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Borrowing Money, Exchanging Relationships: Making Microfinance Fit into Local Lives in Kumaon, India

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Summary. — Why don't microfinance clients use programs the way development planners and funders expect? Why do clients change how microfinance projects function in unanticipated ways? Previous scholarship on microfinance has overlooked the relevance of already existing borrowing practices and norms to how people engage with and use microfinance. Over 18 months of ethnographic fieldwork in the Kumaon region of eastern Uttarakhand state in northern India, I found that Kumaonis altered the microfinance program of a local NGO to make it fit with their already existing borrowing practices, which were intimately tied to their livelihood strategies. Kumaoni livelihoods were based on exchange relationships with family, friends, and neighbors through which they could secure the means for physical and financial survival, as well as social and emotional survival. These relationships were governed by a moral economy that obligated exchange partners to properly assist one another, and ensured balance between partners and across multiple social ties. Rather than abandoning their exchange relationships, Kumaonis and local fieldworkers, who also relied on these ties, altered microfinance so that it fit with this moral economy and became another node in the already existing networks of assistance. If they had not been able to alter projects, Kumaonis would likely have stopped participating, as other groups in similar circumstances around the globe have done. Although the microfinance program was a success in the eyes of beneficiaries, senior staff members and donors remained unaware of why projects changed on the ground. To ensure that development programs can be made relevant to people's lives and cultural values, development practitioners must relinquish control over the minutiae of development and allow local-level workers to negotiate the details of projects with participants.
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1. INTRODUCTION

"The core point of the SHGs [self-help groups] is to give cheap loans at low interest. This is why the SHG exists, not to recruit people for other projects or as a social gathering. If that's what people want to use it for, fine, but then we shouldn't call it an SHG," Tarun said.[1] We were sitting in his office at the headquarters of Pahari Sansthan, an NGO in the Kumaon region of the Indian Himalayas.[2] I was trying to interview Tarun, Pahari Sansthan's executive director, about some recent staffing changes, but we had quickly moved to talking about issues with Pahari Sansthan's projects. Tarun liked to have these discussions with me because I was not an employee and I had spent far more time in the field observing programs than the head office staff whom he usually relied on for information. Tarun was frustrated that none of the organization's SHGs—microfinance loan groups that pooled individual savings to lend out to members—collected enough interest to cover their expenses. I began to explain why the amount of interest collected was so low, but Tarun cut me off. "Either they want loans or they don't. And if they don't, then we should close down the SHGs."

Tarun, as well as other project designers, funders, and NGO leaders involved in microfinance—the provision of loans and other financial services to poor people, often women—expected SHG members to lend a high volume of loans in order to accumulate interest (Pattenden, 2010; Sanyal, 2009). They wanted SHG members to use these loans to improve their incomes through productive investments in agriculture or business, because they believed this was the best way to alleviate poverty (Bernard, De Janvry, & Sadouet, 2010; Saweda, Liverpool, & Winter-Nelson, 2010; Shaw, 2004). But the SHG members in Kumaon had never had much interest in starting businesses or putting more money into their small, scattered plots of land. Though funders and NGO staff accepted that some SHG members took out loans for "consumption smoothing" (Deininger & Liu, 2013; Matin & Hulme, 2003; Radhakrishnan, 2015), this was not such a common phenomenon that it could generate the volume of loaning Tarun expected. Tarun was correct that Kumaoni women were not particularly excited about interest-bearing SHG loans, but it was not, as he assumed, because they did not need money. Spare cash was not easy to come by in Kumaon, but assistance to meet shortfalls of food, labor, and funds was. Despite his strong intentions to do good, local strategies to make ends meet and the ways people adjusted microfinance to fit with them had largely escaped Tarun's notice.

Pahari Sansthan is not the only NGO whose microfinance clients were not using their loans or loan groups in the ways that development professionals expected. Many scholars have observed microfinance clients who did not use their loans for "productive" purposes, like investing in income generation activities (Deininger & Liu, 2013; Guerin, Roesch, Venkatasubramanian, & D'Espallier, 2012; Moodie, 2008; Radhakrishnan, 2015; Sanyal, 2009).[3] Others have researched

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cases where microfinance clients refused to pay back loans given (Guerin, Morvant-Roux, Roesch, & Moisseron, 2014; Schwittay, 2011) or where people offered loans did not utilize them at all (Guerin, 2006; Guerin *et al.*, 2014; Schwittay, 2011). Why do people so frequently use microfinance programs in ways contrary to donors' and designers' expectations?

Over the course of eighteen months of fieldwork in Pahari Sansthan's offices and the villages they serve, I found that the answer to this question was deeply rooted in Kumaonis' livelihood strategies. To survive the intermittent crises and shortfalls that characterize life in the foothills, Kumaonis rely on a complex network of relationships with family, friends, and neighbors. Through these connections they can secure the means for physical and financial survival, as well as social and emotional survival. Social scientists have increasingly recognized that mere physical survival is not enough for any human being: people need social connections, amusement, and a sense of their own moral worth to make their lives worthwhile (Appadurai, 2004; Jeske, 2016; Kabeer, 1998; Nussbaum, 2006). Accordingly, people will work equally as hard to make their lives meaningful, as they do to make them economically viable. This does not mean that anyone will choose one kind of survival over the other. Meeting physical needs by borrowing money and receiving favors from friends and family also allows Kumaonis to fulfill their emotional, social, and cultural needs. Indigenous borrowing practices in Kumaon are intimately tied to strategies for securing all kinds of survival in ways that microfinance was never intended to be.

