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Crisis Management by Social Movements: Learning from Indian Microfinance

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CRISIS MANAGEMENT BY SOCIAL MOVEMENTS: LEARNING FROM INDIAN MICROFINANCE

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ABSTRACT

CRISIS MANAGEMENT BY SOCIAL MOVEMENTS: LEARNING FROM INDIAN MICROFINANCE

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Thesis supervised by Dr. Clifford Bob

In October 2010, the state government of Andhra Pradesh issued an ordinance prohibiting microfinance institutions from distributing and collecting loans following allegations that over-indebtedness and coercive loan recovery tactics were causing borrower suicides. While no evidence substantiating a link between microfinance and borrower suicide has been provided, an anti-microfinance movement across India developed with clients reneging on their loans. Indian microfinance risked insolvency and the once lauded poverty alleviating movement was perceived as a villain by the international community. Microfinance was in crisis.

How a social movement such as microfinance responds to a crisis is an understudied topic in social movement literature. By contrast, crisis management is an extensively analyzed topic in business literature. This thesis aims to develop five broad crisis managing concepts from this business literature and probe them in the case of

Indian microfinance. The five concepts probed include: denial, retaliation, purification, reform, and re-authentication. All five tactics were observed to occur. This thesis concludes with two findings. First, social movement crisis management is an area primed for future research. Second, this research needs to be applied to other social movements in crisis to eventually develop a model that explains how social movements respond and should respond to crises.

DEDICATION

To Dad, Lynda, Katie, Felix, Ziggy, and Otto.

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LIST OF ABBREVIATIONS

CGAP	Consultative Group to Assist the Poor
ECOSOC	United Nations Economic and Social Council
ILGA	International Gay and Lesbian Association
INGO	International Non-Governmental Organization
ISEC	Institute for Social and Economic Change
JLG	Joint Liability Group
M-Cril	Microcredit Rating International Ltd
MFI	Microfinance Institution
MFIN	Microfinance Institutions Network
MGD	Millennium Development Goals

MYRADA	Mysore Resettlement and Development Agency
NABARD	National Bank for Agricultural and Development
NAMBLA	North American Man Boy Love Association
NBFC	Non-Banking Financial Company
NGO	Non-Government Organization
PIIF	Principles for Investors in Inclusive Finance
RBI	Reserve Bank of India
ROA	Return on Assets
RRB	Regional Rural Bank
SHG	Self-Help Group
UID	Unique Identification System

Introduction

Research Overview

On October 15, 2010, the Indian state government of Andhra Pradesh issued an ordinance banning microfinance institutions (MFIs) within the state from distributing and collecting loans following allegations that over-indebtedness and coercive loan recovery tactics were causing borrower suicides. Although no evidence supporting these allegations has been offered, an anti-microfinance movement across India has developed with clients reneging on their loans (Roodman 2010). The "holy cows suddenly turned into the black sheep" (Rodrigues 2011) and the entire Indian microfinance movement risked insolvency; Indian microfinance was in crisis.

But the troubles in Andhra Pradesh are only a small part of a much broader global microfinance crisis. Four years earlier, Indian microfinance was established as a genuine poverty alleviating movement when Muhammad Yunus was awarded the 2006 Nobel Peace Prize for his Grameen model of microfinance. After the Andhra Pradesh events, however, the once lauded movement was seen by the international community as a "wolf in sheep's clothing" (Venkat 2011), or a pilferer "sucking the blood from the poor in the name of poverty alleviation" (Economist 2011). Even Muhammad Yunus came under the attack of Bangladeshi Prime Minister Sheikh Hasina for allegedly extorting money from Grameen Bank (Economist 2011).

But the troubles in Andhra Pradesh are not new to microfinance. Crises involving over-indebtedness have occurred in countries like Bolivia, Colombia, Morocco, and Mexico (Loubiere, Devaney, & Rhyne 2004). But it was the Andhra Pradesh crisis that triggered "a stir of alarm within the microfinance sector" (Pausch 2010) urging MFIs worldwide to reform before causing the movement further damage (CGAP 2010, p. 5).

The future of microfinance is suddenly shrouded in risk and uncertainty. How microfinance responds to these calamitous events will determine whether the movement experiences a positive or negative outcome.

How does a social movement like Indian microfinance manage a crisis? No theory explaining such a course of action has yet been proposed. Presumably, social movement crisis management is important to activists and scholars alike, but has been overlooked as a subject of research in the social sciences. By contrast, crisis management is extensively analyzed in business literature. This thesis aims to extract broad crisis managing concepts from this business literature and probe them in the case of Indian microfinance to determine their applicability to social movements. Ultimately, this thesis aims to introduce social movement crisis management as a new theory explaining social movement behavior.

Contributions of this Research

The primary contribution of this research is to social movement scholarship. As is, social movement crisis management is not an analytical focus within social movement literature. That is not to say that crises are new to social movement theory. However, they are either understood as exogenous political events exploited by movements or the antecedents of demobilization; neither crises nor how social movements respond to crisis are examined phenomena. This thesis aims to address this topic and broaden the scope of social movement scholarship.

Limitations to the Research

A number of limitations will affect the scope of this thesis. First, the Indian microfinance crisis continues, making it difficult to assess whether the crisis managing tactics used by the movement have alleviated the perception of a crisis.

Second, there is a lack of objective scholarly sources to explain the causes of the crisis. Although the causes of the crisis are not the focus of this thesis, knowing the causes would provide a better understanding about the tactics Indian microfinance leaders chose to exercise. Furthermore, the sources this thesis relies on might be to some degree biased because of how politicized the crisis has become among stakeholders. However, this thesis aims to probe whether the application of crisis managing tactics developed in business literature also applies to Indian microfinance. Whatever their obvious biases, the strategies used by microfinance defenders can still be observed and assessed.

Finally, in this thesis, I was unable to conduct on-site research or interviews. Nevertheless, primary sources were used in the form of articles written by Indian microfinance leaders or journalists directly quoting these leaders.

Theoretical Formulation

This thesis will develop its own theory of social movement crisis management by developing broad concepts of crisis management from the business domain and probing them in the case of Indian microfinance. To a lesser degree, this thesis will also probe these concepts at the global level of microfinance.

The process will begin by conceptualizing crisis managing concepts from business documents that might apply to the case of Indian microfinance. Each concept will then be probed at both the Indian and global levels of microfinance to determine if indeed these strategies were used and what effect they had on public perception of the crisis. These results will then be used to recommend policies that social movement leaders can apply in the event of a crisis. As well, future areas of research will be recommended for scholars of social movements.

Thesis Methodology

In addition to examining business documents on crisis management to conceptualize ways a social movement might manage a crisis, this thesis will also conduct extensive research on the crisis confronting Indian microfinance and how the movement is responding.

Thesis Structure

This thesis is divided into eight chapters. This chapter provides an overview of the thesis, outlines the research methodology, and states the study's contribution to research. Chapter 2 is a theoretical chapter, whereby broad concepts concerning how a social movement might handle a crisis will be developed from the field of business literature focusing on a crisis and crisis management. Five broad concepts will be identified. Chapter 2 will also distinguish between a corporation and an industry as well as between a social movement and a social movement organization for the purpose of contextualizing the likely hypothetical responses. Chapter 3 will include a factual, detailed overview of the case of Indian microfinance. Chapters 4, 5, 6, 7, and 8 will separately probe whether these crisis managing tactics occur in the case of Indian microfinance. Chapter 9 is a concluding chapter summarizing the findings of this thesis. Chapter 9 will also include a section discussing the limitations of this thesis, a section of policy recommendations, and a section discussing the implications this thesis has for social movement theory.

Literature Review

Chapter Overview

The task of conceptualizing how a social movement responds to a crisis involves knowledge of crisis response strategies that have been explicated and supported in the business literature. The purpose of this literature review is to take crisis management strategies as delineated in business literature and conceptualize them in terms of a broader process of crisis management. This broad process of crisis management can then be used as a framework for understanding and assessing how a social movement such as Indian microfinance responds to a crisis.

Crises are a grim reality of the business world. Following a series of industrial and environmental disasters in the 1980s such as the Tylenol poisonings and Union Carbide's Bhopal disaster, crisis management emerged as a critical area of analysis within the business community (Shrivastava 1988, p. 286). The five crisis managing concepts that this chapter develops from this prolific literature on crisis management are denial, retaliation, purification, reform, and re-authentication.

Denial

Denial is conceptualized as the first aspect of the crisis management process. The objective of denial is to reject guilt and avoid punishment. The two variants of denial are simple denial: claiming that the event in question did not occur; and responsibility denial, admitting the event but blaming some other cause for it.

Simple denial is a strategy used during the 1998 Northwest Airlines (NWA) pilot strike that threatened the airlines' reputation and financial stability. Responding to accusations made by NWA pilots that the airline "unfairly hoarded profits and failed to compensate them for previous concessions," NWA simply denied the accusations by stating that "the company was generous and fair; not greedy and unfair as the pilots claimed" (Cowden & Sellnow 2002, p. 202). NWA promulgated their strategy of simple denial by engaging in an advertising campaign that publicized headlines reading "it's time to talk about what's fair," or offering details about the increased worth of company stock NWA pilots had received (Cowden & Sellnow 2002, p. 203). Although simple denial "failed to generate public criticism of the pilots," it is unclear to what extent this tactic worked for NWA. In the end, NWA settled with the Airline Pilots Association (ALPA) for more than $200 million (Cowden & Sellow 2002, p. 209). Although this settlement might seem a failure, it could indicate a success that saved NWA an additional $200 million.

While simple denial has succeeded for businesses in the past (Benoit 1997, p. 181), scholars generally agree that the tactic has limited effectiveness because it does little to reduce the offensiveness of the crisis-inducing event (Haigh & Dardis 2012, p. 10). Responsibility denial appears a more effective tactic. The Firestone-Ford SUV crashes in the late 1990s serves as a good example. After a series of deaths involving Ford Explorers with Firestone tires, blame for the catastrophe was directed at Firestone. But after conducting its own research, Firestone concluded that it was the poor safety design of the Ford Explorer that was to blame. Firestone shifted the blame to Ford and soon found support from consumer groups, lawyers, and congress. Although shifting the blame did lessen public backlash directed at the tire company, Firestone was still perceived by the public as partly to blame for the crisis (Kumar 2001). Altogether, denial appears a risky crisis management strategy with little upside.

Nonetheless, it is not hard to envision a social movement utilizing denial as a crisis managing strategy. In fact, the pro-gun movement's leading organization, the National Rifle Association (NRA), exercised denial after the February 2012 killing of Trayvon Martin. Responding to accusations that the organization was to blame for Martin's death because of its role in implementing the Stand Your Ground laws in Florida, NRA Executive Vice President Wayne LaPierre stated that "violent crime is an everyday fact of life in every American city" (Salter 2012). Here is an example of a social movement shifting the blame for a crisis onto forces outside its control. But while denial is shown to be a crisis managing strategy used by social movements, it has yet to be examined within a broader crisis managing process.

Retaliation

Retaliation is conceptualized to be the second aspect of the crisis management process. Retaliation is a defensive strategy a social movement uses to quell the perception of a crisis within the movement by attacking its opponents. The two variations of retaliation are to besmirch the credibility of a social movement's chief attacker/accuser and to blame a social movement's chief attacker/accuser for the crisis. Retaliation is distinct from denial in that denial blames outside forces not necessarily opposed to the movement.

While retaliation is a common strategy discussed within business literature (Benoit 1997; Fishman 1999; Kowden 2002; Coombs 1998), it is also distinguished as a strategy used by social movements. After the 2007 shootings at Virginia Tech University, Josh Sugarmann, executive director of the Violence Policy Center, blogged that "shootings occur frequently enough that we know the National Rifle Association's rote four-step crisis management response" (Sugarmann 2007). Step three, Sugarmann states, involves "abandoning the bunker and rebuking any and all who have dared to call for gun control. Be sure to indignantly argue that anyone calling for measures to control guns is exploiting tragedy for 'political gain'" (Sugarmann 2007). Sugarmann might not use the term "retaliation," but the concept is nonetheless acknowledged as a crisis managing tactic. But, like denial, retaliation has not been directly addressed or conceptualized within a broader process of crisis management.

Purification

Purification is understood to be the third aspect of the crisis management process. The objective of purification is to reduce any association a social movement has with malefactors within the movement who not only tarnish the movement's reputation and legitimacy, but might indeed be the culprits for the crisis confronting the movement. Creating distance and ridding the movement of perceived malefactors are the two general mechanisms through which purification is enacted.

Although purification is not explicitly identified as a crisis managing strategy by scholars of business, the concept emerged during the course of this research. The Occupy Oakland movement is a case in point. After the violence caused by anarchists, Occupy Oakland leadership distanced itself from its malefactors by calling them "troublemakers…[that] don't speak for the majority of the people" (Associated Press, 2011). This "it's not us, it's them" rhetorical technique is favorable because it quickly distinguishes the movement from the culprits of the offensive events. A perception of goodness is critical to social movement success because a social movement depends on non-radical stakeholders (Della Port & Diani 2006, p. 134) who can be easily alienated by bad publicity.

Creating distance, however, is a temporary solution because it only differentiates malefactors from the movement rather than expel them. If these malefactors go unpunished for their wrongdoings, they might re-assimilate because the opportunity remains open. Consequently, the small amount of public confidence the movement gained by creating distance will likely erode and rekindle public antagonism.

Ridding the movement of perceived malefactors is a more effective method of purification. For instance, after the food-borne illness outbreak that damaged the reputation and financial stability of the US food industry, Jack in the Box made it a policy not to purchase meat from beef processors not willing to adopt more rigorous policies like the Hazard Analysis and Critical Control Point system that measures for microbes in restaurant food. David Theno, vice president of technical services with Jack in the Box, stated that suppliers not adopting these progressive measures would be excluded from their supply base (Frontline, 2002). By excluding these "resistors," corporations like Jack in the Box were able to help strengthen and fortify their initial strategy of creating distance.

Even among social movements, expelling malefactors is not uncommon. Consider when the International Gay and Lesbian Association (ILGA) expelled the North American Man Boy Love Association (NAMBLA) from its network of activists in 1994 to protect its newly obtained consultative status with the UN's Economic and Social Council (ECOSOC). Right-wing opponents led by U.S. Senator Jesse Helms attacked ILGA for supporting pedophilia and called for the network's expulsion from the UN.

The U.S. Congress quickly passed a law withholding $119 million from the UN "unless the President certified that the world body granted no official status… to any organization that promotes…pedophilia" (Bob 2012, p. 47). President Bill Clinton signed the bill into law and the ILGA was pressured into "expelling NAMBLA and two other groups promoting pedophilia" (Bob 2012, p. 47). In addition to expelling these offenders, ILGA "implemented a tough, four-step screening process to ensure that no group such as NAMBLA would ever be admitted in the future" (Bob 2012, p. 47).

Considering that social movement success largely depends on network cohesion and public approval (Della Porta & Diani 2006, p.20), purification seems a particularly critical tactic. If a social movement fails to distinguish itself from its wrongdoers, public support will most likely wane and injurious divisions within the movement will most likely develop (Tarrow 2011, p. i).

