

The political economy of micro entrepreneurship for women: why does microfinance fail to promote self-employment in rural south-India?

Draft

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Summary

For the past two decades, microfinance has been considered an efficient tool for self-employment creation in developing countries, especially for women. This has been particularly true in rural India, where through strong support from public authorities, international donors and local NGOs, the microfinance sector has developed considerably over the past decade. This paper draws on institutional political economy and on several micro-studies conducted in rural areas in Tamil Nadu to demonstrate that the impact of microfinance on self-employment is in fact very limited.

The first section addresses the inherent fuzziness of “self-employment” as a concept. If the term is restricted to entrepreneurs who genuinely control the means of production and access to the market, then the proportion of self-employed people is in fact much smaller than what is usually claimed. As in many other rural areas, Indian rural employment is characterized by the increasing importance of non-agricultural income. However this is mostly derived from waged and casual labour, and is mostly based on a daily wage or piece rate.

The second part of this paper demonstrates that in the context studied here, contrary to official rhetoric, the direct effects of microfinance on households’ livelihood portfolios are in fact very limited. On the one hand, microloans are largely used for purposes that do not generate direct income, such as health, education and the repayment of pre-existing debts. Moreover, little potential exists for the expansion of self-employment. Besides households’ risk aversion, local market functioning is a key explanatory factor, in particular owing to a lack of local demand, alongside the hierarchical structure and social segmentation of the local markets.

Introduction

Microfinance owes its success in the media to its supposed capacity to help the poor create or increase “income-generating activities” and thus to step out of poverty. In short, it is seen as enough to lend a few hundred Euros to the poor to enable them to develop their entrepreneurial potential. It is on this assumption of “popular capitalism” (developed in particular by the Peruvian Fernando De Soto) that Mr. Yunus, founder of the *Grameen Bank*, justifies his vision of development in general and of microcredit in particular (Yunus 2007). He states that the premise of microcredit is that the poor have enormous creative power to successfully fight the challenge of poverty, provided however that we help them to utilize their skills. By extending small loans, microcredit helps the poor unleash their energy and skills and overcome poverty.

Microfinance is by no means a new idea, although has been very widely covered in the media over the past two decades. In India in particular, there is a long history of credit schemes, as well as credit institutions entirely devoted to rural areas, aiming to help diversify

rural economies and household livelihood. However the inefficiency of rural credit institutions and government schemes (poor debt recovery rates and poor targeting) has also been documented in depth¹. Since the 1990s, liberalization measures have led to credit rationing, which has most severely affected rural areas and poor segments of the population (Copestake, 1988; Ramachandran and Swaminathan, 2005; Shetty 2004). Microfinance promises new things by way of its focus on sustainability and discipline (Garikapati 2008; Rao 2008; Shah et al. 2007). Specifically, it promises incentives and collaterals that are better adapted to the poor (mainly a joint-liability system and the focus on women). It also expects to ensure repayment performance, while strategic partnerships between mainly banks and NGOs are viewed as an efficient tool for lowering transaction costs and ensuring financial sustainability (Ghate 2007; Seibel & Khadka 2002).

The 'self-help groups bank linkage' (SBL), in particular, consists of partnership with public authorities at both the national and state level, public and private banking agencies, government organizations and *self-help groups* (SHG), local groups of 10 - 20 members jointly charged with managing the collection of savings and repayments. Purely private offers from specific financial institutions and/or commercial banks wishing to widen their client base have also been growing observably in importance (Ghate 2008; Srinivasan 2009).

At the end of 2008, Indian microfinance clients numbered close to 55 million, two thirds of whom as part of the SBL model (Srinivasan 2009). India's 8-15% reported penetration rate (i.e. proportion of families concerned) (Fouillet 2009) is within the Asian average, but is characterized by very strong growth. According to various estimates, its clients are mainly female (between 85 - 90%) and rural (between 70 - 80%). The proportion of poor population clients varies according to organization from 30 - 70%, but is estimated at an overall average of 30/35%, 'poverty' being evaluated at the level of 1dollar per day (Srinivasan 2009).

