Good debts, bad debts: microcredit and managing debt in rural south India

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**Good debts, bad debts: Microcredit and managing debt in rural south India**

**Abstract**

This paper engages with debates around microcredit, once a development success story, but now much critiqued. Arguing that microcredit can only be understood within the wider context of debt, we draw on ethnographic material from two villages in Tamil Nadu, to examine how microcredit through self-help groups sits within a broader context of indebtedness among the rural labouring classes. We describe patterns and sources of borrowing among the poor, the ways in which debts are managed, negotiated and settled within households, and the ways in which the management of debt is mediated by gender, caste, class and aspiration. The paper calls for a more nuanced understanding of debt: some debts are seen as ‘good’ and others as ‘bad’. We explore the ways in which microcredit, channelled through self-help groups, is - against much contemporary criticism - perceived by women borrowers in our study villages as a source of 'good debt' and praised as an enabling factor in their everyday household management as well as in aspirations for mobility and development. We also argue that microcredit can have positive impacts by enabling social investments that enhance status and reduce dependency.

**Key words**

Microcredit, debt, self-help groups, finance, gender, Tamil Nadu, India

**Introduction**

From being a success story of development, the pendulum has swung against microcredit and, for more than a decade, it has been the subject of considerable bad press. This paper contributes to the critical analysis of microcredit’s relative success or failure, arguing that microcredit’s impacts need to be understood within the wider cultural context of debt. We call for a more nuanced analysis of debt crises that recognises the overall landscape of borrowing and the multiple social and moral evaluations attached to them.

Microfinance has been berated for failing to reduce poverty, empower women and ensure financial inclusion, and for generating a host of new problems: over-
indebtedness of poor households, enhanced precariousness, increased domestic violence and even a rise in suicides, as during the 2010 Andhra Pradesh microcredit crisis (Mader, 2013; Guérin et al, 2013; Taylor, 2012). Hulme and Maitrot have argued that commercial microfinance in south Asia has ‘lost its moral compass’ (2014, p.77). While in its initial stages microfinance in this region had a clear social mission, this was gradually replaced by microfinance institutions’ (MFIs) focus on short-term profitability and financial performance targets with client welfare becoming of secondary importance (2014, p. 78). There is now a growing body of evidence undermining microcredit’s public narrative of success. This narrative itself is well known and compelling: ‘by making small loans ($20 to $500) to poor women a set of innovative MFIs have allowed them to develop micro-enterprises … that have greatly improved the women’s incomes and the quality of life of their families’ (Hulme and Maitrot, 2014, p. 79; Schwittay, 2018). Not only has microcredit - giving loans to the poor - morphed into a wider range of microfinance products, but its institutions have begun to mirror the behaviour of the private finance institutions whose funds they increasingly feed on (Mader, 2013). Following economic liberalisation in the 1990s, microfinance not only boomed under the influx of global financial capital, but led to the financialisation of development itself, in which poverty alleviation is increasingly conceived of in financial terms or as a process of ‘financial inclusion’ (Mader, 2013, 2014). While microcredit in India started with state-sponsored self-help groups (SHGs) lending to the rural poor, later private MFIs entered the market following a commercial business model (Kar, 2017; Mader, 2013; Pattenden, 2010; Taylor, 2017). In some regions, such as Andhra Pradesh, this took extreme forms, resulting in aggressive lending practices, which, combined with escalating borrowing needs in a context of agrarian crisis, triggered the near-collapse of the entire microfinance establishment (Taylor, 2011, 2012, 2017; Mader, 2013; Picherit, 2015).

The main critiques of microcredit are now well known, but are worth rehearsing. First, commercial MFIs tend to prioritise financial performance (profit) and sustainability over poverty reduction - a critique that is widely referred to as ‘mission drift’ (Guérin et al, 2015a, p. 6). Second, little of the money disbursed goes into productive investments, with loans being spent on everyday expenses, emergencies or consumption (Goodman, 2017; Guérin et al, 2012) which compromises households’ ability to repay (Korth et al, 2012). Third, borrowers risk becoming over-
indebted as debts spiral out of control and expose borrowers to new - market-induced - vulnerabilities. Moreover, high repayment rates - long a standard of microcredit success - are not necessarily a sign of borrowers’ financial robustness; they merely measure creditors’ capacity to recoup their money. Some have argued that only few borrowers become better off and that growing numbers become worse off as microcredit increases their vulnerability (Bateman, 2010, p. 76). Indeed, a major critique of microfinance is that it tends to further indebted those who already live in precarious environments, often in considerable poverty caused by irregular incomes and a lack of social protection. Microfinance, Bateman concludes therefore, is a poverty trap.

Finally, vulnerability is gendered, with women facing not only considerable repayment pressures but also intensified struggles over borrowing at home, including enhanced domestic violence (Goetz and Gupta, 1996; Kabeer, 2001). Wholesale claims that microfinance promotes women’s empowerment have been challenged. Garikipati and colleagues urge scholars to look beyond simple narratives regarding microfinance’s gendered impacts and to consider the variety of experiences and the array of factors that enhance women’s empowerment (2017, p. 642), including women’s access to paid work, the nature of alternative, informal sources of credit, and the effects of power relations within and beyond households (2017, pp. 644-5). While experiences vary, and the Andhra Pradesh crisis does not represent the fate of microfinance across South Asia (see, for example, a more positive study from Kerala, Bhaskar, 2015), these critiques present a bleak picture and raise serious questions not just about whether microfinance works or not, but also about what financialisation does to development and what sort of market-based financial relationships the poor get co-opted into (Mader, 2014, p. 602; Pattenden, 2010).

Here, we contribute to the critical analysis of microcredit’s relative success or failure through a case study of a particular model of microcredit - based on SHGs and state support – as it unfolded in two villages located in the economically thriving region of western Tamil Nadu. We make a number of observations about how such microcredit is accessed, used and evaluated by poor low-caste women in this region, and assess its relative success on the basis of an in-depth analysis of local practices and discourses surrounding microcredit. The article makes three key points. Firstly, and in line with a growing body of ethnographic literature on rural indebtedness, we
argue that microcredit can only be understood within the wider social context of debt, and range of credit sources that rural people access (Guérin, 2014; Goedecke et al, 2018). Secondly, evaluations of microcredit need to be located within cultural understandings of debt. In our study villages evaluations of debts varied and people distinguished very clearly between ‘good’ and ‘bad’ debts. Microcredit debts were widely viewed as ‘good’ debts within a context in which different sources of credit were available to people. Thirdly, whilst the use of much microcredit for non-productive purposes is widely critiqued, we too found that microcredit was only rarely invested in productive activity. However, it was widely used to convert ‘worse’ debts into ‘better’ debts, or debts that are considered more manageable and less degrading. We argue that, in a thriving economic context such as the Tiruppur region, such use of microcredit can be positive in that it enables social investments that enhance status and reduce dependency. We show that both the non-commercial nature of the microcredit discussed below and the thriving economic environment in which is it located are key in shaping the more encouraging outcomes that we identified.

The article first introduces some features of the changing political economy of the region and our study villages. We then explain how microcredit works in Tamil Nadu, followed by an introduction to our methodology. Next, we describe the sources, patterns and uses of debt in our study villages. We then consider how debt is culturally understood and socially evaluated, before exploring how women manage and juggle debts. The following section examines the impacts and transformations produced by microcredit. While we emphasise a range of positive uses and outcomes in our villages, the final part of the article considers some of the risks at the hands of commercial MFIs and draws conclusions.

The political economy of Tiruppur and its rural hinterland

Several contextual-institutional factors are key in shaping the socio-economic position of our informants within the broader regional economy and, hence, their experiences and evaluations of microfinance. Firstly, our study villages are located in the prosperous industrial region of Tiruppur, in western Tamil Nadu. This is a region known for its booming industries, where men and women from across class
and caste have access to regular employment in different branches of the textile industry. Here, steady employment has made inflexible weekly repayment schedules less of the tyranny than they are in circumstances where the poor’s earnings are much less regular (Rajasekhar et al, 2017). Crucially, many of the women we discuss are themselves in regular employment and can meet weekly repayments from their own earnings. However, older men and women who are no longer able to work are an important exception to this and, as we will show, their limited earning capacity seriously restricts their borrowing opportunities. Moreover, if a longer-term economic downturn were to occur, a very different picture might emerge, turning what now appears as manageable debt, supported by regular household incomes, into over-indebtedness.