Reform

Reform is understood to be the fourth aspect of the crisis management process. Reform is a corrective strategy a social movement uses to amend the wrongs within the movement and to bring about positive change. A social movement can reform itself by making procedural or substantive reforms.

Take, for instance, the previously discussed crisis befalling the US food processing industry. Industry leader Costco responded by adopting new procedures to monitor for food-borne pathogens such as ozone treatment and steam vacuuming (Higgins, 2008, p. 90). Other companies within the US food industry quickly followed suit helping the industry recover consumer confidence (Higgins, 2008, p. 106).

Substantive reforms can include organizational restructuring or the introduction of new products. Offering new products in high demand is an effective tactic because a renewed need for the industry or movement is created. Again, Costco is a good example. After the food-borne illness crisis, Costco introduced organic foods into their product lines, thus tapping into consumer demand for organic food alternatives. Soon after, other mainstream grocers introduced organic products helping the entire industry recover profitability (Higgins 2008, p. 91).

These types of reforms also occur in social movements. Consider the Occupy-Oakland General Assembly's decision to implement "an ad hoc group to protect businesses around the plaza by pulling down the masks of anyone wearing a bandana to ensure accountability" (Motlagh, 2011). Or consider when Basque political parties Batasuna and Aralar broke ranks with Euskadi Ta Askatasuna (ETA), the insurgent arm of the Basque liberation movement, and sided with the Spanish government. This restructuring "raised hopes that Basque terrorism, the longest-running armed struggle in the West, [was] nearing an end" (Cala 2010).

Re-authentication

Re-authentication is conceptualized to be the final aspect of the crisis management process. Re-authentication aims to restore public confidence in a social movement whose legitimacy and feasibility as a mechanism for social change was called into question following a crisis. A social movement undergoes re-authentication by receiving external support from respected outsiders who vouch for the movement. These outsiders are further used to re-authenticate the movement among its various audiences. Respected outsiders might include academic experts, celebrities, or politicians.

Distinct from the foregoing defensive and corrective tactics, re-authentication is a strategy of legitimation. Indeed, strategies like reform or purification contribute to the process of re-authentication because they aspire to right what is wrong and this helps regain public trust. However, re-authentication is more than a by-product of reform and purification. Re-authentication is actively engaging in a campaign to win back public support.

Take, for example, the 2008 subprime crisis that befell the U.S. banking industry. After nearly three years of economic hardship and dismal prognoses, outside experts have begun coming forward to endorse the industry's safety and financial health. Regulators with the Office of the Comptroller stated that "as long as lenders adhered to strict underwriting standards and monitored risk, there was nothing inherently dangerous about extending credit to a wider swath of people." Economists have pointed out that "Delinquencies on credit card accounts and auto loans are down sharply from their heights in the crisis. 'This is a natural loosening of credit standards because the banks feel they can expand again'" (Silver-Greenberg 2012).

Experts are useful outsiders to re-authenticate an industry or social movement among its more discerning audiences such as policy makers or well-informed consumers. Naïve consumers, however, might be persuaded more by celebrities such as actors or singers. Consider when Michael Jordan and Cher appeared in advertisements promoting Jack in the Box and Yum Brands after the U.S. food industry crisis (Wolf 2011). Scholars of crisis management claim that "celebrities with good reputations are reliable messengers" because the familiarity a celebrity has with the public invests his or her message with an aura of trustworthiness (Avraham & Ketter 2008, p. 198).

Social movements, for their part, might employ moral authorities. In explaining the dynamics of contentious movement politics, political scientist Clifford Bob calls attention to how movements "fight back with a competing stable of wise men—their own scientific wunderkinds, moral megastars and celebrity hangers-on—recipients of separate prizes meant to intensify their own gravity" (Bob 2012, p. 30). Bob directs the attention of his readers to the Lesbian Gay Christian Movement's (LGCM) enlistment of the Dali Lama to undercut attacks from the religious right (Bob 2012, pp. 67-68). Bob also points to Brazil's pro-gun movement's misappropriation of Nelson Mandela's image in a television commercial attacking supporters of disarmament. At the very least, these examples show what kinds of resources and schemes a social movement might use to re-authenticate itself after a crisis.

Conclusion

From the extensive analysis conducted by crisis management scholars of business, this chapter has described five strategies a social movement might deploy to manage a crisis. These five strategies include denial, retaliation, purification, reform, and re-authentication. While many of these tactics have been utilized by social movements in the past, they have yet to be analyzed specifically or considered within the broader context of social movement crisis management. In the chapters to follow, this thesis will probe these strategies in the case of Indian microfinance to assess their applicability to social movement behavior.

The Indian Microfinance Crisis

Chapter Overview

Before probing whether the concepts of denial, retaliation, purification, reform, and re-authentication are observed in the case of Indian microfinance, it is necessary to explicate the term "Indian microfinance," which has different meanings. After clarifying what is meant when using the term "Indian microfinance," the crisis facing the microfinance industry will be defined followed by an explanation of the causes contributing to the crisis. The chapter will conclude with a section acknowledging that, although the crisis Indian microfinance faces is a result of internal misconduct, factors external to the movement have also had significant influence on the severity of the crisis.

What does Indian Microfinance Mean?

In general, Indian microfinance means an endeavor undertaken by non-government organizations (NGOs), or the alternate sector, that loan money to poor people who do not have collateral (Sriram & Upadhyayula, 2002, p. 90). However, there are different models within Indian microfinance designating how the provision of financial services to the poor is delivered. The two dominant models in India are the Grameen model, or the microfinance institution (MFI) model, and the self-help group (SHG) model. The differences between these two models will be explained in a following section; however, it is important to note that when discussing the Indian microfinance crisis, it is the MFI model that is being discussed.

The Crisis

Following a series of suicides committed by female microfinance borrowers, the government of Andhra Pradesh issued an ordinance prohibiting all private microfinancing institutions (MFIs) from distributing and collecting loans pending registration with local officials (Roodman, 2010). The ordinance, officials claim, is aimed at protecting women who are "being exploited by private microfinance institutions through usurious interest rates and coercive means [aggressive loan recovery tactics] resulting in their impoverishment and suicides" (Roodman, 2010). By preventing MFIs in Andhra Pradesh from collecting loan repayments, these MFIs are in endanger of sinking into insolvency (Roodman, 2010). However, this ordinance and the debacle it has caused for MFIs in Andhra Pradesh has important implications for microfinance across India. Clients of MFIs in other states unaffected by the ordinance have been influenced to renege on their loans as part of an anti-MFI movement that could result in the collapse of the entire Indian microfinance industry (Roodman, 2010).

Globally, the crisis in Andhra Pradesh is the most fundamental event to happen to microfinance since Muhammad Yunus won the Noble Peace Prize in 2006 for his Grameen Bank model of microfinance. Heretofore, microfinance has been the "darling" of the development community. Now, however, the dark side and vulnerabilities of microfinance have been exposed to a worldwide audience. As it stands, microfinance has been left to question how progress on financial inclusion on a global level can continue in the right direction.

Overview of Indian Microfinance

To assist in a better understanding of the causes of the crisis Indian microfinance faces, it is necessary to have some general knowledge of the emergence of microfinance as a social movement in India. The provision of small loans to the poor, or money lending, has been practiced since the 4th century B.C. by traders and other money lenders

(Batra & Sumanjeet, 2011, p. 4) who would loan money to poor borrowers at exorbitant rates that would usually result in a relationship of bonded slavery (Yunus, 2003, p. 49). Money lending was institutionalized and termed microcredit with the passage of the Cooperative Societies Act in 1904, which enabled the formation of cooperatives for supplying farmers with cheap credit and protecting them from usurious moneylenders (Batra & Sumanjeet, 2011, p. 4).

In the 1960s major commercial banks were nationalized by the Indian government and mandated to involve themselves in rural lending with low interest rates supported by subsidies (Batra & Sumanjeet, 2011, p. 4). The Reserve Bank of India (RBI) assisted these banks by developing special credit programs that channeled subsidized credit to the poor rural sector and emphasized institutional vehicles like cooperatives and regional rural banks (RRBs) to deliver these financial services (Batra & Sumanjeet, 2011, p. 4). Banking regulations were relaxed in order to facilitate the implementation of this rural banking system (Batra & Sumanjeet, 2011, p. 5).

Although access to rural banks increased and loans borrowed by rural households increased (Batra, 2011, p. 8) nationalized banks were unable to establish lending to the poor as a viable activity due to the complexity and magnitude of the Indian banking sector (Deolalkar, 1999, p. 63) and the poor implementation of the rural banking system and defects in policy (Batra, 2011, p. 8). Consequently, alternative microfinance models for delivering financial services to the poor were needed. In response, the microfinance movement in India began in the early 1990s beginning with the emergence of the Self-Help Group (SHG) model followed by the Microfinance Institution (MFI) model (Batra & Sumanjeet, 2011, p. 5).

Both the MFI model and SHG model are dominated by groups of female clients but fundamentally differ regarding how each model is implemented and funded. The SHG model is based on a joint liability group made up of 12-15 individuals who congregate together to help each other with common problems (Paul & John, 2010, p. 3). Each member of the SHG contributes savings that are pooled then rotated around the group as loans (Paul & John, 2010, p. 3). The SHG model of microfinance is the "homegrown" model of Indian microfinance conceptualized by Indian NGOs like Mysore Resettlement and Development Agency (MYRADA) and formalized by the National Bank for Agricultural and Rural Development (NABARD), a governmental development bank, by allowing SHGs to open bank accounts with RRBs (Paul & John, 2010 p. 3). The SHG essentially functions as a bank, or retailer, by making and keeping records of their own transactions. Once an SHG has demonstrated financial discipline and good credit within the group, the SHG can be linked to an RRB either by a government promotion agency or an NGO (Paul & John, p. 3). Once linked to a bank, the SHG opens a savings account with the bank in which the money deposited by the group is used as collateral on future loans made by the bank to the SHG (Bansal, 2003, p. 24).

The MFI model, also known as the Grameen system, was conceptualized and implemented by Muhammad Yunus and Grameen Bank (Harper, 2002, p. 3). Like the SHG model, the MFI model also operates on the principle of the joint liability group (Paul & John, 2010, p. 6). However, these groups are not organized by the group members themselves as they are under the SHG model. Instead, groups ranging from 5-7 members are organized by MFIs. An MFI can include any NGO, non-banking financial company (NBFC), or private organization that provides financial services to a segment of the population that is considered un-bankable (Paul & John, 2010, p. 5). After an MFI forms a joint liability group, loans to members within the group can be issued without requiring a savings account or demonstrating financial discipline as per the SHG model. The MFI model structures groups in a way whereby peer pressure incentivizes clients to repay their loans. In other words, if certain clients do not repay their loans, future loans to other members of the group will not be made (Paul & John, 2010 p. 6). Additionally, the funds provided to MFI clients are sourced by the MFI from banks, private donors, and investors (Harper, 2002, p. 3), unlike SHGs whose funds are sourced directly from commercial banks.

In India, the dominant model of microfinance is the SHG system with over 5 million SHG groups and an aggregate outstanding loan balance of $280 billion (Reddy, 2010). However, since 2005, the MFI model is leading growth in Indian microfinance due to the gap between supply and demand that is attracting more entrepreneurs and commercial investors (Maroju, 2007, p. 45). Between 2005 and 2010, microfinance has grown 62% annually in terms of the number of clients served and 88% annually in terms of gross loan portfolio (M-Cril, 2011) making India the largest microfinance industry in the world. As it stands, Indian microfinance "is now established as a significant component of the financial system in the country [India] and its contribution to financial inclusion continues to rival, if not exceed, that of the rural banking system (M-CRIL, 2011, p. viii).

Causes of the Indian Microfinance Crisis

The crisis facing Indian microfinance is the result of over-lending and aggressive loan recovery tactics stemming from a rapidly expanding market of commercial microfinance and an over-simplified business model. However, it must be acknowledged that due to the high degree of politicization generated from the crisis from both the microfinance and government camps, it is difficult to present a clear linkage between the causes and consequences of over-indebtedness. As it stands, the causes resulting in the suicides of MFI borrowers is at most conjecture. Nonetheless, around 2005, the market for Indian microfinance erupted when a rapidly increasing number of commercial investors took notice of the high return on assets (ROA,) in the range of 5-8% made by MFIs, a far greater ROA than any other banking system in the world, which typically yields an ROA closer to 1% (Singh, 2011, p. 12). Subsequently, commercial investments primarily made by commercial banks but also sourced from private equity funds, hedge funds, and private investors flooded the Indian microfinance market (Singh, 2011, p. 13). As a result, a rapid conversion of MFIs from non-profit NGOs to for-profit non-banking financial companies (NBFCs) transpired.

Unlike the NGO MFI, the NBFC MFI is directly regulated by the RBI (Radcliffe, 2008, p.6) enabling the NBFC MFI to raise public deposits for on-lending (Ghosh, 2005, p. 7). In other words, the NBFC MFI has access to the wealth of commercial funding that NGO MFIS cannot access because of the funding constraints associated with their charitable status under Indian tax law (Ghosh, 2005, p. 7). However, the commitment of the NBFC MFI is to its investors more than its clients (MCRIL, 2011, p. viii). Subsequently, Indian microfinance was pressured to grow fast, reach as many clients as possible, and satisfy the "insatiable appetite" of their investors (Singh, 2011, p. 12). To do this, MFIs pushed inappropriate loans on poor borrowers either in the form of multiple lending, or the provision of loans to clients who had already taken out a loan with another

MFI or SHG, or loaning to poor borrowers without the ability to repay the loan (Singh, 2011, p. 12).

This increase in inappropriate lending and increasingly high interest rates (Rai, 2011) led to an increase in loan defaults, which in turn fueled aggressive loan recovery tactics by these MFIs (Engineer, 2008). These aggressive tactics ranged from excessive pressure (Kazmin, 2010) to physical violence (Engineer, 2008). In India, hiring outside collection agents that use aggressive debt collection tactics is not an uncommon occurrence due to India's legal system that makes it difficult to pursue debtors (Engineer, 2008). In many instances, Indian banks have been known to use "Goondas," or thugs, to pressure clients into repaying their debts, which has resulted, in many instances, in physical harm (Engineer, 2008). These strong arm tactics have been increasingly used by MFIs as loan defaults have become a more common occurrence of inappropriate lending (Engineer, 2008). Consequently, these aggressive methods of loan recovery cause poor borrowers grievous humiliation, which has allegedly resulted in these MFI borrowers committing suicide (Wade, 2010).

Another aspect of the growing commercialization of Indian microfinance that is contributing to the maladies of over-lending is the over-simplified microfinance model (M-CRIL, 2011, p. viii). The NBFCs that many NGOs are converting into cannot take deposits but only supply loans, a regulation of Indian banking law (Kothari, 2011, p. 1). Unfortunately, many times a loan is not the financial product most beneficial to poor borrowers (Gardeva, 2010, p. 4). Many times poor borrowers need alternative products like savings or insurance (Gardeva, 2010, p. 4). However, without access to alternative products, especially savings, poor borrowers are more likely to take on a loan and fall into debt trap (Rhyne, 2010).

