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Micro-Finance and Social Capital: A Study Of Microfinance Institutions in Andhra Pradesh, India-2009[1]

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ABSTRACT

The study examines the economic and social impacts of microfinance program in Andhra Pradesh, India – the state which accounted for about one-fourth of the microfinance institutions in India. Using primary survey data, the study found that microfinance programs created high repayment rates but the economic impact in terms of net income was not substantial. The study explains this paradox in terms of multiple memberships in other MFIs and borrowing from non-institutional sources like money lenders which facilitates poor households to undertake double-dipping and cross-finance borrowings. But the study found women's participation in microfinance programs helps to increase women empowerment and facilitate enhancement of social ties within the group and outside the group (in civil society). It also enabled them to undertake collective action against some of the loan-shark and unethical behavior of MFIs in the state.

Keywords: Social capital, micro finance, civil society, India, poverty.

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Globally, ever since the success of Grameen Bank in Bangladesh, microfinance programs based on group-lending and exclusive focus on women has become part of global anti-poverty programs. In India, microfinance programs under the self-help group-bank linkage (SBLP) programs has covered around 45 million households by end of 2008 and has witnessed tremendous growth (of the range of 50 per cent per annum) in recent years (Ghate, 2007a & b; Srinivasan, 2009). But increasingly, there is increasing recognition that more than the economic impacts of microfinance, it is the social impacts which are crucial and vital for its sustainability. (Mayoux, 2001; Rankin, 2002; Narayan, 2002; Dowla, 2006). In the microfinance programs in the presence of altruism and social interactions among group members it facilitates not only facilitates peer monitoring but also leads to the creation of social capital which deliver better social and economic outcomes. The empirical evidence on the social capital impacts of microfinance have been divergent (Goetz and Sengupta, 1996; Hashemi, Schuler and Riley, 1996; Kabeer, 2001; Pitt, Khandker and Cartwright, 2006, Sanyal, 2009).

This article contributes to the literature by examining the social impacts of the microfinance program in the state of Andhra Pradesh in India which has one of the highest density of microfinance institutions (MFI) in India and less known for social mobilzation. The southern state of Andhra Pradesh in India is one of the states with relatively high economic growth in recent years but was witness to unprecedented agrarian crisis, with a large number of suicides among weavers and farmers (small and marginal). The state compares favorably in terms of economic variables (like state domestic product) but is well below the national average in terms of social indicators like literacy, infant mortality rate, access to safe drinking water etc. In fact, in Andhra Pradesh, India nearly 82 per cent of rural farming households are indebted in 2003 and obtain nearly 77 per cent of the loans are availed from informal sources like money lenders (Dev, 2006). Paradoxically, the state also witnessed large scale expansion of microfinance programs and is home to the largest microfinance institutions (MFI) in India (SKS Microfinance, Share Microfinance, Spandana and Asmita Microfinance) and has witnessed in March 2006 large scale collective action by MFI borrowers because of the loan-shark behavior (usurious interest rates) and 'forced loan recovery practices' of some of the MFIs in the state. The study adopts the empirical route by examining the social capital impacts of MFIs on the basis of a survey of MFI borrowers in Krishna district where collective action took place.

This article is organized as follow: Section one provides the conceptual framework for the analysis and its relevance in microfinance programs.

Section two provides a brief discussion of the social and economic environment of the study. Section 3 explains the database and the methodology used in this study. Section 4 discusses the empirical results of the study and Section 5 summarises the conclusions.

SECTION 1: CONCEPTUAL FRAMEWORK AND REVIEW OF LITERATURE

The earlier debate in microfinance literature was in terms of how group-based lending programs ensure access to finance for the poor. Lately, the debate has been reformulated in terms of social capital. The social capital version of the debate looks at not only how the existence of social capital in the form local networks and norms of association acts as a substitute for financial collateral but leads to social empowerment of individual group members which in turn facilitates collective action.

