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The ‘Impossible’ Default: Qualitative Data on Borrower Responses to Two Types of Social-Collateral Microfinance Structures in Rural China

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ABSTRACT Qualitative data reveal how the social context underlying the ties linking borrowers in microfinance programmes influences their decisions. Focusing directly on social context makes it possible to distinguish between two social-collateral structures and explain why one facilitated repayment while the other did not. Fieldwork in rural China shows that the basis of the social ties in the social-collateral structure is central to explaining whether and why individuals decided to sanction defaulters and repay loans. The article closes with reflections on generalisations of these findings to future microfinance research.

1. Introduction

Although anthropologists and sociologists have been working for some time on understanding how people make decisions – the everyday common sense that they employ – in the context of development (Berger, 1974; Mosse, 2013), there has been noteworthy new interest in the topic. In his foreword to the World Bank’s World Development Report 2015, Jim Yong Kim writes, ‘Many development economists and practitioners believe that the “irrational” elements of human decision making are inscrutable. . . . Yet, we now know this is not the case’ (World Bank Group, 2015, p. XI). His use of quotation marks around the word ‘irrational’ signifies that standard ways of defining rationality and irrationality are being increasingly questioned. What has before now been regarded as ‘irrational’ (and by extension, unpredictable) can no longer be ignored, but must be understood in order to carry out the goals of development. These ‘irrationalities’, argues Kim, affect service delivery as well as a wide range of issues as diverse as poverty alleviation, epidemics, climate change and the work of development professionals themselves (in part through their own biases).

Research paradigms for the rationality of people in village life have endured many changes. Popkin’s (1979) picture of the self-interested ‘rational peasant’ overturned notions of the more communal expectations of rural life. While development studies have often adhered to the vision of an individual as an asocial utility maximiser, this has been tempered by increased interest (stemming from behavioural economics) in cognitive biases, as well as interest in social norms (from new institutional economics). Conceptions about ‘norms’ have frequently been mechanistic, fixed and
removed from social context, but there has also been some excellent work showing how meaning, symbolism and framing affect outcomes for the poor (Karim, 2011; Wolford, 2004).

Group-lending designs in microfinance have not always been created with much consideration of social context. The incentive structures have reflected the hope or expectation that people would repay their debts in response to pressure from members of their groups, so if individuals were incentivized to pressure group members, the design should be successful. Because there is supporting evidence that debt repayment can happen solely on the basis of relationships within social networks without any institutional enforcement (Ardener & Burman, 1996), designers have hoped to harness social dynamics and channel them to motivate repayment. However, social dynamics in real situations have proved to be difficult to predict.

Researchers have investigated some social variables that affect repayment in microfinance, including group size, caste and gender (Anthony & Horne, 2003; Ghatak, 1999; Guerin, D’Espallier, & Venkatasubramanian, 2012; Hung, 2003; Morduch, 1999; Sharma & Zeller, 1997). Beyond universal variables, interactions between people involved have also received some attention. Following Woolcock’s (1999) early observations that the nature and extent of social relations (among borrowers, between borrowers and staff, and among staff) can explain failed replications of the same microcredit programmes in different places, researchers began paying more attention to the social interactions that accompany microfinance efforts. Interactions between husband and wife affect borrowers’ ability to benefit from microcredit (Balasubramanian, 2013), and whether members talk about personal issues within a group affects their ability to be shielded from the effects of external shocks (Biosca, Lenton, & Mosley, 2014). The interaction between loan officer and borrower can be influenced by gender if they are in an area where men are traditionally dominant and women subservient, making it easier for male loan officers to control female borrowers (Rahman, 2001).

If interactions are important, then the social context – and specifically, the common sense about what social ties mean within that context – is also important. The manipulation of social collateral in group lending has been successful in some places but not others (Karlan, 2005; Kodongo & Kendi, 2013), which hints to social context affecting interactions quite a bit. The relationship between social context and (already proven as influential) social interactions seems self-evident. Social ties have always depended on a specific context, whether institutional, cultural or historical. The task of trying to understand social collateral (rife with interactions) anywhere requires understanding what the social unit itself means to the people involved. What might seem ‘irrational’ is in fact quite reasonable, given the social context, even if it does not adhere strictly to utilitarian logic.

