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Book Review: Borrowing Together: Microfinance and Cultivating Social Ties. Becky Yang Hsu (Cambridge University Press, 2018)

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Abstract: In this article I review *Borrowing Together: Microfinance and Cultivating Social Ties* by Becky Yang Hsu. Introducing the book I analyse the emergence of the microfinance project and the contested debates around its efficacy in the light of backlash resulting from the suicides of over indebted borrowers in India. I contextualise the book through critical socio-legal and transnational legal pluralist scholarship which focuses on the production of norms by private actors, the social and public law consequences of these norms and the growing inter-connectivity of relations. Against this background, I show how Hsu's rich ethnography of two field sites in rural China exposes how the primary drivers for loan repayment are the informal social norms of personhood, morality and social relations that are grounded in a holistic Chinese understanding of personhood called '*Guanxi*' in Chinese. A 'Guanxi' typology of personhood connected to material and emotional components and personal relations conflicts with the individualistic typology of personhood upon which the dominant 'Grameen' economic model for group lending microfinance has been based, with the backing of economists like Stiglitz. Hsu shows how examining loan repayment through the lens of the 'living' Guanxi behaviour she observes within her field sites tell us much more about the use, operation and effect of microfinance than a reading of the loan repayment data would expose. In this way, Hsu captivatingly navigates how local 'social' ties and behavioural norms impact upon *what people did* with microfinance and are thus directly relevant to the development outcomes within her field sites. Her work adds much needed insight into the current work of scholars and development practitioners concerned with understanding where microfinance went wrong and what can be done about it in the context of the project's resurgence.

Keywords: Microfinance, Collateral, Poverty, Development, Transnational Law, China, Book Review.

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Microfinance had been held up for decades as a 'silver bullet' against global poverty, becoming one of the world's most high-profile and generously funded development interventions and earning its founder, Muhammed Yunnus, the 2006 Nobel Peace Prize for the most visible microfinance organisation in the world, the Grameen Bank. Even the TV series *The Simpsons* told a story of microfinance, with Lisa Simpson lending 50 dollars to the school bully through the fictional 'Metamorphosis Microfinance'. She watches as his small business blooms, but his budding enterprise soon collapses. Lisa is confused, saying: 'It didn't go the way I expected.' Fiction aside, these 'tales of the unexpected' have led to horrific suicide epidemics with small loans turning into big curses for poor, overindebted people.

As a growing industry to provide financial services to very poor people, the 2001 'The Microfinance Revolution' former Harvard anthropologist Marguerite Robinson defined microfinance broadly as 'small scale financial services provided to people who farm, fish or herd; who operate small enterprises where goods are produced, recycled, repaired or sold; who provide services; who work for wages or commissions; who gain income from renting out small amounts of land, vehicles, draft animals or machinery and tools; and to other individuals and groups at the local levels of developing countries, both rural and urban'. Her study claimed that innovations in microfinance can have far-reaching effects on the fight against poverty.

Initially focusing on providing microcredit (small loans of about 50-500 dollars) for microenterprises to very poor people, there is now a recognition that poor people need a variety of financial services, not just credit. Current microfinance has therefore spread towards providing a range of financial services, including credit, savings and insurance, to poor enterprises and households. Microfinance is now a well-recognised part of the global financial market global value chain. As noted in 2005 and 2008 papers by Michael S. Barr at Michigan Law School and Kevin E. Davies at NYU School of Law it forms one small but important part of the field of 'financial development' and the larger field of 'global administrative law' demonstrating how important and influential norm

[1] This is an edited version of the author's review on the LSE Review of Books available here.

production can be generated below the level of formal international treaties[2] and applied across territories. Today, some ten years on, we see the following:

In the area of microfinance, norms might be produced by *private* actors, can involve and effect networks of stakeholders both public and private actors, have public law consequences and given their localised impact on communities, are increasingly critically analysed in the context of the economic, political and sociological factors surrounding them. In particular, emerging understandings of the inter-connectedness of relations has driven scholarship to compare diverse modes of social 'expulsion[3]' such as the routine use of complex financial instruments, land grabs and social dispossession from welfare systems, not as disconnected Agamben like 'exceptions' but as a window into the major 'everyday', new normal dynamics of our modern era in which the experience of 'expulsion' is shared by people coming from diverse factual contexts.

Critical transnational legal scholars also focus on the increasing connectivity of relations. Paying attention to private actors, norms and the financial processes they use, scholars highlight the social, human rights and developmental effect of these actors and processes on local communities and the legal dilemmas caused by this increasing plurality of public and private relations. Specifically, D. Szablowski[4]'s ethnography of the social community/corporate conflicts involving a mine and Indigenous peasants in the Andes of Peru that is part financed by the World Bank presents a political and economic contextual analysis of the global spread of transnational mining investment since the 1980s to shines light on how his Andean field site is characterised by a tug-of war between financialisation and capital and traditional socio-economic-cultural relations to land that spill over into social community level conflicts. And, S. Leader & D. Ong, through a series of development project case studies[5], focus on how specific structural features of project finance might hinder the implementation of environmental, health and safety and human rights norms within projects and show how the very operation of these projects and the financing and contractual arrangements that underpin them are relevant to human rights and sustainable development debates.

