Hochschule für
Wirtschaft und Recht Berlin
Berlin School of Economics and Law

Institute for International Political Economy Berlin

# Finance for the poor in demand: Who uses microfinance and why?

Author: Christiane Ströh de Martínez

Working Paper, No. 10/2011

# Finance for the poor in demand: Who uses microfinance and why?

*By Christiane Ströh de Martínez*[1]

*19 December 2011*[2]

**Abstract**

The paper adds to the debate on how far microfinance can contribute to poverty reduction and development. The recent controversial discussion about microfinance as a development instrument is taken as a starting point. The paper starts with the hypothesis that the prevalent notions and assumptions about the users of microfinance are behind the controversies. Hence, after an analysis of common concepts about microfinance clients and their usage of financial services, a different theoretical frame is presented. From a social science perspective, the frame builds on the distinction of different modes of production within societies and economies as proposed by Structural Heterogeneity. This leads to a different understanding of microenterprises within a family-led mode of production, which is further developed in the light of Schumpeter's analysis of economic development. The proposed theoretical approach is linked to recent empirical research on microfinance users, especially Financial Diary research. From this analysis, a new theoretical conception of the demand side of microfinance emerges. It stresses the relevance of considering different socioeconomic formations people live and work in. For the important family-led mode of production, typical usage patterns point to the need for convenient, flexible, multi-purpose financial management services.

**Keywords:**
Microfinance, Structural Heterogeneity, family-firms, access to finance, poverty reduction.

[1] I wish to thank Manfred Nitsch and Katja Kirchstein for the many discussions on the topic of this paper and the participants of the 2nd European Research Conference on Microfinance for their comments.
[2] Comments are welcome at christiane.stroeh@gmx.de.

## 1 Introduction

Recently, public discussion on microfinance[3] has swung from odes on microfinance to a demonization of the same. Having been considered as the key to 'put poverty into the museum' (Yunus 2006), today suicides of Indian farmers in Andhra Pradesh and the perpetuation of widespread poverty in Bangladesh are associated with microfinance (e.g. Biswas 2010). Given its (assumed) contribution to poverty reduction, the promotion of universal access to finance has started to become a moral imperative; or even a 'human right', as formulated by Muhammad Yunus (e.g. 1994). Access to finance and the development of microfinance had – quasi unanimously – been promoted by an increasing group of different stakeholders since the 1970s, and gained momentum in the 1990s. During the last decade, however, a new discussion has evolved into arguments of the ones 'in favor' and 'against' microfinance. Thereby, discussions on different institution building strategies and especially the commercial approach have been dominant (e.g. Schmidt 2010). Such a general focus on the supply side has torn the interest away from a much more fundamental question: What characterizes the demand-side of microfinance? Who are (potential) users of microfinance services? What are their financial management needs? And, how can formal financial services contribute to enhanced wellbeing?

The paper starts with the hypothesis that the strong disputes on microfinance as a development tool might be partly based on the somewhat narrow, if not outright erroneous prevalent notions of microfinance users and their financial management needs. These notions – or assumptions – then also lead to practical consequences in the provision of instruments for meeting the financial management needs of 'the poor'. As microfinance clients have often been conceived as 'hindered innovative entrepreneurs' in the sense of de Soto (2005/1986), this has led to expecting important economic changes for the microentrepreneurs once they may have gained access to finance. A more explicit theoretical framing of the demand side of

[3] Microfinance is understood as small and adapted financial services for poor and low-income populations and micro, small, and sometimes medium-sized enterprises. They may or may not have limited access to mainstream financial services.

microfinance is mostly missing. Such theoretical fundaments also need to take into account the specific socio-economic context of (potential) microfinance clients.

Research on and about microfinance has primarily focused on the supply side, especially on financially sustainable institution building strategies since the commercial approach ('financial intermediation school').[4] Empirical research with a focus on the demand side has been mostly dedicated to assessing the outreach and impact of microfinance organizations or programs (Ströh 2010a: 16ff). Accordingly, the access to formal financial services and the changes in the clients' lives constitute the centre of attention. With such a perspective, not only changes in the lives of non-clients and spill-over effects have been ignored, but the bases for any kind of demand-side analysis have been abandoned: the characteristics of (potential) microfinance clients and their financial management needs. Financial diary research (cf. Collins et al. 2009) has somewhat closed this fundamental gap from an empirical perspective providing valuable insights into how poor populations manage their finance. These research findings have been widely acknowledged in the discussions among microfinance academics and practitioners (Rosenberg 2010). But they have hardly been reflected from a theoretical perspective. Furthermore, much of the discussion on microfinance seems somehow disconnected from recent insights from poverty research. This research conceives poverty as a multi-dimensional phenomenon and 'development as freedom' (Sen 1999). Vulnerability and lack of opportunities are important dimensions of poverty and coin the trajectories of households in and out of poverty (e.g. Hulme/Shepherd 2003, Krishna 2010). The different types of poverty patterns and pathways have generally not been taken into account in microfinance-related research.

Hence, the present paper has the purpose of deepening the understanding of the demand-side of microfinance. A theoretical foundation of the characteristics of (potential) microfinance clients and their ways of using financial devices will be elaborated. Thereby, underlying assumptions about the clients and the usefulness of (micro)finance will be made evident and subsequently discussed. To this end, theoretical approaches which address the specific realities of poor populations or (potential) microfinance clients are analyzed and linked to

[4] The focus of the 'financial intermediation school' lies on the analysis of institutional sustainability and outreach.

empirical evidence on the demand side of microfinance. The proposed frame draws mainly on the approach of Structural Heterogeneity (Córdova/Silva Michelena 1967/1969a) and the related family-led mode of production. In the context of developing countries, Structural Heterogeneity points to the coexistence of different societal and economic formations which sustain the differences between and within countries. From an economic perspective, these can be characterized as modes of production, where the most dominant ones are the monetary economy, the state-led and the family-led mode of production. Especially the latter is of fundamental relevance for analyzing the ways many poor populations live, work and use financial services. In the context of financial intermediation, this approach has been further developed by Nitsch (e.g. 1993, 1995, 2002a, Nitsch/Diebel 2008) and Zattler (1997). Taking into account these different modes of production, the relevance of microfinance in monetized family-led economies and other relevant modes of production are analyzed. Schumpeter's (1997/1911) differentiation between the creative entrepreneur (*Unternehmer*) and the rather static business owner (*Wirt*) is related to the different types of socioeconomic formations and provides insights into possible uses of financial services for both types of business.

The presented theoretical frame of the demand-side of microfinance demand is further developed by linking the theory to the most relevant findings from empirical research on microfinance users, primarily findings from Financial Diary research. This is the only research strand identified as explicitly focusing on the financial management patterns of poor populations – i.e. (potential) microfinance clients. The complex usage patterns consist in the combination of different types of formal and informal financial services by the poor. The main drivers for their financial management consist in consumption smoothing, coping with risk and taking advantage of opportunities (e.g. Collins et al. 2009). These and other relevant empirical research findings are then related to the theoretical findings. This leads among others to the finding that main categories of empirically identified 'drivers' of the use of financial services by the poor can only be related to the theory if specific modes of production and Structural Heterogeneity are acknowledged. It is especially the family-led mode of production which is important for understanding the ways financial services can relate to the lives of poor populations. This conception of the demand-side of microfinance points to rather modest improvements in client and family wellbeing likely to be induced by the use of microfinance. Still, *adapted* financial services can help the families to less likely become poor or poorer – at least in monetized contexts.

The remaining paper is divided into five sections. Section 2 elaborates on prevalent notions on the demand-side of microfinance. Additionally, related research on microfinance and poverty are resumed and contrasted to these notions. In section 3, the proposed theoretical framework for analyzing (potential) microfinance clients and their context is elaborated, combining the approach of Structural Heterogeneity and especially the family-led mode of production with insights from Schumpeter. Section 4 presents mainly the empirical research strand which exclusively focuses on understanding financial management of poor populations better, namely the Financial Diary research. In section 5, the presented concepts and empirical evidence are linked and the theoretical approach is developed further. The last section 6 summarizes and develops implications for financial sector development and related policies.

## 2 Searching for prevalent notions on the demand-side of microfinance

There is little research focusing explicitly at characterizing the demand-side of microfinance and the relevant financial usage patterns, but there are different strands of research which relate to the topic. Since they influence the present notions about the (potential) users of microfinance services, it is important to make clear their main messages and underlying notions. Initially, these notions will be explored. This will be discussed based on research by important academics in the field of microfinance and de Soto's (2005/1986) influential approach. Secondly, the question in how far these notions of microfinance clients can be linked to recent poverty research will be analyzed briefly. In a third and final step, an effort will be made to make the implicit theory behind most demand-side linked empirical impact research in microfinance more explicit.

In the 1970s, microfinance was introduced into development cooperation mainly from the credit side. The idea of spurring microenterprise growth by overcoming credit rationing has coined the notion of the (potential) microfinance client until today. Institutions considered pioneers of modern microfinance[5], such as the Grameen Bank or Acción International, initially only offered microcredit. They began to serve low-income and poor populations, mostly self-employed females and micro-entrepreneurs, with small loans based on a new client-adapted lending technology (e.g. Armendáriz de Aghion/Morduch 2005: 11ff). Although with a different way of approaching the clients, these initial microcredit programs can be understood as a reformed continuation of former directed credit schemes. The latter can be related to the 'financing-gap model' of development aid. The aim was to spur development[6] by overcoming financing gaps of financially excluded sectors through subsidized, directed loans. As the failure of these policies was extensively documented (Adams, Graham et al. 1984), microcredit at market rates was presented as a completely different approach ('New Development Finance'). This is certainly true for the institutional setting, as small grassroot and non-governmental organizations as well as cooperatives, municipal savings banks, self-help village banks etc. acted instead of large public development banks. Today, the institutional panorama is even more diversified. The argument pursued here is that the notion of the (potential) clients and their financial management needs in early modern microfinance shows a clear continuation to directed credit schemes pointing to 'financing gaps' as development barriers. With the later 'discovery' of savings, payment services and insurance needs, this notion has evolved further, but without much explicit questioning of the early perception of 'closing the financing gap' of micro-entrepreneurs and small farmers from a theoretical point of view.

Besides the legacy of the savings-gap diagnosis to development and its concomitant therapy 'growth cum debt' in macroeconomics (cf. Easterly 1999), the discussions on the urban informal sector and de Soto's (1986/2005) influential pleading for the liberation of the quasi-feudally constrained, but inherently potent and 'forceful' informal entrepreneurs have strengthened the initial focus on microcredit. Discussions on how to enhance 'development'

---

[5] With modern microfinance it is referred to microfinance as an instrument for development cooperation which has been introduced in the 1970s and aims at long-term financial sustainability in the provision of microfinance since the 1990s.

[6] In the present study, development is understood as the process which removes the ‚unfreedoms' that characterize poverty according to Amartya Sen (1999), even though other concepts of development and ‚underdevelopment' are also discussed.

in the 'underdeveloped' countries after the Second World War, centered on the search for economic growth (e.g. UN 1951). Based on the Harrod-Domar growth model, Chenery and Strout (1966: 685) identified a financing gap as the main constraint to growth: This macro-level gap between the necessary investment and the far too modest ability to save could and should be 'filled' with aid.[7] The financing gap model was introduced into the World Bank in 1971 and has developed into the standard tool for growth and financing projections (Easterly 1999). Even though it was heavily and thoroughly criticized, it has remained a widely used tool in International Financial Institutions (Shimeles, Rebei et al. 2009). Without opening the discussion about the quality of its predictions (cf. Easterly 1999), it is fundamental to have in mind the main message of this approach, as it has determined development cooperation for decades: At the macro level, economic growth, which is conceived as the aim of development, can only be achieved through the external supply of financing overcoming the constraint of internal savings.

Directed credit schemes can be seen as a micro-level extension of the financing gap model: credit-rationed sectors are provided with the fundamental 'initial' enterprise financing, which should and would push growth. But neither a 'big push' nor 'modernization' or 'trickle-down' happened as expected. Growing urban unemployment and poverty emerged and were perceived as central challenges for the development of the 'Third World'. Related investigations led to the differentiation between the formal and the informal sector of an economy. The ILO popularized the term with a report on (un)employment in Kenya (ILO 1972). Although the term 'informal sector' had been initially conceived by anthropological descriptions of the various ways of making a living due to the wide-spread lack of formal employment in Accra (Hart 2008)[8], the rather dualistic separation of the sectors coined subsequent discussions on informality. The main differentiation consist in the fact that the workers and small enterprises operate 'outside of the law', in the sense of lacking official

[7] In their model, Chenery and Strout identify a second gap, the 'trade gap': In the current account of the balance of payments exports are insufficient to enable the imports which are necessary for 'development'. Ex ante, the two gaps may diverge, but ex post, they are equal since the current account and the capital account (including monetary reserves) add up to the balance of payments in national accounting. Due to the focus of the present paper, the discussion will focus on the savings gap as the fundamental financing gap.

[8] Presented in 1971 on the conference 'Urban unemployment in Africa' in Sussex, appeared in 1973 (Hart 1973).

registration and following few if any regulations (ILO 2002: 12)[9]. This rather dualistic understanding of the formal and informal 'sector' can also be perceived in de Soto's work on the informal sector. In his widely known bestseller *El otro sendero*[10], de Soto (1986/2005: 245ff) stresses the disadvantages of informality both for the many microentrepreneurs in Peru and for the whole country. They consist in specific costs related to operating in informality, such as lack of access to formal and hence cheaper credit (ibid.: 223). He sees these 'extra-legal entrepreneurs' as 'forceful pioneers' and assigns them a central role in development. According to his research, they constitute with 60-80% of the Peruvian population the majority (ibid.: 16ff). This understanding of the poor as 'hindered entrepreneurs' contributed to a '"entrepreneurial vision" of the small businessmen and businesswomen in developing countries' (Nitsch 1993: 1). Furthermore, it attributed poverty to the lack of an effective implementation of market rules in the informal sector, which could be overcome by the provision of access to credit and technical assistance (Frediani 2007). Such a market-oriented – and little revolutionary – understanding of the living conditions of the poor fitted well into neoliberal (reform) agendas and pragmatic approaches to poverty reduction of the late 1980s and early 1990s (Nitsch 1993: 2). Hence, this perspective of political economy provides a further explanation for the strong and persisting focus on (micro)credit.

The key assumptions about (potential) microfinance clients in this early credit-focused approach of modern microfinance were convincingly resumed by Adams and Von Pischke in 1992. They argue that the underlying philosophy resembled to that of earlier directed credit programs for small farmers, and they specify them as follows:

> Key assumptions about the status, potential, and behavior of small farmers were virtually identical to the assumptions involved in many recent credit programs for micro-entrepreneurs. In each case the target group was viewed as being *too poor to adopt new technologies without formal loans* and also being *too poor to save* (Adams/Von Pischke 1992: 1464, italics added).

Adams and Von Pischke (1992) point to the fact that (potential) microfinance clients were perceived as too poor to save and to develop their business without additional external formal financing. These assumptions can be seen as related to the diagnosis of the savings gap

[9] A different understanding of informality will be proposed in chapter 3.
[10] Published in 1989 in English as 'The Other Path: The Economic Answer to Terrorism' and in German with the even more telling title 'Marktwirtschaft von unten…' or 'Market economy from below…'.

approach at the macro level. Challenging this view, recent poverty and Financial Diary research point to a different picture of the target group, which will be discussed further in chapter 4. In addition, the existing financing gaps of microfinance clients were seen as only supply-side originated: Credit rationing by commercial banks and the lack of adequate informal finance would leave the respective target groups without the loans they needed:

> Promoters argued that *informal finance either played little or no positive developmental role*, or that it was an evil that should be eliminated; that most of the *target group had 'credit needs' that commercial bankers refused to fill* for reasons that were neither commercial nor economic; and that many of *these borrowers would graduate* after several years of concessionary assistance and be able to obtain conventional bank loans (Adams/Von Pischke 1992: 1464, italics added).

As the problem was clearly attributed to the supply side, the clients were seen as able to graduate into standard commercial banking costumers, once they had been given the 'opportunity' of a loan. Such an analysis of the development obstacles in the informal sector fundaments a supply-side focus: What was lacking were adequate (and financially sustainable) institutional schemes to provide microcredit. That paradigm has therefore been intensively researched and investigated in theory and practice (e.g. Rhyne/Otero 1992, Krahnen/Schmidt 1984, Robinson 2001, Armendáriz de Aghion/Morduch 2005). Besides the lack of financing, the small entrepreneurs and farmers were 'thought to *need training and technical assistance* in order to progress' (Adams/Von Pischke 1992: 1464, italics added). The need for and the most adequate way of providing training and consultancy services – today known as Business Development Services – were controversially discussed in the microfinance community (Lepenies 2004, Sievers/Vandenberg 2007). However, this subject cannot be further explored in the present paper.

The focus on credit in early modern microfinance (during the 1970s and 80s) differs greatly from indigenous, spontaneous and autochthonous forms of 'microfinance' in the whole world: Generally, they were rather savings or insurance-based and often included loans. This applies to informal money management arrangements which partly date back to the first millennium B.C., such as *chit funds* in India, *hui* in China, and *tontines*, health mutuals or funeral societies in many African countries (cf. Seibel 2005: 6, Kane 2002: 296). It also applies to more formalized microfinance schemes that did not only develop in Europe, but for instance also India. These approaches mainly involved merchant banking, savings banks, and cooperative banks (Geiger 1994, Seibel 2003: 7, Chowdhury et al. 2004: 291).[11] This fundamental difference from former indigenous forms of finance leaves a further doubt on the initial orientation of microfinance with regard to the financial management needs of (potential) clients.

