakenly expect quick, tangible results to give up and back out. Second, patience is required because the scale and scope of the social change required cannot be imagined as happening quickly, and a push for artificially immediate results could backfire and end up harming those it meant to help. Two levels of change should be distinguished here. The first concerns the people themselves. Experience shows that in general and in the best of cases, at least three cycles of loans are required to lead to a significant reduction of poverty, which means a time period of two to three years. Here, obviously, it will be necessary to be much more patient. The first stage consists of creating trust: this stage is decisive and conditions what follows, insofar as it concerns extremely marginalized populations, very wary of any outside intervention, sometimes having no idea of rights and choices and accustomed to think only in terms of obligations and duties. Once confidence is established, it is possible to help the people to stabilize their situation, putting stress on

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<sup>27</sup> See for example Gaiha (2001).

learning how to save. When relative stability sets in, then it is possible to encourage people to take risks and to start, reinforce or diversify income generating activities, knowing that at any moment they can fall back into a process of vulnerability, also knowing that depending on the local context, the opportunities for income generating activities are more or less widespread.

The second time frame is that of duration: it relates to the capacity of the programme to influence social relations and the balance of power, it relates also to social norms and models, those of the common people, as well as those of the employers and the staff. This aspect of the programme will necessarily cause tensions and conflicts. Claiming to avoid them would be unrealistic – any intervention aimed at promoting social change inevitably encounters resistances – but one has to keep in mind that this type of process is necessarily chaotic, made by a succession of advances and retreats and that the end is always uncertain. The second phase of the project, which starts in January 2004, aims at strengthening the political aspect of the programme through various actions aimed at the employers. The tripartite configuration of the ILO offers a new occasion to progress in this way. It should nevertheless be clear that the process will not only be long but also not easily evaluated. The modesty suggested is not easily compatible with the expectations of the financial backers, too often in a hurry and concerned with quantifiable results. Admittedly, one can count the loans granted or the songs learned by the women, but such data hardly tells us about the real processes engaged.

The programme described here can seem ridiculously small compared to the extent of the problem. For the moment, when one admits the multi-dimensional character of the phenomenon of debt bondage, then it is necessary to agree to proceed step by step, to diversify and multiply approaches: there is not a single and immediate solution, there is only an infinity of partial answers.

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## By way of conclusion

Microfinance: tool for daily survival or social change? Is it only a short-term solution to looming problems, or is it a possible engine of modification of social relations and an aid in the struggle against certain forms of oppression and discrimination? The texts presented here do not pretend to provide an answer to this question: they simply indicate certain research orientations and demonstrate that it is not possible to avoid a preliminary analysis of the social dynamics and the manner in which the financial and monetary practices participate in these social dynamics. All the texts demonstrate well the manner in which these practices are precisely situated at the heart of two considerations: an immediate consideration (face the unknown and simply make ends meet) and a mid-term and long term consideration, that of history, both individual and collective.

Obviously, the simple fact of having money is a means to protect oneself against uncertainty. But monetary and financial practices must also be understood in relation to the pre-existing rights and obligations which regulate social relations. Contrary to what economic theory suggests, money has not been created to facilitate exchanges, its origin is rooted in the payment of obligations. It is only one support among others of *financial relations*, those being understood as the total sum of debt relations and claims regulating social relations. It allows one to count the debts, to pay them, but does not necessarily end the continuing bonds. Contrary to the theory which conceives of money as an instrument, it does not dissolve the relations of duty and obligations: those remain primary. Conversely, to affirm that money dissolves in the relations of rights and obligations would be just as limiting. Money must be grasped as a social institution: a range of regulations, norms and conventions which imposes itself and moulds personal practices while being moulded by these very practices. Those rules come from the issuing authority. There are also access and usage norms referring to the delimitation of commercial spheres, non-commercial spheres, monetary and non-monetary. This set of norms contributes to defining



everyone's social group membership, including gender membership and sometimes of caste, ethnic group or religion.