As in any society, the meanings of social ties in rural China must be understood in light of traditional narratives as well as contemporary responses to social, political and economic changes. Expectations of people in daily life are shaped in rural China by metaphors of family life characterised by reciprocity (such as debt to one’s parents and ancestors). ‘Acting upon one’s memory of past help is a central element of the notion of what it means to be a good or “moral” person in many domains,’ Oxfeld writes (2010, p. 4). At the same time, relationships happen in the political context of the socialist past. From before the Communist victory in 1949, to the socialist era with collectivisation, to periods of upheaval like the Cultural Revolution in 1966, to reform and opening of the markets in 1979, and to the present day, social ties have long been not only personal but hugely impacted by state policies. Although each village has its own unique history, the brutal campaigns in the socialist era fostered conditions of intense conflict (personally experienced by the current generation of grandparents in the villages) that have led in some places to demoralisation, disillusionment and withdrawal from public life (Madsen, 1984). In response, people may simply do what is necessary in order to survive. You pick your battles and otherwise keep to yourself; every time you make a fuss, you risk the loss of goodwill you might need later on to weather some new policy or state decree.

This article relies on 145 interviews conducted with villagers, administrative staff of a large international charitable organisation and government administrators from 2004 through 2007 in Yunnan Province of the People’s Republic of China. I compare the responses of borrowers within two microcredit programmes – a group-lending programme and one utilising a guarantor – in order
to uncover important qualities about how social relationships can affect microfinance outcomes. The study pays attention to how the borrowers perceive the social ties within a borrowing structure, including the obligations inherent in the ties, in order to understand the borrowers’ decisions and actions. Building on earlier studies of social aspects of microfinance, this study looks at the social-collateral structures and asks, *Who are the ties between? and What do people in those ties expect of each other in the social unit at hand?* Observations of microfinance programmes show low repayment rates in rural China, hovering between 40 and 64 per cent (Park & Ren, 2001). Of the two programmes I observed, repayment rates for the first were reported to be about 40 per cent, while the second was 100 per cent. Why the great difference? The qualitative data may offer some clues.

2. Methods

This study relies upon fieldwork and interviews conducted from 2004 to 2007 in a county in rural Yunnan, China, with villagers, the staff of a large international charitable organisation and government officials and administrators who, among other responsibilities, administered the two microcredit programmes in the site. The county is in a mountainous, agricultural region. During the first two years, ethnographic work was conducted on the international organisation providing social services in the region, which included 45 interviews with staff and government administrators. Then, in 2006 and 2007, I interviewed 100 villagers, visiting 16 villages in four townships. Pre-tests of the interview questions were conducted in 2005 and 2006, with the full input of the international organisation staff.

Interviews were largely conducted in informants’ homes, often in husband–wife pairs. Interviews ranged in length from 20 to 90 minutes and were conducted in Mandarin Chinese. The informants and I spoke directly, although staff members sometimes interjected to clarify (also in Chinese). Of the informants, 57 per cent had received microcredit loans from at least one of the programmes: 29 per cent were borrowers in the state-sponsored programme; 36 per cent in the imported (‘guarantor’) programme; and 8 per cent in both. Accurate records were difficult to locate, and I relied on information volunteered by villagers. The proportion of families in each village taking out loans when available ranged from 20 to 80 per cent. Of the 100 villagers interviewed, 48 per cent were women. The average age of respondents was 40 (age ranged from 15 to 70). Thirty-eight per cent of the informants had participated in the microcredit programme. The staff of the international organisation estimated the annual household income in the region to be US$450 in 2004. Of the 16 villages I studied, four were Yi minority, and the rest had a mix of ethnic groups.

The methodology for this case study was to ‘study practical life as it is experienced’ (Small, 2009, p. 18); questions were designed to reveal how borrowers respond to microfinance social-collateral structures, and why they respond the way they do. I did not examine variables that corresponded with variations on either village-level or individual-level characteristics. Instead, I listened for the things that everyone assumed that everyone already ‘knew’, for that taken-for-granted knowledge about everyday life that affected the decisions made in microfinance. The agreement I observed in the interview data about villagers’ expectations led me to analyse the villages together in one case study.

3. Findings

Two microcredit programmes were available in the villages, with two social-collateral structures – a group-lending design and a guarantor design (Table 1). The group-lending social-collateral structure utilised state-created administrative units (former brigades, now ‘administrative villages’), while the guarantor design, though still organised by these units, drew upon the social ties in the villages based on personal histories such as kinship and friendship. Findings reveal that while villagers were accustomed to political manoeuvring and concessions in the business of the administrative village,
their obligations to specific individuals in these villages carried expectations of mutual help and prompt loan repayment.