The concept of social capital is a contested one but loosely speaking, the term refers to the informal networks of (non-contractual) relations that exists between people in society and to the beliefs and norms (like trust and reciprocity) to which informal relations give rise and which govern the character of the networks in question. There are increasing evidences showing that social capital is critical for poverty alleviation and sustainable human and economic development. The importance of social capital came into prominence following the pioneering work of Putnam, Leonardi and Nanetti in Making Democracy Work (1993) in which the concept was used to explain how dense associational networks within civil societies correlate positively with indicators of political democracy and economic growth. There are wide ranges of frameworks available for studying social capital[4]. Irrespective of these diverse frameworks, there is a general consensus among scholars that social capital is both a raw material and a goal of development. It is a public good that needs to be created and preserved.

Putnam defines social capital as networks. But Bowles and Gintis (2002) argue that the expression social capital should be replaced by the concept of community, which focuses on what groups do rather than what people own. Some theorists conceive social capital as networks of horizontal and vertical linkages. Horizontal linkages are generally those positive social networks that contribute to the overall productivity of the community (such as

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4 Within social capital theory literature there are diverse frameworks: it varies from the Marxian analysis (advocated by Ben Fine, 2001) to social capital literature (of Pierre Bourdieu, 1986), sociologist perspective (of James Coleman, 1989), neo-classical perspective (of Gary Becker, 1991) etc.

volunteer organization). Coleman (1990) added the notion of vertical linkages characterized by hierarchical relationships to the literature. The unequal power distribution among members (in hierarchical relations) allowed social capital to produce not only positive as well as negative outcomes (like nepotism, political favoritism etc). Thus in the literature an important distinction is made about 'positive' and 'negative' social capital. Some social theorists even argued for bringing in 'the political and political environment' that shapes social structures and norms. This introduced a distinction between 'government' social capital and civil social capital (referring to interactions not associated with government rules and systems). There is wide range of frameworks available for studying social capital. But Putnam's idea of social capital as civic associations and norms and Coleman's concept of social capital as social structures that facilitate actions of actors almost encompasses almost every aspect of social capital. At the policy level, there is a general consensus that social capital is both a raw material and a goal of development. It is a public good that needs to be created and preserved.

Some of the most common definitions include viewing social capital as 'trust' within and across social organizations and institutions.[5] Building a good 'reputation' in business is thus an investment in social capital that pays dividends by reducing transaction costs for others (Fafchamps and Minten 2002). On another level, social capital is viewed as the willingness and capacity to cooperate and engage in collective actions for mutual benefits and for reducing free riding problems. At a minimum, this requires norms (including sanctions), rules and procedures for organizations and networks, which is then the embodied social capital. Woolcock and Narayan (2000) define social capital as networks and norms (including sanctions) that facilitate collective actions. Implicit in this definition is trust and social interactions that make norms and networks work for a positive cause[6]. Woolcock and Narayan (2000) draw on sociological literature to conceptualize social capital in terms of bonding (between close family members, friends and neighbors) and bridging (between more distant associates and colleagues). These represent horizontal associations in contrast to vertical linkages to people with influence or in positions of power. Thus, in this conceptualization, social capital can be bonding, bridging, or linking. In such a framework, there are three forms of social

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5 Narayan (2002: 58) also defines it to include the interaction of formal and informal organizations.

6 Collective action can be put to negative uses and examples in literature of perverse social capital include drug cartels, the mafia, the Ku Klux Klan and even Al Qaeda. Refer to Rubio (1997) and Streeten (2002).

capital: bonding, bridging and linking. Bonding social capital involves relationships of trust and reciprocity within communities, such as neighborhood or ethnic group. Bridging social capital also involves strong ties, but crosses boundaries of class, race ethnicity, religion or type of institution. Linking capital refers to "ties between individuals and those in higher positions of influence in formal organizations.

