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Households' over-indebtedness and the fallacy of financial education: insights from economic anthropology

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Households' over-indebtedness and the fallacy of financial education: insights from economic anthropology

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Abstract

Financial education become a rallying cry to tackle households' over-indebtedness. Behavioral finance has examined financial education in some depth to highlight both its scope and limitations, arguing that information is only one of many components in financial decision making processes. Political economists and lawyers have strongly criticized financial education on the grounds that it entails the excessive responsibilisation of individuals at the expenses of regulation and state intervention. This paper draws on the lessons of economic anthropology to offer a further critical analysis of financial education. Its main purpose is to reject the central tenet of financial education promoters, namely that the poor are financially illiterate. Basic concepts that have generally been taken to have universal significance are in fact highly arbitrary and reflect a very particular vision of the world. Perceptions related to vision of time, relationship to others or moral obligations are not necessarily the same everywhere. Different perceptions of these elements can lead to radically diverging perceptions of debt, interest rates, repayment obligation, or even planning from 'usual' modes of thinking. Our analysis calls for the reassessment of financial illiteracy as a theoretical concept. From a policy perspective, it shows that classical financial education training programmes are unlikely to be effective as long as they fail to address local knowledge.

Keywords: financial education, microfinance, over-indebtedness, economic anthropology

JEL classifications: O17, O53, Z13

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1. Introduction

Over the last thirty years or so, microfinance and more recently "financial inclusion" have emerged as some of the highest profile policies for tackling poverty and under-development in southern countries. Today however, microfinance is facing growing criticism and its heyday seems to be over. Not only is its impact increasingly controversial (Roodman & Morduch 2009; Barnejee and Duflo 2011), but there is evidence to suggest that it may do more harm than good. Client over-indebtedness, in particular, seems to be a growing phenomenon (Guérin *et al*. 2013a; Schicks 2011a), as has been illustrated by microcredit delinquency crises.

While some of these delinquency crises may have been sympotmatic of unwillingness rather than inability to pay (Morvant *et al*. 2012a), the vulnerability of microfinance clients in certain contexts is a recognized fact (Taylor 2011; Servet 2011). Conversely, there have been cases of over-indebtedness despite excellent repayment rates, for instance in Ghana (Schicks 2011b). Some regions are close to saturation (the Philippines, Cambodia and Benin to name but a few). In some places, practices of debt rescheduling conceal major repayment difficulties, including in some parts of India, Bangladesh, and Morocco.

Against this background, the various stakeholders of the microfinance industry are joining forces to take action. Microfinance promoters, donors and regulators have mainly responded by introducing credit bureaux and consumer protection measures. Alongside disclosure requirements, lender practice prohibitions and requirements, and mechanisms for handling complaints and disputes, consumer protection has included financial education, which a CGAP note has described as a "vital strategy" (Porteous & Helms 2005). Growing numbers of financial education programmes have been launched, as inspired by northern initiatives in developed countries, which have seen huge financial education programmes rolled out over recent decades. Increasing numbers of financial education plans have been created and promoted by microfinance organisations, specialized NGOs, donors and state policies, and via multi-lateral or bi-lateral cooperation. In emergent countries, financial education goes far beyond the microfinance industry and takes place in national state-sponsored programs.

Financial education can certainly be a worthwhile goal, but this depends on the method and context of its delivery. Behavioral finance has examined financial education in some depth to highlight both its scope and limitations. Political economists and lawyers have strongly criticized financial education on the grounds that it entails the excessive responsibilisation of individuals at the expenses of regulation and state intervention. This paper draws on the lessons of economic anthropology to offer a further critical analysis of financial education. Its main purpose is to reject the central tenet of financial education promoters, namely that the poor are financially illiterate. Some of the poor may indeed struggle to understand the technical aspects of financial products, but empirical evidence suggests that

they don't take their decisions blindly: they have modes of reasoning, systems of representation and assessment criteria that are specific, and embedded within particular social, cultural and political contexts. The stereotype of financial illiteracy reflects a profound ignorance of the complexity of local financial reasoning and calculation frameworks. In-depth case studies have flagged up the minute details of budget management and debt behaviour. Basic concepts that have generally been taken to have universal significance are in fact highly arbitrary and reflect a very particular vision of the world. Perceptions related to vision of time, relationship to others or moral obligations are not necessarily the same everywhere. Different perceptions of these elements can lead to radically diverging perceptions of debt, interest rates, repayment obligation, or even planning from 'usual' modes of thinking. Our analysis calls for the reassessment of financial illiteracy as a theoretical concept. From a policy perspective, it shows that classical financial education training programmes are unlikely to be effective as long as they fail to address local knowledge.

2. The concept of financial education

Financial education is not a new idea. Charitable projects have always looked to help the poor to manage their budgets better. But over the past decade, financial education has become a rallying cry in both developed and developing countries. An OECD report considered as a reference document states that in an increasingly financialised world where individuals have to use increasingly complex financial tools, financial education is thought to help individuals to take advantage of the best market opportunities (OECD 2005). This report defines "financial education" as: "The process by which financial consumers/investors improve their understanding of financial products and concepts and, through information, instruction, and/or objective advice, develop the skills and confidence to become more aware of financial risks and opportunities to make informed choices, to know where to go for help, and to take other effective actions to improve their financial well-being." (OECD 2005: 5).

Financial education is a matter of information and skills, such as understanding interest rates, learning to plan a budget and to compare loan offers. It is also a question of appropriate behaviour, such as prudence, planning and taking on just moderate debt. Financial education is delivered through classroom teaching, self-study materials, informational websites, interactive games, and sometimes one-on-one counseling. Programs vary greatly in intensity, content, audience, and methodology. But they all aim to improve individuals' capabilities in managing their finances and hence their welfare.

Wide-ranging financial literacy programs first emerged in the late 1990s in the most financialised rich countries such as the US, UK and Australia, and then spread throughout most northern countries (Erturk *et al.* 2007). Financial education fever now seems to have spread across the globe. According to an OECD review, 75 countries are presently involved in public and private financial education programs

(OECD 2005). BRICS and emerging countries faced with rising household debt and the rapid development of financial markets have particularly favoured such programs.

