REGULAR SESSION INFORMATION

Session: Embeddenedness in Financial Processes and Lending Decisions

Session Convener(s): Akos Rona-Tas, University of California, San Diego

Chair: Akos Rona-Tas, University of California, San Diego

Comments: -

I) *Financial Capital, Communication, and (Western) Geo-Hegemony*
Carmelo Buscema, University of Calabria

II) *A Framework to Assess Credit Risk in Group Lending with an Application to Rural South India*
Sangamitra Ramachander, University of Oxford

III) *From a Face-to-face Economy to Economic Identification in Rural France*
Gilles Laferté, Institut National de la Recherche Agronomique, Paris

IV) *Hawala*
Dulce Redín Goñi, Universidad de Navarra

ABSTRACT

Session description
Finance has become a powerful force in the global economy. Financial markets, once an exotic and exclusive realm of the economy by now have permeated a many segments of social life. Yet the current global financial crisis also has demonstrated the stunning fragility of the financial system. It also revealed that behind the seemingly hegemonic, universalistic and hyperrational and decidedly Western façade, there is a wide variety of local practices. This panel invites contributions that analyze the financialization of everyday life from a comparative perspective with special attention to the social embeddedness of finance.

Papers
I) *Financial Capital, Communication, and (Western) Geo-Hegemony*
Carmelo Buscema, University of Calabria

Financial capital can be metaphorically described as the sun never sets on the global empire and on its productive social body. In fact, it has recently acquired a pivotal and dominant role both in the process of production and accumulation of value, both in the social and geographical circuits of distribution of incomes. Furthermore, it contributes to pervasively shape social forces by selecting and addressing, fostering or imposing the forms, terms, ambits, modes, limits, and sectors of their engagement and development, not only in the economic sphere, but also in the political one. Thus, financial capital seems to have sequestered, subsumed, and hierarchically ordered "real" economy, institutional political ambits, and ultimately the social - as an all, and in details. The methodological strategy I choose for highlighting and verifying such trends, consists of the analysis of the reciprocal implication and relevance that finance and communication have matured in contemporary world. Such interconnection turns out to be crucial whether we conceive communication as the general social phenomenon par excellence in contemporary world. Source of all sort of value, it is the totally pervasive, and all-including activity/condition of societies and individuals, catching and "representing" the entire reality - more and more in a synchronic and diachronic sense. In particular, I will underline the way finance and communication are mutually evolving and interconnecting themselves not only in the Western countries, but also in the peripheries of the global economy, and across the "margins" of the global social body. I will refer to the expansive phenomenon of micro-credit, and consider its important linkage with transnational migration - like in the case of Ecuador - proposing the hypothesis that it nurtures the historical process of expansion and intensification of the capitalistic dominion. Finally, I will highlight some effective and potential implications such phenomena are generating from a political and geo-hegemonic point of view; and indicate how the concept and practices of the "new commons," developed by the anti-hegemonic movements worldwide, if pertinently applied both to finance and communication, could represent the strategic way out of the current system of global exploitation.

II) *A Framework to Assess Credit Risk in Group Lending with an Application to Rural South India*
Sangamitra Ramachander, University of Oxford

This study develops a framework to assess credit risk in joint-liability based group lending based on the existing theoretical and empirical evidence in the area. Three broad categories of risk are identified: (i) the credit risk associated with individual group members, which can be further decomposed into socio-economic status, financial history and family support toward group membership (ii) risk arising from the purpose of loan use and (iii) risk relating to group dynamics (specifically the extent of peer selection during group formation and homogeneity within groups). The framework is applied to a cohort of 85 Self Help Groups (comprising 18-20 women) in rural South

India that received loans in the year 2003. We find that the likelihood of 'arrears' is easily predicted by the framework. In particular, arrears groups appear to suffer a multiple disadvantage: low socio-economic status is accompanied by a lack of family support toward group membership and is also associated with weaker informational and social capital within groups. The use of loans for consumption is the highest in these groups, implying that repayments are derived from the stream of the household's incomes or savings rather than the returns on productive investments. Given that the majority in these groups are daily-wage labourers with poor financial habits (a lack of regular savings), the chances for successful repayment are clearly unfavourable. While members in these groups typically have a poor financial history (prior loan refusals), however, they are paradoxically less credit constrained. The lack of credit constraints is likely to reduce incentives for repayment as the threat of sanctions on further loans by the MFI – a central feature of the group lending contract – carries little value. In aggregate, therefore, the ability and incentives to repay appear heavily skewed against these groups.

III) *From a Face-to-face Economy to Economic Identification in Rural France*
Gilles Laferté, Institut National de la Recherche Agronomique, Paris

I study the transition from a face-to-face economy to one based on what I call 'economic identification', from the 1950s to the present, through an investigation of *Crédit Agricole*, the dominant bank in rural France, and now one of Europe's largest banking groups. This mutual bank was innovative in that its loan applications were vetted by a committee made up mostly of local farmers and craftsmen who based their judgment of customers on information gleaned within their own interpersonal networks. Today, the decision-making power is in the hands of the bank employees, who—through the spread of credit stories, accounting records and possibly by statutory requirement—have access to the credit-rating and the banking history of each customer. It is only since the 1990s—far later than the US credit industry came to be run by credit reporting systems—that credit-worthiness in France has shifted away from judgments through acquaintanceship or social belonging, and has become more a matter of risk management, providing banks with long-distance control over credit distribution. Account numbers, bank cards, and scoring are all bank-guaranteed tools for economic identification that ensure storeowners of the economic solvency of their customers. Credit relations and determinations of creditworthiness are now monopolized by banks and financial institutions at international levels. Local farmers have therefore lost some of their power, that of granting loans, hence the current movements of growing discontent against 'their bank', *Crédit Agricole*, with some farmers groups going as far as re-creating financing systems controlled by face-to-face relations.

IV) *Hawala*
Dulce Redín Goñi, Universidad de Navarra

This paper examines the practice of Hawala within the larger framework of informal economic and financial structures applying the Polanyian concepts of "embedness" and "disembedness" as well as the Weberian distinction between "status" and "contractus". In the aftermath of the 9/11, within the increased wave of interest for the informal structures through which the attacks would had been financed, special attention was paid to those schemes linked to the Islamic tradition like the Hawala system. Although the 9/11 Commission Report did not find evidence of the implication of Hawala in the outrage, these informal systems were generally tagged as shady or directly as illegal systems. Several authors have warned of the difficulty of applying formal systems of regulation from capitalist traditions to practices in jurisdictions were the formal banking field is absent or does not function well. In that sense, it is important that the first recommendation of the FATF —a better understanding— precedes the second —a better supervision—. However little has been written and researched on these informal systems and its quantification is far from being accurate. This article challenges the view of Hawala as a new trap built for criminal purposes. Rather it argues that Hawala is a very old system rooted in traditional practices and based on trust that has withstood the ravages of capitalism and it is a common practice in countries with Islamic traditions. Nonetheless the renaissance of old structures embedded in societies with a moral tradition but out of the formal institutions (as Hawala), is just one of the alternative responses to the dominant capitalism and its "invasive" power in relation with money.