Krishna and Uphoff (2002) make a distinction between structural and cognitive forms of social capital. Structural forms of social capital are associational and facilitate mutually beneficial collective actions. Cognitive social capital includes shared norms, values, attitudes and beliefs that predispose people towards mutually beneficial collective action. Structural social capital is external and more visible and pertains to rules, procedures, precedents, networks and organizations whereas cognitive social capital is internal and pertains to how people think. Cognitive social capital includes individuals towards collective action and structural social capital facilitates this. They also make a distinction between mutually reinforcing primary mechanisms of social capital like trust, solidarity, cooperation, generosity, honesty and secondary forms like honesty, egalitarianism, fairness and participation.[7]

At the empirical level, the question is related to addressing the question of how microfinance programs use existing networks to lower information and other transaction costs. The 'financial self-sustainability paradigm' promoted by the World Bank and the Micro-Credit Summit is based on the argument that with social connections, individuals are able to screen each other better than any other lending agency in the formal system and therefore ensure better savings and repayment rates (on loans). It has also been pointed out that group lending techniques create social capital through networks and empower the poor (especially women), which in turn enable them to undertake collective economic/social and political activities. The process of creation of social capital and its contribution to the empowerment process (especially women), collective action and its interface with the social and political system is equally important but relatively less explored in empirical investigations[8]. The present study uses this broad methodological canvass to examine the social impacts of microfinance program in the state of Andhra Pradesh, India. Before, we move to the empirical part, a brief description of

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7 Grootaert and Van Bastelaer (2002) refer to information and collective action as the channels via which social capital has a positive impact on development.

8 There are few studies which addresses these issues abroad, See Mayoux (2001) Rankin (2002).

the economic situation in the state of Andhra Pradesh will be attempted in the following paragraphs.

SECTION 2: ECONOMIC SITUATION IN ANDHRA PRADESH, INDIA

The organized financial system in India consists of commercial and co-operative banks, capital market institutions, non-banks and a number of indigenous banking and financial institutions. The informal (unorganized) credit markets in India are highly heterogeneous. It consists of professional money lenders, traders, landlords, employers and friends and relatives. Each has distinct characteristics and provides credit under varying contracts. Among the informal lenders, money lenders are the most significant players and assume a multi-dimensional role in rural economy. The foundation of the moneylender is the personal relationship with the borrower which makes time-consuming documentation and other paperwork (which formal system requires) quite unnecessary. They do not accept deposits from the public and depend on their own resources for lending. They charge normally usurious interest rates and are generally considered exploitative[9]. Their lending is based on collateral (like gold, land title etc) and are linked to business and trade in the community. The ease with which they deliver credit makes them an integral part of the rural credit scene in spite of official efforts to reduce their role. They have organic links with the formal financial system (like banks) as they often refinance their lending from the banking system.

The main foundation of the Indian Government's interventions in rural areas as part of its anti-poverty programs in the last four decades was the self-employment program in rural areas called the Integrated Rural Development Program (IRDP)[10] which concentrated on providing credit (and/or subsidy) to individuals for their self-employment activities. However, the repayment records of IRDP programmes were relatively low. The supply-induced social banking practiced in the early 1970s and 1980s in India resulting in poor repayments and the emergence of large non-performing assets (NPAs) in the portfolios of the banks (especially in the public sector banks), affected the financial viability and sustainability of the formal financial system[11]. The social banking phase was broken by the

9 Studies by Dasgupta (1989) found that the average interest rates charged by professional money lenders in rural India (based on a survey of six villages in Kerala and Tamil Nadu, India) to be about 52 per cent.

