Microfinance, debt distress and data capture

Evidence from pandemic times in rural South India

Research findings report
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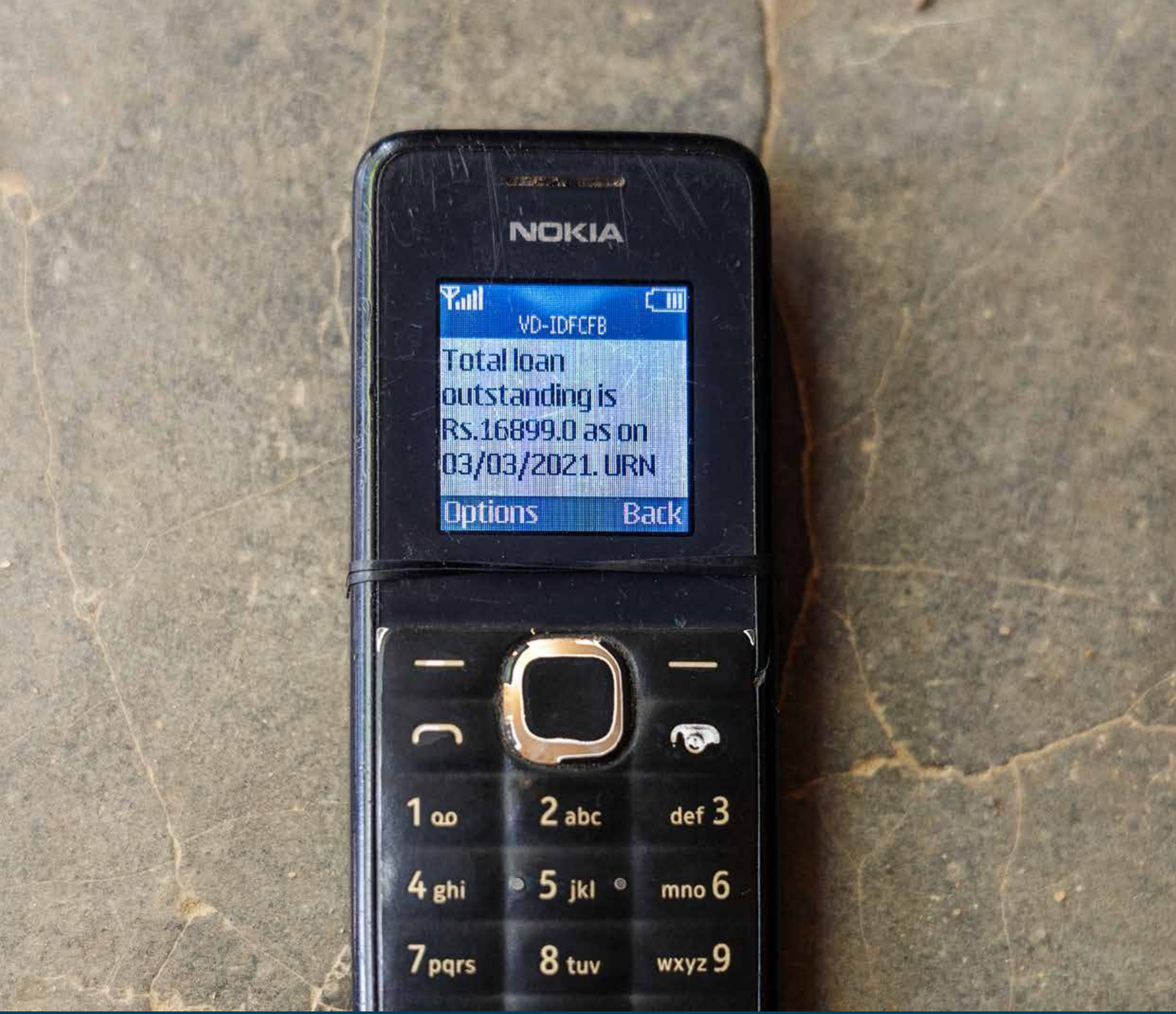
Note
This report, its findings and recommendations, are based on the research and analyses of the authors only. It does not reflect the views of artists who participated in the study.

Contents



Executive summary

Reforms to the Microfinance sector in the wake of the COVID-19 pandemic have privileged the interests of lending institutions and investors over the needs of women borrowers.

Executive summary

In India, the economic disruptions caused by the COVID-19 pandemic have highlighted the conflict of interests involved in commercialised microfinance, as well as the limits of state-subsidised micro-credit provisioning through self-help group (SHG) collectives,[1] both of which failed to protect poor women during this crisis.

Our research on these two forms of micro-lending, carried out over the two-year period following March 2020, has documented the impact of the pandemic on different stakeholders and at different scales. Locating our in-depth study of three rural sites in Tamil Nadu, South India, in the broader landscape of microcredit, we analyse policy measures and discourses ranging from the global to the national and sub-national state, and discuss their impact on the lives of low-income women. Our sector-level analysis, together with our village-level data, force us to challenge claims that India's financial inclusion infrastructure was an effective channel for aid during the pandemic.

The stresses on poor women during the pandemic were exacerbated by their outstanding debts to microfinance providers, who were unable to offer their clients any monetary support, even in the form of additional credit.

We demonstrate that the stresses on poor women were exacerbated by their outstanding debts to microfinance providers (MFPs), the latter having made it clear that they were unable to offer their clients any monetary support, even in the form of additional credit, since they were prioritising maintaining their own financial viability. Although they did offer the state-mandated moratorium during this period, they continued to levy interest on outstanding loan amounts, thus safeguarding their own earnings while increasing the cost of loans for borrowers. In the months that followed, MFPs themselves received subsidised loans and concessions from the state, and wrote off loans in their own books; but this didn't translate to loan waivers for clients. With interest accumulating at two per cent per month, women whose livelihoods were already severely impacted by the pandemic were left with high repayments pending to MFPs. The credit bureau linkage of MFP loans meant that these women were barred from accessing new loans by all formal lenders, effectively meaning the widespread gendered financial exclusion of the most vulnerable.

There was also a state promise of large-scale aid, intended to be routed through the self-help group (SHG) network that exists alongside commercial microfinance, by lifting the lending cap on group loans. We show, however, that this was never operationalised. Indeed, even if it had it been implemented, it would have been ineffective, as most groups were not yet eligible even for the existing upper-limit loan amount. The credit would also have been inaccessible to those most impacted by the pandemic-related lockdowns, as a result of the exclusionary way the SHG network has spread.

To fully understand developments during the pandemic, it is essential to keep in mind the way microfinance provisioning and self-help group models were working prior to its onset: we must understand whom they included and excluded, the rates at which they lent and the terms of their loans, and their relationship to other forms of debt and credit. In our study villages, as elsewhere, low-caste and lower-class households were more likely be MFP borrowers but also less likely to be SHG members; therefore the negative impact on them of MFP loans was higher, and they would have been less likely to benefit from aid to SHGs.

We ask whether there were ways in which the stresses caused as a result of inclusion in microcredit infrastructures, which provide women with access to formal finance, could have been minimised during the pandemic. Further, we ask what it would have looked like if these infrastructures had in fact functioned to alleviate the distress experienced at this time.

Finally, we argue that the extensive reforms to state policy for the microfinance sector, passed in order to aid recovery from the pandemic, that have come into effect April 2022, have been biased towards protecting lending institutions and investors at the expense of the women to whom they lend. We outline specific ways in which these policy changes have worsened, rather than improved, the position of borrowers relative to lending institutions, making them more vulnerable in future crises.

We call for a dramatic re-imagining of gendered financial inclusion that re-evaluates its objectives, reconsiders the interests and priorities of stakeholders, re-thinks the terms of lending, restructures models of delivery, and changes the nature of the work done by employees. The process of doing this, we propose, must be informed by careful consideration of the social, political, and financial landscapes in which recipients of loans are embedded.

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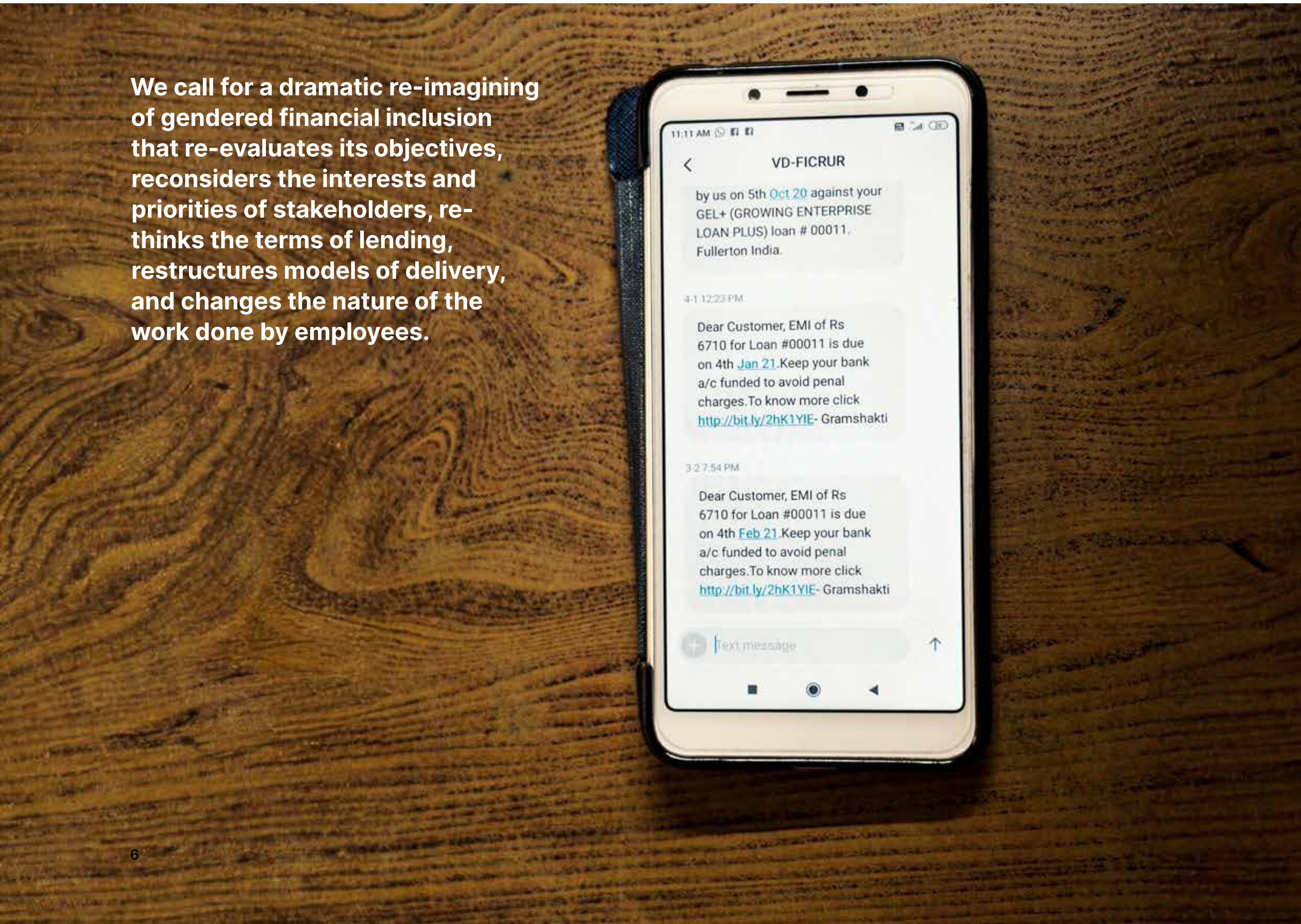


Introduction

At the start of the COVID19 pandemic, Tamil Nadu had the largest MFP portfolio in India, with a long history of lending, well-established networks, and relatively strong state infrastructure. Neither the MFP model nor the self-help group bank linkage program (SHG-BLP) were used as effective channels of state assistance for vulnerable women during the pandemic.

Introduction

"The microfinance loan officers are threatening us, saying that they will call the police and file cases against us, that they will seal our houses and prevent us from entering them, that they will lock our Aadhaar[2] cards so that not only will we be denied loans from other companies and banks but the rice and dal we get every month from the ration shop will also be blocked." (Ambigai, Agricultural daily wage worker, Manathur, Dalit[3] hamlet, July 2022)

"I've joined a self-help group that was formed in May 2020. We are saving INR 200 every month and we have more than one lakh (INR 100,000) in our account now. We can lend to each other and the interest comes back to the group. We are waiting to be sanctioned for a bank loan – the interest will be very low. We are trying to come together to do something good and to find a way to access schemes offered to us by the government." (Premila, Agricultural daily wage worker, Selvanagar, Dalit hamlet, July 2022)

"The microfinance loan officers are threatening us, saying that they will call the police and file cases against us, that they will seal our houses and prevent us from entering them."