In both microcredit programmes, villagers who participated were given a loan of 1,000 RMB (about US$125). The objective of the loan was for villagers to use it to engage in some extra profit-making activity. Most borrowers used the loans to raise piglets or chickens. Piglets cost 200 RMB each. If a villager were to buy four piglets at the beginning of the year (for a total of 800 RMB) and then raise them for about eight months, the adult pigs could then be sold for 1,100 RMB each, generating a profit of 3,400 RMB (US$425). Piglets can get sick (requiring extra money for medicine) and sometimes die, so the profit is not certain. Generally, however, the loans can produce a substantial cash flow for the villager. So the financial incentive exists for the villager to generate profit, repay the loan, and get another loan, as he or she can profit much more by doing so (US$425 per year) than by defaulting and keeping the loan amount USD($125 a single time). The temptation to default and simply keep the money is diminished by the opportunity to basically double one’s household income every year.

### 3.1. Social Context in the Field Site

Two forms of social organisation are quite important in rural China: personal ties (carefully cultivated relationships with long histories); and location within an administrative village (a state-created unit based on political authority).

Personal ties within the 16 villages observed were quite strong by several measures: whether people know each other; the length of the relationships; and multiplexity. The villagers had all been born and raised within their villages, estimating that their families had been in the village for a mean of 4.5 generations, or about 90 years. The mean number of households per village was 61. Villages ranged in population from 100 to 1,000, with a mean of 313.

With a unit this size, everyone knew everyone else by name. The shared history among the people who lived there went back further than their own lifetimes, to the experiences of the family members of the generations before them. Referring to Coleman’s (1988) concept of multiplex ties, people were linked to each other in multiple contexts: one’s neighbour might simultaneously be her aunt, co-worker during planting and harvesting season, friend to chat with, someone with whom one has experienced meaningful events like weddings and funerals, and source of wisdom.

Daily life was filled with informal mutual help. Mrs Yang told me something I heard from many of the villagers: ‘Today, I’ll plant corn; kin and friends come to help. Then tomorrow, they will plant corn, and I will go help.’ This ability to access and utilise effective personal relationships is an invaluable resource in the villagers’ shared struggle to maintain or improve their livelihoods (Hsu, 2014). In agricultural life, planting and harvesting – not to mention house building and maintenance – require working together. People realise how important the help of others is to survival, and they cultivate their relationships just as carefully as they do their soil.

Lateral relationships were very important to these villagers, as they have few bridges to resources outside of rural areas. Even if their children migrate to cities for work, these jobs are at the bottom rung of the ladder, not a source of political connections. Additionally, floods frequently wash out the roads in these areas, making social connections outside the village even more improbable and difficult to maintain.

| Table 1. Social units and expectations of ties in two microfinance programmes relying on social collateral. |
|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|--------------------------------------------------|
| Social unit                                      | Administrative village                           | Direct, dyadic tie                                | Guaranctor                                        |
| Expectations of the ties                        | Compromise, concessions, let disagreements lie   | Mutual help; prompt loan repayment                |                                                   |

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In one memorable conversation, a man told me that he was forever indebted to one of his neighbours. Why? Because this neighbour had found his wife unconscious and had brought her from the village, down the unpaved roads, to the hospital in the town, where she survived by medical intervention. In a place where there are no ambulances to call, this favour meant the difference between life and death.

Villagers described the careful way that they kept track of who had helped them, and they never failed to reciprocate. Sometimes this meant that they would help with labour in return; other times, they would pay each other for a day’s work. ‘What happens if someone doesn’t pay the other person for work?’ I asked. That never happened, they told me. This answer made sense in the context where your neighbour has been your neighbour for decades, he is not likely to move anytime soon, and you know that you will need his help later today to watch your children, tomorrow to repair your house, and next month to bring in the harvest. This courtesy of keeping careful tabs so as to not keep your friends and neighbours waiting also extended to borrowing money: people never failed to pay their debts to specific people within the year, villagers told me.

In China, the cultivating of personal relationships is acknowledged to be intricate and important to one’s sense of individual identity (Gold, Guthrie, & Wank, 2002; Yan, 1996; Yang, 1994), and it has a name: *guanxi*. People exchange favours, and they depend on one another to survive. But there is also a moral element: Chinese ethics focus on cultivating proper relationships and responding to people according to the type of relationship and situation (Munro, 1985, p. 16). People define behaving morally as fulfilling important obligations to particular people. Doing the right thing usually means treating someone considerately and appropriately in light of the kind of relationship you are cultivating. So people emphasise moral questions like how I should treat my father, how that friend should have treated me in that particular situation, and how that child ought to address his mother.

In addition to being the centre of their own personal networks of social ties, villagers are also part of the other major feature of social organisation in rural China – the administrative village. When I would speak to the staffers of the international organisation about visiting villages, if I simply asked about a village (*cun*), they almost always asked me to clarify whether I meant the natural village (*zirancun*) or the administrative village (*xingshengcun*). The natural village was the cluster of households and kinship networks living near each other. The administrative village was a unit defined by the state, corresponding with Mao’s former communes. The size of the administrative village varied, but could comprise one large natural village or several smaller natural villages.