Secondly, research was conducted in two villages, which we call Allapuram and Mannapalayam,¹ both located near the textile hub of Tiruppur, but with very different linkages to the city and distinct rural transformations over recent decades (Carswell and De Neve, 2014a; Carswell, 2013). In both places, agriculture has been on the decline and gradually replaced with different forms of industrial work as the main source of household income. While in Allapuram, many men and women now commute to work in Tiruppur garment companies or are employed in recently established garment units in the village itself, in Mannapalayam, powerloom units set up by erstwhile landowners now employ many villagers, often under conditions of bonded labour. However, to escape labour bondage the youngest adults tend to prefer urban garment jobs over powerloom work (Carswell and De Neve, 2013). Thus, in a region marked by perennial labour shortages, income earning opportunities are plenty for men and women from across both villages, even though opportunities remain clearly structured by caste, class and gender. In Allapuram, members from the dominant Gounder and other higher-ranking castes invested in a variety of industries, including in the local garment industry. Here, the Dalits belong to two communities: Adi Dravidas, most of whom are Christian, and Matharis.² The higher-ranking Adi Dravidas have been able to access more lucrative garment jobs for longer and are considerably better educated than the Matharis. The latter remained involved in agricultural work for longer and entered urban garment work

¹ All names of people, places and organisations have been anonymised.
² Aka Arunthathiyars.
more recently. In Mannapalayam, the rural economy developed in a different way as Gounder landowners started investing in powerloom workshops from the 1970s onwards, employing local Matharis, the main Dalit caste, as labourers (Carswell and De Neve, 2013). While women in both villages are extensively involved in paid work – they work in Tiruppur garment factories, in rural powerloom workshops and as agricultural labourers – opportunities are nevertheless restricted by gender and age. Women with younger children particularly struggle to commute to the city or do nightshifts in village-based powerlooms. Below we comment on how the intersections of caste, class and gender enter the dynamics of microfinance and shape women’s ability to join SHGs and repay loans.

Thirdly, in Tamil Nadu, at the time of our research, microcredit remained largely organised around SHGs that enabled women to borrow from group saving as well as banks. Borrowers remained relatively protected from usurious commercial practices that produced the 2010 crisis in Andhra Pradesh. Here, loans were mainly obtained through state-owned banks, keeping lending by commercial MFIs at bay (Guérin et al, 2013, p. 1168), and were subject to strict post-crisis regulation (Taylor, 2017). Finally, a range of social protection schemes provided a significant safety net, with women, the elderly and Dalits in particular benefitting from a relatively well functioning PDS, school midday meals, pensions and MGNREGA work (Heyer, 2012; Carswell and De Neve, 2014a, 2014b). These enabled the rural poor to bridge periods of under- or unemployment, for example during a powerloom strike or a low season in garment production. Taken together, these contextual factors go quite some way explaining why borrowers in our villages were almost unanimously positive about microcredit as obtained through SHGs. In places where microcredit was introduced more aggressively, among rural populations with fewer earning opportunities, and without the presence of regulations and safety nets, the same practices may well result in very detrimental and unsustainable borrowing activities, as illustrated by the 2010 Andhra Pradesh crisis.

Microcredit in Tamil Nadu

In Tamil Nadu, the microcredit landscape involves a complex network of institutions and actors with the main microcredit activities centred around village-based SHGs
rather than commercial MFIs. Women typically start by forming a group of around 12 members and organising weekly meetings. From the outset, they save small amounts of money among themselves, which are put into a group savings pot and from which members can borrow. Women typically contribute Rs 20-100 per week and can borrow anything from Rs 500 initially to Rs 10,000 and more when the group is well established (Rajasekhar et al, 2017). This group savings pot is highly valued by women members because it has the dual role of acting as a savings tool and a source of credit, through internal loans. Monthly interest rates are set by the group members and tend to be very low - usually at around 1%. While most groups charge some interest so that their savings grow, others don’t charge interest at all. Loans taken from the savings pot are typically repaid over 10 weeks with a one-off interest payment at the end. Such internal loans have a number of advantages: they are cheap, easy and quick to access, and on fairly flexible terms. Different amounts can be borrowed, the odd payment can be delayed, and variable amounts can be repaid, albeit within limits – a sharp contrast with the inflexible repayment regimes of commercial MFIs and banks.

In addition to borrowing from their own savings pot, SHGs can approach banks for formal loans (here ‘SHG bank loans’). Initially, banks give relatively small loans, for example Rs 60,000 per SHG, but once repaid banks re-issue new, usually larger, loans to the group. These loans are repaid in monthly instalments, charge about 1% interest per month (some charge slightly higher rates), and are repaid over 12 to 24 months. While these loans allow women access to formal bank credit and hence larger amounts of money, they also have downsides: they take longer to obtain, repayments can place a considerable burden on women, and terms of repayment are inflexible (Guérin, 2015b). Even so, bank loans obtained through SHGs are highly valued by women being a relatively cheap form of credit and, as we will see, a more impersonal source of credit that reduces reliance on money lenders, pawnbrokers and employers.

In our study villages, SHGs were linked to public sector banks, such as the State Bank of India and the Indian Bank, and were regulated. Moreover, in Tamil Nadu, SHGs have been coordinated by the Mahalir Thittam, a socio-economic empowerment programme for women begun by the Tamil Nadu Corporation for Development of Women, part of the state government’s Rural Development and
Panchayat Raj Department. First launched in 1989 with assistance from IFAD, *Mahalir Thittam* was rolled out across the state from 1997-98 with state government funding. This programme assists SHGs in their formation and training, and provides links to state banks\(^3\). The aim of the programme is to encourage non-governmental and community based forms of organisation, in which women take the lead in accessing microcredit.

In the early 2000s, under the *Mahalir Thittam* programme, federations of SHGs were formed at the village level called Panchayat Level Federation (PLF). These PLFs had two local leaders and could access a rotating fund provided by the Indian Bank in collaboration with the state government. The PLF leaders allocated funds to different SHGs within their panchayat on a rotating basis. This enhanced the influx of credit within the groups, while keeping MFIs at bay as the PLF leaders actively discouraged SHGs from taking loans from private MFIs. While the SHGs in our study villages were clearly benefitting from the availability of enhanced credit in the mid-2010s, more recently, as we detail below, these types of loans have begun to dry up, with as a result that the rural poor are now increasingly turning towards commercial MFIs.

**Research methods**

Fieldwork has been conducted in these villages since 2008, with further research on MGNREGA workers carried out in 2011, on debt in 2011 and 2014, and on social welfare in 2015 and 2017. Research included household surveys in each site (2008-09), a survey of MGNREGA workers (2011), as well as a range of qualitative methods such as case studies, life and debt histories, in-depth interviews, focus group discussions and participant observation. The quantitative data on the indebtedness of rural households that we present here were collected in 2011 as part of a survey of 106 MGNREGA workers. Rather than representing the villages as a whole, the survey was of a selectively sampled group of the village population representing the rural poor. The sample includes a disproportionate number of Dalits (76%) and women (88%), many of whom were elderly, and widowed or separated

\(^3\) [http://tnrd.gov.in/schemes/st_mahalirthittam.html](http://tnrd.gov.in/schemes/st_mahalirthittam.html)
(Carswell and De Neve, 2014b). Our quantitative data thus capture the borrowing behaviour of the rural poor and the lower castes in particular, but they are also the ones most deeply involved in microcredit.

The data were complemented with qualitative research among a wider range of villagers involved in SHGs. Qualitative data was gathered through over 200 interviews conducted between 2008 and 2015 with a cross-section of the villages’ population. These interviews explored not only local discourses about microfinance and debt, but also collected household debt histories, and insights into the budgetary responsibilities of women and the variety of credit sources they juggle. In addition, we interviewed the leaders of different SHGs and observed their weekly meetings. Repeat interviews over an extended period also allowed us to observe households’ budgetary decision making patterns over time, as well as the ways in which debts were obtained, settled and struggled with.

