Chapter 1
INTRODUCTION

Rural areas that host a majority of India’s population is undergoing transformation. Over the years, the contributions from agriculture to national income has been declining but there is an increase in the non-farm based economic activities, particularly services (Murgai and Lanjouw 2009; Roa and Nair 2003). Moreover, post independence, the State has intervened in the form of welfare programmes, land reforms, and reservation policies to improve the circumstances of rural citizens. The decentralization reforms in the form of 73rd amendment introduced in rural areas since the mid-nineties are expected to create opportunities to influence the policy/programme decisions. While these various interventions have contributed to a shift in the socio-economic and political relations in the rural context (Rao and Nair 2003), poverty and inequalities remains an enduring problem for policy makers.

An aspect of this problem relates to the ways in which rural citizens secure finance for meeting their basic needs and income generating activities. Although in the poverty literature, it is assumed that cash income is critical for urban areas, the same is true for rural areas, despite the various efforts to include the poorer groups to formal sources of finance, small and marginal farmers reliance on informal finance has deepened, particularly lending has regained in importance in the Post financial crisis. Despite this trend, the focus in the literature on poverty and livelihoods is dominantly on the role of microfinance institutions in urban areas (Collins et al 2009). However, Little is known about the financial practices of rural citizens, in that, how they mobilize finance for investments in housing or business, or for their basic consumption needs. This research will explore this question, with a specific focus on the practices of agricultural wage workers, who are not generally very visible in the literature on financial inclusion.

In most agricultural settings, agricultural wage workers are considered to be at the bottom of the economic and social ladder. They are assumed to lack the basic assets (land in the first place) to run their own productive activities, to suffer from adverse working conditions, to get low and irregular incomes, and to face multiple sources of vulnerability and exclusion.
1.1 Tamil Nadu’s rural economy

Employment structures in rural India have changed significantly over recent decades. It is well known that agriculture has been steadily declining in terms of both GDP share and employment rates. From 2009 to 2012, just 56.6% of workers worked in agriculture, in contrast to 81.6% in 1983, despite the fact that most of the Indian population still lives in so-called rural areas. Land concentration is now a thing of the past. Nearly two thirds of farmers today are considered ‘marginal farmers’. They own less than 4 acres of land, and are unable to survive on agriculture alone. Agricultural labour rates continue to decline, while non-farming labour is increasing (Srivastava 2012). Such surpluses of agricultural labour have not so far been compensated by growing or prosperous industry. Rural workers, whether they are landless or marginal farmers, survive by combining several sources of livelihood. This is a complex, often precarious process, devoid of any form of social protection. The latest NSSO data indicate that employment informalisation affected 92.38% of all workers in 2004-2005, in contrast to 91.17% in 1999-2000 (Srivastava 2012).

Labourers switch between multiple forms of employment, positions, places and sectors of work (Picherit 2009). Their movements are influenced by the opportunities available to them, their social relationships - which still affect labour access - and the rising cost of education, social and religious rituals, and consumer goods. Circular migration has always taken place, but is very likely to increase (Breman 2011). Its exact scope is hard to measure, but villages are increasingly integrated into a wider economy.

Social differentiation is no longer solely determined by land ownership and form of agriculture practiced. Traditional categories such as “poor peasant”, “middle peasant” and “rich peasant” have become obsolete (Shah and Harriss-White 2011). As Bernstein et Lerche argue, the concept of “classes of labour”, defined as all those “who now depend – directly and indirectly – on the sale of their labour power for their own daily reproduction” (Bernstein 2010: 111) offers a useful framework for analysing the “fluidity of labour relations for workers of rural origin” (Lerche 2010: 66). Contemporary labour in the countryside is highly dynamic: workers regularly switch occupations, employment status and places of work, either over their lifetimes or on a seasonal basis. But labour is also extremely segmented and fragmented
Scheduled Castes and Scheduled Tribes still face considerable discrimination and remain specialized in the most precarious and degrading jobs. They are twice as likely to carry out casual agricultural labour and to be poor (Harriss-White and Gooptu 2001). They account for the bulk of bonded labourers (Srivastava 2005; Breman et al. 2009). Compared to others with the same education levels and occupation, they are paid less and their working conditions are poorer (Thorat 2008). Gender is also an important source of segregation and discrimination: females are far more likely to carry out agricultural work, to work from home, to have casual contracts and to receive low wages (Harriss-White 2003; Harriss-White & Gooptu 2001; Srivastava 2012). Life cycle position also counts: not only are many Indian children and elderly people forced to work, but employers discriminate against them (Harriss-White 2011).

This research focuses on northeast Tamil Nadu. It is well known that human development indicators in Tamil Nadu are better than in most Indian states, although average indicators conceal considerable regional disparities. The increasing importance of non-agricultural income resulting from industrialisation and a variety of social policies has clearly contributed to this (Harriss-White and Colatei 2004; Vijayabaskar et al. 2004). Various micro-studies have confirmed these broad trends. Though pockets of poverty remain, and new forms of servitude have emerged (Guérin et al. 2009; Roesch et al. 2009), various recent micro-studies drawing on longitudinal data have highlighted Dalits’ relative upward social mobility (Djurfelt et al. 2008; Harriss et al. 2008; Heyer 2012). Although inequalities persist and labour conditions are still precarious, wealth and income disparities are declining as a whole. Such micro-studies confirm that social change has been driven by the shift to non-farming labour due to migration, local industrialisation and social policies.

