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# Research and Policy Briefs

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## **The end of microfinance in Andhra Pradesh? Politics and the neoliberal model of development**

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**A**t the entrance to the Dalit<sup>1</sup> colony of a small village in the district of Chittoor, Andhra Pradesh, a rusty billboard partly covered in weeds and plastic announces that microfinance could change a life. A little further on, another billboard has been cut and reused by a family to reinforce the roof of a hut for animals. The boards conceal the names of famous microfinance institutions (MFIs). In the town nearby, most NGOs have boarded up for good. The same scene is playing out in

other villages and towns across Chittoor district, like a cemetery of development activities, where the successive symbols of development projects are lying under the rubble of the business of poverty.

Two years after what has been called “the crisis of microfinance in Andhra Pradesh”, MFIs have left the state. The successive waves of indebted farmers’ suicides in Andhra Pradesh in the 2000s attracted global attention in 2010 when the media and social activists linked the suicides to microfinance. Various political parties took up the case and accused MFIs of being responsible for the suicides owing to their multilending activities and violent debt recovery methods. In October 2010, Andhra Pradesh’s government passed an ordinance to suspend all microfinance activities and organizations. Surprisingly,

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<sup>1</sup> Dalits are ex-untouchables, and the administration also classifies them as Scheduled Castes (S.C.). Dalit is a political category used as a generic term to unite a large number of ex-untouchables castes, whose life, work and agenda may often differ within and between castes. In the area covered in this article, the main ex-untouchables castes are the Malas and the Madigas. The Malas often have better socio-economic conditions.

the ordinance was implemented and became effective in little more than a day: people stopped making repayments and MFIs lost hundreds of crores<sup>2</sup>.

The end of repayments also affected small NGOs, however, who then needed specific authorization to run credit activities, which had to be renewed annually; meanwhile any individual loan was subject to months of checks from the new credit bureau. These administrative policies were successful in discouraging and bringing microfinance and microcredit activities to a halt. By early 2013, all the MFIs and most of the NGOs had slowed down their activities or closed down in the district of Chittoor: staff had lost their jobs, NGO leaders were having to find new activities and the public lost a form of credit support. The few remaining active NGOs now focus on what they perceive as consensual social issues (orphanages, old-age pensions, AIDS, watersheds) and/or the implementation of state public schemes. Only the Self-Help Group model under the Indira Kranti Patham<sup>3</sup> government program now continues, at a greatly reduced pace.

It is hard to explain the AP ordinance in terms of state concern for the fate of small farmers harassed and violently abused by MFI credit agents, however. There have been cases of failures, exactions, violence and corruption in MFIs, but politicians' attacks on MFIs and NGOs almost certainly reflect structural changes in state and political approaches to development issues. Politicians' sudden transformation into the champions of financial ethics and morality rings false. Linking suicides to microfinance probably hides more than it reveals about contemporary changes in the development sector and in rural economies.

This paper draws on my ethnographic fieldwork (2013) in the district of Chittoor, Andhra Pradesh, to examine how development actors have been interpreting and explaining the crisis and the changing relations and tensions (monetarisation, trust) between MFIs, NGOs and 'clients' over the past twenty years.

I will examine the implementation of microfinance in AP to show how the microfinance crisis reflects a crisis of the neoliberal development model based on *money* as the only way to address poverty and development. The AP ordinance is moreover part of wider political attempts to limit and control development actors' spheres and scopes, to ultimately silence

<sup>2</sup> Millions of Indian rupees.

<sup>3</sup> The former microcredit and anti-poverty programmes (DWCRA (*Development of Women Children in Rural Areas*) and Velugu) have been integrated into IKP.

further challenges in an era of political clientelism and agrarian change. This as such highlights the complex interrelations between politics and market-based forms of development in India..