**Debt in rural Tamil Nadu**

*Sources and patterns of debt*

Households in rural Tamil Nadu have long had access to different forms of credit, of which microcredit is a relatively new addition. As Guérin (2014) has pointed out, microfinance cannot be understood outside the many other sources of credit available. Our research confirms that debt is not exceptional; rather, in our field sites most households were indebted. Whilst we do not have quantitative information about the prevalence of debt in the villages as a whole, in our 2011 survey sample (of MGNREGA workers, and thus of mainly poorer and lower-caste households), 77% of households were in debt, leaving just 23% with no forms of debt at all. Furthermore, many had multiple sources of debt: 37% of households had one source of debt and 41% had two or more sources of debt. Evidently, people approach a range of lenders for a variety of needs.4

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4 There were some differences between the two villages, with Mannapalayam having a higher percentage with multiple sources of debt (57% having two or more sources of debt, compared to 38% in Allapuram). This is partly due to the additional powerloom debts and the more extensive SHGs activity in Mannapalayam.
Table 1 shows the range of credit sources available to rural households, and the percentage of households from our sample indebted to those sources. The most commonly used source of credit is moneylenders: nearly 39% of households owed money to moneylenders. Moneylenders tend to lend fairly small amounts of money (average debt amongst our sample to moneylenders being Rs 5,317) under what is known as *kandu vatti*, best translated as ‘metre interest’ or ‘running interest’. Moneylenders usually belong to landed castes from nearby villages or towns. They travel around on motorbikes and charge usurious interest rates of up to 10% per month. Such loans require weekly payments over 10 weeks. But moneylenders also loan larger amounts against collateral, such as a *patta* (land document) or a vehicle registration document. For such loans, families typically approach a moneylender in town and tend to repay a monthly sum that contains both interest and capital repayment.

The second most common debt is SHG-based microcredit. Women can borrow money from the SHG savings pot (internal loans), borrowing rather small amounts averaging Rs 6,559. Or, they take out SHG bank loans which are larger, averaging nearly Rs 17,000, and are used by over a fifth of the sample. Loans from employers are also important. Agricultural workers were historically entangled in debt-relations with their landlords - be it as *pannaiyaal* (permanent farm servant) or as lenders of first resort. While *pannaiyaal* has transformed significantly, landowners continue to be an important credit source, with 24% of households in our sample in debt to a landowner. Following rural industrialisation, debt bondage re-emerged within the rural powerloom industry through cash advances to workers (Carswell and De Neve, 2013). In Mannapalayam, where the powerlooms dominate the village economy, powerloom owners are a major source of credit, with 22% of households in our Mannapalayam sample of 53 households having substantial debts with powerloom employers and loans averaging Rs 24,545.

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5 Here there is a significant (but not unexpected) difference between the two villages: Allapuram has a much higher percentage of households indebted to landowners (38%) compared to Mannapalayam (8%), where powerloom owners are a more significant source of employer credit.
Another source of larger loans are what we call ‘gold loans’. Although only taken out by 14% of households, their average size is one of the largest at Rs 22,933. Gold - usually a woman’s dowry jewels - is pledged to pawnbrokers or private financial institutions in return for cash. The supply of gold loans has multiplied in recent years, with a range of different financial corporations, including private banks and MFIs, offering gold loans. Repayment modes vary and their details are often unclear to borrowers: interest is usually charged on a monthly basis, but often collected irregularly, with informants saying that lenders ask ‘every-so-often’ for interest payments. The gold, however, is only returned when the owner can repay the capital as a lump sum. Many struggle to do do, with the gold often being ‘stuck’ for years with pawnbrokers.

Relatives (either close relatives, or more distant kin of the same caste) are another source of credit. Although only 16% of households were in debt to relatives, the average size of that debt was over Rs 30,000, making 22% of the total debt of our sample. Such loans are often used to fund life cycle rituals or when money is urgently needed, because of an accident or ill health. Although family members may themselves be financially stretched, social obligation to help kin is strong and cannot easily be ignored, nor can interest be charged (Goodman, 2017; Kar, 2017).

Friends and neighbours are regularly approached too. While only small amounts of money ‘change hands’ (*kai mathu*), this forms an important source of short-term and interest-free credit for women.

*Uses of debt*

People get into debt for many reasons, but the most important in our study villages were house building, ill health and family ceremonies. Whilst both house building and ceremony costs are generally planned or expected, those expenses related to health are usually sudden and unexpected. Garikipati et al’s (2017a) research in Tamil Nadu similarly distinguishes between ‘planned loans’ and ‘instant loans’, exploring the different types of social status attached to these and the ways in which they differently affect women’s bargaining power within households – a point we return to below.

The desire to improve housing quality is undoubtedly a major factor behind debt today. Until the 1980s, housing in Dalit colonies was extremely poor quality, typically
one-room mud or leaf huts or tiled houses with no sanitary facilities. From the 1980s onwards, however, government housing schemes and private investment improved the supply and quality of Dalit housing (Heyer, 2012, p. 99). Over the last 10 years, Dalits in our study villages have been extending and improving their houses: building additional rooms, separate kitchens and bathrooms. Not only among Dalits, however, but across all hamlets, multiple building projects were in progress or being planned. While such expenses could be classified as consumption, they substantially improve the quality of life while simultaneously having an important status-production value and constituting an investment in the future by, for example, enhancing marriage prospects of children (De Neve, 2016). We heard numerous accounts of loans taken out to improve housing, with families often borrowing money from multiple sources. Nirmala, a Nadar woman abandoned by her husband, explained how she had used different loans to build her house. Her largest single loan was Rs 50,000 (at 2% interest) from a local landowner to whom she gave her patta (land title) as a guarantee. She borrowed Rs 25,000 from her SHG and pledged 7 sovereigns of gold in Tiruppur, for which she pays 2% interest. Finally, she borrowed Rs 50,000 from different relatives, which she could repay without interest. Contemplating her different debts, Nirmala said she wanted to repay the landowner first using her next SHG loan, because she was ‘a bit afraid that he’ll keep my patta’. She saw the SHG loan as a better loan, because it would charge only 1% interest and she would not have to surrender her patta. She explained that ‘SHG is best. Pledged gold and loans against patta are the ones I’m most worried about.’ This not only shows how households draw on multiple sources of credit to build and improve their houses, but also that borrowers are very aware of the implications of different sorts of debt. While some become bonded labourers to their employers, others worry about handing over their gold or land titles and seek to settle ‘risky’ debts as quickly as possible.

Other needs for credit come about as a result of unexpected medical costs and result in urgent or instant loans being taken. Murali, a young Dalit powerloom worker from Mannapalayam, was heavily indebted to his employer. In 2014, during a powerloom strike, Murali took on heavy lifting work and developed a hernia. He opted for a more expensive laparoscopy operation, hoping this would enable him to recover more quickly. Having a good relationship with his powerloom employer, he
immediately approached him for help but this, as well as costs from his wedding and the birth of his first child, increased his debt with his employer to Rs 50,000.

Those without access to an employer will turn to moneylenders during emergencies. Priya, a 36-year old woman with three children in their late teens, explained how her family became heavily indebted. Her husband, a construction worker, had an irregular and unreliable income, and for many years was a drinker. With existing debts of over Rs 200,000, she turned to a moneylender when her son had an accident and borrowed Rs 30,000: 'I had no other choice. I really didn't want to get kandu vatti but I had no other choice. I had his number with me and so was tempted, and I just phoned him. And he gave me Rs 30,000. But then we had to repay Rs 40,000, so much interest!' While moneylenders - and large amounts of money - are just a phone call away, women are well aware of the drawbacks and therefore seek to convert such kandu vatti debts into more affordable loans. Indeed, as Priya was desperate to settle the kandu vatti loan before accumulating interest, she pledged her land patta in order to repay it. She explained: ‘If at all possible, we always try to get rid of kandu vatti.’ Below we will see how Priya was then planning to use a SHG loan taken by her mother to get her patta back and repay her remaining debts.