While microfinance repayment performance has clearly much improved (Ghate 2008; Guerin et al. 2008; Srinivasan 2009), the problem of diversifying rural economies and household livelihoods remains unresolved. We draw on seven years of fieldwork from various rural areas of Tamil Nadu to argue that microfinance fails to promote rural entrepreneurship. We also argue that two main factors explain the gap between official rhetoric and reality on the ground. Firstly the importance of self-employment is highly over-estimated. Secondly, so is its potential for development.

This paper falls within the scope of a research program developed at the French Institute of Pondicherry in partnership with local stakeholders: microfinance NGOs, microfinance institutions, and donors. Our results are derived from various field surveys carried out from 2003 in the rural areas of Tamil Nadu in southern India.

Our theoretical framework takes inspiration from institutionalist political economy, in this instance the « old institutionalist » school, which considers that both individual behaviors and markets are shaped by institutions. It applies the polanyian hypothesis of "embeddedness" to contemporary societies, according to which the economy, far from being a separate and distinct sphere, is embedded in both economic and non-economic institutions. Individuals are hence not isolated atoms who take their decisions independently of their social environment. People have preferences and make cost/benefit calculations accordingly, but their preferences and range of choices are shaped by individual and collective identities, whether inherited or ascribed, and by cultural values and moral concerns. In the same vein, markets do not emerge mechanically from the confrontation of supply and demand. Scarcity is not just a matter of the availability of resources. Markets, as scarcity, are institutionalised processes that are historically and socially produced. In the Indian context, this school of thought has been extensively used to explain and analyse the complexity of the Indian economy and the

¹ For a general assessment, see Shah et al. 2007. Concerning the IRDP, see for example Dreze (1990).

persistence of inequalities. Barbara Harriss-White (2003), for instance, suggests that the Indian economy is socially regulated by a number of significant institutions, in particular those of gender, religious plurality, caste, space, classes and the State.

Institutions shape property rights and property transfers, production processes and labour management (the question of who is recruited and how). They also regulate relationships between enterprises, cooperation and competition, and access to markets, information, credit and state support. The fundamental role of institutions explains the intensity of the segmentation of labour markets and value chains, the existence of oligopolistic and collusive markets, concentration of capital, and the collusion between capital and State, etc.

This is not to argue for determinism, insofar as all of these institutions evolve, interact and combine in a very irregular way according to local circumstances and specific periods of history. Caste, for instance, is extraordinarily malleable and flexible.

The first part of this article will address the fuzziness of self-employment as a concept. If the term is restricted to entrepreneurs who genuinely have control over the means of production and access to the market, then the proportion of self-employed people is in fact much smaller than what is usually claimed. As in many other rural areas, Indian rural employment is characterized by the increasing importance of non-agricultural income. However this is mostly derived from waged and casual labour, and is mostly based on a daily wage or piece rate.

The second part of this paper demonstrates that in the context studied here, contrary to official rhetoric, the direct effects of microfinance on households' livelihood portfolios are in fact very limited. On the one hand, microloans are largely used for purposes that do not generate direct income, such as health, education and the repayment of pre-existing debts. Moreover, little potential exists for the expansion of self-employment. Besides households' risk aversion, local market functioning is a key explanatory factor, in particular owing to a lack of local demand, alongside the hierarchical structure and social segmentation of the local markets.

What is meant by self-employment?

Official data

Indian labour is dominated by the so-called "self-employed" category (NCEUS 2007). According to the most recent figures, this category accounts for the majority of the workforce (258,2 million workers, i.e. 56.5 per cent of the whole labour force), followed by casual workers (69,5 million workers, i.e. 28.3 per cent) and regular workers (129,7 million, 15.2 per cent) (NCEUS 2007: 49). The most recent figures also indicate that employment growth is mainly driven by self-employment (Balla 2008: 70).