It seems that it is Brazil and South Africa, where households' over-indebtedness is a real source of concern, that financial education initiatives are the most advanced. In South Africa, where debt and household debt are recognized as public issues, two public institutions - the Financial Service Board and the National Credit Regulator - have financial education missions. In Brazil, a decree was adopted in December 2010 on a "National Strategy for Financial Literacy." Inspired by existing national strategies in the United States, the United Kingdom and Australia and by OECD recommendations, the Brazilian plan provides tools such as web pages, conferences, publications, training modules, free hot lines, information campaigns, etc.

In Mexico, the government is involved in a mass campaign for financial education, considered as a counterpart of the financial inclusion policy with transparency and consumer protection (Osorio 2009). In several Latin American countries, financial regulatory bodies are also involved in the implementation of national programs: Central Banks (Argentina), public banks (Banca de las Oportunidades in Columbia, Bansefi in Mexico), in partnership with ministries (Ministry of education in Peru) or development programs (Programa de Alfabetización Económica y Financiera in Argentina, PATMIR in Mexico).

In 2008 the Chinese government has created a specific program for the youth (*Student financial aid information intervention program*), initiated by the ministry of education and the ministry of finance and in partnership with a specific research institute[1] within Pekin University, created for that purpose. In Malaisia, financial education is implemented by a specific institution – Credit Counselling and Debt Management Agency – which depends upon the central bank. The agency was created in 2006, as part of a 10-year plan aimed at developing and boosting the country's financial sector. AKPK's mission is to "Make Prudent Financial Management A Way Of Life". Its objective is to "proactively ensure that Malaysians continue to be resilient and prudent in managing their finances"[2]. In Indonesia, the government declared 2008 the year of financial education" with a stated goal of improving access to and use of financial services by increasing financial literacy[3]. In India, the central bank has initiated a massive project on financial education, aiming at disseminating information, both on the functioning of

[1] China institute for educational finance research

[2] http://www.akpk.org.my [accessed October 11, 2012].

[3] See: http://www.oecd.org/document/3/0,3343,en 2649 34853 40660803 1 1 1 1,00.html

[accessed October 11, 2012].

the central bank and on daily financial practices. The main tool is a web site in 13 languages devoted to the popularization of financial issues; the creation of local centers of advice and assistance is also planned. In Russia a national foundation is devoted to financial education, and target in priority the youth

In countries with low levels of so-called 'formal' financial inclusion but where microfinance is expanding, microfinance stakeholders often create financial education programs. In the wake of the recent microcredit delinquency crises, the incorporation of financial education into financial services is expected to protect consumers and mitigate default risks for MFIs (CGAP 2011). NGOs and bilateral and multilateral aid organizations are all instrumental here. In East and West Africa for instance, the DFID has created a specific Financial Education Fund designed to support educational projects for helping African citizens increase their 'financial capability', which is defined as a combination of "knowledge, skills, attitudes and behaviour". The World Bank too has followed suit, recently approving a $15 million Trust Fund on Financial Literacy. Corporate groups also play a role, starting with bank or bank foundations such as Citygroup or Visa.

Then we find many initiatives and programmes promoted by NGOs. The largest program globally, whose slogan "from poverty to prosperity" promises a great deal, is probably the Global Financial Education Program. It was created by two US-based organisations, Microfinance Opportunities and Freedom and Hunger, and now operates in 46 countries. It is funded by various sources: bank foundations (CitiFoundation), bilateral cooperation (DFID), public banks (Bansefi/USTDA in Mexico, Banca de las Oportunidades in Columbia), philanthropic organisations (Omidyar Network). It is mentioned on their website that between 2006 and 2009, the program has built 239 partnerships in 46 countries, the final target to 20 million people through various information channels such as radio, television, music, dance, theater, etc. In Asia, the most important private organization devoted to financial education is "A and B make 3". It operates in priority in Hong Kong, Cambodia and the Philippines, with courses ranging from acquisition of "good habits with money" to "create one's own business"[4].

The introduction of such programs has been accompanied by empirical studies to measure financial literacy levels and their correlation to particular financial behaviors among populations. It is shown for instance that households lacking education and financial knowledge tend to plan and save less (Bernheim and Garret 1996) particularly for retirement (Lusardi 2008, Lusardi & Mitchell 2008), to take less advantage of financial innovations (van Rooji, Lusardi, and Alessi 2011), borrow at higher interest rates (Moore 2003; Lusardi and Tufano 2009) and to be more over-indebted (Gathergood 2012;

[4] http://www.aandbmake3.com [accessed October 11, 2012].

Lusardi and Tufano 2009) than households who are more financially literate. Similar methods are usually used to measure the extent of financial literacy, with a list of questions on interest rates and inflation (inspired by Lusardi and Mitchell (2007), possibly alongside modules to measure numeracy. This research also highlights that the most financial literacy is to be found among ethnic minorities, the low working classes and women (Lusardi 2008, Lusardi & Mitchell 2008).

While most of the literature deals with developed countries, financial education is also becoming a focus of study in emerging and developing countries, and uses comparable methods. A recent survey in Indonesia found that financial literacy to be extremely low and linked to the low use of bank accounts (Cole *et al*. 2009). A survey in India also discovered extremely low financial literacy, which the authors claimed to partly explain why poor households are so reluctant to buy micro-insurance (Cole *et al*. 2010). Similar findings were made in Cambodia (Polimeni & Levine 2012). Further research in India found that clients had limited understanding of their loans but were still able to intuitively choose the cheapest (Tiwari *et al*. 2008). A study in Ghana found that financial literacy and numeracy was rather low without however being related to over-indebtedness (Schicks 2012).

