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'Freedom from Poverty is Not for Free': Rural Development and the Microfinance Crisis in Andhra Pradesh, India

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Within neoliberal development discourse, the poor are represented as entrepreneurial subjects for whom integration into formalized financial systems can facilitate their escape from poverty. This paper examines how the 2010 microfinance crisis in Andhra Pradesh reveals significant fault lines that underlie this narrative. It argues that the crisis of microfinance in Andhra Pradesh needs to be placed within the context of severe agrarian dislocations stemming from the impact of trade liberalization, drought cycles and a transformation of rural social relations. The contradictions are most strikingly represented in increasing rural differentiation and a generalized crisis of social reproduction among land-poor farmers and landless labourers. A massive influx of microfinance – driven by both state-operated programmes and private-sector institutions leveraged with cross-border financial flows – found a ready clientele among various agrarian classes seeking to bolster consumption and roll over debt in conditions of significant uncertainty and distress. Yet in banking on this vulnerability, microfinance institutions socialized the contradictions of rural Andhra Pradesh and have ultimately been thrown into limbo through the unleashing of political and social forces unforeseen in neoliberal narratives of agrarian change.

Keywords: Microfinance, agrarian crisis, Andhra Pradesh, debt, farmer suicides

INTRODUCTION

With the sustained expansion of microfinance institutions over the past two decades, the southern state of Andhra Pradesh became known within India as the 'Mecca of microfinance'. What began as a small-scale, NGO-driven process in the 1980s underwent centralization and expansion as part of a state-driven and World Bank funded microcredit programme in the 1990s. Under conditions of trade liberalization and state retrenchment, microfinance was portrayed as an effective and fiscally sustainable means of smoothing agrarian transformation by facilitating livelihood diversification. Over the past decade, the number of microfinance loans has grown exponentially across the state. A new breed of private-sector, for-profit microfinance institutions (MFIs), owned by shareholders and financed by a combination of commercial banks and international investors, has increasingly driven this expansion. The unprecedented increase in loans was justified in terms of a massive unmet demand for credit by the poor, who are presented as living in a state of 'financial apartheid' that reproduces poverty through exclusion from the formal financial system. It was anticipated that, in connecting the rural poor to

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formalized credit through microfinance initiatives, households would be able to harness opportunities created through market liberalization to lift themselves above the poverty line by starting micro-enterprises. Given the large demand for credit in rural Andhra Pradesh, moreover, the growth of a private, for-profit driven model was rationalized in terms of more effectively linking the surpluses of capital circulating through financial centres with the capital-deprived poor of rural India.

In October 2010, however, a major crisis in the microfinance industry in Andhra Pradesh starkly interrupted this narrative of financial enfranchisement and poverty reduction. Following the suicides of a number of rural borrowers who faced insurmountable debts and suffered aggressive collection tactics from institutional lenders, the state government placed a moratorium on the collection of loan repayments. This act precipitated a collapse in repayments to MFIs and, with the spectre of further political intervention looming large, the future of microfinance in India was characterized as being under threat (Polgreen and Bajaj 2010). The discourse emerging from the state government and local media during the crisis was one of insatiable greed that had turned for-profit MFIs into 'modern *sahukars*'; that is, moneylenders with a usurious appetite for profits off the backs of the poor.[1] In policy terms, this perspective focused attention on the appropriate regulation of the industry to limit interest rates and avoid abuses, a position that was subsequently institutionalized in a regulatory structure drawn up by the Malegram Committee of the Reserve Bank of India, in January 2011.

While the emergence and aggressive expansion of for-profit MFIs certainly played a central role in the current crisis, this paper argues that focusing on the 'supply side' of credit provides only a partial analysis, because it fails to ask the question of why there was such a ready demand for unsustainable debt within rural Andhra Pradesh.[2] By untangling the threads of the microfinance crisis, the paper seeks to contextualize the latter as part of an underlying and protracted crisis of social reproduction across semi-arid agrarian India in which debt relations are integrally interwoven into rural livelihoods. From the traditional rural moneylenders through to the advanced systems of merchant-capital and labour contractors, the power of debt in rural India has been and remains integral to hierarchically structured patterns of production, consumption and social reproduction. As a consequence, the expansion of microfinance did not simply provide credit to a financially disenfranchised population, as romanticized accounts sometimes imply, but served to rework existing relationships of debt predicated upon an underlying constellation of class, caste and gender relations. In so doing, microfinance became intermeshed within prevailing power relations surrounding capital accumulation and social reproduction in the context of severe agrarian dislocations. While some segments of agrarian society were able to use access to finance to support consumption or diversify livelihoods, others have become caught in escalating debt traps that brutally expose the limits to fighting poverty through the proliferation of credit.

To make this argument, the paper is divided into four sections. First, I chart the expansion of microfinance within Andhra Pradesh over the past decade and a half, and overview the primary events that led to the current crisis. In so doing, I examine its historical precursors by tracing the expansion of credit to the rural poor in various forms – from state policies of social banking, to NGO-led initiatives, through to the current intermeshing of state-sponsored self-help groups with private-sector microfinance institutions. Second, I place the expansion

[1] Reddy Subrahmanyam, an official who helped write the Andhra Pradesh legislation, made the following quip: 'The money lender lives in the community, at least you can burn down his house. With these companies, it is loot and scoot' (cited in Polgreen and Bajaj 2010).

[2] For example, in the single fiscal year between 2009 and 2010, the number of microfinance loans in Andhra Pradesh increased by 26 per cent and the overall volume of loans by 46 per cent (Srinivasan 2010, 49).

and crisis of microfinance in Andhra Pradesh in its broader context of agrarian crisis. Drawing on a broad secondary literature I examine the causes and implications of a generalized crisis of social reproduction for marginal farmers and landless labourers. The third section brings the expansion of microfinance together with the analysis of agrarian crisis. It emphasizes the structural conditions under which the expansion of credit led not to a diversification of livelihood opportunities but to escalating debt traps. Finally, in conclusion, the paper returns to wider questions of microfinance and rural development. It flags a number of essential questions regarding the influx of credit into a region suffering from deep-rooted agrarian crisis that remain silenced in neoliberal accounts of microfinance.

ANDHRA PRADESH: FROM MICROFINANCE MECCA TO MICROCREDIT CRUNCH

The Andhra Pradesh crisis and its wide coverage in international publications ranging from *The Economist* to the *New York Times* re-energized debates that had been simmering for over a decade about the nature of microfinance as a generalized anti-poverty strategy and a lever of rural transformation. Part of the reason for the international attention surrounding what might seem a relatively provincial crisis is the scale of private microfinance expansion within India and the growing incorporation of the latter within the international circuits of financial capital. By the end of 2009, around US$12 billion of cross-border investment had flowed into microfinance initiatives, a threefold expansion since 2007, and microfinance was becoming a trendy asset class for venture capital, pension funds and sovereign wealth funds (Kazmin 2010). India had become the fastest-growing market and the scale of the Indian microfinance boom over the past half-decade has been startling. Srinivasan (2010) charts the dramatic increase in lending driven by the proliferation of a private-sector, for-profit model of lending backed by multiple sources of credit:

> MFIs [micro-finance institutions] ramped up their loan portfolio in India from US$252 million to US$3.8 billion between 2005 and 2010. The funding for this expansion came from several sources apart from equity funding. Bulk loans from banks are the most important source of funds. In recent years, quasi-equity, mezzanine funding, non-convertible debentures, debt assignments and sale of securitized debt have all emerged as other means of raising resources.