The Chinese government implemented the commune system of collectivised agriculture in the 1950s, including the pooling and organisation of labour and income. In the communes, the labour force was reorganised into work crews, and people were assigned jobs and awarded points for their efforts. In return for the labour, the state supplied food, redistributed cash income at times, and provided basic welfare. Life in some villages was characterised by constant bickering over the allocation of work points and assignment of jobs, as individuals felt driven to protect their rights, lest the system favour others at one’s expense (Madsen, 1984, pp. 93–94).

In the 1980s, rural life returned to the small peasant-farming system, reducing the farming scale and renewing farmers’ focus on self-sufficiency (Chung, 2014). Although agriculture went from the collective back to the household unit, the earlier collective unit continued to be used as an organisational structure for state welfare allocation. Rural residents still depend on the village collective for basic welfare, farmland, and residential plots, and the Communist government continues to control the allocation of key resources, such as seed, programmes and training – and more importantly, income, as the state was buying crops at fixed prices from villagers at the time of fieldwork. Through the changes, the administrative village has continued to be seen as an extension of the Chinese state, and the relationship between its members is partly based on political authority.

Elections were held for the heads of the administrative villages, but according to what people told me, the Chinese Communist Party had a strong hand in choosing these village leaders (*cunwenhui*). One *cunwenhui* head I interviewed was involved in rural enterprises, and in interviews with others...
people quietly insinuated that he (along with others in the cunwenhui) had siphoned state funds that were supposed to be designated for rural development. Whether or not the allegations were true, they serve as an example of how the administrative village was a site of political contention and manoeuvring.

The controversially elected village leaders played the role of police, documented households and implemented government policies (such as the one-child policy). Additionally, they controlled the allocation of land, labour contracts and licences in the village. This power is especially important where neither property rights nor legal systems are clearly defined. Policy changes have decreased direct supervision of these leaders by the next-higher administrative level (township officials), so getting on a leader’s good side was important for less powerful folk, since favours could be granted without much oversight.

Thus, the two main forms of social organisation in the lives of villagers were personal and political: Each carefully cultivated his or her own complex network of personal ties, characterised by long histories and mutual help. At the same time, everyone was located within an administrative village, the state-created unit through which state resources were distributed and political power had been exercised for decades.

Villagers spoke to me about the principle of keeping relationships good in both units, but I found that people saw this principle differently depending on which unit was in question. For the villagers, good personal relationships meant mutual help in times of trouble. Good administrative relationships meant dealing with differences by finding middle ground, striking balances and keeping some opinions quiet. This distinction turned out to be quite important in explaining what had happened in the two microfinance programmes observed: the group-lending programme (relying heavily on administrative authority); and the guarantor programme (which relied upon personal ties).

3.2. The Group-lending Programme

The group-lending programme was part of one of the national Chinese government’s large-scale microfinance programmes administered to poor counties across the country in the 1990s and early 2000s by the Agricultural Bank of China. Loans were distributed to the administrative villages (as described earlier), and like other social-collateral designs, borrowers were jointly responsible for the loans. They were expected to monitor and convince one another to repay, driven by financial incentive and obligation to the group. Nobody could get a new loan until all prior loans in the administrative village had been repaid. Three leaders (head, accountant and secretary) were elected for administrative purposes, to help collect the money and keep records. Self-selected groups of five borrowers each were also formed for meetings and collection of funds, each with its own small-group leader. The small groups of families would, like a residential neighbourhood, possibly include close friends as well as people with whom one maintains a cordial working relationship. Villagers knew who defaulters were, but did not necessarily have a close relationship with them. The 16 administrative villages I examined were located in four townships (a township is a larger administrative unit of a number of administrative villages, in this county often eight or nine). At three of the four township offices, with the help of a staffer from the international charitable organisation (hereafter, ICO), I was able to obtain permission to examine the written repayment records of the programme. We were not permitted to make copies of the records, but we were allowed to look through the handwritten books. I typed notes about them into a spreadsheet on my laptop computer, using no names. From these notes, the repayment rate can be calculated to be around 40 per cent. However, as a staff director at the international organisation explained to me later, these records are not reliable, because government officials can lend the money to people other than the ones noted, for amounts other than the ones noted and at other times than noted.

Research in this article does not rely on the repayment data but rather the interview data about the group-lending programme and related topics. I did not ask directly about an informant’s repayment status, for fear that interviewees who had not repaid would avoid giving answers or abruptly end the
interview. I found that the most fruitful direction of inquiry was about how borrowers felt about pressuring others to repay. I also referred in general to ‘people’ who did not repay and ‘people’ who did. Respondents often then volunteered to me their own paid-up status.