Later, other financial management needs of (potential) microfinance clients were 'discovered', but initial notions about these clients seem to persist – at least regarding their 'financing gaps' or credit needs. The importance of savings and the ability of poor people to save were, 'discovered' during the 1980s (cf. Vogel 1984, Fiebig et al. 1999); the centrality of addressing access to risk management mechanisms and insurances with microinsurance only in the 1990s (Churchill 2002, 2006). Although the provision of the full range of financial services for low-income populations has become widely recognized as 'state of the art' in a modern approach to microfinance in the 2nd millennium (CGAP 2004), there still exist a large number of providers who only offer microcredit. These are generally the smaller and medium-size MFIs. Although larger MFIs serve a major part of the clients, the median MFI still had over 40 times more active borrowers than depositors in 2009 according to the database of the Mix Market (2010, 2011). However, most autonomous savings and credit cooperatives in the world live on the heavy overweight of depositors over borrowers. The importance of the microentrepreneur in debates and research on microfinance also point to the persistence of the early notions about the clients (for the 1990s, cf. Rhyne/Otero 1992). Still in 2005, the International Year of Micro*credit* 2005 by the United Nations lobbied for 'Building inclusive financial sectors to achieve the Millennium Development Goals' with the following claim:

> Microcredit has been changing people's lives and revitalizing communities since the beginning of trade. Currently *microentrepreneurs* use *loans* as small as $100 to grow *thriving business* and, in turn, provide their families, leading to *strong and flourishing local economies*. The year of Microcredit 2005 calls for building inclusive financial sectors and strengthening the powerful, but often *untapped, entrepreneurial spirit* existing in communities around the world (UN 2005, italics added).

The name of the campaign and its central message clearly point to the notion of a microfinance client being a creative credit-constrained micro*entrepreneur*[12] who might contribute to

[11] Later also some credit-only institutions in the form of local loan funds, mostly charity-based, were funded. Examples are the Irish loan funds (Hollis/Sweetman 1997) and the Italian *Monte di Pietà* which are however also related to the interests of the founding Christian groups (Toaff 2004).
[12] In the Schumpeterian sense of *Unternehmer*, as discussed below.

local economic growth once provided with a loan – which is considered to be her[13] central financial management need. If other financial management needs are taken seriously, the notion of the (potential) client would also need to change and include the family members or a much wider range of poor populations, as discussed below.

Notions about the poverty of (potential) microfinance clients have also been changing with the development of microfinance, but they are still little related to the results of recent poverty research. Based on the assumption of early microcredit programs that the clients would be too poor to save and to develop their businesses without formal loans (Adams/Von Pischke 1992: 1464), the microfinance revolution of the 1990s claimed that the 'working poor', not the 'poorest of the poor' would be the 'right' target group (Robinson 2001). However, recent poverty research points to different dimensions of poverty besides the (more or less evident) focus on income in microfinance (e.g. Sen 1999). Furthermore, it also stresses the dynamics of poverty: A household which is poor today, might escape poverty or vice versa, fall into deeper poverty or also remain in chronic poverty (Krishna 2004, Hulme/Shepherd 2003). Accordingly, the 'working poor' is a rather limited definition of the target group.

Poverty is also intrinsically related to inequality, class or power struggles and oppression, both at the macro (Easterly 2007, Galor 2009) and the micro level (e.g. Scott 1987, Green 2008). This very relevant perspective on poverty and the demand-side of microfinance can not be explored thoroughly in the present paper, but will be taken up in the final discussion. Furthermore, the notion of poverty depends not only on the concept behind it, but also on the measures used and perspective of the ones who measure it (cf. Chambers 1997, Chambers 2007).

For the present paper, no own participatory field research has been conducted, however, the empirical evidence from recent studies draws on the opinions of poor populations where available (cf. Rutherford 2003) and complements these insights with further qualitative insights (mainly from Financial Diary research). Shortcomings of constructions of the reality in

[13] In order to facilitate the readability of the present text, female personal pronouns are used throughout the study, referring always to both female and male (potential) clients, staff, researchers, and so on.

developing countries from outside, criticized and questioned by postcolonial authors such as Said (1978) and Spivak (2008) will be taken into account by including theoretical strands conceived in Latin America and by Latin American authors. The following theoretical chapter starts with the rather old but useful concept of Structural Heterogeneity and deepens the analysis of forms of living and working of the (potential) microfinance clients, modeled as a family-led mode of production, with an application of Amartya Sen's capability approach to poverty and development.

The already somewhat criticized strong assumption about the positive impact of microcredit (and later microfinance) seems to have led to a focus of research on proving this impact instead of investigating financial management patterns of the poor and questioning the usefulness and adaptability of the supply of products by microfinance institutions to their needs. This has contributed to exaggerated expectations about the pro-poor development effects of microfinance. The produced development approach of early microcredit programs consisted mainly of the 'financing gap' of informal poor microentrepreneurs in a kind of 'micro-level savings gap approach'. This strong initial assumption of the unsatisfied needs for formal loans had generated a general belief that the provision of loans is thus automatically beneficial for the clients. Or as Adams and Von Pischke resumed it:

> *Believers in 'credit needs'* inevitably view formal loans as *being entirely beneficial*. It is a curious linguistic twist that the terms 'loan' and 'credit' carry a positive aura, while 'debt' often has a negative connotation. Advocates of special credit programs for operators of small farms or microenterprises, for example, *never propose that imposing more debt on poor people is an appropriate development strategy*. Although borrowing may allow entrepreneurs to expand their activities, it *puts them into debt*, unless loans are grants disguised as credit. Borrowing may allow farmers to expand their activities, but it carries with it an *additional cost through exposing them to more risk*, including the ris*k of not being able to repay loans* (Adams/Von Pischke 1992: 1464).

As Adams and Von Pischke explain, considering a loan as 'entirely beneficial' implies a lack of consideration for the related risks. Among others, these risks consist in the additional financing cost imposed on the business and the risk of default. This kind of automatism expecting positive and development-enhancing effects linked to the provision of loans seems to have since been transferred to the provision of other microfinance services as well. As Mayoux (2000) shows for different approaches to microfinance, the assumption of an assumed 'automatic link' from the provision of financial services to certain expected positive impacts became very widespread. Critically analyzing the assumed virtuous cause-and-effect chains, she shows that these assumptions can be easily questioned. This applies not only to the previously discussed approach focusing on economic enhancement and empowerment through the provision of microloans, but also to other approaches to microfinance with a focus on poverty reduction and improved gender relations: Mayoux (2000) points to the fact that a woman receiving a loan can not necessarily decide on its usage, and that the usage does not necessarily produce favorable results (e.g. less income due to business failure). Furthermore, in the case of increased income, this might be taken from her by other family members (ibid.: 5,9). Furthermore, it is necessary to differentiate between direct and indirect impacts: A direct impact of access to microfinance can be the improved financial management of the family, if the financial services fit their financial management needs. An indirect impact would consist for instance, in increasing returns from a microenterprise business or the empowerment of a person with little freedoms. These impacts however, depend on much more than access to appropriate financial services: increasing business returns are also contingent on the margins realized, i.e. the difference between the receipts of sales and the fixed and variable costs; and empowerment refers to changing power relations within and among households involving all household members (Ströh 2010a: 88ff).

Without discussing the conceptual and analytical shortcomings of different types of impact assessment methods and related results in microfinance[14], here the mere focus on measuring impact on the clients' business or households has various consequences. Quite early already, Adams and Von Pischke (1992: 1464) pointed to the fact that impact assessment generally focused on economic changes for the borrower, but not on the results for others and for the financial infrastructure. From a development perspective, this has led to a lack of addressing non-economic impacts. A further lacking analysis at the aggregated level also means that spill-over effects and displacement effect on non-clients have been little studied (Ströh 2010a, Bateman 2010). And much more fundamental: The interest has been turned away from studying the characteristics of (potential) microfinance clients and their financial management patterns.

[14] For this discussion, see e.g. Von Pischke/Adams 1980, Nitsch 2003, Hulme 2000, Armendáriz de Aghion/Morduch 2005: 201ff, Karlan/Goldberg 2007, or a summary of related discussions in Ströh 2010a.

In summary, the savings gap approach to development considers the lack of finance as the crucial and primary macro-economic obstacle to development. Considering credit rationing a primer development obstacle can also be observed at the micro level: Microcredit seemed to be the key to 'put poverty in the museum' (Yunus 2006) and to foster local economic development (e.g. UN 2005). However, this prioritization in development policies and cooperation was not based on a reliable analysis of the most important development barriers in different types of livelihoods, but rather on the underlying (assumed) notions of the importance of access to credit. So it was often overlooked that marginalization and exclusion through power relations as well as access to other services can be much more relevant for the respective target group than access to formal finance. In the case of small farmers for instance, land tenure, product prices or climate risks often constitute much more important challenges for their development and livelihood (e.g. Adams/Von Pischke 1992: 1466, Krishna 2010: 116ff). The relative advantages and disadvantages of microfinance as a development instrument are to be kept in mind below; those topics are however not be further examined in the present paper. The focus remains on studying the very basics of microfinance: A clearer notion of the demand side of the customers, their financial management patterns and the types of formal[15] financial services that can be useful to them.

## 3 Framing the demand-side of microfinance theoretically

The previous discussion has pointed to the fact that early modern microfinance has considered microentrepreneurs of the informal sector as its main target group, due to their unfulfilled credit needs. The focus on microcredit has then led to a development of microcredit-providing institutions which offer differed widely from (former) informal and semi-formal financial service providers. The fundamental logic of this type of microfinance was based on a development strategy aimed at economic growth.

[15] Microfinance services are considered and defined here as formal financial services, independent from their legal form in order to differentiate them from semi-formal and informal services like savings groups or reciprocity-based lending and borrowing.

Given that poverty research has meanwhile shown that more dimensions than the economic one are important for pro-poor development and that economic growth does not automatically translate into increased well-being and better livelihoods, development is defined here as increasing freedoms which matter to the people (Sen 1999). In the present chapter, the focus lies on understanding the demand-side of microfinance and on the structures into which the customers are typically embedded. This way, the pitfalls and shortcomings of methodological individualism with its atomistic myopia can be avoided and a more thorough understanding of the place of finance within a more holistic picture of the livelihoods of the poor can be gained. It is the different institutional settings, the different societal contexts and even 'economic systems' – or 'modes of production' which are to be taken into account. However, these macro and meso level structures of societies can not be modeled with the instruments of the 'new institutionalism', even though that approach is helpful at the micro level, for instance for analyzing the governance structures within organizations and firms and also for modeling some of the relations between customers and microfinance institutions. But a comprehensive theoretical frame of the demand-side of microfinance should also take up some of the sometimes forgotten traits of 'old institutionalism' which brings the perspective of the subsystems of society and the respective socioeconomic formations back into the debate on development (Nitsch 2002a). From this perspective, it will be shown in a first step that the approach of Structural Heterogeneity is useful to characterize the situation of developing countries. Acknowledging the simultaneous existence of different modes of production within one social formation and socio-political system, it provides a strong analytical tool for analyzing the broad fundaments of the demand-side of microfinance: The modes of production most relevant to the poor, which can be introduced so that their financial management needs can be discussed within this context.

The approach of Structural Heterogeneity was conceived by the Latin American researchers Armando Córdova and Héctor Silva Michelena at the research institute of the Universidad Central de Venezuela (e.g. 1967/69). It is a social science-approach to development, which partly draws on Marx's historic materialism: Underdevelopment is seen as a historic product, and not as an early phase of development as proposed by modernization theory. It is rooted in the social structures and the links ('dialectics') between the material world (productive forces), social structures and the moral world (superstructure) (Silva Michelena 1967/1969: 64ff, Silva Michelena 1967/1969: 42f, referring to Marx 1967/1987/1995). Social relations are analyzed in their function for producing and distributing material goods and services to satisfy human needs and for reproducing the various subsystems of society (Silva Michelena 1967/1969: 42f).[16] The actions of human beings are not analyzed as those of a universal *homo oeconomicus*, but are founded in human psychology which is rooted in the specific society and the corresponding conditioning of each human being (Córdova/Silva Michelena 1967/1969b: 65). Without deepening the specific debates, as the approach of historic materialism has been discussed controversially, the following main ideas will be used: Development is seen as embedded into the societal context and the specific ways how an economy functions in terms of the various modes of production of material life and reproduction. These modes of production can comprise small subnational as well as transnational or even global social systems. Every mode of production corresponds to a socio-political normative superstructure, with which it can also be 'in contradiction'. Structurally heterogeneous societies have therefore not only one, but various normative worlds within their national boarders. The contextualization of the debate on how development and economic growth occur within the respective societies and historical moments is considered as one of the central strengths of this approach.[17] Below, the terms used will largely be defined according to the approach by Córdova and Silva Michelena (1967/1969), as they deepen a historic and materialist approach to the analysis of developing countries. The original authors apply it to the case of oil-producing countries with special consideration of Venezuela. However, the abstract concept of Structural Heterogeneity can be 'filled' with all different types of societies (Nitsch 2002a). The relations of production through which the productive forces operate in a given society thus become heterogeneous and specific, according to the geopolitical unit analyzed and to its historic moment (Córdova/Silva Michelena 1967/1969b: 69). Such a concretization has also been observed by Marx, for instance with Asiatic modes of production or the herder ones (1857/1858, 1967/1987/1995). Or take Wittvogel (1957), who focuses in his analysis on the Oriental mode of production with its link to natural conditions, which lead to 'hy-

[16] This approach was later enlarged to the 'world system' approach encompassing the whole world and not only any specific national society (Wallerstein 1974, 1980 and 1989).

[17] Schumpeter (1942/1987), for instance, also points to this advantage of a holistic look at human societies, even if he also develops an extended critique of Marx's approach.

draulic societies' and 'Oriental despotism' based on irrigation in a water-scarce environment. The fundamental innovation of the approach by Córdova and Silva Michaelena (1967/1969: 70) is the coexistence of different modes of production at the same time and the same place. They are not seen any more as epochal phases in a certain development path, as proposed by Marx' epochal understanding of modes of production. Instead, modes of production are conceived as identifiable social systems of production and reproduction with a specific set of social relations of dealing with nature and with the supernatural and of constructing and reconstructing society and culture. Hirschman (1981) pleads for a very similar, if not congruent 'micro-marxist' approach when generalizing his analysis of 'linkages' of primary goods: For instance, coffee can induce very different modes of production, whether produced in large plantations or by family farms.

Within a socioeconomic formation, the infrastructural-technological levels, the societal-political-juridical superstructures and the economic-structural levels are distinguished by Córdova and Silva Michelena (1967/1969b: 67f). For the following analysis, the central issues lie on the economic level. This 'complex system of human relationships taking place in the societal production process' (Lange 1966: 24, cited in Córdova/Silva Michelena 1967/1969b: 68) constitutes the essence of the heterogeneous socio-economic structure which is marked by the existence of economic sectors or subsystems of different modes of production, due to diverging ownership structures of the factors of production (Córdova 1971/1973: 26). For operationalizing this analysis, the specific central relationship has to be found and defined which determines the others: in the Marxist tradition that is the ownership of the factors of production. The latter consist of land, capital and labor, including knowledge, skills, know-how and experience (ibid. 68f).[18]

Socioeconomic Structural Heterogeneity leads to heterogeneous class systems and also to heterogeneity in the superstructure. Accordingly, the rules applying to integrants of different modes of production tend to differ widely. Differences in income distribution and employ-

[18] In later elaborations, a further class-constituting 'factor' of production was identified, namely the state as the formal entity without whose consent and/or active participation on 'production' would take place. That is how, alongside with the land owners, the capitalists and the workers, the so-called 'state class' of bureaucrats, politicians, military men and state enterprise managers came into academic being.

ment can thus be explained based on the recognition of the heterogeneous character of a society (ibid.: 27).[19] Córdova and Silva Michelena specifically recognized the interlinkages and articulations between different coexisting modes of production. Both are fundamental characteristics of their theoretical approach, which is quite useful in empirical research, as will be shown in chapter 5.

Nitsch (2002a) has further elaborated on Córdova's and Silva Michelena's understanding of modes of production as 'smaller units of space and time'. His classification includes the aforementioned types of modes of production and simplifies them into three major ones for Latin America and Eastern Europe: These are the capitalist monetary economy, the state-led economy and the family-led mode of production. The different types of ownership of the production factors manifest themselves in different types of economic logic and of budget constraints. In the capitalist monetary mode of production, it is the wealth owner who possesses and disposes of the wealth. The disposition of the wealth owner to renounce to liquidity, security and expected utility of hoarding depends on the earnings of the invested money in the form of interests and profits (Nitsch 2002a: 106). Wealth owners or investors dominate and control enterprises and their managers but they form together a more or less coherent capitalist class when it comes to differentiate them from the workers and employees who are only employed as long as the capital markets are functioning and providing satisfying returns to investors, entrepreneurs and managers. The state-led mode of production does not only exist in socialist countries, but also refers to public enterprises in market economies. These generally have access to public resources. This 'soft budget constraint' often leads to rent seeking and politicizing instead of an orientation towards increased efficiency and accumulation (Nitsch 2002a: 99). On the other hand, state enterprises can be made subject to social objectives, and their behavior (regarding e.g. corruption) is under stronger public scrutiny than that of their private homologues. The family-led economy is based on the ownership of the production factors by the family. The central budget constraint is thus the family wealth, as the objective is not profit maximization, but the realization of the family's multiple aims. Hence, it is the families consumption needs which determine the economic actors' be-

[19] Later on, political scientists and economists tended to focus on the conflict between those various superstructures, due to different modes of production and their base-superstructure coherence or contradictions, taking up the term 'struggle for hegemony' from Antonio Gramsci (1999 etc.).

haviors in this mode of production: The family's enterprise is at service of the family/household and not vice versa (ibid.: 108). Beside these three most important modes of production, other modes of production are distinguishable, like the Chinese *guānxi* economics (Nitsch/Diebel 2008), illegal pirate economies, nomadic herder economies, indigenous community economies, and the solidarity-based *economia solidária* (Singer 2000, Ströh 2010b). These other modes of production relevant to the poor cannot be discussed in-depth in the present paper, since they would require further explanation.

Nitsch (2002a: 113) also points to the interwovenness and articulation between the different modes of production as introduced by Córdova and Silva Michelena. Hence, family-led economies are linked to the monetary and state economy through the provision of labor and through business relationships. Private actors invest in state-owned firms, and these might cooperate with capital-led firms. Besides their structural importance, other modes of production besides the dominant monetary economy often function at least partly as a 'cushion' for troubles or crashes of monetary economies, for example, in the Latin American monetary economies in crises (Nitsch 1993: 459f). Accordingly, the interrelations of the family-led economies with The Monetary and state-led modes of production need to be taken into account for the analysis of their respective financial management needs.