Costs associated with weddings and other life cycle rituals are another major cause of indebtedness. Not only are people expected to finance such ceremonies in their own households, but also to contribute to ceremonies within their wider family circles. Ratha, a Dalit woman from Allapuram, had taken out significant loans from a variety of sources. Both she and her husband worked as tailors and had relatively decent and stable incomes, easily topping Rs15,000 per month, which enabled them to service their loans. Despite this, she took a Rs 20,000 loan from a private MFI to contribute to her younger sister’s wedding and pledged her gold chain to obtain money to contribute to the ceremonial gifts (varishai) for her brother’s son. As we will see below, Ratha is juggling and managing her different debts in a highly effective way, constantly trying to replace more taxing or problematic debts with more manageable ones. It is within this intricate maze of women's saving and borrowing practices that microcredit needs to be situated.

In Table 2 below, we summarise the risks and advantages of different sources of credit alongside the cost of each of them. As monthly interest rates are often
unknown to the borrowers, we provide a range of typical rates that we encountered during our ethnographic research in 2011, 2014 and 2015.

TABLE 2 HERE

Juggling debt: how women manage, convert and self-regulate debts

Good debt versus bad debt

Before we turn to women’s often extraordinary financial management and debt juggling skills, we offer some reflections on how debt is culturally and socially understood in contemporary Tamil Nadu. We know from a long tradition of anthropological research that debt is not just an economic or financial transaction, but is always wrapped up in social interactions, mutual obligations, power relations and moral evaluations (Goodman, 2017; Graeber, 2014; Guérin, 2012, 2014). Debt is never neutral - it embroils people in social interdependencies, not only among family members, but also with peer groups, employers and moneylenders. Debt has a wide variety of cultural meanings, depending on the specific contexts, actors and exchanges involved. While the generic Tamil term for debt or loan is kadan, a crucial distinction made by our informants is that kadan can be good or bad, or somewhere on a scale between acceptable and serviceable at one end, and unacceptable or problematic at the other.

As Guérin has emphasised (2014), social evaluations of debt exceed purely financial assessments. Debt can be bad if it is costly, such as when exorbitant interest rates are charged or if it is risky, such as when one risks losing one’s land documents or gold. It can be bad when it threatens one’s freedom of labour, as in situations of debt bondage, or when one’s status and dignity are at risk, such as when moneylenders shout at your door. Or, it can simply be bad because one no longer has the earning capacity to repay and risks sliding into deeper debt, exposing borrowers to various forms of exploitation and humiliation. Loans that push one into ‘too much’ debt, or as one informant put it ‘that submerge you,’ are seen as highly problematic.

Good debt, by contrast, is debt that is cheap, or at least more affordable, not socially debasing and that might even enhance one’s status within the family or wider community. Good debt allows one to invest in the future, through marriages,
education or house building, and can be both status enhancing and productive in the long run. As Guérin writes, unless debts become unmanageable, being in debt itself ‘is not a symptom of poor management or financial illiteracy but a sign of responsibility’ (2014, p. S44). Indeed, rather than being frowned upon, getting into debt can be morally accepted and even valued, such as when you borrow to contribute to ceremonial exchanges (seeru), help with family emergencies, invest in education, or spend on children’s marriages. Women’s borrowing to buy gold for their daughters, for example, is widely valued as an honourable and responsible thing to do.

When we asked a group of women what they struggled with most, they unanimously exclaimed ‘kadan (debts) … having to deal with repaying loans, that is the hardest thing for us’. And much of what worries and preoccupies them is how to convert bad/problematic/costly debts into good or acceptable debts, or at least ‘better’ debt. While below we depict women as skilful jugglers of debts and household finances, this should not be taken to imply that all of this is straightforward – from the women’s perspective this involves constant worry, anxiety and uncertainty. The case studies below therefore detail women’s everyday struggles to manage debts and illustrate three points. First, women play a key role in managing household finances. While men too are involved in money matters, women, as micro-managers of the household, make day-to-day financial decisions, including dealing with ad-hoc and emergency situations. Second, much of women’s financial management consists of ‘juggling’ debts, which largely takes the form of substituting bad debts with better debts wherever possible, or converting costly or degrading loans into loans they can service without losing status and dignity. This converting or substituting is an ongoing process in which women reveal themselves as financially literate, rational and self-disciplined actors. Third, as financial managers, women highly value SHGs and consider SHG loans a source of good debt that enables them to better manage household finances, even though this rarely means becoming debt-free.

**Managing, juggling and converting debts**

In Tamil Nadu, women have always played a key role in the management of household expenses, not in the least in poor and lower-caste households (Ram, 1991; Rao, 2014). Even very poor women mobilise a range of skills to deal with
long-term planning, reoccurring shortfalls in income and sudden emergencies. One way in which women manage such ebbs and flows is by saving small amounts of money secretly so they can respond to emergencies. Amounts of up to Rs 1,000 were typically hidden at home, ready to be used, and most women freely admitted having such secret savings. Women mobilise multiple strategies to both protect these reserves and build up larger savings. Poornima, for example, explained that whenever she uses those savings, such as for urgent medical care, she tells her husband she borrowed money from a neighbour. She explained, ‘If we tell our husband that we got it from our own savings, he'll think … there is no need to repay, and I'll have no reserve. … so that's why I say I borrowed it and need to return it.’

Some also save more strategically for longer-term purposes. Janaki, a Dalit and mother of three who works as a cleaner in a garment factory and whose husband is a tailor, explained:

I had saved Rs 7,000 and just yesterday I bought a quarter sovereign of gold and I have it as earrings [which she was wearing]. That Rs 7,000 was saved through my salary, over the last 4 months. He doesn't know about my savings. If he knows he won't take life seriously, and he won't work as much anymore. [Won't he know, now that you have the earrings?] No, if he asks, I'll say they are just plastic earrings .... Of his income he'll only give me Rs 1,000 for household expenses but then I'll say I need more because I have no food, but actually I'll hide the food. Then, he'll give me more.... but I'll keep the money. That is how I manage. You can’t rely on men. We women have to be careful in how we manage the household.

While women’s savings are key to how they manage day-to-day financial flows, most end up juggling a range of debts as they substitute or convert problematic, costly and morally tainting loans into more affordable and manageable debt. Key to women’s financial juggling in this region is their ability to earn and save in their own right, as illustrated by Janaki’s case.

Priya, referred to above, had a total debt of Rs 300,000, which had grown gradually, not in the least because her husband’s income was unreliable. Much of the first Rs 200,000 borrowed took the form of a gold loan. Bit by bit Priya had pledged 9 out of
the 10 sovereigns of gold she owned. The monthly interest on the gold amounted to Rs 3,500. She had also borrowed Rs 6,000 from her SHG’s savings pot, as well as another Rs 100,000 for which they had pledged their patta. Of that Rs 100,000, Rs 20,000 was spent on her son’s college expenses, Rs 40,000 went to service interest on the gold loan (which they had fallen behind on), and another Rs 40,000 was used to settle a kandu vatti loan of Rs 30,000 plus Rs 10,000 of interest. What Priya in fact did was to substitute more expensive loans, including kandu vatti, with a cheaper loan at a lower monthly interest rate of 4%. As a next step, Priya was planning to convert the Rs 100,000 loan for which she had pledged her patta into an even cheaper loan with the help of her mother, whose SHG was about to get a Rs 100,000 bank loan. Priya would use her mother’s SHG loan (at a monthly interest rate of just 1%) to repay the patta-guaranteed loan, get her land documents back, and reduce her monthly interest payments. This, in turn, she was hoping, would enable her to gradually pay back the capital borrowed from her mother. Microcredit transpires here as a crucial tool to help women convert expensive and risky loans into more manageable debt, preventing them from sliding into complete impoverishment and dispossession (as when land documents are confiscated). SHG loans are routinely used in this manner: not necessarily to extend one’s overall debt but to convert existing loans into more manageable ones.

Sometimes the juggling of debts leads women to make what – at first glance – appear to be surprising decisions. Ratha, introduced above, borrowed money from a moneylender as kandu vatti in order to reclaim pledged gold. When we expressed surprise that she took out more costly kandu vatti to repay a cheaper gold loan, she said that the gold loan risked mullukidum (submerging or eating up) the jewels. To reclaim the pledged gold, she would have to repay the borrowed money as a lump sum, which seemed impossible to her. Ratha felt she risked paying monthly interest forever or losing her jewels altogether, whereas repaying the kandu vatti loan on a weekly basis was more manageable.