Against this background, for microfinance, the frame of reference might be best understood through a lens of 'transnational'[6] rather than 'global' law in the ability of the

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[2] B. Kingsbury & M. Donaldson, Max-Planck-Encyclopedia of Public International Law: "Global *Administrative Law"* (2011). (http://www.iilj.org/wp-content/uploads/2016/08/EPIL_Global_Administrative_Law.pdf)

[3] Saskia Sassen, *Expulsions: Brutality and Complexity in the Global Economy* (Harvard University Press 2014).

[4] D Szablowski, *Transnational Law and Local Struggles*: Mining Communities and the World Bank (Hart 2007).

[5] S Leader and D Ong, *Global Project Finance, Human Rights and Sustainable Development* (CUP 2011).

[6] P. Zumbansen, "Transnational Law Evolving", in: *Encyclopedia of Comparative Law* (Jan Smits ed., 2nd ed., 2012), 899-925, the idea that "transnational" is a new frame of reference for the evolution of law in a global, functionally differentiated context. (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1975403)

term transnational to break away from rigid territorial spaces and places which fragment in the context of a microfinance loan disbursed by a bank in London or New York, to a domestic bank and then on to a villager via a peer to peer arrangement (more on the latter point later). Through a transnational lens, we overcome the splintered idea of territoriality and instead see these loan contracts within their *functional and social context*. They are one example of evolving transnational law which consists of rules, principles and contracts that extend transnationally, involve a connected constellations of public and private actors and norms within a localised microfinance field site. A 'transnational' approach welcomes a more 'functional' perspective that examines *what people did* with microfinance to tease out the social and local effects, both positive and negative, of this particular type of financialisaton.

At the heart of the many concerns over where microfinance went wrong is a need for a better understanding of how the poor need and use financial services in situations where a loan to start a small rural business may not be a priority in a daily survival for basic needs. In the updated 2013 World Bank 'new' handbook on microfinance, Joanna Ledgerwood and Alan Gibson note how the understanding of the financial landscape has evolved through a 'big picture' recognition that access to capital is only one of the inputs required for economic development and poverty alleviation. The tying of poverty alleviation to one institution – the *loan* – is now understood to be parochial and there has been a 'turn' to a much broader focus on *clients* and understanding their behaviour and financial service needs and how these can be met by microfinance. So, an understanding of needs and use of financial services would necessarily involve a contextual analysis of how people use their loans and the effects of that use.

In a situation where people use loans to meet daily survival needs rather than invest in an entrepreneurial project, default and its potentially catastrophic human consequences becomes reasonably foreseeable. Indeed, one central critique of the entire microfinance project is its neoliberal 'American dream' assumption that entrepreneurship is the goal all people strive for[7]: whilst failing to realise that within any given microfinance social site, entrepreneurship may simply not be the priority when one is struggling to have daily needs met and there might be other localised social behaviours at play that might confound the lending and repayment cycle and its entrepreneurial assumption. And a relative approach is all the more important given that microfinance is now back on the road to redemption, making Becky Yang Hsu's book *Borrowing Together*: *Microfinance and Cultivating Social Ties* timely in the context of its resurgence and the more nuanced socio-economic 'big picture' thinking taking place in this field.

In the microfinance model, borrowers form groups and then repay together in a joint-liability structure in which members are responsible for one another's loans in some form or another. *Borrowing Together* shines light on a surprisingly underexplored aspect of

[7] B. Hsu, *Borrowing Together: Microfinance and Cultivating Social Ties* (Cambridge University Press, 2018).

group lending microfinance: its social and cultural dimensions. Considering how the defining characteristic of the microfinance model is this use of 'free' social collateral, the existing lack of sociological research on this element is perplexing. By turning the centre of analysis away from 'money' as the primary asset for poverty alleviation to the social and culture relations that underpin two microfinance projects in rural China, Hsu presents rich practical and theoretical insights into *what* people did with microfinance and *why* its success has been so patchy.

Hsu's methodology is captivating. The descriptions of her 'go-alongs' where she gathered data over three years of fieldwork are told in a personal and highly readable way that compromises nothing on academic rigour. Her chapter titles – 'Credit and Favour', 'Repaying a Friend' and the 'Social Cost of Sanctions' – eloquently contrast and connect the 'arm's length' nature of global finance with the social network surrounding a microloan. By the end of the book, Hsu persuasively demonstrates that the real 'assets' driving repayment and default are informal social ties, questions of morality and methods of survival already functioning in rural China, rather than contractual loan terms and formal peer social collateral sanctioning.