Ambigai, agricultural daily wage worker

"We started a self-help group six months ago and have been saving every month. We submitted an application for a loan to HDFC bank last month and today at the SHG federation meeting we heard that it was rejected. They said it is because in our neighbourhood many people are not repaying their HDFC microfinance loans so this is listed as a high-risk area. They will not lend to us even though no one in our group has defaulted on a loan." (Saraswati SHG member, Pudur, Dalit hamlet, July 2022)

COVID-19 and microfinance: overlapping gendered crises

In July 2022, two years after the onset of the COVID-19 pandemic, there was a crisis in the three villages in the state of Tamil Nadu in South India that we studied as part of the GCRF-funded *Depleted by Debt* project. Many women had outstanding dues on loans from microfinance providers (MFPs).[4] Some hadn't paid at all since the onset of the pandemic two years earlier, while others had begun repaying after the moratorium ended in August 2020 but then discontinued after the devastating second surge in COVID-19 infections in March 2021. Interest, at the standard MFP rate of 25 per cent per annum, had been levied throughout the moratorium period. For many of these women, the interest pending on unpaid loans exceeded the principal loan amount and ran into thousands of rupees, the equivalent of several months' income.

Box 1. COVID-19 in India: a timeline

25 March 2020 – Prime Minister Narendra Modi calls a nationwide lockdown, coming into effect within four hours, causing mass economic shutdown and a migration crisis as millions of labourers struggle to get home. 27 March 2020 – the Reserve Bank of India mandates that microfinance institutions and banks allow a three-month moratorium on microfinance repayments. May 2020 – the moratorium is extended, initially for two weeks then eventually until August. 31 August 2020 – moratorium lifted, microcredit lending and demands for repayment officially resume. March/ April 2021 – India experiences a huge second surge in COVID-19 infections, with new waves of lockdown across the country.

Although not entirely restricted to them, the crisis was especially severe in the Dalit hamlets. The density of microfinance borrowing is higher in Dalit hamlets, whereas it is lower in main village settlement where upper- and middle-caste households comprise the majority. Almost no upper-caste households and few middle-caste households borrow from MFPs, those that do borrow being more likely to own livestock or run small businesses, and to live in the village throughout the year, than Dalit microfinance borrowers. Some upper- and middle-caste women who had taken MFP loans reported being able to repay them using earnings from milk sales, income from other sources, and credit from kin, so as to avoid paying additional interest even before the state-mandated moratorium ended. Dalit borrowers, however, who make up the majority of MFP loan takers, struggled as a result of their debts. Dalit household members are more likely to migrate for part of the year due to debt-bonded contracts, working in sectors such as brick production and sugar cane harvesting, or to be engaged in low-paying and irregular local work in agriculture and construction. As a result, Dalit households were more likely to experience unemployment as a result of the pandemic, as well as to face food shortages. When the moratorium on loan repayments ended in August 2020, most households still had several months without employment ahead of them, since they were waiting for the next migration season. Over the months that followed, women who had not repaid their microfinance loans had been marked with over-due status through the credit bureau, and were therefore being denied formal loans from all other sources.

Interest on loans, at the standard MFP rate of 25 per cent per annum, had been levied throughout the moratorium period. For many women, the interest pending on unpaid loans exceeded the principal loan amount and ran into thousands of rupees, the equivalent of several months' income.

Box. 2 Microfinance loans

Contrary to the portrayal of MFP clients as entrepreneurs who invest in profitable small businesses, in our study villages the majority of households receiving MFP loans were engaged in daily wage work. The loans from MFPs had primarily been taken for food purchases, expenses related to sickness and death, repayment of other debt, and costs of arranging ceremonies and fulfilling social obligations.

Loan officers, for their part, were overwhelmed by the stress of having to coerce the hundreds of individual borrowers assigned to them to repay each month, a phenomenon seen across the region and, again, disproportionately in Dalit hamlets.[5] Loan officers worked alongside employees of collection agencies contracted to recover loans, making repeated phone calls and visits to the homes of those who had not paid their dues[6].

In their presentations to investors, microfinance providers appeared cautious, admitting that they were trying to find ways to recover losses incurred as a result of unpaid dues and to manage the stresses faced by their staff, even as they asserted that they were beginning to resume lending in less risky areas and that their businesses were robust.[7] Of the three districts in which the villages we studied are located, two have a particularly high level of microfinance lending, ranking among the top five per cent in the country for MFP gross lending portfolio in 2020.[8] At the start of the pandemic, Tamil Nadu had the largest MFP portfolio in India, with a long history of lending, well-established networks, and relatively strong state infrastructure. A careful reading of public documents,[9] however, reveals that the conditions seen in our cases are not only prevalent across other villages in the state of Tamil Nadu – they are also being faced across the country.

A caste-stratified solution: relief via self-help groups

The other prevalent model of microcredit is savings-based self-help groups (SHGs) that are linked to banks[10]. At the onset of the pandemic this was promoted as the key infrastructure through which aid to poor households, taking the form of loans, would be channelled: the stated intention was to implement this solution by doubling the maximum permitted lending to SHGs.

Yet the promised loans of trillions of rupees, all of which would have constituted debt that had to be repaid, were in the end never granted; and would in any case have been meaningless, as the majority of groups in the country didn't even qualify for the existing maximum. Across our study villages, which had well-established SHG federations, only one group would have been eligible for the higher loans. Members of well-functioning SHGs nevertheless benefited significantly, despite the lack of central government assistance, as they were able to use their pooled savings to lend to each other during the pandemic; they had also been able to access some limited funds from the Tamil Nadu state government, and were later able to access credit for all members at the standard SHG rate of 12 per cent per annum, half that charged by MFPs. However, these SHG members were almost all from upper- and middle-caste households. The few existing Dalit groups and the middle-caste groups in the village with low water access disintegrated due to limited funds – indeed, the funds dried up entirely during the pandemic. They were unlikely to be sanctioned relief loans – on the grounds that they would be unable to repay them – and were denied new loans due to the low funds in their bank account.

In later months, state officials in the region began to promote the formation of new groups, and across the three villages there was increased interest from Dalit households that had previously been excluded. The forgiveness of a small number of SHG loans in March 2021 as part of an election campaign promise had a contradictory impact: it increased defaults[11] by existing groups who were hopeful that their own loans would also be waived, and at the same time added to the attractiveness of joining SHGs for new entrants.

By July 2022 the picture with regard to SHGs was complex – banks lending to SHGs saw rising non-performing assets (NPAs) in this category, and yet were seeking out new groups to whom to lend. The groups that had been formed soon after the pandemic saw the continuation of the exclusionary trends – newly formed upper- and middle-caste groups received loans, while Dalit groups did not, even if they had registered at the same time. Furthermore, exclusion now took on different forms, whereby defaults on MFP loans in particular neighbourhoods excluded SHGs in those neighbourhoods from accessing new loans, even if the SHG members themselves had not defaulted. Overall, on grounds of both accessibility and effectiveness, the efficacy of micro-lending via SHGs as a form of pro-poor relief was highly questionable.

The failure of micro-lending during the pandemic

We argue, based on our research, that the two dominant forms of micro-lending prevalent in India – the microfinance provider (MFP) model and the self-help group bank linkage program (SHG-BLP) – both failed to be used as channels of state assistance for vulnerable women during the COVID-19 pandemic. This was despite claims made by the state at the onset of the pandemic that they would be the way a huge proportion of promised aid would reach poor Indian households (Finance Minister of India, press briefing, 26 March 2020),[12] and the subsequent celebration of how effectively they had been used during this period.[13]

Our research clearly demonstrates that no substantial assistance was in fact directed through the financial inclusion infrastructures, despite significant policy rhetoric to the contrary. In the case of commercial microfinance provisioning it even caused significant harm over the two following years, due to the absence of loan waivers, high interest rates on delayed payments, the pressure faced as a result of defaults by group members, and the lack of access to other formal loans enforced using the credit bureau.

The integration of poor households into global financial markets, which seek to profit from them, has fundamental flaws and serious negative consequences. These are disproportionately felt by the most vulnerable households.

The first objective of this report is to demonstrate how the crisis faced by borrowers of MFPs developed. We do this by discussing pandemic-specific interventions, the interests that shaped the responses of different stakeholders, and the consequences these had over the course of the following two years. Then we take a step back to identify how the current situation is connected to existing fault lines in commercial microfinance provision; to local power structures and persistent social and economic inequalities; and to state interventions before, during, and after the pandemic.

The report goes on to discuss the potential for strengthening the self-help group model to offer a substitute for vulnerable borrowers who are currently excluded from this form of microcredit, and who borrow from commercial microfinance providers instead. In evaluating the scope of self-help groups, we consider how state interventions and existing power structures have impacted access to enrolment and access to credit. While we express our appreciation for the immense amount of planning and work that goes into sustaining these vast and mature financial networks intended to resolve complex issues, we also argue that the integration of poor households into global financial markets, which seek to profit from them, has fundamental flaws and serious negative consequences. These are disproportionately felt by the most vulnerable households, who take MFP loans because of the lack of alternatives, including as a result of exclusion from SHGs.

Summary of findings

1

Micro-credit access is strongly segmented and unequal
The more expensive and less flexible microfinance loans – at 25 per cent per annum excluding fees – are more likely to be taken out by Dalit and landless women or those from households with poorly irrigated land. The low-cost and more flexible SHG loans – at 12 per cent interest per annum – are accessible only to women from upper- and middle-caste households.

2

Borrowers are facing a crisis in rural South India after the pandemic
Those who were unable to repay in the months after the pandemic are left with loans worth thousands of rupees, equivalent to many months of their income. They face threats from loan officers that they will be denied government food rations, face police action, and have their homes seized by lenders. MFP borrowers who are Dalit are impacted most severely.

3

Biometric identity and credit bureau linkage have taken away women's agency
Women who have not repaid loans have been black-listed by the credit bureau, which links the loan to their biometric national identity number, called the Aadhaar. They are denied credit from other formal lenders and are unable to protest or negotiate. There is gendered financial exclusion of the vulnerable. Lenders are protected as a result of this capture mechanism.

4

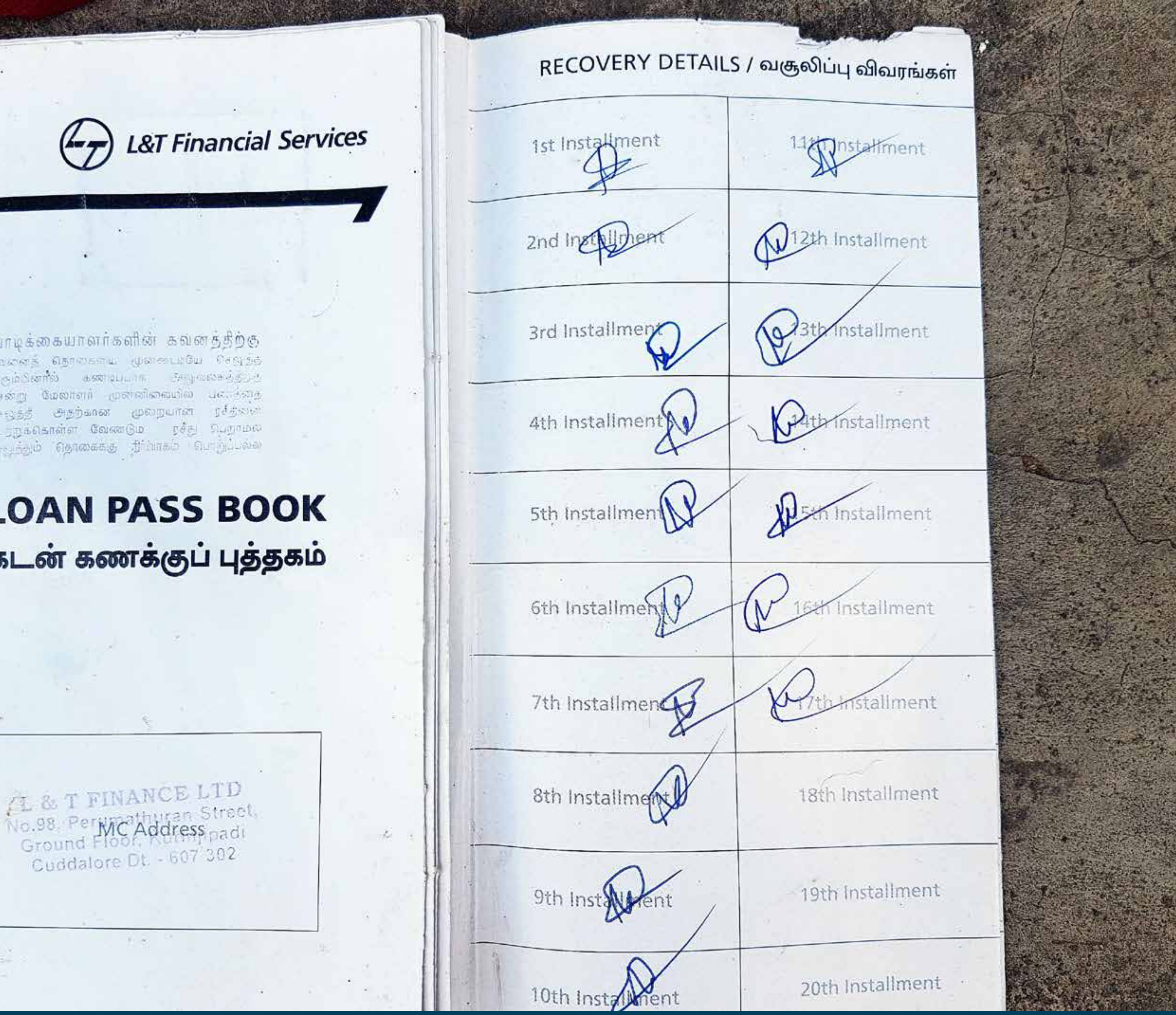
Microfinance reforms enacted in 2022 allow more predatory practices
Caps on interest rates have been removed and MFPs now charge higher rates. Risk-based pricing allows lenders to charge the more vulnerable clients even higher rates.