These results could lead to the assumption that financial education could have a major impact on financial behaviors and financial practices. Empirical evidence for this, however, has been quite contradictory and fairly inconclusive (Lusardi, 2008; Roa Garcia 2011; Kiviat *et al*. 2012). Several studies have attempted to measure the impact of financial education programs, some of which have found that financial literacy programs such as training and counseling improve financial behavior, measured for instance through retirement decisions, saving, debt reduction or debt repayment. Other studies, however, showed that financial education programs to have a limited or marginal impact, that individuals pay little attention to this information and that their capacity to process it is limited[5].

The few available studies for developing countries have also shown controversial results. A study of the impact of training programs on micro-entrepreneurs in Peru found strong benefits for both clients and microfinance institutions: clients who undertook training showed improved business processes and knowledge, increased sales but also better repayment and loyalty to the microfinance institution (Karlan and Valdivia 2011). Positive outcomes for business sales and reduced sales fluctuations have also been observed in Dominican Republic (Drexler *et al*. 2010). Research in India and Indonesia found financial literacy to be strongly correlated to a demand for financial services as mentioned above. Financial literacy education however had very little impact on demand for saving accounts, while a small subsidy had a much greater effect (Cole *et al*. 2009). Similarly in India, it was found that the education about insurance had no effect on its take up (Cole *et al*. 2010).

[5] For a review, see Roa Garcia (2011).

These controversial results call for reflection on the nature of financial education programs. We can reasonably assume that a particular program may work in a given context, with a given population, but not universally. Program intensity and duration are also likely to influence its impact. If a course only lasts for two hours (as was the case in the Indonesian example mentioned above) or even just a few minutes (as in the Indian example mentioned above), we can easily expect the impact to be marginal. The educational content of courses can also be queried. Theoretical and abstract modules are probably less likely to be effective than practical classes dealing with concrete cases that make sense to people (Kiviat *et al*. 2012). The study of micro-entrepreneurs in the Dominican Republic found that it was more effective to teach simple management strategies such as “keep personal and business accounts separate” or “write everything down”, rather than to deliver sophisticated formal accountancy training (Drexler *et al*. 2010).

Beyond technical debate on the content of financial education programs, their very existence can also be queried. Two types of literature have questioned the automatic link between financial literacy and financial behavior: behavioral finance, which argues that financial behavior is much more complex than a matter of information, and political economics, which go much further in its criticism, rejecting the normative dimension of the concept and its excessive focus on individual responsibility. We will briefly set out these two approaches below before discussing how economic anthropology underpins our own argument.

3. What do we know about financial education?

The behavorial finance perspective

The underlying theoretical framework for financial education has been derived from neo-classical economics. Its advocates implicitly or explicitly assume that individuals are rational and make decisions in terms of their position in the life cycle, their expectations and degree of access to information. Poor financial decisions and “mistakes” are taken to reflect a lack of information and knowledge. Improving access to education and information is believed to lead to better informed individuals who can then make optimal saving and investment decisions.

This view has been dominant financial economics over recent decades, but has been increasingly challenged by behavioral finance. This approach draws on insights from psychology to observe that information plays a minor role in many financial behaviours: individual decisions are in fact greatly shaped by mental routines, cognitive biases, emotion, and mimetic attitudes. These include tendencies to over or underplay various considerations when making a decision, "heuristics" that reduce complex decision tasks "to simpler judgmental operations", a preference for decisions that superficially appear

consistent, unconscious strategies or tactics to avoid or limit emotional discomfort ("cognitive dissonance"), and emotions such as shame, stress or fear that override reasoning[6].

In terms of household over-indebtedness, several studies have for instance shown that lack of self-control, impulsivity and temptations, procrastination – systematically postponing actions to the future –, the over-estimation of one's owns capacities and social norms are fundamental determinants of over-indebtedness (Gathergood 2012; Roa Garcia 2011). Acknowledging the complexity of financial decision-making processes has two consequences for financial education.

On the one hand, behavioral finance suggests that efficient educational measures should focus on cognitive and emotional factors rather than the transmission of technical information. Such measures include helping people to become aware of their own weaknesses and to put into action the internal mechanisms with which they are already familiar to control their own temptations (Kiviat *et al*. 2012), delivering very simple rules that are easy to follow (Lusardi 2008; Mitchell and Utkus, 2003), drawing on word-of-mouth through social networks (Duflo & Saez 2003), helping people to proceed step by step, drawing on theories of behavior change (implemented for instance to help individuals to stop negative health behaviors such as smoking, alcohol and drug use and over-eating, with the basic premise that ending a problematic behavior, or starting a positive behavior, requires a succession of gradual stages (Lyons 2005).

On the other hand, behavioral finance argues that measures beyond education are also needed to bring about concrete changes. Given that one of the biggest challenges is for individuals to transform ideas into action – people know that it is bad to get into debt or to spend too much, but struggle to act accordingly – it is argued that offering "structures" to allow them to apply some sort of self-discipline might be more efficient than teaching. This may include forced savings systems such as individual development accounts that offer bonuses for regular savings, or the payment of social benefits through lump sums rather than regular installments, etc. (Kiviat *et al*. 2012).

The political economic perspective

A far more fundamental criticism voiced both by political economists and lawyers critiques enthusiasm for financial education from the far broader angle of the growing financiarisation of contemporary societies and the economic and social differenciation it produces (Eturk *et al*. 2007; Willis 2008; Dickerson 1999). Individuals and households are increasingly encouraged and obliged to borrow, save and insure themselves, be this against ill-health, unemployment, the explosion of housing

[6] For a review, see for instance Mitchell & Utkus (2003)

prices, or for preparing the future, especially children's education and retirement. In many welfare states, albeit to variable extents, employer-sponsored health insurance has become increasingly restrictive, leaving individuals to take decisions about their own protection and find the most appropriate products. Similarly, obligatory retirement plans have been tending to decline, requiring individuals to decide how, how much and where to save and how to invest. In southern countries, the increasing gap between real income and needs, and the decline of traditional community-based protection mechanisms while state-based social policies are still in their infancy has also led to growing financial needs (Servet & Haiag 2013).

