

# ADAPTATION OF MICROFINANCE INSTITUTIONS TO THE TRADITIONAL FINANCIAL CULTURE OF HOUSEHOLDS IN THE FITOVINANY REGION

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## ABSTRACT

*Madagascar continues to face an unending precarious situation. Poverty affects the country as a whole. The presence of mutual and non-mutual institutions is therefore justified. They respond, to some extent, to the tangible and real needs of current households in rural areas. We question whether microfinance institutions are truly adapting to the needs of rural households in the Fitovinany region. Malagasy people are starting to respond positively to the new system of mutual and non-mutual loans. Reflections continue, and changes are undeniably taking shape. The results of this article attempt to provide elements of an answer to the hypothesis put forward, based on an assessment of the principles of traditional financial management and the efforts made by microfinance institutions.*

**Keywords :** *Microfinance institutions, credit, savings, financial culture, rural households*

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## 1. INTRODUCTION

The Malagasy people, here the households in the Fitovinany region, have a well-established traditional financial culture. Indeed, whether it is about saving, investing, or lending money, Malagasy culture has its own way of doing it. The microfinance institutions operating in Madagascar has quickly realized that to attract their target customer, the rural households, they need to adapt their offers and services to this traditional Malagasy financial culture. Here, the objective is to dissect and further discusses this Malagasy financial culture. We will also attempt to examine how microfinance institutions are adapting to this deeply ingrained culture. Thus, the first part tries to understand the principles of traditional financial management within these households in the Fitovinany region. Only after that, the study will focus on the different types of traditional savings and credit, while continuously exploring how microfinance institutions have adapted to them.

## 2. FINANCIAL MANAGEMENT OF THE HOUSEHOLDS IN THE FITOVINANY REGION

First of all, it is important to note that the households considered here are farming families in the Fitovinany region. And as far as financial management is concerned, it is essential to understand that it is primarily the woman who manages the finances and does the bookkeeping of the household. She keeps, calculates, spends, and saves money on everyday life. If the man receives a salary or any other form of incomes—from crop sales or livestock sales—he automatically gives the majority or even the entirety of his earnings to his wife.

This method of operation is defined by Malagasy traditions, customs, and practices. However, it does not mean that Malagasy people live in a matriarchal society. Just that financial management of the household in the Fitovinany region is a female activity. It is said that the woman is the « tompontrano » or mistress of the house. She is considered more capable of managing money compared to the man ; and she is also well aware of and attentive to the needs of each family member, as well as the prices of goods and services in the market, etc. The man, on the other hand, keeps only a small portion : "pocket money." However, for important decisions, especially those involving large sums of money, the couple consults each other before making any decision.

From an anthropological standpoint, the fact that the woman is the financial manager of her household comes with her role in reproduction within the division of labour by gender, in contrast to the man's role in production. Reproduction here carries two meanings according to Stephen Reyna in his article *Sometimes To Be Less Than Brilliant is Brilliant : An Accumulation of Labour Approach to the Domestic Mode of Production* [1] : simple reproduction and extended reproduction. At this level, simple reproduction refers to maintaining the number of workers by providing them with food, taking care of their health, etc., to sustain the household's wealth and production. Extended reproduction, on the other hand, refers to increasing the number of workers through marriage or procreation to enhance the household's wealth.

Melville Herskovits[2] shows that the man is responsible for subsistence and tasks that are difficult or require strength. In contrast, the woman is in charge of distribution and supporting the man. Öyvind Dahl's propositions are not entirely different from those of Melville Herskovits. According to him[3], the Malagasy man takes care of all activities outside the home, such as agriculture or cattle breeding, thus ensuring the household's subsistence. The Malagasy woman, on the other hand, handles everything related to the domestic sphere: chores, reproduction, and so on. However, Öyvind Dahl observes that important household decisions are made jointly by both the man and the woman. In summary, the financial management of farming households in the Fitovinany region reflects the traditional role of the woman, which is reproduction : logistics, and provisioning (cooking, shopping, water supply, household maintenance) human resources (giving birth, taking care of the health issues of each member of the household,...), finance management, men's support in their production activities (rice transplanting, selling the crop in the market,...)

## 3. TYPES OF TRADITIONAL SAVINGS AND ADAPTATION BY MICROFINANCE

Microfinance has continually evolved over time in Madagascar, mainly in rural areas. New strategies are currently being developed to better encourage economically vulnerable populations to adopt a culture of savings and credit. These strategies combine efforts to promote financial education, consumer protection, and a genuine assurance of the target customers—the vulnerable people. Currently, even the process for obtaining authorization to open microfinance institutions has been simplified. We are witnessing the emergence of new forms of microfinance, characterized by a culture of proximity : we are facing the establishment of Savings and Loans Association (SLA). These groups typically consist of around thirty people, but they cannot exist for more than 15 months. Additionally, there is the gradual creation of a guarantee fund for microfinance institutions (a project still under study). These changes are driven by new incentives to encourage microfinance involvement in green entrepreneurship, taking into account current themes and issues.