1 In 2010 Harriss and Jeyaranjan Nagaraj revisited the village of Iruvelpattu in the former southern Arcot district (north east Tamil Nadu), which Gilbert Slater studied in 1916, followed by different teams on subsequent occasions over the century. Djurfelt and colleagues studied the Dalit and non-Dalit social mobility between 1979 and 2004 in six villages in the former Tiruchiparalli district (central Tamil Nadu). Heyer collected precise longitudinal data from 1981 to the present on Dalit working and living conditions in several villages in the Tiruppur region (West Tamil Nadu).
1.2 Rural financial market

Financial markets in rural areas have often been analysed through a specific prism: the financing of agriculture. The specificities, risks and challenges associated to agricultural finance have led and continue to generate multiple reflections. Surprisingly, rural finance outside agriculture has raised very little attention. We believe however that rural finance is both reflective and constitutive of broader agrarian changes and should deserve better attention.

The growing importance of non farm economies is rural areas is now well-known. In many parts of the world rural financial markets are also facing significant changes. Though unequally spatially distributed, the financialisation of rural economies is taking place. Even the most remote places are now almost fully monetarized. Though formal and institutional credit is still extremely discriminatory, multiples forms of uncollaterized credit emerge here and there, especially for the poor. Echoing a neo-liberal vision that emphasises free markets to reduce poverty, the poor are increasingly considered as both creative entrepreneurs and responsible consumers. Multiple stakeholders, private or public, formal and informal, settle in rural areas to provide credit and micro-insurance, to mobilise saving or to send or receive remittances. The microfinance industry is one of these. Despite a persistent neglect for rural areas, rural microfinance is developing and in some countries like India it has always been a priority. The necessary conditions for a supply of quality of financial services, however, remains an unsolved question. The current arguments in favor of social performance and social responsibility

1.3 Financial landscapes

Labourers now have a wide range of borrowing options. Empirical studies in the early 1980s highlighted the dynamism and diversification of the rural financial landscape (Bouman 1989; Harriss 1981). In rural Tamil Nadu for instance, professional lending, which had historically been the preserve of specific castes, has opened up to other communities. Many local elites also used their cash surpluses to invest as loans (Harriss 1981). More recent studies underline that the ongoing diversification of Tamil Nadu’s rural financial landscape is still going on (Ramachandran and Swaminathan 2005; Polzin 2009). Indian microfinance, having long been overshadowed by its Bangladeshi neighbour, has been growing
exponentially since the 2000s. Tamil Nadu is, moreover, one of the states where
microfinance has developed the most (Fouillet 2009). In March 2010, it was
estimated that Tamil Nadu state had 12,641,706 clients (Sa-Dhan 2009), with a
penetration rate ranging from 0 to 20 per cent (Fouillet 2009). On the demand side,
even if inequalities remain remarkably intractable (Harriss-White and Janakarajan
2004), the poorest and lowest castes are expressing a growing desire for social
mobility. In Tamil Nadu, the increased importance of non-agricultural income and
the implementation of wide set of social policy measures have clearly contributed
to this (Harriss-White and Colatei2004; Djurfeld et al. 2008; Vijayabaskar et al.
2004). Such desire for social mobility creates an increasing culture of
consumerism, including in rural areas (Kapadia 2002). This is incited and
perpetuated through massive advertising campaigns (largely through television), and
facilitated by urban commuting and public welfare policies (such as bringing
electricity to the countryside and the distribution of free televisions). Consumerism
brings about genuine social competition between households and communities
(Kapadia 2002). These social mobility aspirations serve to loosen and reconfigure
ancient bonds of dependence, or at least alter expectations, bringing about the desire
for a better position within existing local hierarchies (Djurfeldt et al. 2008; De
Neve 2005; Heyer2010; Gorringe 2010).

1.4 Financial practises

In both northern and southern countries, intra-household management
systems have been the subject of numerous studies over the past three decades.
Economists, sociologists and anthropologists have studied diversity of management
systems and diversity of financial. Among other issues (it is of course difficult to
encapsulate the richness of the whole body of these works), two principle questions
emerge.