5

Central government pandemic relief for SHGs was not implemented
This relief risked having little effect had it been implemented. A promise to increase the maximum SHG loan value was never operationalised.

6

SHG membership, while excluding the vulnerable, was still beneficial for the local elite.
Upper-caste and land-owning women were much more likely to belong to well-functioning groups and utilised savings during the pandemic. Lower-caste and landless women were less likely to be members of SHGs, and even those who belonged to SHGs had lower pooled savings and didn't qualify for pandemic relief.



Research methods

We used mixed method research to study household finance at an exceptional time (2020–2022) in India's history. We carried out in-depth field research in three villages in Tamil Nadu, a sub-national state in South India. We interviewed policy makers and executives of MFPs, and analysed published data and documents.

Research methods

This report is based on research carried out between January 2020 and June 2022, using a qualitative and quantitative methods approach to study household finance, and a hybrid approach that combined phone and in-person interviews that was necessitated by this exceptional time. Our research combined a longitudinal qualitative study, involving repeated interviews carried out with 55 households, and a one-time quantitative household survey of 450 households across three selected villages.

Each of the three villages selected for study is in a different adjacent district in the north-east of the state of Tamil Nadu in South India: in Villupuram district, the village of Pudur; in Kallakurichi district, the village of Manathur; in Cuddalore district, the village of Selvanagar.[14] The villages were selected based on: variation in environmental profiles; caste and religious composition; patterns of land ownership by social group; agricultural cropping patterns; and non-farm occupations including migration to different regions or between sectors. The history of SHG activity and MFP lending was shaped by these differences.

Since micro-lending is an important part of the financial landscape in the study region, this was closely followed in our research. The timing of the study meant that we were able to track MFP lending and SHG activity prior to, at the onset of, and through the period of recovery from, the shocks caused by the COVID-19 pandemic.

Our research combined a longitudinal qualitative study, involving repeated interviews carried out with 55 households, and a one-time quantitative household survey of 450 households across three selected villages.

Analysis of press releases, policy documents, and MFP broadcasts

Our research was informed by detailed reviews of press releases, media coverage, reports from MFPs and self-regulatory bodies, and policy documents relevant to microfinance provision and SHGs over the two years since the onset of the pandemic. The questions asked in our interviews and survey were framed based on government announcements regarding moratoria and relief assistance, media articles written by and about MFPs, and reports on financial inclusion in India. The systematic analysis of transcripts of MFP quarter-yearly calls with their investors was undertaken as a way to gain insight into the concerns of MFPs and their investors through the course of the pandemic using publicly available material.

Qualitative Study

As necessitated by the pandemic, our longitudinal qualitative research took a hybrid form, with in-person fieldwork being replaced by phone interviews when lockdowns were imposed in March 2020, and resuming when travel was permitted.

Box 3. Field visits

Field visits were made to the three study villages from January to March 2020. Then interviews were conducted over the phone from April to November 2020. In-person field work was resumed in the 3 phases from February to April 2021, in September 2021, and in April 2022.

Phone interviews were designed to understand the ways in which people in our study villages coped with the impact of the COVID-19 pandemic and the related lockdown. In particular, they sought to identify variation based on a number of related factors. These include: differences in the environmental profiles of the three villages; differences based on the political access and relationship to the state of the village as a whole and of individuals within the village; religion, caste, gender, and age; occupation, incomes, and asset holdings; land ownership and land quality; and different sources to which individuals are indebted. The interviews began with nodal respondents whom we had met between January and March 2020, before the lockdown began, and whose phone numbers we had collected. We then asked these respondents to check with others whom they had met, but we did not have contact information for, and ask whether they would be willing to be contacted by us. We asked them if they could identify others who fit specific profiles and ask them if they would be willing to talk to us about their particular circumstances. We also asked if they could check whether people whom they had mentioned in the course of the interview and whose cases would be of interest to us, if they would be willing to speak with us.

Field visits and in-person household interviews were used to conduct follow-up interviews with phone interviewees, focusing on how they were coping over time and gathering additional details. The field visits were also used to conduct interviews with additional participants based on gaps in the categories of respondents covered. These were either additional respondents from the same households or respondents from other households in the villages. When selecting new households, the priority was to include perspectives across caste groups.

Quantitative household survey

Our quantitative survey was carried out with 150 households from each of the three study villages, constituting roughly 10 per cent of each village. The sample was stratified according to caste. The survey collected data on demography, household occupations, migratory histories, household assets, debts and liabilities, farming assets, saving and lending practices, experience of climate change, and capacity to mitigate the impacts of climate change. The survey was divided into two parts: one set of questions was asked at the level of the household to a single primary respondent, and another was asked at the level of the individual to as many additional respondents as possible. In total, 450 respondents completed the household-level survey, and 2,100 respondents completed the additional individual survey.

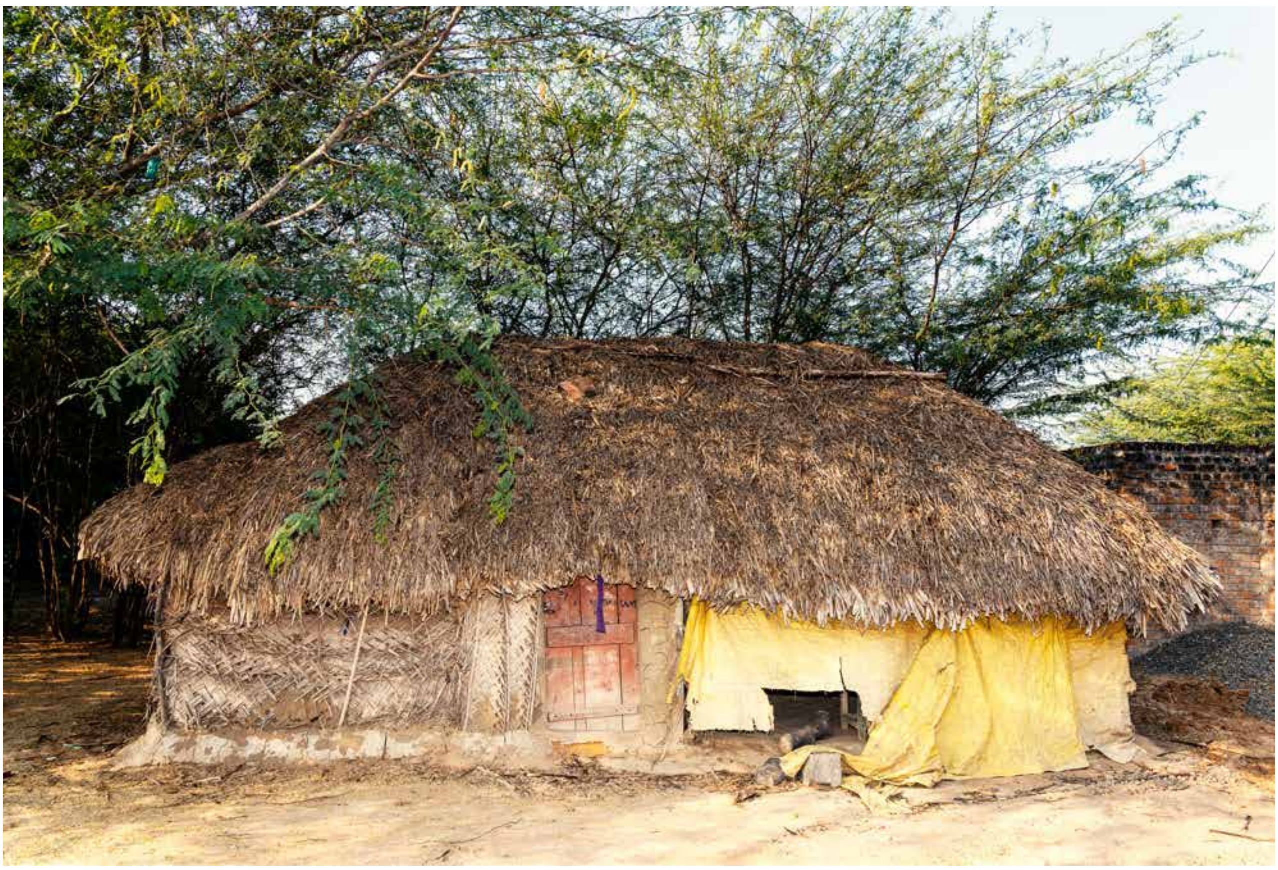
The households who participated in the phone interviews were included among those surveyed in order to have a comprehensive set of quantitative data that complemented the qualitative data collected.

Microfinance loan officer and SHG leader interviews

Interviews with microfinance loan officers and SHG leaders were undertaken at different points during the two-year period. A total of 18 interviews were carried out with 12 MFP loan officers and subcontracted staff, spread equally between the period March–April 2021, August–September 2021, and June–July 2022. Some of the loan officers were interviewed at each of these times. SHG leaders, who are resident in the villages, were included in the phone interviews and in-person interviews. Two SHG leaders were interviewed by phone multiple times in 2020, and then they and 5 others were interviewed in person, spread across March–April 2021, August–September 2021, and June–July 2022.

MFP Executive interviews and consultation

Interviews with executives of microfinance provider institutions were undertaken at the end of the study, between February and July 2022. A consultation was also organised in July 2022, bringing together leaders from microfinance institutions, Small Finance Banks, commercial banks, venture capital fund managers, and NGOs promoting SHGs.



Indian context

The expansion of for-profit MFIs, supported heavily by the state, shifted focus away from lifting poor women out of poverty. Instead the interests of investors – commercial banks, mutual funds, venture capitalists, the governments of several countries, and the Indian state itself – are prioritised.

Indian context
History and COVID-19

The expansion of for-profit MFIs in the early years of the new millennium was seen to have resulted in the focus of microcredit shifting away from alleviating poverty towards furthering the interests of their investors.

A brief overview of microcredit in India

SHG formation both by NGOs and state departments began in India in the early 1990s, as part of the initial global rollout of microcredit. SHGs are women's collective savings groups that were mandated to receive credit – initially from banks, underwritten by the state.

In the early years of the new millennium, the state enacted a series of policy reforms to encourage the large NGOs involved in SHG activities to transform into for-profit microfinance institutions (MFIs). As in many other countries, this resulted in the existing microcredit provisioning being superseded by a model that was more heavily financialised.[15]

The expansion of for-profit MFIs in the early years of the new millennium was seen to have resulted in the focus of microcredit shifting away from alleviating poverty towards furthering the interests of their investors. MFIs drew capital from across the globe and lent it to poor women at scales and interest rates that meant that a large proportion of the revenues and profits went to investors, often at sites remote from where loans were issued. MFPs today include specialised microfinance institutions (MFI-NBFCs) or general non-banking financial companies (NBFCs), as well as small finance banks that have evolved from microfinance institutions, alongside mainstream banks. Microfinance providers charge approximately 24 per cent interest per annum, which is twice as much as bank loans. They make loans to joint liability groups, which don't save but only receive credit, and where members each stand guarantee for the others. The loans are made from capital which comes from international investors, from mutual fund and insurance companies, and increasingly from the liability accounts of banks, all attracted by the high rate of returns.