The "democratisation of finance" in the form of widened access to financial market products, the usage and outcome of which are expected to be boosted by financial education – has been anticipated to compensate for the decline or absence of collective public social security policies. A political economic reading of these processes, as focused on the structural dialectics of political and economic differentiation within and between societies, would be that they cannot fulfill their promises (Eturk *et al*. 2007). Financial education has been argued to be useless and its benefits illusory yet harmful for a variety of reasons.

First, finance is too complex, diverse and unstable to be taught effectively. The capacity to understand and choose the most appropriate products not only takes extremely sophisticated skills, but also time. Not only do individuals generally lack such skills, but they are probably not willing to take the necessary time to acquire them and then to access the necessary information to make appropriate choices. The proliferation and speed with which financial products evolve are a further argument in support of this. As suggested by Willis, unless consumers take frequent refresher courses, "material they once learned can become outdated and misleading […] Education is a policy tool requiring consumers to be their own regulators in a domain in which even professional regulators have difficulty" (Willis 2008: 215-2017).

Second, a basic assumption of financial literacy that individuals with better financial skills will take more appropriate financial decisions does not hold, simply because income and wealth are increasingly unpredictable, especially in the long run (Eturk *et al*. 2007). Given such rising uncertainty both in terms of the instability of the economy and constant changes in public policies, how can individuals plan how much they will earn in ten or twenty years, when they will retire or how much they will get? In a snakes and ladders world, the classical economic theory of permanent income has become obsolete, as has the associated assumption that individuals can be in a position to make long-term rational calculations.

Third, the challenges poor and uneducated clients face in making good use of financial opportunities stem not only from the complexity of financial products, but above all from their opacity and the

unequal power relationships between financial providers and their clients. It has been argued that financial providers often benefit from delay penalties, chronic debt, etc resulting from financial illiteracy among the poor (Willis 2008). These providers use insights from behavioral finance to exploit the weaknesses of their clients – for instance advertising loans through monthly installment amounts rather than interest rates (Gloukoviezoff, 2011). They have considerable means for advertisements, compared to the scanty budgets of financial literacy campaigns (Willis 2008).

Last but not least, financial education is argued not just to be useless but also harmful for two reasons. The first relates to regulatory issues: financial education is dangerous, it is argued, as it may act as a partial substitute for market regulation. This is a point raised by authors working on developed countries (Dickerson 1999; Erturk *et al.* 2007), but their concern could also apply to developing countries. Many financial education promoters openly state that financial education allows for less financial regulation. During an official speech in 2005, Alan Greenspan, then president of the Reserve Bank of the United States, recognised the benefits of financial deregulation in expanding credit opportunities for the poor, while emphasising the current need for financial education (Froud *et al*. 2007). An OECD report on financial education explicitly acknowledged that it was of benefit to regulators, as "financially literate consumers might help to ease supervisory activity and allow for lower levels of regulatory intervention" (OECD 2005: 13). In a more recent report, financial education was said not to be a substitute for market regulation but that "a sound financial management by household contributes to lower social public spending, the development of sound, efficient and competitive markets and encourage economic growth (OECD/World Bank/DFID/CGAP (2009: 8). In a keynote address at a conference on financial education held in 2006 in New Delhi, Y. V. Reddy, Governor of the Indian Central Bank, stated that "From a regulatory perspective, financial education empowers the common person and thus reduces the burden of protecting the common person from the elements of market failure, attributable to, *de facto,* information asymmetries" (Reddy 2006: 1). In Brazil the body responsible set up by the government for the organization and control of financial markets, the National Strategy for Financial Education (Estratégia Nacional de Educação Financeira - ENEF) has three main objectives: the growth of financial markets, financial inclusion and the protection of investors (Cavalcanti Vasco, undated). In the microfinance industry, a CGAP note has suggested that there are moral arguments for promoting consumer protection and financial education– protecting clients from the imbalance of power between lenders and borrowers – but also strategic reasons: it can be a "more constructive alternative" to excessive regulation such as the imposition of interest rate ceilings (Porteous & Helms 2005).

A second danger is ignorance or neglect of the structural factors of over-indebtedness, which again shifts responsibility from institutions onto individuals. Many financial education promoters implicitly assume that most debtors are irresponsible or credit-ignorant. For instance, it is argued on the

International Gateway for Financial Education's website that the concern for financial education stems from the observation that individuals take on more financial risks when their financial knowledge is extremely low. This results in "passive resilient behaviour" which in turns creates numerous problems, starting with "excessive household debt". The subprime crisis is quoted in brackets[7]. A document explaining the origins and objectives of the Brazilian government's strategy on financial education states that "overdue installments were mostly caused by poor financial management" (Cavalcanti Vasco, undated). Similar assumptions are made by the Malaysian agency for national financial education, whose website states: "we observed that the lack of knowledge in personal financial management was the main reason many individuals, both young and old, found themselves in debts they could not manage. Bad money-managing habits stemming from the lack of understanding of the basic principles of finance was the main cause for individuals getting into financial difficulties"[8].

There is no doubt that there is widespread lack of knowledge of financial products and that they are difficult to understand due to their complexity. But when people fall into debt and over-indebtedness because they are chronically unable to make ends meet, or because of an unexpected catastrophic event, they need far more than literacy classes or credit counselling. In many cases insufficient and irregular income, and not financial mismanagement, is the key barrier to long-term financial wellbeing. In these contexts, as discussed above, formal or informal credit and savings services are substituted for lacking social protection systems. It would thus be unrealistic for the only solution to come from improved financial literacy (Dickerson 1999; Gloukoviezoff, 2011; Guérin *et al*. 2013a; Porter & Thorne 2006).