Mrs Zeng was a 43-year-old woman who demonstrated to me the villagers’ uneasiness about enforcing these group-lending obligations. She was one of the small-group leaders responsible for collecting repayment. Mrs Zeng said that there were two families in her administrative village who did not repay their loans. She never confronted them, and at first she did not want to tell me why. As the interview progressed, however, she finally opened up:

If I go ask about those two families, people will hate me. They will ask, ‘Have you eaten too much, and is that why you are trying to boss me around?’ And not only will the two families dislike me, but all the kin of the two families will also hate me. I don’t want people to hate me, so I don’t ask.

Repayment was not something that people felt that they could enforce. Mrs Zeng could demand something, ask someone to do something, or tell someone what to do (if she was close enough to the other person or had the appropriate kind of relationship to do so). But not only were collective obligations a taboo topic for Mrs Zeng, even fulfilling her assigned duties about them could potentially cause others – including their extended family members – to ostracise her.

As we were leaving another village, an ICO staffer (and native to the county) accompanying me told me that if one were to ask another about repaying the loans outside of an appropriate relationship, it would be an embarrassing situation for the defaulter, causing that person to lose face.

‘I wouldn’t want to make that person lose face by my asking for the repayment,’ she said. The staff person understood, of course, that defaulting caused the whole village to lose access to loans. But she prioritised propriety: causing a specific person to lose face would be rude and furthermore ineffective, because getting the defaulter angry would only decrease the chances of that person’s compliance.

Although the communities are small enough so that everyone knew who was defaulting, and although the entire community stood to benefit by subsequent loans if everyone repaid, people were unwilling to talk to potential defaulters and convince them to repay their loans. Mr Zhang explained the situation in his own village:

There was one family who didn’t repay. . . . No one wanted to have a bad relationship with them, so no one said anything. . . . In their hearts, they might be unhappy and angry about this, but they wouldn’t show it to the family who didn’t repay.

In another village, I spoke with Mr Han, a 40-year-old man with a gentle demeanour, who gave a similar explanation: ‘We didn’t want to have a bad relationship with them, so we didn’t say anything,’ he said. ‘In our hearts, we might be unhappy and angry.’

In Mr Han’s village, there was a difference of political opinion about the loans themselves. Some households had planned from the start to default, because they were treating the loans as a government handout: ‘There were some people who didn’t feel that they needed to repay a government loan. Of the twenty families who did not repay the money, more than ten families had the money to repay,’ Mr Han disclosed. Since the administrative village was the unit through which welfare was often distributed, it could make sense that some villagers would see the microfinance ‘loan’ as a handout, even though administrators had described a process of repayment. Others – perhaps less cynical towards state-administered programming – might take the requirement of repayment more seriously.

The difference of perspective, though an eventual cause of financial disappointment for some, did not lead to social conflict or unrest, outside of personal anguish. Villagers did not debate the politics or the loans or attempt to persuade each other concerning them. Such debates would have endangered friendships, and villagers needed to maintain at least cordial working relationships
with everyone. Right around the corner could be another natural disaster. Definitely on the horizon was another harvest season, with little machinery available, and only neighbours for volunteer farmhands.

Mr Han described the situation this way:

Some others in the village thought it wasn’t good for those people not to repay, but they wouldn’t say so to their face. They don’t want to endanger their relationship. They try not to say anything negative or critical. It’s a habit of ours. We’re always like that. We don’t say anything critical in order to keep the relationships good. You know in your heart what’s wrong, and that’s good enough.

These interview data support the observation that the interactions based on the administrative-village unit (a remnant of the socialist-era collective) are not characterised by the deep sense of loyalty that would be attached to a family clan or to personal relationships.

### 3.3. The Guarantor Programme

The guarantor programme was also administered through the administrative village, but the social-collateral mechanism was funnelled this time through personal ties with an elected villager, who in addition to assisting with distribution and collection of the funds, also agreed to personally guarantee the loans. Also elected were two assistants to the guarantor, who pledged a degree of responsibility themselves. Together, they agreed to repay on behalf of any borrower in the administrative village who might default. In other words, defaulting on the loan effectively changed the debt from a person-to-programme to a person-to-person obligation. (The funds for these programmes came from the ICO rather than the state, but villagers were not necessarily aware of the funding source.)