As well as only offering credit as a financial service, the MFI model of Indian microfinance requires weekly repayment, which does not favorably match the cash-flows of many poor borrowers (Murdoch, 2003, p. 9). Because many poor Indian borrowers depend on seasonal work like agricultural labor, poor borrowers “find it hard to make fixed value payment week-in week-out for a full year” (Murdoch, 2003, p. 9). As a result, poor borrowers are pushed “into a cycle of multiple-borrowing, where they have the space to borrow from one and repay to another” (Fernadez, 2011). Although Indian microfinance legitimizes the practice of weekly collection due to the “added costs of serving large numbers of small customers in hard to reach places” (Kinetz, 2010), poor borrowers still find themselves over-indebted and subject to the coercive recovery tactics that have allegedly been linked to the recent spate of suicides.

External Factors Contributing to the Crisis

Although the crisis facing Indian microfinance is the result of over-lending and aggressive loan recovery, there are factors external to Indian microfinance that have helped exacerbate the crisis. One factor is political. The multiple lending resulting from microfinance’s rapid expansion exploited clients who were existing clients of the government subsidized SHGs. This encroachment of an increasingly for-profit Indian microfinance industry antagonized the state government (Young, 2010, p. 223), who views itself as the “self-appointed savior of the downtrodden” (Rodrigues 2011). In fact, the ordinance passed by the government of Andhra Pradesh is only aimed at MFIs and not SHGs (Oliver, 2010). Further, since the passage of the ordinance, the government of

Andhra Pradesh is urging banks to provide more credit to SHGs in a seeming attempt to recapture the market (Kinetz, 2010). Microfinance advocates have claimed that "the inflammatory suicide charges may have been ginned up by the papers" to eliminate the MFI competition (Roodman, 2010).

Also helping to exacerbate the crisis are the negative effects of globalization. Beginning in 1997, two factors unrelated to Indian microfinance contributed to the over-indebtedness experienced by India's farmers. First, the Indian government ceded control of the agricultural seed supply to the corporate chemical industry leading to "increased production costs for the already-struggling farmers" (Lerner, 2010). The second factor was the falling food prices in a global agricultural economy (Lerner, 2010). Since 1997, an estimated 200,000 Indian farmers have committed suicide (Lerner, 2010). Because the majority of these suicides have occurred in the states of Maharastra and Andhra Pradesh, some economic scholars have been led to speculate that the crisis Indian microfinance faces is partly the result of an Indian government shifting the blame for its own economic crisis onto Indian microfinance because its own transgressions have made the industry a convenient scapegoat (Pathak, 2010).

Implications for Microfinance Globally

The crisis that erupted in Andhra Pradesh not only has implications for microfinance in Andhra Pradesh and across India, but also globally. Prior to the crisis, the microfinance industry was preoccupied with providing financial services to the poor through a model that was financially sustainable and scalable, or able to continually reach out to a larger amount of poor borrowers (CGAP, 2010, p. 5). Indeed, "Across the globe, including in India, the microcredit movement has proved that it is possible to deliver financial services to poor people living in rural areas at a large scale, free from any reliance on subsidies (CGAP, 2010, p. 5). However, following the *Wall Street Journal's* article, "India's Major Crisis in Micro-Lending" on October 28, 2010 (Bellman & Chang 2010), the limitations regarding the microcredit only delivery model and the ramifications of rapid growth in high-demand markets was exposed to the world (CGAP, 2010, p. 5).

The issues that the Indian microfinance crisis raises for global microfinance are significant at both the institutional and market levels. Institutional level issues include:

- How can MFI's continue to encourage sustainable growth, but avoid market saturation and over-indebtedness?
- How can MFI investors be encouraged to invest in the many markets where the provision of microfinance is relatively unavailable and not the small saturated markets like India (CGAP, 2010, p. 6)?

Market level issues for global microfinance include:

- Whether self-regulation is a viable mechanism for establishing culturally appropriate collection systems and dispute settlement systems.
- What improvements to the formal infrastructure of microfinance need to be made to encourage growth yet protect clients?
- What will it take to increase the microfinancing industry's understanding for the financial needs of their clients (CGAP, 2010, p. 6)?

Before the crisis, India was "a rising star" in the microfinance community. Now, however, leaders of microfinance worry that credit risk, or a borrower's failure to repay, coupled with reputational risk and political interference have left MFIs at a "tipping point," whereby the industry will either continue to grow and offer new products "until it is indistinguishable from conventional financial institutions (banks, consumer finance companies, etc). Or will it rediscover its roots as a more modest source of small-scale credit to a relatively limited market amongst lower-income groups in generally poorer countries?" (Maes & Reed 2012, p. 11). Nevertheless, how global microfinance is perceived will never be the same, and difficult questions about how the industry will proceed into the future are being asked.

Conclusion

The crisis facing Indian microfinance is the result of a rapid expansion of an increasing for-profit MFI industry resulting in over-indebtedness and coercive loan recovery tactics, which have allegedly caused poor borrowers to commit suicide. However, due to the high degree of politicization generated from the crisis, it is difficult to present a clear linkage between the causes and consequences associated with over-indebtedness. Therefore, many of the sources used to explain the crisis of Indian microfinance are to some degree questionable. Although experts on microfinance like Elizabeth Rhyne, David Roodman, and Malcom Harper have excellent scholarly reputations, they are nonetheless advocates of the microfinance industry whose perspectives on the causes of the crisis must be considered with some degree of skepticism. However, despite the partisan rhetoric, over-lending and coercive loan recovery are significant problems confronting microfinance in India and globally that all stakeholders acknowledge.

Denial

Chapter Overview

This chapter will explore how denial as a method of crisis management occurs in the case of Indian microfinance. The chapter will begin with a summary of the concept of denial followed by an analysis illustrating how denial as a strategy of crisis management is used. The chapter will also include a brief analysis examining whether there is a basis for using denial as a crisis management strategy. Although such an analysis is limited by the biased sources this chapter relies on, the inquiry is nonetheless useful for helping to understand why denial is used as a crisis management tactic. The chapter will close by summarizing the main points rendered from this conceptual analysis.

Summary of Concept

The objective of denial is to deny guilt and avoid punishment. The two variations of denial are simple denial, denying that the event in question occurred, and responsibility denial, usually blaming some other cause for the event.

Simple Denial

Simple denial is not a common crisis management tactic in the case of Indian microfinance. However, one instance showing Indian microfinance engaging in simple denial involves Atul Takle, spokesperson for SKS Microfinance. In an interview with *The Guardian*, Takle, denied outright any link between SKS Microfinance and the recent spate of borrower suicides. Takle stated that “Suicides are a tragic occurrence and complex situation. There were around 17 of our borrowers who are reported to have committed suicide. However, none of them had any outstanding loans so there was no question of coercing them to pay" (Burke 2011). In another interview with *Bloomberg Business Week*, Takle states that "I had no arrears with these people so where is the question of coercive recovery tactics? I personally don't think a person would take her life for 225 rupees ($5.08) a week" (Kinetz 2010).

Denying any link between borrower suicides and microfinance, however, is a rare occurrence in the case of Indian microfinance. Rather, the majority of microfinance leaders concede a link between borrower suicides and over-indebtedness. But, for this majority of microfinance leaders, the causes of over-indebtedness and suicide are not the result of any misdeed committed by Indian microfinance. Rather, over-indebtedness and suicide are the result of forces external to the movement.

Responsibility Denial

The majority of Indian microfinance leaders responding to the crisis use the second variant of denial. Responsibility denial is admitting to a problem, but claiming that the problem is the result of forces beyond the control of the movement. In the case of Indian microfinance, over-indebtedness and borrower suicide have been attributed to several different causes peripheral to the movement.

Agricultural Failure as Cause of Crisis

One cause leaders of Indian microfinance blame for the crisis is crop failure. In an interview with *The Age*, Vijay Mahajan stated that "It is difficult to apportion blame in a tragedy like this—crop failure and heavy debts have long contributed to farmer suicides in India" (Wade 2010). In fact, the Center for Human Rights and Global Justice (CHRGJ) published an article claiming that between 2002-2009, 2,500 Indian farmers commit suicide each year (CHRGJ 2011, p. 9). Mahajan and other advocates of Indian microfinance like Narasimham Srinivasan have made use of these statistics to direct blame away from Indian microfinance (Wade 2010; Srinivasan 2010). Srinivasan, for example, points out that "AP has an average 2000 farmer suicides each year—if 54 suicides as reported in some papers are attributed to MFIs—what are the remaining attributed to?" (Srinivasan 2010).

Although Srinivasan's question is largely rhetorical, it does require explanation since suicide is the phenomenon that triggered the crisis for Indian microfinance. In his book *Agrarian Crisis and Farmer Suicides*, R.S. Deshpande of the Institute of Social and Economic Change (ISEC) argues that the massive crop failure experienced by Indian farmers is the result of the liberalization of the Indian economy in 1991, which phased out government control of the market, privatized the public sector, and reduced export subsidies and import barriers to enable free trade (Deshpande & Arora 2010, p. 120). As a result, private industry replaced the Indian government's welfare role for farmers resulting in a rise in cost of cultivation. The rise in cost of cultivation led to an accentuation in the debt burden of small farmers who were forced to sell their lands to pay off their loans. This inability of farmers "to repay [their] loans led to these farmers committing suicide" (Deshpande & Arora 2010, p. 282). These structural changes within the Indian economy and their injurious impact on the agrarian sector are well-documented in academia and in the media (Deshpande & Arora 2010; Sainath 2007; Assadi 2008; Times of India 2011), and leaders of microfinance like Vijay Mahajan are well-informed of their economic complexities (Mahajan 2008). Shifting the blame for over-indebtedness and suicide onto crop failure is, therefore, a prudent strategy to draw public attention away from Indian microfinance and onto larger issues of economic and agrarian policy.

Whether blaming crop failure does redirect public antagonism onto issues of economic and agrarian policy is difficult to substantiate. However, there is evidence suggesting an increased social focus on Indian agrarian policy. In an interview with *MoneyLife*, Smita Narula, faculty director for the CHRG, emphasizes that "farmer indebtedness arises because of long-existing imperfections in the market for agriculture" and not from MFIs, who, Narula claims, do not in large part work with small farmers (Arunachalam 2011). In order to tackle farmer indebtedness and suicide, Narula proposes that programs like the National Rural Livelihood Mission become more "grassroots oriented and hold national/state public hearings, conducted in cooperation with Civil Society institutions, in several places across the country where small and marginal farmers can come and relate their problem/issues" (Arunachalam 2011).

Crisis as "Natural," Inevitable, or Unpredictable Event

Leaders of microfinance blame the crisis on the "natural" or unpredictable repercussions of a market growing too rapidly. According to Elisabeth Rhyne, managing director for Accion's Center for Financial Inclusion, it was hard to know that over-lending would lead to unmanageable over-indebtedness (Rhyne 2012). Rhyne attempts to explain her position by describing the success of the microfinance market in Bangladesh where "intense market saturation [or high levels of multiple borrowing] had not resulted in a crisis of over-indebtedness or unmanageable default" (Rhyne 2012). In retrospect, Rhyne explains this absence of over-indebtedness as a result of "the moderate pace of growth of microfinance in Bangladesh over the past two decades, which has allowed clients and providers alike to learn by doing" (Rhyne 2012). Rhyne goes on to clarify that "With extremely high growth, many clients are inexperienced and many loan officers are untested—a dangerous combination" (Rhyne 2012). What Rhyne is emphasizing is that Indian microfinance is experiencing a period of maturation. That is to say, although over-indebtedness resulting from rapid growth was uncontrollable in the past, it can be averted in the future now that an appropriate pace for market growth has been recognized. Rhyne concludes by considering that "Annual growth rates in the range of 20 to 40 percent per year, like in Bangladesh, may be significantly safer than 100 percent or higher rates experienced prior to crises in countries like India" (Rhyne 2012).

Blaming the crisis on an uncontrollable event in the past, but one that can be controlled for now, is an important strategy for leaders of microfinance that do not want to be over-regulated. On several occasions, Rhyne has stated that the crisis "has placed the industry at risk of political interference" (Rhyne 2011). Clearly, microfinance leaders like Elisabeth Rhyne have an agenda to limit government involvement in Indian microfinance regulation. More specifically, in a blog post, microfinance advocates Daniel Rozas and Sanjay Sinha state that government regulation would slow down the learning and innovation processes to improve microfinance. Rozas and Sinha argue that self-regulation is necessary to ensure "appropriate controls and sustainability while continuing to expand its [Indian microfinance's] outreach to millions of still-unserved poor" (Rozas & Sinha 2010). Rozas and Sinha are essentially arguing that government regulation would restrict microfinance from developing and delivering better financial products to poor borrowers in an efficient manner. By making the case that what was once uncontrollable can now be controlled for helps to minimize the chance that the Indian government imposes onerous regulations.

The Basis for Indian Microfinance's Strategy of Denial

Why global microfinance chooses to shift the blame onto an uncontrollable market does require further analysis, considering that Indian microfinance abandoned its principles of responsible lending and creating a culture of credit discipline in exchange for a business model supporting rapid growth and large profits (Arunachalam 2011). It is well-known that in order to acquire more clients, larger MFIs would take over the loan portfolios of smaller MFIs. On occasion, MFIs would "cannibalize" SHGs by splitting them into smaller joint-liability groups (JLGs) then provide them with an MFI loan. Finally, these larger MFIs banded together and began sharing each other's JLGs by providing separate lending services on successive days (Arunachalam 2011). Over-lending and client over-indebtedness was not a natural occurrence, but the result of a hyper-competitive market manufactured by MFIs scurrying for profit.

The increasing use of intermediaries known as "power brokers" to acquire more clients also encouraged a market prone to over-lending and client over-indebtedness. Power brokers are leaders of MFI JLGs, or even loan officers with access to a set of MFI JLGs, who broker deals with MFIs on "increasingly attractive and exploitative terms" (Arunachalam 2011). These intermediaries were increasingly outsourced by MFIs to perform services like client acquisition and repayment collection. Coercive loan recovery and multiple lending are partly due to the presence and use of these agents (Arunachalam 2011).

Leaders of microfinance like Elizabeth Rhyne are well-aware of these realities within Indian microfinance (Rhyne 2010). Indeed, so is the public following the *Wall Street Journal*'s article, "India's Major Crisis in Micro-Lending" (Bellman & Chang 2010), which drew global attention to the crisis, even eliciting a response from Rhyne herself, who blogged that "When a story on microfinance appears in major media outlets, the effect on the public image of the sector can be dramatic. That's why last Friday's article in the *Wall Street Journal*, 'India's Major Crisis in Micro-Lending,' requires a response" (Rhyne 2011). To contend that Indian microfinance is not to blame for the conditions of the market seems counter-productive in that it would provoke greater public ill-will.