The first question relates to such management itself, addressing how
individuals’ incomes are shared, centralized or conversely, how they are separately
managed. Such analyses have shown the existence of a diversity of management
systems (for instance “pooling system”, “allowance system”, “independent system”,
“doling out system”, etc.) (In economics, see for example Kabeer [1995, 1997],

The second question addresses the potential implications of these practices for individual and family welfare. With regards to women welfare, one of the most persistent findings is the striking disparities between men and in terms of the control and access to money. As rightly pointed out by Jan Pahl [1989], three components of income flows within households should clearly be distinguished: access (who earns what and how much?), control (who decides to allocate what income to which expense) and finally spending (which can be only an executive function). Beyond the question of control (the outcome of which varies depending on the sociocultural context, social setting and position of women in the life cycle), the subjective factors of female income appear to be a persistent reality: in numerous cases women's incomes are underestimated, with the notion of a "top-up" salary proving remarkably persistent. As for family wellbeing, numerous and widely diverse studies (from large scale econometric analyses to far more qualitative and anthropological approaches) have demonstrated gendered use of incomes, their indispensability and a certain "feminine altruism". While explanations for this vary depending on authors and theoretical trends, empirical data converges on the point that women tend to allocate a greater proportion of their income to daily family subsistence.(See for instance Chant [1985] ; Kabeer [1997] ; Haddad et Hoddinod [1995] ; Grasmuck et Espinal [2000] ; Mencher [1988] ; Lachaud [1998] ; Lundberg et Pollack [1994] ; Pahl [1989] ; Senauer [1990] ; Thomas [1990].) In bringing out the complexity and diversity of family arrangements, these investigations have brought undeniable progress. This has been both on a theoretical level (improved understanding of intra- household dynamics, too often regarded as a "black box" and from a political standpoint (reflectionon how to optimize family allowances or to tackle poverty). Drawing on knowledge acquired over the past decades, our goal is to analyse the complexity and diversity of intra-family financial practices, favouring a double perspective: that of poor women. In brief, we shall show how these practices incorporate several dimensions: firstly that of security– quite simply of "making ends meet", and secondly an emotional and affective dimension
linked to the nature of intra-family relationships and emotions. Finally there is the social dimension, linked to the norms in place on a local level. Intra-household economic transactions cannot be confined to material and contested domains where the stakes are limited to questions of control, ownership and appropriation. As is remarkably demonstrated by Viviana Zelizer [1994, 2005], when the economic meets the private sphere, it is not simply money, goods or services that are exchanged, but also feelings, emotions and status. All the members of a household are involved in a continuous and intensive process of negotiation of their respective relations and positions. Zelizer however states that regardless of whether it is a question of distribution, consumption, production or transfer of goods, any economic transaction is an opportunity to organize and reorganize the nature and significance of these relations, as well as the place and the status of all who are implicated.

Only a micro-level analysis of daily relations and real-life experiences can bring out the eminently social and affective elements of monetary and financial transactions, and how these shape intimate relationships. At the same time, the role of each individual – where here we are looking at the role of women – is partially conditioned by a set of institutions which serve to define social roles (legislations, norms and systems of representation combined) and financial roles are no exception [Fontaine 2001, 2001; Lemire et al. 2001; Johnson 2004]. As Laurence Fontaine emphasizes when she analyses the role of women in informal finance in pre-industrial Europe, the ability of women to play with time and money depends on complex equilibriums which bind social institutions, social roles, their cultural construction and the power that surrounds them and defines the women's place and their access to resources, being land, labour or capital [Fontaine, 2001, 2007]. Combining these two levels of observation seems particularly fruitful when reflecting on the complexity and diversity of the monetary and financial practices of poor women. Micro level analysis aims at demonstrating the inscription of monetary and financial transactions in all of the rights and obligations which bind members of a household, while macro level analysis shows the influence and weight of institutions in terms not only of their dynamics but also their inertia. This is particularly the case in terms of to matrimonial alliances, access to resources and employment.
The empirical analysis on the role of women, conducted in very heterogeneous contexts (South India and Senegal), shows remarkable similarities that deserve a common analysis. The monetary and financial practices of these women indicates a surprising complexity and diversity, including in those contexts where women are assumed to be excluded from financial management. The diversity of financial practices incorporates saving, borrowing and exchange practices, and sometimes sources of income. It also includes diversity of monetary practices through the earmarking of funds. Last but not least, one also observes a variety of women-led financial circuits. The monetary and financial practices of these women equally reveal the heterogeneity of "woman" as a category and of positions occupied within a household, which vary depending on age and on the nature of blood and marriage alliances.

1.5 Formal and informal finances

Far beyond microfinance, many stakeholders are actively involved in the making of financial markets. Financial companies, whether formal or informal, increasingly consider the rural poor as a market niche. Multinational companies build partnerships with financial institutions to provide consumer items on credit and at the door step, including in some very remote places. Informal finance, far from disappearing with the “modernisation” of rural economies, is both extremely dynamic and highly diversified. While some ancient forms of informal lending are fading way, other forms of financial intermediation emerge. Following persistent decline of agriculture profitability and/or rise in real estate value of the land, many landowners shift from agriculture to urban based occupations, including money lending. Migrants who manage to save some money are also potential lenders.

On the demand side, the rural poor are looking for financial services. Traditional patronage based on landownership is fading away. Community protection is fragile and sometimes put into question. Yet, formal and institutional forms of finance and social protection are still largely inefficient, unfair or simply inexisten. The poor are thus desperately in need of financial services both to cope with chocks and feel secure, seize opportunities and organise life cycle events. They also have an
identity, a sense of honour and dignity. Yet consumption and consumerism play a growing role in the making of identities, including in marginalised communities.