10 The IRDP program was launched in 1980.

11 In 1995, priority sector credit accounted for 50 per cent of Non-Performing Assets of Public Sector banks in India. Public sector banks accounts for nearly two-third of the assets of the banking system. See, Reserve Bank of India (2008), p.27.

economic crisis in India in June 1991 when the country faced a severe balance of payments problem forcing it to seek a loan from the International Monetary Fund (IMF) which in turn triggered a host of reforms in fiscal, monetary, real and financial sector areas. The financial sector reforms introduced in the country in 1992 based on the recommendations of the Committee on Financial Sector Reforms (popularly known as the Narasimham Committee Report 1991) substantially changed the financial landscape in India. During this phase, the administrative interest rate structure was dismantled and banks were given greater freedom in taking decisions relating to their balance sheets and in promoting efficiency. The cumulative effect of all these developments was the 'credit starvation' experienced in the Indian economy which affected the poor in particular (Shetty, 2005). A corroborative evidence of increasing vulnerability of the poor is the increasing role played by moneylenders in the borrowing of cultivator households[12]. In a rural setting, the money lender (who normally requires collateral like gold, property titles, produce etc.) may be the costliest source of finance but funds are available in time. Other institutional sources of funding including banks have long-drawn out procedures and it take multiple visits to secure even the possibility of a loan. Similarly, the share of informal sector (including moneylenders) in total debt of farming households was as high as 43 per cent in 2003. The increasing indebtedness of farmer households is pervasive across regions in recent years. It was the highest among the western (44 per cent) and southern regions (43 per cent). The rising indebtedness and consequent economic and emotional trauma has led to large-scale farmer suicides and this has attracted much media attention in India. There are a number of explanations for the farmer suicides and the agrarian crisis: one explanation is the low level of public investment in agriculture (Shetty, 2005) and import liberalization (which reduced the price for domestic agricultural products. This is an area which requires in-depth investigation which is beyond the scope of this paper. But needless to say, almost all studies have show that suicide households have (a) a much higher level of total debt, (b) a higher level of non-institutional debt (from moneylenders) and (c) higher proportion of debt for non-productive purposes. A viable option was said to be opened up by the facilities of micro credit channeled through Self-Help-Groups. Since the early 1990s, there has been a rapid increase in the outreach of micro-credit programs in India under the SBLP model. The basic unit of the SBLP model is the Self-Help Group which consists of 5 to 20 members (mostly women). They initially start with small savings which they use for internal lending. After a certain period of the group formation, the SHG is graded by the prospective Bank and upon success the SHG is given a group loan which is

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12 The source of the data is the All-India Debt and Investment Surveys (Various Issues).

portioned among members. The bank loan is a certain multiple (upto 6 times) of equity (normally savings) of the SHG. The group (SHG) is responsible for paying back the loan and the interest. This process of linking the informal sector (SHG) with banks takes about 6 months to one year.

In the State of Andhra Pradesh, the SBLP program itself accessed around Rs. 3,400 crore in bank loans in 200607 (Ramesh, 2007). Among the delivery platforms, the for-profit commercial model of delivery dominated by big microfinance institutions (MFIs) has shown tremendous growth (around 50 per cent per annum in recent years) in this state. They compete with government sponsored microfinance units like Indira Kranthi Patham (IKP) which was the forerunner of Velugu program launched in 2000 with World Bank support. The main difference between the government-sponsored IKP and commercial MFIs is the interest rates charged – the IKP has an interest rate subsidy for prompt repayment which the commercial MFIs charge between 24 per cent per annum to 60 per cent per annum but has a near full pipeline of funds. However, the commercial MFI model has had some setbacks with considerable hostility from borrowers (accusing them of behaving like loan sharks) in the state of Andhra Pradesh which has the highest density of MFI units in the country[13] (Ghate, 2007 a & b; Shylendra, 2006). These program competes with other programmes including commercial MFIs. Given this episode, it would be interesting to examine the social impacts of microfinance in the state and for this we conducted a survey of households in the districts of Krishna and Guntur where bulk of the social action took place.

SECTION 3: DATABASE AND METHODOLOGY

The study is based on both (a) secondary data provided by the local authorities – rural development ministry, regulator and local banks and (b) primary data based on a survey of four villages (panchayat) and one urban centre in the Krishna districts of Andhra Pradesh. Based on the population figure of households in different microfinance groups, we selected a sample of 10 per cent (of households). The survey was carried out in July 2009 using a structured questionnaire (Table 1). Information collected from individual households were verified with other counterfactual data available from government sources, banks etc. All the members of the groups were women-centered.