The records for the guarantor programme indicated 100 per cent repayment, but this must be interpreted in light of the fact that, besides problems with accurate bookkeeping (intentional or unintentional) by programme administrators, there was a selection bias: unless a guarantor and his or her assistants were elected and agreed to the terms, the programme did not get under way in that area. Therefore the villages where there were social networks that tended to work with the guarantor system were the only ones that were in the sample to begin with. However, interviews about how borrowers felt do support a hypothesis of success for the programme.

A reader might wonder why anyone would accept the nomination of guarantor, given that it could pose an enormous financial burden if one’s fellow borrowers were to abuse the opportunity. When I asked about this, guarantors told me that they accept for the status that it confers. Mr Chen told me, ‘They chose me to be guarantor, which means they think I have the ability to do it. It does give me some pressure. Few refuse if they are chosen – it is an honour, and it is hard to refuse if you are elected.’ The guarantors were rarely the same people as the state-endorsed village committee leaders. They were likely to be respected and trusted by villagers, holding some organic influence and standing in the village. An election to guarantor was an endorsement from your neighbours, apart from state entanglements.

And in the opinions of the guarantors, their pledge was not as much a risk as it might seem to outsiders; they were confident that they would be repaid. Both borrowers and guarantors showed a high level of comfort with the person-to-person debt arrangement. Mr Qu described his duties in this way:

If some people can’t repay the loan, we repay on their behalf, and then they pay us back when they can. The guarantor and helpers pay. The guarantor might borrow from friends and family to do this. … The last round, three families couldn’t repay, so I paid on their behalf – they took about three months to repay me.
In another village, 22 families out of the 33 in the village participated in the guarantor microcredit programme, and the guarantor, Mr Zhou, described a similarly smooth process of transferring the debt from the programme to himself. He saw full repayment within a few months:

Last year, two families had problems repaying. We helped them fix the problem. The first family I repaid for, and they repaid me later. In the second family, someone got sick and couldn’t farm their land, so they asked me to repay for them, too. Both have paid me back.

Interestingly, if guarantors were unable to personally provide the defaulted funds, they assigned other specific people in the village to repay on behalf of those who were unable, rather than collecting some kind of group emergency fund. Not only would these ‘secondary guarantors’ lend the money when instructed, but defaulted borrowers repaid the loans to these new lenders without fail within a few months. In effect, once the person-to-programme debt was changed to a person-to-person obligation, the obligation was transferrable as necessary. As one elected guarantor, Mr Liu, told me, ‘The guarantor told certain people to lend money to those who had trouble repaying. They [the defaulters] repaid them as soon as they had the money. . . . I’m the one who appointed those to repay.’

I interviewed one informant who was one such ‘secondary guarantor’. Mr Wu, a 34-year-old man, told me about his experience:

Last year, one family had problems repaying. I lent them 100 or 200 RMB. . . . Four or five families did the same to cover one family. The three guarantors decided on the people who were to give the loans to that family. I don’t know how they decided it.

Mr Wu told me that the family had already paid everyone back according to how much each family had covered for their loan.

Another interview with a couple, M. and Mrs Li, further clarified the social reasons behind the success of the guarantor programme. I asked them about people who had trouble repaying the loans. The woman replied that in such cases, if the husband doesn’t promise to repay the money to the person who covers that family, then one can ask the wife instead.

‘What if both refuse to promise to repay the money?’ I asked.

‘It’s impossible that both husband and wife would refuse to repay the person who covers them for the loan!’ she exclaimed, with more than a small amount of incredulity.

I wanted her to explain, and she offered me an example: ‘There was one family where the man went out [of the village] and didn’t come back. So we repaid on their behalf, and later she [the wife] repaid us back.’ For her, it was unthinkable that somebody would not repay the guarantor – secondary or otherwise – who covers for her.

4. Discussion

Villagers’ responses demonstrated a keen interest in the careful cultivation of their social relationships and the avoidance of public humiliation. In the case of microfinance, this meant different things practically, depending on which unit the social-collateral structure was built upon. In the group-lending programme, keeping relationships good meant keeping quiet, so defaulters were not sanctioned. In the guarantor programme, however, keeping relationships good meant that debts to specific people were promptly repaid.

We see here two programmes with the same general goal, two different approaches and two very different outcomes. The group-lending programme created an obligation to what is known as the ‘administrative village’ (a holdover from the socialist era formerly called the ‘village collective’). While the borrowers all knew one another (were likely neighbours, acquaintances) and necessarily worked together during planting and harvesting times, the government had grouped them together and appointed their leaders. Historically a site of political contention, the existence of the administrative
village itself spoke of the forcefulness of the state. (The issue was not monitoring or lack of information; everyone knew who the defaulters were.) Keeping relationships good meant keeping your opinions to yourself. Causing a fuss when the state is involved could be dangerous. And causing a fuss with your neighbours when they are your social services department could be disastrous.