The question remains: why take this approach? Leaders of microfinance would not knowingly utilize a crisis management strategy that would cause further damage to the movement. Therefore, microfinance leaders like Elisabeth Rhyne must believe there is some truth to the argument that the crisis is the result of an uncontrollable market. And indeed, there is some legitimacy to this argument. According to Xavier Reille, founder of Microfinance Gateway, the crisis resulted from a massive flow of foreign investment into Indian microfinance by profit-driven investors. Reille estimates that foreign investment in microfinance increased "by nearly 350 percent from $1.7 billion in 2006 to $7.5 billion in 2010" (Reille 2011, p. 2). It was this entry of foreign commercial investment that "intensified the profit motivation of the sector [leading to] an increased focus on lending volumes rather than focusing on responsible lending that met the needs of borrowers with capacity to repay" (Reille 2011, p. 11). Like Elisabeth Rhyne, Reille perceives the crisis as "a period of adolescence," whereby over-indebtedness resulting from commercial investment and rapid growth were difficult to foresee (Reille 2011, p. 12).

Conclusion

Denial is a simple form of crisis management that seeks to deny guilt and avoid punishment. The two variants of denial are simple denial (did not perform act) and shift the blame (act caused/performed by another). In the case of Indian microfinance, denial is used as a strategy of crisis management at both the Indian and global levels of microfinance. Simple denial is uncommon in the case of Indian microfinance and is observed to occur only in one instance involving Atul Takle, a spokesperson of SKS Microfinance.

Shifting the blame, by contrast, is a more common strategy. Shifting the blame is used both by Indian microfinance and microfinance on a global level. The two primary targets microfinance leaders shift the blame onto are an uncontrollable market and crop failures. Both strategies seek to discount the role of Indian microfinance in the crisis of over-indebtedness and suicide.

Finally, there does appear to be an evidentiary basis for shifting the blame for the crisis onto uncontrollable market forces despite admissions throughout the microfinance sector that the crisis was in large part caused by Indian MFIs. Although the sources used in this chapter are to some extent biased, the unmanageable indebtedness was in part the result of the unforeseeable consequences stemming from heightened commercial investment.

Retaliation

Chapter Overview

This chapter will probe how retaliation as a method of crisis management occurs in the case of Indian microfinance. The chapter will begin by summarizing the concept followed by an analysis illustrating how retaliation as a strategy of crisis management is used. This chapter will also include a brief analysis examining whether retaliating against opponents of Indian microfinance is a reasonable crisis management strategy. The chapter will conclude with a summary of the main points rendered from this conceptual analysis.

Summary of Concept

Retaliation is a defensive strategy a social movement uses to quell the perception of a crisis within the movement by attacking its opponents. The two variations of retaliation are to besmirch the credibility of a social movement's chief attacker/accuser and to blame a social movement's chief attacker/accuser for the crisis. To be clear, blaming the movement's chief attacker is distinct from responsibility denial in that responsibility denial blames outside forces that are not necessarily opposed to the movement.

Besmirch Chief Opponent/Accuser

A social movement besmirches its chief attacker by denouncing its attacker's credibility. Indian microfinance leaders besmirch the credibility of their attackers, Andhra Pradesh officials, by accusing them of being corrupt politicians trying to eliminate a rival microfinance model. Responding to the ordinance passed against Indian MFIs, for example, Samit Ghosh, founder of Ujjivan Microfinance, stated that the underlying objective of the ordinance is clear: “target the NBFC-MFIs that compete with the state-sponsored microfinance programme [SHG program]” (Ghosh 2010). Vijay Mahajan, CEO of Basix Microfinance and president of the Microfinance Institutions Network (MFIN), is more explicit in his interpretation of the ordinance when he stated in an interview with the *Times of India* that for Andhra Pradesh politicians “it is nothing but a game of votes and notes (money). A witch-hunt launched by politicians waiting to earn brownie points with the poor, who serve as their largest vote bank” (Chand 2011).

Mahajan’s reference to the ordinance as nothing more than a “game of votes” refers specifically to Indian politicians exploiting SHGs to garner votes. A *Times of India* article entitled “Want Votes, Pay Money to this Group” explains how SHG voters swing their votes to the candidate who would pay the most money to the group (Desai 2009). For instance, of the three candidates running for office in 2009 in the Belgaum district of Karnataka state, SHG group leader Pratibha Ambore stated that “we plan to approach all three candidates for help. Whoever agrees [to loan the most], will get our support” (Desai 2009). This quid pro quo campaigning among SHG voters is also observed in the 2012 state elections in Utter Pradesh where pro-Dalit candidate K.C. Tripathi told a group of SHG voters, “If you take care of me, I’ll take care of you” (Stancati & Agarwal 2012).

The “game of notes” involves skimming profits from loan disbursements (Arunachalam 2012). A recent example involves the murder of Ravi Ambika, an SHG coordinator on January 24, 2012. In collaboration with Kanchipuram Cooperative bank manager, John Batcha, and other unnamed officials, Ambika allegedly filed bogus documents to take out loans and distribute them to SHG clients complicit in the scheme.

Following Batcha's arrest for "alleged irregularities in disbursal of…loans," the SHG clients stopped payments to Ambika who responded by threatening to expose the group. Faced with Ambika's ultimatum, the group reportedly hired S. Annamuthu, a home guard, to kill Ambika (INB Live 2012).

These are the kinds of corrupt activities Ghosh and Mahajan allude to in their criticism of the ordinance. Yet, MFI leaders like Ghosh and Mahajan are not the only stakeholders of Indian microfinance maligning Andhra Pradesh politicians as corrupt. Alok Misra, director of Micro-Credit Ratings International (M-CRIL), stated that "the gains by private microfinance groups have shamed the government and unsettled politicians who believe the self-help groups are an important means of securing votes and power" (Kinetz 2011). Alok Prasad, chief executive officer (CEO) of Microfinance Institutions Network (MFIN) also stated that "the poor is a constituency politicians see as their own turf" (Kinetz 2011).

It is worth noting that attacking Andhra Pradesh officials as corrupt politicians attacking Indian microfinance for fear of losing SHGs as a political and financial resource is not an unprecedented strategy. In 2006, the government of Andhra Pradesh raided and closed down nearly all MFIs within the Krishna district of Andhra Pradesh following complaints filed by MFI borrowers alleging usurious interest rates and coercive loan recovery methods (Shylendra 2006, p. 1960). The official position of the Andhra Pradesh government was that it took action to protect poor borrowers from abusive MFIs.

MFI supporters, by contrast, argue that the government closed down the MFIs in order to restrain the competition to the state-sponsored SHG model of microfinance (Dichter & Harper 2007, p. 163; Shylendra 2006, p. 1960). Indeed, with continued farmer suicides tainting the image of the Andhra Pradesh government and the rapid rise of Indian microfinance, the SHG program was losing its luster and consequently "annoying" the political parties and state government (Shylendra 2006, p. 1960). In fact, "some of the early protests organized against MFIs were instigated by some of these political parties" (Shylendra 2006, pp. 1960-1961). It is unlikely that Ghosh and Mahajan were not mindful of these affairs involving the Krishna incident before making their retaliatory strikes against the Andhra Pradesh government.

Disparage Chief Attacker on a Global Level

Global microfinance leaders have also retaliated against Indian government officials. In his blog, microfinance advocate and senior fellow at the Center for Global Development David Roodman compares the crisis to a Bollywood plot where the "establishment-minded first-born brother clashes with the brash, somewhat overzealous younger one" (Roodman 2010). More specifically, Roodman argues that "SHG promoters and their allies, in addition to resenting the competition, may be mystified by how the MFIs achieve nearly perfect repayment rates (unlike SHGs), and infer physical coercion" (Roodman 2010). Like Ghosh and Mahajan, Roodman believes the crisis to be the result of a corrupt politics whereby Indian microfinance is the target.

Blame Chief Attacker/Accuser for the Crisis

Blaming the chief attacker/accuser is the second variant of retaliation used by Indian microfinance. MFIN CEO Alok Prasad, for example, points out that 85% of the poor sector is serviced by MFIs regulated by India's central banking institution, the Reserve Bank of India (RBI). The 15% of the sector not catered to by Indian microfinance is serviced by these "fly-by-night moneylenders posing as MFIs" (Chand, 2011). Prasad argues that "The AP government had enough power under moneylending laws to nab the culprits but their failure to regulate what they should have regulated has caused the current mess" (Chand, 2011). In an article in the *Hindustan Times*, Samit Ghosh also stated that the Andhra Pradesh government and RBI "could have brought the NBFC-MFIs in line and the industry would not have had to suffer" (Ghosh 2010).

Blaming the government for failing to regulate usurious moneylenders is sensible considering that moneylenders come under the control of the Money Lenders Act, which is enforced by the RBI and promulgated by the different Indian states (Srinivas 2012). In Andhra Pradesh, there are two laws governing moneylenders. One law is the Andhra Pradesh Money Lenders Act, which applies to the Telangana region of the state. The second law is the Andhra Pradesh Money Lender Regulation, which applies to the Andhra region of the state. However, "Compliance with either act is rare and [the] majority of the money-lenders do not obtain such a license to operate" (Srinivas 2012). In fact, to address these issues of noncompliance with moneylending laws, the RBI formed a Technical Group in 2006 of researchers that submitted a report on reforms to moneylending legislation. However, "The Report has been on the website of the RBI since July 2007, and nothing has been done on it, until farmer suicides catapulted the issue of microfinance regulation" (Kothari 2011). Indian microfinance leaders like Prasad and Ghosh are clearly knowledgeable about Indian moneylending laws and how they are inadequately enforced. Blaming the crisis on the government is, therefore, a logical and easy decision.

Blame Chief Attacker on a Global Level

Global microfinance also blames the crisis on ineffective government regulation. In her response to the *Wall Street Journal's* article "India's Major Crisis in Micro-Lending," Elisabeth Rhyne argues that "the public sector policy environment…has treated microfinance institutions as orphan children of the financial sector rather than helping them to build solid foundations. In fact, the environment in which MFIs have grown up could almost have been expressly designed to promote over-lending" (Rhyne 2010). Rhyne is referring specifically to the RBI policy prohibiting NBFCs from taking deposits because they would compete against public sector banks. Rhyne emphasizes that "when clients have a place to save (and banks have an interest in promoting savings) they may be less likely to fall into debt traps" (Rhyne 2010).

The Basis for Indian Microfinance's Strategy of Retaliation

Clearly, these forms of retaliation have been important components of the MFI sector's response to the Andhra Pradesh crisis. Although not the focus of this thesis, it is useful to ask whether these retaliatory tactics have a basis in fact. Given the potential biases in many of the sources on which this thesis relies, it will not be possible to answer the question definitively. However, many sources, some aligned with MFIs, some more objective, suggest that the charges leveled in these retaliatory strikes have a basis.

For example, in her article "India's Self-Help Movement," Indian journalist Sakina Shakil points out how corruption within the SHG bank-linkage program had become more prevalent since June of 2000 when the Andhra Pradesh government, with the support of the World Bank, sponsored the Velugu Initiative Program (Shakil 2011). The Velugu initiative was a poverty alleviation program designed to expand both the number of SHGs and its structure. What resulted was a significant SHG movement that not only formed more SHGs but organized them into federations from the village to state levels and brought with them powerful political voices "expressing the social and economic needs of the poor" (Deshmukh-Ranadive 2004, p. 1). However, "the SHG bank-linkage [program] could not keep pace with the rapid growth in the number of SHGs [and] MFIs had to jump in to fill the gap" gaining a client base of over 200 million rural families (Sharma 2012).[1]

The emergence of Indian microfinance as an effective alternative to the SHG program caused tension with Andhra Pradesh officials managing the SHG program who voiced their unhappiness for what they perceived as widespread poaching of SHG clients by Indian microfinance (Roodman 2010). Alok Prasad saw the situation differently. Indian microfinance, Prasad argues, was making the government more insecure because the poor were being empowered through means other than the government sponsored SHG program (Kale 2011). Meanwhile, David Roodman argues that the underlying fear these Andhra Pradesh officials were less forthcoming about was how Indian microfinance was snatching away SHGs as a resource for money and votes (Roodman 2010).

Nevertheless, the tension building between Indian microfinance and the Andhra Pradesh government finally reached a breaking point on July 28, 2010 when SKS Microfinance made a $347 million initial public offer (IPO) of company shares (Bellman 2010). The IPO was the first issued by an MFI in India, and its issuance not only galled the government for seeming to be an avaricious attempt by SKS to enrich itself off the poor, but diminished the SHG program as a poverty alleviation model (Roodman 2010).

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[1] 200 million families is an unlikely estimation. Assuming each Indian family comprises five members, 200 million families would essentially include all the citizens in India.

Three months after SKS made their IPO the Andhra Pradesh government passed its ordinance shutting down MFI operations.

Conclusion

Retaliation is a defensive strategy a social movement uses to quell the perception of a crisis within the movement by attacking its accusers. The two variants of retaliation are to besmirch the credibility of the chief attacker of the movement and to blame the chief attacker for the crisis.

Undermining the credibility of Indian microfinance's chief attackers occurs at both the Indian and international levels of microfinance. Leaders of global microfinance like David Roodman besmirch government opponents for attempting to eliminate a rival microfinance model. Leaders of Indian microfinance like Samit Ghosh, Alok Prasad, and Vijay Mahajan also attack government opponents for trying to eliminate a rival microfinance model, but more explicitly, for exploiting the SHG microfinance program for political and financial gain. Examples of such abuses include promising loans to SHGs in exchange for votes and skimming profits from loan disbursements. The Krishna microfinance crisis in 2006 helps to serve as a precedent for this retaliatory strategy.

Indian and global microfinance also blame the crisis on the Andhra Pradesh government. Both Indian and global microfinance agree that ineffective government regulation of the Indian microfinance sector is what caused the crisis of over-lending and over-indebtedness.

Finally, there is an evidentiary basis for retaliating against Andhra Pradesh officials. The crisis can be attributed to the rapid rise of Indian microfinance and its increasing seizure of SHG clients that the government used for political and financial gain. The threat Indian microfinance posed to the SHG program as a financial, and more importantly, political resource culminated with the SKS IPO, which supporters of Indian microfinance argue further galled the Andhra Pradesh government and provoked the passing of the ordinance against MFIs.

Purification

Chapter Overview

This chapter will probe how purification as a method of crisis management occurs in the case of Indian microfinance. The chapter will begin with a summary of the concept of purification. Following the summary, an analysis will be conducted illustrating the techniques and methods through which the mechanisms of purification are accomplished. The chapter will close by summarizing the significant points rendered from this conceptual analysis.

Summary of Concept

The objective of purification is to reduce any association a social movement has with malefactors within the movement who not only tarnish the movement's reputation and legitimacy, but might indeed be the culprits for the crisis confronting the movement. Creating distance and ridding the industry of perceived malefactors are the two general mechanisms through which purification is affected.

Creating Distance

A social movement creates distance to maintain public support for the movement following a crisis by reducing its perceived association with malefactors within the movement. One example of creating distance would include when Alok Prasad, CEO of the Microfinance Institutions Network (MFIN), a self-regulated network created by 35 NBFCs throughout India, identified these malefactors within Indian microfinance as rogue MFIs, or "fly-by-night" operators, giving the industry "a bad name" (Chand, 2011). Prasad stated that it is these unaffiliated rogue operators that are responsible for putting the poor in further debt and using coercive recovery tactics (Chand, 2011). These claims of rogue MFIs being responsible for the crisis have also been voiced by other MFI leaders such as Dr. Vikram Akula of SKS Microfinance and Vijay Mahajan, president of MFIN and CEO of BASIX Microfinance respectively (Alexander 2010).