Considering the socioeconomic reality of developing countries with the multitude of small businesses, small farms, self-employed and the numerous contributing family members, the family-led mode of production is of particular importance for a great part, if not the majority of the populations of most (developing) countries: it provides opportunities for employment, income and 'development' in Sen's understanding as life in freedom, even though it also carries risks and unfreedoms. It can be considered the central mode of production of poor and low-income populations, as they are only rarely state officials or formally employed in big corporations. However, their belonging to the family-led mode of production is not due to a rich-poor classification[20], but due to the internal logic which can be observed within their economic activity: consumption needs of the family members dominate economic behavior and the disposition about the family's wealth (Nitsch 1995: 93). Besides the income from a

[20] Some might even be well-off or very rich.

family-owned business, family-led economies often patch together different types of income, including income from monetary and state-led economies as well as remittances from family members abroad. When they start to employ non-family labor, to invest in other firms and the capital market and when they operate with credit on permanent basis, they become part – at least partially – of the monetary economy. The exact ways in which family-led economies function in specific locations always depend on the prevalent cultural settings, the other existing modes of production and the concrete moment in time. The present theoretical frame only provides an abstract characterization of the main ideal-type traits of the family-led mode of production. It is based on the sparse theoretical literature focusing on the economic dimension of family-led economies and their specific financing needs by Nitsch (1995, 2002a, 2002b, 2004) and Zattler (1997). They provide a comprehensive analysis of this specific topic, as related to microfinance projects in international development cooperation. These sources are complemented by related literature on family-led economies (e.g. Čajanov 1923/1986).

Family-led economies *(Familienwirtschaften)* or household economies *(économie domestique)*[21] refer to both the family members, their household(s) and to their business(es). Examples are the typical corner store in the basement of the family's house or small-scale peasant or farmer agriculture. From a macro perspective, the central characteristic of family-led economics is the lack of a social division of labor *(gesellschaftliche Arbeitsteilung)* among asset owners and holders, financial intermediaries, entrepreneurs and labor: The typical household-based business is run with the labor force as well as the assets of the family, for instance, in a farm, a shop or market stand or a small backyard factory (Nitsch 1995: 93). From a micro perspective, family-led economies are characterized by their vital links to surrounding social networks along with market-based relationships: generally reciprocity-based relationships with family and relatives in the social context or *milieu.* Accordingly, the way in which economic

[21] Although in cultural anthropology the difference between household and family is important, with distinctions based on culturally based understandings of the family and the household and their relationships, for the present analysis, both terms are used as synonyms. This usage is based on the slight difference in these terms in microeconomic analysis (the collective that conjointly takes economic decisions; Hohlstein, Pflugmann-Hohlstein et al. 2003: 337) and in political science (smallest group in the society; Wasmuth 2002: 221). On the other hand, the terms for referring to family-led economies in different European languages are constructed based on both *family (Familienwirtschaft, economía familiar, economia familiar)* and *household (économie domestique).*

decisions in family-led economies are made depends strongly on the respective social and cultural context (Zattler 1997: 100ff). Thus, it can be noted that, the more the individual decision for maximizing one's own (or the family's) benefits respond to cultural norms of reciprocity, the more economic decisions are made based on a mix of economic and social motives (ibid.: 109). Hence, the actions and decisions of family-led economies should always be seen as the interplay of the family-based business and the surrounding social context. Furthermore, family-led enterprises are often characterized by a lower degree of formalization, with many firms not having proper registration and labor consisting largely of non-remunerated family workers and informally employed workers. Hence, informality or the lacking statistical-bureaucratic registration of economic activity is understood in the present study as a further possible characteristic of the family-led mode of production, instead of constituting a central category of analysis (like in a dualist approach).

For most countries the monetary economy can be considered as dominant in macroeconomic terms. And it is also dominant or even taken for granted in economic and even development theory. Hence, the differences to the family-led mode of production need to be clarified further. The inner logic and related financial management needs of these two modes of production must be differentiated further when economic growth is to be accounted for since Schumpeter's (1911/1997) differentiation between the innovative entrepreneur *(Unternehmer)* and the 'normal business owner' *(Wirt)* has proven to be of utmost importance. In a monetary economy, growth is modeled with the key figure of the innovative entrepreneur who implements innovations financed with bank loans. The Schumpeterian analysis of economic growth describes it as a process of 'creative destruction' *(schöpferische Zerstörung)*, which is led by the innovative entrepreneur implementing new combinations of factors of production. Because the entrepreneur does not necessarily own the means for realizing her innovative ideas, she depends on the purchasing power given to her through credit, which is created ex nihilo by the banker and based on trust and confidence in the entrepreneur and her project. It is not based on collateral, nor previous or simultaneous savings or deposits (Schumpeter 1911/1997: 147). The financial institution intermediates between the entrepreneur and the wealth owner, who expects earnings in exchange for her deposits, bonds or shares. Hence, money is considered a medium of deferred payment, not only a means of exchange. And the social division of labor in a monetary economy can be described as one between creditors and debtors, as conceptualized by Monetary Keynesianism (Riese 1989). The behavioral logic of the family-led mode of production can be seen as modeled by the 'normal business owner' *(Wirt).* This *Wirt* is conceived as a part of the normal economic circuit, with no fundamental credit need. This is grounded on the assumption that the *Wirt* can finance her production out of her own resources and already counts with an existing business. Bank loans are eventually used for facilitating economic circulation *(Zirkulationskredit)* (cf. Schumpeter 1911/1997: 105ff). This perspective is coherent with the ownership of production factors within the family-led mode of production. Consistent with the business logic of a *Wirt*, money is mainly used as a means of exchange in family-led economies (Nitsch 1995: 95) and only additionally as a means of payment for complementary credit relationships. Hence, money primarily facilitates the conduction of transactions on spot-markets, thus for cash purchases in a context of family-led economies.

The different specific inner logic of family-led economies also influences their resilience and 'employment policy'. In family-led economies, generally the head of the family, or sometimes other family members dominate entrepreneurial decision-making and the dispositions over the family-owned assets (Nitsch 1995: 93). Accordingly, the viability of the family-led business does not depend on the return earned on the invested capital but on the whole range of dispositions of the family and possible alternative use of their labor: Čajanov was one of the first economists who took the family-led mode of production seriously. Based on his investigations of family-led agriculture in rural Russia (Čajanov 1923/1986), he proposed a distinct calculation of acceptable business results for family-led economies. Whereas, in a capital-led business, profit is the main objective, the relevant category in family-led economies is the return per labor.[22] Consequently, labor is not calculated as a variable or marginal but as a fixed cost factor. The budget restriction for the family economy is then labor and the arduousness with which it has to be performed; and its relation to the consumption needs of the family defines the final labor input and, consequently, the family income in terms of marginal utility gains (Čajanov 1923/1986: 35). Due to their different accounting methods,

[22] Profit in monetary economies is calculated as 'gross earnings – expenditures – wages = net profit'. The relevant category in family-led economies, the net labor output, is calculated by 'gross earnings - expenditures = net labor return' (Čajanov 1923/1986: 38).

family-led enterprises still realize positive results under conditions in which capitalist enterprises would have to show losses, being one of the reasons for their robustness and resilience, producing until reaching a level at which there is a better use for the labor of the family (Čajanov 1923/1986: 35ff).[23] Under conditions of missing income-generating alternatives, this situation can, however, also lead to self-exploitation, underemployment, and hidden unemployment according to an understanding of labor within international labor norms. Thus, it can also contribute to poverty. Another reason for the resilience of family-led business can be seen in reduced transaction and control costs, for example, of labor. Using family or family-related labor, there are practically no search costs and—especially relevant in contexts of lacking generalized business ethics and rule of law—there are virtually no incentives for behavior that could negatively influence the business results (Zattler 1997: 125, 118). Furthermore, inside the family-run enterprise, the labor of women, elderly people, or children can be used more efficiently whenever they are available because the location of the business and the family's living space are often the same (ibid.: 119). This may, however, also develop into a heavy burden for them. With increasing specialization of the family-run enterprise, the use of hired labor may be advantageous because no family member might any longer meet the required qualifications.

Moreover, within family-led economies, the production patterns can be adapted to changing conditions, as well as the consumption and reproduction patterns. This 'extended fungibility' is characterized by Lipton (1984: 192) as the ability of a family-led economy 'to adapt to changed production conditions by adjusting, not only its production behavior, but also its consumption and reproduction decisions'. Because the family-led enterprise is steered according to the family's consumption needs, the extended fungibility might signify self-exploitation of family-labor, but it can also drain business capital for consumption (e.g., reducing the business stock for paying medical expenses of a family member). Hence, it is important to consider that there is no separation of goods, assets, or cash between the household of the family and its members and their business. Income and expenditure flows of the family and their business always meet at the household level in the family's 'cash box' because there is no separate accounting. Accordingly, business income might also be spent for

[23] Thus, Čajanov refers, in this case, to family-based agriculture but shows later that this is also true for non-agricultural family-based economies.

covering needs of family members, and additional income by family members might be used in the business.

Regarding the origins of the family-run enterprise's assets, the following balance of a family-led enterprise shows the overlapping and interlocking relationships, if not the union, between household and enterprise regarding their assets and liabilities (see figure 1). The balance sheet is built on a broad understanding of assets and capital, including moral or social dimensions of capital. It is fundamental to work with such a broad concept of capital for understanding – and financing – family-led economies because the predominant mechanism of allocation follows the logic of social, reciprocity-based relationships. Furthermore, it is important to apply this broader understanding of capital to both sides of the balance sheet, such as proposed by Nitsch (1995).

*Figure 1: Balance sheet of a family-led enterprise*

**Balance sheet of a family-led enterprise**

**Assets**

Natural assets
- Access to natural resources

Real assets
- Land, house, etc.
- Cattle, machines, consumption goods, etc.

Financial assets
- Cash box, savings, deposits, etc.
- Insurances
- Right to emergency loans
- Market partner claims: suppliers, clients
- Participations: cooperatives, etc.

Human capital
- Family labor and health
- Know-how talents

Social/ moral capital
- Reciprocity
- Social security
- Public services
- Labor rights
- Culture

**Liabilities**

Relatives, friends, and neighbors
- Monetary
- Non-monetary

Banks and insurance companies, MFIs, cooperatives, saving & credit groups
- Loans with formal collateral
- Loans with alternative collateral (e.g., step-lending, reputation, peer pressure)

Market partners
- Providers, clients
- Business venture partners

Venture partner
- 'Deal financing'

Moneylender
- Emergency loans for business & family

Corner store
- For consumption

**Equity**

Equity of man/ husband
Equity of woman/wife
Equity of children, others

Source: Adapted from Nitsch 2004: 46.

The balance in figure 1 delineates assets, equity, and liabilities in family-led economies, showing the interwoven relationship between the family and its enterprise. On both sides of the balance sheet, assets and liabilities of the family-led enterprise, are built on the family and its social networks. The interrelations of assets and liabilities between the family-led enterprise and the family members imply that they will directly affect the business results, positively or negatively.

The reciprocity-financed equity of the family-led enterprise is consistent with the aforementioned classification, that of a Schumpeterian *Wirt*, i.e. a business which is not founded on external, but on internal finance. Because the family's resources are part of the enterprise, the family's needs also govern the business decisions, which are made in the family's interest (or perhaps what the family head considers the family's interest). The involvement of relatives and friends also means that their interests are considered. These liabilities will generally be served first. Even though access to this source of financing is privileged, it might not always satisfy the financing needs of the enterprise. A reciprocity-based credit implies an obligation in return, and the absence of trust in the quality of a relatives' business might lead to a denial of the loan (Zattler 1997: 121). Moreover, reciprocity-based financing might not be available in the amount and within the time frame in which the business financing needs develop. This observation is especially true because family-led businesses are often characterized by opportunity-led cash-based businesses (Nitsch 2004: 34); or because members of the social network experience the same cycles, for instance in farming. Such quick access to additional working capital might be difficult to deliver through reciprocity finance, as well as larger lump sums for investment. Hence, other sources of financing can also be important to the growth and development of family-led businesses.

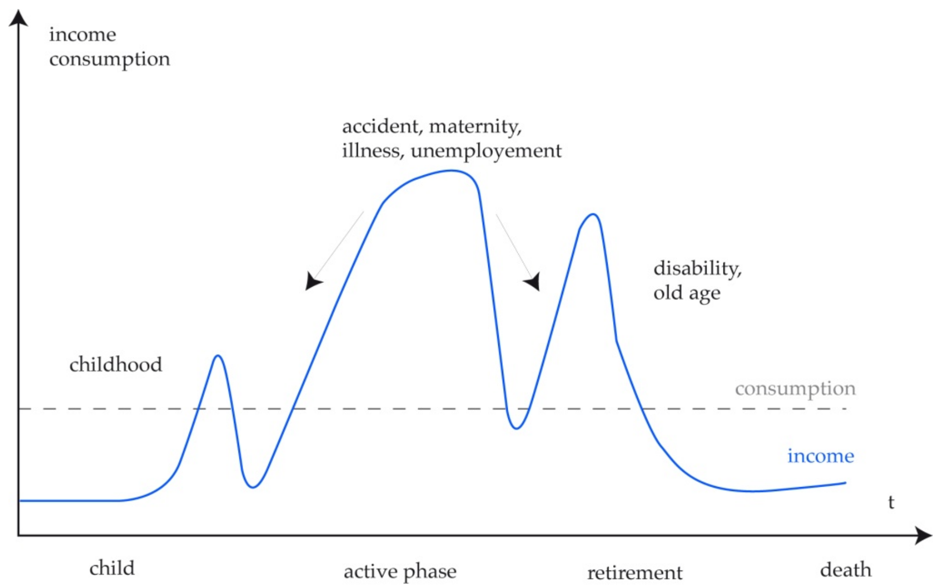
As shown in figure 1, additional capital can also be provided by financial intermediaries or market partners. Generally, such capital is provided through relational finance based on a trustful relationship between a client and her microfinance family bank or business partners. This 'family bank' – in German *(Hausbank)* – refers to a financial institution which is closely related to the family as for instance a family doctor (in German *Hausarzt*): the house bank is well informed of the client's business and eventually advises her in business and finance decisions in general terms (Nitsch 2002a: 118). Permanence and long-term confidence, based on good information and mutual benefit from this kind of relationship are considered a path to successful client relationships, building a kind of relationship-based bond between a financial institution and the microfinance customer (Nitsch 2002a: 118). This additional capital is generally provided in the form of working capital (including short-term additional working capital for special campaigns), and only eventually the financing of investment in fixed assets is important for its development. Business partners are another important source of finance, generally based on middle- or long-term business relationships or on a certain degree of mutual dependency. These business partners are usually suppliers or important clients, especially if the microenterprise produces intermediary products or has one central buyer for its products. The loan for the family's business might consist in sale on credit within the social network or *milieu*, the provision of raw materials that are charged for only after the completion of the work, the partial prepayments by the customer and financing by suppliers. The power distribution within these relationships depends on the substitutability of the respective business partner (Zattler 1997: 137f). Even though monopoly-based power positions might be exploited, many merchants or business partners still prefer cash transactions but give loans for sustaining the business relationships (Adams 1992: 14ff). This kind of finance can also be understood as arm's length market finance because it can be located between relational finance and spot-market finance (Nitsch 2002b: 54).

Another type of financing for family-led businesses, according to Nitsch's scheme, consists in 'deal financing'. It refers to taking advantage of a good business opportunity along with other venture partners. This kind of opportunity-driven business is quite typical for largely cash-operated family-led firms in markets with little transparency, for example, buying a whole truckload of cattle or raw materials or low-priced goods in a special offer to be sold quickly (Nitsch 2004: 34). If financial institutions aim at offering this kind of deal finance, flexible products and fast procedures, but also a high level of risk-taking are necessary.

Moneylenders constitute an important source for emergency finance. Hence they provide loans in the case of urgent cash needs for the business or the family members. Fast, non-bureaucratic access around the clock without the need of collateral are decisive distinctions of the moneylender services, even though the cost may be higher (Adams 1992: 9; Wildenauer 1999). One of the lessons learned from the moneylender is that quick availability of financial resources can often compensate the higher cost of external financing (Zattler 1997: 122). In financial markets with other providers of microfinance services, moneylenders would generally still be found among the emergency top-level high-risk financing. Family members might also smooth consumption with the help of consumption loans from local grocery vendors, typically the well-known corner store.

The direct relevance of financial services for the family members is linked to their life cycle and their ability to cope with risk. There are different phases during the life of each individual regarding income and consumption streams. As visualized in figure 2, there exist moments of excess income and of lack of income for covering the individual's consumption needs during their life period. Economically active individuals normally generate more income than they need to cover their own consumption needs so that they need stores of value. But because of accidents, diseases, unemployment, or underemployment, they also might not be able to do so for certain periods.[24]

*Figure 2: Consumption and income during the life cycle: Periods of excess and lack of income for covering consumption needs*




Source: Nitsch 2004: 47.

[24] That is why the pertinent ILO conventions cover exactly those situations and calamities.

Besides life-cycle-induced needs of financial management instruments, coping with risk and dealing with damage are thus considered important challenges for poor people and families. For both life-cycle-based and incident-caused periods of lack of income, there are traditional informal and formal coping mechanisms. Regarding the life cycle, the most important traditional one is family-based compensation, which works especially well for the childhood period and in modern times more often than not ceases to work well for the old-age period. Formalized systems are public or private old-age pension schemes and other forms of long-term savings and wealth storage, such as life insurance schemes. These formalized coping mechanisms are widely present in industrialized countries but rare among the low-income or poor populations of developing countries. Consequently, family-based coping mechanisms, linked to the implicit inter-generational contracts, are very important. These mechanisms are possible because the 'deficit phases' of the generation of the children and the elderly coincide with the 'surplus phase' of the middle generation (Zattler 1997: 132). Although these inter-generational contracts help the elderly generation to avoid investing in tangible assets, which is a common and risk-prone way of traditional saving in poor households, they carry important uncertainties. The current middle generation might not be able or willing to fulfill its 'liabilities'. Or changes in social and society structures might lead to changing perceptions about these responsibilities towards their parents (Zattler 1997: 133).[25]

Furthermore, emergencies or incidents can also lead to lack of income during the active phase, generally characterized by a 'surplus of income'. If the income of the breadwinner of the family is suddenly missing, the situation tends to become more difficult for the whole family, even more so in the case of covariant risk hitting the entire social network (such as extreme weather situations). The results of the family's coping strategies further depend on how much 'surplus' other active family members can earn and the savings and assets the family has accumulated or possibly reserved for emergency situations. Often, a considerable part of the family's assets are held in tangible assets like buildings, land and building material, cattle, durable consumption goods, and inventories: In family-led economies, these assets not only serve as means of production and consumption, but also as insurance substitutes, and they exert money functions (Zattler 1997: 133). However, disadvantages of this

[25] Here, the consequences of asset ownership by the elderly (like land), might however provide them with a direct income or increase the income of their family members.

coping strategy consist of the illiquidity, indivisibility, insecurity, and instability in the value of tangible assets. This points to the relevance of financial services that facilitate dealing with life-cycle events and coping with risk. Thus, 'income' and 'consumption' cover much more than monetary flows. That has to be taken into account when drawing conclusions from life-cycle analysis for banking, insurance and MFI serves in general.