Hsu leads us to this understanding by explaining how prevailing microfinance models hinge upon a typology of personhood driven on assumptions of separateness and permanence. The key theme running through this typology is individualism. This assumes that a borrower internally weighs the costs and benefits of repayment and sanction for herself and is not assumed to make decisions in consideration with others. Permanence continues the individualistic theme by presuming a borrower's fixed repayment motivation as forever tied to financial interest rather than a changing one that might consider non-pecuniary interests like an opportunity to maintain social networks, goodness and identity. This holistic understanding of personhood ('*Guanxi*' in Chinese) is connected to material and emotional components and personal relations.
Hsu demonstrates how the *Guanxi* she observes conflicts with the individualistic typology of personhood used to model microfinance repayment behaviour. Referring to Joseph Stiglitz's much-cited 1990 article on peer monitoring in microcredit programmes, Hsu shows how an individualistic typology feeds into the dominant 'Grameen' model for group lending microfinance through an assumption that the site of action is only ever the mind of the individual and that individuals make calculations based entirely on financial considerations. It does not matter to whom the money is owed (for Stiglitz, the 'faceless' bank is interchangeable with a 'faceless' government), and borrowers are assumed to not repay and therefore need to be induced to do so through the yoking together of similarly 'faceless' individualised borrowers who are also assumed to share no pre-existing obligation or connection.

Through two comparative field studies, Hsu critiques Stiglitz's individualised and context-free view of repayment. The major difference between the two microfinance studies she observes lies in the method through which the social collateral mechanism is administered. One involves a guarantor programme devised by local NGO, 'Global Hope', and administered, along with the government, through the village committee. The programme hinges on personal ties as one elected villager personally guarantees the loan, making repayment akin to 'repaying a friend'. The other 'Grameen' model involves no such personal connection and is entrenched in a top-down initiative led by the government and a pool of influential villagers. Here, repayment by ordinary villagers is strongly incentivised as these are government loans. Ordinary villagers lack power and agency against the influential villagers that also assist in loan administration. In the 'Global Hope' model, these structures did not exist and a borrower's repayment obligation was assigned to a specific guarantor. In the social context of the village, repayment and sanction decisions became a personal tie between borrower and lender, forming a small part of the village's living social network and one mechanism through which one's *Guanxi* can be formed and displayed on the village stage.

Whilst repayment occurred in both models, solely examining repayment schedules would not tell the full story of the conditions for repayment, or exactly what and whom are driving it in each scenario: a position that stands in tension with Stiglitz's context-free individualistic site of action. A look at repayment records would not show that the ways in which people cultivate their relationships make all the difference as to who borrows and who repays. It would not show how the intervention of the guarantor mechanism had two transformative impacts that confound microfinance models based on a borrower's individualistic calculations and a social collateral model secured through overt peer pressure.

First, it transformed lack of repayment into an 'impossible debt': a personal debt obligation among villagers who saw borrowing amongst them as being about relationships, survival and the creation of *Guanxi* or self. Second, the guarantor model demonstrates how sanctioning default can be unappealing for the sanctioner. Considering that a moral wrong can decrease someone's *Guanxi* within the village and lead to a string of retaliatory actions amongst inhabitants, sanctions can be unappetising. Since microfinance models depend on the shaming of the defaulter, the success of the Grameen model is entirely dependent on something happening that everyone is trying to avoid!

I strongly recommend *Borrowing Together* for anyone who would like to explore more deeply current development theory and practice and how a 'turn' to social ties might impact development outcomes. Becky reminds us of ['the difference ethnography can make'] to policy applications. On this repayment data itself would tell us little about the actual interactions between villagers and the internal networks that incentivise repayment and, in some cases, even de-incentivise peer sanctioning: results that run contrary to the Grameen model of individualism. She provides a critic of Amartya Sen's capability approach to development (which provided a much needed alternative to the prevailing income determinant) to define poverty as the deprivation of basic capabilities rather than just low income. For Hsu this approach yet again reinforces the dominant paradigm of individual capability with no deeper theory of how individual development can also be shaped by group relations.

As a project finance lawyer interested in the challenges posed by the complexities of the global economy and its implications for human rights and well-being, my only critique is that an opportunity might have been missed to apply the rich fieldwork more widely to quality interdisciplinary scholarship that identifies and addresses gaps in policy and practice around human well-being and fairness under today's conditions of economic globalisation. Studies like Hsu's are so relevant to this important transnational research field that is so often conducted in silos and she contributes immensely by providing a robust empirical basis for questioning dominant assumptions on what creates a 'good life'. Hsu reminds us that entrepreneurship and private property are not magic bullets for development, and that being an honourable and good person can be of greater importance for repayment and default profiles: a finding that can add value to practical policy implementation. These incentives knock microfinance lending assumptions off their 'modelled' path and might begin to explain Lisa Simpson's confusion with microfinance not going as she expected.