Within this expansion, Andhra Pradesh became a magnet for microfinance start-ups and witnessed a proliferation of loans from private MFIs. Accounting for 15 per cent of the national population, the state is estimated to hold around 21 per cent of the national MFI clients and almost 30 per cent of the total MFI loan portfolio (Srinivasan 2010, 49). To jump immediately to this recent wave of commercialized microfinance, however, would be to ignore the legacies of earlier rural credit provisioning, which had similar aims but a different institutional logic and provenance. The ability of MFIs to scale up their operations in Andhra Pradesh rests in part upon the institutional infrastructure and culture of formal credit put in place through the social and development banking schemes of the 1970s and 1980s, alongside the expansion of the self-help group (SHG) model under the auspices of the state in the 1990s and 2000s.

The first wave of subsidized rural credit extension that targeted poor households occurred as part of a public 'social and development banking' strategy in the late 1970s (Ramachandran and Swaminathan 2002; Harriss-White and Colatei 2004; Shah et al. 2007). Starting in 1978, the Integrated Rural Development Programme (IRDP) was used to disburse millions of rupees of subsidized credit through commercial banks into rural areas, with the projected goal of poverty reduction by providing the means for rural livelihood diversification. Whereas previous extensions of rural credit had gone primarily to foment large-scale agro-industry as part of the 'Green Revolution', the IRDP targeted credit at poor households under regulated and subsidized rates of interest, ostensibly to allow them to accumulate productive assets such as land and livestock without exposing themselves to the usurious interest rates of traditional moneylenders. Despite its social banking pretensions, however, the programme became notorious for elite capture, bureaucratic inefficiency and corruption. Within the context of engrained power relationships between the rural poor and elite groups, there was a tendency to leave target households saddled with debts for cattle and other assets that they passed on to landowners, merchants and moneylenders (Breman 2007). After peaking in the mid-1980s, the IRDP was consistently scaled back over the following decade, before being wound up among the onset of neoliberal reforms in the late 1990s (Chavan 2005).

The closing of the IRDP signalled the end of the social and development banking approach. In its place, a neoliberal ethos governing the provision of credit was rapidly established within key institutions such as the Reserve Bank of India (RBI) and the National Bank for Agriculture and Rural Development (NABARD). The new technocrats strongly critiqued the associated bureaucratic overheads, the large subsidies necessary to make the IRDP work in the face of significant transaction costs, and the difficulties in monitoring the usage of funds on the ground (Harriss-White and Colatei 2004). Despite these critiques, the notion of credit as a rural poverty reduction tool remained and yet was transformed. In stark contrast to the prior principle of providing subsidized credit to the rural poor, in 1999 the working group on microcredit within the RBI clearly expressed the new orthodoxy on such practices:

> [P]ast experience shows that dollops of sympathy in the form of subsidy and reduced rate of interest have not helped matters much. Micro-credit has to be commercialized where all patrons – micro-finance providers, intermediaries, NGOs, facilitators and the ultimate clients – must get compensated appropriately . . . [We] believe that freedom from poverty is not for free. The poor are willing and capable to pay the cost. (cited in Chavan and Ramakumar 2005, 149)

The rhetoric of fighting poverty through credit was thereby embedded within broader neoliberal narratives of agrarian development, wherein microfinance is presented as a tool to grease the wheels of a capitalist transition. The latter is powered by the entrepreneurial instincts of a repressed impoverished class who are liberated by financial inclusion (Smith and Thurman 2007). These discursive parameters operate within a neoliberal tradition of livelihoods analysis in which households are seen as holders of specific assets – represented in terms of physical, human and social capital – that they seek to maximize in the context of potential employment or entrepreneurial opportunities provided by markets. The lack of access to credit – financial disenfranchisement, as it is termed in the literature – is viewed as a key barrier to the realization of assets in a context of market opportunities because it deprives poor households of the ability to make investments that can better realize their income-generating activities over the medium to long term. Within the neoliberal framework, it is precisely such barriers to market integration stemming from social, cultural or economic factors that reproduce poverty (World Bank 2000, 2001). Financial enfranchisement through the proliferation of microcredit is therefore seen to liberate poor households from a short-term time scale and a limited scope of market activities that frustrates their ability to lift themselves out of poverty. Moreover, as discussed below, by targeting lending to women, microfinance is suggested to remove a further cultural constraint upon entrepreneurialism and market integration through women's empowerment.

On this basis, the RBI and the NABARD promoted a new form of rural credit expansion through a model that used NGOs and self-help groups (SHGs) as financial intermediaries in order to lower transaction costs. Since the 1980s, various NGOs had been using a broad model of microcredit provision that organized SHGs of ten to twenty women who would save one rupee a day as part of a collective fund controlled by the group. After demonstrating financial responsibility by building and managing this loan pool for six months, the SHG would become eligible for a small loan from a commercial bank. Linking SHGs to banks was seen to facilitate their integration into the formal financial system despite a lack of collateral. In receiving credit, the SHG, under tutelage of the NGO, would set their own interest rate for lending to individual members and would take care of all monitoring and repayment procedures as a collective. This model was viewed favourably by the RBI and used as the basis of a new rural credit scheme piloted in 1992 and formalized in the late 1990s, concurrent with the disbanding of the IRDP.

In the wake of formalization, however, tensions surfaced as to the primary purposes of such microfinance initiatives. Initially, the NGO-run SHG model was represented as a model for empowerment that would enhance women's collective power by enabling them to overcome existing economic and cultural constraints within their communities (Kabeer 2005). By directing lending to groups of women who form a mutual-liability group that guarantees debt repayment and organizes the inter-group disbursement of credit, empowerment is suggested to occur along three axes. First, in becoming financially literate, women accumulate human capital that can be used in a variety of entrepreneurial contexts. Second, by ostensibly controlling monetary resources, women improve their power over decision-making within the household. Third, through the group process of microcredit loans, women build social capital as a collective that can empower them to exercise greater voice on a wider range of issues within the community (Rankin 2001). In this vein, microcredit is represented as facilitating the poor woman to become a veritable *feminae economicus* who will truck, barter and trade her way above the poverty line while concurrently undermining oppressive patriarchal structures at the village level of rural society.

