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Arvind ASTHA, Rosita De SELVA

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Religious Practice and Microcredit: Literature Review and Research Directions

Arvind ASHTA ¹
Rosita De SELVA ²

ABSTRACT

Little work has been done in the conjunction of Microfinance and Religion. This paper explores the findings of the extant research. It then provides future research directions on a number of subjects within this broad area, available for researchers from a large number of fields: anthropology, theology, sociology, representations and systems of thought, development economics, finance, and business management.

Keywords

Religion, business, microfinance, microcredit, entrepreneurship, development

¹ Arvind ASHTA - Holder of the Banque Populaire Chair in Microfinance, Burgundy School of Business (Groupe ESC Dijon-Bourgogne), CEREN, CERMi, Email Address: arvind.ashta@escdijon.eu

² Rosita De SELVA -Ecole Pratique des Hautes Etudes (Sciences religieuses)-CEMAF (Centre d'Etudes des Mondes Africains), Paris; Prof. Social Anthropology, Sociology Department, University of Burgundy, Email Address: r.deselva@wanadoo.fr

Introduction

Microfinance is the provision of financial services to poor people. It is a movement which is gaining ground and today there are 10,000 Microfinance Institutions providing credit to 190 million people, serving 950 million if we take a family size of five. However, there is a lot of debate on the impact of microfinance and it is not known whether it creates any impact on its own or in conjunction with a lot of other government and non-government initiatives such as health, education, transport, telecommunications, governance, property rights, aid and public employment.

Entrepreneurship and finance are major fields of research in business schools. The question of religion is also mentioned in numerous papers. It shows that it is difficult to separate one field from the other. Today, there is a growing field on microfinance and microcredit. However, very few papers discuss religion and microfinance and religion and microenterprise. Our paper is a first literature review in this field, starting with periodicals, in order to point out questions for further research.

In an article in *The Economist* (2005), "From charity to business", a question is posed: "Should financial services be provided alone or in conjunction with education, health care and religion?". The latter relationship will be explored in this paper: microfinance with religion.

People who need and benefit from micro-credit are most often the poor. In these groups, the success of the action - including and even especially "economic" action (success in business) is often linked to, or accompanied by a religious behaviour (advice from the "wise", wishes submitted to religious bodies: saints, deities or others), which has little economic visibility, but without which the economic investment is not perceived as adequate. This behaviour is not unique to economically disadvantaged categories covered by the microcredit. But in their case, we can assume that it is more problematic or critical.

Interactions between microfinance and other fields of the society such as religion received little attention, though it appears that religious institutions often play an important role in the set up of microfinance systems, with particular consequences. We have even less information

on the sociological contexts where the microfinance develops. Social behaviours (in economy and religion as in all other fields of social life.) are the emerged side of a much more complex reality, often assumed as sociological background. The anthropologists go further and try to identify the hidden structures which are behind this background, particularly the system of thought that govern the whole thing.

The second part of this review focuses on these sociological and anthropological dimensions, with India as first area of investigation. It could be a prelude to more extensive comparative research

Literature Review

There are quite a few studies on religion and money. Some debate whether there is a positive relationship between religious intensity and economic income (Guiso et al, 2003; Lipford, Tollison 2003; Arano, Blair 2008; Rupasingha, Chilton, 2009). Others argue that some religions are more economic oriented than others, but results are again disputed (Heath et al 1995; Guiso et al, 2003; Noland 2005; Mookerjee, Beron 2005; Rupasingha, Chilton, 2009). It is suggested that religions influence public and private institutions and that these institutions are then related to economic activity.

However, the literature on "religion AND microfinance" and "religion AND microcredit" shows it is mostly limited to discussions of Islamic Finance (Ahmad, Ahmad, 2009; Ahmed, Hassan, Lewis, 2007; Dusuki, 2008; Hamid, 2005; Seibel, 2008; Shahinpoor, 2009). Nevertheless, a few articles do cover other religions (Atkins, 2007; Coreil, Mayard, 2006; Hollis, Sweetman, 2004; Lybbert, 2008; Sama, 2009).