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[13] The state of Andhra Pradesh accounts for 26 per cent of SHGs and 40 per cent of (cumulative) outstanding bank credit in the country by end of March 2006 (See Nabard, 2007).

Table 1. Details of Sample Selected from MFI's in Krishna and Guntur Districts of Andhra Pradesh - 2009

S. No.	**Panchayat**	District	Number of Households	Sample (10%)
A	**Rural**			
1	Visannapeta…………	Krishna	450	45
2	Vellaturu…………….	Krishna	200	20
3	Inampudi…………….	Krishna	260	26
4	Nandigama…………..	Krishna	350	35
B	**Urban**			
5	Singnagar …………	Krishna	200	20
A+B	**Total**		1460	146

Source: Sample Survey.

SECTION 4: EMPIRICAL RESULTS

In this section, we examine the economic parameters of the groups and their social impacts.

Borrowing Trends

Table 2. Details of Borrowing from MFI's in Krishna District of Andhra Pradesh - 2009

S.No	Panchayat	N	Rs.			
			Mean	Median	Min	Max
A	**Rural**					
1	Visannapeta	45	10,400	9,000	3,500	20,000
2	Vellaturu	20	24,550	23,000	10,000	35,000
3	Inampudi	26	13,846	15,000	5,000	27,000
4	Nandigama	35	28,400	34,000	10,000	50,000
B	**Urban**					
5	Singnagar	20	13,250	10,000	10,000	75,000
A+B	**Total**	146	17,657	10,000	10,000	75,000

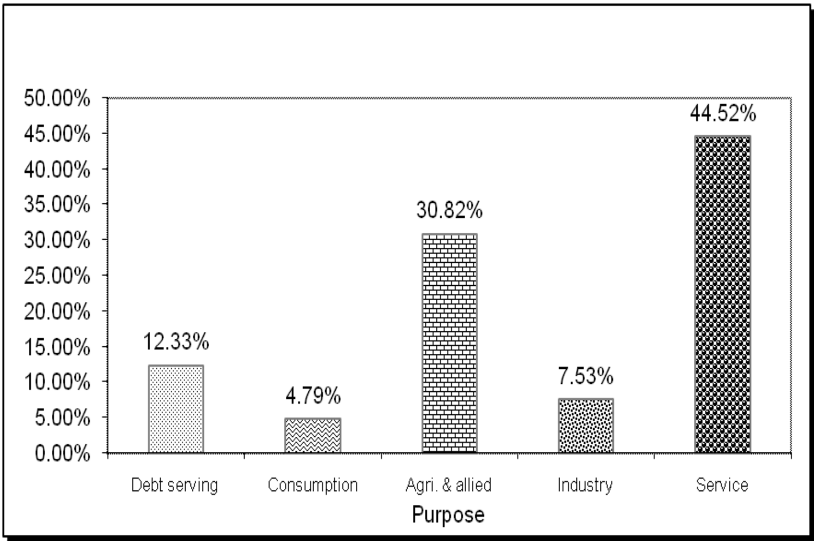
Source: Sample Survey.
N- Refers to number of households.

Table 2 reports the magnitude of borrowing by households – the average borrowing per household was around Rs. 17,657 per annum with the magnitude of borrowing slightly higher for rural areas. However the median borrowing was slightly lower – Rs.10,000 with the range of borrowing varying between Rs.10,000 to Rs.75,000. The magnitude of borrowing is related to their standing in the group – higher the age and repayment record, the higher the magnitude of borrowing. Nearly 53 per cent of the households were members of MFIs for more than 5 years; households with less than 2 year membership was only 5 per cent of the sample (Table 3). As far as the control of loan from MFIs nearly 40 per cent reported that decision about its deployment were taken by their husbands. Mostly it was deployed in the occupation/business of the husband. Ont the other hand, nearly 60 per cent of the borrowers reported that they had control in the loan deployment.