Women were cautious of taking on ever larger SHG loans and acutely aware of the need to prevent debts becoming unmanageable. The story of Maheshwari is revealing, not only in what it tells us about women’s savings and loan management, but also about their careful attitudes to debt. As a Mathari from Allapuram,
Maheshwari was anything but well off. While her husband had a job at the Electricity Board, he drank heavily and Maheshwari saw little of his monthly salary. She managed both the household’s day-to-day expenses and the long-term financial planning. When interviewed, she had joined a 12-member SHG just over a year before. While the group members each contributed Rs 50 to the group pot, they had been hesitant to take a bank loan, as Maheshwari explained:

rather than getting a loan from a bank or the PLF, it’s better for us to take loans from our own savings pot … because it’s our own money, we charge a low interest … we could even charge less, but we want to increase our own pot and the interest goes to ourselves only. We can get a loan from the Corporation bank or from the PLF or from private banks… but the latter charge higher interest rates, and we would end up paying too much!

While Maheshwari and her SHG were clearly wary of taking on SHG bank loans, they certainly made the most of their group savings. Maheshwari had previously borrowed Rs 5,000 from the pot, which she had repaid, using it to settle a pawnbroker to whom she had pledged her gold chain in order to buy some gold for her daughter, in preparation for her marriage. The SHG loan meant she got her own gold back, and she also paid off the SHG loan at a minimal interest rate. All this had been done by her alone – without any help from her husband – as she earnt a regular income as a garment checker, making around Rs 180 per day in 2015. Even so, the need to borrow is never far away, and when we spoke to her she had just borrowed Rs 3,000 from her employer to contribute to an operation for her sister’s son. Maheshwari admits that while the SHG is a great help, it is still inadequate to meet all financial demands and sometimes she resorts to pawnbrokers or employers, but less now to moneylenders.

It is clear from the above that one’s class and caste position significantly shape one’s ability to juggle debts, service loans and engage with SHGs. In Allapuram, the Matharis are no doubt the poorest community of the village, with many women and the elderly still employed in irregular agricultural labour. While ever more Mathari households now draw incomes from garment work in Tiruppur or the garment workshops recently established in the village itself, their earnings remain below those of the other Dalit community, the Adi Dravidas, who are better educated,
benefit from more lucrative garment work, and have been able to access lower level government employment too. Other BC and MBC castes are similarly employed in a variety of garment jobs, including self-employment. The members of the wealthiest Gounder caste, tend to own land and/or industries, are much less involved in SHGs and tend to save through chit funds (*seettu*). In Mannapalayam, the Matharis predominantly work in agriculture or in powerlooms, with the latter offering regular incomes but also tying them into debt bondage. Younger Mathari men and women increasingly seek to work in nearby spinning mills or to commute to Tiruppur. Here, cone winding in powerlooms remains particularly attractive to Mathari women as it provides a regular income and is flexible and local. In Mannapalayam, numerous SHGs are run from the Mathari colony.

All women we interviewed agreed that microcredit enabled them to reduce reliance on moneylenders, landowners and other employers who can charge extortionate interest rates, might take away the few assets they have (land, gold and vehicles) or bind their labour. We were struck by how women over and again praised SHGs as a source of good debt. Poornima, one of the PLF leaders of Allapuram, put it this way: ‘Without SHGs we would end up paying much more interest on private loans (*kandu vatti*) … Since these SHGs have come up, *kandu vatti* has gone down’. When we asked Danalaxmi, the other leader, what she thought of SHGs, she said unequivocally: ‘It’s good only! Everyone here is working in garment companies and so they can repay. People will only take on as much debt as they can repay. In the past, we went to local landowners or got *kandu vatti*, so it’s much better now.’ The case studies also reveal that microcredit helps women to convert much more costly and taxing debts into debts that they can service more easily and that allow them to retain their dignity. Indeed, microcredit appears to be used mainly to substitute or reconfigure one’s overall debt profile and to move towards a position in which women can manage budgets without risking losing the few assets they own.

*Self-regulating and withdrawing from SHGs*

Part of the skill of juggling and managing debt is knowing when not to take out additional loans or when to leave a SHG altogether. Women often told us how their SHG could have taken out another or a larger loan, but opted not to. Similarly, individuals withdrew from SHGs when they were unable to keep up loan repayments
and, hence, risked spoiling their name. In 2014 Preeta, an Adi Dravida woman in her early 50s living in Allapuram, told us how important SHGs were: ‘now we are SHG members, so there is less need to borrow from moneylenders. SHG is crucial.’ But just 18 months later a different picture emerged and it became clear that Preeta was struggling to remain in her SHG. Firstly, we observed that she missed meetings and payments. Initially, the group was not overly concerned, partly because Preeta was entitled to a share of the savings pot, and so any debts she had to the group could be offset against her share of savings. But her absence caused a lot of noisy discussion in the group, as they debated who should speak to Preeta.

A few weeks later, Preeta told us that she herself had decided to withdraw from the group. She explained that since the birth of her latest grandchild she had been looking after her daughter-in-law and been unable to earn and sustain repayments:

I didn’t want to be part of it anymore as I have too many other commitments … I am alone and so I cannot take on more debt. I have no husband anymore, so I can’t pay off [the loans]. So, I don’t want to be in a SHG anymore. My savings are there, so [I told them] you take my savings and settle my debts with it, and if you need more money, I’ll pay you.

Leaving a SHG is tricky: there are significant advantages in participating in a SHG, but staying in a group without being able to meet one’s obligations means risking spoiling one’s reputation in the community and village. Thus, for Preeta, as for many other older and widowed women, being part of a SHG can be challenging when income flows dry up. Another SHG asked her to join them but she was wary, saying if she needed money she would get it from therinthavanga (known people), like her daughter or sister. For Preeta, her age clearly limits her earning capacities and hence her ability to access ‘better’ debt. While Preeta’s case indicates the strains that SHGs can place on single women with limited abilities to earn, it also shows that women themselves are acutely aware of the extent to which they can take on more debt.

Here, is it important to reflect on the caste, class and age-based composition of SHGs. While SHGs included women belonging to different castes, groups tended to be predominantly neighbourhood-based, consisting of people who know and trust each other. Practically, this often meant women who were already kin and
neighbours and, hence, given the caste-based residential segregation within the villages, SHGs usually included women belonging to the same or closely related caste groups. In Allapuram, there were some mixed-caste SHGs, but these tended to include mainly BC and MBC women. Most SHGs were made up exclusively of Christian Adi Dravidas and one SHG was entirely made up of Mathari women. As far as we were aware of, Mathari women did not belong to any other SHGs apart from one woman who belonged to an Adi Dravida SHG. She had joined this group with 4 others from the Mathari colony, but the others had dropped out as they had failed to sustain the repayments. In Mannupalayam, there were 10 exclusively Mathari SHGs, one of which was a now folded male SHG, while other SHGs were mixed-caste, but not including Matharis.

To a significant extent, caste and class overlap in SHG membership. As women of the same caste and neighbourhood tend to have similar household incomes, this enables them to borrow and service similar loans. As Danalaxmi, the Allapuram PLF President commented on group membership, we ‘choose the least problematic person. We won't select those problematic people, otherwise we can't run the group.’ She observed that having lived in the place for a long time, she knew people well and could confidently identify reliable group members. Much of this had to do with households’ economic position and women clearly selected group members with a similar economic background to themselves. In Allapuram, for example, a growing number of successful Adi Dravida SHGs reflected this community’s upward mobility within the village. In Mannapalayam, the thriving Mathari SHGs – including a group that had been running for 13 years - were similarly indicative of Matharis’ regular employment in powerloom work.

Importantly, age and marital status matter a great deal too. While the SHG leaders – usually married women in their 40s - claimed to be open to women of all castes and backgrounds, they were clearly wary of including older, often widowed, women and young, unmarried women. The former because of their limited earning capacity and the latter because of the risk of them leaving on marriage without settling their debts (see Kar, 2017). Married women, securely settled in the village and with multiple earners in the household, were by far the most preferred SHG members.
Preeta left her SHG because she did not like being in a position where she was unable to make the required contributions. Women feel a huge sense of obligation to maintain their SHG payments. As Priya in Mannapalayam explained:

Even if we have problems we have to go and pay – it is really important. Somehow we have to get the money. ... Or we pay one day later, but we definitely have to pay within that week. Our husbands know that it is important and they help too. Or, I'll borrow from someone else [on Sunday] and then repay them when I get my pay on Tuesday. Her friend Meena joined in: I won't take a SHG loan if I know I can't repay. Twice I paid my SHG late and I didn't like it.