Considering the embeddedness of the family's enterprise into the wider household networks and the joint management of assets, labor, and cash flows, financial services provided to these enterprises should always take into account the family members as consumers. For example, for disbursing loans, it is important to consider the family members' consumption and incomes besides the business returns in order to determine their capacity for debt. It is also crucial to have in mind the existing risks for the family members due to a lack of separation of assets and cash flows: in the case of a business failure, they will also be affected negatively. Besides, extended fungibility leads to the risk of self-exploitation in contexts of fewer alternatives for income generation. Hence, a structured analysis of business opportunities can help to identify possible risks for the clients. Furthermore, family-led enterprises might be of different sizes and shapes, ranging from self-employment up to middle-sized enterprises, thus requiring financial services of different kind and size.

Regarding the linkages of family-led economies with other modes of production, another category of financial services is relevant. Even if family-led enterprises are not or only partly monetized, many of their business partners, customers, or relatives working in the formal sector are fully monetized. Hence, financial communication with other economic actors is one of the central linkages to surrounding markets and (social) systems. Because many economic actors prefer other ways of payment than cash (for security and other reasons), access to financial services can facilitate the communication of the family-led firm with distant family members, clients or suppliers: In most countries, an account is needed in order to be able to cash a check, for instance. For the family members, both in developing and industrialized countries, the access to an account or a debit card may also be necessary for accessing governmental social assistance programs or receiving old-age pensions. Family members may also be working within the monetary and state-led economy, needing a simple account to be able to receive their wages. Accordingly, financial services may be crucial for participation in economic activities that require formalized means of financial communication, such as checks, bank transfers, mobile transfers, debit and credit cards, instead of 'hand carry' of cash. Additionally, they can facilitate the financial communication between family members living in different locations in the same country or abroad (remittances).

Considering the need for financial management for both the firm and the household of family members, the need for a wide range of differentiated financial services emerges from the theory of the family-led mode of production. It includes 'top-up' finance for business use (mostly working capital), emergency loans, means for financial communication and financial services such as savings and insurances for prevention and capital preservation for later periods (emergencies, old age) and life-cycle events. Coping with risk related to the family-members and the business is another objective of relevant financial management.

Besides the family-led mode of production, other modes of production may exist among the poor, such as indigenous economies based on common property, or herder economies. If these other modes of production are little monetized, their ´financial' management needs would be fundamentally different – or even inexistent in the case of completely unmonetized modes of production. Accordingly, the type of access to finance required within these modes of production – if at all – would be different. These little monetized modes of production are rather small in most contemporary societies and cannot be explored further within the limited scope of this paper. Here, the family-led mode of production is put into the forefront, as being articulated and interwoven with the dominant monetary and state-led economies.

## 4 Empirical evidence focusing on the demand side of microfinance

The empirical evidence on the characteristics of (potential) microfinance customers and their financial management patterns and needs is derived from three strands of literature, as compiled in Appendices 1 and 2: The main strand is Financial Diary literature as the only method focusing specifically on the study of financial management patterns of the poor. The insights from this research are complemented with insights from other qualitative approaches and representative surveys.

The use of Financial Diaries[26] is a recent research approach in which trained local researchers visit a set of households fortnightly during a year in order to record and reconstruct as detailed as possible all kinds of money management transactions along with the related value, the kinds of services or devices used, their financial partners and their purpose. Thus, the money management behavior of the participating households can be chronicled. In the case of the Financial Diaries research presented here, further qualitative research in the form of financial landscape studies has been conducted, with the aim of triangulation of information and situating the results in the context of the respective local community and economy. By tracking the households closely and for a considerable period of time, the findings are much more exact than, for instance, a survey or other research exercises because people might not remember all the details of their complex financial lives after a while or may not consider certain instances to be relevant (e.g., reciprocal gifts). So far, Financial Diary research has been conducted in Bangladesh, India and South Africa, collecting the data from over 250 households. The results have been reviewed based on the summarizing book 'The portfolios of the poor' (Collins et al. 2009), and the case-wise publications (Collins 2004, 2005, 2008; Collins & Morduch 2011; Collins et al. 2009; Porteous et al. 2008; Rutherford 2001, 2002, 2003; Ruthven & Kumar 2002). Partly, opinions of the poor on financial management have been collected alongside the Financial Diary research (cf. Rutherford 2003).

Financial landscape studies and other qualitative and participatory approaches reviewed draw a detailed picture of the informal and formal money management arrangements used and the reasons behind them in a specific context. They employ a mix of different qualitative research techniques, such as village mapping, household questionnaires, wealth ranking, focus group discussions, and in-depth and expert interviews, which are not necessarily representative. The studies reviewed comprehend Ahmed et al. 2005; Brusky & Fortuna 2002; Eversole 2003; Rutherford, Mutesasira et al. 1999; Rutherford 2000; Ruthven 2002). Furthermore, the results of participatory poverty research have been reviewed, with a special focus on findings on financial usage patterns and on the role of finance, opportunities and risk

[26] The idea of the Financial Diaries was conceived by David Hulme and managed by Stuart Rutherford in Bangladesh, by Orlanda Ruthven in India (Rutherford 2002: 8), and later by Daryl Collins in South Africa.

management in the lives of poor populations, being the most important results resumed by Krishna (2004, 2010).

Representative surveys with a special focus on financial management provide further insights into demand-side characteristics. There are a large number of representative household surveys, but only in a very few cases questions on the usage patterns of different financial services and devices are included (e.g. Stone 2005). The surveys from Sub-Sahara Africa and Indonesia presented and used herein were conducted explicitly by focusing on usage and access to financial services. Thereby, the FinScope surveys from an increasing number of African countries are a first series of representative household surveys on financial usage and access to include different kinds of providers and distinct financial management arrangements, including informal ones. The survey from Indonesia uses a new data collecting methodology by employing credit officers trained in microfinance as interviewers and combines the interview with an assessment of the debt capacity of the interviewees. This permits to collect the personal perception of the interviewees and additionally a professional evaluation of their economic situation and debt capacity. The following sources were reviewed with demand-side information from representative surveys: Collins 2005, 2008; Collins & Morduch 2011; Johnston & Morduch 2007; Porteous 2007; Porteous, Collins et al. 2008; Saavedra & Valdivia 2003; Zeller & Sharma 2000.

Even though the methodologies, regional and cultural backgrounds differed widely among these studies, shared basic patterns of financial management by low-income households emerge from the evidence studied. The countries, regions, methodologies and databases of all studies cited so far are shortly described in appendix 1, as they constitute the empirical base for the current chapter. The emerging financial management patterns will be presented and used in the next chapter to develop the theoretical approach further. Firstly, common patterns of how poor populations manage their finance are presented. The purposes of their financial management are discussed in a second step. The picture drawn is based on the analysis of the three literature strands introduced above. In appendix 2, main results are resumed, within a structure which points to the fact that different types of financial management needs are fulfilled by various, varying and combined financial instruments. In the text, only additional sources, for instance the summarizing book by Collins et al. 2009, are mentioned. It is important to take into account that the reviewed research studies refer to highly monetized contexts and locations which are not involved in war nor situated in 'fragile' or 'failed' states (cf. Collins et al. 2009: 247, and case selection of all mentioned studies).

Financial management patterns of poor populations consist in frequent and small transactions. They are managed through a complex mixture of formal, semi-formal and informal financial devices. Within the sample of Financial Diary research, the average number of different types of financial instruments during the observed year was around nine, with a minimum of four types used. The frequency of the usage of the different types of instruments differed widely among instruments and households. In general terms, most financial transactions were of low value and high frequency. Besides simple savings arrangements, for instance interest-free loans within the social network (*howlat*) experienced a particular high frequency in Bangladesh. The latter were used on average more than seven times per year per household (cf. Collins et al. 2009: 15f). The different types of financial management arrangements include formal and informal, one-to-one, and mutual financial services and devices. All households both saved and held debt. 'Financial' services might furthermore also be non-monetized, in the form of in-kind transactions, reciprocal gifts, or other substitutes for (re)payment of money like advanced raw material. Examples of the different financial management methods consist of savings at home, within the social network or groups, and in formal financial institutions. Loans might come from the social and business network and also from formal and informal lenders, like moneylenders. Within the social network, especially among neighbors mutual lending and borrowing is also very common. Insurances might be purchased from semi-formal and formal providers or obtained through schemes of mutuality and clubs, common e.g. for funeral or health insurance. In the present study, only the general types of financial devices will be discussed, without deepening on concrete local forms, for instance of group-based savings clubs. The combinations of different types of financial instruments can develop into complex financial portfolios, with as many as 16 different financial instruments used by a Bangladeshi household (Rutherford 2003: 53). The management of these portfolios is complex and time-consuming for poor populations, and often felt as burdensome. This is especially the case for populations with little formal education, which develop specific strategies to manage their complex portfolios, such as talking about it frequently (Collins et al. 2009). Many households reported that wondering about how to manage all their transactions and the repayment of debts would cause them sleepless nights (Rutherford 2002: 15).

> 'I don't like lending and borrowing—it's a mental burden' (Akkabar, household 39, Rutherford 2002: 49).
> 'I feel a lot of pain when lending or borrowing goes wrong, but I have to do it because I can't manage without' (Renu, household 19, Rutherford 2002: 49).

The part of the income which is 'financially managed' is especially high for poor households. Apart from the multitude of instruments used, the magnitude of financial management for these households applies to an important part of their incomes. Although transactions often have small values, the high frequency of financial transactions leads to the fact that a large proportion of their incomes is 'financially managed', i.e. saved, borrowed, lent, and paid or received for insuring. Relative to their net incomes, the proportion of the income being financially managed lay between 75% and 330% for Financial Diary households. In South Africa, these 'total cash turnover through [financial] instruments' rates reached even proportions of 500% (Collins et al. 2009: 16). This means that in most cases a multiple of the monthly net income of the households was 'processed' through financial instruments by the households.

As mentioned before, such an intense financial management generally does not arise from an inclination towards financial management, which is perceived as rather burdensome. Still, usage is frequent and financially very relevant compared to incomes. Interviewees from poor households explain that financial management is not a choice, but a necessity:

> 'Managing money is a problematic matter—if I didn't have to I'd prefer not to get involved in financial services' (Minara, household 15, Rutherford 2002: 49.).
> 'I don' really like having to deal with other people over money, but if you're poor, there's no alternative. We have to do it to survive' (Khadeja, Collins et al. 2009: 13).
> 'Without a way of getting money, a household wouldn't run' (Sobhan, household 31, Rutherford 2002: 49.).
> 'I feel proud when I give *howlats* (interest free loans), and shameful when I have to take them. Still, sometime I have to take them, there's no other way of managing' (Ranu, household 18, Rutherford 2002: 49).

The statements by the households point to the mere necessity of financial management, even for survival. They stress the importance to get money in order to 'keep the household running' or in order to 'manage'. Furthermore, they mention the discomfort to borrow. This necessity of financial management has also been shown by the reviewed studies: On the one hand, the incomes of poor households are generally of low value, and additionally often irregular and unpredictable. Most incomes earned as self-employed, business owner or within the informal sector are not regular. This can even be the case with salaries of employed workers or employees. In most households, incomes are 'patched together' from different sources, with the tendency of a higher diversification among the rural and poorest households (Banerjee/Duflo 2007: 151ff). Financial Diary research in rural India shows this pattern with households drawing on three to seven different types of income (Ruthven/Kumar 2002: 14). In agriculture, an additional need for financial management is due to the seasonality of incomes. On the other hand, these incomes meet regular and additionally irregular and unexpected expenditure needs. The latter might relate to emergencies or life-cycle events like a marriage or funeral. The expected and unexpected gaps between income and expenditure streams of poor households and individuals constitute the basic necessity for financial management. Hence, past or future income is used to finance current expenses. Alternative solutions consist in a mostly undesirable reduction of relevant expenditures, for instance through the reduction of food consumption or abstaining from an important religious festival or a medical treatment. Selling assets is an alternative solution, which depends however on the assets owned and the opportunity and conditions for selling them (cf. Collins et al. 2009: 13). What is somehow surprising, but highly relevant for the present topic is the fact that an inherent need for formal credit by microenterprises can not be confirmed by empirical evidence. Even though employment statistics point to large numbers of self-employed and people working in microenterprises in many developing countries[27], their profile rather resembles the one of *Wirte* or owners of largely self-financed businesses: Empirical evidence points to the fact that the dynamic or Schumpeterian entrepreneurs with an inherent need for entrepreneurial loans are a rather small group of people with a completely different profile in developing and developed countries: The large majority is highly educated, from the middle class and initiated their enterprises for self-fulfillment, not for survival (Kantis 2005a: 33, Kantis 2005b: 49f).

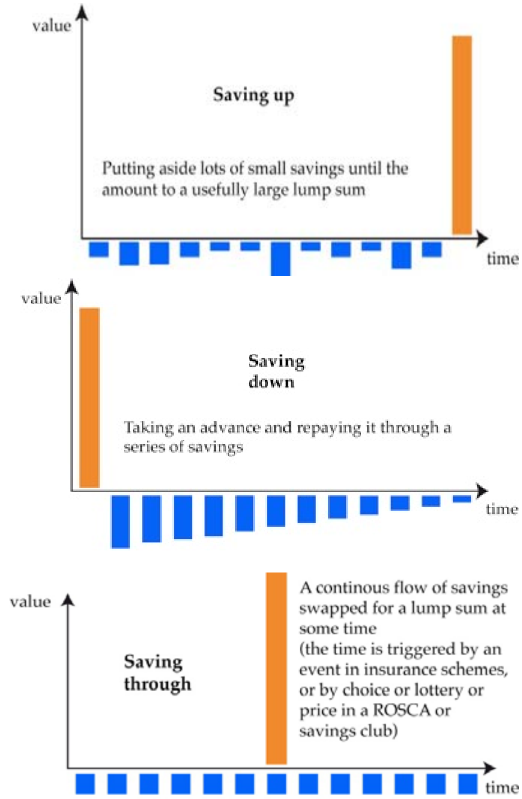
[27] For defining self-employment and microenterprise employment, detailed employment statistics are necessary: For Latin America, the percentage of unqualified self- and microenterprise employment sums up to 46.6% of the urban employed workforce in 2009. The proxy contains microenterprise employers and employees in firms with less than 6 employees, unqualified self-employment (non-technical), domestic servants and auxiliary family workers (cf. OIT 2010: 110). Another proxy consists in the occupied urban population without either health or pension insurance, adding up to 34% for Latin America in 2009 (OIT 2010: 126).

Normally not centered on an entrepreneurial credit, a large variety of financial instruments is used by the working poor to cope with expected and unexpected financial gaps. These financial instruments can be attributed to the main three categories of financial management, savings, borrowing and insurance. However, they do not serve a 'typical purpose'. On the one hand, one purpose might be resolved through different financial management tools. On the other hand, the same financial management arrangement can serve different purposes: Consumption smoothing (including larger life-cycle needs), coping with risk, taking advantage of opportunities and financial communication.

Poor households and family-led enterprises have complex financial lives and use interrelated combinations of multiple devices from informal and formal sources for savings. These can be categorized into 'saving up, saving down, and saving through'. Generally, they use short- and long-term 'saving up' (savings) and 'saving down' (borrowing) instruments. 'Saving through' arrangements are strong in specific cases, such as Rotating Savings and Credit Associations (ROSCAs) in East Africa and where insurance schemes are available and popular. Building or drawing on lump sums, as shown in figure 3 below, enables poor populations to manage the little money they have for dealing with different kinds of lump sum expenses that cannot be met from the regular or daily cash-flow or income. For coping with life-cycle events and emergencies and making use of opportunities, the central challenge is how to build lump sums to meet larger expenditures. These expenditures generally cannot be met directly out of the small and often irregular and fluctuating incomes, which often barely cover the basic needs and current consumption. Rutherford (1999: 11f, 2003: 63f) stresses the central importance of financial services and devices for building larger lump sums out of small contributions. Based on the evidence from Financial Diaries, Rutherford and the other Financial Diary authors introduce the following classification of financial instruments.

*Figure 3: Ways of building up 'usefully large lump sums'*

- 'Saving up' – building a usefully large lump sum through small payments into savings beforehand; corresponds with the general understanding of savings services.
- 'Saving down' – 'repaying' through small payments (drawn from the savings ability of the household) a usefully large lump sum after having received it; corresponds with the general understanding of credit and loan services.
- 'Saving through' – receiving a usefully large lump sum in the course of saving for it, as in a ROSCA; corresponds with the general understanding of an insurance or a savings or current-account product with access to emergency loan or overdraft.




Source: Adapted from Rutherford et al. 1999: 11f; cf. also Collins et al. 2009: 110ff.

The schematic representation of saving up, down and through points to the fact that the different methods constitute different means to one and the same end: how to build lump sums. It points to the fact that these options can be used interchangeably. The advantageousness of the different options for the person seeking to build a lump sum depend on the access, the cost and conditions of the different methods and the type, sum and time horizon of the lump sum to build. The risks depend on the agency relationships built: in the case of savings accumulated or insurance premiums paid with a third party, the risk relates to getting the money back. The importance of savings, for instance, for the money management of poor populations is generally very high to that in West Africa *susus* or money guards are even paid to take savings (Collins et al. 2009: 21). Furthermore, informal savings schemes are used despite their lack of security. FinScope data from Southern and Eastern Africa shows for instance that a considerable proportion of the families that saved used informal savings instruments, even though a high proportion of the respondents did not trust the informal groups or had even faced personal losses (Porteous et al. 2008: 9). For insurance schemes, the payout conditions and time frame might constitute additional risks. In the case of loans, the borrower first gets the money, but then however faces the task of repaying the money. Credit conditions and high and increasing interest rates can be risk factors and make the repayment more difficult, or as the following Swahili proverb states: 'Kupopa harusi kulipap matanga! - It's merry to borrow money but paying back is a sad affair—more like milking a stone!' (Dichter 2008: 9).