Policy-makers, however, viewed the tenets of mutuality and joint liability in far more instrumental terms; not as tools for empowerment, but as an operational prerequisite owing to their usefulness in reducing transaction costs for credit providers. By socializing risk among the group, a number of problems could be addressed from the perspective of finance capital. First, the model addressed screening issues for participants, because women were assumed to self-select members most likely to be disciplined financial agents. Second, the group dynamics were seen to compel financial discipline for fear of social stigma and shame attached to those who might default. Third, the joint-liability model ensured that the group members themselves had a keen interest in self-policing and enforcing repayment (Kalpana 2005; Rao 2005). For institutions such as the RBI, this form of credit provision was more likely to ensure fiscal responsibility and therefore meet the paramount goal of a self-sustaining microfinance programme that did not depend on subsidies or large overheads. That the imposition of financial discipline through collective self-selection and policing might stand in stark contrast to the mantras of 'building social capital' among women as a means towards empowerment was not acknowledged. Nor was the impact of self-selection in SHGs, in which women tended to recruit those least likely to default from within established social networks, thereby excluding the poor and retrenching caste-based differentiation (Rao 2005). For observers such as Edwards and Olsen, in a survey of several SHGs in rural Andhra Pradesh in the early 2000s, the shift entailed the salience of an unadulterated financial logic over and above any social mission:

> Empowerment has become a hollow term, often replaced with the phrase 'capacity-building' which makes 'empowerment' synonymous with 'training for financial conformity,' stripping it of any of its radical emancipatory underpinnings. (Edward and Olsen 2006, 48)

Whether the initial emancipatory expectations of SHG microcredit were real or imagined (see the critiques by Shakya and Rankin 2008; Cons and Paprocki 2010), the shift to a financial responsibility paradigm of microcredit animated a large, state-sponsored programme of forming SHGs and linking them to commercial banks. A surge in SHG formation followed, and nowhere was this as dramatic as in Andhra Pradesh. As Jairam Ramesh (2007, 3621) indicates: 'Sewa took 35 years to mobilize eight lakh women and the Dhan Foundation took 17 years to reach a membership of 2.6 lakh women. By contrast in Andhra Pradesh, 80 lakh women have been mobilized in just 15 years.' By the early 2000s, slightly over 50 per cent of all SHGs in India were located in Andhra Pradesh and these SHGs received 52 per cent of total loan disbursements from commercial banks to SHGs under the NABARD-sponsored programme (Rao 2005).

There are a number of reasons for this concentration of SHGs in rural Andhra Pradesh. First and foremost, from the mid-1990s into the early 2000s, the Andhra Pradesh state government, under the leadership of the Telugu Desam Party headed by Chandrababu Naidu, vigorously pursued neoliberal reforms, working closely with the World Bank and earning Andhra Pradesh the accolade of 'the state that would reform India' by *The Economist*. The expansion of microfinance was therein correlated with broader forces of liberalization, wherein state expenditures on collectivized subsidies for social reproduction declined consistently from 1995 into the new millennium, as did subsidized bank credit to rural areas (Rao 2008). Consequently, at a time when institutionalized credit was heavily in demand from rural households attempting to adjust to agrarian change, access to formal credit was extremely difficult to reach for small and marginal cultivators (Ramachandran and Swaminathan 2002; Rao and Suri 2006; Reddy 2010).

In its capacity as a major financial backer of the Andhra Pradesh reform programme, the World Bank was extremely enthusiastic about the promotion of microfinance as a means of promoting livelihood diversification within rural communities facing a retrenchment of agrarian subsidies and social welfare programmes. For the state government, the appeal of upscaling the number of SHGs was not simply driven by a neoliberal logic of poverty reduction, but also by a political logic of populism emanating from a state government anxious to retain votes in rural areas at a time of generalized welfare retrenchment and agrarian dislocation under trade liberalization.[3] As a consequence, the process of founding SHGs accelerated dramatically under the logistical and financial backing of a new programme called *Velugu*. The new SHGs were viewed by the state government as a mechanism by which it could circumvent established political infrastructures such as the *panchayat* system of local government, to set up a direct linkage with the rural poor through which it could dispense a broader series of patronage than simply credit (Johnson et al. 2005). In this manner, the SHGs formed during the 1990s operated as a means to gain access to populist state ventures, including cooking gas link-ups and UNICEF-sponsored women and child subsidies. Rural communities understood the purpose of SHGs as a medium of populist linkages between the ruling party and the rural sphere. Only 25 per cent of SHGs functioned as a thrift group that would become a microloan recipient, and

[3] Notably, in contrast to many other countries, microfinance has been targeted overwhelmingly at rural areas within both Andhra Pradesh and India in general.

these tended to be SHGs formed by the relatively more affluent groups within villages rather than the extreme poor (Mooij 2002; cf. Pattenden 2010).

Given this uneven distribution of credit under the state-led *Velugu* programme, a number of NGOs saw an opportunity to expand lending beyond such constraints. By transforming themselves from NGOs into 'non-banking financial companies' (NBFCs), they began the process of commodifying the debt portfolio of SHGs and using it as collateral to attract investment. Using this promise of a future revenue stream from SHG repayments, NBFCs began to act as direct financial intermediaries by borrowing money from commercial banks (and, later, from private venture capital funds and other financial institutions) and lending to the very SHGs that they had been integral in establishing. In an increasing number of cases, to circumvent the legal requirement for SHGs to have a small downpayment in the form of thrift savings, the NGO arm of the company would provide a grant that would be immediately reinvested by the group in the NBFC to facilitate credit disbursement (Nair 2010; Sriram 2010a). This rise of NBFCs created a new class of financial intermediaries as former NGOs turned themselves *en masse* into microfinance institutions (MFIs). The transformation relieved the commercial banks of the risks of lending directly to SHGs – something they had been cautious in doing despite the SHG-bank linkage programme – by allowing the MFIs to take on those responsibilities. Consequently, new MFIs such as SKS, Basix and Spandana engaged in a form of arbitrage by borrowing from banks at interest rates of 11–15 per cent and charging interest rates of between 24 and 30 per cent plus fees for loans extended.

Operating as for-profit companies, the MFIs soon and systematically sought external investors as shareholders, therein marginalizing the stake of borrowers within the company and opening the route for considerable self-enrichment (Sriram 2010a,b). Tara Nair (2010) gives the following example from Andhra Pradesh:

> In the case of Asmitha Microfin (established in 2002 and headquartered in Hyderabad), which transformed into a company with more than 97% of the shares 'owned' by the clients; the promoters and their relatives acquired majority stake in the company through a buyout in 2006. From 2006 onwards the company also started distributing dividend. In 2008, the managing director of Asmitha was offered sweat equity worth \$2.5 million by one of the equity investors.