Hollis & Sweetman (Hollis, Sweetman, 2004) ask whether religion helps to deal with external shocks and MFI failure? What happens to microfinance organizations when faced with massive external shocks such as famines? Using a unique and extensive data set, they analyze the impact of the Great Irish Famine of the 1840s on the Irish loan funds. The funds, initiated by Jonathan Swift in 1700s, were a large and important microfinance institution (short term loans, weekly repayments, low interest rates) operating throughout Ireland. 41.8% of these were managed by religious Ministers. The authors find that funds

managed by ministers were 15-20% less likely to survive in time of crisis. Possible reasons could be that ministers are more social oriented, less professionally effective.

Coreil & Mayard (2006) examine the process of indigenization within peer support groups for Haitian women living with the chronic physical impairment of *lymphatic filariasis*. Unlike most support groups in affluent settings, the Haitian women showed minimal interest in talking about illness-related issues. The groups developed a distinctly Haitian style characterized by emphasis on religion and spirituality, artistic and expressive components, and acquisition of practical skills that offer income-generating opportunities. Members directed the greatest energy toward developing microenterprise activities.

Dutta & Magableh (2006) find that religious beliefs affect the borrowing process of the micro-entrepreneurs. They investigated the socio-economic determinants of four stages of borrowing process of the Jordanian microfinance market. They find that variables that reflect the repayment ability are the main determinants of credit rationing in the microfinance market; and that religious beliefs, social responsibilities, availability of local microfinance providers, application costs, level of knowledge about microfinance providers significantly affect the borrowing process of micro-entrepreneurs. Credit rationing is found to be a problem for some applicants, but not for the majority.

Dutta, Dilip, and Ihab Magableh (2006) ask whether demand would increase if the MFI was run by religion sanctioned/ approved CEO/ credit officers? Their paper investigates the socio-economic determinants of four stages of borrowing process of the Jordanian microfinance market. The main results linked to religion are as follow: 67% find that religious barriers prevent them from obtaining microfinance, 66% consider that their Islamic beliefs prevent them from applying for microfinance loans. The probability of applying for microcredit decreases when the MFI is not Islamic. Therefore need to have Islamic microfinance products in product portfolio.

In an Economic Policy Country Report on Pakistan'(October 2007), we find that regulation and religion are closely related in Pakistan, where the government has formulated Islamic microfinance products which can be distributed by Islamic banks, conventional banks and

microfinance banks. Where religious traditions are strong, regulators ensure that microfinance products respect religious beliefs.

However, Seibel, Hans Dieter (2008) find that Islamic Microfinance in Indonesia is not successful. In fact, the private Islamic Finance Banks do not know about microfinance. The rural Islamic microfinance institutions reached a plateau. The cooperative Islamic microfinance institutions are non-performing. Demand is not really there: it's a State pushed product owing to religious (cleric?) pressure. Note the opposition from the Jordan and Pakistani studies. Note also that within Indonesia, in the Hindu island of Bali, Seibel & Nurcahya (2009) find that the power of customary governance in financial institutions of the customary village and the Balinese culture of honoring one's obligations have played a role. The customary system is comprised of customary villages (*desa adat*, *desa pakraman*) and constituent customary communities (*banjar*). The role of Hindu notion of Karma: Cannot leave a loan unpaid in this life because may be indebted in future ones, is underscored (Seibel, Nurcahya 2009).

Lybbert, Travis J. (2008) find that religious participation involves important social relationships and thereby builds social capital, but it can also bring spiritual benefits that shape behaviour and outcomes. These spiritual and social connections often represent distinct personal endowments, which can impact poverty. To build intuition, he presents a poverty trap model and discusses how social and spiritual capital might affect poverty differently in this model. This intuition then provides a point of departure for exploring spirituality and sociality as capital assets in a current Christian initiative--the Perpetual Education Fund of The Church of Jesus Christ of Latter-Day Saints.