This is alongside the bank-linked SHGs that are the remnants of the original NGO model, which still exists. SHGs save a fixed amount each month and lend their internal funds to each other at a rate of interest determined by the members themselves, who all share the earnings that accrue. SHGs receive loans from banks as part of state-run programs, and these are issued at approximately 12 per cent interest per annum.

Table 1. Comparison between MFP and SHG lending in India

	Bank-linked savings groups	Microfinance Joint Liability groups
Interest rates	12 per cent	24 per cent
Source of capital	Bank investors	Equity investors Domestic and international Indian state Bank investors
Local representatives	Women leaders	Women agents
Repayment mode	Payment in bank	Loan officer visits village
Delays	Yes	No
Waivers possible	Yes	No
High default	Yes	No
Group guarantee	No	Yes
Credit bureau linkage	No	Yes

Crises and resistance

In India, digitisation and linkage to the credit bureau in response to past crises has created a way for MFPs to blacklist people who default on loan repayments, making it harder for them to organise and protest.

Since 2010 there have been a number of visible crises in the microfinance sector in India as there have been around the globe[16]. There have been attempts at contestation and resistance, with borrowers refusing to repay loans and accusing MFIs of doing more harm than good[17]. Yet despite these crises, and the rising perception that a model built on the idea of allowing global investors to profit from lending to the poor would inevitably be destructive[18], MFIs have recovered and their lending portfolios have since grown. In India, as discussed below, other institutions including banks have entered the sector, making MFIs only one type amongst other microfinance providers (MFPs). The aftermath of the crises has seen changes in state and self-regulation across the microfinance sector[19], but the question remains whether this ensures accountability and protects borrowers, or simply means sufficient safeguards for lending institutions. In India, digitisation and linkage to the credit bureau in response to past crises has created a way for MFPs to blacklist people who default on loan repayments, making it harder for them to organise and protest.

At moments when widespread defaults did occur in India despite the credit bureau linkage, the central government acted to protect lending institutions – including with bailouts using state revenue. The most notable was the case of the state of Assam, where, prior to the onset of the pandemic, there had been protests against the unfair practices of MFPs. The state resolved the situation by making a payment of INR 72 billion – over half of the value of the portfolio involved – to the 37 MFPs operating in the region to write off their irrecoverable loans; and the state also compensated those borrowers who had paid their dues, to ensure that the waiver did not disincentivise repayment in the future. This support was enacted in August 2021: thus, even while the second wave of the pandemic was raging across the country, government revenue was being used to support MFPs.[20]

A prime asset class as priority sector lending, undergirded by the state

Throughout the pandemic and prior to it, the state can be seen as a key player in protecting the position of the MFPs, rather than the citizens who borrow from them. State investments in MFPs add to the equity that they access, and state protection serves to safeguard government lending institutions as well as private investors. The largest MFPs in India have launched IPOs, the first two in 2015 and several more since 2017, thus becoming private limited companies whose shares can be traded on the stock exchange.[21] Investment in MFPs is attractive: "the subscribers to microfinance-originated debt papers include insurance companies and mutual funds, fully reflecting that microfinance loans have become a prime asset class".[22]

Box 4. Major MFI players

The largest MFI In India, Credit Access Grameen Private Limited, is majority owned by the Dutch company Credit Access NV, which holds a 73 per cent stake. Its funds come from banks (70 per cent), international investors (10–12 per cent), securitisation (7 per cent), state institutions (10–12 per cent), and other lenders.

Crucially, a 2015 policy change allowed bank lending with the same terms as MFIs to be counted as a portion of their Priority Sector Lending (PSL) quota.[23] [24] This has restructured the landscape dramatically (see box 5).

Box 5. MFP landscape

By 2020 mainstream banks were issuing 41 per cent of MFP loans, whereas MFIs accounted for 33 per cent, specialised Small Finance Banks that had evolved from the largest MFIs accounted for 17 per cent, general non-banking financial companies (NBFCs) for 8 per cent, and NGOs for less than 1 per cent.[25]

Banks could offer slightly lower rates in comparison to MFIs, and crucially they were not required to adhere to the cap on the amount of lending to a single borrower – a cap that had been instituted for MFIs so as to prevent over-indebtedness[26]. While banks are mandated to lend to SHGs as well, issuing MFP loans directly is more attractive because they offer double the interest, and also have lower chance of defaults as a result of the established collection norms. Borrowers know that their weekly, bi-weekly, or monthly MFP repayment is non-negotiable: they also know that members of their joint liability group will be asked to repay on their behalf if they do not and this means they could face anger and ostracization – if neither the borrower nor the group member repays then they will all be marked with an *overdue* by the credit bureau. By contrast, the lower-interest SHG loans have higher rates of default: there is no door-to-door collection for SHG loans, joint liability is not enforced, and SHG loan data is not submitted to the credit bureau.

Furthermore, in recent years the largest MFIs have been issued licenses to operate as differentiated banks, as in other countries[27]; in India these are called small finance banks.[28] This license permits the MFIs to become sites of saving, returning interest to their customers, and making their own investments in order to be able to do so. The SFBs have largely continued to continue to run a separate microfinance division within the bank, offering loans to low-income women at the same terms as they had previously rather than offering loans with the same interest charged by mainstream banks to all their clients.

The MFP landscape in India is therefore complex; yet it is clear that it is expanding, with the state supporting this expansion and securing the newly emerging institutions in key ways.

Financial inclusion infrastructures and pandemic relief promised by the state

When the COVID-19 pandemic began and lockdowns were enforced, the urgency of the need for nation states to protect vulnerable citizens became clear worldwide, as incomes stopped abruptly for an indefinite period. In addition to transfers, the question of how to manage debt and credit were of immediate importance. Loan moratoria constituted a critical policy intervention, both to protect debtors and to prevent widespread collapse of financial infrastructures[29]. The offer of new loans – or options for additional credit from issuers of existing loans to repay past debts owed – was also envisioned as playing a role in recovery[30].

In India, a nationwide lockdown was announced on 24 March 2020, with only four hours' warning before all movement was banned – leaving millions of citizens who had migrated to different parts of the country stranded, without incomes, thousands of miles from home.

In India, a nationwide lockdown was announced on 24 March 2020, with only four hours' warning before all movement was banned – leaving millions of citizens who had migrated to different parts of the country stranded, without incomes, thousands of miles from home.[31] On 26 March 2020, two days after the announcement of the national lockdown, the Reserve Bank of India issued an order mandating that all formal lending institutions offer borrowers the option of a loan moratorium for three months, later extended by two more months.[32] At the same time, the central government issued a COVID-19 relief package which promised an allocation of free rice and pulses, a small cash transfer of USD 7 per household each month for three months to women's bank accounts, and a much larger allocation of USD 700 in the form of credit per SHG member.[33]

The severe restrictions on mobility across India remained for three months from late March 2020. These were enforced by the police, and banned people from leaving their homes except to access essential services. Economic activity was limited during this time and in its aftermath, with millions facing severe income losses. Yet the moratorium which ran from late March to 31 August 2020 did not correspond with the COVID-19 cases and consequent income losses. India saw an initial peak in cases in October 2020, followed by a devastating second surge from March to May 2021, with four times as many reported infections as the previous year, high death rates, health infrastructures stretched beyond capacity, and severe lockdowns again in place.

The protection of the microfinance industry rather than clients during COVID-19

We argue in this report that the measures taken by the Indian state and MFPs suggest that the microfinance industry, not its clients, was first priority for protection.

There is no recognition or acknowledgement in the discourse of MFPs that their borrowers are engaged in waged work under precarious conditions; rather, they portray their clients as entrepreneurs, and claim that their livelihoods recovered rapidly. At the same time, MFPs made several appeals to the central government for assistance that, they argued, was crucial for their survival and would also enable them to offer crucial support to their 'Bottom of the Pyramid' clients.[34] MFPs, especially the large ones, were successful in securing subsidised credit worth billions of rupees through a special liquidity scheme offered by SIDBI and NABARD, two state financial institutions.[35]

They also benefitted from a credit guarantee scheme that offered state cover for up to 75 per cent of loan defaults on bank loans to MFPs, in order to increase funds available to them.[36] This means that these institutions, which are promoted as a market solution to poverty and under ordinary circumstances allow investors earn high interest, are, during crises, able to call on the state for assistance that is unavailable to their clients.

MFPs and international research institutions promoting financial inclusion have praised the Government of India for 'swiftly and decisively' providing support to the industry and coming to its rescue.[37] Based on an in-depth understanding of the microfinance borrower's perspective, however, our research challenges the assertion that state aid for MFPs directly translates to support for their clients, and asks whether there were more effective ways in which assistance could have been provided to benefit the women who borrow from MFPs.

The measures taken by the Indian state and MFPs suggest that the microfinance industry, not its clients, was first priority for protection.

Borrowing during the pandemic across three villages in North-East Tamil Nadu

This research is based on three villages located across three districts in north-east Tamil Nadu. Of these, two of the three districts – Cuddalore and Villupuram – are among the ten districts in the country with the highest levels of debt to microfinance institutions. Across the three villages selected for this research, we see different patterns of ecology, economy, and migration shaped different patterns of lending.

Box 6. Tamil Nadu MFIs
Tamil Nadu has 33 MFIs headquartered in the state and 48 MFIs lending in the state. 16 per cent of all Indian microloans in 2019–2020 were issued in Tamil Nadu, and 14 per cent of active borrowers in the country were in that state.[38]

The impact of COVID-19 on livelihoods
As agriculture continues to decline, and labour migration increasingly forms a key strategy for the most precarious households, the study villages are undergoing a long-term process of structural transformation. Migrants, especially those who are Dalit and landless but also those who own drier tracts of land, tend to migrate to work in sugar cane harvesting, coconut plantation maintenance, and brick factories. This has been the case for decades. The migration season is mid-Jan to mid-August, coinciding with the period in the villages when agricultural employment is scarce. Income from local agricultural work is in any case low even when available – wages are low and work irregular – and the migration season is when most of the annual income is earned. The migration typically takes place within the state of Tamil Nadu or to the adjacent South Indian states.

In 2020 migrant workers left as usual in mid-January; but then, at the end of March, with the lockdown, all work ceased. Some brick workers stayed at the site of migration where they received support from their employers for subsistence, but all others returned to their home villages. Since the migration sites are relatively close to the home villages, making the journey back was not as difficult as for others who had migrated from North and North-East India to work in the region and were stranded. Still, those who returned had no income – and struggled to meet their basic needs, as they competed for scarce local employment. They had outstanding debt to their employers in the form of wage advances they had committed to repaying with their labour. Those who had remained in the village, and were engaged in irregular and very low paying agricultural work, also faced income disruptions as a result of restrictions that initially prevented people from even leaving their homes. Where work was available there was competition from those who had returned. Dalit households in particular faced severe food shortages in the months that followed the onset of the pandemic, with many reporting that they relied entirely on the free rice provided by the government, making a watery gruel for their meals. They also reported an increase in stress when the moratorium ended and they were obliged to repay their loans.[39]

Pudur

The first of the three field sites, Pudur, is a rural village located in the district of Villupuram. It has relatively favourable environmental conditions, with fertile soil and high ground water availability, allowing year-round cultivation of water-intensive crops such as sugarcane and paddy. However, land ownership is highly unequal, being differentiated by caste, and only a few Dalit households have landholdings. This fact, together with the occupation profile of Dalit households – typically debt-bonded migration of couples to brick manufacturing and sugar cane fields, or engagement in very low paying daily wage work on land owned by upper-caste groups – makes it an ideal site to examine the relationship between caste-based inequality and precarious labour.

The occupation profile of Dalit households in Pudur is typically debt-bonded migration of couples to brick manufacturing and sugar cane fields, or engagement in very low paying daily wage work on land owned by upper-caste groups.

In Pudur, close to 50 SHGs were operational in March 2020; however, of these only two were in the Dalit hamlet. Many of the SHGs in this village had been functioning for a long period and had saved a higher amount each month than in other villages, so they had significant pooled funds for internal loans. They were also able to secure large loans from the state, channelled to the village-level administration through the Panchayat-Level Federation of SHGs, as well as from the banks.