A point of interest, however, is that before the Indian microfinance crisis erupted, the term "rogue MFI" was unfamiliar to the public (Arunachlam 2010). It was not until after the crisis that the term "rogue MFI" had become commonplace (Arunachalam 2010). But who these rogue MFIs are has still not been identified by neither MFI leaders like Akula and Prasad, who raised the rogue MFI issue in the first place, nor by state regulators (Arunachalam 2010). On the contrary, "the chorus on rogue MFIs has become louder and louder," while their identities have not become any clearer (Arunachalam 2010).

Whether the presence of rogue MFIs are real or a contrivance to transfer the blame onto non-existent MFIs is incidental to the purpose of creating distance. The presence of rogue MFIs cannot be disproven, and the campaigning that the Indian microfinance movement has undertaken against rogue MFIs has helped to stir up more public controversy on the issue (Ani 2010), forcing the government of Andhra Pradesh to take legal action (*The Hindu* 2010). India's *Financial Express* interview with Director General of Police for the state of Andhra Pradesh, Arvinda Rao, is indicative of the distance-creating influence these claims of rogue MFIs have had on public perception. Rao states that "We will definitely take action against 'rogue' MFIs" (*The Financial Express* 2010), and, "Police officials who fail to discharge their duties will also invite action" (*The Financial Express* 2010). Real or contrived, rogue MFIs are perceived as a real and dangerous public enemy whose continued presence is not only perceived to threaten poor borrowers, but also society in general. Consequently, the disassociation Indian microfinance engenders between the movement and the practice of predatory lending by raising the issue of rogue MFIs is strengthened by the public's and the state government's legitimization of these distance creating claims.

Forums for Creating Distance

The success of creating distance depends upon a strong public relations campaign because it is within this arena where the battle for creating distance is waged. The most powerful and far-reaching public forum is the media, which includes national and international news outlets, broadcast news, and the internet. Effective use of the media is vital to successful crisis communication because of the tendency for the media to focus on scandals and crises and because of the speed by which the media can disseminate massive amounts of information all over the world (Bruce, 2008, p. 109). It is vital, therefore, for stakeholders of Indian microfinance to exercise quickly these distance creating strategies through the media in order to avoid having information vacuums filled with misinformation.

One popular media outlet is The *Times of India*, which was mentioned earlier as a resource used by Prasad and Mahajan of MFIN. The *Times of India* has the largest circulation among all English language newspapers in the world (*Times of India* 2009). Another powerful and far-reaching forum being used by Indian microfinance is the blogging website. CGAP, Microfinance Gateway, and social networking sites like Facebook are websites replete with blogs posted by supporters of Indian microfinance distancing the movement from its malefactors and linking readers to other websites like World Bank, USAID, and MicroCapital.org with similar blogs and articles. Blogging has been given serious attention in crisis communication literature because of the opportunity it provides for public discussion and the vocalization of opinions other than those of the mainstream media resulting in information being exchanged at a rapid pace (Alfonso, Gonzalez-Herrero, 2008, p. 144).

YouTube is also used by Indian microfinance and its adherents. A quick search under "Indian microfinance suicides/crisis" yields hundreds of videos posted by various supporters of Indian microfinance distinguishing the movement from its perceived malefactors. For example, CGAP publishes a series of interviews conducted with leaders in the world of microfinance called Microfinance Now that CGAP and those interviewed post to YouTube. In interviews with leaders of Indian microfinance like Samit Ghosh (http://www.youtube.com/watch?v=BZqHbIWUB2U) and Vijay Mahajan (http://www.youtube.com/watch?v=JVxcqlsGeyA) there is a distinct effort not only to re-authenticate Indian microfinance, but also to distance the movement from its malefactors by describing them as these unprincipled "others" (*Microfinance Now* 2011; *Microfinance Now* 2011). For instance, when asked what caused the microfinance crisis in Andhra Pradesh, Samit Ghosh responded by stating that "three or four MFIs went right helter-skelter for huge growth…which destabilized the entire industry" (*Microfinance Now* 2011). Ghosh continued, "You can't have a lot of these dark shadows around you [that] detract from the whole image of microfinance" (*Microfinance Now* 2011).

Ridding Indian Microfinance of Malefactors

Although distance creators intend to engender positive public relations, it is not a sustainable strategy of purification because predatory lenders remain in operation and affiliated with the Indian microfinance movement. Creating distance is simply a rhetorical tactic to produce an "it's not us, it's them" distinction. The problem of rogue MFIs continues because, until they are identified and purged from the movement, the public will continue to associate these rogue MFIs with Indian microfinance.

In his interview with *Microfinance Now*, Samit Ghosh stated that now that Indian microfinance is under the spotlight of public scrutiny, a "number of players will disappear or have a short haircut" (*Microfinance Now* 2010). In other words, ridding Indian microfinance of rogue MFIs is something that will happen naturally. Of course, a natural process of ridding the movement of rogue MFIs does little to bolster public confidence, since it is not a process perceptible to the public and does not signify a deliberate commitment on the part of Indian microfinance to regulate malefactors.

However, there are at least two deliberate acts initiated by Indian microfinance and other powerful stakeholders to rid the movement of rogue MFIs: the Code of Conduct for Microfinance Institutions in India; and the implementation of a credit monitoring database. The Code of Conduct for Microfinance Institutions in India is a document that defines the "core values and fair practices for the microfinance sector as to ensure that microfinance services through MFIs are provided in a manner that benefits clients, and is ethical and dignified" (Sa-Dhan & MFIN 2011). Although the Code of Conduct is adopted on a voluntary basis, all Indian MFIs are expected to adopt the Code of Conduct and abide by its rules as "laid down by the government and the regulators [MFIN & Sa-Dhan] in both letter and spirit" (Sa-Dhan &MFIN 2011). Grievances would be addressed to a committee of ombudspersons, and penalties for violating the Code of Conduct can range, depending on the seriousness of the violation. A minor violation of the Code can include a letter of reprimand to the MFI, its board, and specific investors. A major violation can include a MFI's expulsion from Sa-Dhan or MFIN and reporting that MFI to the RBI for further legal action (Kumar 2010).

The code of conduct is not a new idea. In fact, the code of conduct first started being developed in 2005 by Sa-Dhan, an organization made up of 251 MFIs throughout India. However, the code of conduct was not effectively implemented for several reasons. According to a report on client protection published by Sa-Dhan, the code of conduct needed infrastructure like monitoring, enforcement, and capacity building. However, the funds for these activities were scarce, therefore the code's implementation was limited (Sa-Dhan 2011, p. 13).

Secondly, there was little incentive on the part of Indian microfinance to adopt the code of conduct because the movement was experiencing enormous success and had an unblemished reputation (Sa-Dhan 2011, p. 13). However, following the crisis "it became clear that reputation risk can be a serious risk to the performance of MFIs" (Sa-Dhan 2011, p. 13), and the code of conduct was not only adopted by Sa-Dhan members, but also by MFIs that are members of MFIN network (Kurian 2011).

As the code of conduct relates to ridding Indian microfinance of its malefactors, Sa-Dhan states that one intention of the code of conduct is to "put in place systems that prevent stray and rogue incidents from happening" (Sa-Dhan 2011, p. 13). The Code itself, however, does not mention rogue MFIs directly. However, the Code does address fair practices, which responds to the issue of predatory lending. According to the Code, fair practice includes "[ensuring] that clients are protected against fraud and misrepresentation, deception or unethical practices" and "[ensuring] that all practices related to lending and recovery of loans are fair and maintain respect for client's dignity and with an understanding of client's vulnerable situation" (Sa-Dhan & MFIN 2011). Whether or not the implementation of the code of conduct is a successful strategy to rid Indian microfinance of rogue MFIs is too early to determine. Nevertheless, the code of conduct is clearly a strategy intended to purify Indian microfinance of its malefactors.

A second policy being implemented by Indian microfinance to purge itself of rogue MFIs is the implementation of a credit reporting database. The policy was introduced through the recent passage of the India Microfinance Bill (2011) based on the recommendations of the Malegam Committee (Srinivasan 2011). The Malegam committee is a subcommittee of the RBI that was formed in 2010 after the state government of Andhra Pradesh passed its ordinance resulting in the current Indian microfinance crisis (Aananth 2011). The Malegam committee is made up of government officials and MFI leaders mandated to audit Indian microfinance and make recommendations to the RBI in consideration of the implementation of an Indian microfinance bill (Aananth 2011).

The India Microfinance Bill (2011) "compels registered MFIs to become members of 'Credit Information Bureaus…to give lenders an invaluable tool for understanding who else is lending to their customers, as well as an indication of when their borrowers are encountering repayment difficulties'" (Lyman 2011). Although, proponents of a credit reporting database admit that it will be difficult to develop a comprehensive database made up of tens of millions of borrowers who make up the base of the economic pyramid, such a database does have the potential to "take out the multiple demons now plaguing the sector in India (AP in particular)" (Lyman 2011).

Similar to the passage of the code of conduct, it is too early to determine if a credit reporting database effectively rids Indian microfinance of its malefactors. However, ridding the movement of rogue elements is clearly one intention of this credit reporting policy.

Ridding Microfinance of Malefactors on a Global Level

Removing predatory lenders from Indian microfinance is also occurring at the global level. CGAP has recently undertaken a new initiative in collaboration with Her Royal Highness Princess Máxima of the Netherlands, the UN Secretary-General's Special Advocate for Inclusive Finance for Development, and key industry investors called Principles for Investors in Inclusive Finance (PIIF). The initiative ensures that key investors have the tools and services they need to incorporate client protection and social performance concerns into their screening, due diligence, monitoring, and governance roles (CGAP 2011), therefore reducing the risk of financing rogue operations (CGAP 2012). One example of a new tool available to investors is a questionnaire that screens MFIs concerning their client protection principles to ensure that funds are not being provided to unethical MFIs (Forster, Lahaye, & McKee 2009, p. 2).

Although the initiative was introduced prior to the crisis and addresses microfinance industry-wide, the initiative was heavily promoted following the Indian microfinance crisis and the damage the crisis caused to the reputation of microfinance and the stock portfolios of these investors (Koning, Antonique 2010). In a press release issued December 8, 2010, nearly a month after the passage of the Andhra Pradesh ordinance, CGAP CEO Tilman Ehrbeck stated that "it is important for the microfinance industry to draw the right lessons from the situation [in Andhra Pradesh], so that progress on financial inclusion globally continues in the right direction" (Thomas 2010). The following month, on January 27, 2011, another press release was issued by one MFI investor, Triodos Bank, announcing a first group of 41 investors that signed the PIIF (Triodos 2011).

Another global initiative to purge microfinance of rogue lenders is the Smart Campaign (http://smartcampaign.org/). The Smart Campaign is a collaborative initiative endorsed by microfinance leaders around the world to ensure that providers of financial services to low income populations "take concrete steps to protect their clients from potentially harmful financial products and ensure that they are treated fairly" (CGAP 2012). One step the Smart Campaign endorses is the "Fair and respectful treatment of clients," which states that "Financial service providers and their agents will treat their clients fairly and respectfully. They will not discriminate. Providers will ensure adequate safeguards to detect and correct corruption as well as aggressive or abusive treatment by their staff and agents, particularly during the loan sales and debt collection processes" (Smart Campaign 2010).

Since the Andhra Pradesh crisis, the Campaign has gained momentum and more and more MFIs have adopted the principles of the campaign into their core activities (CGAP 2012). For example, in an interview with Smart Campaign, Vipin Sharma, CEO of India's Access Development Services stated that his organization endorsed the Smart Campaign because "In recent times, a lot of aberrations have crept into the practice of microfinance" (Smart Campaign 2010). Sharma goes on to state that "the sector needs to realize that client protection is integral to microfinance and that something substantial needs to be done about it" (Smart Campaign 2010). Since 2010, an additional 1,600 MFIs have pledged adherence to the Smart Campaign principles (Smart Campaign 2011).

Conclusion

Purification as a crisis management strategy involves two methods: creating distance and ridding the social movement of perceived malefactors. Indian microfinance creates distance through a public relations campaign distinguishing the Indian microfinance movement from rogue lenders within the movement that Indian microfinance claims is responsible for the unethical lending practices that have cast the movement in a negative light. Although some critics argue that "rogue MFIs" were contrived by the movement to avoid blame, the strategy has worked as evidenced by the reactions of the public and the Andhra Pradesh state government to address the phenomenon of rogue lending.

In the case of Indian microfinance, ridding the movement of malefactors as a method of purification is a strategy that occurs both at the regional level and the global level. Regional level initiatives to rid Indian microfinance of its malefactors include the passage of a code of conduct. The code of conduct is an agreement endorsed by Indian MFIs to follow ethical business practices to help prevent instances of rogue lending from happening. At the global level, two initiatives to rid microfinance of rogue lenders have been identified. The first initiative identified is the Principles for Investors in Inclusive Finance (PIIF), an initiative done in collaboration with CGAP and the UN that proscribes client protection principles to be endorsed by investors in order to help prevent predatory lending.

The second initiative is the Smart Campaign. The Smart Campaign is also an initiative that seeks to rid the movement of predatory lending by encouraging MFIs world-wide to support its campaign of client protection and responsible lending.

Reform

Chapter Overview

This chapter will explore how reform as a method of crisis management occurs in the case of Indian microfinance. The chapter will begin with a summary of the concept of reform followed by an analysis illustrating how reform is used to manage the crisis of multiple lending leading to the over-indebtedness of poor Indian borrowers. This chapter will also include a brief discussion of other emerging reforms that have been spurred by the crisis but do not directly address the causes of the crisis. The chapter will close by summarizing the main points rendered from this conceptual analysis.

Summary of Concept

Reform is a corrective strategy a social movement uses to amend the wrongs within the movement and to bring about positive change. A social movement can reform itself by making procedural or substantive reforms.

Procedural Reforms

The procedural reforms recommended by Indian microfinance were introduced before the crisis, but efforts to implement these reforms only occurred after the crisis. Nevertheless, these reforms are still being developed and have yet to make an impact that can be assessed. The procedural reforms Indian microfinance has been recommending aim to prevent over-lending and over-indebtedness by ensuring transparency in microfinance activities. One reform, which advocates of microfinance believe the "best deterrent to over-indebtedness" (*Microfinance Focus* 2012), is the use of credit checks. Although credit bureaus were introduced as a microfinance agency before the crisis, it was not until after the crisis that Indian microfinance began working with credit information companies. In collaboration with Equifax Credit Information Services (ECIS) and Credit Bureau India Limited (Cibil), MFIs have begun to establish credit bureaus that "track the loan history of the borrowers of microfinance institutions" (Kumar 2011). According to Arun Thukral, managing director of Cibil, information from 40 million accounts have to date been collected (Kumar 2011). Samir Bhatia, managing director and chief executive officer of ECIS, explains that "a dedicated credit bureau will bring more transparency and will check over-leveraging in the microfinance sector….[Microfinance] Companies will be able to judge the suitability of prospective borrower by checking his or her credit history" (Kumar 2011).