Table 3. Age of Group Membership - from MFI's in Krishna Districts of Andhra Pradesh, India – 2009.

No of years of membership in MFI	Frequency	Relative Frequency
< 2 years…………	8	5%
2-3 yr……………..	18	12%
3-4 yr……………..	9	6%
4-5 yr……………..	34	23%
>5 yr……………...	77	53%
Total……………..	**146**	**100%**

Source: Sample survey.



Source: Sample Survey.

Chart 1. Loan Utilization by Purpose

An analysis of the purpose-wise use of MFI loans reveal interesting picture: nearly 17.1 per cent of the loans were used for servicing of existing debt. It was found that most of the households had used early cycles of borrowing only for repaying old debts. Nearly 5 per cent were used for consumption purposes (like buying consumer durables like T.V or marriage related expenses etc.). Most of the households who devoted the loans for consumption purposes reported that some of the MFIs instead of giving loans in cash gave consumer items like TV (commodity bundling); 31 per cent of households devoted loans for undertaking agricultural related activates (mostly animal husbandry, informal share-cropping), 7.5 per cent for manufacturing and the remaining 44 per cent for service related activates (See Chart 1). The repayment record of these loans have been in the range of 80 to 100 per cent with an average repayment rate of 98.8 per cent (Table 4).

Table 4. Repayment Rates (%) of MFI Loans in Krishn District, A.P (India) – 2009.

S. No	Panchayat	Mean	Median	Min	Max
A	**Rural**				
1	Visannapeta	96.9%	100.0%	80.0%	100.0%
2	Vellaturu	98.5%	100.0%	95.0%	100.0%
3	Inampudi	99.6%	100.0%	95.0%	100.0%
4	Nandigama	100.0%	100.0%	100.0%	100.0%
B	**Urban**				
5	Singnagar	100.0%	100.0%	100.0%	100.0%
A+B	**Total**	98.8%	100.0%	80.0%	100.0%

Source: Sample Survey.

Given the high repayment record of households in the sample survey, an analysis of net income (gross income minus costs) reveal an interesting picture. The average net income of borrowers was a meager Rs. 2,304 per annum (for 2008) (See Table 5). The range of net income varied from a loss of Rs.4,000 to a high figure of Rs. 10,000. Most of the households consider the net income generated to be of secondary concern as MFI loans provides an avenue for livelihood and provides goods for meeting their domestic consumption needs. Given the meager net income, it would be interesting to examine how the households have been able to achieve high repayment rates. Our survey revealed that 17 per cent of the households in the sample survey reported multiple MFI membership which provided them an avenue to conduct cross-borrowing and financing. Another 21 per cent of the households reported borrowing from moneylenders. This evidence is paradoxical given the fact that MFIs were supposed to reduce the role of exploitative moneylender from the credit market. It is evident that higher repayment rates of households were facilitated not only by income generation but more by cross-borrowings from other MFIs and moneylenders. This points to the fact that introduction of microfinance has not substantially reduced the indebtedness of households in the state.

Table 5. Net Income of Households in Krishna and Guntur District in 2008

S. No.	Panchayat	Mean (Rs.)	Median (Rs)	Min (Rs.)	Max(Rs.)
A	**Rural**				
1	Visannapeta	1,477	2,000	-4,000	3,000
2	Vellaturu	1,762	2,000	600	3,000
3	Inampudi	1,977	2,000	600	3,000
4	Nandigama	3,059	2,750	1,800	8,000
B	**Urban**				
5	Singnagar (urban)	4,555	5,000	2,000	10,000
A+B	**Rural + Urban**	2,304	2,000	-4,000	10,000

Source: Sample Survey.