The category of "self-employment" is however extraordinarily diverse. As has been argued by the National Commission for Enterprises in the Unorganized Sector, the concept's fuzziness "conceals more than it reveals" (NCEUS 2007: 49). In the first instance, agricultural and non-agricultural self-employment should be distinguished. Of 258,2 million self-employed workers, the bulk in fact work in agriculture (166,2 million self-employed workers, which amounts to 64,4% of the "self-employed" category and 36,3% of the total labour force); meanwhile 92,1 million work in the non agricultural sector (35,6% of the "self-employed" category and 20,1% of the total labour force).

By bringing together marginal farmers and big landowners, this category has striking disparities. As for the non agricultural sector, the “self-employed” category is also a “catch-all” category, with fundamental differences between those having (economic, social or human) capital and those who do not, those who are really autonomous and those who depend entirely on suppliers or clients and whose employment can be compared to waged work in disguise (Heuzé 1992). The label “self-employed” includes both small and medium-sized entrepreneurs, but also a hyper-educated section of Indian middle class professionals, working independently as doctors, lawyers, architects and accountants, etc. The label “self-employed” also includes a mass of destitute people who are obviously closer to the model of self-exploitation described by Chayanov than that of the Schumpeterian entrepreneur. Here we find multiple survival micro-activities such as street vendors, bicycle rickshaw drivers, shoe polishers, etc. We also find those who work at piece-rate or on a commission basis in an endless list of occupations including motor-rickshaw drivers, brick molders, rice driers, *beedie* rollers, etc. The latter category escapes official classifications and their importance is therefore difficult to estimate, but their number is probably considerable (Bremann 2007). Considered as “independent” workers because they are at least in theory “free” to fix their own rate of production, these workers are usually classified as “self-employed”, even though their degree of dependence on contractors is total.

Although the working conditions of this “self-employment” category are highly heterogeneous, financial precariousness is more the rule than the exception, as indicated by the most recent official data (National Sample Survey 2004-05: 52 *sq.*). Most self-employed workers are tiny units: 37% of them have a fixed capital lower than 5,000 INR, whilst 8% have a capital higher than 100,000 INR. 40% of these activities are carried out at home (46% in rural areas). 12% do not have a stable place of work and 7% of the work is by nature itinerant. Close to 64% of self-employed workers consider that their units are stagnating with very little prospects for expansion (18% feel that their units are expanding and 10% that they are contracting). Looking at added-value creation, the majority are in survival rather than development mode, particularly as regards women, scheduled castes and scheduled tribes, as well as those in rural areas. 83% of the self-employed units led by women (89% in rural areas) have an added-value lower than the minimum wage (41% for the men).

As far as women are concerned, 36% work at home (as opposed to 4% of men), mainly in the manufacturing sector, along with situations of subcontracting and often exclusive dependence on a contractor, as indicated above. Autonomous activity is concentrated in two primarily home-based branches of industry, namely craft (spinning, weaving and sewing) and livestock (in rural areas).

Employment in rural areas of Tamil Nadu

We shall now turn to our own data, drawing on several micro-studies carried out with microfinance clients in around 20 villages in various districts of north and central Tamil Nadu (Tiruvallur, Villupuram, Cudalore and Vellore). These villages have significant differences in terms of the following characteristics:

- agro-climatic conditions, with both dry and irrigated areas
- proximity to urban centers e.g. the villages located in Tiruvallur district are under the increasing influence of Chennai
- transport infrastructure
- the extent of the presence of delocalized industries (e.g. in Vellore the villages are located close to an industrial park)

- social composition and hierarchy: although caste hierarchy is still highly prevalent, it takes differing forms according to location. While in some places low castes are still socially, economically and politically fully under the control of upper castes, in other places ties of dependence are loosening. In the Tiruvallur district for instance, low castes are greater in number than in other districts, and have been more successful in organising themselves politically.