Everyone is embedded in a web of rights and duties from which it is difficult to extricate oneself. This set of rights and obligations is of course highly complex. It combines a variety of identities and group memberships, combining "traditional" forms (caste, ethnic group, lineage, religion, gender, age categories) and "modern" forms (profession, voluntary organizations), with of course cross-references and super-positions between those different forms of group membership. At the same time, people are not fully manipulated by the "community"<sup>1</sup>. Even the poorest have the capacity to create their own future<sup>2</sup>. Therefore, human behavior is permanently torn between the pole of the collective, of the community, and that of the individual, of a personal path. The plurality of monetary and financial practices is the very expression of this tension.

All the texts presented here have one thing in common: to point out this variety of practices. This variety puts into question two hypotheses often put forward to define the characteristics of money: its universality (money is accepted by all and can be exchanged against any good or service) and its interchangeability (all the different monetary supports can be substituted for each other). The universality of money is very relative; the moral and social stamp of the different ways of payment and the differing ways in which money flows renders it non-interchangeable, compartmentalize its use and, consequently, strongly limits its interchangeability. Monetary and financial practices are at the centre of a constant dialectic between short-term and long-term horizons, between the exigencies of daily survival and the demands of community solidarity, between personal aspirations and collective constraints. To cope with these constraints and demands, people multiply and divide ways of saving, which enables them to meet their obligations. One can see how the opposition between "tradition" and "modernity" does not make much sense, like the difference between "community" and "individualistic" behavior. It also does not make sense to believe in an evolutionary process, according to which people would switch progressively from the first to the second. Rather, it is necessary to admit that

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<sup>1</sup> The term community is employed keeping in mind its very hazy character, from the fact that it does not refer to any defined reality: not only are the frontiers not clearly outlined, but, according to the context they can cross-reference caste, ethnicity, religion, region.

<sup>2</sup> At least some of them. Some mechanisms are sometime so oppressive, in particular in situations of debt bondage, that the people are unable to think for themselves.

the individual/collective relation is constantly reforming, that we are in front of a process of individualization which feeds itself from the transformation of family, community and social obligations, and also, that microfinance benefits from this.

This derivation calls for a second one which is also at the core of the various articles presented: the limitations of microfinance as a financial tool. Microfinance has been greatly publicized by the media, and the risk is that it may become a solution for everything and an easy means to attract financiers: to offer financial services, even to the poor, cannot be improvised. To make a preliminary evaluation of people's actual needs, to measure and compare the potential impact of the different types of poverty alleviation programmes (is microfinance more effective or less expensive than other public policies?), to manifest a minimum of professional experience in the field of finance and poverty: these are the necessary conditions. However, a number of microfinance organizations do not respect them. Several risks can be associated.

Firstly, microfinance, initially conceived as a means of liberalization, can very quickly become a vector of oppression, with the emergence of the over-indebtedness by the people attracted to this new credit opportunity. In certain regions where competition is very high (for example, in certain regions of Bolivia or Bangladesh) microfinance organizations do not hesitate to adopt "predatory" approaches which are worthy of European consumer credit companies. So much so, that an increasing number of borrowers are henceforth over-indebted. They renew their borrowing in order to reimburse their debts, juggle with various microfinance organizations and turn towards usurious moneylenders in order to pay back their debts. While microfinance is precisely targeted at liberating the poor from the grip of the money-lenders, it is to be admitted that the result is paradoxical. Elsewhere and especially in sub-Saharan Africa, it is above all the absence of local opportunities for income-generating activities which poses a problem: microfinance does not resolve in any way marketing limitations, although this is a common problem in most remote areas.

Consequently, it is extremely dangerous to base ones conclusions on extremely localized experiences in specific contexts, to transform them into success stories without undertaking serious analyses and to believe in their possible expansion on a large scale or their diminution in other contexts by a simple transfer of the best practices. While we seek to transfer these "best practices", we also have the tendency to underestimate the cost of non-

financial services. This cost is often difficult to calculate, since it depends on personal involvement, often benevolent, of the NGOs' staff. This cost should nonetheless be calculated since these non-financial services largely guarantee the efficiency of microfinance services.