Sama, Linda M. (2009) finds that religious personnel can identify entrepreneurial talent. The article presents information related to the Global Loan Opportunities for Budding Entrepreneurs (GLOBAL), the Global Microloan Program with resources provided by the Tobin College Business (TCB) and the Vincentian Center for Church and Society at Saint John's University (STJ). While the Vincentian tradition of helping the poor is at the core of this program, the Daughters of Charity serves as field partners to identify entrepreneurial talent in their provinces.

Atkins, Wendy. (2007) questions whether religion makes credit safe? The article discusses the expansion of microcredit operations in Indonesia. Most microfinance activity in Indonesia is focused on the islands of Lombok, Bali, southern Sumatra and Java, areas that are driven by strong religious and cultural traditions and customary laws that make the provision of credit safe. The success of microcredit operations in Indonesia is attributed to their proven track record as resilient depositories for the poor in times of economic crises.

Tamsin Harriman (2008), in a short paper, points out that in Thailand and Philippines a significant number of religious institutions are now engaging themselves in MFI rather than “charity”. This trend leads to a number of questions, one of them being the (well known) danger of using microcredit as a vehicle for evangelism, the other (less noted in the literature) being that people do not find enough “morality” in MFI system and hence go back to charity. In Microfinance, the moral feeling loosen, the eagerness to work “for the poor” is less and so is the recognition by society. People may abandon the microfinance system for this reason. Harriman clearly shows that these societies are conscious that, if microfinance is strictly limited to economical sphere, it is dangerous for them, and hence, can be abandoned.

More recently, Mersland et al (2011) compare Christian organizations with secular ones. They find that, surprisingly, Christian MFIs provide less loans to women than secular MFIs. Regarding financial performance, they find that Christian MFIs have significantly lower funding costs than secular MFIs and also that they have a lower profit orientation. These lower profits may be either due to lending at lower interest rates (Catholic organizations) or due to organizational inefficiencies (Protestant organizations). However, Christian MFIs are as effective in enforcing loan repayment as secular MFIs.

India and Bangladesh

Bangladesh and India have been advanced laboratories in the development of microcredit and we have in this area some socio-economic studies that put the questions of context into the centre-stage of their study on microfinance (Guerin 2009; Jauzelon 2007; some (Picherit 2007) show more specifically the results obtained through

extensive ethnographic studies conducted in a comprehensive approach, as well as conjunction with researchers from several disciplines.

Guerin, Roesch, Héliès and Venkatasubramanian (2009) show that in South India debt is less an economic need than a social consumption requirement. "We go into debt to maintain, strengthen or establish a social relationship.". Microcredit, therefore, enters a large and complex system of social relations. In these circumstances it is not surprising that, as the authors say, microfinance is "the origin of new forms of risk". The authors are also the only ones to draw attention to the fact that debt in India has very ancient religious roots: there is "a propensity of people to go into debt, for religious reasons." They do not go beyond this observation, do not analyse what are those "religious reasons". But a detailed analysis of vernacular terms for debt show the overlap/penetration between the practice of microcredit and various areas of social and religious life with a healthy step back on the speeches and silences of the populations studied, which calls to question the reliability of surveys conducted too quickly. The authors also introduce the concept of "promise" as an important factor in the possible threshold of indebtedness ("where a person can no longer borrow, it is that he had not kept his promise "), and the essential link between debt and inclusion in society: it seems that one who is not subject to the system of debt is seen as being asocial. Indebtedness is a sign of positive sociability. Less innovative: the article highlights the fact that microcredit would be just one more ingredient in the cycle of indebtedness. That said, this remark, if it is compared with the previous notations, reinforces the idea that microcredit is much more than a matter of economics.