The emergence of for-profit, shareholder-driven microfinance within Andhra Pradesh created a new logic of competitive rural credit provision. For-profit MFIs needed to build up their base of borrowing SHGs in order to turn a profit for shareholders and this introduced an element of competition for clients that had previously been absent. MFI workers were rewarded for expanding the client base and ensuring high repayment rates and this led to a number of problematic practices. First, the clients of choice were not new borrowers, but existing SHGs that already had the institutional framework and disciplinary culture to ensure group liability. While some of these groups could be found in the surplus of SHGs established under the *Velugu* programme that were not linked to bank credit, many MFIs looked to poach SHGs from the *Velugu* programme or – as became clear in the crisis – simply to lend to groups or individuals that already had financing. By 2010, there were 23.55 million SHG and MFI clients within a state with a total of 16 million households, suggesting considerable overlap of lending portfolios (Srinivasan 2010, 4).

Second, MFIs tended to transform the SHG model into purely a vehicle of risk socialization among borrowers. Dispensing with the thrift aspect of the original model and its emphasis on collective decision-making within the SHG, MFIs tended to lend to women on an individual level, with the SHG existing purely as a guarantor of the debts of all.

Strikingly, once a SHG had been established, MFIs such as SKS streamlined the loan application process to around four hours to help them expand their loan portfolio at a more rapid pace (Nair 2010).

The MFIs justified their aggressive pursuit of expansion under the notion of a massive unmet demand for credit across rural Andhra Pradesh. For some observers, however, a bubble was brewing in Indian microfinance, as the logic of competitive provisioning had led to a gross oversaturation of the market (Rozas 2009). Reports of households taking loans from multiple MFIs, and using one loan to aid repayments on the others, became prominent within the industry yet did nothing to forestall its continued expansion. The importance of microcredit to neoliberal development strategies had become too engrained, particularly with the fawning attention paid to Muhammed Younus and the Grameen experience (cf. Muhammad 2009). That the evidence supporting the claims of microfinance advocates is patchy and unconvincing did little to slow the mantra of poverty reduction through liberating the micro-entrepreneurial talents of the poor (Bateman 2010).

Within Andhra Pradesh, the first political rupture stemming from the upscaling of microfinance came in 2006 in the form of a crisis in the district of Krishna. Allegations of usurious interest rates and strong-arm tactics to elicit loan repayments resulted in the state government closing down some fifty microfinance outfits in the district. The industry responded with a self-imposed 'code of conduct' pertaining to interest rates, savings, recovery and governance practices, that professed to limit abusive practices while continuing to serve the credit needs of the rural poor (Shylendra 2006). Social and political tensions, however, continued to foment despite the temporary abatement of the crisis and resurfaced with a vengeance in 2010. Two factors combined to create a new political maelstrom. First, in the late summer, numerous media stories linked around fifty suicides of men and women within the state to high levels of indebtedness to MFIs that were using aggressive collection strategies combining social stigma with physical coercion. Second, the media simultaneously emphasized the considerable profits of MFIs and the personal fortunes being made by those in the industry. In 2010 SKS Microfinance, India's largest microfinancier with an international portfolio of shareholders raised US$350 million in an initial public offering that emphasized the attractiveness of the industry to international financial capital. The reasons for the interest in the company were evident: in the year to March, its profits had doubled to US$38 million on revenues of US$212 million (Kazmin 2010). Its founder, Vikram Akula, sold personal shares to a tune of US$13 million (Polgreen and Bajaj 2010). Predictably, MFIs were accused of making obscene profits from the blood of the poor.

As occurred in the 2006 crisis, the state government acted rapidly and firmly. In placing a moratorium on loan repayments for heavily indebted clients, the government threw the industry into limbo. This was followed with an ordinance that sought to strictly regulate the operations of MFIs by specifying the need for close governmental supervision of their activities and practices. The counter argument of MFIs in the wake of the Andhra crisis was that, while some operators were guilty of abusive practices, they nonetheless provided a necessary service in meeting the credit needs of the poor, as evidenced by the high demand for their product. For some observers, the government's actions were an attempt to use MFIs as a scapegoat for rural distress, not least because the expansive growth of MFIs was seen as a competitor to the state's SHG programme (Intellecap 2010). Most observers, however, emphasized the need for substantial regulation of MFIs. The repeated refrain was about finding a regulatory balance to fix microfinance rather than killing it. To do so, claimed Vikram Akulu, founder of the MFI at the centre of the crisis, would return the poor to a condition of 'financial apartheid' (Polgreen and Bajaj 2010).

While the debate over the 2010 microfinance crisis has centred upon the expansion and coercive practices of leveraged MFIs, less attention has been given to the underlying social conditions in which the expansion of microcredit found a ready clientele ready to take on new debts in conditions of agrarian distress. This highlights a larger question that the discussions over appropriate regulation ignored. Why did rural women and their households in Andhra Pradesh seek multiple and overlapping sources of credit at high interest rates? Studies on SHGs and MFIs across rural India demonstrate that the interest rates charged are in the region of 24–36 per cent per year, with some reaching as high as 60 per cent plus fees (Chavan and Ramakumar 2005). This rate of interest, as Chavan and Ramakumar (2005, 153) note, requires that any productive investment of the loan would need to result in an unusually high rate of profit to break even:

> [A] rate of return of 24 to 36 percent for a small rural enterprise is a highly unrealistic target, given the low organic composition of capital in the enterprise . . . The argument that loans under micro-credit programmes could raise the incomes of the poor, therefore, stands on very weak ground, given the current rates of interest at which these loans are being advanced.

In the face of such high rates of interest, why do the rural poor 'vote with their feet' for microfinance? In short, why would rural women accrue debt burdens that continually threatened to escalate beyond their means to pay? One potential answer is that MFIs often shielded the full rate of interest, not least through extensive add-ons in the form of one-time fees. There are certainly cases of duplicity emerging within Andhra Pradesh, although the broad expectations around microfinance are well understood by a target population used to dealing with moneylenders. Another answer would be to suggest that debt traps were a case of financial illiteracy among the poor leading to a generalized inability to understand the workings of credit and irresponsible borrowing. Placing the burden of irrationality upon the poor, however, is a staple trope of modernization theory, and one that has limited explanatory power – least of all in Andhra Pradesh, where a culture of small loan borrowing from informal sources was well established.

To denaturalize the notion of a 'natural demand' for microfinance as a form of financial inclusion, it is necessary to examine more closely the political economy and social ecology of rural Andhra Pradesh. I argue that, in conditions of deep agrarian crisis in semi-arid regions of the state, microfinance entrepreneurs found a ready demand for their products in the context of households whose social reproduction was already leveraged on interlocking debt relations, and that were subject to a financial squeeze through the interrelationship between raised input prices for agriculture, limited off-farm employment and the reoccurrence of drought. In this context, the larger question is not the regulation of microfinance – although this is undoubtedly overdue – but of a necessary paradigm shift within agrarian policy-making that can stem the intense pressures upon rural marginal cultivators and landless labourers.