SHG leaders among the middle- and upper-caste communities strongly discouraged members from borrowing from MFPs, and many were able to meet their credit requirements by borrowing from the pooled savings and other loans granted to the group, as well as from kin. Those who came from households without assets and without income – such as widows, and women with alcoholic husbands who had sold land and spent their income on drink – were less able to borrow from kin and so took MFP loans.

In the Dalit colony, most households were excluded from SHG membership and were unable to utilise pooled savings or access loans from the banks. Women thus borrowed from MFPs and had several outstanding loans.

Manathur

The second village, Manathur, is located in Kallakurichi district. The village has poor soil quality and very low ground water levels. Most of the land owners can cultivate only one rainfed crop of paddy per year, and even this is susceptible to damage as a result either of drought or unseasonal heavy rain. Three out of seven hamlets in the village were selected for study: the main Manathur village with upper- and middle-caste households; the Dalit colony attached to the main village; and also a Dalit settlement called Ambedkarnagar, created as part of an affirmative action land grant scheme in the 1960s which relocated Dalit households and gave them each 5 acres of land. There are a small number of upper-caste households in this village and they each have land holdings of up to 10 acres. Most middle-caste group households own 1–2 acres, which is less than that owned by the Dalit beneficiaries of land, although Dalit households in the colony of the main village have negligible land holdings. The village as a whole is a source of labour for the local brick industry, with both middle-caste and Dalit households migrating in debt-bonded contracts during the dry season. Increasingly, younger males migrate to work as servers in restaurants belonging to big franchise chains for South Indian fast food in nearby towns and cities.

The village as a whole is a source of labour for the local brick industry, with both middle-caste and Dalit households migrating in debt-bonded contracts during the dry season.

In the main village, SHGs had been functioning for more than two decades, although only including the middle-caste land-owning population. However, the amount saved each month was lower than in Pudur. The Dalit colony had no functioning SHG groups, and the same was true for the Ambedkarnagar hamlet. Some women from stronger socioeconomic positions – labour contractors or those with children in urban employment – borrowed independently from the Tamil Nadu Corporation for Development of Women, arguing that joint-liability loans were too problematic, as group members often defaulted.

MFPs only entered the village in 2017, a decade and a half after they first began operations in the region: this delay was, again, because of the unavailability of women for several months of the year, and the uncertainty of their incomes from farming their own land or doing agricultural daily wage work in the off-season.

Selvanagar

The third village, Selvanagar, is located in Cuddalore district. It has intermediate environmental conditions, the soil being less fertile and the ground water lower than in Pudur and yet not as scarce as in Mannathur. Open wells, bore wells, and community ponds allow year-round cultivation of dry crops such as peanut, sesame, and millet. The population consists of upper-caste groups (largely from the Naidu community), middle-caste groups (Vanniars), and Hindu and Christian Dalits. A majority of households, including Dalits, own small agricultural lands of under 2 acres, while some middle-caste Hindu households own up to 5 acres and upper-caste households own up to 10 acres. There is no migration to brick kilns or sugar cane fields from this village; instead, male-only migration takes place for agricultural work in the nearby state of Kerala, with no debt bonds. There is a relatively high level of education in this village, and males in their 20s and 30s also work in urban tertiary sector jobs in nearby cities. Some international migration also occurs, mainly to the Gulf countries, often financed by debt.

There is no migration to brick kilns or sugar cane fields from this village; instead, male-only migration takes place for agricultural work in the nearby state of Kerala, with no debt bonds.

The Dalit Christian hamlet had had SHGs for longest, with such groups having been formed by the church in the village in the late 1990s. This had made it easy for NGOs to enter, which they did soon afterwards. Since women in the village already knew how SHGs functioned the NGOs were able to create more groups and to facilitate access to bank loan once they reached a certain amount of savings. In the following years several SHGs had begun operations there. The fact that women didn't migrate and were always available to attend meetings, to receive remittances from their husbands, as well as to draw seasonal income from the land, made it viable to include them – unlike women from Dalit households in other villages. However, by the mid-2000s most SHGs had stopped functioning: the key reasons were malpractice by group leaders and bank officials on the one hand, and the entry of for-profit MFPs offering loans of much higher value without the requirement of savings on the other.

MFP lending has been taking place since the first years of the new millennium, as NGOs that had earlier promoted SHGs transformed themselves into MFPs, and could easily co-opt savings groups to make joint-liability loans.

MFPs, SHGs, and COVID-19

The key findings in this section show how the microfinance industry and related policies have contributed to rather than mitigated household debt crises in pandemic times. These crises have been unequally felt along gender and caste lines.

MFPs, SHGs, and COVID-19

This section sets out the empirical findings of our research, with a focus on the key instruments used to provide relief: MFPs and SHGs. Drawing on empirical research conducted on the ground, combined with a broader reading of the microfinance sector and the state response to the COVID-19 pandemic in India, the section evidences the limitations of both of these approaches in enabling support for the poorest in the three study villages during the pandemic. The conclusion then summarises what we find, and offers broad and concrete policy recommendations for financial inclusion in India.

"They collect their money over the corpse, saying 'first you pay this and then you cry'".

Chinathaayi, Pudur

The contradictory responses of private micro-finance providers

The share prices of microfinance institutions and small finance banks crashed on the day the first lockdown was announced, with most falling to almost half of the previous day's value, as a result of institutional investors selling their stakes immediately after the risk became apparent. As a way to curtail withdrawals, MFPs invited investors to attend emergency conference calls, where they assured them that they had taken a decision to continue to pay returns to investors.

In response, the Reserve Bank of India (RBI) mandated a three-month moratorium on principal and interest payments for all pre-existing term loans, which was then extended by two months, until the end of August 2020. MFPs were required to allow repayments to be delayed, without any impact on ratings by the Credit Information Bureau[40] (RBI 2020). This offered significant relief, even if only temporarily.

Box 6. The loan moratorium and commercial microfinance during COVID-19

- At the onset of the COVID-19 pandemic, microcredit loans worth USD 30 billion (INR 2.25 trillion) were in circulation in India, almost exactly one half having been lent by microfinance providers to groups of borrowers, the other half being bank loans to savings groups.[41]
- Interest still accrued on loans during the moratorium, so it only offered temporary relief for some.
- In the case of MFPs, which charge 24 per cent interest per annum, amounting to 2 per cent per month, this meant borrowers who availed themselves of the repayment delay paid an additional 10 per cent in interest on their loan .
- SHG bank loans, at 1 per cent interest per month, were less expensive to delay.
- At first, MFPs had been permitted to levy interest on the interest payments that were being delayed, a measure that was only revoked later in 2020, after a Supreme Court ruling which mandated that these payments be refunded to their clients.
- By January 2021, MFPs began to report non-payment to the credit bureau. Those who had defaulted were marked as 'OD' (overdue), which meant that they could not borrow from any other formal lender. Borrowers were thus either barred from credit or forced to take on more expensive informal loans.
- MFPs explained to investors that these loans had been written off on their books, but that they would try to recover as much as possible to minimise losses.[42]

While borrowers affected by the lockdown needed relief from financial pressures, microfinance providers were in dire need of liquidity to remain solvent and maintain their legitimacy in the eyes of investors.

Before the pandemic, women reported that they would regularly find themselves running helter-skelter on the day fixed for the monthly repayment of their MFP loan, as they struggled to find someone who would lend them the amount that they needed to pay the instalment. They were accustomed to loan officers sitting for hours outside their house. Before the pandemic, a common saying among women we spoke to was that loan officers would insist on repayment even in case of a death in the family: "They collect their money over the corpse, saying 'first you pay this and then you cry'".[43] These women were relieved when the pandemic began and MFP loan officers were absent from the village, as they no longer had to face this constant pressure to repay.

However, taking advantage of the moratorium had serious long-term financial implications. While borrowers affected by lockdown needed relief from financial pressures, microfinance providers were in dire need of liquidity to remain solvent and maintain their legitimacy in the eyes of investors. MFPs were permitted to allow interest to accrue during this period. As mentioned above, the collection of compound interest on outstanding microfinance payments was initially permitted. As a result, when loan officers returned to the villages in June 2020, they could legitimately threaten that borrowers would be charged 'interest on the interest' if they did not repay. Systematic attempts at coercing borrowers to make repayments despite the moratorium, under threat of escalating interest charges, highlighted the tendency of MFPs to privilege their needs and those of their investors over the needs of borrowers.

The disappearance of MFPs from the village meant that they stopped issuing new loans, including emergency loans. The inability of MFPs to offer any credit to borrowers at a time of crisis demonstrates that relying on private institutions to provide credit to poor women results in them being forsaken when lending to them is not profitable.

Box 7. Microfinance loan use

Approximately 50 per cent of MFP loan takers said borrowing from MFPs was primarily for the everyday expenses of life, including:

- food purchases
- expenses related to sickness and death
- repayment of other debt
- costs of arranging ceremonies and fulfilling social obligations.

In comparison, use for asset purchases and repairs was at 10 per cent and agricultural investment was at 15 per cent. In other words, loans taken for 'entrepreneurship', as promoted by MFPs themselves, was at a minimum[44].

State support for MFPs

At the same time, MFPs were detailing the losses they were facing and highlighting the precarity of their clients, in order to receive added support from the state. They argued that continuing their operations as usual would reduce this distress.

They were successful in securing large-scale bailouts in the form of subsidised loans under special liquidity provisions from the central bank, with delayed repayment schedules as well as credit guarantees safeguarding their lending. Yet borrowers themselves were not offered the same forms of relief. Our research highlights the extreme coping strategies in which borrowers engaged so as to deal with a period of no liquidity, and then, crucially, to begin repaying MFPs in August 2020 despite five months without any income.

Systematic attempts at coercing borrowers to make repayments despite the moratorium, under threat of escalating interest charges, highlighted the tendency of MFPs to privilege their needs and those of their investors over the needs of borrowers.

Coercive debt collection

When the moratorium ended, MFP staff began to collect repayments. As we were told by Arulmadha, a female Dalit Christian daily wage worker aged 50+, "MFP staff say we aren't here to listen to the problems of your house, we've given you our money when you needed it, now it is your responsibility to repay it.[45]"

Table 3. Proportion who reported yes to “Since the beginning of the COVID-19 crisis, have you been harassed in relation to your debt(s)?”

Caste group	%
Lower caste	17.5
Middle caste	3.6
Upper caste	2.1
Christian	4.0
Total	9.3

Table 4. Of those who reported having been harassed since the beginning of the the COVID-19 crisis, responses to “Who harassed you during the pandemic?”

Group	%
Relatives	45
MFP loan officers	40
Money lenders	15

Table 5. Proportion who reported yes to "Had you ever been harassed in relation to your debt(s) before the COVID-19 crisis?"

Caste group	%
Lower caste	12.7
Middle caste	2.9
Upper caste	0
Christian	7.3
Total	7.4

Table 6. Of those who reported having been harassed before the COVID-19 crisis, responses to "Who harassed you before the pandemic?"

Group	%
Relatives	46
MFP loan officers	43
Money lenders	12

In addition to coercive practices used by loan officers, some women reported facing pressure from other microfinance group members who were able to make payments during the moratorium, due to the joint liability mechanisms – where groups of women were collectively responsible for loans issued to all group members. Borrowers who made repayments were concerned that they would have to bear the cost of delays and possible defaults of those unable to make payments. The joint liability mechanism used by MFPs to devolve the work of collecting payments to women themselves thus became an additional extractive mechanism in times of crisis.

Repayment during the moratorium

In the face of coercion from loan officers to make payments during the moratorium, some borrowers asserted their right not to repay, whereas others decided to repay to avoid interest accrual and capitalisation. Based on interviews with borrowers and loan officers, as well as group discussions, a clear distinction between Dalit and non-Dalit borrowers emerged. Dalit women were unable to secure additional credit without having to borrow at high interest rates; consequently, they decided to wait and hope that MFP interest would be lower than the alternatives[46] or that they could avoid paying altogether since the delays necessitated by the pandemic had been beyond their control. Many non-Dalit women decided to pay back, often by borrowing from other sources in order to be able to do so.

Coping and nutrition

Reducing food intake and curtailing dietary diversity emerged as a coping strategy for some households, due either to the period of acute crisis, or because of the chronic circumstances of irregular work, disability or illness among household members, or the existence of dues on loans that they were unable to repay. Several respondents reported cooking fewer and less nutritious meals to lower costs even prior to the onset of the pandemic.