Let's say that in general, households in the Fitovinany region have the freedom to choose among three types of traditional savings : agricultural savings, cattle savings, and financial savings. These elements, however, are based on real field data. They are inevitably linked to factors such as the size of the farm, the significance of non-food crops within the farm, and the isolation of the households under consideration. Those define the rural vulnerability of households[4]. Consequently, we are witnessing the introduction of new proximity services that facilitate the integration of these households into the market economy and/or the labour market.

To deepen our understanding, let's briefly discuss the main banking and financial institutions working in the Fitovinany region[5]. It is important to note that their coverage depends greatly on the characteristics of the districts. For instance, the districts of Manakara and Mananjary of Fitovinany region have financial institutions such as the National Social Insurance Fund (CNaPS), the Trésor Public or Public Treasury, insurance companies, banks, microcredit institutions, and Caisse d'Épargne. The other four districts only have Trésor public offices and

microcredit institutions. These offices are generally located in the district capitals, except for the microcredit institutions, which have branches in several communes.

Regarding banks, there is a branch of the Central Bank in Manakara. Primary banks such as BOA, BFV/SG, and BNI/CL have branches in Manakara, while BOA and BFV/SG also has branches in Mananjary. The district capitals of Ifanadiana, Nosy Varika, Ikongo, and Vohipeno do not yet have bank branches. In terms of microcredit organizations, there are both mutual and non-mutual institutions like TIAVO, CECAM, and S.I.I.V. (part of SAF/FJKM), the Nouvelle Institution de Microfinance, and Volamahaso S.A. Manakara is also home to a branch of the ARO insurance company. One of the flagship programs in this region is the FIOVANA project, a five-year initiative aimed at « sustainably improving food and nutrition security and the resilience of vulnerable populations in the Atsimo Atsinanana, Vatovavy, and Fitovinany regions in the southeastern Madagascar » [6].

### 3.1. Agricultural savings

Now, returning to the different types of savings, let's first discuss agricultural savings. Agricultural savings refer to a type of households that stores raw agricultural products such as rice, cassava, maize, ... These households typically store their produce in a "Tranambo," which literally means "storage house." The goal of this storage is to keep raw products for as long as possible to ensure future consumption or for future exchanges.

When microfinance institutions arrived, they adapted to this Malagasy tradition of agricultural product storage. As a result, they introduced services where farmers can use their stored agricultural products as collateral for monetary loans. In this case, the storage facility is no longer the traditional « tranambo » but rather the storage warehouse of the microfinance institution itself, ensuring the collateral in case of borrower default. The value of the stored goods is assessed based on their market price, with a 50% deduction to account for potential future decreases in value.

The objective of microfinance in this context is to ensure that farmers do not sell their products at a loss due to market saturation. According to market laws, the value of goods fluctuates depending on their availability. For instance, during the harvest period, products are abundant, leading to a gradual decrease in prices. Conversely, during lean season « kere » or « mosarena », the price inevitably increases because products become scarce on the market.

### 3.2. Cattle savings

At this level, we are not only discussing households in the Fitovinany region ; cattle savings is a cultural practice across all regions of Madagascar. However, it takes on different forms depending on the household's capabilities and choices. The most well-known form of cattle savings is the raising of zebu cattle, which is where the term originates. However, some households save by raising poultry such as : chickens, geese, and others.

When they have the means, households in the Fitovinany region purchase zebu or poultry. They take care of these animals and also use them in their production activities. The zebu, in particular, is an essential tool in agriculture : it ploughs the land, tramples the rice paddies, transport harvests, and more. These animals are considered savings because they can be sold when the household needs cash or to deal with emergencies such as hospitalization or the death of a family member. They are also sold when the household undertakes a significant investment, such as building a family house, known as "tranobe."

These animals, especially zebu, are literally seen as savings accounts by Malagasy households in the Fitovinany region. Consequently, it's not uncommon for households to collect zebus, reflecting a phenomenon known as the "cattle's complex ». Initially, this practice of collecting zebus was viewed as an "irrational, emotional, and aesthetic attachment to livestock, a sort of « disease »[7] ». However, this way of thinking has now evolved.