For very-short term consumption smoothing needs, the above schematic representation is also valid. Still, it is mostly saving up and down arrangements with much reduced time horizons and scale which are used. At the extreme, a loan might consist in only one payment and one repayment. These types of loans are mostly interest-free and based on mutual lending and borrowing within the family and among neighbors. In the case of saving up, the savings might just be reduced a little and 'topped' up again later. These short-term savings are typically self-managed and held at home. After savings at home, reciprocity-based interest-free borrowing showed the highest frequency in use among all Financial Diary households. Collins et al. (2009: 48ff) conceive the interest-free borrowing and lending for short-term consumption smoothing as a complement to savings held at home, which draws on the savings potential of the kin or neighborhood network.

Another type of financial management practiced consists of financial communication. It refers to the different transactions of transferring or receiving money. From a functional logic, financial communication is conceived here as transferring. Financial transfers can be used for receiving the payment from a regular job or a service or product delivered through a checking account or debit card. They also enable people to send and receive money to and from relatives who live separated from each other. Informal solutions, such as the hand carry of money as well as formal solutions such as checking accounts or remittances services are related financial products. If migration is understood from a point of view of a transnational family, these transfers can be considered part of the family's livelihood strategy (De Haas 2007). These family-based intertemporal contracts may aim at risk sharing, securing, smoothing and increasing income and acquiring investment capital through migration, with remittances being a central instrument to this end (Mazzucato 2009, Rapoport/Docquier 2006).

Poor populations do not only use a large variety of formal, semiformal, and especially informal financial services and arrangements, but also combine these services. They take informal loans through their kin network to pay back more expensive loans from professional providers, save money formally and informally, deposit money with shopkeepers to acquire a more expensive good in the future, or help family members to meet important expenses (Ruthven 2002: 259). In a more general way, the vast usage of a wide range of informal and formal financial instruments and devices by poor women, men, and their families shows the relevance of these small-scale money-managing services, even if many times at high monetary prices, opportunity costs, or social commitments. At the same time, the conditions of the financial management services determine how useful they can be to the users, considering that inadequate conditions[28] might, in the end, even harm the users and decrease their ability to cope with life-cycle events and emergencies instead of increasing their opportunities. *In-kind financial services* is, thus, understood as referring to alternative forms of managing the families' financial transactions, which strongly interact and often substitute for money-based financial services (e.g. family-arrangements for old-age pension and long-term savings behavior of elderly family members, Saavedra & Valdivia 2003: 42). The specific ways how households combine different services often respond to the specific challenges they meet. For instance, Financial Diary research showed that even though loans were expensive, they were used in order to save, not to touch savings or make an investment, such as the acquisition of a gold chain. Some of the borrowers even perceived high interest rates as positive, for the implicit pressure to repay fast. Furthermore, a structured repayment plan of a loan can be easier to follow than rebuilding self-controlled savings (Collins et al. 2009: 110ff).

The main purpose categories were apparent in all contexts. Consumption smoothing generally involves the most frequent and also rather small transactions. Dealing with life-cycle needs and opportunities, and coping with emergencies and risk are characterized by rather larger amounts and lower frequency. Especially dealing with emergencies can affect the households' budgets strongly.

[28] Conditions include too short or too long terms, very high prices, rigid payment schedules, insecure repayment, etc.

Consumption smoothing can be analyzed from different time horizons. The shortest time span consists in daily cash-flow management, the second in dealing with seasonal changes and the third one with life-cycle related events.[29] Firstly, there is the daily cash-flow management. In the frequent case of not only small, but also irregular and insecure incomes, it converts these fluctuating incomes into a steady stream for daily expenses, like food. The daily intermediation is less necessary if steady incomes exist, which however often carry a less frequent, but more drastic variation in the case of dismissal or similar, especially if labor laws are not enforced to protect the employees from sudden shortfalls of income (Collins et al. 2009: 29). The second level of consumption smoothing is the seasonal level. This category refers to special periods of the year, which regularly make necessary the use of money management arrangements in order to cope with the season-specific gaps between expenditure and income streams. It refers to coping with seasonality for instance of the agricultural cycle and seasonal events, like important cultural and religious festivities. Most affected by seasonality are generally farmers and related jobs and profession, such as farm laborers or traders. For farm laborers income concentrations of more than 60% of the yearly income in a four-month period have been found with Financial Diary research (Collins et al. 2009: 39). Generally the demand for daily agricultural laborers often also influences the wages earned in other sectors. Frequently, the risk of unpredictable incomes from farming adds up to the seasonality of income.

The third level of consumption smoothing consists in dealing with life-cycle needs. This includes the provision and prevention for life-cycle events. Primary life-cycle events are birth, education, marriage, birth-giving, maternity/paternity, homemaking, old age, and death. To many of these life-cycle events certain cultural practices are connected. These often involve the strongest expenditure needs, which are quite culture-specific. For instance in South Africa, the cost of funerals is generally very high due to the elaborate gatherings before, during and after funerals so that Financial Diary households spent at average around seven months' income (Collins et al. 2009: 75ff). In India or Bangladesh, financial diary research clearly points to the marriage as the financially most important life-cycle event. These high expendi-

[29] In the analysis of financial flows, general household consumption and maintenance expenditures are also subsumed under the category of life-cycle needs in Financial Diary research (cf. Collins et al 2009: 103). The classification with the three levels of consumption smoothing differs from this classification.

tures – especially if compared with the low levels of incomes of poor populations – due to religious and social practices mostly related to the live cycle often result in significant amounts which need to be spent at once. Based on representative survey data, Banerjee and Duflo (2007: 146) show that this is also the case in other developing countries.

Sustaining and tapping (business) opportunities is another main purpose category for financial management, largely characterized by a lower frequency and higher values of the financial arrangements. Thereby, the different 'opportunity uses' reported by the respondents often referred to non-business uses related to the household itself or to the family members, such as house repair or education. Among all Financial Diary respondents, the creation of personal assets was a relevant category accounting for around 20% of the lump sums spent for opportunities. Investment in business or farming consisted mainly in working capital, like stocks or inputs, and only very rarely in 'investive' capital goods (4% of the lump sums). These expenditures were especially frequent in Bangladesh and India, with nearly half of all lump sums. In South Africa, the lump sums used for business use were even too small to enter the opportunity category at all. This underlines the notion of relevance of top-ups to existing working capital, instead of large investments. Other 'opportunities', ranked by the frequency of lump sums spent, were debt repayment[30], on-lending, purchases of durable goods, and savings. Education and emigration only account for 1% of the large lump sums (Collins et al. 2009: 107ff). Accordingly, it is important to consider that the 'opportunity uses' are related directly to the family-led business and the family members. The revised empirical evidence shows that payments often considered as 'consumption' can also constitute 'investments'. Such an investment can consist in education, house repair or marrying the daughter to a wealthier family. In the long run, these investments might even have larger pay-offs than investment in the family's business (which might also fail) or, for example, in cattle (which might die) (Zeller/Sharma 2000: 156f; Ruthven/Kumar 2002: 8ff). Hence, life-cycle needs and opportunities are often interrelated.

[30] According to the classification by Collins et al. 2009 and considering that the possibility to be 'freed' from debt can also be considered as an opportunity for indebted households.

Furthermore, there is evidence which points to difficulties with opportunities related to 'entrepreneurial success' for poor populations. Poverty research with the 'stages-of-progress' method (e.g. Krishna 2010: 114ff) shows that opportunities in small-scale agriculture and microenterprises in the informal sector generally contribute to rather minor and often only temporary gains in well-being. For small farmers, this is related to numerous reasons such as the plot size and quality of the farm land. In the case of microenterprises, the level of formal qualification, technical and commercial knowledge are, in most cases, low although most microentrepreneurs are very skillful in running their businesses (Meyer-Stamer 1999: 499). However, this does not guarantee sound financial results. Empirical research points to persisting and increasing poverty, for instance among unskilled self-employed (shown for urban Mexico between 1984 and 2002 by Popli 2008: 18). Another obstacle is the type of market integration of microenterprises involved in producing or delivering simple consumption goods or simple services for local markets. Hein (1999: 411) and Meyer-Stamer (1999: 449) use the term *survival cluster* to describe the segment of mostly informal micro and small enterprises which are 'means for subsistence' of their owners.[31] Due to the lack of alternatives for income generation, market exit is generally not a viable option for microenterprises, even if competition in the relevant market segment increases or demand decreases. In situations of excess supply in local markets with relatively inelastic demand, such a setting can lead to self-exploitation, as already mentioned, and ruinous competition because most microenterprises go on undercutting each other (Meyer-Stamer 1999: 449; Felloni, Seibel et al. 2005: 9). Displacement effects among microenterprises and the related redistribution of income describe possible effects for the individual in detriment of his environment (Bateman & Sinkovic 2007: 9ff).

Mitigating risk and being able to cope with emergencies is another of the most important purposes for financial management. Emergencies can be linked both to idiosyncratic risks like health-problems, accidents, fire or theft, and covariant risks, such as natural or man-made calamities, extreme weather conditions, societal problems, riots, and so on. A large variety of strategies are employed by low-income people for coping with risk, which takes place at two different stages. The first stage refers to ex-ante arrangements of protection from income shortfalls before they occur. Through conservative production or employment deci-

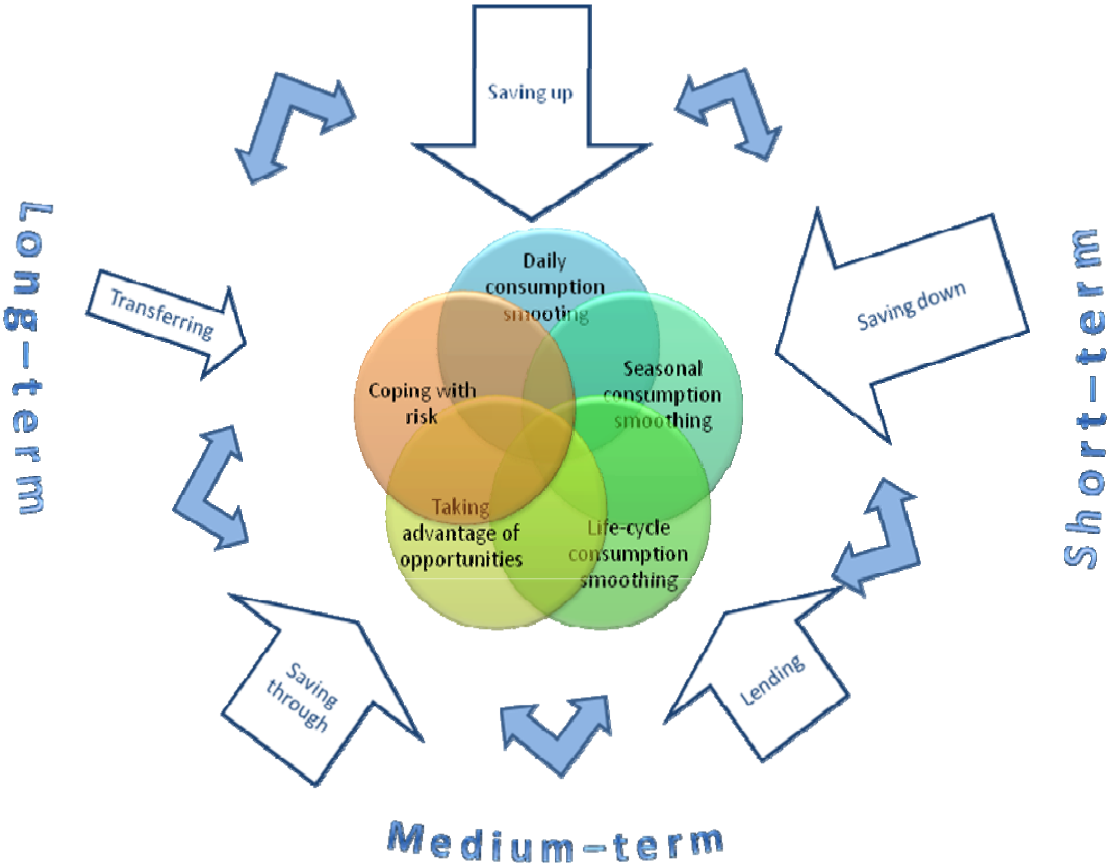
[31] Although the analytical focus of 'survival businesses' is somewhat different from the one of family-led economies, both concepts refer primarily to a similar group of households and businesses.

sions and the diversification of the family's economic activities, people plan in advance to reduce risk (Morduch 1995: 104). Examples of this strategy are mixed cropping or the use of multiple seed varieties in agriculture or strongly diversified livelihoods and incomes in the poorest households (Ruthven & Kumar 2002: 14). At the same time, the high level of poverty can also be seen as a result of a risk mitigation mechanism because production choices with lower risk are typically related to lower returns (Morduch 1995: 105). The second stage refers to ex-ante and ex-post mechanisms of dealing with an income shock. Households can level consumption with ex-ante arrangements of saving, lending, and insuring and ex-post arrangements of borrowing, decreasing consumption, and increasing labor (see Morduch 1995: 104). Regarding the financial arrangements for meeting expenditures related to shocks, emergencies, or unexpected life-cycle events, low-income households use a variety of different informal and formal money management instruments, as described before. The expenditures related to life-cycle events and emergencies (most prominently health-related issues) often consume large parts of the households' budgets during the year. In the case of Financial Diary respondents in rural Northern India, the expenditures added up to one third for life-cycle and one fifth for emergency-related expenditures (Ruthven & Kumar 2002: 16). The latter authors deal in a special way with health issues, which have been identified as one of the important use among other emergencies and had a frequent and strong effect on the households' budgets. From the perspective of long-term poverty dynamics, Krishna (2010: 69ff) even speaks about a 'health poverty trap' and Collins et al. (2009: 86ff) resume from the Financial Diary perspective that 'health problems are financial problems'. Other frequent causes of financial emergencies showed to be death and related ceremonies, unexpected income, crop or livestock losses, fire, theft, business failure, abandonment, violent crime or harassment by officials (cf. Collins et al. 2009: 68).

The title of Zeller's and Sharma's paper (2000) 'many borrow, more save, and all insure...' points to a universal need for insuring, in the general sense of the function to deal with risk. However, the financial function of mitigating and coping with risk does not need to be fulfilled by a formal insurance policy, which is a rather rare financial management strategy of poor households. Hence, it is important to acknowledge the difference between the vital financial function of insuring and different related financial management solutions, which are used for satisfying one's insuring needs. In comparison to other financial products, such as savings and loans, microinsurance might be advantageous in the case of larger risks because pooling risk is a more efficient mechanism for large-sized risks which are difficult to cope with at the household level itself (Churchill 2006b: 14). In addition, covariant risks might affect microfinance institutions and reciprocal lending and borrowing streams of an entire locality (Zeller & Sharma 2000: 162). However, having the money 'locked in' so that it cannot be used for other purposes and an additional uncertainty about the payment in case of damage, constitute an additional risk inherent to insurance. Based on a series of poverty research projects with the 'stages of progress' method, Krishna (2010) points to the fact not that being able to cope with risk is a central driver of poverty dynamics, as emergencies often cause the long-term fall of individuals and households into poverty.

Summing up, the financial management needs of poor people originate from different purposes. They encompass consumption smoothing at different time horizons, dealing with life-cycle needs and opportunities and coping with risk. The observed financial management patterns consist in complex combinations of financial arrangements of individual and group based saving, borrowing, lending, insuring and transferring. Considering their financial function, they can be resumed as saving up, down and through, as well as transferring. These complex financial management patterns correspond to the types of financial management devices which are available to poor populations. Informal financial instruments dominate the financial portfolios of most Financial Diary respondents. These services are generally better accessible and more flexible than formal financial services. Even though largely costum-made, convenient and renegotiable, they have often other disadvantages, such as unreliability, lack of privacy and transparency. Additionally to low, insecure and irregular incomes, poor populations lack adapted financial solutions to better deal with these situations. The outcome in terms of various overlapping financial management needs which are managed with the help of various financial management strategies at different time horizons can be schematized as shown in figure 4.

*Figure 4: Purposes and means of financial management of poor populations*




Source: Own design.

## 5 Developing the theoretical framework further

The empirical evidence reviewed is very rich in details about financial relationships which are not market-based. There are numerous transactions within households, among their kin and neighbor networks, often based on reciprocity. Group-based schemes also include a relational logic. Hence, empirical evidence has shown that it is fundamental to look beyond 'the' market and 'the' economic sphere and consider the societal context and the respective socio-economic formations. It is meaningful to approach development subjects from a social science perspective, as proposed by the approach of Structural Heterogeneity of different and coexisting modes of production. This is even the case if the analyzed subject is 'finance' which might seem to be a topic to be treated without much deepening into the socio-cultural context. The relevance of interest-free reciprocity-based financing within the family-led mode of production points to the interrelatedness of personal and business financial relations of poor individuals and their enterprises and households with others. The most relevant unit is the family itself, as there is generally joint accounting within the households. The kin and neighbor network provide the next cycle of interrelations, followed by relationship-based business relations, and then market-based relationships. Finally, authority-based relationships with the state and other 'authorities" beyond markets constitute a further cycle of interrelations. The relevance of the family in terms of the primary unit of management of economic and financial matters among poor populations underlines that the concept of the family-led mode of production is a meaningful approach in poverty- and development-related research.