Our sample is not at all representative of the whole of rural Tamil Nadu, let alone of all rural India. It does however present some degree of diversity, allowing us to go beyond the specificities of a village monograph.

As elsewhere, most rural households have a diversified livelihood portfolio, both in terms of the family members who earn money, and their activities. The figures below give approximate figures as to the primary occupation of workers, given that it is not always easy to distinguish primary from secondary occupations.

- Daily agricultural waged work (as an *agricultural coolie*) continues to be the most common source of labour (50 to 60%), especially for the low castes, and especially for women. Its importance varies according to agro-climatic conditions, such as dry as opposed to irrigated areas, and the labour intensity level of a given crop.
- 5 to 20% of households cultivate their own land, mostly over a small area of less than 5 acres, which is owned or leased (often through sharecropping) or “borrowed” from unused public land. Women might be involved, but usually only for specific tasks, especially the management of the labour force.
- 10 to 25% of households raise livestock, usually along the lines of rearing one or two cows, or a few goats. This is a typical women occupation.

It is worth noting that small farmers’ agricultural incomes remain very low and that they most frequently carry out non-agricultural labour as well alongside this work. Cultivating the land is often a way to fill time between other periods of employment, as well as maintaining dignity given that working one's "own" land, regardless of profitability, is considered to be much more honourable than working for others. Cultivating the most profitable crops such as sugar cane or horticulture necessitates certain agricultural conditions that are often unaffordable for many people, including access to water, having a minimum area of cultivable land, and direct access to markets, namely those related to the agro-business industry, which in turn demands access to specific information and to other networks. As far as sharecroppers are concerned, contracts are very often disadvantageous to tenants, who are only able to make small profits. Similarly, small-scale livestock rearing can bring in only a very modest supplementary income (Roesch *et al* 2006), to the question of which we shall return later.

- As in other rural areas, non-agricultural labour is currently in full expansion (Lerche 2010; Nayyar & Sharma 2005)). Yet it mainly takes the form of casual work and it is mainly a male preserve. Casual labour in the non-agricultural sector amounts to 20 to 40% of labour sources and mainly involves manual and unskilled work in the construction industry at building sites or brick kilns, service work as a security guard, driver, or in domestic employment, and work at markets in loading and unloading. Much of this work is done away from the village via seasonal migration over several months a year, or by commuting with a regular return to the village. Three main factors probably account for the variable amounts of such work, which are degree of proximity to urban or industrialized areas, local agro-climatic conditions (i.e. dry

zones versus irrigated zones), and local caste hierarchies. Migration is certainly motivated by making a living, but also by the desire to loosen local ties of dependence and domination. Certain occupations are carried out on subcontract from home and are particularly relevant to women, for instance beedi rolling, assembling manufactured goods, working in the garment industry and groundnut or cashew nut dehusking. As with elsewhere, the “100 Days Public Program” is very unevenly implemented. In all of the villages where we were working, the program did not seem to have significantly changed local livelihood portfolios or to have reduced levels of migration (IAMA 2009).