Conversely, for some of the most food-insecure households, their access to food improved during the period of lockdown, as a result of delays permitted on loan payments as well as the cash transfers and food handouts from the state. However, these households tended to have MFP loans, and so their problems resumed once the moratorium ended and they had to repay loans with added interest. Premila, a female Dalit daily wage agricultural worker from Selvanagar, spoke of how her household's food consumption changed after her husband became unwell a few years prior: "We stopped making *idli* and *dosa* [staple foods made with rice and lentils] because it costs 100 rupees once you make sambar or chutney. We just eat boiled rice instead and use the money for something else." In the early months of the pandemic she was able to cook lentils, and even to occasionally buy fish and meat; however, she expected this to change once the moratorium ended. In August 2020 she said, "buying fish and meat is currently once every 10 to 15 days but it will go further away when the loan payments start again."

For households that had just sufficient food access before the pandemic, this reduced drastically as a result of the pandemic. These households migrated for work, and when this was impossible they were unable to purchase adequate food. These households were also landless and so had no access to subsistence production and dietary diversity suffered. Balamurugan, from a Dalit hamlet in Manathur, who normally migrated to work in a brick kiln, said that: "We boil rice and make *kanji* [porridge] out of it and drink for all the meals in the day. We only have rice from the ration shop [the government food distribution centre]. We don't have anything else." Arulmadha, a Dalit Christian woman from Selvangar, said: "We just borrowed an onion from our neighbour and cut it up to eat with our boiled rice.[47]"

Delays after the moratorium

After the moratorium had ended, MFPs tried to restore normalcy in collection practices, and at the same time permitted delays when it was unavoidable and continued to levy interest as they had during the moratorium period. A few months later many borrowers we spoke to had missed some monthly payments. MFP staff were advised to try to enforce repayment where possible and at the same time to allow deferment when it was necessary to avoid mass default. Loan officers had been instructed not to enforce the joint liability clause when women were struggling to pay their own dues, since from past experience they knew that this could trigger resistance. They were told to make it clear to borrowers that taking longer to pay would be costly to them. Women who had borrowed from MFPs explained that they had no choice but to agree to this. For instance, Parvati, a Dalit woman from the colony in Pudur who had missed one instalment, said: "I told them to charge as much interest on this as they wanted, and I will pay it later. I have no money at all now."[48]

"I told them to charge as much interest on this as they wanted, and I will pay it later. I have no money at all now."

Parvati, a Dalit woman from Pudur

In addition to this, loan officers reminded borrowers that MFPs could use the credit bureau infrastructures to blacklist any defaulters, barring them from all sources of formal credit. The loan officers routinely retorted: "Fine, don't pay us, but remember you won't be able to get a loan from a single other source."[49]

There were differences between loan officers' practices – some had instructions from their managers to be harsher in demanding repayment – often in response to targets being imposed on them.[50] Several women who had missed loan repayments reported persistent harassment from loan officers, with instances of officers going to women's worksites and shouting at them in the presence of their employers. One woman said that a loan officer threatened to call everyone in the village and humiliate her in front of them. Another woman reported having received a call from a loan officer telling her that her house would be seized if she did not repay.

The flexibility to delay repayment – unprecedented for MFPs – and the threat of sanctions were together effective in quashing attempts at organised bargaining and resistance for the first year. The possibility of being prevented from accessing future loans dissuaded many from organising. Vanitha, from the small middle-caste hamlet in Pudur, said: "If we want to mobilise women to protest in our village we only need five minutes [i.e. this can be easily done], but if we don't repay then we'll never be eligible for any loans in the future."[51]

One woman said that a loan officer threatened to call everyone in the village and humiliate her in front of them. Another woman reported having received a call from a loan officer telling her that her house would be seized if she did not repay.

Restructuring and refinancing

After the first series of lockdowns ended and economic activity appeared to be resuming, MFPs restructured their loans; but, in our study region, this was done without handing over revised payment schedules to borrowers, leaving them in the dark regarding how much they would finally pay. After the MFPs were forced to allow some flexibility, when repayments on the restructured loans were delayed, they continued to charge interest at effective rates that were unclear.

The MFPs later employed the strategy of refinancing loans. This required borrowers, who were in most cases still struggling with incomes disrupted by lockdowns, to take new loans, and part of the credit issued was deducted to clear past dues. This forced clients to become more indebted while making the books of MFPs look more robust. Thus, the measures taken by MFPs with regard to loan recovery prioritised their own interests and those of their investors over those of their clients.

Defaults, collection agents, and settlements

When the devastating second surge in COVID infections began, and from April to June 2021 lockdowns were once again enforced, there was no moratorium offered on MFP loans despite all economic activity being curtailed. At this time many borrowers stopped repaying – some already had dues pending from the first series of lockdowns, others had large newly issued loans, and many reported being overwhelmed with the principal and interest due while employment was still uncertain. In addition, there was resentment for having to bear the burden of circumstances that were beyond their control, as well as an expectation of relief from the state or from lenders.

The staff of MFPs conveyed a sense of the extent of the problem. In September 2021 a bulletin board in the office of a microfinance institution had an A4 sheet of paper with a list of a dozen groups who had defaulted pinned on it. The Operations Manager for the branch, Omar Mohammed, said that it had been put up before the pandemic: "Now the list of defaulting groups would fill several sheets and take up the whole board."[52] By June 2022 their branch had been prevented from issuing new loans because of the extent of defaults. The situation was similar in other companies,[53] with staff in six others reporting that more than half of the loans issued prior to the second wave had gone unpaid.

Several MFPs had outsourced loan recovery to sub-contracted collection agencies, a new strategy in the Indian microfinance provisioning sector, similar to that used by pay-day lenders in other countries. These companies were given lists of borrowers who had defaulted on payments, and their employees made repeated visits to their houses, coercing them to repay. But these agents struggled to secure repayments – since borrowers were seeing them for the first time and, given that they weren't MFP employees, they questioned their legitimacy. Arul Dassan, an employee of one such company, said that these employees were themselves underpaid, being offered wages only if they met targets, and faced threats from residents of the villages they visited.

By mid-2022, the MFPs, loan officers, and collections companies were tasked with offering partial settlements to borrowers – making concessions on pending interest if they were willing to pay a portion of their dues. But the loan officers and collection agents said that they still struggled to convince borrowers to pay. In cases in which they were successful they explained that it was because borrowers were seeking loans elsewhere, and needed the overdue status removed by the credit bureau and a no-objection certificate (NOC) from the MFP.

Blacklisting and gendered financial exclusion

We found that lower-caste women engaged in precarious work were unable to pay, despite the consequence of being blacklisted on the credit bureau, and, being also unable to borrow from other sources, were left with large and steadily rising dues to microlenders. Meenakshi, a widowed female agricultural wage worker from the upper-caste hamlet of Pudur, stated: "A few months ago I tried to get a loan from another microfinance company but they checked their system and said that they can't lend to me until I repay the amount outstanding on my MFP loan and come to them with a no-objection certificate... I had to pay my daughter's school fees so I went to a money lender and borrowed from him at 4 per cent interest per month. I'm a widow and have no one supporting me so I have to manage however I can."

The possibility of blacklisting is made possible by the existence of the biometric-linked national identity number, called Aadhaar, which was rolled out in India from 2009, as well as the linking of microfinance loans to a credit bureau after 2011.

As remarked earlier, the possibility of blacklisting was made possible by the existence of the biometric-linked national identity number, called Aadhaar, which was rolled out in India from 2009, as well as the linking of microfinance loans to a credit bureau after 2011. Together, these gradually became a powerful tool, as the mandatory enrolment for the Aadhaar saw almost all citizens being registered, and the credit bureau database grew accordingly. In 2020, microfinance loans were all reported to the credit bureau and linked by default to the Aadhaar. Legislation passed in 2018 prevented private institutions from mandating that their clients provide their Aadhaar number, however by then many companies had already collected Aadhaar and as well as other identity document numbers. While the companies were required to delete their Aadhaar records, the credit bureau could generate matches between other state IDs that they were permitted to collect and link them to the biometric ID. This meant that for-profit lenders could blacklist borrowers who defaulted on loans after the state-mandated moratorium. The digitisation of identity and its utilisation for financial surveillance prevented women from mobilising in the ways they had prior to 2010, to demand concessions during times of widespread crisis or to protest unfair lending practices.

Dues on unpaid microfinance loans grew to unmanageable levels. As stated by Rajalakshmi, a sugarcane migrant worker from the Pudur Dalit hamlet: "I had eleven thousand rupees outstanding in March 2020. The loan officer came yesterday and told me that now I owe nineteen thousand rupees in interest alone. There is no way at all for me to get so much money. I am just sitting here waiting to find a way out."

The joint liability clause had been relaxed for the early part of the post-moratorium period, but later this was enforced once again. Women who had loans from multiple MFPs reported being unable to borrow from any company because group members from one MFP had not repaid their dues. This resulted in the defaulters facing pressure from their neighbours. As we were told by Vasuprabha, a *vanniar* [middle-caste] woman who was a group leader for multiple MFPs in Mannathur: "The companies have started using group OD [overdue]. If even one person hasn't repaid no one can borrow from any company. If others could easily pay their share they would but with the high interest it is impossible and fights are happening in the village because of this."[54]

The credit bureau linkage thus had severe implications for loan access for the poorest women. Those who defaulted were barred from receiving any other formal loans, while interest continued to accrue on their loans; meaning that repaying would impoverish them, but not repaying meant that they were forced to rely on more expensive sources of credit. This caused large-scale exclusion of the poorest households.

Our analysis reveals that while the moratorium on MFP collections provided a crucial respite for borrowers during the first COVID-19 wave in India, from March to August 2020, the inability to access liquidity was a major issue for many precarious households. Furthermore, once the moratorium was lifted, aggressive practices were used by MFPs to compel borrowers to repay loans during a period of ongoing crisis for many households. These practices were driven by industry concerns about ensuring investor confidence; and while the lenders were shored up by state investments, the state failed to protect the borrowers themselves, who faced stresses as a result of the aggressive loan recovery practices[55].

The findings set out in this section ultimately call into question the validity of microfinance as a tool of pro-poor development, especially in periods of crisis, but also beyond.

In addition, the linking of biometric identity data and loan information via the credit bureau, despite the legislation preventing it, has given the MFPs a new means of excluding some of the poorest women from accessing liquidity when they most need it. Throughout these events, the state has been shown to back industry to the detriment of borrowers.

The findings set out in this section ultimately call into question the validity of microfinance as a tool of pro-poor development, especially in periods of crisis, but also beyond. It is telling that when India faced a second and far higher spike in COVID infections in March 2021, with accompanying lockdowns, no moratorium was put in place. Instead, MFPs were allowed to continue aggressive collection practices in a period of immense socioeconomic crisis.

Box 8. Microfinance sector reforms in 2022: dismantling protection

A series of reforms were put in place, including removing lending limits to households based on income; removing the cap on interest rates; permitting risk-based pricing, allowing companies to offer different interest rates to households with different circumstances.

While the claim is that many of these reforms would protect consumers, they actually rode roughshod over prior regulations which had brought down interest rates charged by MFPs increased lender accountability.

There are critical questions to be asked about these reforms. For example, risk-based pricing will make loans more expensive for those in regions with more volatile economic, political and environmental conditions as well as for those with lower credit ratings[56]. This means discrimination against those already at a disadvantage as a result of factors beyond their control as well as structural inequalities.

The next section looks at self-help groups, seeking to determine how state aid channelled via these groups, as well as the support offered by members of the groups using their corpus of savings, enabled or obstructed uplift for the poorest during the pandemic.

The deceptive promise of COVID relief to SHGs

As well as the moratorium, the Government of India claimed that enormous sums in COVID relief would be channelled to women through the state-formed Self-Help Groups (SHGs) that exist in parallel with commercial microfinance, in the form of additional bank loans to savings groups.

SHGs are envisioned to empower poor women by enabling them to start small businesses, either collectively or individually, and to protect them at times of crisis, by offering a source of less expensive borrowing. In reality, while an extensive SHG network exists across the country, with some well-established federations, the spread is uneven and the effectiveness of these groups varies. The groups that survive tend to comprise upper-caste women whose households own land or other means of production, and exclude those who are lower caste and landless, who remain in low-paying wage work[57].