Men also talked about the importance of making SHG payments on time. As Ayyadurai, a Dalit Christian from Allapuram whose wife is in a SHG explained, ‘It is really important to repay SHG loans properly, for otherwise they won’t give a next loan. And if one person doesn’t pay, they won’t collect money from the 14 others either and my wife will be shouted at, and it will be a great avamaanam (loss of honour; shame)’. The importance of keeping up SHG commitments was something that came up again and again. Karpagam, a Mathari member of Mannapalayam’s longest running SHG which had run for 13 years without problems, explained that when her group was formed they had agreed that:

whatever your dying problem is, you still have to pay the sanda (membership) and the saving contributions. If you have a problem you should tell the group and you can get a petty loan from the savings. But you can’t excuse yourself. ... In the group you have to abide by the rules, otherwise we couldn't have run it for 13 years. ... [whatever happens] you can’t avoid paying each week – it is very strict. If you have to borrow [in order to pay] then you borrow – but you must pay.

However, a considerable source of flexibility for women is that they can borrow money from the group savings pot in order to keep up their bank loan repayments. While banks expect adherence to rigid monthly repayment schedules, women gain flexibility from the opportunity to borrow from the SHG’s savings pot whenever they struggle with a bank instalment. Even though borrowing from the savings pot might incur a small interest charge, it allows women to fulfil their obligations towards the bank. We also came across instances in which women borrow from other group members or neighbours to keep up their repayments. These solidarities cannot be
taken for granted. They are certainly facilitated by the relatively steady household incomes in this region and they in turn enable women’s ability to juggle debts more effectively.

It is not only individuals but also groups that act with caution. Several SHGs told us they had decided not to increase the size of their loans, fearing repayments might become unmanageable. For example, one group in Allapuram, stopped at a PLF loan of Rs 60,000 (or Rs 5,000 per person) and explained ‘we won’t go to Rs 120,000 because most of this group does agricultural work.’ The group recognised their members’ limited earning potential and acted accordingly. A shared class position marks both group membership and borrowing behaviour. Many groups stated that they would only take loans they were confident all members could manage. Karpagam explained how her SHG had limited borrowing in different ways. Firstly, they decided not to get any loans through private banks; secondly, they set a limit to the size of the loans they would take from their SHG bank; and, finally, they set a limit to the size of the loans individuals could borrow from the ‘pot’. This strategy, they were convinced, largely accounted for the success and longevity of their SHG.

**Impacts and transformations around dependency, confidence and awareness**

The most frequently stated advantage of microcredit is the reduced need to turn to usurious moneylenders, especially during family emergencies. Microcredit offers women two sorts of loans: SHG bank loans are largely used for planned expenses, while the SHG’s saving pot provides instant loans for unforeseeable and urgent expenses. These findings are in line Garikipati et al’s observations from eastern Tamil Nadu, where the authors distinguish between planned and instant loans (2017a, p. 701). Planned loans, they argue, taken from formal sources and local elites, tend to be for investment, asset expansion or prestigious ceremonies, and are usually considered socially respectable. Instant loans, by contrast, tend to be informal, smaller, taken by women, and are more likely to be socially degrading. Instant loans were ‘exploitative and lenders, especially ambulant lenders, use coercive practices to elicit compliance’ (2017a, p. 702). As such, they identified a
clear ‘social hierarchy of debt... where not all sources of loans are valued equally’ (ibid.).

While we encountered similar patterns of borrowing, and indeed a diversity of social assessments according to loan type, our data suggest two important differences. Firstly, our informants considered some larger, planned loans as highly problematic and degrading too, especially loans from employers which risked pushing them into labour bondage. Secondly, they saw SHGs as an invaluable source of both planned and instant loans that helped them to contain negative social consequences of borrowing. SHG bank loans allow group members to access larger sums of money for planned investments, without risking labour bondage or loss of assets. In addition, smaller loans from the SHG’s savings pot effectively act as a new form of instant loan, but without the degrading connotations attached to similar loans from moneylenders or shop keepers. SHGs thus afford women, and their households, a way of accessing planned and instant loans with a reduced risk of loss of dignity and respect.

The reduced need to go to moneylenders was mentioned repeatedly as a key advantage of SHG groups. Rajan and his wife Saraswati told us how they had borrowed money to complete their new house, borrowing three lots of Rs 50,000: from his sister (a SHG member), from his wife’s SHG, and from his powerloom employer. While his wife now has to repay two SHG loans, she says that this is ‘good only’ as ‘previously we would have borrowed from moneylenders, employers and other rich people’. While they are still dependent on Rajan’s powerloom employer, they have managed to avoid moneylenders or pledging any gold or land documents in order to build their house. While Saraswati says she now has to repay a total of Rs 8,000 per month, she is confident that this is feasible on their incomes as they own their house and together earn around Rs 15,000 per month.

For many the priority is to reduce dependency on employers - whether powerloom owners or landowners – given the long history of pannaiyaal (permanent farm work) and kottadimai (tied labour) in this region (Carswell and De Neve, 2013). Although such loans are interest-free, borrowers are aware that they translate into obligations (labour or other services) on their part. When asked which loan was the most problematic, Joy said without hesitation that it was the money owed to her husband’s
powerloom employer: ‘Because you have to work for them continuously and you can’t go and work anywhere else. They will shout at my husband even if he works elsewhere for one day! … Entering a powerloom [unit] is like going to jail, but in jail you get some rest at least.’ While elsewhere we have described the forms of debt bondage found in contemporary powerloom workshops (Carswell and De Neve, 2013), Joy’s statement indicates that workers are eager to escape labour bondage and that SHG bank loans help to replace what are clearly considered ‘bad’ debts. Selvi, a SHG leader in Mannapalayam, explained how SHG loans enabled many Dalits to free themselves from debt bondage in the powerloom industry. Her own husband, for example, repaid the Rs 10,000 advance he had received from his employer by pledging her gold, which they later retrieved using a SHG loan. Selvi, who herself has avoided borrowing from her powerloom employer, emphasised the role of SHGs in reducing their need to approach employers for money. While this does not necessarily suggest a widespread drastic transformation in the class position of the rural poor (Pattenden, 2010), our evidence does indicate that microcredit has facilitated some significant material changes, particularly in terms of reduced dependency on employers and an enhanced ability to escape debt bondage.

SHGs are also reported to have positive effects on intra-households relations, and on women’s confidence and respect within the family and the village (Garikipati et al, 2017a; Goetz and Gupta, 1996; Kabeer, 2001). Selvi, her mother-in-law and another relative, all living in the Mannapalayam Dalit colony, agreed that

in the past we always had to ask our husband for money or borrow. Now we can get money from our own group. Now they [men] respect us more (madikkuranga) … respect for women has gone up (ponukku mariyadu adigam aydichu). Most men encourage us now to attend the weekly SHG meetings and they tell us to do our SHG payments properly. They now encourage us to join SHGs and they too contribute to the payments and share the responsibility. It has enhanced women’s lives/made women come up (vaalkai maympattuthal).

In some parts of India, male kin are needed to act as guarantors for loans (Kar 2017), but in Tamil Nadu women are able to obtain SHG loans entirely in their own
right. Women tell us that most husbands nevertheless feel a shared sense of responsibility for SHG loans and contribute to repayments. As Meena explained: ‘we both have to take responsibility for paying back, so we’ll both pay back and both worry about it’. Partly, at least, this is due to the fact that men too realise the importance of microcredit as a ‘good’ source of credit: one that is serviceable and dignified, that gives the household access to money with few strings attached, and that can only be accessed through their wives, mothers or sisters. Yet, such male solidarity is neither self-evident nor universal, as earlier research by Goetz and Gupta (1996) and Kabeer (2001) has shown. In this context, male support is no doubt facilitated by a labour market that enables men to earn and contribute to household financial responsibilities on a regular basis. Moreover, the fact that decisions around loans are taken by groups of women also helped women explain and justify those decisions to their husbands, who were less able to object in the face of the wider community. Instead of leading to further indebtedness and subsequent domestic disputes, the decline of ‘bad’ debt entering the households was considered a positive development by many.