Additionally, since the administrative village continued to be the unit through which the state distributes welfare, it made sense that some borrowers saw the loan as a handout. But even then, the others who did want to have continued access to the loans saw even greater value than the value of future loans in keeping the peace in the administrative village.

The guarantor programme, on the other hand, though also based on the unit of the administrative village, was administered through separately elected heads. So there was a more personal feel to the lending from the start, and since the heads served as guarantors as well, the obligation to repay the microcredit loan was a person-to-person rather than a person-to-programme debt. Even if a borrower was not particularly close to the guarantor, the obligation to repay was clear. Debts were always repaid. Villagers did not provide welfare to one another. So there could be no confusion here about the loan being a handout. As for sanctions, they weren’t just avoided. They were wholly absent, because they were unnecessary. Unlike the question of whether to tell someone else what to do, repaying a loan to a fellow villager was a given, not something to wonder or scheme about. Not doing so would be like throwing away your future in the village. Government policy, programming goals, financial gain or loss – these were irrelevant in comparison.

One difference between the two programmes held surprisingly little sway in the minds of the villagers. The first programme was state-sponsored, and the other was sourced by an international charitable organisation. In other contexts, this could prove an important differentiating factor, but interviews indicated that borrowers in this field site did not perceive differences in the sources of the programmes. This conflation of state and ICO makes sense in the context of this field site, given the history of enmeshed overlap between them.

Other differences that villagers spoke about in the interviews were not related to the social-collateral structures. The state’s group-lending design included subgroups of five to facilitate collection of repayments; the guarantor programme did not. The group-lending programme also required partial repayment every 15 days (in an effort to lessen the shock of repayment), while the guarantor programme included one total-repayment deadline. Borrowers said that the more frequent repayment schedule was bothersome, inconvenient and irrelevant to their agricultural projects (raising pigs requires about a year of work before any profits can be earned). Finally, the group-lending programme required regular meetings (either twice a month or monthly) to discuss how the businesses were going. Villagers told me that the meetings were inconvenient and unhelpful, particularly in an area where everyone was mostly doing the same projects – raising pigs or chickens (although a few tried doing other things, like making cheese curds). There was little to share, since everyone already knew how to raise pigs and chickens.

5. Conclusion

Building on studies focusing on social variables that affect microfinance outcomes, this one relies upon qualitative methods to explain repayment outcomes by the types of social ties between borrowers within two social-collateral structures. In rural China, there are two important modes of social organisation: personal relationships within the village between relatives, friends, and neighbours; and state-imposed organisation, which still resembles structures from the socialist era. In both settings, villagers depend on each other to survive, as the harsh environment and deep poverty made mutual help crucial. Villagers spoke about ‘keeping relationships good’ and not wanting to ‘endanger relationships’, akin to what Madsen (1984) describes as the invocation of good ‘human feeling’ consistent with Confucian tradition. Rather than mechanically citing fixed norms, the villagers intuitively figured out how to act within the confines of the social unit at hand, given their responsibilities and priorities within that unit.
The group-lending design structured the social collateral around the administrative village, so that all borrowers had to repay in order for anyone to receive future loans. At personal financial cost, and against programme designers’ expectations, sanctions were avoided, as borrowers who wanted others to repay kept quiet in order to keep relationships good and to secure future cordial interaction and life-sustaining cooperation. Borrowers included neighbours and fellow villagers, but not necessarily people whom it would be appropriate to tell what to do. This finding is consistent with other observations of group-lending programmes in rural China, showing low repayment rates between 40 to 64 per cent (Park & Ren, 2001).

By contrast, in the guarantor design, defaulters owed a specific person in the village (one who had volunteered to be the guarantor for all borrowers) rather than a faceless state programme. Defaulters always repaid the guarantor promptly – one villager called it ‘impossible’ not to – in order to keep their relationships good. These findings are consistent with earlier evidence in rural China showing that people are accustomed to personal debt in informal finance (Biggart, 2001; Tsai, 2004).

The findings suggest that social-collateral structures will only lead to repayment if they are compatible with the social relationships and basis of obligation between borrowers. The villagers were dependent upon one another for survival, but this interdependence appears to have led to opposite outcomes in the two different structures: in the group-lending programme, the mutual dependence led to hesitancy about being contentious or applying peer pressure (for fear of endangering carefully maintained relationships); in the guarantor programme, it meant that villagers had to repay their debts to each other to keep relationships on good terms.