- In every context, permanent employment continues to be a highly unusual scenario, seldom accounting for more than a few per cent of employment sources, and limited to public sector jobs such as teaching, nursing, office clerk work, railroad or postal service work, and military posts. In some areas, the delocalization of industrial zones provides regular contracts for educated youths. Young women find jobs in the garment industry, while young men are greater specialized in electronic assembling and automotive engineering. The proportion of this type of employment can be as high as 10% in certain villages.
- Last but not least, non-agricultural self-employment quite consistently amounts to barely over 10% of labour sources across the zones we studied. The most frequent activities undertaken include running small businesses such as home-based small grocery shops, varieties of street vending catering in vegetables, fish, flowers, etc, restaurants that often amount to tiny stalls, the production of processed foods such as pickles and snacks, and finally the provision of various services such as bicycle repair, cow milking and masonry. The most sustainable and profitable businesses need to meet various conditions, in the context of which finance plays only a minor role:
 - o Sometimes an initial investment of a significant amount of capital is required, exceeding the capacities of microfinance supply. Examples of such costs include transport services such as auto-rickshaws or sometimes taxis, farm equipment for hiring, or audio material for ceremonies and in particular marriages, as well as printing and reproduction services, for which there is high demand for social and religious rituals.
 - o Experience and training may be needed and is indeed often more important than formal education, for example in carpentry, cycle maintenance and repair, and work with electrical or electronics equipment, or motor engines.
 - o Caste is often influential at various levels, for instance concerning prohibitions and social norms as regards contact with food products due to norms of purity and untouchability. It also plays a role in specific know-how, for instance in craft industries such as weaving, sewing, embroidery, pottery, jewelry-making, pottery or leatherwork. It also impacts upon the control of networks and market segmentation, with suppliers and clients frequently belonging to the same caste, partly due to the reticence of higher castes to pay for the services of lower castes.
 - o There is also a wide variety of local illegal trafficking. This includes informal lending, land sale brokerage, ration card black marketing (giving access to subsidized goods), black marketing in subsidized goods, and natural resource black marketing, for instance in sand, which is highly coveted by construction entrepreneurs for brick production. It also includes local alcohol production, and intermediation for access to governmental programs. The most lucrative practices, for instance alcohol production, imply allegiance to local political parties or gangs.

- Here too, there are gender specificities. Lack of physical mobility and the presence of social restrictions, particularly regarding interactions with “strangers”, lead to women limiting themselves to local activities.

Keeping this broad context in mind will help to understand the very limited effect of microfinance in terms of livelihood diversification.

The challenges of self employment

In official discourses on microfinance, whether from donors, policy makers or practitioners, it is an uncontested rhetoric that microloans is meant to be used for “productive” purposes. The term “productive” refers to income-generating activities, in contrast to expenses that are considered as “unsustainable”. Health and education expenses are tolerated, whereas social and religious rituals expenses, which represent a considerable share of rural household expenses, are often highly criticized.

According to the most exhaustive survey that has been conducted throughout India, over 60% of microcredits are used for generating direct income (Sinha 2005). Our own observations have been more variable, with rates ranging from 4 to 40% depending on location and microfinance organizations². A closer analysis would be needed to precisely identify the determinants of loan usage diversity, but one can reasonably say that two types of factors are likely to influence the true use of microcredits. On the one hand, household and population profiles are relevant, for instance concerning the degree of poverty, social marginalisation and dependence on agriculture of the zones targeted. On the other hand comes the nature of microfinance organizational supply, including characteristics such as loan size, with small amounts potentially discouraging economic investment. Also relevant are non-financial services such as training and marketing facilities, which can serve to motivate income-generating activities. Equally relevant is the pressure or control exerted by microfinance field staff. Field observations reveal that some of them closely control the real use of microcredits while others give total freedom to their clients and focus on repayment performance.

² The loan is seldom used entirely for the declared activity. At the time the loan is granted, households often have some urgent expenditure to make (to get back jewels which have been pledged, to repay a debt, to finance a ceremony, etc). The loan therefore has a main purpose and additional purposes.

Table 1. Microcredit use

Type of organization	Number of households surveyed (time scale)	Zone studied, and targeted population	Average loan amount (INR)	Creation or reinforcement of revenue-generating activities	Other uses
Multipurpose Organization (financial and non-financial services)	338 (2006-2008)	Diversified zone, mixed population of low and middle castes	6100	4%	Ceremonies (24%), housing (22%), loan repayment (15%), health (11%), education (7%)
Financial organization	87 (2006)	Irrigated zone, predominance of small producers and livestock breeding, mixed population of low and middle castes	12800	40%	Ceremonies (17%), daily life (17%), loan repayment (8%)
Multipurpose organization	3005 (2003-2006)	Diversified zone, only low castes and scheduled tribes	5000	19%	Loan repayment (26%), health (19%), daily life (14%), education (10%), ceremonies (5%)

Owing to the fungibility of monetary flows and the fact that loans are usually used for a variety of purposes, it is limiting to stick to this type of indicator. One could for instance imagine that a household using microcredit to repay a debt would then be able to use part of their income for investment. However analysis of the progression of household livelihood portfolios shows hardly any structural change. A longitudinal analysis carried out with 395 families from 2004 to 2009 shows that any change to non-agricultural self-employment practices remains minimal (Guerin et al. 2009). Moreover qualitative analysis makes clear that very few people, whether men or women, desire to create their own business, and for the very simple reason that they are very aware of the risks involved and have a clear preference for wage labour.