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The low eligibility for high-value loans is the result of underlying problems with the SHG model. Though South India in general, and Tamil Nadu specifically, fares better than other regions, the sector nevertheless has high non-performing assets, with one in four SHG loans going un-repaid and most groups having a short lifespan. It is for this reason that they do not fit the criteria required for larger loans. There were some long-running SHG groups, however, and these predominantly have upper-caste and upper-class members: those who come from higher socioeconomic categories are indeed more successful in operating SHGs, and would have been the ones to benefit from raising the ceiling on loan values during the pandemic – had it in fact been implemented.

Box 9. Covid relief promised versus actuality: a closer look

Credit limits for SHGs

- The COVID-19 relief package promised to double the maximum credit limit for women's Self-Help Groups (SHGs) from 1 million to 2 million rupees.
- The claim was that 6 million SHGs would benefit, which translated to 70 million poor households, and that trillions of rupees would enter the economy.
- However, most groups were not even eligible for the previous upper limit – the average value of SHG loans is INR 130,000[58] – so even if loan values increased, they would not receive the higher amount.
- In our study villages, only one group – comprising upper-caste land owners in the well-irrigated village – would have qualified for this credit.
- In any case, this increase in SHG lending limit was not implemented.[59]

Cash transfers

- A cash transfer of INR 500 (US$ 7) per month was promised for three months to all women's bank accounts created through the PMJDY scheme.
- Senior citizens, people with disabilities, and widows were promised two instalments of INR 1,000 to these same accounts.
- Amongst our respondents, no one had received these cash transfers in their bank accounts, or knew anyone who had received them. A key reason was that their bank accounts had been opened not through this specific PMJDY scheme, but prior to 2014, so as to receive payments from the national rural employment guarantee programme (NREGA).
- In the villages we studied, respondents did not know where to go to claim this transfer, as it came from the central government with no local body as intermediary.
- The inability to access this small sum of cash was not unique to this region. Across India it is estimated that 38 per cent of poor households and 46 per cent of rural households were excluded from the transfer programme, as they did not have a female member holding a PMJDY account[60].

Caste, class, and environmental conditions are barriers to SHG membership

We found that groups comprising women from upper- and middle-caste households owning well-irrigated land had been functioning the most successfully prior to the pandemic, and had sustained their activity through this time, thus allowing a diversification of livelihoods and protection from more expensive borrowing. Women from middle-caste households in Mannathur, the village with poor water access, had belonged to functioning SHGs for more than two decades. These groups faced unprecedented disruption, and completely disintegrated in this period of crisis. Their members usually migrated in the off-season to work in brick production and had returned without employment, which, given their dependency on uncertain income from their land, left them unable to save.

Box 10. SHG activity by caste

Our survey also found that only 3 per cent of Dalit caste group households[61] had an outstanding SHG loan, compared with 20 per cent of middle-caste group households and 24 per cent of upper-caste households. Attendance at SHG meetings was higher for all except Dalit Christians. Amongst Hindu Dalit group households, 23 per cent had a member attending, the significantly higher number representing both members of older groups lacking savings that they could lend out, as well as newly formed ones. More than 50 per cent of upper- and middle-caste group households reported having a member attending SHG meetings. Only 3 per cent of Dalit Christians had a member attending SHG meetings, indicating that new group formation is not taking place.

Across the villages, less than five percent of SHG members were from lower caste, landless households that relied on wage income through the year. Such households were unable to save regularly to pool funds for internal lending and to qualify for bank loans, and had instead relied on high-interest loans from other sources including MFPs. They struggled to meet basic needs during this crisis and saw debt spiral with outstanding dues accumulating.

Added exclusions in state-level aid channelled via SHGs

In addition to the national government measures outlined above, the Tamil Nadu state government issued a small pool of funds to state-level SHG federations; this was used to grant loans ranging from INR 20,000 to INR 50,000 to a handful of women amongst the hundreds of members in each village panchayat. These loans were issued on favourable terms: repayments only began three months after the loan was issued, and the monthly interest rate was under one per cent. The beneficiaries were the wealthiest. Our field observations indicate that these funds were mostly taken by SHG leaders and others whose incomes had not been severely impacted by the pandemic, mostly from upper classes and upper castes. Selection was based on perceived ability to repay.

Many Dalit women had returned from migration sites because of the lockdown and depended on irregular and poorly paid local agriculture coolie work. They were denied these loans on the grounds that they would be unable to service the loans. This illustrates the limitations of a credit-based solution for vulnerable households at a time of a crisis.

Pudur, which had a large well-functioning SHG federation, was able to get the most funds during the pandemic. These funds went to the leaders of the federation of SHG groups, favouring those who were socioeconomically stronger. Bhanumathi, the SHG federation leader in Pudur and an upper-caste Reddiar woman, said: "If I have to tell the truth, I did well during the lockdown. I continued to open my shop. People kept coming here asking for things and I couldn't refuse them. Since no one could travel to the towns to make purchases everyone had to come to me... I got a COVID relief loan of 50,000 rupees from the SHG federation and I used that to stock new items and I am repaying it every month now.[62]"

Conversely, Parvati, a Dalit SHG leader in Pudur had earlier explained: "They say that they won't give us the COVID relief loans because we don't have a *tholiyal* [professional livelihood]. Since we do *coolie* [daily wage] labour they say we won't be able to repay them. You have to show evidence of having a business. If you have a shop, you have to stand outside the shop and take a photo and then send it. That's what they said, so they took it like that and sent it. If you have a cow, hold the cow and take a photo; if you have a goat, show the goat and take a photo.[63]"

The COVID relief for the poor thus took the form of SHG credit that was extended only to those who were already in the top category of a system that already excluded those with precarious social and financial status. This is not a measure that is pro-poor – but one that very clearly restricts aid to those who are already better off, and safeguards returns to the state.

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Security provided by internal funds

Even without the purported central government aid or the state COVID relief loans, membership of a well-functioning SHG could be very beneficial during the crisis – especially for households with a higher socioeconomic status. SHGs that comprised owners of fertile land – with the capacity to save, the space and resources to raise livestock, and in some cases to run their own enterprise – were most successful. Even if they did not receive the relief loans, many SHG members were able to take smaller loans (up to INR 10,000 at 2 per cent interest per month, with interest going back to the group) from their pooled savings to purchase livestock or to invest in agriculture during the lockdown, affording them an alternate source of income when they or members of their household lost their jobs.

In Pudur village, SHGs had significant savings that could be lent internally during the lockdowns, and banks were willing to issue low-interest loans to them in the months that followed. Savings resumed quickly, generating liquidity for SHG members. At the same time, concessions were made on repayments of past loans, allowing flexibility and preventing more expensive borrowing. This allowed members to diversify livelihoods during the pandemic and soon after – for example by investing in livestock – and offered significant protection. Shaktipriya, for example, an SHG group leader from a middle-caste group, said: "We stopped saving for two months, but now have started again… Because there is not much happening now, people are buying milking cows… for these last two months I have given two members loans (from pooled group funds). They have both done something good, one has bought a cow and the other has used it for their agriculture."[64]

Yet those who were excluded were also the most severely impacted by the crisis, as they were migrant workers who returned with no income and received no relief. Pooled savings among SHGs were much lower in Pudur village's Dalit colony, because they saved less per month and had recently drawn their funds and restarted the group. Furthermore, all new savings had stopped during the pandemic. For instance, Parvati, SHG leader in the Dalit colony, said: "We save 105 rupees (USD 1.50) per month but since Corona started everything has stopped. No one is saving and we don't have any funds in our bank account because we recently divided our past savings and started afresh.[65]"

For the well-established groups in Pudur that were made up of middle-caste members, repayments of existing SHG loans were flexible. As Shaktipriya explained, "After a break of two months I insisted that everyone resumed making the monthly savings so that we had funds that we could lend to someone who needed it. I also asked that interest on any loans taken from the group should be repaid as far as possible – but I didn't force anyone to repay the principal each month. Understanding that livelihoods were impacted, I allow them to pay as and when they could." Prior to the pandemic these SHG members had been less likely to have expensive loans, including from microfinance institutions, and during the pandemic they had been less likely to borrow expensively. The ability to access low-cost credit and the negotiability of their existing group loans allowed them to prioritise the repayment of any more expensive loans that they did have.

Existing patterns of privilege were reproduced by the SHG network, which offered secure credit for those caste/classes with steady and higher incomes, while excluding the poorest.

In addition to their own pooled savings, SHG members were able to access new credit (up to INR 50,000 at 1 per cent interest per month) once previous bank loans were repaid. Groups with a good savings and repayment record were able to obtain credit quite easily from both nationalised and commercial banks, who have targets for lending to SHGs. This meant that, again, upper- and middle-caste and land-owning households were more able to access low-cost credit through the period of recovery from the pandemic, since they were more likely to be members of functional SHGs.

Existing patterns of privilege were therefore reproduced by the SHG network, which offered secure credit for those caste/classes with steady and higher incomes, while excluding the poorest.

An unequal arbitrary, and politically motivated SHG loan waiver

In March 2021, four SHGs in Pudur village that had loans from the cooperative bank received a full waiver on their loans as part of a wave of write-offs made before the Tamil Nadu state elections. These groups benefitted because they had loans from the agricultural cooperative bank, which was the only institution running this scheme. Members of the other 19 groups in the village that did not qualify for the waiver explained that they had also applied for cooperative bank loans, but had been excluded as they did not possess a long history of borrowing – unlike the land-owning families who were successful in obtaining the loans.

Poor geographical coverage of SHGs: a matter of ecology and precarity

The final key research finding that we emphasise here is the partial coverage of the SHG network, which in effect discriminates along the lines of the different rural ecologies. Put simply, SHG formation initiatives have ignored villages with poor water access, where incomes were low and uncertain and where entire households migrate to work in kilns – for in such villages, women are not present to attend meetings year-round. Yet these villages are dominated by the most precarious households, given the long-term insecurity of semi-arid farming in a region without sufficient irrigation.

In Manathur village, women had sought out state representatives to help them establish one SHG in the Dalit colony and one in the Ambedkarnagar hamlet: both SHGs operated for some time, but then faced difficulties when members defaulted on their bank loans. As Maramalai, the son of a Dalit former-SHG leader in Manathur Dalit colony, explained: "There used to be a savings group many years ago, I know because my mother was the leader. It has stopped for a long time now, all the record books are just lying here in our house covered in dust."[66] Parameswal, the leader of the now-defunct group in Ambedkarnagar, said: "We started a group in 2005 after requesting local officials to help us. It ran for a few years and then people started to default on their loans." In both cases, they explained, the fact that households migrated for six months every year and had uncertain incomes when they were in the village was the reason state officials had not formed groups in their hamlets. Some women from Ambedkarnagar who owned larger tracts of land and had had better yields after the construction of fish ponds had recently been able to access credit earmarked for SHGs, while others continued to be excluded. As Parmeswal said, "Now a few of us borrow directly from the Maghalir Mandapam [Office of the state Corporation for Development of Women], we told them we can't be responsible for everyone but if you lend to us, we will repay it properly."[67]

SHG formation initiatives have ignored villages with poor water access, where incomes were low and uncertain and where entire households migrate to work in kilns – for in such villages, women are not present to attend meetings year-round.

In Selvanagar village, a saturation of SHGs in the past combined with corruption-related issues at the time has meant very few groups survive today in the Dalit hamlet, most being replaced by MFP joint liability groups. As we were told by Veena Mary, a Dalit Christian who was formerly an SHG member: "There used to be many savings groups, each street had one. The name we selected for ours was Deepam. Now we only have MFP groups, and we just call it by the name of the company."[68] The impact of these groups closing is to narrow the options for low-interest liquidity to the poorest. As a result, they borrow from MFPs at high interest rates.

Exclusion from SHG bank loans as a result of microfinance loan defaults

SHGs comprising Dalit women had been denied bank loans as a result of defaults on MFP loans occurring in their neighbourhood. In some cases they were told that belonging to MFP lending groups where other members had defaulted on loans during the pandemic precluded them from accessing SHG loans. Premila, who had joined an SHG in the Dalit Hindu hamlet in Selvanagar during the pandemic, had told us in September 2020 that she was optimistic that her newly formed group would soon be sanctioned a loan: "When private finance companies came, we all borrowed from them and have been paying very high interest. Now we are trying to find a different way and the government also realises this and is helping us. They say will give us subsidies, education loans, so we have joined. We have been saving INR 110 every month. We've been told we can apply for a bank loan next month."[69] However, in July 2022, almost two years later, her group still hadn't received a loan, whereas the group in the adjacent upper- and middle-caste hamlet had been able to borrow from the bank. The group comprising Dalit women was told that defaults on MFP loans in their hamlet made it a high-risk area. They still felt they had benefited from saving and being able to borrow from the group; however, they also continued to take loans from MFPs, which they had been hoping to replace with SHG credit.