1.6 Formal finances

The microfinance industry is becoming increasingly concerned by the nature of its social impact. Even though microfinance is still considered as an important instrument for anti-poverty policies, there is growing consensus among microfinance practitioners and donors that financial performances do not automatically correspond with positive impacts. More generally, the issue of household financial vulnerability (which is a specific form of social impact) is a matter of concern. The worry is that microfinance (and microcredit in particular) might leave some people worse off by pushing them into debt beyond their repayment capacities (Hulme 2007).

Impact studies focused on financial vulnerability provides mixed picture. On the one hand, various studies provide significant evidence of how microfinance services help their clients to protect themselves against risk, to develop income-generating activities and, more broadly, to exploit opportunities and to cope with economic losses (Armendariz & Morduch 2005; Bouquet et al. 2009; Collins et al. 2009; Sebstad & Cohen 2000). On the other hand, some studies argue that microfinance might lead to contrary effects, especially for the most vulnerable (Dichter & Harper 2007; Mosley & Hulme 1998; Mosley 2001). Because of their greater needs for consumption loans, their greater vulnerability to asset sales forced by adverse income shocks and their limited range of investments, the most vulnerable households may not be able to use microfinance efficiently (Mosley 2001).

Similar controversies can be found in India. The Indian microfinance sector has developed considerably over the past decade, both in scale and institutional diversity (Ghate 2007; Srinivasan 2009). The number of microfinance clients in 2008 is estimated to have been around 55 million, with an annual growth rate (in terms of number of customers) of approximately 10% (Srinivasan 2009). Indian microfinance can be distinguished from other countries in various respects: the importance of the Self-Help Group model, still dominant today, a focus on rural areas and a concentration in the south of the country. These three aspects are
presently diminishing in importance, but nevertheless represent an important feature of the microfinance landscape. It is also worthwhile noting that the provision of services to the rural poor is not new: India has a long history of credit schemes and credit institutions entirely devoted to rural areas, also for the poor. However, the inefficiency of rural credit institutions and government schemes (very poor recovery rates, poor targeting) has been documented at length. Since the 1990s, liberalization measures have broadened the extent of credit rationing, rural areas and poor segments of the population being the most severely affected (Copestake, 1988; Ramachandran and Swaminathan, 2005; Shetty 2004). With a focus on sustainability and discipline, microfinance raises new promises (Garikapati 2008; Rao 2008): incentives and collaterals better adapted to the poor (mainly the joint-liability system and the focus on women) are expected to ensure repayment performance, while strategic partnerships (mainly between banks and NGOs) are considered to be an efficient means of lowering transaction costs and ensuring financial sustainability (Ghate 2007; Seibel & Khadka 2002).

Indian microfinance has also brought about an increased interest among scholars. Here, too, empirical evidence regarding the impact on the financial vulnerability of households is mixed. A number of surveys give positive results, measured according to various indicators: employment and livelihood diversification (EDA 2005; Labh 2005; Patole & Sinha 2005; Puhazhendi & Satyassi 2000), assets (EDA 2005; Puhazhendi & Satyassi 2000; Swain & Varghese, forthcoming), consumption (Labh 2005) and composite indicators of vulnerability (Garikapati 2008). Other studies report negligible effects in terms of livelihood diversification (Kalpana 2008; Oommen & Meenakshisundararajan 2005; Thampi 2005). In Kerala, Sunil finds that the main effect of microfinance is to shift the debt burden from men to women (Sunil 2005). It is also observed that microfinance may be used for risky investments that lead to financial fragility. Using data collected in Andhra Pradesh, Wendy Olsen (2008) finds that some borrowers use microcredit for high-status objects. The author considers microcredit to be an “easy credit” that “may be making it possible for these people to incur debts beyond their capacity to repay” (Olsen 2008: 7). From this literature it is clear that the role and the impact of microfinance on the financial vulnerability and indebtedness of its clients remains a highly controversial issue.
Debt in itself is not necessarily bad. Whether viewed socially or economically, debt is two-sided. Socially, it may stifle or protect, create and reinforce hierarchies but also maintain, update and build solidarities and identities (Malamoud 1980; Servet 2006; Villarreal 2004, 2009a; Zelizer 1994). Economically, debt can lead to accumulation or impoverishment: the process is mechanical and depends on the difference between the cost of debt and the profitability of investments financed through debt. In practice it is impossible to dissociate the social and economical implications of debt as accumulation and impoverishment have a lot to do with social relations. One might think that financial vulnerability is primarily due to "unproductive" expenditures. This has been recently challenged by Collins et al. (2009). The distinction between "productive" and "unproductive" expenses is seen to have little meaning. First, there is now a consensus that poverty is multidimensional. Being poor means not only being unable to fulfil physiological and material needs but also social needs (Sen 1984). A social need, Amartya Sen suggests, means being able to participate in social life "without shame": in some contexts a television might be the minimum standard, while elsewhere it will be a herd of cows (or both). When people do not have the monetary means to access these needs (physiological or social), there are two options: privation or debt (when credit is available). Second, spending in order to maintain or enhance one's productive capacity has now been recognized as a very productive expenditure (Strauss & Thomas 1995). Social needs have an intrinsic as well as an instrumental value (Sen 1984): renovating one’s house helps to cope with environmental hazards, but it may also attract a better groom for the daughter; participation in religious festivals might be a source of pleasure and may strengthen self-esteem, but it is also a way to improve one’s reputation and therefore the social support of the community, etc.