Mutual institutions, or otherwise, are attempting to adapt to the diverse financing needs in rural areas by offering « services de crédit, d'épargne, mais aussi des services « innovants » comme les produits d'assurance et la gestion des ressources financières des migrants. ...qui nécessite une bonne connaissance du milieu rural [...] [8] » or credit, savings services, and also « innovative » services such as insurance products and financial resource management for migrants... which requires a good understanding of the rural environment. It has become a necessity to provide adequate responses to the real needs of rural households. To illustrate this point, one can refer to the case of the Malagasy NGO Ramilamina[9], established in 1992. Since 1995, this NGO has facilitated access to micro-credit, animal vaccines, inputs, and commercial outlets for producers. In addition to these activities, Ramilamina has also developed projects in the production field that contribute to the sustainability of the livestock sector.

It should also be noted the significant presence of Regional Agricultural Development Funds, which greatly promote the development of agricultural services and sectors through grants for producer projects and producer organizations. In 2014, this system was institutionalized with the creation of the Fonds de Développement Agricole[10] or agricultural development fund in a national level, aimed at extending the system to other regions of Madagascar. It is important to note that beyond credit and savings services, rural households constantly need insurance to cover health risks and risks related to economic activities[11].

### 3.3. Financial savings

In the Fitovinany region, residents save money under their pillows to buy new clothes or prepare special meals for festive days, such as June 26 (Independence Day), Easter Monday, end-of-year celebrations, etc. This form of saving is generally for consumption purposes but rarely for investments. To this end, microfinance also offers consumption credits reserved for the acquisition of household items, motorcycles, and other goods. It should be noted that consumption credit is often the cause of bankruptcy for many households. The loans taken out fail to generate profits and instead lead to expenses. This is the case with the acquisition of household items intended to improve home comfort.

In summary, for Malagasy households, savings is considered an investment, and investment is seen as savings. In the Fitovinany region, savings and investments mean the same thing. When a household saves, it generally invests in its economic activities, except for financial savings. When money is needed, they sell their investments or savings, such as their crops and/or animals.

### 3.4. Types of credit in Malagasy culture and adaptation of microfinance

Malagasy people have various credit cultures. They can take the form of human credit, agricultural credit, and even financial credit.

### 3.5. Human Credit

Human credit involves borrowing labour or services to accomplish a task. For example, in the « tannamaro » system, where many hands are involved, people gather to perform agricultural work. Afterwards, if one of the members' needs help with another task, the rest assist them. This process continues until all members have received help.

In microfinance, this culture is transformed into solidarity credit, where all members are responsible for repaying the loan with interest. In this system, only one member initially received the credit, and the process continues until all members have received their loans. The main difference is that microfinance requires a formal contract, if the traditional form relies on absolute mutual trust.

### 3.6. Agricultural Credit

Agricultural credit involves borrowing seeds or raw products such as rice or cassava. For seeds, the borrower cultivates the crops and repays the seeds with interest upon the harvest. In the southern regions though, agricultural credit is often provided in the form of finished products. For example, a household might take out a rice loan and repay it with rice. These are known as tontine credits, which have very high costs. Tontine credits are also observed in financial credits. In microfinance, institutions typically borrow funds to purchase seeds, usually with some form of collateral.

### 3.7. Financial Credit

Financial credit is a loan of money that the borrower must repay. It is a straightforward transfer of funds to the borrower. In Malagasy culture, borrowing money from strangers is not acceptable ; the lender should be someone close to the family, such as neighbours or acquaintances. It is important to note that tontiniers are village members who can lend to villagers but usually at very high interest rates. Tontine credit can be in the form of agricultural or financial loans. These lenders typically do not require a formal contract ; a verbal agreement is usually sufficient. It is worth mentioning that the term « tontinier » here does not refer to a rotating credit association as described by Clifford Geertz[12] but to wealthy individuals in the village.

On the other hand, microfinance offers formal financial credits that are recognized by the Malagasy state. Some organizations provide solidarity credit, where shareholders are the members and beneficiaries are exclusively members. Microfinance institutions require guarantees and formal contracts before any transaction, unlike tontine lenders who do not need formal contracts or guarantees. The interest rates for microfinance are generally around 02 to 03%[11] due to the significant financial burdens these institutions face, including the small loan amounts, geographic dispersion of clients, and high risks involved.

## 4. GENERAL CONCLUSION

Since the efforts made by mutual institutions in Madagascar, undeniable changes have been observed. These changes are driven by the government's efforts to establish new regulatory frameworks to better govern local financial providers. New project frameworks are also emerging, such as facilitating the creation of new microfinance institutions, opening up new markets, targeting new audiences, and promoting rural financial

practices initiated by development projects and/or NGOs. These changes significantly impact rural households, particularly in regions targeted by microfinance.

However, these notable advances in microfinance do not fully benefit our study region. It is important to note that these institutions are only partially integrating aspects of Malagasy financial culture into their services. For instance, the central role of women in household financial management is not exploited by microfinances even if it is an important aspect of Malagasy financial management. New actions should be prioritized to effectively address existing trends and resolve major issues faced by these farmers.

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