Instead of rejecting microfinance, Kumaonis have been able to adapt it to fit with already existing practices. The moral economy of social relationships (Graeber, 2014a; Jeske, 2016; Scott, 1976; Thompson, 1966), which includes borrowing practices, fundamentally structured how Kumaonis used microfinance—from the way they lent and collected loans to the purposes they put loans toward. Rather than undermine these livelihood strategies, Kumaonis ran their microfinance groups like extensions of their relationships and used their loans to reproduce their families and their social networks. The active assistance and collaboration of field-level NGO employees, who relied on the same livelihood strategies, was key in ensuring that microfinance was relevant to Kumaoni lives.

A review of the literature shows that many other scholars have sought to discover why there is a persistent gap between expected and actual uses of microfinance. However, a significant amount of this work focuses exclusively on economic explanations for beneficiaries' acceptance or rejection of microfinance, and ignores the influence of local social norms or already existing practices (e.g., Saweda *et al.*, 2010; Swain & Varghese, 2009; Tsai, 2004). Those who do recognize that social norms shape the uses of microfinance point largely to their negative effects, in particular how local norms of honor and shame can be manipulated to maintain high repayment rates (Bernard *et al.*, 2010; Karim, 2011; Schwittay, 2011) or the way established relationships can keep people from using their loans "productively" (Cieslik, 2016; Pattenden, 2010; Rankin, 2001; Shaw, 2004). These scholars do not recognize that the values and livelihood strategies they believe are holding people back might also allow borrowers to meet needs for emotional and social survival that microfinance is not designed to meet. Practices that look like impediments to growth from an economic perspective, may be fundamental for leading culturally valuable lives from the perspective of microfinance clients. By not connecting the social practices they identify to larger livelihood strategies, these authors overlook what benefits these practices may have for the people who follow them.

A handful of scholars, including Elyachar (2005), Kar (2013), Moodie (2008) and Guerin *et al.* (2012, 2014), have examined the effects of people's wider social and cultural contexts on their uses of microfinance. However, only Guerin *et al.* (2012, 2014) and Kar (2013) include pre-existing borrowing practices in their analyses. This paper expands upon the work of these scholars by taking their analyses of local context further and investigating how local systems of mutual assistance, the livelihood strategies in which they are embedded, and the norms they generate influence the operation of microfinance. Socio-cultural contexts do not solely affect the purposes loans are put toward, something already well documented in the literature (Elyachar, 2005; Guerin, 2006; Guerin *et al.*, 2012; Moodie, 2008): they also structure how microfinance groups interact, distribute loans, and collect repayments. Nor do local borrowing practices merely inspire acceptance or rejection among beneficiaries (Guerin *et al.*, 2014, 2012; Tsai, 2004). As my research shows, local practices are constitutive of how microfinance is enacted in different places.

Understanding how the norms and values associated with local borrowing strategies shape perceptions and use of microfinance is also important for practitioners. This information can explain why microfinance projects frequently take unexpected turns and why some people do not find microfinance appealing. While project models are developed with the best of intentions, this research reveals that allowing for alteration and flexibility in implementation is crucial for ensuring that projects are relevant to local lives and values. Success from beneficiaries' perspective may appear quite different from success as defined by project planners. Allowing fieldworkers and beneficiaries to make microfinance fit with the strategies people already use to attain social and economic well-being will generate more interest in projects among local communities and ensure that projects can adapt to local situations. When microfinance cannot be adjusted to fit with local livelihoods, borrowers may abandon such projects (Pattenden, 2010) or refuse to take out loans (Guerin *et al.*, 2014). Similar problems have beset other development projects (Guha, 2000; Radhakrishnan, 2015; West, 2006), including other projects run by Pahari Sansthan. The consequences of following rigid project models and not allowing for flexible implementation are potentially severe.

The following section provides background information on Kumaon and Pahari Sansthan, and details my role as an ethnographer. I then discuss local borrowing practices in Kumaon and how they fit into people's larger livelihood strategies. The fourth section explores the norms and expectations—the moral economy—entailed in the relationships Kumaonis rely on for survival. In the fifth section I demonstrate how the practices and norms of already existing livelihood strategies shape Kumaonis' use of microfinance. The conclusion elaborates on the relevance of this argument to the scholarship and practice of microfinance, as well as development in general.

2. METHODS AND BACKGROUND

During 2012–15 I spent 18 months working with Pahari Sansthan and the people living in the villages it serves in Kumaon, the eastern half of Uttarakhand state in northern India. This region is located in the foothills of the Himalayas where frequent, steep changes in elevation have created a vari-

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