Jauzelon (2007) shows that in the functioning of microfinance groups of the Paraiyars community (a low caste of South India), the notions of duty, sacrifice and service play a more important role than the notion of "solidarity". In this context, the effective –though "invisible"– group engaged in microfinance is the family (the author refers to it as "inherited" solidarity) much more than the group formed by the borrowers (the author refers to it as "organized" solidarity). The "family" solidarity includes religious duty towards the ancestors, whose cult is strong in Paraiyar society. There, the notion of hierarchy is linked to religious duty, plays an important role and gets into the microfinance system. Another point is that many borrowers considered the money

lent as a “gift”, with a religious meaning. As what is given by god does not have to be paid back in the same way as an ordinary credit, the whole system is affected by religion. Deeply rooted religious concepts played a direct role in the failure of microfinance attempts in this case.

More recent studies of Hindu legal treatises (Ashta 2011, Sharma 2011), dated between 300 BC and 300 AD, indicate that in the Manusmriti, interest rates up to 60% per annum, according to caste, were permitted in certain cases; and in the Arthashastra: up to 240% per year for sea voyages (high risk) was permitted. Sharma (2011) also points out the notion of pious obligation of the descendants to pay the debts of their parents. If there is inheritance, with real estate, three generations have the obligation to repay with interest. As opposed to this, if there is no inheritance, the notion of "Dampudat" requires that sons still need to pay with interest but next two generations without interest (Sharma 2011). These historical notions are intertwined with religion so intrinsically that they carry social weight.

Attuel-Mendes, Ashta & Pic (2011) study the notion of money in different religions (Hinduism, Islam, Judaism and Christianity) as well as the treatment of interest. They find that while Hindus revere money and Islam places an important social function for money, in the other religions, it is separated from the spiritual sphere. As the same time, while Hinduism permits high interest rates, the other religions are less tolerant of high interest rates and even prefer no interest rates, as in Islam.

Future Research Direction

Based on the literature review, we can come to the following questions which can be posed for future research. We have grouped the questions together.

The role of the priest: Social approval for action is required owing to loss aversion. If the project does not succeed, who is going to be blamed? Or perhaps, it is perceived that village elders/ religious persons will provide the networking to ensure success. What influence does a priest /saint have on microfinance and microenterprise? Does the taking of a loan require approval by the social gurus (religious guru?)

either directly or indirectly? Is the priest/saint a maven permitting linkage/ networking social capital?

Religious practices: What kind of religious practices, if any, are followed by Beneficiaries -or any of their relatives- in relation to microcredit, either positively or negatively? Do these practices support them in their economic behaviour and, if so, how?

Economic success: Is there a link between the actual achievement (actual economic performance) and religious behaviour? Does religious benediction reduce fear of failure/ increase confidence or optimism? Do poor people repay better because they are more religious?

The notion of success: Satisfaction requires economic success and social validation (hypothesis to be confirmed or refuted). Can the notion of success achieved from profitable activities financed through microcredit can be separated from religious practice. Is economic success sufficient or is social success also necessary and is spiritual success a need? Does social success require religious approval, especially in an "illiterate" village surrounding?

Spiritualism and Materialism: In a globalized world and an economic system that works, thanks in part to globalization, will the relationship between economics and religion change? Otherwise stated, is it that the "material" will gain ground on the spiritual" if the economic system brings "tangible" results? Is the spiritual separate from the material? Does the spiritual include the material? Does the spiritual add to the material or does it detract from the material? Does microfinance change the nature of spirituality: from spirituality as refuge of the poor to spirituality as actualisation (Maslow)?

Representations and system of thoughts: What is the vocabulary used by the actors and beneficiaries. Is there a link between the "economic" vocabulary and the "religious" based vocabulary? More precisely, do notions like debt, indebtedness, duty, etc., that are used in microfinance system and practices have also a religious meaning and is there (hidden) interactions between the two sets of notions? For example, it may be interesting to analyse why a person who cannot fulfil an engagement given as strictly "economic" goes to such an extreme as to commit suicide, which has strong religious consequences? Is this because this "economic" engagement is in fact considered as a failure to fulfil a "promise" or a duty charged with a religious meaning?

Conclusion

Little work has been done on the sociological and anthropological links between religion and microfinance. This first paper provides a few questions to be investigated by researchers in the field. This could concern a large number of fields: anthropology, theology, sociology, psychology and semantics, development economics, finance, and business management.

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