A second procedural reform emphasized by Indian microfinance is the utilization of India's Unique Identification system (UID). Introduced in 2009 by the Indian government, UID aims to identify every Indian citizen by "collecting a person's biometric data e.g. iris, fingerprints, etc., coupled with his/her demographic information and location in India" (Panikkal, Thacker, & Balani 2011). UID endeavors to better identify areas for development schemes, regulatory policies, security, and the need for financial services by providing a clearer view of the population (iGovernment 2008). Indian microfinance leaders like N.D. Rao, chief technology officer of Basix Microfinance, have recommended that MFIs leverage UID to help support financial inclusion in India (Panikkal, Thacker, & Balani 2011). According to MicroSave India, a consulting firm for financial service providers, UID "can be a real game changer….It can help foster true social security reform" (Panikkal, Thacker, & Balani 2011).

The potential advantages UID can foster include the opportunity to offer new financial services. By reducing the processing time and cost for opening and authenticating new accounts, UID could allow MFIs to improve upon substantive reforms like savings and insurance (Panikka, Thacker, Balani 2011). Further, “UIDs could be used to track multiple borrowing through the MFIN-supported credit bureaus” (Panikkal, Thacker, & Balani 2011).

One final example of a procedural reform supported by Indian microfinance is the implementation of pricing transparency. In April 2010, the Microfinance Institutions Network (MFIN) endorsed the Transparent Pricing Initiative project started by the international non-governmental organization (INGO) MFTransparency in 2008. The initiative aims to raise awareness about pricing throughout microfinance to deter over-indebtedness by ensuring all prices for financial services are communicated clearly by an MFI to its potential borrower (Waterfield et al. 2011 pp. 9-10). One method for communicating transparent prices includes the use of a sample loan disclosure form that clearly outlines the pricing structure of the loan. The form is presented to prospective borrowers who review the form and identify the “most salient information for their decision-making process” (Mazer 2011).

Procedural Reforms on a Global Level

The Transparent Pricing Initiative is the procedural reform most supported by global microfinance. After the Andhra Pradesh crisis, the initiative gained momentum and “hit the road” in key microfinance regions like the Philippines “to introduce standardized pricing practices” (Torres 2011). Specifically, the project is introducing a “standardized general formula for microfinance institutions (MFIs) that may be adopted and applied to the specific conditions of each market (Torres 2011). MFTransparency also encourages the “exchange of information on credit products and their prices in a clear and consistent fashion by all advocates," which will allow MFTransparency to collate and release information on pricing methods to "guide the MFIs and the micro-borrowers to make wise decisions" (Torres 2011). In a report later released, MFTransparency stated that "It was very timely" that its initiative gained support, because the "negative perception [over Indian microfinance]…demonstrated more than ever the need for pricing transparency" (Waterfield et al. 2011, pp. 6-8).

Substantive Reform

Similar to the procedural reforms discussed, the proposed substantive reforms are still in the process of being implemented, making their impact difficult to assess. As well, the substantive reforms being implemented were introduced before the crisis. It was after the crisis when pressure to implement these reforms appeared. Many of the substantive reforms Indian microfinance has been supporting target the problem of over-indebtedness. These reforms can themselves be divided into two categories: product reform and reforms to the Indian microfinance business model.

Product Reform

Product reform within Indian microfinance involves the innovation of financial products offered to borrowers. Developing products that are customized to a borrower's needs rather than using the "one-size fits all" approach has been a recurring point of discussion among Indian microfinance leaders like Vipin Sharma, CEO of Access Financial Services, since the Andhra Pradesh crisis. In an interview with *Forbes India*, Sharma states that "We aren't going to see one single product that works across the entire country, what we will see however, is multiple innovations serving a variety of needs. That's the future" (Nath, Ramnath, & Misra 2010). The future Sharma envisions in terms of product reform is explicated in more detail by Vijay Mahajan of Basix Microfinance who stated in an interview with *Hindu Business Line* that “There is an immediate need for more emphasis on savings rather than credit. Insurance should also be encouraged” (Sridhar 2011). According to Mahajan and Sharma, savings and insurance can help to prevent cycles of over-indebtedness by empowering borrowers with a greater ability to manage risks like illness or crop failure (Nath, Ramnath, & Misra 2010; Sridhar 2011). In many cases, Sharma explains, a loan is not the financial product a borrower needs, and “this can set off a vicious cycle of indebtedness, frustration and even default” (Nath, Ramnath, & Misra 2010).

Another product reform Indian microfinance seeks to administer is a loan repayment schedule tailored to the borrower. In keeping with the “one-size does not fit all” theme, leaders of Indian microfinance generally agree that the currently used weekly loan repayment schedule is not always optimal for the borrower. Mohammed Nooruddin Amin, CEO of Adhikar Microcredit, stated that “the weekly collection system is now generally considered to be a bad idea. Even those given loans to buy cattle were asked to repay from the very next week when income could only come in months later” (Jena 2011). Indian MFI Ujjivan also conducted a study that found monthly repayments based on household income and a set of other factors like geographic area, concentration of MFI competition, and purpose of the loan a more effective assessment for reducing over-indebtedness. Ujjivan is currently in the process of launching a pilot project to test this innovative approach to loan repayment (Bansal & Gupta 2011, p. 30).

Reforms to the Indian Microfinance Business Model

While recognizing the need to move beyond the "mono-product" and weekly loan repayment schedule, leaders of microfinance realize that the Indian microfinance model itself must first change. According to a study conducted by Anita Gardeva of Accion Center for Financial Inclusion, the mono-product model appeals to most investors because "the ease with which the mono-product model can be replicated and scaled, a key driver of the exponential growth by microfinance in India in the last five years" (Gardeva 2010, p. 4). Nevertheless, Indian microfinance advocate and freelance consultant Narayanaswami Srinivasan states that the "mono-product" model of Indian microfinance is "unlikely to last" (Stancati 2011). More specifically, Srinivasan states that "we are more likely to see microfinance institutions shift away from the group and women-focused loan packages" (Stancati 2011).

According to one Basix Microfinance field manager, female clients were preferred prior to the Andhra Pradesh crisis because "women don't stand up to you the way men do. They are always at home, and they are easier to form into groups" (Bridgers 2011), an ideal model for a microfinance movement seeking to scale-up rapidly. Since the crisis, however, lending to groups of women has become less favored by MFIs for various reasons. As it relates to the challenge of over-indebtedness, lending to women has come under scrutiny because in many cases the money lent to women goes to their husbands who leave their wives without a means to repay the loan. Consequently, these women take new loans simply to repay old loans and wind up falling into debt traps (Bridgers 2011). As such, MFIs are beginning to show an "increased preference for individual lending [that] is intimately linked to an increased preference for male clients" (Bridgers 2011).

But in addition to this emerging trend of loaning to men on an individual basis, there is a specific model of microfinance known as the Tamil Nadu model that has been increasingly supported by the Indian microfinance sector. Tamil Nadu is similar to Andhra Pradesh "in terms of size and maturity of the microfinance market." However, the crisis in Andhra Pradesh had little impact in Tamil Nadu allowing Indian microfinance leaders the opportunity to identify operational differences between MFIs in these two states in order to improve financial and social performance (Marr & Tubaro 2011, p. 1).

The key feature of the Tamil Nadu model is "the creation of a consortium of specialized organizations, typically a non-banking financial company (NBFC) in charge of microfinance…and a non-profit body (usually under the legal status of NGO or Trust) to provide social services (Marr & Tubaro 2011, p. 2). According to microfinance scholars, "When financial service provision is closely tied to social services…mission drift is less likely...[ultimately]empowering clients and increasing their capacity to repay their debts" (Marr & Tubaro 2011, p. 5). One example is BWDA, an NGO that runs a college of arts and sciences, while BWDA-BFL, the financial arm of the organization, provides microfinance services. Ujjivan Microfinance is another MFI endeavoring to replicate the model by "undertaking social development programs at its branches, bringing customer, staff and community together" (Roy 2011).

Substantive Reforms on a Global Level

Many substantive reforms at the global level of microfinance were not necessarily precipitated by the Andhra Pradesh crisis. In fact, the provision of new products like savings, health insurance, and money transfers were already being implemented in countries like Bolivia in the early 2000s due to its own crisis involving market saturation and over-indebtedness (Rhyne 2001, p. 22). Nonetheless, the widespread media attention triggered by the Andhra Pradesh crisis intensified scrutiny as to whether the commercial and profit-driven model of microfinance works. On one hand, Milford Bateman, author of *Why Microfinance Doesn't Work* and staunch critic of microfinance, argues that commercialized microfinance amounts to "control fraud," or the legalized looting of an organization by its leading managers (Bateman 2010). According to Bateman, managers of commercialized MFIs like SKS Microfinance in India and Banco Compartamos in Mexico are not concerned about their poor borrowers but use their power to implement "external and internal controls so they can loot that institution in an almost entirely legal way." The result is a "boom-to-bust" crisis that Bateman compares to the Savings and Loan crisis in the 1980s, or the more recent sub-prime mortgage crisis (Bateman 2010).

On the other hand, proponents of commercial microfinance like Elisabeth Rhyne, managing director of Accion's Center for Financial Inclusion, argues that the only reason microfinance reaches hundreds of millions of poor borrowers instead of tens of millions is "that microfinance has learned to finance itself from commercial sources" allowing the industry to move beyond donor dependency (Rhyne 2010, p. 3). Rhyne further argues that commercial microfinance brings increased competition that encourages MFIs to "improve services, develop new products, introduce cost-saving technology, and lower prices" (Rhyne & Christen 1999, p. 1). While Bateman and Rhyne disagree about the role of commercial microfinance, they nonetheless agree that the microfinance model does need to be reexamined to avoid another crisis like the one in Andhra Pradesh (Bateman 2010; Rhyne 2011).

Reforms not Directly Aimed at Over-Indebtedness

A common aphorism among crisis communication scholars is that in every crisis there is an opportunity (Sellnow 2010, p. viii). Indeed, "the troubles in Andhra Pradesh have been 'one of the best things to happen to the sector'," stated N. Srinivasan (Stancati 2011). "[They] served as the trigger the sector needed to grow more responsibly…where customers should come first," he continued (Stancati 2011).

One way Indian microfinance is reforming more responsibly is through the development of mobile banking. Mobile banking is a branchless banking scheme whereby banks and telecommunication companies aim to partner together to provide cheaper financial services like loan payments and disbursals to a larger number of poor borrowers who do not have access to MFIs or rural banks (Shankar & Asher 2010, p. 17). At the moment, mobile banking as a strategy of financial inclusion is only just beginning, and RBI regulation limits these mobile banking companies to merchant services only. For example, Beam Money is an Indian merchant service that allows customers to use their mobile phones to make financial transactions with anyone at any time. Basically, customers use their mobile phones as a wallet by "loading" money onto it with prepaid scratch cards to conduct financial transactions like buying groceries or paying their utilities (Chen 2012).

Although mobile banking companies like Beam are restricted from offering other financial products like deposits, remittances, savings, or credit, the crisis has placed added pressure on the Indian government to provide mobile banking with a favorable regulatory environment in order for Indian microfinance to develop its product faster and access a poor demographic not yet reached (Fontanella-Khan 2011). On January 13, 2011, *Microfinance Focus* reported that under stringent RBI guidelines "India's largest private sector bank ICICI Bank Ltd. and mobile network giant Vodafone Essar have inked a pact…to drive financial inclusion in India by offering mobile banking to the un-banked and under-banked population in the country" (*Microfinance Focus* 2011). The guidelines prescribed by the RBI mandate that only "banks which are licensed and supervised in India will be permitted to offer mobile banking products to residents of India" and that these banks must conduct thorough background checks into "the integrity and reputation of the prospective customer" (RBI 2008).

Conclusion

Reform is a corrective strategy a social movement uses to amend the wrongs within the movement and to bring about positive change. A social movement can reform itself by making procedural or substantive innovations.

Procedural reforms occur at both the global and Indian levels of microfinance. One procedural reform supported by Indian microfinance is the implementation of credit bureaus to perform credit checks on prospective borrowers. A second procedural reform supported by Indian microfinance is the use of India's Unique Identification System (UID). UID collects the biometric data of Indian citizens and can help reduce the time and cost of providing poor borrowers with financial services. A final example of a procedural reform is the implementation of pricing transparency to help poor borrowers make more informed and wiser decisions concerning their financial planning. Pricing transparency is also a procedural reform that global microfinance leaders like MFTransparency and CGAP strongly support.

Substantive reforms also occur at the global and Indian levels of microfinance. Substantive reforms can be divided into product reforms and reforms to the microfinance business model. Product reforms supported by Indian microfinance include the capacity to offer products like savings and insurance to meet borrower needs better. Another reform includes a more flexible repayment schedule. Substantive reforms occurring at the global level of microfinance similarly include offering other financial services such as savings and insurance.

Mobile banking is another reform supported by Indian and global microfinance. Although not directly aimed at preventing over-indebtedness, reducing incidents of multiple lending does appear to be an attending benefit.

Re-authentication

Chapter Overview

This chapter will explore how re-authentication as a method of crisis management occurs in the case of Indian microfinance. This chapter will begin with a summary of the concept of re-authentication followed by a brief assessment of Indian microfinance's loss of favor among the public to help contextualize what exactly is at stake in order for re-authentication to be accomplished. A subsequent analysis will show how re-authentication as a strategy of crisis management is enacted followed by a conclusion summarizing the main points rendered from this analysis.

Summary of Concept

Re-authentication seeks to restore public confidence in a social movement whose legitimacy and feasibility as a mechanism for social change has been called into question following a crisis. A social movement undergoes re-authentication by receiving external support from respected outsiders who vouch for the movement. These outsiders are further thought to be of different types to re-authenticate the movement among its various audiences. These respected outsiders might include academic experts, celebrities, or politicians.

The Lapse of Public Support for Indian Microfinance

Before the Andhra Pradesh crisis, microfinance had been established as a genuine social movement when Muhammad Yunus was awarded the Nobel Peace Prize for his Grameen model of microfinance in 2006 (Osnos 2011). Yunus's memoir, *Banker to the Poor*, which sold modestly when first published in 1999, quickly became a best seller supported by dignitaries like Hillary Clinton (Osnos 2011), thus helping to further establish microfinance as an authentic social movement.

However, since the 2010 Andhra Pradesh crisis, the approbation microfinance received from the Nobel Peace Prize, and a host of other accolades (Osnos 2011), was tainted, reducing the once lauded movement to that of a "wolf in sheep's clothing" (Venkat 2011). Even Muhummad Yunus, once likened to "a saint for our times" by the media, came under the attack of Bangladeshi Prime Minister Sheikh Hasina for allegedly extorting money from Grameen Bank and, generally, "sucking blood from the poor in the name of poverty alleviation" (*Economist* 2011). To some degree, these attacks are considered politically motivated (*Economist* 2011). Asad Mahmood, managing director of the Global Social Investment Fund for Deutsche Bank, however, points out that these attacks are also accurate. Mahmood states that "While there are political dimensions to it [the Andhra Pradesh crisis], the problem is much bigger, and a large part of the problem starts with MFIs and the investors and donors that support them" (Maes & Reed 2012, p. 8). Nevertheless, Indian microfinance could not repudiate the damage incurred to its reputation. This perception of Indian microfinance as a villain is the challenge the movement must overcome in order to re-authenticate itself.