The newly formed SHG groups in other Dalit hamlets also saw their applications for bank loans being rejected, in some cases because the registration of MFP loans at the credit bureau had been used to determine ineligibility. As we were told by Anjali, who had recently married into the Dalit colony in Pudur: "We started an SHG six months ago and applied for a loan from HDFC bank last month. We were told today that it won't be sanctioned. We hadn't approached them, they came to our village-level federation and asked if there are new groups to whom they could issue a loan. They gave us the forms and we filled them up and submitted it. Now they're saying they checked online and some members of our SHG are members of HDFC MFP groups. And other members in those groups have defaulted. So, the system is showing an OD [overdue] for all groups members and they can't lend to us because of this." In this instance, a state bank can be seen reproducing caste and class hierarchies in the form of accessing liquidity via SHGs.

The exclusion of the poorest must be acknowledged in order to recognise that different channels and forms of aid were needed to support the most vulnerable women.

Moving towards listing SHG loans on the Credit Bureau

At present, SHG loans are not linked to the credit bureau; however, there is pressure both from NGOs engaged in SHG formation and from MFPs to identify lenders who already have outstanding loans from SHGs. As an MFP executive said to investors, "All of us are insisting to the RBI and banks that SHG data should be on the bureau, so once it happens we do not need any other rule. Automatically one will not lend to them, given that will be part of that total exposure requirement, but the problem is the non-availability of SHG data on the bureau. I think the drive is to put the data on the bureau, so once that happens, automatically the overlap will come down."[70] If implemented, this would act as a further exclusionary tool for those from the most precarious backgrounds, and further limit SHGs as a tool of pro-poor development.

Demonstrating the heterogeneity in SHG membership, and the modalities of exclusion from it, in this section we have shown how the proposed relief to SHGs – in the form of raised credit allocations – would have reached those least likely to face distress. We propose that meaningful relief through SHGs needed to have been designed to reach groups that were more significantly impacted. Then we argue that this exclusion of the poorest must be acknowledged in order to recognise that different channels and forms of aid were needed to support the most vulnerable women. We raise the broader question of whether SHGs can be adapted to beneficially include those currently excluded. Answering this question in the affirmative, we ask what forms this could take, and whether it could challenge and reshape the parallel lending to poor women by MFPs at terms that are less favourable.

Conclusion and recommendations

We ultimately call for a dramatic re-imagining of gendered financial inclusion that re-evaluates its objectives, reconsiders the interests and priorities of stakeholders involved, rethinks the terms of lending, restructures models of delivery, and changes the nature of the work done by its employees. The process of doing this must be informed by careful consideration of the social, political, and financial landscapes in which recipients of loans are embedded.

Key findings

1

The lending of commercial MFPs is ‘shadow financial inclusion’.
It can claim to be ‘good’ only insofar as it is marginally better than the more exploitative alternative ‘shadow finance’ available from informal lenders. In fact, it isn’t even always a less expensive option than informal loans, and certainly doesn’t keep people away from moneylenders. MFP lending is not only expensive, it is also characterised by very rigid repayment schedules, while informal lenders are more flexible in accommodating delays. MFPs issue loans at 25 per cent interest per annum and charge additional fees for processing and insurance. MFPs boast repayment rates of one hundred percent, which, in practice, when lending to women with irregular incomes, means (i) harsh measures taken by loan officers to ensure loans are repaid, and (ii) borrowers being in any case forced to take multiple smaller informal loans to make their monthly payments.

2

The move towards digitisation of identity and financial surveillance took away agency from poor and marginalised women.
This was both in terms of making them less able to hold the state accountable to deliver social security provisions it promised, and in terms of preventing them from negotiating with formal lenders for concessions that took into consideration the unprecedented economic shock that they had faced without risking harsh repercussions. The registration of all microfinance loans on the credit bureau meant the for-profit lenders could blacklist borrowers who didn’t adhere to their revised terms and repayment schedules, allowing all formal lenders in the country to identify them by their finger-print and deny them credit.

3

The relationship of the state to MFPs means the government is subsiding and protecting investors of global asset management firms and mutual funds rather than poor citizens.
MFPs at all times receive state support and subsidised credit that enables them to offer high returns to investors. The investors and lending institutions make profits from lending to poor women and in times of crisis expect the state to bear the losses, as in the case of the pandemic, while the state, at the same time, does not offer adequate support to poor citizens.

4

More substantive financial citizenship can be promoted by strengthening the microcredit being offered through the SHG model.
The SHG model offers a way for women to create their own localised institutions of finance as well as to be included in national financial infrastructures. Individual savings groups set the rules for the creation and management of their corpus of savings and they earn interest on loans to each other themselves. Then, through a village-level SHG federation, women from different groups come together to access and share state funds as well as to discuss local issues. The SHG bank-linkage facility allows low-income women to access credit at the same cost and in the same manner as other citizens.

Policy recommendations

We also make a set of concrete policy recommendations for the Indian and Tamil Nadu state governments in relation to our findings, as follows:

1. **Concessions and waivers on debt**
   Concessions and waivers on debt must be granted at times of widespread crisis.

2. **Flexibility mechanisms**
   MFPs must be required to have mechanisms in place to offer flexibility during individual crises.

3. **Reinstate MFP interest caps**
   The cap on MFP interest must be reinstated and the license to alter price based on risk revoked.

4. **Rethink biometric data capture**
   We urge a rethinking of biometric data capture and its use by the state and private entities, particularly credit bureaus.

5. **SHG strengthening**
   SHGs which lend with lower interest rates must be strengthened, including by revisions to the clause permitting banks to account for MFP loans as priority sector lending.

6. **Cash transfers decentralised**
   The processes to claim cash transfers must be decentralised.

Our research findings have ultimately highlighted the centrality of credit as a lifeline for many rural households in Tamil Nadu, both during the COVID-19 pandemic and beyond. Yet, in its current form, the complex mixture of private MFPs, SHGs, and state lending provided through the latter channel, risks reproducing rather than ameliorating forms of class, caste, and gender-based precarity. We therefore urge a rethink of what could – potentially – be a highly successful pro-poor policy, to ensure that it enables uplift for all.

We urge a rethink of what could – potentially – be a highly successful pro-poor policy, to ensure that it enables uplift for all.

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Endnotes

1 In India, the term 'Self-Help Group' (SHG) is used to refer to collectives that save and lend to each other, in addition to being eligible for low-interest bank loans. Unlike in other countries, in India the term 'SHG' is not used to refer to groups of women who are issued loans by commercial microfinance providers; these are called Joint Liability Groups (JLGs), the women being collectively responsible for the loans they receive.
2 Aadhaar is the name for the biometric-linked national identity card issued by the government of India.
3 Dalit is the term for historically oppressed castes chosen by leader activists and used widely across India.
4 The term Microfinance Providers (MFPs) is used to encompass all forms of institutions engaged in this type of lending – including registered microfinance institutions (MFIs).
5 Interview with loan officer, town near Selvanagar, 16 July 2022.
6 For an understanding of the work of microfinance loan officers see Kar (2013) and Kamath and Joseph (2023).
7 See for example, the Credit Access Grameen Limited Earnings Conference Call for the first quarter of the financial year 2022.
8 See the Bharat Microfinance Report, Sa-Dhan 2020.
9 For examples see the transcripts of the quarter-yearly investor calls published on the websites of Bandhan Bank, Equitas Small Finance Bank, Ujjivan Small Finance Bank, Jana Small Finance Bank, Credit Access Grameen Limited, and Fusion Microfinance amongst others.
10 See Fernandez (2006) and Kumar and Golait (2008) for the history of SHGs in India.
11 Tamil Nadu has an exceptionally high rate of defaults on SHG loans when compared with the rest of South India – more than 1 in 10 are not repaid, compared with 1 in 25 for the whole region. Other regions, particularly North and West India, have even higher default rates, with 1 in 4 or 5 loans not being repaid.
12 26 March 2020 report by India Today, 'Coronavirus: FM Sitharaman announces package worth Rs 1,70,000 crore for poor, daily wagers'.
13 See the Indian Express 2022 op-ed, The Digital India transformation, by Ravi Shankar Prasad who is a Member of Parliament from the BJP, currently the ruling party in India.
14 Pseudonyms have been assigned to all villages in order to protect the identities of respondents.
15 See Augsburg and Fouillet (2013) and Picherit (2015) for the case of India; Bateman (2017) and Bylander et al (2019) for Cambodia; and Aitken (2013) for a global overview.
16 See Guérin et al (2015).
17 See, for example, Guérin et al (2015), Mader (2013), Joseph (2013), Sriram (2010) and Taylor (2011).
18 See Bateman (2017) and Maîtrot (2019).
19 See Bylander et al (2019).
20 *Inclusive Finance India Report* 2021.
21 Kanze (2016).
22 Srinivasan, *Inclusive Finance India Report* 2021, Chapter 1, p. 3.
23 This could be through bank lending to MFIs, the purchase of securitised pools of microfinance loans, the purchase of priority sector lending certificates, the engagement of MFIs by banks as business correspondents (BCs) doing the work of lending for them, or banks directly issuing loans.
24 The permitted allocation for microfinance loans is 5 per cent of their PSL quota, which is fixed at 40 per cent of all their lending.
25 Reserve Bank of India Deputy Governor Speech, 4 November 2022.
26 See the Malegam Committee Report 2011.
27 See Afonso (2015).
28 See Sriram (2019).
29 See Zabai (2020).
30 See Ejiogu et al. (2020).
31 BBC India (2020, 30th March).
32 The Indian Express (2020, 24th August).
33 See Misra (2020, 26th March).
34 All India Financial Inclusion Report 2021.
35 Small Industries Development Bank of India; National Bank for Agriculture and Rural Development.
36 See Economic Times article, NABARD launches credit guarantee program fror NBFC MFIs.
37 See the report Indian Financial Inclusion during COVID and Recovery: Public Policy to the Rescue by the Center for Financial Inclusion.
38 See the Bharath Microfinance Report 2019-2020 published by the Sa-Dhan.
39 See Guérin et al (2021).
40 Reserve Bank of India notification, 27th March 2020.
41 The moratorium was applicable to both loans from microfinance providers and from banks to SHGs.
42 See, for instance, Credit Access Grameen Limited investor call for the third quarter of the financial year 2022 held in February 2022.
43 Interview with Chinathaayi, Pudur, 9 March 2020.
44 For other accounts of microfinance loans being used to meet basic needs in India, see Dattasharma et al (2016) and Guérin (2014).
45 Interview with Arul Madha, by phone, July 2020.
46 In our interviews, data on microcredit repayment were available for 31 households: almost all non-Dalits had repaid at least part of their microcredit (10 out of 11) while most Dalits had not (17 out of 21).
47 Interview with Arulmadha, by phone, July 2020.
48 Interview with Parvati, Pudur (by phone from Bangalore), 7 Nov 2020.
49 Interview with Veronica, Selvanagar, 5 March 2021.
50 Interview with loan officer, Selvanagar, 8 March 2021.
51 Interview with Vanitha, Pudur, 13 March 2021.
52 Interview in the MFP office in a town in Cuddalore district, September 2021.
53 Interviews in a town in Cuddalore district, June 2022.
54 Interview with Vasuprabha in her home in Mannathur UR, June 2022.
55 Brickell et al (2020) for a comparison of the stress created by microfinance repayments in Cambodia during the COVID-19 pandemic.
56 See Guermond et al (2022) and Taylor (2013) on climate vulnerability and indebtedness to microfinance institutions.
57 See Karunakaran (2016); Pattenden (2010); Joseph and Kamath (2023).
58 See the Sa-dhan State of the Sector report (2020).
59 Adikesavan (2021).
60 Somanchi (2020).
61 Including Dalit Christians, who have exactly the same percentage of SHG borrowers as other Dalit groups.
62 Interview with Banumathi, in Pudur, March 2021.
63 Interview with Parvati, by phone, June 2020.
64 Interview with Shaktipriya, by phone, 15 July 2020.
65 Interview with Parvati, by phone, June 2020.
66 Interview with Maramalai, by phone, 8 November 2020.
67 Interview with Parmeswal, in Ambedkarnagar, 6 April 2021.
68 Interview with Veena Mary, by phone, September 2020.
69 Interview with Premila, TV Kuppam Colony, by phone, September 2020.
70 Credit Access Grameen Limited Earnings Conference Call for the first quarter of the financial year 2022.