This danger is all the more marked given the fact that the NGOs are highly provoked by the funders to develop rapidly and on a larger scale, with the belief that the fixed costs could thus be distributed on a larger scale. This kind of reasoning led to certain remarkable success stories, but also to terrible failures. The recognition of the role played by grass-roots organizations must not lead one to underestimate the responsibility of national, state and international organizations, such as the International Monetary Fund or the World Bank. Supporting and strengthening people-based initiatives is legitimate and justified. But the goal of NGOs (or other grass-roots institutions) is neither to compensate for state disengagement nor to compensate for the costs of structural adjustment policies. They cannot act without a minimal institutional framework nor can they replace state interventions or market transactions. As suggested by Jonathan Morduch, "To build from the bottom up, having the right top-down institutions in place is clearly a big help" (Morduch 2002, p. 33).

The risk of microfinance, already denounced by some authors, would be that public authorities take advantage of it to increasingly disengage themselves, giving priority to the integration of the poor in market mechanisms – and this at the expense of their access to economic and basic social rights – while taking a chance with the capacity of NGOs and the self-organization of local populations to face the problems of poverty. Feminist movements were the first to denounce the dangers of this approach. They do not question the legitimacy of microfinance, but plead in favor of its political anchoring. According to these movements, microfinance projects are justified only if strategic links are established with other forces of change, among which are networks and women's movements, as well as defense organizations and lobbies for women (Mayoux 1999, Hoffman and Marius-Gnanou 2001).

Given this context, what could be the role of research? As soon as scientific knowledge is conceived in the service of democracy, the role of the researcher multiplies. The role of the researcher consists, of course, in renewing theoretical approaches and proposing interpretations, analyses capable of orienting action and facilitating decision making. The role of the researcher consists finally of promoting public debate and playing the role of

“go-between” between diverse groups of players. In the present microfinance context, where the sense of euphoria and enthusiasm we had some years ago has had the tendency to be transformed into deception and disillusionment, this role of “go-between” takes its inspiration and becomes more than ever a contemporary phenomenon.

To finish, let us touch on the excessive requests of a large number of funders, caught in a kind of thinking that is at once simple and attractive. To sum up, microfinance would be capable of alleviating poverty, promoting the empowerment of women, the education of children and the access to health services while proving to be profitable. Two very different conclusions are drawn. Firstly, the need to arrive at immediate and quantifiable results affects the services proposed, since quality is invariably compromised at the cost of quantity. Next, the simplicity of the reasoning and the hypotheses henceforth constructed as quasi-postulates, leads to a neglect of the analysis of the processes and mechanisms, involved since that is the most essential. We know that microfinance can lead to the best and the worst: many microfinance programmes have succeeded and many have failed. The key issue lies henceforth in identifying the factors that lead to this or that scenario. At the same time, the competition between microfinancers – the funders are limited and they need to be attracted – does not in the least compel them to reveal the failures of their practices or even to have a look at them. If research has a role to play, it is specifically this: to identify the scope and limitations of microfinance and lend to it a more realistic vision, while favoring dialogue between microfinance practitioners and donors as well as between the microfinance practitioners themselves.