PUTTING MICROFINANCE IN ITS PLACE: AGRARIAN CRISIS IN ANDHRA PRADESH

> *The Indian peasant is born in debt, lives in debt and dies in debt*
> – Malcolm Darling (1925)

The failure to place the microfinance crisis within the broader crisis of agrarian India is surprising, given the attention paid by numerous political economists to the plight of smallholders and landless labourers under the neoliberal reforms since the mid-1990s (Ramachandran and Swaminathan 2002; Harriss-White and Janakarajan 2004; Reddy and Mishra 2009; Deshpande and Arora 2010; Lerche 2011; Vakulabharanam and Motiram 2011). The epidemic of farmer suicides occurring across agrarian India – with around 250,000 deaths from 1995 to the present (Sainath 2010a) – is the most dramatic instantiation of a broader crisis of social reproduction.[4] Notably, Andhra Pradesh is one of the leading states in terms of the incidence of farmer suicides. In the short period between May 2004 and November 2005, for example, more than 1,068 small farmers from across the state committed suicide, with every single district except Hyderabad reporting casualties (Sridhar 2006; Galab et al. 2009). After declining slightly, the suicide numbers peaked again in 2009, with the state recording 2,414 deaths during the year (Sainath 2010b).

To argue that there is a crisis of social reproduction ongoing in rural India – particularly in Andhra Pradesh's semi-arid regions, such as Telangana and Rayalaseema – is not to suggest that there is a generalized crisis of capital accumulation in Indian agriculture. Many sectors of Indian agro-industry have proved extremely profitable within the changed policy environment (Patnaik 2003) and output growth in agriculture as a sector accompanied agrarian distress in Andhra Pradesh across the 1990s and into the 2000s (Vakulabharanam 2005). Rather, it is to draw attention to two factors. First, the uneven development of capital and the changing policy paradigm within Indian agriculture has changed the parameters in which households are able to access the means of social reproduction. Beginning in the Green Revolution period and accentuated under neoliberalism, there has been a broad upheaval in the relations of class, gender and caste, and this is encapsulated in a process of stark social differentiation (Vasavi 2010). This transformation has greatly impacted the distribution of opportunities and risks across the rural population according to the types of assets that different social groups own and the forms of control they can exercise over market conditions and other people's labour. In the case of land-poor farmers and landless labourers, which are the largest social classes in agrarian India, these changes have greatly amplified their insecurity to changing crop prices, exploitative contracts, the vagaries of climatic cycles, and the availability and quality of off-farm work (Breman 2007; Harriss-White 2008). Second, these fractures within the social reproduction of agrarian society have created a crisis of household reproduction in which large sections of marginal farmers and landless labourers have experienced greatly increased insecurity in their ability to meet household subsistence needs, particularly in conditions of widespread indebtedness (Rao and Suri 2006; Le Mons Walker 2008). Third, these processes have fed into escalating indebtedness of agrarian households – both at an all-India level and particularly in rural Andhra Pradesh (see Tables 1 and 2).

The historical lineages of this process of differentiation can be traced back to the shifting incorporation of Indian agriculture into the world economy, both within the colonial period and in the 'Green Revolution' agrarian development strategies initiated in the postcolonial period (Harriss-White and Janakarajan 2004). Nonetheless, the liberalization of Indian agriculture since the early 1990s has accentuated some existing trends and unleashed new dynamics upon the rural landscape. Within the logic of neoliberal agrarian strategy, large-scale withdrawal of generalized subsidies and protectionism for Indian agriculture was intended to revitalize the

[4] Sainath (2010a) places this figure in context: 'It means over a quarter of a million Indian farmers have committed suicide since 1995. It means the largest wave of recorded suicides in human history has occurred in this country in the past 16 years. It means one-and-a-half million human beings, family members of those killing themselves, have been tormented by the tragedy. While millions more face the very problems that drove so many to suicide. It means farmers in thousands of villages have seen their neighbours take this incredibly sad way out. A way out that more and more will consider as despair grows and policies don't change.'

Table 1. The evolution of rural household indebtedness, Andhra Pradesh and India (percentage of total rural households in debt)

	1981	*1991*	*2002*
Andhra Pradesh	26	35	42
All India	20	23	27

Source: Deshpande and Arora (2010, 34).

Table 2. The estimated number of indebted farmer households, Andhra Pradesh and India, 2003

	Estimated number of farmer households	*Estimated number of indebted farmer households*	*Percentage of farmer households indebted*
Andhra Pradesh	60,339	49,493	82
All India	893,504	434,242	48.6

Source: Sidhu (2010, 166).

rural economy by encouraging a more rational deployment of labour and capital within the context of integration with world markets. As developed below, however, liberalization within the context of existing inequalities and power relations placed huge strains on smallholder agriculture in particular and the social reproduction of marginalized classes in general. The resulting trends towards social differentiation and agrarian distress within rural Andhra Pradesh replicate what a number of analysts have highlighted across India's semi-arid tropical regions. As Barbara Harriss-White (2008) describes:

> Long-term village-level studies have revealed a process of capitalist differentiation in the SAT [semi-arid tropics] in which asset-owning households have highly diverse portfolios among which is wage work in skilled labour markets, while the vast mass of rural households consist of wage workers on smallholdings no longer able to self-provision and therefore dependent on labour markets and loans.

Escalating pressure on marginal cultivators and landless labourers is produced by a number of overlapping processes, four of which are emphasized in the following paragraphs. (1) The numerical expansion of smallholder agriculture, with a significant increase in marginal holdings of under two hectares, forces the majority of rural households to seek social reproduction through livelihood strategies beyond farming their own lands. (2) A shift towards cultivating non-food grain crops and the subsequent dependence of households upon volatile market prices, both for inputs necessary for cash-crop orientated agriculture and the sale prices of the crops themselves. (3) Risks are privatized owing to the breakdown of former patronage relationships, alongside the retrenchment of state social welfare and the undermining of common property resources. (4) Finally, an increasingly fragile social ecology is characterized by increasingly uncertain climatic patterns allied to soil and water depletion and degradation. Pertinently, I emphasize how these tendencies occur in and through engrained and hierarchical social relationships on the basis of class, caste and gender, in which debt plays a key role in structuring the appropriation of agrarian surpluses and in consolidating relationships of domination. The impact of the expansion of microfinance can only be understood according to the way in which it emerged within and mediated these relations and processes.

With population growth and the stagnation of land reform processes creating a proliferation of households with holdings under two hectares – a size considered to be insufficient to maintain a household under liberalization, which has reduced crop prices – there have been incredible pressures placed upon such marginal farmers to increase returns from agriculture and non-farm employment. In Andhra Pradesh, small and marginal holdings as a percentage of the total operated area increased from 30 per cent in 1980–1 to just below 48 per cent in 2000–1 (Deshpande and Arora 2010, 30). Unable to meet subsistence needs from their own insufficient or non-existent holdings, marginal and landless farmers have increasingly sought to rent lands and to move into cash crops. This has tied many into lopsided debt relations, in which the power of credit is used to lock producers into relationships with landed and merchant capital that manifestly favours the latter (Rao and Suri 2006). Two forms are prominent: first, there has been an increasing replacement of sharecropping agreements with competitive rents paid in cash or in kind, through which the renter assumes greater risks in the event of crop failure (Reddy and Mishra 2010).[5] Second, there has been a consolidation of an advance system in which landlords and/or merchants advance money to pay the rent in advance or buy necessary inputs, and yet tie the recipient into a 'fixed harvest' that must be sold at a deflated price agreed in advance (Rao and Suri 2006; Harriss-White 2008). To cover shortfalls, households have increasingly self-exploited by using greater unpaid household labour within agricultural work (Vakulabharanam and Motiram 2011), a factor that has notably gendered implications, as discussed below.