External Supports Serving to Re-Authenticate Indian Microfinance

Not enough time has passed to provide a clear perspective on whether endorsements of Indian microfinance by influential outsiders do in fact re-authenticate the movement. Nevertheless, various influential outsiders have emerged to generate support for Indian microfinance among its different audiences. For example, academics like Esther Duflo and Abhijit Banerjee of the Massachusetts Institute of Technology, Rohini Pande and Erica Field of Harvard University, and Dean Karlan of Yale University, and others wrote an opinion piece targeting Indian policy makers entitled "Help microfinance, don't kill it" in the *Indian Express*. Responding to charges of usurious lending leveled against Indian microfinance, the authors point out that "Indian MFIs charge rates substantially lower than MFI rates in many parts of the world" and that "rural indebtedness is not the result of MFI activity, [but the result of] non-MFI loans…from friends and moneylenders" (Banerjee et al. 2010). Banerjee and his colleagues go on to challenge the rumors that borrower suicide resulted from debt as "no systematic investigation into the claims" has yet been made (Banerjee et al. 2010). Following a list of policy recommendations for Indian decision-makers, the authors conclude with the following re-authenticating statement:

> Microfinance fills a key need in developing countries like India….Microfinance loans provide financial access to the poorest that allows many of them to start new businesses….In the absences of microfinance, the poor will have no choice but to approach the unregulated local moneylenders…who charge usurious interest rates…and who may often enforce payment by illegal and exploitative means (Banerjee et al. 2010).

Celebrity outsiders have also emerged in the media to generate support among small-scale donors. For example, movie actor Matt Damon appeared on David Letterman's *Late Show* promoting an NGO named WaterCredit that connects MFIs to households in developing countries like India in need of clean water and sanitation (McGirt 2011). In an interview with ABC News, Damon stated that "market-based solutions like microfinance are what really help lift people out of poverty" (Delawala &

Smith 2011). Damon even goes as far as to moralize about microfinance by stating that microfinance is like "the age old adage of…give a man a fish, he eats for a day, and teach a man to fish, and he eats for a lifetime" (Delawala & Smith 2011). Although Damon is not directly responding to the Andhra Pradesh crisis, as the academics mentioned earlier had, Indian microfinance is nonetheless being endorsed by an influential outsider.

Perhaps the most influential outsiders are Indian politicians because of the sway they hold over users of Indian microfinance. The Indian government's contribution to re-authenticating microfinance as a legitimate poverty alleviating tool began with the formation of the Malegam Committee on October 15, 2010. The Malegam Committee is an Reserve Bank of India (RBI) sub-committee made up of Indian policy makers mandated to "review the scope and objectives of regulations governing MFIs with regard to interest rates, lending and recovery practices, applicability of existing money lending legislations, need for grievance redressal machinery and other issues concerning the sector" (Bothra 2011). On May 3, 2011, the *Wall Street Journal* reported that the RBI accepted the Malegam Committee recommendations and "reaffirmed priority sector lending for microfinance" (Kala 2011). Section 3.5 of the report, for example, states that "the microfinance sector is an important plank in the scheme for financial inclusion. A fair and adequate regulation of NBFCs will encourage the growth of this sector while adequately protecting the interests of the borrowers" (Reserve Bank of India 2011). In an interview with *MoneyControl,* Vijay Mahajan of Basix Microfinance stated that "Microfinance needed some encouragement….We are very thankful to both the finance minister and the RBI governor for this support" (MoneyContol 2011).

External Supports Serving to Re-Authenticate Microfinance Globally

Like Indian microfinance, it is premature to assess whether external supports for microfinance have served to re-authenticate the movement globally. Nevertheless, global microfinance is receiving outside support to help re-authenticate the movement. One key example is the Paris Appeal for Responsible Microfinance. The Paris Appeal is an initiative launched by Convergences 2015, a French non-profit organization aiming to alleviate poverty in accordance with the Millennium Development Goals (MDgs) (Convergences 2015 2011). The appeal is a collection of signatories aiming to "bring back ethical values and social orientation that should inspire all stakeholders in the sector and to offer to make self-regulation initiatives and rules converge toward a solid pedestal of principle" (Convergences 2015 2011).

In actuality, the appeal is better seen as a measure of reform that is proposing new rules concerning how MFIs should operate. Specifically, the appeal calls for "governance, efficient reporting and control systems, a system of supervision, a prevention of mission drifts and a code of conduct to which microfinance investors must subscribe" (Microfinance Africa 2011). Furthermore, Convergences is an organization committed to microfinance (Convergences 2015 2011). In fact, Convergences declares their "dedication to microfinance…aimed at reducing poverty and promoting the MDGs" in their mission statement (Convergences 2015 2011). The Paris Appeal, therefore, is not the creation of truly independent outsiders endeavoring to re-authenticate global microfinance. Nevertheless, Convergences does seek to use the Paris Appeal as a means of rallying outsiders and "[restoring] faith among the public" by collecting the signatures of influential outsiders like actress Natalie Portman, former Senegalese president Abdou Diouf, and deputy mayor of Paris Anne Hidalgo (Microfinance Africa 2011).

Conclusion

Re-authentication seeks to restore public confidence in a social movement whose legitimacy and feasibility as a mechanism for social change has been called into question following a crisis. A social movement seeks to re-authenticate itself through external support from respected outsiders who vouch for the movement.

In the case of Indian microfinance, external support is received from influential academics, celebrities, and powerful policymakers like the RBI. Globally, microfinance is being endorsed by the same social actors, but through a unified initiative called the Paris Appeal for Responsible Microfinance.

At the moment, however, it is too soon to assess whether these outside endorsements for microfinance both at the Indian and global levels will have the re-authenticating effect intended for these movements.

Conclusion

In 2010, the Andhra Pradesh government passed an ordinance prohibiting MFIs from distributing and collecting loans following allegations of over-lending and coercive loan recovery tactics that led MFI borrowers to commit suicide. The once lauded poverty alleviating movement was now perceived as a villain and facing insolvency—Indian microfinance was in crisis. But how a social movement like Indian microfinance should respond to a crisis is unclear. No theory explicating how social movements manage crises has yet been proposed in social movement literature. This thesis has sought to address this question. From the ample amount of business literature on crises and crisis management, this thesis has conceptualized five broad, yet distinct, ways a social movement might respond to a crisis and probed them in the case of Indian microfinance. The five concepts this thesis has analyzed are denial, retaliation, purification, reform, and re-authentication.

Analysis

The first concept probed was denial. The objective of denial is to deny guilt and avoid punishment. The two variants of denial are simple denial, denying that the event in question occurred, and responsibility denial, usually blaming some other cause for the event. Both variants of denial were observed to occur in the case of Indian microfinance.

Denial is a defensive strategy that offered mixed results as a crisis management tactic in this case. For example, SKS spokesperson Atul Takle's denial of any link between Indian microfinance and borrower suicide served only to further antagonize the public. Research group Governance Across Borders stated that Takle's comments "revealed a callous ego-perspective among MFIs" (Governance Across Borders 2010), reminding the public of "the shamelessness with which America's bankers have paid themselves million dollar bonuses while pauperizing their middle-class clients" (Dharker 2010).

Shifting the blame appears a more effective strategy. On one hand, the backlash resulting from simple denial did not occur after Indian microfinance blamed agricultural failure or an unpredictable market for the crisis. On the other hand, increased focus on agrarian policy and the absence of over-regulation could indicate that shifting the blame helped to mollify antagonism directed at Indian microfinance.

The second concept probed was retaliation. Like denial, retaliation is a defensive strategy used to quell the perception of a crisis. In contrast with denial, retaliation is effected by attacking the opponents of a social movement. The two variants of retaliation are to besmirch the credibility of a social movement's chief attacker/accuser and to blame a social movement's chief attacker/accuser for the crisis. Both variants were used by Indian microfinance leaders.

Retaliation appears an advantageous tactic. Many articles and blogs have emerged quoting Indian microfinance leaders attacking the Indian government for its exploitation of the SHG program and failing to regulate the microfinance sector (Paulson, Tom 2010; Salmon, Felix 2010; Polgreen 2010). At least within the media, this publicizing has mitigated antagonism directed towards Indian microfinance. But the advantages of retaliation are limited. For instance, Tom Paulson, *Seattle Post* journalist and host of *Humanosphere Community*, stated in his blog entitled "Don't be too quick to blame politicians, or the poor, for India's microfinance crisis" that stakeholders should "not lose the forest for the trees: Maybe India's microfinance industry is under political attack and facing collapse because it really did lose credibility due to excessive profit-seeking" (Paulson 2010). Paulson's statement, indeed the title of his blog, indicates that although retaliation has helped to lessen public hostility toward Indian microfinance it has not absolved the movement of liability.

The third concept probed was purification. Purification seeks to reduce any association a social movement has with malefactors within the movement who not only tarnish the movement's reputation and legitimacy, but might indeed be the culprits for the crisis. Creating distance and ridding the movement of perceived malefactors are the two mechanisms through which purification is affected. Both mechanisms were observed to occur in the case of Indian microfinance.

In one way, purification is a defensive strategy like denial and retaliation. Creating distance, for example, aims to redirect public antagonism away from Indian microfinance by naming MFI malefactors guilty of over-lending and using coercive loan recovery tactics as "rogue" operators separate from the movement. Unlike denial and retaliation, purification is also a corrective strategy that aims to purge these "rogue" MFIs from the movement by enforcing a code of conduct or utilizing a credit monitoring database.

It is difficult to assess how the public has responded to the promulgation of "rogue" MFIs. Other than a few skeptics questioning whether "rogue" MFIs do in fact exist (Arunachalam 2010), the concept of outlaws operating within the movement has been a speculation the media has promoted as opposed to rejected (Polgreen 2010; *The India Express* 2010). At the very least, creating distance seems more advantageous than damaging.

Ridding Indian microfinance of its malefactors by enforcing a code of conduct, however, appears to have a more restorative effect on public attitudes. According to CGAP microfinance consultant Daniel Rozas, the code of conduct demonstrates Indian microfinance's atonement for their wrongdoing and "challenges the narrative established in the media during the height of the scandal back in the fall of 2010" (Rozas 2012).

The fourth concept probed was reform. Unlike purification, reform is solely a corrective strategy a social movement uses to amend the wrongs within the movement and to bring about positive change. A social movement can reform itself by making procedural or substantive reforms. In the case of Indian microfinance, both variants were observed to occur.

Similar to the aforementioned strategies, the impact reformative measures have on public perception of Indian microfinance is difficult to measure. Nevertheless, Habitat for Humanity microfinance manager Sasidhar Thumuluri stated that there is optimism that key reforms "would go a long way in offering much needed legitimacy to microfinance institutions" (Thumuluri 2011). Indeed, Goodwill Investments, an Indian microfinance investor, announced that "confidence is returning to the microfinance sector in India" as a result of the Indian Microfinance Bill allowing MFIs to improve their financial services (Goodwill Investments 2011). It remains to be seen whether growing investor confidence will boost public confidence. Nonetheless, growing investor confidence is an encouraging sign for Indian microfinance.

The final concept probed was re-authentication. Re-authentication seeks to restore public confidence in a social movement whose legitimacy and feasibility as a mechanism for social change has been called into question after a crisis. A social movement is re-authenticated by receiving external support from respected outsiders who vouch for the movement. However, to persuade the different audiences that contribute to Indian microfinance, different kinds of outsiders are utilized. Academic experts seek to persuade policy makers while celebrities target small-scale donors and Indian politicians focus on users of microfinance. Re-authentication was also observed to occur in the case of Indian microfinance.

Re-authentication is not a defensive or a corrective strategy like the previously discussed concepts. Rather, re-authentication is a strategy of legitimation. Whether re-authentication has had a positive impact on the different audiences of Indian microfinance is difficult to measure. However, Water.org, Matt Damon's NGO that connects MFIs with households needing clean water, reported that they "raised $10 million in 2011, up from just $4 million in 2010" (Lamb 2011). If true, then this is a good indication that re-authentication has had a positive impact on public perception.

While this thesis has concerned itself with how Indian microfinance has responded to the Andhra Pradesh crisis, the crisis has also had important implications for how microfinance is perceived globally. As a result, these concepts were also probed at the global level of microfinance with all five concepts having occured. Similar to Indian microfinance, the impact that these crisis managing tactics have had on public perception is difficult to assess. But also similar to Indian microfinance, media attention on the global movement is not solely negative. At the very least, these tactics appear to reduce public antagonism.

Limitations of the Study

A number of factors have limited the scope of this thesis. The primary limitation of this thesis is the inability to assess whether the tactics probed in fact alleviated the perception of a crisis. As it is, the Indian microfinance crisis continues, albeit at levels less severe than in 2010, therefore rendering an assessment of the public's response to these crisis managing strategies too soon to apply. Nevertheless, this limitation does present an opportunity for possible future research.

A second limitation is the inability to conduct on-site research or interviews. This limitation, however, was less critical. The aim of this thesis was to document how Indian microfinance responded to the crisis to counter negative public perception. While on-site research would have been valuable, primary sources were used in the forms of journal articles written by either Indian microfinance leaders or reporters directly quoting these leaders.

One final limitation is the lack of objective scholarly sources explaining the causes of the Indian microfinance crisis. However, this thesis is less concerned with the causes of the crisis than with how Indian microfinance has responded to the crisis. The lack of objective sources is not, therefore, a critical limitation. However, understanding the causes of the crisis would provide a better understanding and assessment about the strategies leaders of Indian microfinance chose to exercise.

Policy Recommendations

Above all, leaders of social movements should study the business literature on crisis management. This seems a particularly reasonable recommendation, especially for social movements like Indian microfinance that resemble businesses. At least in the case of Indian microfinance, each crisis managing concept developed from the business literature was observed to be utilized.

With the exception of simple denial, all five strategies and their variants appeared advantageous. Simple denial, or denying that the events in question occurred, was observed to cause further public antagonism towards Indian microfinance.

Nevertheless, some strategies are defensive, e.g. denial or retaliation. Other strategies are corrective, e.g. purification, particularly ridding the movement of malefactors, and reform. The most advantageous strategy therefore depends on the situation. Defensive strategies like denial and retaliation can be deployed quickly and can serve to confine the damage done to a social movement's image. Purification and reform, by contrast, cannot be deployed quickly, rendering them less advantageous as swift public relations tactics. But unlike these defensive strategies, purification and reform aim to address the causes of the crisis. And although the cause of the Indian microfinance crisis is not yet known, efforts to stop harmful events from recurring is more conciliating among public perception than blaming some outside phenomenon.

A situational context also applies to re-authentication. Even supposing a social movement successfully deploys these defensive and corrective strategies, that movement's legitimacy as a mechanism for social change remains questioned. In this situation, the endorsement of influential outsiders becomes the preferred tactic. All things considered, each strategy discussed should be included in a social movement's crisis management repertoire and exercised when the situation demands it.