Behavioral finance highlights that information is only one of many components in financial decision making processes. Financial education, understood as transmission of formal knowledge, can thus only have a limited impact and it seems more efficient to target *behaviors* rather than formal knowledge. But while behavioral finance addresses individuals' complexity, it does not address the question of social environment. Political economics focuses on the structural framework of the legitimation of financial education – financiarisation and the growing responsabilisation of individuals – and argues that one of the main effects of financial education is to confirm and reinforce this shift from the collective to the individual. Economic anthropology offers a third perspective, by

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[7] http://www.financial-education.org/pages/0,3417,en_39665975_39667032_1_1_1_1_1,00.html. Last access 15th July 2012.

[8] This is explained on the home page of their web site (http://www.akpk.org.my/about-us). Last access 15th July 2012.

highlighting the social embeddedness of decision-making processes. Individual rationality is not only bounded as suggested by behavorial finance: it is also situated and inseparable both from specific social, cultural and political contexts and from the social positioning of individuals.

4. Lessons from economic anthropology: local frameworks of calculation

Economic anthropology points out a further problematic aspect of financial education: ignorance of local frameworks of calculation and management. I will argue that the concept of 'financial illiteracy' – a prerequisite for financial education – is based on false premises. Most writings on financial illiteracy assume that individuals often make financial management 'mistakes' while adopting 'sub-optimal' behaviours. Most financial education programs probably try to foster a supportive and accepting environment, for instance by emphasising the need for courses that take local specificities into account[9]. But the language of textbooks reflects a profound ignorance of the ways people perceive and use finance. A further widespread mistaken assumption is that marginalized groups such as women, ethnic minorities, immigrants and poorly educated people are often the most financially illiterate groups (Martin 2007). Frequent 'mistakes' and 'suboptimal' behaviours quoted in the literature and in teaching modules include a lack of saving, planning and budgeting, excessive use of debt, and ignorance of basic financial concepts such as interest rates and the workings of interest compounding, the difference between nominal and real values, and the basics of risk diversification.

This idea of financial illiteracy goes completely against the teachings of economic anthropology, however. This concept has been comprehensively challenged by two books over the last decade: the Poor and their money (Rutherford 1999) and more recently *Portfolios of the Poor. How the world's poor live with less than 2$ per day* (Collins *et al*. 2009). The authors undertake a painstaking analysis of how the poor manage their cash flow to demonstrate that the poor have extremely complex and sophisticated skills and know-how, and do in fact plan, calculate, anticipate and save. These strategies and motivations are sometimes surprising, but have a clear rationale. Many of these ideas are not new and have long ago been demonstrated by anthropologists and socioeconomists (for instance the diversity of representations of the concept of "interest rate" (Baumann 1998; Servet 1995), the fact that the poor often look for incentives to save, the blurred boundary between saving and credit (Shipton 1995, 2007), the porosity between so-called "informal" and "formal" tools (Servet 1995), and the fact that debtors may also be creditors (Morvant-Roux 2006), etc.). These two volumes have the merit of proposing a comprehensive analysis of these issues and popularizing them in a clear and accessible way. A shortcoming of these two volumes, however, is to restrict money and finance to their technical

[9] See for instance the Global Financial Education programme.

and instrumental functions. Money, finance and calculations are stripped of their moral and social value. Issues of identity and power, which are central to debt, are shrugged off.

An economic anthropology of debt allows to grasp the substance and depth of debt, and the subtlety and complexity of debt calculations. Calculativeness is often thought of as the preserve of the economic sphere and economic theory. Calculation is thought to look only to satisfy personal interest on the basis of quantifiable indicators and units of measure. History and ethnography shows that calculation goes far beyond economic acts, however. Its reasoning and rationale are complex and embedded within social settings (Weber 2001). The poor are not just hungry stomachs desperate to make ends meet. They seek to advance or hold on to particular individual and group identities. They are part of a variety of entitlement and obligation networks that they may seek to reinforce, appease or to flee (Gudeman 2001; Hart & Hart 2011). Calculations serve multiple – and often conflicting – purposes. These may be making ends meet, respecting social structures, positioning oneself in local social networks and hierarchies, or asserting or attempting to assert one's individuality.

Financial ties are central to these processes because of their social meaning. Debts first and foremost constitute social ties between individuals, transmitting feelings and emotions such as dignity, prestige, respectability or, conversely, shame or humiliation. They are embedded into broader entrustments and obligations (Shipton 2007). We argue that borrowers and lenders resort to specific calculation frameworks, defined here as the sets of thinking tools that are available and mobilized by individuals in specific situations to appreciate risk, take financial decisions and arbitrate between various financial tools. Calculation frameworks have socio-cultural, legal and normative components. Calculation tools are not necessarily sophisticated or formal, but have multiple cognitive, routine and social-based dimensions (Coquery *et al*. 2006). They stem from social interactions and are thus embedded in individuals' social positions, particularly in terms of class, caste, gender and ethnicity (Villarreal 2013). Looking at how people think and perceive finance – their local frameworks of calculation – leads us to demolish many preconceived ideas that are found in financial education manuals. In what follows we explore a few of them in more detail: attitudes to interest rates and the price of money, cross-borrowing and juggling, and saving.

The issue of price: the social cost of debt

The poor are often accused of being unable to evaluate prices. This bias ignores both that prices are socially produced – the linear function relating time to money is not the most common way of thinking - and the fact that many debt sources have a non-monetary dimension.

In economic theory, interest rates are a function of time, but a lack of clarity over future income tends to considerably shrink a time horizon and can explain the acceptance of very high interest rates (Bloy

and Dupuy, 1990: 70; Collins *et al*. 2009). On the other hand, in many contexts, vernacular languages have no specific terms for the surplus a debtor pays a lender. In such cases, debt is seen not in relationship to time but in terms of commercial margin (Baumann 1998) or as a fee (Collins *et al*. 2009). In Tamil (the local language in Tamil Nadu in southern India), the price of money is measured in paisa, the decimal of the rupee, regardless of any duration. In Wolof (Senegal), people use various terms: the French term *intérêt*, or the term *bonofiss* (benefit), or *ngañaay* (to earn something), or *teg* (to be added) (Baumann, 1998: 38). In Bamileke (Cameroon) the term *pé* means both "profit" and "interest" (Servet 1995). According to Parker Shipton, in most East and West African countries the price of money is rarely related to time, and when it is the case, it is not linear (Shipton 2010). For instance in Kenya, farmers think of interest in terms of ratios, and not in terms of rate, or they think of it in terms of something "that can rise stepwise, from one harvest to another" as it is only after harvests that farmers are likely to have something to repay (Shipton 2010: 42).