In addition to renting and self-exploitation, smallholders have attempted to shore up earnings by embracing commercial, non-food grain crops – such as groundnut and cotton – which has amplified risk on a number of levels (Ghosh and Chandrasekhar 2004; Rao and Suri 2006; Vasavi 2010). In Andhra Pradesh, the area sown with non-food grain crops more than doubled between the early 1960s and 2000, increasing from 22 per cent to 46 per cent of the gross cropped area (Ramachandran et al. 2010, 5). Notably, cash crops such as cotton, sugar cane and oilseeds have fluctuating market prices and require significant and costly inputs for production, the cost of which has increased markedly as government subsidieshave been consistently reduced over the neoliberal period (Reddy 2010, 246). Whereas the original Green Revolution model was predicated upon irrigated agriculture on medium and large farms, with heavy subsidization of inputs by the state – including seeds, fertilizers, pesticides and electricity – the increasing extension of Green Revolution technologies to marginal rainfed land has occurred in the context of dramatic price fluctuations alongside unpredictable climatic shifts. As a consequence, the expansion of Green Revolution techniques into the semi-arid areas of Andhra Pradesh is reaching its social and ecological limits in the linked crises of indebtedness and land degradation married to ground-water scarcity.

The temporalities affecting the dynamics of agrarian social relations are therefore not simply anthropocentric. Andhra Pradesh is particularly vulnerable to drought, which historically has occurred on a bi-yearly basis, and which creates major disjunctures between those with access to irrigation and those whose lands are rainfed. Current climatic trends, however, are suggested to be less predictable, with extremes of drought and rainfall making agriculture increasingly risky (World Bank 2008). This affects not only smallholders, but also the large landless population that is dependent upon on agricultural waged labour or on borrowing money to rent land. The impact of drought on livelihood strategies is acute and makes migration of

[5] In Andhra Pradesh, this tendency is prevalent in rice-producing coastal regions where tenancy rates are extremely high. It is also occurring to a lesser extent in inland semi-arid areas, but tenancy is considerably less prominent in such regions, where marginal farmers tend to engage in wage-labour on larger estates (Ramachandran et al. 2010, 52).

Table 3. The major sources of irrigation in Andhra Pradesh (percentage of net irrigated area)

	1970	*2006–7*
Canals	49	36
Tanks	30	14
Ground water	17	47

Source: Ramachandran et al. (2010, 6).

various forms a necessary response for a significant proportion of the population. Notably, it was at the end of the 2003–6 drought that private microfinance began its rapid ascent and the most recent crisis follows another period of sustained drought in 2009. In that year, the state was supposed to have received 322 mm of rainfall by the end of July, but only 153 mm of rainfall had been recorded by August, which frustrated the sowing of half the expected hectares of fields for the *kharif* (autumn) crop.[6]

In the absence of public irrigation initiatives, the response to drought in conditions of high-risk commercial agriculture has been private borrowing to create new or deeper borewells (see Table 3). In areas such as the semi-arid region of Telangana, in the north of the state, this has created a vicious circle in which drought and overusage further undermine the water table. While the World Bank (2008, 37) lamented the 'indiscriminate' creation of further and deeper wells, there is nothing arbitrary in such practices, as they are the logical yet collectively destructive outcome of competition between rural producers within capitalized agriculture. A study of four villages in Andhra Pradesh in the mid-2000s demonstrates this trend:

> The drought from the last three years has aggravated the situation as more and more family members have taken loans and invested them in agriculture, borewells and other inputs, however without realizing any substantial returns. It was estimated in the group discussions in the sample villages that 90 per cent of the borewells failed in Thimmayapalli village, followed by 45 per cent in Sivarampet, 70 per cent in Chinnababaiahpalli and 30 per cent in Rangapur. (Samal 2006, 85)

Given the stakes of crop failure – with smallholders having become increasingly indebted for land renting, input purchasing, borewell drilling and other expenses – the barrier posed by ground-water depletion has been a key expression of the socio-ecological crisis of rural Andhra Pradesh. Analysts have suggested a direct correlation between cash-cropping, the failure of borewells, insurmountable debts and farmer suicides in the arid regions of northern and western Andhra Pradesh (Reddy 2010; see also Galab et al. 2009).

The combination of increasing risks and decreasing returns to agriculture have accentuated the need for households to expand forms of circular migration, in which flows of people and money circulate between rural locales and primarily (but not exclusively) urban spaces. These forms of migration are heterogeneous, with the distribution of risks and rewards closely linked to differentials of skill and social networks (Samal 2006; Deshingkar et al. 2008). In turn, the latter are related to differentiation along lines of class, caste and gender, hence consolidating

6 The agrarian distress that is already acute in semi-arid tropical areas such as inland Andhra Pradesh is likely to accentuate in the present and immediate future, owing to anthropogenic climate change. Anecdotal evidence suggests that summer temperatures can reach ten degrees higher than only two decades ago in the inland districts of the province (Renton 2009).

existing inequalities. Patterns of circular migration, entailing primarily the movement of men out of the home village during the dry season to take on labouring work in regional industries such as construction, mining, quarrying, brick-making and agricultural labour on irrigated lands, are well established. For those in debt and without social networks to facilitate job seeking in peri-urban areas, it is common to take on contracted labour through an intermediary who advances wages in return for a debt to be paid off by the worker's labour over the forthcoming months. These forms of neo-bondage or 'attached labour' are, according to many observers, both systematic and constant across many parts of semi-arid India (Breman 1994, 1996; Lerche 2007; Garikipati 2009), including Andhra Pradesh (Olsen and Ramanamurphy 2000).

In this context, taking loans through microcredit has been suggested as potentially providing households with an opportunity to avoid the necessity of contract labour (Edward and Olsen 2006). Alternatively, as Garikipati (2009) notes, the prevalence of debt traps spurred on by the irregular cycles of agrarian cash flows can feed these arrangements from one year to the next. In the absence of substantial income-generating opportunities, the added debts of microfinance can force those at the bottom of the social hierarchy deeper into contract labour, so that advances can cover debt and thereby renew the cycle of indebtedness. Far from credit being a substitute to migration, the compulsions of indebtedness stand as a primary motivation for migration of all forms. As a survey of four villages in rural Andhra Pradesh detailed:

> Around 45 per cent of households used the remittances [from migration] to clear debts. In some cases, it was the primary reason for migration. The members of the sample households revealed that there are four main causes of debt prevalent in the villages. These included borrowing for: agricultural purposes; health; boring of wells; marriages and festivals. (Samal 2006, 84)

The in-depth study of three villages in different socio-ecological zones in Andhra Pradesh presented by Ramachandran et al. attests to similar class dynamics (see Table 4). They demonstrate the class-based vulnerabilities to debt burden by expressing the average indebtedness of different social classes (expressed in terms of land holdings) as a percentage of total household assets. For the landless and marginal farmers of the semi-arid zones in particular, the vulnerability of such households owing to extensive debt-to-asset ratios is striking.