Some of the characteristics of the demand-side as modeled by Structural Heterogeneity and the family-led mode of production can well be related to empirical observations. This link provides new insights into theory and evidence. The theoretical approach of Structural Heterogeneity points to the coexistence of the linkages between different modes of production. From the perspective of a family-led economy, this means that there are important relationships to the other types of modes of production present in the given social formation of a country or region. The observed combination of different sources of income, from self-employment, and different formal or informal income generating opportunities as well as transfers strengthen the importance of those interlinkages. Besides the incomes generated, household might also receive (formal?) governmental grants and (informal?) remittances. Taking into account that not only in the 'informal sector' most people would combine different income sources, the dualistic separation of the 'informal' versus the 'formal' world has little explanatory power. Understanding informality as only one characteristic of (however often large) parts of the economic and other activities in family-led economies, the transactions of poor populations within and among the different sectors and modes of production can be modeled in a clearer way. And the attention is shifted from the lacking bureaucratic-statistical registration to the socioeconomic logic which constitute the way most poor populations live and work. This different emphasis can help to deepen the understanding on certain development challenges. Simplified bureaucratic processes might be supportive to the development of an informal microenterprise, but they won't convert a family-led enterprise into an innovative entrepreneurial firm functioning according to the logic of the monetary economy.

This leads to the different understanding of microenterprises proposed by the analysis of the family-led mode of production in the light of Schumpeter's theory of economic development: Microentrepreneurs are not modeled as forceful entrepreneurs, but as (rather struggling) business owners or *Wirte* who run their business to satisfy the consumption needs of their families with their own resources. Certainly, they would also like to make profits and become wealthy, but only a few of them ever will. Modeling microenterprises as family-led *Wirte* instead of innovative entrepreneurs in the Schumpeterian sense is one of the fundamental differences to the euphoric notions regarding microenterprise and microfinance, as analyzed in chapter 2. It should help to understand why empirical evidence shows little changes in terms of poverty levels related to microenterprise credit. Firstly, it is not the innovative Schumpeterian entrepreneur, who is 'freed from his credit constraints' and then pushes economic growth, but a business owner with an existing business. She might expand her business a little or manage her finances somewhat more efficiently based on the loan. But the microloan generally does not create anything spectacularly new. Secondly, the microentrepreneur and her family did already manage their household finance with a complex set of instruments before they started working with a microfinance institution. That means that impacts rather relate to the substitution or complementation of previously used informal, semi-formal and probably also formal financial instruments from other sources. With finances managed at the household level and money being fungible, the newly accessed microfinance services might well be used for a completely different use than the family's business – which differs from what is often declared in microfinance programs and projects. This alternative usage of a microenterprise loan might well have a 'return', but probably in another time horizon than could be expected with the business.[32]

[32] Within the traditional view on microcredit, the 'productive use' of loans in the family's (striving) microenterprise is generally set as a criterion for beneficial use of the same. Although emergency and consumption loans might lead to increased indebtedness, they can also help to save the life of a family member (the breadwinner) or even be an 'investment' as in the case of a 'good marriage' of the daughter (Zeller & Sharma 2000: 156f). Increasing indebtedness can also happen related to productive loans.

Furthermore, family-led businesses are governed by the consumption needs of the family. Hence, cost and profit are calculated differently than in externally funded businesses in the monetary economy. This can contribute to their resilience, but might also enforce self-exploiting tendencies, especially in the absence of alternative income-generating opportunities. These characteristics stress that policies which aim at the development of microenterprise businesses need to take carefully into account their characteristics. This is even more the case, if the joint financial and economic management is considered. As modeled with the help of the balance sheet of family-led economies, assets and liabilities refer to all family members, and must often be extended to the close kin network. That means that business success or failure of a small business without limited responsibility does not only fall on the business owner, but also on the entire family. Accordingly, business insurances for mayor and relevant risks such as fire, flood or theft can be a relevant financial product. In a more general way, risk coping mechanisms are thus of fundamental importance, which is also stressed by the empirical findings. Due to the joint financial and economic management, risk management mechanisms for both the firm and the family members matter.

Financial management needs in family-led economies have been discussed for both the family-led business and the family members. The observed financial management might, however, be more interrelated and complex as conceived by the theory. Poor populations in the analyzed households did count with low incomes, which were furthermore often irregular and additionally insecure. Besides, they did not count with adequate financial services to deal with this situation, which often led to complex portfolios of interconnected and combined actions of short and long-term saving, borrowing, lending and insuring. In this sense, the empirical research sheds light on what 'joint economic and financial management' in the household means in conditions of poverty. This points to the fact that these households do not fundamentally face 'financing gaps' in terms of credit rationing, but rather 'financial management' gaps. Small irregularities of income need to be 'bridged' in order to smooth consumption, lump sums for larger expenditures generated, emergency funds raised. The exposed theory had been pointing to financial management needs with a focus on medium and long-term issues of dealing with life-cycle events, opportunities and risk. Short-term cash-flow management for consumption smoothing is considered as a dimension of financial management in family-led economies little present previously in the theory. However, it fits well into the theory and constitutes a valuable complement. This short-term financial management need is stressed by the elevated proportions of financially managed flows of money compared to the income streams of the households, conceived as 'turnover' by Collins et al. (2009). The analysis of financial flows is a valuable additional perspective on the financial management needs which can be considered another contribution to the proposed theory by Financial Diary research.

From the mode-of-production approach to the family-led economy, an additional type of financial services can be derived which has not been conceived as such in most of the empirical literature, even though related financial transactions have been mentioned: financial communication. The financial connections are established with distant members of the family or community as well as with other modes of production, mainly the state-led and monetary economy. The abstract term 'communication' helps to understand that besides financial remittances 'financial communication' might include other forms of claims and liabilities with the 'social capital' category.

Another important insight into financial management practices in family-led economies enhanced by empirical findings is the usage of different types of financial devices for different types of purposes. It is not one financial function performed by a specific type of service, but mostly different types of money management arrangements to fulfill specific financial management needs. For instance, for coping with the (frequent) situation of ill health, existing savings might be combined with a small interest-free loan from the neighbors, a top-up from the moneylender and the sale or pledging of an asset. Consequently, even though money management needs are important and difficult to be performed by a single tool, partial solutions can also help, such as exemplified for the case of health insurance by Collins et al. (2009: 90ff). The large number of different types of providers of financial services and the different types of relationship envisaged and described by the theory to show consistency with empirical findings of financial diary and related research. Besides the transactions within the family, they include reciprocity-based, relationship- and market-based financial management actively. Accordingly, formal microfinance providers are only one source among a rather wide setting of other providers which need to be taken into account in order to create synergies, if possible, instead of disrupting useful relationships.

At a first glance, some of the preferences observed regarding financial management solutions seemed to be contradicting. Financial Diary research points to the fact that on the one hand flexibility, but on the other hand rigidity and strong incentives to follow a given (re)payment schedule are desired. However, these preferences can be better understood if different time horizons of long-term financial management goals and short-term financial management needs and constraints are considered. Hence, both flexible short-term and rigid longer-term financial management tools are required. Finally, the different purposes identified by empirical research include both business and non-business use of financial instruments. This is consistent with the theory in a way that the family-led mode of production is conceived as a unity of the family members, their household(s) and their business(es). Still, a different emphasis can be gained from the theory and empirical research: It points to the primary financial management needs of the family members' consumption, including health expenditures. They are fundamentally interrelated with the business activities of the family, but might govern the financial management patterns of the families even more than the business-related transactions, which are only one purpose among others. This is due to the fact that most of the observed frequent short-term financial management serves to smooth consumption for providing the family members with their basic needs, such as food. Business-related transactions constitute only one of other rather medium-term financial needs of generating lump sums. Lump sums are also used for personal opportunities, durable consumption goods, improving housing or deal with life-cycle needs. The third and very relevant purpose category consisted in risk management, which refers mostly to personal risks, such as ill health, and not primarily to business-related risks. Still, insuring important business-related risks might provide the family with an important security. However, the financial instruments used for the financial function of insuring can also consist in savings or an emergency loan. After all, not only for the poor in developing countries insurance companies are hard to deal with from a customer perspective who might face serious difficulties for assessing the payouts due. For poor populations, the fact of having a part of their income 'bound' within the insurance might constitute an additional difficulty for using formal insurance policies.

Out of these reflections on financial management needs, the following types of financial instruments can be identified as relevant in family-led economies that are conceived as monetized because of their interrelations to the monetary and state-led modes of production (table 2).

*Table 2: Financial product categories relevant in family-led economies*

| Categories of financial instruments used in family-led economies | Key characteristics |
|---|---|
| Liquid or instant savings account with easy access/current account with savings function | - Easy access<br>- Accumulating and withdrawing small sums on a daily basis<br>- Flexible payouts, eventually in the form of emergency/season-specific loans or providing access to such loans |
| Current/savings account with remittances/ money transfer option | - Open for international and national money transfers/ remittances (most importantly receive internationally, send and receive nationally)<br>- Transfers with and without account |
| Structured long-term savings options with restricted access, possibly linked to insurance schemes | - Different terms and time horizons<br>- Incentives for long-term saving |
| Insurance especially for larger life-cycle events, other emergencies and covariant risk and/or hybrid savings products with an insurance function/linked to an insurance | - Small contributions<br>- Flexible premium payment schedules<br>- Affordable price<br>- Service provision guaranteed |
| Short-term credit with flexible repayment schedule | - Small and frequent installments possible, repayment schedule flexible, also for short-term business campaigns/needs<br>- Credit assessment on the base of the debt capacity of the family (both for household- and business-related uses) |
| Long-term credit adapted to the respective usage | - Flexible repayment schedule, adaptable to the respective use<br>- Due to longer duration, adequate cost matters strongly<br>- Credit assessment on the base of the debt capacity of the family (both for family member- and business-related uses) |
| Emergency loan facility (possibly based on the savings/current account and the savings accumulated) | - Easy and fast access for emergencies and season-specific needs |

Source: Own design.

## 6 Conclusions and implications for financial sector development

The initial hypothesis that the first hype and the later discontent regarding microfinance were related to somewhat unrealistic underlying notions could be sustained. As shown in chapter 2, the euphoric concept of microfinance clients is still prevalent modeling them as credit-constraint 'innovative entrepreneurs' and 'forceful pioneers'. These entrepreneurs are expected to grow and develop their enterprises once the credit rationing is overcome and the entrepreneur can implement her innovative ideas. Poor people have been seen as too poor to save and informal financial providers as mainly harmful. Thus, the formal loan is seen as crucial. However, these expected impacts related to microfinance become rather exaggerated, if the (potential) microfinance clients and their financial management are modeled in a different way, as elaborated in chapter 3 to 5. Expected impacts are then rather modest. The proposed theoretical frame is based on the concepts of Structural Heterogeneity and a family-led mode of production, which are considered key concepts also for the analysis of other development topics from a social science and political economy perspective. Microenterprises are then understood as existing family-led businesses which might at best be enlarged a little or managed more efficiently. Furthermore, finance is widely and actively managed at the family, household and business level even without access to microfinance institutions. It is characterized by the usage of a multitude of different financial devices with various partners that serve different financial management needs. Thereby, one financial management need may also be performed by various financial instruments, which do not always have a specific purpose. Poor households might often be constrained regarding the reliability and efficiency of the financial management solutions open to them, but they can and do always build lump sums for business or other uses on their own, using a variety of saving up, down and through strategies. An additional loan might thus – at best – complement or substitute existing financial instruments in a meaningful way. If a larger choice of adequate financial services is offered, this might *de facto* turn the financial management of poor households and individuals more convenient, secure and efficient. But a 'lonely loan' is little likely to provoke significant changes. And the opening of a bank branch at the street corner of a neighborhood does not revolutionize the livelihood of its inhabitants. However, in terms of Sen's 'development as freedom', it does offer them an additional option and thus a bit of 'development' – or even a valuable additional option in the case of the only access point in a remote location.

Changes might also be related to the presence of a different type of institution in the places where poor populations live, to the interactions in group-based or other financial arrangements or to the information provided by formal financial institutions, during the counseling interview with their clients or in additional training courses, if provided. Furthermore, considering that the family's financial management embraces all their long- and short-term consumption and investment needs, the complexity of the intervention and the likeliness of possible negative outcomes become clear: Microfinance intervenes in portfolios with mostly low, instable and unreliable income streams that meet a variety of expected and unexpected expenditure needs. For instance, adding debt might well contribute to an increasing indebtedness of a family, if the whole picture of their financial flows is not assessed thoroughly, or financially relevant unforeseen events happen. This is especially the case, when formal financial services do not foresee flexible mechanism of adaptation to the changing financial situations of the poor. For instance, such innovations are also suggested by Collins et al. (2009: 132ff) and practiced by the Grameen Bank since Grameen II (e.g. top up loans or renegotiate them in the case of emergencies). Furthermore, the notion of impact itself has to be questioned as it often seems to imply widely assumed rather than proven causal linkages between the provision of microfinance services and socioeconomic improvements. Hence, the 'demystification' of microfinance from common implicit assumptions, has been helpful in approaching the characteristics of the demand-side of microfinance and related financial management patterns. It leaves less room for the ideas of unknown 'defunct economists', as Keynes warns in his General Theory concerning assumptions which are not explicit, but still very influential. Questioning widespread assumptions and analyzing the roots of the own professional field might enable listening and learning, as Lepenies (2009) shows for development cooperation in general.

The present paper points to the potential contribution of specific microfinance services that are adapted to the observed financial management needs: Firstly, formal financial services can facilitate the current financial management of poor households turning it more efficient and less risky and burdensome. This can greatly reduce the daily burden of financial transactions these households and individuals have to manage. Secondly, adapted financial services provide tools to poor or near-poor populations to prevent their fall into (deeper) poverty. Research on poverty dynamics by Krishna et al. (e.g. 2010: 69ff, 82) points to the large numbers of people descending into poverty due to a lack of means for dealing with shocks. High-interest debt taken to cope with emergencies e.g. from moneylenders contributes to descents in a large number of cases. From these situations, the way out of poverty is difficult and not easily achieved. Hence, microfinance is unlikely to lift 'the poor' out of poverty 'wondrously', but it might provide people with better means to cope with their daily financial challenges and provide them with better tools to cope with risk. Accordingly, the contribution lies rather on preventing 'worse-being' of (potential) microfinance clients than making them rise from poverty; let alone making them well-off. Hence, it is a fundamentally different type of microfinance that should be at the centre of attention: not the widely provided entrepreneurial loans, but flexible financial services for smoothing consumption and business expenditures and dealing with risks – plus facilitating the creation of multi-purpose lump sums.

To deliver such a meaningful contribution, the financial services offered need to be adapted to the poor's financial management needs. 'Convenience, flexibility and reliability' as Collins et al. (2009: 153) frame it, remains a challenge in practice. This is to be taken seriously, since most of the world's 'microfinance institutions' are (still) 'microcredit institutions'. Taking into account that poor households already count with complex portfolios constituted by reciprocity-, relation- and market-based financial relationship, the interference with these existing systems needs to be pursued with care. Risks consist in worsening (over)indebtedness or in negative effects on existing mutual financial arrangements, like weakening bonds of solidarity of informal family or group-based services. Hence, 'truly' client-led microfinance needs to start with the analysis of the socioeconomic context and the financial management needs of local populations. Thereby, the economic and social relationships are likely to be heterogeneous and can be modeled as family-led economies or other locally relevant modes of production. Within a monetized context, the result of such an analysis might still mostly point to the need for some type of risk management devices, arrangements for consumption smoothing and the creation of lump sums. Adequate ways of delivery for these financial instruments will then, however, most likely differ and depend on the preferences of local populations and their culture. 'Truly' client-led innovations in institution building are then also likely to present rather heterogeneous and context-related new solutions.

## Bibliography

Adams, Dale W. and Von Pischke, J.D. (1992): 'Microenterprise credit programs: déjà vu', in: *Economics and Sociology World Development,* Vol. 20, No. 10, 1463-70.

Adams, Dale W., Graham, Douglas W. and Von Pischke, J.D. (eds.) (1984)*: Undermining rural development with cheap credit,* Boulder: Westview Press.

Ahmed, Shahnaz, Mbaisi, Jane, Moko, Daniel and Ngonzi, Ancent (2005): 'Health is Wealth: How Low-Income People Finance Health Care', in: *Journal of International Development,* Vol. 17, 383-396.

Armendáriz de Aghion, Beatriz and Morduch, Jonathan (2005)*: The economics of microfinance,* Cambridge, Mass. et al.: MIT Press.

Banerjee, Abhijit V. and Duflo, Esther (2007): 'The Economic Lives of the Poor', in: *The Journal of Economic Perspectives,* Vol. 21, No. 1, 141-168.

Bateman, Milford (2010)*: Why doesn't microfinance work? The fragile illusion of local neoliberalism,* London: Zed.

Biswas, Soutik (2010): *India's micro-finance suicide epidemic,* Medak, Andhra Pradesh: BBC News, 16/12/2010, http://www.bbc.co.uk/news/world-south-asia-11997571 (accessed 24/01/2011).

Brusky, Bonnie and Fortuna, João Paulo (2002)*: Understanding the demand for microfinance in Brazil: A qualitative study of two cities,* Rio de Janeiro: Banco Nacional de Desenvolvimento Econômico e Social (BNDES).

Čajanov, Aleksandr V. and Thorner, Daniel (1923/1986): *A. V. Chayanov on the theory of peasant economy,* Madison, Wis. [et al.]: Univ. of Wisconsin Press.

CGAP (2004): *Key Principles of Microfinance. Endorsed by the G8, Sea Island Summit 2004,* The Consultative Group to Assisst the Poor (CGAP), http://www.cgap.org/gm/document-1.9.2747/KeyPrincMicrofinance_CG_eng.pdf (accessed 05/12/2008).

Chambers, Robert (1997)*: Whose reality counts? Putting the first last,* Warwickshire, UK: Practical Action Publishing.

Chambers, Robert (2007): 'Poverty research: methodologies, mindsets, and multidimensionality', in: *IDS working paper,* No. 293, Sussex, UK: Institute of Development Studies (IDS).

Chenery, Hollis B. and Strout, Alan M. (1966): 'Foreign assistance and economic development', in: *The American Economic Review,* Vol. 56, No. 4 (part 1), 679-733.

Chowdhury, A. Mushtaque R., Mosley, Paul and Simanowitz, Anton (2004): 'The Social Impact of Microfinance. Introduction', in: *Journal of International Development,* Vol. 16, 291-300.

Churchill, Craig (2002): 'Trying to Understand the Demand for Microinsurance', in: *Journal for International Development,* Vol. 14, 381-387.

Churchill, Craig (ed.) (2006): *Protecting the poor. A microinsurance compendium,* Munich, Geneva: Munich Re Foundation, International Labor Office (ILO).