1.7 Seasonal and circular migration of labour

Seasonal and circular migration of labour for employment has become one of the most durable components of the livelihood strategies of people living in rural areas. Migration is not just by the very poor during times of crisis for survival and coping but has increasingly become an accumulative option for the poor and non-poor alike.
Seasonal and circular (also known as cyclical, oscillatory) migration, has long been part of the livelihood portfolio of poor people across India (see for example Usha Rao’s 1994 study of Palamur labour in Andhra Pradesh, de Haan’s (2002) historical study of migration in Western Bihar, or Srivastava and Ali’s 1981 study of labourers from Bundelkhand). It is now recognised that migration is a part of the normal livelihood strategy of the poor (Mc Dowell and De Haan, 1997) and does not occur only during times of emergency or distress.

The main purpose of this thesis is to understand the concept of indebtedness in the context of poor, rural households and to share a number of preliminary thoughts.

1.8 Indebtedness of Indian rural households

High levels of indebtedness amongst Indian rural households have long been a matter of concern. Official British field reports regularly express surprise and concern about high levels of debt in villages (Breman 2007; Cederlöf 1997; Hardiman 1996). Many Christian missions have also sought to encourage the poor to save and to get out of chronic debt (Cederlöf 1997). While “financial inclusion” policies (i.e. policies aiming at providing formal financial services to all) are at now central to the political agendas of Indian public policy makers (Garikipati 2008), private stakeholders such as NGOs and banks (Srinivasan2009), and international organisations (World Bank 2007), this concern remains extremely pressing. Tragic cases of Indian cotton producers being condemned to despair, and sometimes suicide, over unmanageable debts are well known (Government of India 2007; Mohanty 2005).

1.9 Debt in Rural South India

Debt has been a source of debate and controversy over past centuries to the present day. In this context, economists look to clarify which sort of debt contracts can allow for better resource allocation and risk management. Political economists examine debt as a relationship of power and exploitation and as a source of inequalities. Sociologists and anthropologists approach debt as a social relationship and are interested both in the diversity and ambivalence of debt, analysing how debt may stifle or protect, create and reinforce hierarchies but also
maintain, update and build solidarities and identities. Politicians and decision-makers meanwhile question the fairness and effectiveness of debt and primarily seek to regulate and control it.

The issue of formality – whether debt transactions are recorded and debt providers registered as legal financial entities – is at the heart of the debate.

While many economists view informal debt as doomed to disappear with the "modernization" of the economy, political economists argue that exploitation through debt is not only compatible with capitalism but also even feeds it. Others, mainly anthropologists and sociologists, highlight the fascinating capacity of informal debt to evolve and adapt to the diversity of human societies. Politicians and decision makers however most often condemn informal debt as amoral and unfair.

Such debates have been particularly important to India, from the “colonial obsession with debt” (Hill 1982: 216) up to current policies of "financial inclusion" (Srinivasan 2009). Although numerous policies have been implemented for over a century, rural Indian households in particular still largely depend on informal debt. The first rural financial cooperatives date from the early twentieth century and were created in cooperation with the British. From Independence up until the 1990s, the Indian authorities have implemented a highly active rural credit policy, aimed at developing agriculture and the Green revolution, and eradicating poverty. While the results have been impressive in quantitative terms – India still has one of the largest rural banking networks in the world (Tsai 2004) – the quality of such measures has been highly contested. Many regional rural banks have proven inefficient and unfair in their loan delivery, as well as financially unsustainable (Ramachandran & Swaminathan 2005a). Meanwhile the most important anti-poverty subsidized credit program has been the Integrated Rural Development Programme (IRDP). This was set up in the 1980s and 1990s, and while considered the “world’s largest program” (Tsai, 2004), was no less than a disaster, with extremely low repayment rates, poor targeting, and corruption at every stage (Copestake, 1996; Dreze, 1990; Shah et al., 2007).
1.10 Indebtedness of Tamil Nadu rural households

Debt is a major component of daily life in poor, rural Indian households. Both short-term needs and life cycle events are punctuated by borrowing and repayment practices. Most households are embedded in a multiplicity of debt circles and juggle with a large range of financial relationships. As observed in other contexts, the constant circulation of debt is simply fascinating (Collins et al 2009; Servet 2006; Shipton 2007; Villarreal 2002). Moreover, the various micro-studies conducted in different villages of Tamil Nadu since 2003 seem to indicate a growing propensity of poor rural households to go into debt. My observations also indicate a diversification of debt relationships. I have observed both an increasing demand for credit (mainly consumer credit), and an increasing supply of consumer credit, nurtured by a growing number of money providers (including microfinance). This observation led us to investigate the issue of indebtedness and financial practices of the labour force, mainly dalits.

National sample survey data indicates that Tamil Nadu is one of the states where household debt is the highest (NSSO 2003). Over the second half of the last century, debt sources have evolved and diversified. “Traditional” forms of rural debt based around extreme dependency between landlords and labour are fading away (Cederlöf 1997; Marius-Gnanou 1993), as also observed in other parts of India (Breman 1974; Breman et al. 2009).