Regardless of how the price of money is calculated, be it a linear function to time or a fixed ratio of borrowed capital, sensitivity to the cost of money varies considerably between and within societies, for economic reasons such as the importance of inflation, and also for social and cultural reasons. Sensitivity to the cost of money also varies between social groups. Quite often interest rates do not result from supply meeting demand, but are regulated and shaped by social institutions and partly reflect the status and positioning of the two parties to the transactions. Social institutions for instance include ethnicity, caste, religion and gender. Concretely, this means that members of indigenous communities in Mexico, Dalits in India, Latino or an African migrants in the US, or simply women, may have to pay a higher price, provide more collateral or get lower amounts (Guérin *et al*. 2013a; 2013b; Agier & Szafarz 2012).

Last but not least, money is just one factor in the evaluation of the price, for two reasons. First, far from the contractual relationship envisaged by economic theory, many debt relationships, including those classified as formal, are embedded within wider relationships and can include many additional services provided by lenders and/or borrowers. These services can be benefits in kind for the borrower that offset high financial costs. The provision of free services to lenders can increase the opportunity costs of the loan. The social meaning of debt is also a fundamental to how people evaluate and rank various sorts of debts. Depending on how debt is experienced and perceived, the nature of the relationship with the lender and the set of rights and obligations which link them, debt can be seen as a right, an opportunity, as a source of shame or of pride. Some debts are neutral – the contractual debts economists discuss, which take place between two parties of equal status and in which repayment ends the relation. Honorific debts by contrast are sources of recognition and prestige, either because the lender is famous - the fact that he/she grants his/her trust is in itself a source of recognition, or because of how the debt is used. To be in debt is proof of the sacrifices and risks that the debtor takes on to assume his/her

responsibilities and obligations (for instance marriages, children's education, etc.): unless debt exceeds a certain limit, being in debt is not a symptom of poor management or financial illiteracy, but a sign of responsibility. There also degrading debts, which are signs of being unable to properly provide for one's family or of being reduced to begging.

In Tamil villages for example, the Indian adage of not becoming indebted to someone lower down the social scale than oneself continues to go strong (Guérin *et al*. 2012a). Locals view the most "dangerous" debts rarely as the most expensive or of high amounts, but as those contracted from lenders of inferior status, which most threaten the solvency and reputation of the family. Position in the local caste hierarchy is decisive here; for instance it is very rare that a high-caste borrows from a Dalit (ex-untouchable). Hierarchies of gender, class (employer / employee) and kinship also shape the social meaning of debt. Conversely, Dalits looking for upward social mobility do not hesitate to approach lenders with extremely high rates to escape or reduce village debts that are cheap but a source of dependency (Guérin *et al*. 2013c; Picherit 2009).

For women, a finding which is probably valid beyond India is that the social cost of debt is closely related to the control of their bodies and their sexuality. A woman who borrows from a man from outside the family is immediately accused of being an "easy women" or a prostitute. At the same time, verbal and physical sexual harassment is extremely common among male lenders lending to women. Women thus often face a trade off between financial cost and their reputation as women. Several ethnographies have also shown that women, as managers of household budgets, most often specialize in emergency loans, which are essential to family survival but often socially degrading. These degrading debts include for instance travelling lenders in India, who rely on social coercion and public denunciation to enforce repayments (Harriss-White et Collatei 2004), pawnbrokers, and revolving funds from consumer credit companies in Europe (Ducourant 2009).

Formal debts, in the sense that they are registered and regulated by public authorities, are often seen as free from social considerations. Close analyses have found that this is not true, as Helen Ducourant (2013) shows for consumer credit in France. This "market" remains highly fragmented in terms of social class. Not only do the poor and lowest classes pay the most, but they also suffer from the moral judgments and contempt of bankers (or experience them as such). When given a choice, they prefer the anonymity of financial companies that are extremely costly financially speaking, but less humiliating, as transactions are carried out over the telephone or the Internet.

Moral judgments of debt are far from universally the same. Debt can be considered a normal part of the human condition, as observed in Hindu societies (Malamoud 1980) or as something that should be avoided, as observed in rural communities in Maghreb (Bourdieu 1977; Morvant-Roux *et al*. 2012b).

Criteria for assessing 'bad' and 'good' debts might therefore significantly differ from financial education 'good practices'. According to the Global Financial Education programme for instance, "*simply put, borrowing is good when it helps you gain financially and bad when it becomes a financial burden […] and still owed after the item is consumed or the income earned from the asset is less than the cost of the loan*" (Global Financial Education, nd: 5). The addition of social and moral values into the picture further complicates things. The multiple logics of debt lead to a plethora of complementary and often incommensurable, non-substitutable financial practices.

Cross-borrowing and juggling: a symptom of over-indebtedness or a means of managing financial and social risks?

Cross-debt and juggling with various creditors is often thought as a symptom of bad management, financial fragility and over-indebtedness. Most analyses of the microfinance crisis for instance consider that « cross borrowing » - the fact that people borrow from multiple microfinance institutions at the same time - is an indicator of over-indebtedness (Chen *et al*. 2010). In-depth analysis of household financial management shows that multiplying credit sources – and multiplying the social ties that underlie these credit sources – is not necessarily an indicator of financial fragility. Of course it may result be due to inability to repay, but very often it is an essential daily financial management method.

Cross-debt can take various forms: cross-debt between several microfinance institutions, between various financial products from the same financial institution, or between microfinance and other forms of finance, be these formal (banks, consumer credit companies) or informal (i.e. unregulated) (Wampfler *et al*. 2013).