What can be generalised here to other microfinance programmes? The present study identifies two important questions for predicting responses to any social-collateral structure: Who are the ties between? and What do the people expect of each other? While the dominant modes of social organisation in this field site were specific to this site, what they reveal about the importance of social context is not. Rather than being based on a universal model of decision making, social-collateral structures should be understood by the social ties that are in the particular context. In this case, the ties were characterised by specifically Chinese cultural and historical features that, when patiently examined, shed invaluable light on programme expectations. Sensitivity to context is important, especially with development programmes that attempt to exploit social ties.

So what about conventional understanding of how social relationships affect the decisions and actions of borrowers in microfinance programmes? One recent measure employed to assess social relationships in microfinance programmes is whether borrowers talk about personal issues in their credit groups, reasoning that conversational depth reflects deeper, stronger ties (Biosca et al., 2014). However, in this field site, we see that friends can be very close in some ways but not others – one group of friends may be able to talk about personal issues but not political matters (and vice versa). And telling people what to do with their money can be a sensitive topic, especially in a place where survival depends upon continued cordiality.

Although I’ve written in the past about some of the absurdity inherent in the entrepreneurial expectations of some microfinance programmes (Hsu, 2014), as the literature about global–local relationships shows, interventions can unfold in unexpected ways (Burgess, 2014), and local experimentation can yield innovation. The guarantor programme is an example; it was devised by local staff with sufficient autonomy to make decisions about the programme and change its design.

Some research on microfinance draws from experimental game research between strangers and therefore tries to control for or remove social ties entirely: if friends or relatives show up for an experiment together, they are assigned to different sessions in an attempt to uncover universal principles about the game (Cardenas & Carpenter, 2008). In contrast to these approaches, this field-work implies that the relationships themselves can be crucial to explaining an outcome. If that is the case, then eliminating previous social ties effectively nullifies any attempts to analyse decision making in contexts where social ties matter.

That the basis of the social relationships in the collateral structure matters is consistent with prior research: when researchers have introduced the opportunity for conversation between rounds of experimental games, they have found that even simple discussion during these opportunities affects
subsequent decisions and outcomes (Carpenter, Daniere, & Takahashi, 2004). If a few minutes of conversation affects results, we can only guess how much real social relationships (imagine 40 years of repeated ‘games’ day in, day out) might affect outcomes. Therefore, while experimental research on the condition of participants being strangers has been helpful for conceptualising some different situations in which individuals find themselves, making concerted efforts to observe social ties would also serve to advise microfinance programme designers.

To sum up, this fieldwork shows that the types of social relationships involved can be as important as the type of choice or the incentive structure, for explaining decisions by individuals made in a microfinance programme. What we see in this study is what Jim Yong Kim of the World Bank calls the ‘irrational’ elements of decision making, which can in fact be quite reasonably predicted, once understood as an extension of common sense within particular social contexts. As Madsen (1984, p. 13) noted about the Chinese villages he observed, talk about good human feelings ‘is a moral discourse that does not make sense in the Western utilitarian moral tradition, but does seem logical’ in another context. Moreover, in this present study, we see that the same norms, even within the same group, can operate differently, depending on the social unit in question. The group-lending programme was designed to incentivise villagers to repay the loans and sanction defaulters, but the social-collateral structure in this social context transformed the situation from what seems to outsiders to be a simple calculation (‘I want access to future loans, so I will pressure defaulters to repay’) to a different but equally reasonable assessment: ‘The loan is a small element in a larger political context where I need to be careful.’ On the other hand, where it could seem irrational to agree to be the guarantor, villagers volunteered proudly: they knew they would always be paid back, because person-to-person ties were carefully cultivated. Although repaying the loan to a guarantor is an individual choice, it was ‘impossible’ not to choose correctly. Maintaining good relationships (necessary for future happiness and maybe even survival) meant failure to sanction defaulters in one microfinance programme, but it meant certain repayment in the other. The borrowers were rational, and their choices were shaped by norms, but their reasoning can only be understood in light of the social context, with regard to particular social units.

Disclosure statement

No potential conflict of interest was reported by the author.

Note

1. Consistent with Jessica Teets’s (2014) observations of what she terms ‘operational autonomy’ in state–NGO relationships in rural China, the ICO I studied worked very closely with the state to deliver services to the local population. Some administrative personnel were even supervised by the ICO director in daily activities, while some staff who carried out ICO projects officially worked for the state. In the ICO office where I did ethnographic observations, there were few distinctions between the organisation’s and the state’s employees; they worked together as if they were part of the same organisation. Villagers told me that they saw the ICO as ‘the good part of the government’, and the ICO staff confirmed that image of themselves. When it came to the administration of the two microcredit programmes, often the exact same people worked on both of them, so the sources of the funds would easily have been assumed by villagers to be the same.

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