Group size:

The group size is an important determinant of the solidarity and interaction among members- larger the group size, lower is the group interaction and greater the information asymmetry between group members (Table 6). Most of the groups in the sample had less than 10 or few members. Only 20 per cent of the sample households were in groups of more than 15 members. There is not much change in group size between the date of group formation and the latest group size (Table 7). This is because the departing members are replaced by new members. The new members admitted have to pay the deposits and meet other obligations to secure the same standing in the group.

Table 6. Distribution of Households According to Group Size in Krishna District, Andhra Pradesh, India - 2009

Group Size	Frequency	Relative Frequency
=<10……………………………………………..	111	76.0%
11-14…………………………………………….	7	4.8%
=>15……………………………………………..	28	19.2%
Total……………………………………………...	146	100.0%

Source: Sample Survey.

Table 7. Group Size –Start of the Group and Present in Krishna District, Andhra Pradesh, India - 2009

S. No.	Panchayat	Average		
		Size of the Group at the start of the formation	Present Group size	Variation (%)
A	**Rural**			
1	Visannapeta	10.9	10.9	-
2	Vellaturu	11.7	11.7	-
3	Inampudi	11.7	11.6	-0.7%
4	Nandigama	10.7	10.7	-
B	**Urban**			
5	Singnagar	10.2	10.2	-
A+B	**Total**	11.1	11.0	-0.1%

Source: Sample Survey.

Geographical Proximity of its Members

Most of the members of the groups were from the same locality (panchayat). This considerably enhances the ability of the members to monitor its peers and reduce information asymmetry widely talked about in the credit rationing literature. As far as group homogeneity is concerned, most of the group members were from the same locality and belong to below poverty line. It must be recalled that the state of A.P had witnessed unprecedented agrarian crisis with large-scale suicides among small and marginal farmers in the last few years.

Social Collateral

One of the attributes of group lending is that group members are able to use peer pressure to encourage repayment. In the Besley and Coate (1995) repayment game, peer pressure, referred to as social collateral that would make an individual repay the loan that would have otherwise defaulted. Besley and Coate (1995) argue that the group lending reduces the free rider problem, enhances co-ordination among members, promotes 'social ties' and enhances peer pressure and group solidarity. This process creates social capital which promotes trust and facilitates lending.

In the MFI program, peer pressure is facilitated by the choice of group members. Group members self-select themselves and normally belong to a particular neighborhood. This facilitates social ties among group members and considerably adds to in-group co-ordination such as conducting weekly meeting, group monitoring and other social interaction.

Most of the groups we studied, required that its members meet once a fortnight; some of the private MFIs require weekly meetings. These meetings are extremely important for the development of the group and social ties within the group and therefore create a social safety net. Group meetings are a formal forum for group interaction, peer monitoring and peer mentoring. Group members share their personal and professional experiences relating to the conduct of household enterprises. This becomes a 'knowledge pool' which is a common resource of the group. The knowledge pool could be enhanced through the training programs arranged by MFIs. However, we did not find any evidence of any training programs in MFIs in the villages we surveyed. These social interactions broaden the horizon of the members, not only on micro-enterprises but also on non-financial components like healthcare, sanitary, education and other social-economic issues. Moreover, these meetings enable women to have a role outside their family by offering them the capacity to reconcile work with family life. It also increases their bargaining power within the family and empowers them to participate in social and civil life.

Another effect of the fortnightly meetings is that they act as a formal mechanism to document their group and social interactions. Group members formally interact with each other through these meetings. The agenda for each meeting includes discussions on thrift, amount of loan, norms for loan disbursal, etc. that are recorded. These documents act as evidences of their in-group solidarity and mutual insurance for lenders (banks).

Group meetings provide an opportunity to assess the repayment of its members. Individual defaults are easily identified and discussed collectively. One can identify two types of peer pressure working on individual defaulters – ex-ante and ex-post peer pressure. The ex-ante peer pressure reinforces an individual's desire to repay her portion of the loan. Normally defaulting members are given a grace period and are encouraged to find alternative sources of funds. If the individual is not in a position to repay, the group can then exert ex-post pressure. The ex-post pressure can take a number of forms including village gossip, seizure of assets, etc.