Cross-debt may allow to bypass loan ceilings and to thereby access more credit, as observed for instance in rural Madagascar (Wampfler *et al*. 2013) or urban Morocco (Morvant *et al*. 2012a). Cross-debt also allows to best deal with the advantages and disadvantages of each source, as observed in rural India (Guérin *et al*. 2012b). In this context, each lender has specific characteristics, which include price, the nature of collaterals, ease and speed of access, duration and means of repayment (instalments may be regular, seasonal, or in a lump sum), nature of enforcement mechanisms, etc. Lender characteristics also include possible control over loan use, the degree of respect they grant to their debtor, the preservation – or not – of their anonymity, and social and moral values, which influence debtors' reputation as discussed above. This diversity results in the compartmentalization of borrowing uses, whereby households often use various borrowing sources with very specific purposes in mind.

Cross-debt is often associated with juggling. Juggling literally involves throwing, catching, and keeping several things in the air at once, demanding speed and dexterity, but also risk-taking. These three facets are excellent in evoking the nature of financial practices: people combine multiple financial tools in the

context of ongoing borrowing, repayment and reborrowing practices (one borrows from one place to repay elsewhere). Individuals swap roles between debtor and creditor, and even the poorest people are also likely to be creditors (Collins *et al*. 2009; Morvant-Roux 2009).

Juggling can be a way to substitute cheap debts for expensive ones, given that, as discussed above, debts are partially substitutable. Juggling can be a matter of substituting medium or long-term repayment time scales for short ones, as lenders impose different loan durations. Here too, social motivations count. Juggling practices often reflect deliberate choices, strategies or tactics aimed at multiplying and diversifying social relationships, and strengthening or weakening the burden of dependency ties. Juggling can help to sustain one's credibility, reputation and social networks. Lending presupposes the two parties already share a relationship of trust, but it also serves to maintain, reinforce and renew this relationship: to participate actively in debt networks allows to maintain one's creditworthiness. In urban Mexico, Magdalena Villarreal has studied credit chains among women where any income is largely used to repay old debts, maintain credibility and thus borrow again later (Villarreal, 2002). Similar observations were made in indigenous regions of southern Mexico (Morvant-Roux 2009). On the other hand, juggling allows to maintain a certain balance, considering the inherent ambiguity of all debt relations (Guérin *et al*. 2011). Even if a lender is cheap, you may want to repay more quickly than others to avoid being too dependent.

When describing their financial practices Senegalese women state: '*sab bukki, sulli bushidô*' (take a hyena, bury a hyena) or '*sab-sul*' (dig and bury), meaning they take on new debt to pay off old debt. They also speak of 'drawers', whereby all the people or groups they lend to or do a favour for represent a 'drawer' they can pull on at any moment. Women clearly explain that these endless practices of borrowing and repayment serve to meet needs, maintain their relationships and "erase shame" (Guérin 2006). In southern India, rural households say that they borrow "like they breathe", referring to the permanent process of borrowing and repayment. The term "over-indebtedness" does not exist in the local language. It is not too much debt which is problematic – even if some debt sources are very expensive and sources of servitude: it is rather the inability to borrow which is considered a difficulty (Guérin *et al*. 2013b). In many contexts, maintaining one's creditworthiness while limiting dependency are key to identity, reputation and well-being, both present and future, for individuals and their kin: social recognition is key to accessing resources and to matrimonial alliances. The poor are thus not unable to plan, but long-term considerations – preserving one's reputation and creditworthiness – may outweigh short-term considerations (going into debt at a very high price, paying off an expensive debt).

Women are often very active in these juggling practices yet face specific constraints. Numerous monographs from the past decades conducted all over the world have revealed that the paradox of

having to make ends meet without having control over income is still a strong feature of everyday life for many women (Bruce & Dwyer 1988). Many women are forced into financial dependency whilst remaining fully responsible for the management of the household budget, and have no choice but to deploy various sources of debt and saving (Zanotelli 2013). For them, juggling is the only way to solve the paradoxes they face in the triple challenges of making ends meet, limiting or by-passing men's control over their resources, and preserving their reputation as women as discussed above.

Thus permanent juggling practices should not necessarily be understood as a sign of over-indebtedness or poor management. Juggling results from multiple constraints and rationales. They may obey to monetary but also social or symbolic aspects. They are characterised by a permanent tension between the individual and the group, between personal aspirations and collective responsibilities, between short and long term temporalities (Guérin *et al*. 2011; Wampfler *et al*. 2013).

Saving in cash versus circulation of cash and saving in kind

Low monetary savings are often taken as an indicator of financial illiteracy. Again, this ignores two very important components of financial behaviours.

For various reasons it is often much more rational for the poor not to save in cash. This is as much a question of safety as it is an effort to resist the temptation to spend and to ward off requests from one's entourage; furthermore, immobilized money – at home or in a bank account - serves no purpose. Furthermore, immobilized money – at home or in a bank account - serves no purpose. Money must circulate: it is both a necessity and a "social game" (Fontaine 2008). Morvant-Roux (2013) discusses an "institution of debt" that establishes a form of "collective management" of individual surpluses: all forms of wealth (not only coins and notes but also bricks, food products or cattle) can be loaned if the owner does not have an immediate need for them. The slightest riches, whether in cash or in kind, are loaned to conceal ownership and cement social bonds. This allows both to avoid spending and to sustain solidarity links with close circles. Preconceptions about financial illiteracy seem to ignore the existence of these financial circuits, which are also forms of savings – and often considered as such – as any loan is meant to be reciprocated (Johnson 2013; Morvant-Roux 2009; Rutherford 2001).