Women also reflected positively on their self-confidence and stated that SHG activities have buttressed their confidence to travel, interact with the outside world and engage with modern institutions. Many women, who previously had little reason to travel to town or interact with bank officials, saw the rise of SHGs as boosting their knowledge of the world. A group of Dalit women from Mannapalayam explained that SHGs have meant that:

We get to go to the bank and get money out. ...we get more brave (thairiyam) …we learn about the banks. ....So now we too can use banks and get money. Also, we travel to different places. For example, we go to Tiruppur for the SHG meetings.

Part of the knowledge and confidence that women gain is around financial literacy. Even women who are young, newly married and less well educated explained with confidence the pros and cons of different loans, different financial institutions and different repayment schemes. Discussing one of the most visible private financial institutions in Tamil Nadu, Muthoot Finance Corporation, Gayathri, a newly married Dalit woman from Mannapalayam, observed with remarkable insight that while these
private banks were ‘useful in case of emergency ...they are doing it for their own profit.’ She had therefore decided not to stay in the group when they took out a larger loan from Muthoot. In a similar way, Maheshwari above refused to take a loan from a private MFI as she was wary about the interest rates and other charges. Enhanced knowledge of financial institutions and products has turned women into more discerning and critical borrowers, with a notable ability to distinguish between options on offer.

Notes of caution

Whilst we came away from almost all our discussions with women feeling positive about the effects SHGs had on their ability to juggle and manage debts, we did come across a number of more problematic practices that risk undermining some of microfinance’s benefits identified above.

The first, and potentially most serious, concern relates to the recent spread of commercial banks and MFIs offering microcredit loans to groups of women across Tamil Nadu (Guérin et al, 2013). While private microfinance institutions are known to be more aggressive in their approach towards borrowers and contribute to the overall indebtedness of households, during our research between 2008 and 2015 women were very cautious of signing up for loans from private institutions, carefully comparing the fees and charges of different products. However, since 2017, newspapers have highlighted the increased difficulties faced by SHGs in the state and the drying up of loans from publicly-owned banks, resulting in the gradual disintegration of SHGs and a concomitant rise in borrowing from commercial MFIs over the last two years (Aditi, 2018, 2019). These reports matched field observations in mid-2019, when we observed a clear shift towards women signing up to group loans from commercial MFIs and an associated decline in involvement in state-backed SHGs.

These MFIs - such as Muthoot Finance, Madura Microfinance, Equitas and HDFC - take an approach that is different from SHGs (Kabeer, 2016). While they follow the concept of collective repayment and responsibility, they do not build on established SHGs or collective saving histories. These features make their long-term viability more tenuous as commercial lenders appear only concerned with regular
repayments and not with group savings and support. While these groups similarly receive substantial loans that are repaid on a monthly basis, the interest tends to be higher (1.5-3% per month) than for loans SHGs receive from publicly-owned banks, yet lower than what moneylenders and pawnbrokers charge. As the ready availability of credit from commercial MFIs is accompanied by higher interest charges, the risk of over-indebtedness undoubtedly intensifies, especially where women end up borrowing from different commercial sources at the same time (Taylor, 2017).

The question of productive investments remains an issue too. While the primary role of microfinance is widely understood to support productive investments and entrepreneurial activity, we came across very few cases in which loans were invested in any form of productive enterprise. Much of this, of course, depends on how productive activity is defined and, as discussed above, investment in houses, weddings and gold is in many ways socially and economically desirable. Nevertheless, most loans are spent on expenses that do not enhance households’ earning capacity in the short term. This was also recognised by our informants. Poornima, one of the Allapuram PLF leaders, explained that the size of loans was simply too small to start any kind of production or trade: ‘once groups get Rs 300,000-500,000 they can start using it for something productive, but a loan of Rs 100,000 … is inadequate to start up any business’. Judged by this standard, microcredit clearly falls short of its stated objectives in our study region.

SHGs are not immune to internal disputes either. We heard about one SHG where some of the savings ‘pot’ had gone missing. It was not clear what exactly had happened and Maria, one of the group members, was reluctant to explain. She did not want to make an issue over the case saying ‘they were relatives. Also, it was our own mistake, we should have checked [the accounts] ourselves, and so it was our fault… if you are not careful, it is your problem’. As a result of the dispute she left the group and joined a different one. She clearly felt unable to publicly discuss or insist on the issue as the other members were all relatives, fellow caste members, friends or neighbours.

An additional area of concern regards consumer credit, both in itself and in how some retailers use SHGs to sell products. Missing from our quantitative data and no
doubt underestimated in our analysis, are consumer items acquired through hire-purchase arrangements, which has become a widespread practice even among poorer households in our villages. Whilst motorcycles have long been bought through such arrangements, today a whole array of household items can be bought through instalments. Typically, a down-payment of 30% to 50% of the total purchase price is made, with the remainder paid in monthly or weekly instalments. If you miss three payments, the product is confiscated by the seller. Most people seemed aware of the cost of buying in this way and one group of women explained: ‘for a fridge costing Rs.18,000, you pay Rs 8,000 and get a loan for Rs 10,000. And then you pay the remainder in instalments. But … you will end up paying Rs 22,000 for a product of Rs 18,000!’ Others, however, considered this worthwhile. Maria, a Christian Dalit from Allapuram who recently extended and furnished her house, paid for her fridge - a particularly desired consumer good - on credit. She was also paying for a cooker and a table through regular instalments. For Maria, these goods are not merely consumer goods, but investments in the future. With a daughter approaching marriageable age, Maria was keen to improve her house and overall household image in the run up to selecting a groom and being subjected to pervasive public scrutiny by future in-laws (De Neve, 2015).

Private companies routinely use SHGs to approach buyers. Shortly before our field research in 2015, representatives of a company selling water filters had attended a SHG meeting and promoted the filter to its members. The company had explained the filter’s benefits to the family: protecting against illness and saving women time (as they would no longer need to boil water). Drawing on a narrative of being ‘good mothers’ was incredibly effective as all members with children (five out of 12 group members) ended up buying the filter. They repaid the filters over a 52-week period, paying Rs 88 per week. While such selling practices need to be distinguished from a SHG’s own borrowing and saving activities, it is clear that such groups are nevertheless exposed to predatory selling techniques as they are targeted - often in quite aggressive ways and through convincing modernist narratives - as a market for consumer goods.

**Conclusion**
So what, then, is happening to microfinance’s moral compass in South Asia, and what lessons can be drawn from our case study in Tamil Nadu? What can be learned from this study of government regulated microcredit based on SHGs? To understand the crises and successes of microfinance, Guerin et al (2015, p. 4) point out, a contextualised analysis is required that pays attention to the supply, demand and environment sides of financial interventions. Such an analysis includes attention to governance and regulation as well as the social and economic context that shapes how microfinance is organised, accessed and engaged with (ibid., p. 11). In this article, we endeavoured to present such an analysis and to identify under what circumstances microfinance might be a force for good in people’s lives.

A first finding, in line with a growing body of ethnographic scholarship on rural indebtedness, is that microcredit – and its relative success or failure - cannot be understood outside the wider social context of debt and credit sources available to the rural people (Guérin, 2014; Goedecke et al, 2018). In a study of Kumaon, Uttarakhand, Goodman showed how clients ran their microfinance groups ‘like extensions of their relationships and used their loans to reproduce their families and their social networks’ (2017, p. 363), and they altered microfinance practices to fit already existing borrowing and exchange practices. Indeed, they spread their debts across many different relationships, including SHGs, and ‘used microfinance as one source for funds on par with others’ (ibid., p. 370). Our research similarly demonstrates that development interventions, such as SHG-based microcredit, need to be understood from within the range of resources and strategies people use to meet their financial needs. Our findings illustrate how women in particular juggle different types of debts and how they use microcredit to re-balance their debt portfolios.

But the wider economic context matters too given that the viability and sustainability of borrowing is dependent on people’s capacity to earn. As Guérin et al observed, ‘the main challenge is to identify the conditions that can allow financial services to benefit poor and local economies and not just financial providers and their allies’ (2015a, 17). As explained at the outset, our study region is economically thriving with plenty of regular earning opportunities for men and women alike. Regular salaries, derived from both rural and urban industrial sectors, facilitate household borrowing, women’s juggling and people’s ability to service debts. This is a crucial environment
factor, which not only shaped the narratives and experiences of our informants but suggests more broadly that stable job opportunities in growing economic environments are key for microcredit to become an enabling rather than a harmful practice and for borrowers to avoid debts spiralling out of control (Guérin et al, 2015b, p. 88).