Recommendations Addressing the Causes of the Crisis

Although the causes of the Indian microfinance crisis are not the focus of this thesis, various policies and interventions might help to avoid future crises.

Transparency

Most importantly is the need for transparency. According to the Institute for Financial Management and Research, the "transparency deficit lies at the heart of nearly all contentious issues in Indian microfinance regulation" (Radcliffe &Tripathi 2006, p. 1). Some examples of a lack of transparency include hidden charges when disclosing interest rates or "tinkering with non-performing loans to hide borrower defaults" (Radcliffe & Tripathi 2006, p. 1). By suppressing such information, two problems arise. First, borrowers take on more debt than they intended. In order to cover these additional expenses, these borrowers acquire additional loans and soon spiral into an uncontrollable debt trap. The stress that accompanies such levels of debt has allegedly been the cause of MFI borrowers committing suicide.

Second, a lack of credible information results in suboptimal policy design. For instance, because the state and central government assume MFIs conceal borrower default by rolling over bad debt, political support for interest rate caps on MFI loans is strengthened (Radcliffe & Tripathi 2006, p. 1). However, interest rate caps would curtail MFI profits, which in turn could lead smaller MFIs to go bankrupt and discourage larger MFIs from entering into remote areas in most in need of financial services (Hulme & Arun 2011, p. 25).

To improve transparency, both the Indian government and Indian microfinance must standardize and enforce transparency norms. The Indian government should pass laws forcing MFIs to comply with pricing transparency guidelines while Indian microfinance should enforce transparent pricing through self-regulatory organizations like Sa-Dhan or MFIN. Such policies encouraging transparency would help to reduce borrower stress and discourage the Indian government from over-regulating or implementing misguided policy.

Increase Savings

Microfinance movements in Bali and Indonesia, for example, have shown that by providing savings and helping to ensure that MFI clients are able to meet their consumption needs and protected from future hardships, the possibility of these poor borrowers investing in an entrepreneurial activity increases (Ashta, Khan, & Otto 2011, p. 21). In other words, savings can help lead to fundamental economic development. As well, saving generates a positive commitment to a region "which might oppose suicide tendencies" (Ashta, Khan, & Otto 2011, p. 21). Considering these implications, it is recommended that the Indian government pass policy allowing MFIs to take deposits, a service MFIs are currently prohibited from offering.

Additional Measures

An additional intervention Indian microfinance should enforce to reduce over-indebtedness is the implementation of financial literacy programs. Financial literacy programs would help poor borrowers become more informed consumers of financial services thus helping to reduce instances of over-indebtedness. Although the impact financial literacy programs have on poor borrowers is difficult to assess, the general consensus is that "better educated consumers will make better [financial] decisions" (Cole & Fernando 2008, p. 6).

For its own part, the Indian government should relax mobile banking regulations. As it is, the penetration of rural banking in India is low. Although data is limited, an estimated 80% of poor Indians do not have access to financial services (Ghosh 2005, p. 5). However, mobile phone use among the rural poor is widespread and growing rapidly (Donner 2008, p. 5). Relaxing regulations on the use of mobile phones to provide financial services would allow MFIs to reach more unbanked people as well as discourage practices of multiple-lending to meet quotas and earn profits. Further, mobile banking is inexpensive because it requires minimal infrastructure. The money saved from not building banks or paying additional employees to administer financial services could be used to offer better prices on financial products. In turn, the competitive pricing resulting from reduced overhead would help to drive down the interest rates that have been perceived as seminal to the Indian microfinance crisis.

Implications for Social Movements Theory

The concept of a crisis is not new to social movement literature. In fact, political process theory is largely predicated on the idea that a political crisis translates into opportunities for successful social mobilization (Della Porta & Diani 2006, p. 16). This concept of a crisis, however, is limited to being part of the political environment external to the social movement and its participants. As it stands, little scholarly attention has been given to how social movements manage their own crises during active campaigns.

Even to think of a social movement in crisis within the framework of current social movement theory would evoke the common image of demobilization or movement decline as conceptualized by social movement scholars like Sidney Tarrow or Doug McAdam (Tarrow 1998; McAdam 1999). In examining the Civil Rights movement in the late 1960s, McAdam identified specific characteristics of movement decline like shifts in movement goals and diminishing organizational strength (McAdam 1999). Similarly, in examining the decline of the Knights of Labor in the early twentieth century, Kim Voss looks past the crisis by seeking to understand the causes of demobilization (McAdam et al. 1996).

But while the knowledge social movement scholars like McAdam and Voss impart is beneficial to social movement theory, it seems equally beneficial to consider how a social movement would respond at the moment of crisis. This thesis has presented the case of one social movement, Indian microfinance, responding to a crisis in distinct ways.

As it stands, there are at least five ways a social movement can respond to a crisis. To reiterate, these five strategies include: denial, retaliation, purification, reform, and re-authentication. Although it remains to be seen, these tactics could help to cast Indian microfinance along an alternative future path that does not involve demobilization. Of course, social movements vary in terms of organization, goals, and participants. As such, this research needs to be applied to other social movements in crisis now or in the past with the eventual goal of developing a model that explains how movements respond and should respond to crises.

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Appendix

The Paris Appeal for Responsible Microfinance

Microcredit has been a tool in the service of development and the fight against poverty for 30 years. In 2009, according to most recent figures from the Microcredit Summit Campaign, 190 million poor in more than 80 developing countries, more than 80% of whom are women, have received a loan to create or develop an income-generating activity. The amounts involved are small and increase gradually as the borrower has gone through various borrowing cycles without any repayment incidents. The interest rates are still relatively high to cover the operating costs and not to have to depend on external subsidies. But they have been falling constantly for 5 years thanks to the increased productivity of microfinance institutions. The distribution methods, payment schedules, and guarantee policies are adapted to the reimbursement capacities of the borrowers and to their very low level of financial education. In spite of its rapid development, micro-credit still reaches only a feeble fraction of potential beneficiaries: 2.5 million in Ethiopia, a country of 80 million inhabitants.

More recently, other financial services, in particular savings, payment and insurance services, have been added to micro-credit to offer a full range of simple and accessible financial micro-services to populations where the overwhelming majority has no contact with the formal financial system. These services thus meet two basic needs of all human beings: the need of advice and support in their economic risks, which is the role of credit; and the need to be protected against the vagaries of existence, which is the role of savings and insurance. This second function is seriously underdeveloped at this time: some dozen million families only benefit from micro-insurance against health or harvest-loss risks in developing countries at this time.

Microfinance activities have been expanded by several thousand specialized institutions of highly varying size and status. These institutions often play a social role which goes beyond their financial function. They contribute to the construction of a civil society more aware of its rights and more confident in its own strengths, to the promotion of women in economic life, and to the implementation of health and education programs. Some institutions develop a social kind of microfinance for very precarious populations. Their primary objective is the fight against poverty, with support to borrowers as an approach using non-financial services such as counseling, training and social support.

The impact of microfinance has been the subject of numerous academic studies which have brought forward the importance of financial services in reducing the vulnerability of low-income populations. The impact on the reduction of poverty varies depending on the regions and types of financial products on offer. Research studies are still in progress to get a better understanding of these phenomena.

These direct or induced benefits explain the success of microfinance, its rapid dissemination in more than 80 developing countries and the international recognition it has received, particularly with the International Year of Microcredit in 2005 and the awarding of the Nobel Peace Prize to Professor M. Yunus and the Grameen Bank in 2006. Widely spread within the countries of the South, the microcredit model was then introduced in more developed countries as a response to bank exclusion that affects the populations in greatest need or marginalized groups. The crisis hitting these countries can only enhance the role of microcredit organizations in providing guidance and support to those left out of the economic and financial system.

Because of this success, microfinance has been wrongly presented as a miracle solution to the problems relating to reducing poverty and underdevelopment. A simple reconciliation of outstanding microcredit sums in the world which run to about $65 billion, and the amounts of public aid for development ($100 billion), and remittances by migrant workers to their countries of origin ($300 billion), is apt to put microcredit in the proper perspective. Microcredit makes a fundamental and original contribution to development issues. It is well suited to encouraging commercial, craft and, to a lesser extent, agricultural micro-activities. It is a source of financial, economic and social innovation. But it cannot claim to replace public social security policies nor the development of the necessary facilities for health and education. On the other hand, it can improve the efficiency of such policies and programs thanks to its extensive network in the most underprivileged quarters and most remote rural areas.

Against the very promising background outlined above, microfinance institutions have seen their clientele grow very rapidly, at the risk of weakening the relation of proximity and trust which lies at the heart of their economic model. They have increased their credit portfolio at a very fast rate, at the risk of weakening the progressive implementation of financing cycles, reimbursement discipline, and the attention paid to the nature of the activities financed. To refinance their booming credit portfolio, some institutions have incurred excessive debts and, in certain cases, have exposed themselves to an exchange risk beyond their control. Institutions have defaulted in certain countries, and such defaults have at times been aggravated by political interference as in India or Nicaragua. These real excesses have nonetheless been contained. They have neither the scope nor the systemic character of hazardous financial innovations which unleashed the most serious crisis of the Western financial system since 1929, first in the United States, then in Europe. Furthermore, actions that could stop such excesses are relatively well defined:

- Strengthening the capacities of institutions, in particular in terms of governance, training of credit agents and improving risk management;
- Pursuing more sustainable and geographically better distributed growth, accompanied by over-indebtedness control mechanisms like risk assessment centers;
- Improving the regulatory framework, in particular prudential rules, and reinforcing supervision.

A far more difficult task is correcting the excesses reported by the media in certain regions of the world which seriously undermine not only the reputation of microfinance as a whole but also its very essence. Microfinance has from the outset aimed to reconcile an economic model with a social mission in the service of the poor. When in the name of profitability, some institutions adopt aggressive development policies, charge usurious interest rates, and implement tough recovery policies; they discredit the very model of microfinance and must no longer avail itself thereof. Reports – at times over-simplified – have focused on these excesses, not to mention the disinterestedness of thousands of managers and employees of institutions who remain faithful to the social mission of microfinance and are devoted to their community. There is a risk that the patient effort of building responsible microfinance institutions, which play an irreplaceable role in financial and non-financial services for the most underprivileged segments of the population, will be ruined by a few institutions that are only after profits.

Significant efforts have been made in the face of such risks on four fronts:

- On the customer information and protection front, a worldwide smart campaign is being pursued to improve products and practices.
- Standardized social performance indicators have been developed and more than 350 microfinance institutions have integrated them in their reporting. Social rating agencies have been set up with the support of the public authorities and they finance

more than 200 social ratings each year. Specific tools have been developed that measure the poverty outreach of a microfinance institution and to track changes in their clients' lives. The Social Performance Task Force is now working on a set of universal standards for social performance.

- Beyond "minimum" standards, the Microcredit Summit is developing a Seal of Excellence for Poverty Outreach and Transformation in microfinance intended to serve as an inspiration and recognition of what microfinance can achieve
- Finally, on the sector regulation front, the Basel Committee on Banking Supervision has for the first time published a series of recommendations on the supervision of microfinance institutions that raise public money.

These initiatives for responsible microfinance do not, however, suffice to prevent excesses and blunt criticism. Political impetus and a global initiative are needed to restore trust and confidence in microfinance and to embark on new paths for development.

The G20 has already decided to give fresh impetus to the development of inclusive financial systems. The Alliance for Financial Inclusion that brings together representatives of the central banks of more than 40 States in the South has been launched; and a work group that brings together the international organizations and supervisory authorities such as the Basel committee or the Financial Action Task Force has been set up to accelerate the necessary regulatory reforms.

Nevertheless, to meet its objective fully, such a global initiative must, whilst availing itself of the policy impetus of the G20, involve all microfinance stakeholders, whether field institutions and their national or regional associations, providers of capital and of specialized services, international institutions and regulatory and supervisory authorities.

Microfinance has not in fact followed a single model during the course of its very rapid development, but has adapted to the conditions of each country. According to countries and institutions, an unequal emphasis is made on poverty reduction or financial inclusion. Some institutions define themselves as social businesses by the fact that they redistribute profit to private stakeholders. Others consider that pursuing a social mission is compatible with remunerating capital, however limited. The diversity of legal statuses remains considerable in any way. This diversity is a valuable asset which must be preserved, but in a globalized and interconnected world, it must not stand in the way to a

basic set of principles and rules – which is required in order to maintain the trust of the public and to usher in a new phase of sustainable and responsible growth.

Experience has shown that this base should comprise principles and rules along the following lines:

1. The important role of microfinance as a tool for development, and a contribution of microfinance institutions to women's economic and social promotion of developing countries.
2. The economic model of microfinance meets a double objective of social impact and financial balance. The search for an effective social impact is rooted in the ongoing concern to reach the poorest populations by developing appropriate distribution networks, including in rural areas, by offering a complete range of products of financial and non-financial services adapted to their needs, and by showing moderation in interest rate and pricing policies for such services. **Social performance indicators** that meet standardized definitions must be used to certify compliance with these guidelines.
3. Microfinance institutions can develop in a sustainable manner only if they inspire trust and confidence through sound governance, robust prudential rules and efficient report, control, and audit systems. These rules must be subject to **supervision** and these systems must be **rated.**
4. Customer information and protection, the prevention of over-indebtedness, transparency in interest rates and prices, guarantee and recovery procedures, and agents who encourage promotion policies must comply fully with the prime vocation of microfinance, based on a relation of trust and respect for the customer. They must follow precise and verifiable rules, such as those which are developed by the smart campaign or the NGO Microfinance Transparency, and are enshrined in the **institution's ethical charter.**
5. Public and private international investors specialized in microfinance have a duty to act with due respect for the long-term interests of the institutions they support and to make financial independence their objective. This vision is based on compliance with an **investors' code of conduct for,** such as the Principles for Inclusive Finance developed with the support of the UN PRI, intended to guarantee that the conditions, in particular of duration and guarantee, of their financial contributions meet quality standards, that the rates and commissions charged are moderate, and that the

assistance offered does not expose the financed institutions to an unreasonable exchange risk.

1. Researchers and academics are encouraged to intensify dialogue with the microfinance sector to make objective impact studies, taking into account the diversity of local contexts. They are also encouraged to widely disseminate conclusions.
2. Donors and large private foundations have an essential role to play in promoting good practices, encouraging innovation in microfinance and supporting the diversification of microfinance activities. They must encourage the microfinance sector to cooperate with academic research in order to conduct objective impact studies and encourage it to engage in dialogue with development players so as to bring microfinance further in line with a global approach. Their aid programs must, as a matter of priority, be aimed at the most underprivileged countries, population segments and economic sectors where microfinance can make an essential contribution to economic and social development, in particular: sub-Saharan Africa, the farming sector and marginalized groups. These action priorities could be set out in a framework document on medium-term orientation, to be adhered to by the major international financial institutions, UN agencies, development banks, and cooperation agencies.

To give substance to this minimum set of principles and rules, with due respect to the diversity of microfinance, the signatories call for Microfinance "States General" , held per major region of the world and per major category of players, under the aegis of an organizing committee designated by the G20.

Convergences 2015

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