Group Solidarity

Group solidarity is defined as the willingness of the credit group to occasionally pay for one of its members. Normally, in the MFI program group members offer to help a member in need of assistance. The assistance is normally in the form of counseling and in extreme case with small bridge loans. If defaults persist, the member is normally removed from the group by applying ex-post pressure discussed above. Normally, in such eventuality, the existing members will bear that liability equitably. The incentive to redeem the debt of another member is driven by the fact that if a member default, then the entire group is considered as a default group which puts them at a disadvantage in renewing the loan. As discussed in the preceding paragraphs, 17 per cent of the households had membership in other MFIs and 21 per cent of households had also borrowed from moneylenders. These double-dipping behavior has facilitated them to maintain good repayment records. Being part of the group enable poor households to have a chance to develop their own credit history with one banking institution and develop banking relationships for the future.

Vertical Social Capital

Vertical social capital is characterized by hierarchical relationships and an unequal power distribution among members[14]. The nature of the vertical relationship of the group (NHG) with other political and financial structures determines the extent of its interaction with the civil society. In Krishna district, the government sponsored MFI (IKP) co-exists with private MFIs and competes for clients; IKP being a state-sponsored microfinance entity, it has certain advantages over other (private) MFIs. It gets funding (in the form of subsidies) from state governments. Given the fact that it has a comparatively low interest rate (for good borrowers around 3 per cent) as compared with 36 per cent on average charged by private MFIs, the poor households in Krishna district has an implicit preference for these MFIs. The main disadvantage of government sponsored MFI is the cumbersome procedure for getting loans including long incubation period for thrift, loan disbursement etc. The political parties in the state (especially the ruling party) had sought to create 'vote banks' through the government sponsored MFIs. In return it also gives better means for the poor to be heard in the higher structures of the civil society.

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[14] See Anderson and Locker (2002) p.99.

Collective Action

Andhra Pradesh is a state not known for social mobilization. The private MFIs have found this state a fertile ground for expanding their loan program. They do not follow the traditional model of SBLP program which involves mobilization of the poor, formation of groups, starting thrift and after an incubation period (broadly called as social intermediation) links the group to credit (from bank or other financial intermediaries). In the case of private MFIs they form a women-centered group and start lending under joint liability program which has been the predominant model in Krishna district. Whenever the members of group default they used to hold the entire group liable and used to use coercive and unethical punishments to defaulting households. The March-April 2006 episode in Krishna district is related to this coercive behavior and consequent suicide of 10 borrowers of MFI because they were unable to repay the loans taken from MFIs. The households of MFI groups mobilized the borrowers and demonstrated outside the office of MFI which indulged in such unethical conduct. Besides they took up the matter with local authorities including the Chief Minister of the state. Such strong collective action was new to the political canvas of the state. Because of the strong pressure by households of MFI group, the district collector (district officer) seized the records and closed about 57 branches of two leading MFIs in the country (Spandana and Share Microfinance). As per our survey, nearly one-third of the respondents of the survey participated in the collective action. Such collective action was facilitated by social camaraderie that existed among group members. The network among different groups also enabled them to convert a social tragedy (suicide) to social and political cause.

Section 5: Conclusion

The study examines the economic and social impacts of microfinance program in Andhra Pradesh, India – the state which accounted for about one-fourth of the microfinance institutions in India. Using primary survey data, the study found that microfinance programs created high repayment rates but the economic impact in terms of net income was not substantial. The study found that higher repayments were generated not only from income generation but also from cross-borrowing from other MFIs and borrowing from non-institutional sources like money lenders. But the study found women's participation in microfinance programs helps to increase women empowerment and facilitate enhancement of social ties within the group and outside the group (in civil society) and create a social safety net. It also enabled them to undertake collective action against some of the loan-shark and unethical behavior of MFIs in the state.

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