Income levels are not only limited, for instance amounting to 20,000 to 40,000 INR for a family of 5 (€330-660), but they are also most irregular and often unpredictable. Needless to say, in an ongoing context of uncertainty people tend to view security as a priority. Entrepreneurship on the contrary, even at a "micro" level, is largely a risk-taking activity, and all the more so when people already live in a state of very high vulnerability.

There is no doubt that people do want to diversify, but they do so by giving top priority to non-agricultural salaried jobs, regardless of precariousness, and by migrating to urban areas. Demand for agricultural workers is firstly declining, with more landowners giving up their land to invest in urban activities, for instance in transport, construction, finance, and for those living near urban areas, selling ground water. For statutory reasons, it is agricultural workers themselves who are demanding alternatives. Meanwhile over the past three decades the urban employment offer has grown, not only in cities like Chennai, but also in average small towns (Harris-White 2003), notably in the construction and transport sector. The crisis does not yet seem to have had serious repercussions for these migrants.

All people, including the poorest and most destitute, undoubtedly seek to invest but do so by favouring long-term investments with a social, symbolic and economic return. Education is a notable example, with private schools developing exponentially, as are ostentatious ceremonies, especially for marriages (Guerin et al. 2009).

Agricultural *coolie* (daily wage) is badly paid, irregular, and increasingly socially degrading, but has three main advantages. Wages are fixed and known in advance, work is done close to home, and the work schedules leave time for other activities. The working day

generally starts at 9:00 a.m. and finishes at 3:00 p.m., or sometimes 5:00 p.m., which makes it possible to carry out complementary activities. These afternoon activities are often directed towards subsistence farming or obtaining a small income through animal breeding, fishing, sand mining and sewing, or for women in particular, domestic tasks, or various social activities to which both men and women are strongly attached, and which are equally key for accessing information and hence resources, particularly employment. In the case of men these are generally political meetings, or informal gatherings at a teashop or in front of a temple. Women are more likely to meet at home through shared domestic tasks or in watching television serials.

Even if people do take the risk of setting up an enterprise, failures are frequent and the income limited. To start a company, even on a very small scale in the informal sector, demands specific competences acquired through experience rather than formal education, social networks and the ability to activate them, a skill which poor and low castes are particularly deprived of (Prakash, 2010). Networks with suppliers are needed in order to access cheap and good quality raw materials, at the right time and possibly with credit, but without too much overhead. That demands links to public authorities or political parties to avoid or limit irritating red tape, to circumvent or reduce the cost of electricity, registration, and licenses and taxes if required. This in turn necessitates networks of clients in order to ensure local outlets, but also to avoid long-term payments, an ongoing source of fragility for small companies.

As far as tailoring is concerned, the poor quality of the final product cannot compete with local goods of recognized quality produced by specialized castes, which in certain villages are *Mudaliars*, and elsewhere Muslim communities. It is even less competitive against manufactured goods. Even the poor amongst local populations want to buy “modern” clothing. Women want nylon *saris* bought in Chennai and not cotton blouses produced locally. Young men no longer want dhotis, but *blue jeans*. It is much more profitable for women who are authorized to go out to work in the day to do so in the textile company subcontracting workshops that are established in certain decentralized industrial parks. Some NGOs have tried to help create local garment production units by offering training, machinery loans and contacts with contractors. All of the cases we came across had failed, and always for the same reasons: the poor quality of the products produced, which probably meant that training had been insufficient and also that close supervision was lacking; discontinuity of orders; discontinuity of the electricity supply, as the workshops are located in poorly serviced areas; obligatory registration and hence taxation (whereas the majority of the textile units are not registered but benefited from “contacts” enabling them to circumvent the rules).