Alongside such class distribution of risk, the gendered dynamics of this process are marked and have determinate effects upon household livelihoods. With the increasing reliance on male

Table 4. The average debt:asset ratio among households belonging to different size classes of operational holdings of land in three villages in Andhra Pradesh, December 2005

Size-class of operational holdings (acres)	*Ananthavaram (south, coastal)*	*Bukkacherla (south, semi-arid)*	*Kothapalle (north, semi-arid)*
Landless	53.5	169.6	206.5
<3	45.7	98	26.8
≥3 to <5	21.5	35.6	20.2
≥5 to <10	12.6	46.8	19.4
≥10 to <25	16.2	26.9	11.1
≥25	11.4	17.9	6.6
All households	45.8	23	112.4

Source: Ramachandran et al. (2010, 141).

migration, the agricultural labour force in Andhra Pradesh has become increasingly feminized (da Corta and Venkateshwarlus 1999; Garikipati 2008, 2009; Rao 2011). While women step into the employment gap, wages paid for agricultural work are only between 40 and 70 per cent of those paid to men (Garikipati 2008). This emphasizes the gendered impact of agrarian distress, in which women are expected to respond to the squeeze on rural livelihoods by increasing unpaid work in household fields alongside underpaid waged work in others. It is these same women, moreover, who are expected to become the agents of rural transformation through microfinance-inspired entrepreneurial activities while policing the financial activities of their cohort to ensure sound fiscal management.

Two other contributory trends to agrarian distress are the decline of common property resources alongside the retrenchment of state-provisioned welfare schemes, both of which undercut communal or socialized forms of risk mitigation. In terms of the former, common property resources – which include community pastures, community forests, waste lands (uncultivable lands), common dumping and threshing grounds, watershed drainages, village ponds and rivers – remain central to the collective sustenance of the rural poor in dry areas of India, but have been undergoing decline through encroachment, privatization and overuse (Jodha 2008; Gordon 2001). While the attempt to enclose and commodify communal resources has been ongoing since colonial times, these processes have been accentuated under neoliberalism and clearly fit into broader debates surrounding what David Harvey (2003) has termed 'accumulation by dispossession' (see also Menon and Nigam 2007). Their impact has been notable in the Andhra Pradesh context, in which land reform has stalled while land, water and forest expropriation for industry and urban sprawl has escalated (Balagopal 2007).

Concurrently, successive neoliberal state governments during the post-1995 period have cut back financing for social provisioning in health, housing, nutrition and sanitation. As Smriti Rao argued in 2007, this has transferred an increasing burden to women as they have been expected to make up for this shortfall by a combination of paid labour and participation in the SHGs, through which the state government has begun to channel public resources. The latter has meant that women have needed to contribute extra time and labour to SHG management precisely when other demands owing to decreasing returns to agricultural labour have been squeezing households. Moreover, while the collective and socialized forms of provisioning and risk management have been declining, the rise of microfinance has emerged as an individualized consumption support mechanism in which the risk is borne by the recipients of the loan and by community members who form part of the collective liability. Indeed, the coercive and disciplinary aspects of peer pressure were among those highlighted in the tragic circumstances surrounding borrower suicides in Andhra Pradesh in both 2006 and 2010.

ENTER MICROFINANCE: TRANSFORMATIVE TOOL OR ESCALATING DEBT TRAP?

The above section has outlined the broad contours of a crisis of social reproduction that has affected large segments of the marginal faming and landless labouring classes within rural Andhra Pradesh. This crisis of social reproduction was manifested in the increasing difficulty that these strata of rural society had in maintaining sufficient household income to meet material and social needs. Many households responded by seeking new forms of income through migration, renting land, moving into cash crops, intensifying the usage of household labour and taking on more debt (see Tables 1 and 2). In the context of the termination of social and development banking initiatives, there existed a credit vacuum that both informal moneylenders and microcredit programmes moved into. While the entrance of microfinance was rationalized as putting an end to the openly usurious practices of traditional moneylenders, there has instead been a symbiosis of the two. Across the 1990s, the share of indebtedness to informal sources increased both nationally (Jones 2008) and in Andhra Pradesh specifically, where 70 per cent of debt was informal in 2003 (Shetty 2009, 71). As might be expected, the smaller the size of holding, the more likely the household was to be excluded from formal credit and therefore the greater was the reliance on informal sources at higher interest rates (Shetty 2009, 72; Ramachandran et al. 2010).

Moneylenders play an important role in the dynamics of rural debt. When borrowing from microfinance institutions, household repayments start immediately the following week and continue at an even pace through the year. As such, the temporalities of agrarian cash flows tend to be at odds with the monotonic pulse of weekly repayments that is built into the microfinance model. In this way, the infiltration of commercial microfinance created a further role for traditional moneylending to the extent that moneylenders have been able to lend to those who were overextended to microfinance institutions (Gokhale 2009). Far from being swept away as an anachronistic hangover of 'pre-capitalist' social relations, informal moneylending has therein adapted and expanded alongside the rise of microfinance. A survey by the Reserve Bank of India found that between 1995 and 2006, the number of registered traditional moneylenders increased by 56 per cent, from 12,601 to 19,627. This does not include the far greater number of non-registered moneylenders who are estimated to have undergone a similar proliferation (Gokhale 2009). Moneylenders were rapidly expanding to take advantage of conditions of generalized agrarian distress. Notably, a significant number of recipients of microcredit within this period – particularly those from relatively advantaged castes – used such funds to begin moneylending activities (Pattenden 2010), which is symptomatic of a neoliberal logic taken to its furthest expression.

Placed within this wider context of expanding indebtedness, it becomes appreciable how microfinance served to consolidate rather than undermine existing trends towards social differentiation, as borrowers locked into existing power relationships and with uneven material, social and political assets responded to the access to this form of credit in markedly different ways. Jonathan Pattenden (2010), in his analysis of several SHGs in the neighbouring state of Karnataka, emphasizes that the uses of microfinance varied greatly according to socio-economic class and caste. Dominant social groups were far more likely to invest the money productively; lower-caste groups that were vulnerable but not indigent used the monies primarily for agricultural purposes, including buying inputs and renting land; whereas lower-caste groups – when they could afford to partake in SHGs – used the money for meeting basic consumption needs or paying existing debts.