1.11 Formal and informal debts

From the 1990s, liberalization and privatisation policies led to severe credit rationing, which most severely affected rural areas and poor segments of the population (Ramachandran and Swaminathan, 2005, 2011; Shah, 2007; Shetty 2004). Microfinance raised new promises with its focus on sustainability and discipline, in terms of better-adapted incentives and collateral for the poor (mainly the joint-liability system and the focus on women). These was anticipated to guarantee repayment performance, while strategic partnerships between Self-Help-Groups, banks, NGOs and the government were considered to be an efficient means of lowering transaction costs and ensuring financial sustainability (Ghate, 2007; Hudon 2008). Since the early 2000s, the emergence of “commercial” microfinance financed
by private capital gave a boost to the sector (Augsburg & Fouillet 2010). In 2009 around 86.2 million people were estimated to have had access to microfinance services in India (Sa-Dhan, 2009). Here too, however, it seems that quantitative objectives were achieved at the expense of quality. Although the great diversity of the microfinance industry precludes generalization (Armendariz & Labie 2011), a number of studies raise serious doubts about microfinance’s effectiveness and fairness in the Indian context. Subsidized microfinance has been found to act mainly as a substitute for other public expenditure (Rao, 2008) while reproducing caste, class and gender inequalities (Garikipati, 2008; Rao, 2008; Pattenden, 2010).

As for commercial microfinance, the crises faced by Andhra Pradesh in 2006 and again in 2009, where dozens of over-indebted clients were driven to the brink of suicide, have highlighted mission drift in the industry, and a shift away from the poor towards increased profitability and commercialisation (Nair 2011; Sriram 2010).

Census data indicates that informal debt as a share of rural households’ outstanding debt significantly dropped from the 1970s to the 1990s (from 61% in 1971 to 36% in 1991) and that it then increased (Shah et al., 2007), albeit with wide variations between states and social groups. Such large-scale surveys probably underestimate the magnitude and diversity of informal debt (Jones, 1994), and various micro-level studies in different parts of rural India estimate levels of 70 to 90%

Informal debt is not a synonym for unorganised or unstructured debt. Following the analysis of Harriss- White on the Indian informal economy and labour (Harriss-White 2003), both formal and informal rural debt is fragmented, in the sense that borrowers face different prices and borrowing conditions, and socially regulated, inasmuch as social institutions such as caste, class and space shape demand for, access to and the use of debt transactions. Secondly, social regulation results in persistent inequalities. The most marginalized people have the most financially and socially expensive debt sources, and use debt mainly for purposes that do not generate direct income. Dominant groups, by contrast, enjoy access to the cheapest debt sources and more often use it for income-generating activities.

Social regulation does not mean that debt follows a pre-determined path and is
fixed over time. All of the social interactions and processes shaping the debt contract evolve highly irregularly, depending on local circumstances and specific periods in history. Wet villages for instance are typified by agrarian economies where debt is a marker of interdependence between farmers and labourers. Dry villages by contrast are characterized by growing dependence on migration and outside labour, which in turn allows for the loosening of local ties of dependence and a broadening of social relationships, horizons, expectations and aspirations (Epstein 1973). This results in distinct debt patterns, where on average households borrow more and at a cheaper price, have a larger range of credit options, and spend their loans more frequently on rituals and social events. Debt is thus shaped by broader socioeconomic and political changes.

1.12 Financial inclusion

We argue that theoretically the social meaning of debt, defined as the process by which debt sets debtors and creditors into local systems of hierarchies, is as important as its financial criteria. This finding is in line with recent insights from political economics and economic anthropology. Within a given socioeconomic context, informal debt relationships are efficient and adaptable to local circumstances, and as such their eradication is problematic. Furthermore, the major problem poor rural households face is not unequal access to credit, but low and irregular incomes, agrarian distress, and growing consumer needs that drive poor households into indebtedness. The fact that a very large proportion of debt is allocated to consumption instead of income-generating activities further strengthens the debt cycle. Financial inclusion policies are blind to these phenomena and concerned only with increasing access to funds, which may well encourage over-indebtedness rather than poverty. Such over-indebtedness and financial inclusion policy failure has already occurred in other parts of India.

1.13 Financial institutions

Various schools of thought with specific rationales, definitions and objectives have sought to unravel the determinants of financial service usage (Johnson, 2005). New institutional economics focuses on economic efficiency, collateral, transaction
and information costs to explain debt practices. It views households as opting for informal credit due to a lack of access to formal sources i.e. credit rationing, or because it enables lower transaction and information costs, since informal credit procedures are usually quicker and simpler. The interlinked transactions of informal credit are also considered to make it an efficient way to access other resources and cope with risk. On the supply side, neo-institutionalism argues that the interest rate that lenders charge is determined by the default risk and enforcement mechanisms.