Secondly, scholarly evaluations of microcredit need to pay attention to localised social evaluations of debt, or to what Garikipati et al call ‘social hierarchies of debt’ (Garikipati et al, 2017a, 2017b). In our study villages, a significant cultural distinction was made between ‘good’ debt and ‘bad’ debt - largely defined in terms of its cost and flexibility as well as its status and dependency implications. As everywhere, different debts were imbued with different qualities and considered to have specific effects, whether material, moral, social or political. In Garikipati’s et al’s study (2017a), planned and instant loans formed an important analytical distinction, with planned loans being associated with more positive economic, social and moral values as opposed to instant loans. In our study, microcredit was similarly seen as a ‘good’ source of debt as it offered access to both planned and instant loans, but neither of these were considered socially degrading or economically burdensome, as they both helped to reduce borrowers’ reliance on ‘bad’ credit.

Thirdly, while microcredit was only rarely invested in productive activity, we found that it was widely used to convert ‘bad’ debts into ‘good’ – or at least ‘better’ - debts. In particular, it was routinely and skilfully used by women to reduce their households’ dependence on expensive and socially degrading loans from usurious moneylenders and risky pawnbrokers, and to avoid relations of dependency, including debt bondage, which lower-caste villagers were particularly keen to break away from (Carswell and De Neve, 2013). Where microcredit can reduce borrowers’ recourse to costly and degrading debts, it might also ease intra-household relations while improving women’s confidence and self-esteem. In our study, microcredit played an enabling role in women’s daily responsibilities around managing household finances, juggling debts and dealing with financial emergencies. Research should recognise the agentic capacity of women in using and reshaping microcredit to their own needs (Goodman 2017, p. 370), and hence make visible the extensive amount of productive and emotional labour that women invest in the continuous juggling of household finances that are so key to the reproduction of households. As Hayes
points out, the many activities associated with microlending and its repayment should ‘be understood as a form of productive, though hidden, labor’ (2017, p. 22). Moreover, in the context of a thriving economy - rather than agricultural crisis - ‘good’ debts, including microcredit, can be considered positive in at least two ways: they help turn risky and costly debts into more sustainable and affordable borrowing, and they enable social investments in education, marriages and status-enhancing consumption practices, such as house improvements (Rajasekhar et al, 2017).

However, the effects of microcredit were anything but even across the social landscape. Caste and class positions remain key in shaping people’s livelihoods and hence their engagement with microcredit. In Allaprum, the poorest Matharis only ran one SHG, while the economically more successful Adi Dravidas and other middle-ranking castes were well ahead in accessing microcredit and servicing their loans. In Mannapalayam, Matharis in regular powerloom employment were involved in multiple SHGs, accessing substantive amounts of credit. While on the whole SHGs were most active across the poorer sections of our villages, it was also clear that it was those who were economically more stable and even upwardly mobile, who were leading the way rather than the members of the poorest households with least job security. But caste and class intersect with age and gender too. While in this region many women earn in their own right and are thus able to service debts themselves, their employment opportunities remain considerably more limited in the regional labour market compared to those of men. And the elderly who are reliant on erratic agricultural work or income from NREGA were often the ones least able to sustain their involvement in SHGs. The intersectionality of class, caste, gender and age remain crucial to an understanding of labour market access and microcredit engagement. The class-caste-gender intersection also determines who is more likely to be able to successfully juggle multiple debts and benefit from microcredit.

Finally, our study underscores the importance of governance and regulation too (Guérin et al, 2015b; Picherit, 2015), particularly in the light of the recent shift in microcredit patterns in Tamil Nadu. The model of microcredit discussed in this article benefited from strict government regulation under the Mahalir Thittam, which offered support to SHGs, coordinated their activities, and provided links to publicly-owned banks. However; the recent drop in well-functioning SHGs and the more aggressive entry of commercial MFIs in the state might be indicative of an emerging
borrowing trend that may prove unsustainable even in a thriving economic region. It is also symptomatic of the increased financialisation of everyday life, which straddles state-linked SHGs, commercial MFIs and consumer-based credit, and makes distinctions between them increasingly unhelpful (Picherit, 2015, pp. 172-175). At the very least, our findings suggest that discussions need to move beyond simple dichotomies of whether microcredit works or not (Bateman, 2010), and towards a more sophisticated understanding of the specific contexts in which microcredit operates and the multiple effects it has on women, men, households and communities as borrowers seek to fulfil local aspirations for a better life.

References


Kabeer, N. (2001). Conflicts over credit: re-evaluating the empowerment potential of loans to women in rural Bangladesh. World development, 29(1), 63-84.


<table>
<thead>
<tr>
<th>Number of households indebted to:</th>
<th>% of households in debt to:</th>
<th>Total debt from source:</th>
<th>Average size of that debt:</th>
<th>% of total debt from:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moneylender</td>
<td>41</td>
<td>38.7</td>
<td>218,000</td>
<td>5,317</td>
</tr>
<tr>
<td>SHG - Saving pot loan</td>
<td>27</td>
<td>25.5</td>
<td>177,100</td>
<td>6,559</td>
</tr>
<tr>
<td>SHG Bank loan</td>
<td>24</td>
<td>22.6</td>
<td>403,000</td>
<td>16,792</td>
</tr>
<tr>
<td>Landowner</td>
<td>25</td>
<td>23.6</td>
<td>253,500</td>
<td>10,140</td>
</tr>
<tr>
<td>Relatives</td>
<td>17</td>
<td>16.0</td>
<td>512,000</td>
<td>30,118</td>
</tr>
</tbody>
</table>
### Table 2: Main characteristics of credit sources in Allapuram and Mannapalayam

<table>
<thead>
<tr>
<th>Source of credit</th>
<th>Risks/disadvantages</th>
<th>Advantages</th>
<th>Monthly interest rate (range):</th>
</tr>
</thead>
<tbody>
<tr>
<td>Moneylender</td>
<td>High cost; harassment; loss of dignity</td>
<td>Easy access; somewhat flexible repayments</td>
<td>2-10%</td>
</tr>
<tr>
<td>SHG - Saving pot loan</td>
<td>Group pressure</td>
<td>Easy access; no or low cost; flexible repayments</td>
<td>0-1%</td>
</tr>
<tr>
<td>SHG Bank loan</td>
<td>Harder to access; inflexible repayments; group pressure</td>
<td>Larger amounts; low cost; increasing loan amounts over time</td>
<td>1-1.5%</td>
</tr>
<tr>
<td>Landowner</td>
<td>Obligation to work; harassment; loss of dignity</td>
<td>Easy access; no or low cost; flexible repayments</td>
<td>0-1%</td>
</tr>
<tr>
<td>Relatives</td>
<td>Duty to reciprocate; risk of loss of dignity; breakdown of relations</td>
<td>Easy access; larger amounts; no cost; no or flexible repayments</td>
<td>0%</td>
</tr>
<tr>
<td>Gold loan (bank or pawn broker)</td>
<td>Higher cost; loss of assets</td>
<td>Easy access; larger amounts; flexible</td>
<td>1.5-3%</td>
</tr>
<tr>
<td>Loan Source</td>
<td>Problems/Conditions</td>
<td>Repayment Terms</td>
<td>Interest Rate</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>--------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Powerloom owner and other employers</td>
<td>Labour bondage; obligation to work; harassment; loss of dignity</td>
<td>Easy access; larger amounts; no cost</td>
<td>0%</td>
</tr>
<tr>
<td>Friends / neighbours</td>
<td>Duty to reciprocate; risk of loss of dignity; breakdown of relations</td>
<td>Easy access; small amounts; no cost; flexible repayments</td>
<td>0%</td>
</tr>
<tr>
<td>Bank loan (without gold pledged)</td>
<td>Higher cost; inflexible repayments; collateral required</td>
<td>Larger amounts</td>
<td>1.5-3%</td>
</tr>
</tbody>
</table>