Within Andhra Pradesh, both village-level and aggregate studies of microloan usage have emphasized similar trends: that covering agricultural expenditures and smoothing consumption – with a particular emphasis on health-related expenditure and covering the costs of weddings, dowries and other social events – are paramount (Rao 2005; Samal 2006; Ramachandran et al. 2010). A major study of SHG loan purposes in the state indicated that consumption represented the purpose of half of loans, including health expenditures, home improvement and festival expenses. Only a quarter of loans went towards productive expenditure, particularly agricultural inputs. One-fifth went simply to paying back old debt (Srinivasan 2010, 19). This reflects a trend, noted at a general level, that the majority of microfinance does not find a productive outlet, but serves to cover quotidian expenditures related to broad consumption needs (Bateman 2010). Even analysts close to the World Bank have begun to back-track from the assertion that microcredit facilitates enterpreneurial activity to a justification based on the importance of credit for allowing households to smooth consumption and overcome adverse external shocks

(Rosenberg 2010). In this new narrative, the value of microfinance is not to be found in alleviating poverty but simply in enabling people to manage its symptoms. Far from being a lever of agrarian transition that allows people to climb out of the 'grubby basement of the pre-capitalist world' – in Hernando de Soto's (2003) provocative words – microfinance is now anticipated simply to prop up a rural population that has been made surplus to the needs of capital accumulation in neoliberal India (see Sanyal 2007).

There is, of course, no doubt that, in conditions of extreme poverty, households have a desperate necessity for the means to secure consumption, deal with unexpected expenditures and manage shocks. Such vulnerabilities are symptomatic of chronic poverty. The consequences of attempting to provide such means on a massive scale through the expansion of debt at interest rates between 24 and 36 per cent, however, has simply served to consolidate indebtedness while temporarily papering over the fractures of agrarian social reproduction. Within the specific conditions of Andhra Pradesh, the need for marginal households to prop up consumption through debt enmeshed the expansion of state SHGs and profit-driven MFIs in a self-perpetuating orgy of financial overreach. SHG lending in the state reached 17.1 million SHG members in early 2010, with Rs.117 billion outstanding (Srinivasan 2010). By November 2010, MFIs had reached 9.7 million borrowers with Rs.72 billion outstanding, according to the government (CGAP 2010). The composite debt created is huge: Srinivasan (2010) estimates the total number of microfinance clients in Andhra Pradesh at 25.36 million (19.11 million SHG members and 6.25 million MFI customers), which means that there are 1.5 microfinance loans per household state-wide, with a total debt of Rs.165 billion.

The warnings about profound 'market saturation' and households taking multiple loans from different institutions and moneylenders to cover repayment schedules gained purchase even before the 2010 crisis (Rozas 2009). Prior to the moratorium imposed by the state government, default had been on the rise and had reached significant levels. Given the centrality of high rates of repayment to the official allure of microfinance, default tends to be covered up in many official documents but shows up nonetheless in banking records. As Srinivasan (2010, 38) notes in his comprehensive survey, in 2009 banks were reporting a 15–20 per cent default on loans from SHGs, which is a substantial default rate. Moreover, discussions by that author with lead district managers in the state indicated that repayments by individuals to SHGs may have fallen to as low as 35–40 per cent. The difference in internal *vis-à-vis* external repayment are covered either through joint liability (i.e. other members covering the debts of defaulters) or by the SHG seeking other credit sources to pay back existing creditors; in either case, augmenting the cycle of indebtedness. In terms of multiple borrowing from different microfinance institutions, this trend tends to be covered up by both borrowers and creditors alike. Srinivasan suggests an overlap of about 10 per cent between MFIs and SHGs, but with a greater overlap between clients of different MFIs, for which there exist in the region of 65 unique borrowers for every 100 loans across India (Srinivasan 2010, 2). The incidence of cross-borrowing is likely to be considerably higher in Andhra Pradesh where microfinance penetration is far more advanced than national averages. It is perhaps not a great surprise, therefore, that the disciplinary tactics used to promote repayment both within SHGs and through external MFI operators became so aggressive and acrimonious.[7] To blame such practices on rogue MFIs in need of regulation, however, is to

[7] The testimonies gathered in an informal field survey by a microfinance operator in the state bear witness to these forms of coercion and the structural violence: see http://microfinance-in-india.blogspot.com/2010/11/what-is-coercion-in-repayment-client.html (entry written 12 November 2010, accessed 1 March 2011).

miss the wider structural violence of agrarian crisis upon which such particular acts of coercion are predicated.

CONCLUSION

To understand both the expansion and impact of microfinance in Andhra Pradesh, it is necessary to locate the proliferation of credit within the context of widespread agrarian crisis in which the social reproduction of significant sections of rural society became increasingly strained. This aids in countering several key myths within the neoliberal narrative of microfinance. First, microfinance did not provide credit to a pre-capitalist rural population that needed market access and sources of financing to self-propel its way out of poverty. Rather, it encountered a rural landscape of interlocking debt relations that reinforced the character of agrarian social reproduction and consolidated relationships of power between different social classes, castes and genders. In this context, microcredit served to change the form and content of existing debt relations: *the form* through the rearrangement of the social relations and governance structures of how credit could be sought, used and managed; and *the content* in terms of a dramatic quantitative escalation of credit – particularly in the aggressive corporate form of MFIs leveraged by equity capital – concurrent with a decline in older forms of state-subsidized agrarian financing. As indicated above, this proliferation of credit facilitated a cycle of indebtedness in which households began to use multiple sources of debt – including microfinance institutions, but also other informal lenders – to attempt to overcome barriers to their social reproduction.

This leads to the second point, which is that microfinance in Andhra Pradesh was not used primarily to facilitate productive investment but, rather, to pay back existing loans, cover healthcare expenditures and meet immediate consumption needs. The expansion of microfinance therefore did not produce an army of micro-entrepreneurs who were able to fuel their entrepreneurial predispositions with credit to lift themselves out of poverty. Those who use microcredit productively tend to be those who are already relatively more affluent. A middle tier of microcredit users invested in agricultural inputs in the context of a squeeze on the profitability of smallholder farming. The majority of loans, however, were used to cover the immediate consumption needs of the rural poor, who increasingly found themselves surplus to the needs of capital accumulation in the rural landscape. This 'consumption smoothing', moreover, was done at interest rates of 24–36 per cent, which represents a significant means of surplus extraction from agrarian communities into the wider financial system. Freedom from poverty was indeed not for free, as the RBI noted in advancing the microfinance agenda in the 1990s.

In sum, while the expansion of credit is seen in neoliberal theory as facilitating the voluntaristic choices of households to realize their assets and diversify livelihoods to maximize income; the Andhra Pradesh crisis indicates how the expansion of credit can accentuate the risks faced by a structurally immiserated population, leading to a proliferation of debt traps. The case of Andhra Pradesh, therefore, indicates that the expansion of microfinance presents no solution to agrarian crisis.

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