While this theoretical paradigm provides interesting tools to study in detail the diversity of both transaction costs and material outcomes of debt relationships, it has two major problems. The first is its very narrow view of financial transactions as induced by individual utility-maximizing behaviour, thereby nurturing the hypothesis of “financial dualism”. It takes informal finance as due only to incomplete and imperfect markets, and expects it to disappear with the development of a formal credit supply (Tsai, 2004). The second problem is that in this view, there is a total absence of bargaining power shaped by social interactions (Gill, 2007; Harriss, 2006).

Political economy focuses precisely on such questions of power and the broader social environment. While neo-institutional economics investigates the details of the debt transaction in a given framework, political economy examines the historical, social and institutional conditions that have shaped this specific framework, giving central importance to power inequalities. Numerous studies have documented in detail the role of debt in the reproduction of social hierarchies and exploitation, and how debt has evolved over time and adapted to the requirements of contemporary Indian capitalism. Political economy also sheds light on the diversity of the relations through which access is obtained to credit and on the role of social institutions in the emergence and continuous renewal of financial arrangements (Bouman, 1977, 1995; Bouman and Hospes, 1994; Servet, 1995, 2006). Financial arrangements are not analyzed in isolation, but in relation to changing legal-institutional, social-economic and agro- ecological environments.

The main finding of this stream of literature is the differentiation and fragmentation of debt along various lines such as gender (Johnson, 2004), social
1.14 **Debt and social relationships**

Economic anthropology analyses debt in terms of social relationships and examines the social meaning of debt. Painstaking ethnographies show that individuals often accumulate debt and credit and repay loans in accordance with their own informal hierarchies and calculation frameworks (Akin & Robbins 1999; Bloch and Parry 1989; Guérin et al. 2011a, 2011b; Morvant-Roux, 2009; Shipton 2007; Servet 2006; Zelizer 1994; Villarreal 2004). Such phenomena transcend material or self-centred motivations and reflect questions of status, honour, power, and individual as well as group identity. An important lesson from political economy and economic anthropology is to approach formal and informal finance along a continuum rather than to view them as distinctive spheres. The dualistic view of formal versus informal finance violates the empirical diversity of financial landscapes, which are “chameleon-like and kaleidoscopic in nature, catering to every taste, purse and preference” (Bouman, 1994: 6). Debt is not segmented into “formal” or “informal” practices but fragmented, in the sense that formal and informal debt is interrelated, with contagion, imitation and competition.

1.15 **Debt and consumerism**

It is in such a context of socioeconomic and political change that debt relationships should be analysed. One of the hypothesis is that debt and over-indebtedness are both shaped by and constitutive of these changes. Consumerism
creates norms, which many households are willing to follow without having the financial means to do so (the “paradox of aspiration” raised by Thorstein Veblen and also observed by Olsen and Morgan (2010) in Andhra Pradesh). Households are borrowing on a daily basis at slack financial times to make ends meet. They also borrow considerable amounts to marry their children, renovate their houses or invest in private education. Different research data shows that debt servicing takes up around half of their monthly income on average. These figures are all the more worrying given the irregularity and uncertainty of incomes.

1.16 Survey on indebtedness

Data from the All India Debt and Investment Surveys indicates that informal debt as a share of rural households’ outstanding debt significantly dropped from the 1970s to the 1990s (from 61% to 36% in 1991) but then increased again (Shah et al., 2007). Such large-scale surveys probably even underestimate the magnitude and diversity of informal debt (Jones, 1994). Various micro-level studies in different parts of rural India estimate levels of 70 per cent to 90 per cent. Various analyses have been looking at the evolution and the dynamics of the Indian rural financial landscape, pointing out the persistence of informal debt, its resurgence after the liberalisation period and the various ways through which financial arrangements reflect broader inequalities.

1.17 Social Meaning of debt

Economic anthropology provides further insights on the debt issue by focusing on the social meaning of debt. Painstaking ethnographies show that the social meaning of debt – how debt impacts status, reputation and hierarchies – is important especially in rural areas. Debt reflects status, honour, power, and individual as well as group identity. Depending on the set of rights and obligations that link debtors and creditors, lending and borrowing may be a mark of respect, a source of honour and distinction, or conversely a source of humiliation and shame (Shipton, 2007; Villarreal, 2009).

1.18 Coping strategies

Rani and Dodia’s (2001) literature review considered the evidence on coping strategies in semi-arid rural India. It shows that one of the most favoured mechanisms
is that of diversifying into non-farm activities and seasonally migrating to other areas. In the semi-arid areas diversification into non-farm activities is of a temporary and permanent nature depending upon the severity of the situation. The literature also very clearly shows that the households that are badly hit in the semi-arid areas are those of small, marginal farmers and landless households and those belonging to lower castes, who also diversify first. This phenomenon is not specific to any particular region but is observed in the semi-arid areas across the different countries.

1.19 Motivation and context of the research problem

For this research, I use data collected, as part of RUME project, in ten villages of the Villupuram and Cuddalore districts of Tamil Nadu and focused on landless labourers and small landowners from low and middle castes (mainly Dalits (Paraiyar) and Vanniar). The purpose is to illustrate a diversity of processes, mechanisms and meanings underlying debt relationships.

Research on financial practices in the rural context, focusing on households in wage work and land owners is useful for the following reasons.