Collins, Daryl (2004): 'The Financial Diaries Project – Background and Methodology', http://www.financialdiaries.com/methodology.htm (accessed 29/03/2008).

Collins, Daryl (2005): 'Financial instruments of the poor: Initial findings from the Financial Diaries study', in: *Development Southern Africa,* Vol. 22, No. 5.

Collins, Daryl (2008): 'Debt and household finance: evidence from the Financial Diaries', in: *Development Southern Africa,* Vol. 25, No. 4, 469 - 479.

Collins, Daryl; Morduch, Jonathan; Rutherford, Stuart and Ruthven, Orlanda (2009): *Portfolios of the Poor: How the World's Poor Live on $2 a Day*, Princeton: Princeton University Press.

Collins, Daryl and Morduch, Jonathan (2011): 'Banking low-income populations: Perspectives from South Africa', in: Blank, R. and Barr, M. (ed.): *Insufficient Funds. Savings, assets, credit, and banking among low-income households,* New York: Russell Sage Foundation, 97-120.

Córdova, Armando (1971/1973): *Strukturelle Heterogenität und wirtschaftliches Wachstum. 3 Studien über Lateinamerika,* Frankfurt am Main: edition suhrkamp.

Córdova, Armando and Silva Michelena, Héctor (1967/1969a): *Die wirtschaftliche Struktur Lateinamerika. Drei Studien zur politischen Ökonomie der Unterentwicklung,* Frankfurt am Main: edition suhrkamp.

Córdova, Armando and Silva Michelena, Héctor (1967/1969b): 'Die wirtschaftliche Struktur der unterentwickelten Länder', in: Córdova, Armando and Silva Michelena, Héctor (ed.): *Die wirtschaftliche Struktur Lateinamerika. Drei Studien zur politischen Ökonomie der Unterentwicklung,* Frankfurt am Main: edition suhrkamp, 63-119.

De Haas, Hein (2007): 'Remittances, Migration and Social Development A Conceptual Review of the Literature', in: *Social Policy and Development Programme Paper,* No. 34, Geneva: United Nations Research Institute for Social Development (UNRISD).

De Soto, Hernando (2005/1986): *El Otro Sendero*, Lima: Orbis Ventures S.A.C.

Easterly, William (1999): 'The ghost of financing gap: Testing the growth model used in the international financial institutions', in: *Journal of Development Economics,* Vol. 60, 423-438.

Easterly, William (2007): 'Inequality does cause underdevelopment: Insights from a new instrument', in: *Journal of Development Economics,* Vol. 84, No. 2, 755-776.

Eversole, Robyn (2003): 'Help, Risk and Deceit: Microentrepreurs Talk about Microfinance', in: *Journal of International Development,* Vol. 15, 179-188.

Felloni, Fabrizio; Seibel, Hans Dieter and Cornejo, Andrés (2005): 'Mainstreaming Grameen Banking: How Producers Bank Combines Sustainability with Outreach to the Poor in the Philippines', in: Malcolm Harper & Sukhwinder S. Arora (eds.): *Commercial Banks in Microfinance,* New Delhi: TERI Press.

Fiebig, Michael, Hannig, Alfred and Wisniwski, Sylvia (1999): *Savings in the context of microfinance - state of knowledge,* Eschborn: Gesellschaft für technische Zusammenarbeit (GTZ); Consultative Group to Assist the Poorest (CGAP) Working Group on Savings Mobilization.

Frediani, Alexandre Apsan (2007): 'Amartya Sen, the World Bank, and the redress of urban poverty: a Brazilian case study', in: *Journal of Human Development,* Vol. 8, No. 1, 133-152.

Galor, Oded (2009)*: Inequality and economic development. The modern perspective,* Cheltenham et al.: Elgar.

Geiger, Helmut (1994)*: The German Savings Banks Organisation,* Stuttgart: Deutscher Sparkassenverlag.

Gramsci, Antonio (1991 etc.): *Gefängnishefte* (10 vol.), Hamburg: Argument-Verlag.

Green, Duncan (2008)[Repr]*: From poverty to power,* how active citizens and effective states can change the world, Oxford: Oxfam Internat.

Hart, Keith (1973): 'Informal income opportunities and urban employment in Ghana', in: *The Journal of Modern African Studies,* Vol. 11, No. 1.

Hart, Keith (2008): 'Between bureaucracy and the people: a political history of informality', in: *DIIS Working Paper,* No. 27 (2008), Copenhagen: Danish Institute for International Studies (DIIS).

Hein, Wolfgang (1999): 'Versunkenes Land? Globalisierung, Archipelisierung und Perspektiven für marginalisierte Räume', in: *Nort-Süd aktuell,* Vol. XIII, No. 3, 403-417.

Hirschman, Albert O. (1981): 'A Generalized Linkage Approach to Develpoment, with Special Reference to Staples', in: Hirschman, Albert O. (ed.): *Essays in Trespassing. Economics to politics and beyond,* Cambridge et al.: Cambridge University Press, 59-97.

Hohlstein, Michael; Pflugmann-Hohlstein, Barbara; Sperber, Herbert and Sprink, Joachim (2003)[2]*: Lexikon der Volkswirtschaft,* München: Deutscher Taschenbuch Verlag.

Hollis, Aidan and Sweetman, Arthur (1997): 'Complementarity, competition and institutional development: the Irish Loan Funds through three centuries', in: *EconWPA series in Economic History,* No. 9704003, http://ideas.repec.org/p/wpa/wuwpeh/9704003.html (accessed 09/09/2009).

Hulme, David (2000): 'Impact Assesssment Methodologies for Microfinance: Theory, Experience and Better Practice', in: *World Development,* Vol. 28, No. 1, University of Manchester: Institute for Development Policy and Management, 79-98.

Hulme, David and Shepherd, Andrew (2003): 'Conceptualizing Chronic Poverty', in: *World Development,* Vol. 31, No. 3, 403-423.

ILO (1972): 'Incomes, Employment and Equality in Kenya,', in: *Journal of Modern African Studies,* Vol. 11, No. 3, Geneva: International Labor Office (ILO), 61-89.

ILO (2002)*: Men and Women in the Informal Economy: A Statistical Picture,* Geneva: International Labor Organization (ILO).

Johnston Jr, Don and Morduch, Jonathan (2007): *The Unbanked: Evidence from Indonesia,* Financial Access Initiative Working Paper, http://www.financialaccess.org/research/research-papers.html (accessed 01/04/2008).

Kane, Abdoulaye (2002): 'Financial arrangements across borders: women's predominant position in popular finance, from Thilogne and Dhakar to Paris. A Senegalese case study', in: Lemire, Beverly, Pearson, Ruth and Campbell, Gail Grace (ed.): *Women and credit: researching the past, refiguring the future,* Oxford: Berg Publishers.

Kantis, Hugo (2005a): 'Dynamic Enterprises in Latin America', in: Kantis, Hugo; Angelelli, Pablo and Moori Koenig, Virginia (eds.): *Developing Entrepreneurship. Experience in Latin America and Worldwide,* Washington, D.C.: Inter-America Development Bank (IADB), 29-45.

Kantis, Hugo (2005b): 'The entrepreneurial process: Main contrasts between Latin America and East Asia, Italy and Spain', in: Kantis, Hugo; Angelelli, Pablo and Moori Koenig, Virginia (eds.): *Developing Entrepreneurship. Experience in Latin America and Worldwide,* Washington, D.C.: Inter-America Development Bank (IADB), 47-60.

Karlan, Dean and Goldberg, Nathanael (2007): 'Impact evaluation for microfinance: Review of methodological issues', in: *Doing Impact Assessment,* No. 7, Washington, D.C.: World Bank, http://www.financialaccess.org/research/research-papers.html (accessed 25/03/2011).

Krahnen, Jan Pieter and Schmidt, Reinhard H. (1984)*: Development Finance as institution building. A new approach in poverty-oriented banking,* Boulder, San Francisco, Oxford: Westview Press.

Krishna, Anirudh (2004): 'Escaping poverty and becoming poor: who gains, who loses, and why?', in: *World Development,* Vol. 32, No. 1, 121-136.

Krishna, Anirudh (2010): *One illness away. Why people become poor and how they escape poverty*, Oxford: Oxford University Press.

Lepenies, Philipp H. (2004): 'Exit, voice, and vouchers: Using vouchers to train microentrepreneurs - observations from the Paraguayan voucher scheme', in: *World Development,* Vol. 32, No. 4, 713-724.

Lepenies, Philipp H. (2009): 'Lernen vom Besserwisser: Wissenstransfer in der "Entwicklungshilfe" aus historischer Perspektive', in: Büschel, Hubertus and Speich, Daniel (ed.): *Entwicklungswelten - Globalgeschichte der Entwicklungszusammenarbeit,* Frankfurt am Main [u.a]: Campus-Verl, 33-59.

Marx, Karl (1857/1858): 'Ökonomische Manuskripte 1857/1858', in: *Marx-Engels-Werke (MEW),* Berlin, Vol. 42.

Marx, Karl (1859/1977)*: A Contribution to the Critique of Political Economy,* Moscow: Progress Publishers.

Marx, Karl (1967/1987/1995)*: Capital. A Critique of Political Economy,* Moscow: Progress Publishers.

Mayoux, Linda (2000): 'Microfinance and the empowerment of women: A review of the key issues', *Social Finance Unit Working Paper,* Vol. 23, Geneva: ILO.

Mazzucato, Valentina (2009): 'Informal insurance arrangements in Ghanaian migrants' transnational networks: The role of reverse remittances and geographic proximity', in: *World Development,* Vol. 37, No. 6, 1105-1115.

Meyer-Stamer, Jörg (1999): 'Strategien lokaler/ regionaler Entwicklung: Cluster, Standortpolitik und systemische Wettbewerbsfähigkeit', in: *Nort-Süd aktuell,* Vol. 13, No. 3, 447-461.

Mix Market (2011): Mix Market data, http://www.mixmarket.org/mfi (access: 24/02/2011).

Mix Market (2010): 2009 MFI Benchmarks, http://www.themix.org/publications/mix-microfinance-world/2010/10/2009-mfi-benchmarks (access: 24/02/2011).

Nitsch, Manfred (1993): 'Credit Programmes for the Poor: Evaluations, Myths and Lessons for the Future', *Revised paper for the International Conference on ''Financial Empowerment for Poor People and Poor Communities in South America, North America and Europe'', February 5-8, 1993,* Loccum: Evangelische Akademie.

Nitsch, Manfred (1995): 'Geld und Unterentwicklung: Der Fall Lateinamerika', in: Schelkle, Waltraud [Hrsg.] and Nitsch, Manfred [Hrsg.] (ed.): *Rätsel Geld,* Marburg: Metropolis-Verl., 77-105.

Nitsch, Manfred (2002a): 'Strukturelle Heterogenität in Lateinamerika und Osteuropa. Vom Nutzen des Produktionsweisenansatzes für die Analyse von Akkumulation, (Unter-)Enwicklung und Transformation sowie für den Aufbau von Mikrofinanz-Institutionen', in: Schorkowitz, Dittmar (ed.): *Transition - Erosion - Reaktion. Zehn Jahre Transformation in Osteuropa,* Frankfurt am Main: Peter Lang - Europäischer Verlag der Wissenschaften, 91-129.

Nitsch, Manfred (2002b): *Glaspaläste und Mikrofinanz,* Beiträge zur Entwicklungsfinanzierung, Frankfurt am Main; Berlin: Lang.

Nitsch, Manfred (2003): 'Evaluationskriterien für Mikrofinanzinstitutionen: Finanzielle Nachhaltigkeit, Erreichung ärmerer Zielgruppen und Einkommenswirkungen. Korreferat zum Beitrag von Manfred Zeller', in: Ahrens, Heinz (ed.): *Neuere Ansätze der theoretischen und empirischen Entwicklungsforschung, Schriften des Vereins für Socialpolitik,* Vol. 297, Berlin: Duncker & Humblot, 27-38.

Nitsch, Manfred (2004): 'Finanzas Solidarias: Panorama Internacional', *Finanzas Solidarias e Inversión Etica,* Montevideo: Instituto Goethe/ Editorial Nordan-Comunidad, 31-41 and 46-48.

Nitsch, Manfred and Diebel, Frank (2008): 'Guanxi Economics: Confucius meets Lenin, Keynes, and Schumpeter in Contemporary China', in: *Intervention. European Journal of Economics and Economic Policies*, vol. 5, no.1, 77-104

Nohlen, Dieter and Nuscheler, Franz (eds.) (1993)[3]*: Handbuch der dritten Welt,* Bonn: Dietz.

OIT (2010)*: Panorama Laboral 2010 América Latina y el Caribe,* Lima: Organización Internacional del Trabajo (OIT), Oficina Regional para América Latina y el Caribe.

Popli, Gurleen K. (2008): 'Trade Liberalization and the Self-Employed in Mexico', *WIDER Research Paper,* No. 2008/ 05, Helsinki: United Nations University - World Institute for Development (UNU-WIDER).

Porteous, David (2007)*: Financial Service Access and Usage in Southern and East Africa: What do Finscope Surveys Tell Us?,* Vorna Valley, South Africa: FinMark Trust.

Porteous, David, Collins, Daryl and Abrams, J. and Toniatti, D. (2008)*: Segmenting the markets for savings among poor across countries,* Report prepared for the Bill and Melinda Gates Foundation, Seattle.

Rapoport, Hillel and Docquier, Frédéric (2006): 'The Economics of Migrants' Remittances', in: Kolm, S. and Ythier, Jean Mercier (ed.): *Handbook of the Economics of Giving, Altruism and Reciprocity,* Vol. 2, Amsterdam a.o.: Elsevier, 1135-1198.

Rhyne, Elizabeth and Otero, Maria (1992): 'Financial services for microenterprises: Principles and institutions', in: *World Development,* Vol. 20, No. 11, 1561-1571.

Riese, Hajo (1989): 'Geld, Kredit und Vermögen', in: Riese, Hajo and Spahn, Heinz-Peter (eds.): *Internationale Geldwirtschaft. Studien zur monetären Ökonomie, Band 2,* Regensburg: Transfer-Verlag, 1-59.

Robinson, Marguerite S. (2001)*: The Microfinance Revolution: Sustainable Finance for the Poor,* Washington, D.C.: The World Bank/ Open Society Institute.

Rosenberg, Richard (2010): 'Does microcredit really help poor people?', in: *CGAP Focus Note,* Vol. 59 (January 2010).

Rutherford, Stuart (2000): 'Raising the Curtain on the 'Microfinancial Services Era'', in: *CGAP Focus Note,* Vol. 15.

Rutherford, Stuart (2001)*: The Poor and Their Money,* New Delhi: Oxford University Press.

Rutherford, Stuart (2002): 'Money Talks: Conversations with Poor Households in Bangladesh about Managing Money', in: Institute for Development Policy and Management (ed.): *Finance and Development Research Programme Working Paper Series,* Vol. 47, Manchester: University of Manchester.

Rutherford, Stuart (2003): 'Money Talks Conversations with Poor Households in Bangladesh about Managing Money', in: *Journal of Microfinance,* Vol. 5, No. 2, 43-75.

Rutherford, Stuart, Mutesasira, Leonard, Sampangi, Henry, Mugwanga, Harry, Kashangaki, John, Maximambali, Florence, Lwoga, Christopher, Hulme, David et al. (1999)*: Savings and the Poor. The Methods, Use and Impact of Savings by the Poor in East Africa,* Kampala: MicroSave-Africa.

Ruthven, Orlanda (2002): 'Money Mosaics: Financial Choice and Strategy in a West Delhi Squatter Settlement', in: *Jounal of International Development,* Vol. 14, 249-271.

Ruthven, Orlanda and Kumar, Sushil (2002): 'Fine-Grain Finance: Financial Choice and Strategy Among the Poor in Rural North India', in: Institute for Development Policy and Management (ed.): *Finance and Development Research Programme Working Paper Series,* Vol. 57, Manchester: University of Manchester.

Saavedra, Jaime and Valdivia, Martín (2003): 'Estructura del hogar y ahorro durante el ciclo de vida. Evidencia en las cohortes peruanas', *Serie Documento de Trabajo,* Vol. 42, Lima: Grupo de Análisis para el Desarrollo (GRADE).

Said, Edward W. (1978)*: Orientalism,* Hopkinton, Massachusetts: Vintage Books.

Schmidt, Reinhard H. (2010): 'Microfinance, Commercialization and Ethics,' *Poverty & Public Policy,* Vol. 2, No. 1.

Sen, Amartya (1999): *Development as Freedom*, Oxford: Oxford University Press.

Schumpeter, Joseph (1911/1997)[9]*: Theorie der wirtschaftlichen Entwicklung. Eine Untersuchung über Unternehmergewinn, Kapital, Kredit, Zins und den Konjunkturzyklus,* Berlin: Duncker & Humblot.

Schumpeter, Joseph A. (1942/1987)[6]*: Kapitalismus, Sozialismus und Demokratie,* Tübingen.

Scott, James C. (1987)[9. pr]*: Weapons of the weak. Everyday forms of peasant resistance*, New Haven, Conn. et al.: Yale Univ. Press.

Seibel, Hans Dieter (2003): 'History matters in microfinance', in: *Small Enterprise Development,* Vol. 14, No. 2 (June 2003), 10-12.

Seibel, Hans Dieter (2005)*: Does History Matter? The Old and the New World of Microfinance in Europe and Asia,* National University of Singapore: Asia Research Institute, Department of Economics, and Department of Sociology.

Shimeles, Abebe, Rebei, Nooman and Ndikumana, Léonce (2009): 'Computations of development financing gaps: Some conceptual and empirical issues', in: *Development Research Brief,* No. 6 (August 2009), African Development Bank (AfDB).

Sievers, Merten and Vandenberg, Paul (2007): 'Synergies through Linkages: Who Benefits form Linking Micro-Finance and Business Development Services?', in: *World Development,* Vol. 35, No. 8, 1341-1358.

Silva Michelena, Héctor (1967/1969): 'Beschäftigungsprobleme und sozio-ökonomische Struktur in einem Öl-Land', in: Córdova, Armando and Silva Michelena, Héctor (eds.): *Die wirtschaftliche Struktur Lateinamerika. Drei Studien zur politischen Ökonomie der Unterentwicklung,* Frankfurt am Main: Suhrkamp, 42-62.