As far as the small retail shop is concerned, the investment in fixed assets is negligible. Sales take place at home or in a small metal or wooden stall, and equipment is limited to a measuring scale, sometimes a radio for attracting clients, exceptionally a fridge and a telephone. The working capital ranges from 500 - 2,000 INR, sometimes more but it is exceptional, but exceptionally, with a cycle of production varying from 2 to 7 days. Profitability varies greatly, and is at best 10%, which translates into a daily net income of between 7 to 100 INR, is at 5% on average with a daily net income of 3 to 50 INR, but sometimes less. According to our observations, monthly income varies between 150 to 450 INR, which at best tops up the family income, which totals on average between 10,000 to 40,000 INR. Profitability largely depends on the intensity of competition, the conditions of purchase as regards wholesale purchases and the costs of transport and sale conditions. Two main problems arise. Sale on credit is a basic rule for competitiveness and client loyalty, but is an ongoing source of financial fragility. Several small retailers have had to shut up shop

because of too many insolvent clients, or owing to purchases on credit which put a strain on the profitability of the activity. Second, market saturation and displacement effects are very common. With more than two or three shops per neighbourhood (depending on the size), the market is completely saturated. Apart from daily consumer goods and repair services, local markets are very limited, probably increasingly so. On the one hand, people increasingly travel to the city and take the opportunity to make purchases there. It is not always easy to return to the village, even after very short-term migrations, without something “to show”. Meanwhile more tradesmen visit villages offering door-to-door sales, often on credit. An increasing choice of daily consumer goods and hardware is now available on the doorstep such as crockery, clothing, and more recently, televisions, refrigerators, CD or DVD players.

Here too, we came across many attempts from NGOs to develop “innovative” activities and help the women to find new markets: candles, condiments, snacks, hand-made detergent with local products, paper cups, cloth toys, production of mushrooms, breeding of decorative fish, etc. Here too, all the cases we came across failed, for a very simple reason: the lack of local demand.

Not all attempts at creating small businesses fail, and households do develop handicraft trade as well as small retail shops to create a complementary source of income. The major interest consists in easing the household cash flow and ensuring regular (small shop) or seasonal liquidities (the tailoring industry functions much better during festival seasons). However one regularly observes saturation and thus displacement effects, with one micro-business replacing another, this probably explaining why the total number of independent workers barely increases over time. For example as far as retail is concerned, more than two or three shops per neighbourhood (with villages strongly segmented according to caste membership) means that the market is completely saturated. Preexisting small grocery shops can however use microcredit to widen their range of proposed services, for example, with the addition of a local phone line or a refrigerator.

Breeding livestock is also a risky investment. Let’s take the example of cow rearing. Two longitudinal analyses highlight the difficulties of maintaining livestock, in particular for low caste families lacking previous experience (Guerin et al. 2009; Roesch et al. (2006)³).⁴ For households who manage to maintain their livestock, it is often with many sacrifices and especially an additional indebtedness. Our results are similar to those reported by Wendy Olsen (2008) in Andhra Pradesh Households lose cows for two reasons: the death of an animal, or sale of the animal. Sales occur to pay off a debt which has lasted too long (which sometimes is the microcredit that was contracted to buy the animal), or because costs are unbearable: maintenance and food costs (veterinary care, straw, oil cakes, etc) and also opportunity costs (when the person in charge of the animal stopped another job. In a country with a large vegetarian section of the population, the cattle business is neither very active nor lucrative. If one takes into account production and sale conditions, with milk being sold at 7 - 10 INR per litre, and the fact that cows produce 2 - 5 litres per day over a period of 6 - 7 months per year, dairy production generally represents only a meagre income supplement. In the best case scenario with nearby pasture, availability of fodder and water, , technical skills implying a minimum of experience, household labour force and possibility of direct sales,

³ The first is about the follow-up of 395 microfinance client families between 2004 - 2009 (Guérin et al. 2009). The second is about the analysis of a specific microfinance program (*Milch cow credit*) in two villages, one of them with a population not very familiar with milk production (Roesch et al. 2006)

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milk amounts to 10% of the annual income of a household of agricultural coolies. Cow rearing is all the more risky when financed on credit.