One. recent work of financial practices (Collins et al 2009) focused on urban areas, demonstrate how even the poorest of the poor, depending on low and irregular incomes for their living, do exhibit a wide range of financial practices, combining formal and informal, credit-oriented and savings-oriented features.

Two, the increase in agricultural wages due to the agricultural labour scarcity made an impact on the local financial market.

Three, the access to formal or informal credit varied by caste and sex. The ways in which the socio-political shifts in rural areas has altered this condition is unclear.

Four, the relationship and dynamics between the lenders and loanees is complex in reality as compared to the linear representation of exploitation in the poverty literature.

Access to credit is highly unequal insofar in marginalized castes and low classes (agricultural daily laborers) have still very little access to formal lending. Even within informal lending – which is highly diversified - , they use often the most
expensive – whether financial or social price – and degrading sources (pawnbrokers, employers and labour intermediaries). An important part of these lending relationships combine both protection – lenders also provide many additional services – and dependence – beyond financial costs price includes various sorts of free services. But lending relationships reproduces pre-existing social hierarchies: most often household borrow within their own caste or from caste which are higher than them and very infrequently from castes which are lower than them. In turn it is exceptional to find low castes lending money to castes that are higher than them. However, lending relationships are much more diversified than what they were by the past. In addition, consequent to the increase of non farm labour for low castes in terms of access to borrowing - non farm labour improves creditworthiness, both material (better income) and non material, (enlargement of networks and thus access to potential lenders). Therefore, a better understanding of this relationship is needed.

Five, besides, the lenders, rural citizens use other strategies to mobilize finance of which land based finance and remuneration are critical. Little is known about these aspects. Research on this aspect assumes significance in the light of two shifts in land holding patterns: first, upper castes continue to abandon agriculture by selling or leasing their land; second, low castes are now benefiting from such transactions, though in the past it was mainly middle castes; leasing land is a way to access credit (landowners are also providing credit, directly or indirectly). How have these shifts influenced on the practices of different groups?

Rural population is no longer simple peasants or rural wage laborers. They are also dependent on migrant wage labour, on working in the rural non-farm economy and on petty commodity production and trade in the capitalist economy. This is more relevant in Tamil Nadu, one of the urbanized states of India.

There is an extensive research on one of the various sources that households rely on, namely the micro credit schemes or on remittance for generating finance and also about the issues of indebtedness, there is little comprehensive research about the financial practices of rural households. Further research on rural finance is limited to themes like debt problem and other frame with in the dualistic lens of formal and informal finances.
This research seeks to contribute towards this gap in knowledge in terms of, a comprehensive understanding of household practices of mobilising resources for meeting their basic needs and investment is limited.

1.20 Aim and Objective:

Aim:

- How do Dalit households respond to debt?
  - What are the factors driving indebtedness among Dalit households?
  - How do they mobilize financial resources?
  - Is migration a response to the debt circumstances?

To achieve this objective, we need to get:

- An analysis of their household circumstances specifically with reference to work opportunities, income, health. An overview of their savings and borrowings
- Map their sources of lending and terms under which they secure loan (employer – employee relationship: advance; rural financiers and chits)
- Map the responses of Dalit households to indebtedness (vary from suicides, migration or more advance from the employer)
- Consequences of their strategies and policy response.

I choose dalit as concentric labour force for the following reasons

1.21 Operational research questions:

- Focus on Dalit labour in different occupation: sugarcane harvest and brick kiln workers etc.,
- Study Area: Arcot District and Villupuram.

1) What are the survival mechanisms and financial options of this socio-economic category and do they face financial exclusion?

Why Dalit labour force

- Tamil Nadu is one of the states where household debt is the highest among SC (NSSO 2003)
- Tamil Nadu poverty among SC is 78.5% (TN Vazhndu kattuvom project report 2010)
- 32% SC population in Brick kiln work; 26% in sugarcane harvest; 12% in construction (all migrants) (NCUS, 2010)
• The two sectors are characterised by the extensive practice of a specific form of labour management, defined as “neo-bondage” after Jan Breman (1996).
• Among SC, average land holding (0.5ac) is less than National average (0.9ac) (Tamil Nadu Agricultural report 2011)
• 76% SC population live in villages of population less than 2000 (state level 64%), (Census 2011)
Tamil Nadu State Bonded labour abolition committee is under the control of State SC/ST welfare ministry, which shows the prevalence of bonded labour among SC/ST

1.22 Chapter plan

With this background this thesis organized as follows:

Chapter 1 introduces the background, motivation and the context of the research problem.

Chapter 2 review the existing literature on debt in rural south India and rural household, formal and informal financial practices, rural credit market, Debt and savings, microfinance institutions, financial services and household assets.

Chapter 3 is devoted to the description of the context and research methodology

Chapter 4 analysis the household strategies and financial practices of the migrants. The in-depth analysis carried out on debt, income and borrowing sources

Chapter 5 documents the sectoral monographs of the indebtedness of the dalit labour force in brick moulding and sugarcane harvest

Chapter 6 discusses the financial stresses, coping mechanisms, and strength and weakness of the brick kiln and sugarcane migrant workers.

Chapter 7 concludes the findings and implications of the study