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## **Microfinance : entre survie quotidienne et changement social**

Ce document reprend certaines contributions présentées lors d'un colloque tenu en janvier 2003 à l'Institut Français de Pondichéry. La microfinance: quels outils pour quels impacts ? Cette question a été débattue par des acteurs d'horizons divers : académiques et praticiens de la microfinance, mais aussi banquiers, représentants d'autorités publiques indiennes et d'organisations internationales. Les thématiques et les points de désaccord sont résumés en introduction et constituent un premier résultat en soi. Ceci illustre notre conception de la recherche comme outil au service du dialogue social. L'originalité du « modèle indien », mais aussi ses défis et ses travers, ont été largement discutés. Le concept désormais connu des self-help-groups peut conduire au meilleur comme au pire. Il peut susciter et appuyer des processus d'émancipation mais il peut également accentuer des processus d'exclusion et renforcer le caractère hiérarchique de certaines relations. Une large partie des débats peut se formuler de la manière suivante : la microfinance est-elle simplement une réponse de court terme à des problèmes immédiats ou bien est-elle un moteur possible de transformation des rapports sociaux et de lutte contre certaines formes d'oppression et de discrimination ? A travers des exemples aussi variés que l'Inde, la Chine et le Sénégal, les textes présentés ici montrent que l'on ne peut faire l'économie d'une analyse préalable des dynamiques sociales et de la manière dont les pratiques monétaires et financières - y compris la microfinance - participent à ces dynamiques sociales. Dès lors que l'on s'intéresse aux inégalités de genre et aux inégalités entre groupes sociaux, en particulier entre castes, il convient de tenir compte de la dimension socioculturelle et politique des sphères monétaires et marchandes : pour chaque société considérée, quels sont les biens, les services et éventuellement les personnes qu'il est moralement acceptable d'échanger contre de la monnaie ? Qui a le droit de participer à ces échanges ? Contrairement aux hypothèses d'universalité et de fongibilité généralement avancées par les économistes, l'analyse des pratiques des acteurs montre à quel point l'accès et l'usage de la monnaie sont cloisonnés. Une approche fonctionnaliste suppose que l'offre de services financiers suffirait à libérer les personnes et à établir des relations contractuelles entre individus supposés égaux. Dès lors que l'on admet que la monnaie et la finance sont des construits sociaux, la capacité de la microfinance à démocratiser les pratiques économiques et à transcender des relations hiérarchiques devient beaucoup plus problématique. Elle suppose une approche globale, où les services financiers doivent être complétés par des services d'éducation, mais aussi des actions de défense des droits économiques et sociaux de base.

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## MICROFINANCE: FROM DAILY SURVIVAL TO SOCIAL CHANGE

This document shows certain contributions presented during a conference held in January, 2003 at the French Institute of Pondicherry. Microfinance: which tools for which impacts? This question was debated by participants of different backgrounds: academic and microfinance experts, but also bankers, Indian governmental and international organizations as well as representatives of authority. The themes and the points of disagreement are summarized in the introduction and make up a first result in itself. This illustrates our concept of research as a tool at the service of social dialogue. The originality of the "Indian model", but also its challenges, and its shortcomings, were extensively discussed. The concept, understood recently, of self-help groups, can lead to the best as well as the worst results. It can cause and support emancipation efforts but it can also accentuate processes of exclusion, and reinforce the hierarchical character of certain relations. A major part of the debate can be formulated in the following way: is microfinance simply a short-term response to immediate problems or is it a possible engine of transformation in social relations and in the struggle against certain forms of oppression and discrimination? Through examples as varied as India, China, and Senegal, the texts presented here show that one cannot avoid a preliminary analysis of social dynamics and the way in which monetary and financial practices - including microfinance - take part in these social dynamics. From the moment one becomes interested in the different types of inequalities between social groups, in particular between castes, one should take into account the socio-cultural and political dimension of monetary and commercial spheres of activity: for each society considered, what are the goods, the services, and possibly the people, morally acceptable to be exchanged for money? Who has the right to take part in these exchanges? Contrary to the assumptions of universality and fungibility generally advanced by economists, the analysis of the monetary and financial practices shows to what extent the access to and the use of money are divided. A functionalist approach supposes that the offer of financial services would be enough to release the people and to establish contractual relations between presumably equal individuals. If we admit that money and finance are social structures, the capacity of microfinance to democratize economic practices and to transcend hierarchical relations becomes more problematic. It supposes a global solution, where financial services must be supplemented by education as well as lobbying and advocacy.

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