Singer, Paul (2000): 'Economia solidária: um modo de produção e distribuição', in: Singer, Paul and de Souza, André Ricardo (ed.): *A economia solidária no Brasil. A autogestão como resposta ao desemprego,* São Paulo: Editora Contexto, 11-28.

Spivak, Gayatri Chakravorty (2008)*: Can the subaltern speak?,* Postkolonialität und subalterne Artikulation, Wien: Turia + Kant.

Ströh, Christiane (2010a)*: How to assess pro-poor financial sector development: A comprehensive framework applied to the case of Peruvian microfinance,* doctoral dissertation at the School of Business & Economics of the Free University of Berlin, Berlin: Universitätsbibliothek der Freien Universität Berlin, http://www.diss.fu-berlin.de/diss/receive/FUDISS_thesis_000000019090 (accessed 25/05/2011).

Ströh, Christiane (2010b): 'Wirtschaft von unten: Solidarische Ökonomie in Brasilien als ein Weg aus der sozioökonomischen Misere?', in: Costa, Sérgio; Kohlhepp, Gerd; Nitschack, Horst and Sangmeister, Hartmut (eds.): *Brasilien heute,* Berlin: Ibero-Amerikanisches Institut Preussischer Kulturbesitz, 415-428.

Toaff, Ariel (2004): 'Toaff, Ariel. 2004. Jews, Franciscans, and the First monti di Pieta in Italy (1462-1500)', in: McMichael, Steven J. and Myers, Susan E. (ed.): *Friars and Jews in the Middle Ages and Renaissance,* Leiden: Koninklijke Brill, 239–254.

UN (1951)*: Measures for the Economic Development of Under-Developed Countries: Report by a Group of Experts Appointed by the Secretary-General of the United Nations,* New York: United Nations (UN), Department of Social and Economic Affairs.

UN (2005): *International Year of Microcredit 2005,* United Nations (UN), http://www.yearofmicrocredit.org/ (accessed 25/03/2011).

Vogel, Robert C. (1984): 'Savings Mobilization: The Forgotten Half of Rural Finance', in: Adams, Dale W., Graham, D.H. and Von Pischke, J.D. (eds.): *Undermining Rural Development with Cheap Credit*, Boulder: Westview Press, 248-265.

Von Pischke, J.D. and Adams, Dale W. (1980): 'Fungibility and the Design and Evaluation of Agricultural Credit Projects', in: *American Jounal of Evaluation of Agricultural Projects*, Vol. 62, No. 4, 719-726.

Wallerstein, Immanuel (1974, 1980 and 1989): *The Modern World-System*, Vol. I-III, New York/London: Academic Press.

Wasmuth, Ulrike C. (2002): 'Familie/ Familienpolitik', in: Nohlen, Dieter and Schulze, Rainer-Olaf (eds.): *Lexikon der Politikwissenschaft. Theorien. Methoden. Begriffe*, Vol. 1, München: Verlag C.H. Beck, 221-222.

Wittvogel, Karl August (1957)*: Oriental despotism: a comparative study of total power*, New Haven: Yale University Press.

Yunus, Muhammad (2006): *Nobel Lecture, The Nobel Peace Prize 2006*, Oslo, December 10, 2006, http://nobelprize.org/nobel_prizes/peace/laureates/2006/yunus-lecture-en.html (accessed 27/05/2011).

Yunus, Muhammad (1994): *Credit is a Human Right*, Speech delivered in Colombo on March 22, 1994, at the Central Bank of Sri Lanka, http://www.grameen-info.org/index.php?option=com_content&task=view&id=323&Itemid=275&limit=1&limitstart=4 (accessed 27/05/2011).

Zattler, Bernd A. (1997)*: Institutionalistische Theorie der Entwicklungsfinanzierung. Eine kritische Rekonstruktion und Erweiterung neoinstitutionalistischer Argumente*, Berlin: Duncker & Humblot.

Zeller, Manfred and Sharma, Manohar (2000): 'Many borrow, more save, and all insure: implications for food and micro-finance policy', in: *Food Policy*, Vol. 25, No. 2, 143-167.

Appendix 1: Overview of analyzed studies on usage patterns of financial devices

| Source | Country/region | Short description of database | Short description of methodology |
|---|---|---|---|
| *Financial Diaries* | | | |
| Rutherford 2001, 2002, 2001 | Bangladesh: urban and rural households | Qualitative data from 42 low-income Bangladeshi households that participated in the bi-monthly documentation of their financial transactions. The data were collected from late 1999 to late 2000. | Financial diaries constructed on the basis of data recorded in bi-monthly visits by skilled local researchers during an entire year. Each transaction of managing money was documented along with its values, the type of financial service or device used, the type of provider, and the reason for the transaction. |
| Ruthven and Kumar 2002 | India: rural North India | Qualitative data from 68 households: 28 Financial Diary respondents who responded in bi-monthly interviews and 40 qualitative snapshot case studies from mid 2000 until late 2001. | Recording of all kinds of financial transactions, including in-kind transactions and reciprocal gifts, producing longitudinal profiles of the diary respondents and one-time overviews of financial services and devices used by the other respondents, with responses clustered into four income groups (better-off farmers, medium farmers, traders and self-employed, and poor farmer laborers) |
| Collins 2004, 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 | South Africa: urban and rural households | Qualitative Financial Diary data from 52 urban, 60 semi-urban, and 54 rural households: poor black households with different dwelling types, data collected bi-monthly from late 2003 to late 2004. | Research methodology based on the approach by Rutherford, and wealth and likelihood rankings by Ruthven. New elements included to foster understanding of shocks, household dynamics, continuous cash flow, indebtedness, and financial management in general (see Collins 2004: 10ff). |
| *Financial snapshot studies, financial landscape studies and other approaches for qualitative research* | | | |
| Brusky and Fortuna 2002 | Brazil: urban-low income population in Sao Paulo and Recife | Qualitative data from focus group research with 300 participants in 2 cities, in different regions of Brazil | An adaption of the qualitative methods developed by MicroSave Africa 'Market Research for Microfinance', combining Participatory Rapid Appraisal (PRA) and focus groups, adapted to the application in microfinance used with the following research instruments applied: life-cycle, seasonality, and tendencies analysis, diagram and matrix of financial services, and client preferences in 35 group exercises with about 300 participants (Brusky & Fortuna 2002: 10ff). |
| Ahmed et al. 2005 | Kenya: urban low-income population of Nairobi | Qualitative data from participatory research in urban low-income communities in Nairobi, collected by researchers from the health care financing project by K-Rep and AAR Health Services | Differentiated use of qualitative methods developed by MicroSave Africa based on the results of secondary data searches and a brief quantitative survey: 40 participatory qualitative group research exercises (focus group discussions, Venn diagrams, different kind of rankings, and maps). |
| Rutherford et al. 1999 | Kenya, Uganda, and Tanzania: urban and rural low-income population | Quantitative and qualitative data from the three countries collected in April and May 1999 by a team of nine researchers making up different teams for each country. | Qualitative approach using expert interviews with MFI managers and staff; in-depth interviews and focus group discussions with clients, former clients, and nonclients of participating MFIs; and different Participatory Rapid Appraisal (PRA) techniques (seasonality calendars, wealth ranking, life-cycle lump sum analysis, money management systems matrices). |
| Ruthven 2002 | India: squatter settlement near Delhi | Qualitative data from surveying both users and service providers. | Qualitative approach with a wide understanding of financial services and devices with the aim of capturing interrelations between relationship-based or reciprocity-based financial devices and professional financial services. |
| Eversole 2003 | Bolivia: urban micro-entrepreneurs of Sucre | Qualitative data from anthropological fieldwork in Bolivia during the period from 1994 to 1997. | Anthropological research exploring the relationships between borrowers and microfinance institutions, focusing on the perception of the MFIs and their services to the clients. |
| *Representative household surveys on financial usage and access* | | | |
| Saavedra and Valdivia 2003 | Peru: representative households | Four rounds of the national household survey on living standards between 1985 and 1997 (*Encuesta Nacional de Hogares sobre Medición de Niveles de Vida*, ENNIV) | Econometric analysis, construction of an alternative panel following each cohort over time, used for studying household and intergenerational savings patterns. |

| | | | |
|---|---|---|---|
| Porteous 2007, FinScope data, Collins 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 | Botswana, Namibia, South Africa, Kenya, Tanzania, Uganda, Zambia: representative household surveys | Limited comparability among questionnaires, due to adaptations to local ways of providing finance. 22,400 respondents participated in seven surveys, representing 91 million adults (over the age of 16) in the respective countries. | Samples drawn from the national household samples in order to insure representation. Questions on usage of formal, informal and semiformal financial services included. In order to assess access to formal financial services, questions on the reasons for non-usage included. For producing comparability to the cross country analysis of Porteous (2007), categories constructed for assigning responses of different questions to these categories. |
| Johnston and Morduch 2007 | Indonesia: representative survey from six provinces (of 30 provinces) | Data collected in six provinces, from 1438 respondents; the respective provinces represent 20.6 million households and 85 million people. | Within the regions, sub regions were selected at random. Respondents were chosen at random from local censuses. Finally, the results were weighted and standard errors corrected in order to reflect the stratification by province and district (Johnston & Morduch 2007: 6). |
| Zeller and Sharma 2000, surveys by International Food Policy Research Institute (IFPRI) and partners | Household surveys in Asian and African countries, only representative surveys cited | Database contains information from ten country studies: Only surveys for China, Egypt, and Pakistan are representative, the evidence from Bangladesh, Cameroon, Ghana, Madagascar, Malawi, and Nepal is not. | Research focuses on deeper understanding of the livelihood situations and strategies of poor households, with a focus on rural households. Besides data about the situation, nutrition, health, education, occupation, etc., of the respective households, questions about financial management practices included, referring to formal and informal financial instruments. Possible errors due to sample selection bias indicated in research report. |

Source: Own elaboration.

Appendix 2: Overview of studies about usage patterns and their main results

| Category | Purpose of financial service/device ('financial function') | Kind of financial services, devices and arrangements used | Source[33] |
|---|---|---|---|
| General findings on financial management | Manage money in order to meet necessary expenditures with non-synchronic income | Huge range of financial services is used for financial management, which is done often and generates important flows. | Rutherford 2001, 2002, 2003 |
| | Cope with different purposes, showing ability to deal with life-cycle events and emergencies and take advantage of opportunities | The different financial services and devices can be understood as different forms of saving in terms of accumulating small amounts of income to build a larger lump sum. | Rutherford 2001, 2002, 2003 |
| | Cope with different kind of purposes | Most of the lump sums are constructed by saving down, but differences can be observed among purpose categories. | Rutherford 2001, 2002, 2003 |
| | Manage money according to the purpose category | Mix of informal and formal financial services and devices. | Ruthven and Kumar 2002 |
| | Cope with life-cycle events and emergencies and make use of opportunities | Wide range of financial services and devices used for constructing lump sums. | Rutherford et al. 1999 |
| | All kinds of purpose categories need financial management | Wide range of financial services and devices used for creating lump sums, with a strong dominance of lending devices for making purchases on credit. | Brusky and Fortuna 2002 |
| | All kinds of purpose categories need financial management | Poor respondents indicated having complex financial lives, using an average portfolio of 17 different financial instruments over the year. | Collins 2004, 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| | Different kinds of purposes, but one financial product class dominating | Borrowing can be considered as a generalized answer to financial needs in Brazil. | Brusky and Fortuna 2002 |
| | Formal and informal borrowing leads to indebtedness on the part of a significant part of the households | Financing mix taken to meet urgent expenses leads to indebtedness for a considerable part of the population. | Collins 2004, 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| Saving up down and through | Insuring as a financial function is one of the most widely used and valued for coping with frequent life-cycle and emergency expenditures | Insuring is one of the mostly widely used financial functions, generally realized through 'saving down' but also through 'saving up' and 'saving through'; very little with risk pooling products. | Zeller and Sharma 2000 |
| | Saving for all purpose categories | Saving arrangements ('saving up'). | Rutherford 2001, 2002, 2003 |
| | Saving for different purposes | Saving with formal financial service providers remains with the better off groups ('saving up'). | Ruthven and Kumar 2002 |
| | Savings for different purposes | Formal and informal savings long- and short-term savings mechanisms are widely used. | Porteous 2007, FinScope data, Collins 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| | Long-term saving for taking advantage of opportunities and planning for life-cycle and emergency-related expenses | Savings accounts at banks are used for long-term savings, which do not provide a possibility for saving small amounts constantly. | Ruthven 2002 |
| | All kinds of purposes | Borrowing and saving—many savers do not borrow even though creditworthy | Johnston and Morduch 2007 |

[33] For all cases where Financial Diary research is reported, Collins et al. (2009) could be added for mentioning the previously published evidence directly or indirectly.

| | | | |
|---|---|---|---|
| | All kinds of purposes | Because reciprocal lending is based on saving, it can also be understood as 'saving through' | Rutherford et al. 1999 |
| | Lending for different purposes (taking advantage of opportunities, smoothing consumption, etc.) | The most widely and frequently used financial borrowing devices are informal reciprocity- or relationship-based ones, usually without interest. The loans come from different sources issuing loans of similar size and frequency and usually for a typical purpose ('saving down and saving through'). | Ruthven and Kumar 2002 |
| | Linked lending and borrowing for different purposes | The most important financial devices are either reciprocity- or relationship-based or largely interest free ('saving through'). Private loans taken on interest are another important category ('saving down'). | Ruthven 2002 |
| | All kinds of purposes | Strong preference of 'saving down' services. | Brusky and Fortuna 2002 |
| | All kinds of purposes | Choice of the money management services for 'saving down' is made according to the local perceptions of these as well as the kind and ease of availability (even though advantages of other services are recognized). | Brusky and Fortuna 2002 |
| | Loans given with a specified 'microenterprise' purpose used for all categories | Microenterprise loans from MFIs | Rutherford et al. 1999 |
| Consumption smoothing, seasonality & life-cycle (from short to longer term) | Very short-term saving for leveling consumption on a daily basis/'current-account' function | Different kind of financial arrangements used, but saving at home still dominant, although risks are mentioned by the respondents. | Ruthven 2002, Collins et al. 2009 |
| | Leveling short-term gaps for consumption | Ample usage of interest-free loans within the social network, based on lending and borrowing | Rutherford 2001, 2002, 2003 |
| | Seasonal events and celebrations | Numerous forms of 'saving down' arrangements, also 'saving through' and 'saving up' arrangements | Brusky and Fortuna 2002 |
| | Seasonal rhythm of the business year/agricultural year | Savings, also in terms of intergenerational arrangements support | Saavedra and Valdivia 2003 |
| | Importance of social life-cycle related expenditures | Largely reciprocity-based financial devices for covering the important expenses for festivals and ceremonies | Ruthven and Kumar 2002 |
| | Different kind of life-cycle uses | Lump sums are constructed largely by saving down for being able to deal with life-cycle events (82% of the lump sums). | Rutherford 2001, 2002, 2003 |
| | Cover life-cycle or ceremonial cost, especially weddings and funerals | Reciprocity-based finance in a wide net of relatives | Ruthven and Kumar 2002 |
| | Importance of life-cycle related expenditures, especially funerals | Financing mix from formal and informal sources used for meeting funeral expenses | Collins 2004, 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| | Dealing with low income periods during life-cycle (especially in terms of lacking formal pension schemes) | Intergenerational arrangements of cohabitation and family-based cash transfers | Saavedra and Valdivia 2003 |
| | Life-cycle needs or tapping opportunities/upgrading livelihood | Long-term savings | Ruthven 2002 |
| Opportunities | Working capital for microenterprises | Microenterprise loans, discussing advantages and disadvantages in the eyes of the clients | Eversole 2003 |
| | Different kind of opportunities | Lump sums are constructed largely by saving down for being able to tap opportunities (76% of the lump sums). | Rutherford 2001, 2002, 2003 |
| | Working capital and initial working capital for business | Supplier credit is widely used for financing retail businesses in Eastern Africa, including hawking (and supplier functions often act as a money guard). | Rutherford et al. 1999 |
| | Additional working capital and initial investment | Additional working capital is largely provided by goods advanced or bought on credit, and | Brusky and Fortuna 2002 |

| | | | |
|---|---|---|---|
| | of working capital for the business | initial investment usually comes for the compensation of the former job. | |
| | Small initial business investment | Savings, usually informally | Rutherford et al. 1999 |
| | House improvement or repair and education | Different financial arrangements with different providers according to the purpose, largely informal financial arrangements | Brusky and Fortuna 2002 |
| | Microenterprise is the most important usage, but de facto usage differs for a third of the households | Microenterprise loan | Johnston and Morduch 2007 |
| | Cash flow problems and lack of sustainability of 'survivalist' business | Different kinds of financial and other services | Collins 2004, 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| Emergencies | Different kind of emergencies | Nearly all lump sums constructed by saving down in order to deal with emergencies (88% of the lump sums). | Rutherford 2001, 2002, 2003 |
| | Health related expenditure constitute an important part of the expenditures of poorer households | Close family relationships help to finance important heath expenditures. | Ruthven and Kumar 2002 |
| | Cover crisis-related costs (such as accidents or severe illness) | Informal financial transactions with close relatives or landlords/employers. | Ruthven and Kumar 2002 |
| | Cover health-related costs | Current income and different lending options are used, but a preference for a reliable insurance service is expressed. | Ahmed et al. 2005 |
| | Cover health-related costs | Different formal and informal 'saving down' devices used. | Brusky and Fortuna 2002 |
| | Savings are generally accumulated for specific uses so that there is a lack of savings for covering unexpected events/emergencies. | Formal and informal savings arrangements | Collins 2004, 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| Financial communication | Financial communication | Savings accounts | Collins 2004, 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| | Financial communication (receiving payments) in combination with savings | Basic bank account 'Mzansi' | Porteous 2007, FinScope data, Collins 2005, 2008; Collins and Morduch 2008; Porteous et al. 2008 |
| | Remitting money home | Post office and hand carry | Ruthven 2002 |

Source : Own elaboration.

## Imprint

Editors
Trevor Evans ▮ Eckhard Hein ▮ Hansjörg Herr ▮
Martin Kronauer ▮ Birgit Mahnkopf

ISSN 1869-6406

Printed by
HWR Berlin

Berlin December 2011

www.ipe-berlin.org