Specific cases studies focus on financial profitability indicate that household loose money throughout the period of loan repayment. This means that they need additional sources of income to pay back the loan, or they need to borrow elsewhere (Roesch et al. 2006). Once the loan is repaid, the activity generates small flows of income, but only during the lactation period (6-7 months per year). To this should be added in some cases a shortfall in terms of wages as some women stop working as agricultural daily labourers in order to care for their livestock. Besides the financial problems these families live with, this kind of failure also tends to discourage them from venturing further into any other kind of investment.

The lower castes often find it harder to make the activity profitable because accessing the market is harder for them, whether to sell milk or processed products, particularly ghee. Due to purity and untouchability norms which are still very significant, in many rural areas the lower castes in general have trouble selling food products to the higher castes, and this limitation applies *a fortiori* to dairy cow production owing to the social and symbolic dimension of the animal. Cattle life expectancy is twice as low for this population of stockbreeders (Roesch et al. 2006).

In contrast to other contexts, livestock is not regarded as a form of saving which it is possible to resell in case of emergency. The market not being very active, the emergency sale very often means strong price depreciation, and the owners divest themselves only in the event of extreme necessity. But breeding cattle is above all a matter of status, which explains the attraction to this type of activity, even with limited economic profitability, as the social and symbolic value of the cows is no longer the privilege of the higher castes. The marginalized groups tend to seize them as an outward sign of wealth and now have the right to use them at social and religious rituals. That a woman can allow herself to remain home to take care of her livestock is also a sign of social distinction. The social and symbolic value of the cows largely exceeds the financial advantages, but comes with a non-negligible risk of financial vulnerability and suffering⁵.

Conclusion

The success of microfinance as a development tool derives from the fundamental assumption that the poor are no longer seen as passive victims but as capable and creative entrepreneurs who are able to take care of their own destiny. The idea is appealing insofar it breaks from downtrodden visions of poverty, but it is however both naïve and dangerous. As Anel Karnani (2009) argues, such a romanticized vision of the poor is far from viable and harms rather than helps them. It is naïve because it neglects structural barriers to self-employment, with an underlying conception of the economy and of poverty that is cut off from questions of social relations and structural constraints. Entrepreneurship is seen only as a matter of access to resources and to credit in particular, initiated by individuals in isolation. But there is much more entrepreneurship because it is indissociable from the larger political economy. It requires access to a broad range of resources, of which credit is just one factor among many. It above all requires *markets*. To consider the poor as creative entrepreneurs is also very dangerous because it downplays the critical role and responsibility of the State (Fernando, 2006; Fouillet et al. 2007; Karnani 2009; Servet 2006).

If one compares contemporary microfinance programmes with past experiments in rural India, targeting and repayments are certainly improved from most governmental Self-Employment

⁵ On this subject see also Olsen (2008)

Program schemes in force since the 1980s, in particular the *Integrated Rural Development Programme* (IRDP). However the question of the diversification of rural economies remains unanswered. Self-employment is no more working than it was in the past, even if many are still convinced of the opposite⁶. What is striking is how much history repeats itself: twenty years ago the IRDP was highly criticized, not only for failure in implementation, but also for its theoretical failures behind solving the rural problems of employment. Moreover the arguments raised at the time were very much the same ones we have discussed here (Dreze 1990).

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⁶See for example different articles published in the bi-monthly magazine *Economic and Political Weekly* in the last two years.

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