Preconceptions as to financial illiteracy also ignore how in-kind saving practices are highly widespread and frequently highly rational. All things being equal, it is often much more beneficial to the poor to save in kind, for example using cattle, jewels, food, beads or clothing. Goods used as savings are very diverse within and between societies. These frequently include vessels or jewels (more often for women), livestock for rural and pastoral societies in particular (small livestock for women, large livestock for men), foodstuff, for instance in French working classes (Perrin Heredia 2010). One also sees cases of wastage, for instance in Argentinean slums (Saiag 2012). Goods used as savings fulfil a

number of economic and social functions. Choices are based on sophisticated calculations, including price volatility (for instance for gold or livestock) (Guérin *et al*. 2011; Shipton 1995). Reasons for saving are also diverse and sometimes contradictory, given ongoing tension between social obligations and individual desires. The result is a plethora of complementary and at times impossible to substitute saving practices. Hence efforts to collect cash savings and instil "saving discipline" may not bring the anticipated results.

5. Conclusion

The idea of "educating" the poor to take advantage of the financial services offered to them is certainly laudable. There are, however, a number of risks. Approaching financial services as solely a matter of technical skills is highly problematic, as insights from behavioral finance have highlighted. This new branch of economics contributes to a major renewal of economic thought and has highlights complexity of decision-making and behavior, particularly in finance. However it remains limited to a micro-scale and ignores the societal and political issues behind financial education. Political economic approaches meanwhile challenge how reliance on financial education, implicitly or explicitly, shifts responsibility to individual borrowers and divests both lenders and states of their responsibilities. The current financial crisis has amply demonstrated the irresponsibility of lenders, with the cooperation or at times even the explicit support of States. The present crisis of the microfinance industry also reflects the predatory behaviors of certain microfinance institutions, sometimes with the complicity of public authorities (see Bédécarrats *et al*. 2011 for Latin America; Guérin *et al*. 2012c for India). The way policymakers have promoted financial education shows a clear risk of a shift in its intended purposes. What should be considered as a tool to improve daily household management has tended to be taken as a tool to prevent or mitigate financial vulnerability, despite the fact that financial vulnerability and over-indebtedness clearly have more fundamental structural causes. It has also come to be taken as a way to compensate for the weakness of financial regulation.

We have developed a third form of reading in this paper, using an economic anthropological approach to offer a further perspective. The assumptions underlying the concept of financial education are not neutral, but based on an arbitrary, ethnocentric classical economic framework. The poor often have their own highly sophisticated methods of risk assessment, hierarchisation of debt and saving, planning and calculation, using locally relevant standards. They are not financially illiterate, which would imply an incapacity to use financial services. Simply they use other frameworks of calculation. Not only may their objectives be different to those postulated by a classical approach, but people do not necessarily seek to maximize only material well-being but also to preserve, maintain or strengthen identity, status and social ties. When reputation and social networks play a fundamental role of protection, these motivations, irrespective of what they bring, are perfectly rational. Financial services

should not just be seen as financial transactions, but as fully integral to building social identities. As a consequence their evaluation follows situationally specific criteria.

From a policy perspective, approaching financial education from an economic anthropological perspective brings out two insights. First, ignoring how people perceive and understand finance locally is likely to have a poor outcome in terms of behavioural change. Second, in line with the insights of political economics, the economic and ethnocentric biases critiqued by economic anthropology are not power neutral (Perrin-Heredia 2011). As in many other circumstances, certain types of knowledge are more aligned to communities of practices that hold more power, while other types of knowledge are more aligned to communities that have less power. Financial education programs' frameworks of reference are highly disconnected from ground realities, and also convey specific norms, values and conventions.

These programs are reminiscent of household education courses in nineteenth century Europe and North America, whose golden age came about prior to the establishment of social rights (Ewald 1986). In the liberal spirit of the time, security was not a right, but a duty that should be earned individually. Planning understood in economic terms – spending little, saving and not borrowing – was considered as a liberal virtue par excellence: "Fundamental virtue of human in relationship with oneself, by which it is possible to overcome the dependency which originally defines the relationships between humans, the world and its misfortunes, by which humans may access freedom and gain dignity and respectability " (Ewald, 1986: 71, our translation). This was the time at which the first savings banks were established. They had a financial function - serving as financial intermediaries and financing the economy - but also have a moral function: it was hoped to win over the poor to austerity and economic planning. Popular education, mostly addressed to women was key to this moralizing enterprise. Not only was there instruction on hygiene, cooking, sewing and writing, but also budgeting. As public authorities and employers were unable to contain the adverse effects of industrialization and pauperism, they encouraged financial planning among the poor and beneficence from the rich to stave off the emergence of a threatening class of the disaffected and disadvantaged. The project was academically legitimized by the neoclassical economists at the time. Jevons, a leading economist of the time, argued that pauperism continued due to a lack of "self-reliance". He claimed that the poor were unable to manage their income and wasted their wages, especially on alcohol, and failed to plan for the future. He argued that it would be pointless to increase their wages, but would be better to first teach them to manage a budget (Jevons 1883: 196-200, 205). His plea for more efficient financial management implicitly addressed woman, as household budget was their responsibility. Similarly, when Alfred Marshall argued for women's education, it was to make them capable housewifes, teaching them the basics of health and nutrition to reduce child mortality, and notions of accounting to better manage the family budget (Marshall 1971 [1890]). 1970. Household welfare

became closely linked to housewives' financial management capacities: "from their virtue, universally celebrated [...] depends, it is said, the balance the family budget" (Perrot, 1991: 101-102, our translation). Being able to manage budgets became a sign of "social competence", and knowing how to spend became an essential to "domestic expertise," or even a "sacred duty" (Zelizer, 1994: 41).

The discourse today of the promoters and supporters of financial education is sometimes very similar, as this paper has discussed through numerous examples. Most probably have very good intentions, but ignoring the broader framework within which financial education takes place may have serious consequences. The present day economy is characterized by new forms of financial exploitation (of microfinance represent only a meager portion). They rarely help the poor to take advantage of opportunities, but mostly act as poor substitute for a lack of income or social protection (Servet & Saiag 2013). In this context, to consider that the poor are unable to manage and plan and to ignore the specificity of local knowledge serves to conceal the existence of these forms of financial exploitation.

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