### **The social, economic and legal trajectories of NGOs**

Starting in the 1990s, the state of Andhra Pradesh became a microcredit leader, with the largest number of Self-Help Groups (SHGs) in India. Microcredit was sustained by the regional Telugu Desam party and its leader Chandrababu Naidu, and was designed not only to soften the impact of neoliberal policies on the (working) poor, but also to win the votes of women. The structural transformations of rural economies and agrarian societies over the past 20 years have been characterized by intense labour circulation and insecurity, the rolling out of commercial GMO crops and costly pesticides, and the decline of patronage. These put farmers and the working poor under considerable pressure, as the rising inequalities in India over this period testified (Picherit 2012).

NGOs played an active role in this process and, largely through the support of foreign donors (in the 1990s), credit gradually became one of their main programs. This led to the professionalization of NGOs into business-capitalist oriented activities and

to rising differentiations between the “targeted groups” of the organizations (the poor with credentials, and the rest). The 2000s saw MFI growth driven by profits, assessed on the sole criteria of debt recovery rates via any method. These transformations were long seen as a success story, whatever the consequences for those who had been transformed into clients. The microfinance business model based on the violence of market-based relations came alongside the state’s development agenda, political clientelism and the monetarisation of social relations.

The case of FPTC is exemplary of the social, economic and judicial trajectories of some NGOs over the past two decades. FPTC is based in Chittoor and best illustrates the move by NGOs towards business from the 1980s. In 1982, Narasimha Reddy, then in his twenties, entered the *Indian Rural Reconstruction* program. This training school was designed to encourage young people to found rural NGOs. After a few years of training in India and abroad, he started his own NGO in 1986 in the constituency of the TDP’s leader, Chandrababu Naidu. The NGO was called PSP and implemented various programs for land and water conservation, forestry, awareness and skill development in few hamlets, and was

funded by national and international subsidies.

In the 1990s, OXFAM managed training courses on the financial independence of NGOs in India, a concept Narasimha Reddy took seriously: he became independent in three years by shifting his activities to credit and saving. In 1995, to come into line with his main activity, he used the available juridical frameworks to transform his NGO into a Mutually Aided Cooperative Society – MACS. To sustain his organization, his first mentors (IRR) encouraged him to extend his financial activity from few to 100 hamlets in 5 sub-districts (*mandals*).

In 2003, his mentors again encouraged him to develop commercial credit with higher interest rates in urban areas of Chittoor district. The expansion was impressive. He also used various regulations to set up an NGO for his credit activities in the neighbouring states of Tamil Nadu and Karnataka:

*“There was huge competition with Spandhana, SHARE, SKS and other MFIs. But in a few years we reached 50 crores, 60 crores, like that up to 100, 200 crores”.*

In 2007, to cope with the growth, he turned his enterprise into a NBFC, a Non Banking Financial Company. Growth was steady, with 5 to 10 crores of profit annually up to 2010. But capitalization was low and fresh

investors were needed. However, beyond economic motives, the social background of NGO leaders turned-businessmen had its importance:

*“The activity was expanding so drastically that it required a professional approach for the future, from Human Resources to planning. More than 600 staff. As you know, I have an NGO background and to some extent only I can control with my people”.*

Finally he opted for a group of private investors, who took the majority stake and full management decisions in the companies they invested in (across all sectors). Narsimha Reddy sold his share in October 2010, a week before the A.P. ordinance was passed:

*“In a month, microfinance collapsed and we lost 60 crores”.*

As Reddy had always been the manager, he had no choice but to go through corporate restructuring.

The history of this NGO dovetails with most of the transformations in the development sector of the past thirty years. Staff professionalization, the end of foreign subsidies in the 2000s, and dramatic growth are some of the key drivers behind the juridical and administrative changes his organization underwent.

Once debt recovery rates became the alpha and the omega of the business, the myths of the 1990s stood little chance. Hopes have crashed down for microfinance to be the solution to end poverty, to empower women, transform the poor into successful entrepreneurs, generate sustainable employment, foster education and awareness, and more through access to financial services. Everyday market-based relations took their place, with their own forms of violence.

This process has also affected smaller NGOs which took some of the same steps. As Kumar, a former NGO leader, points out:

*“At this time, a one page-project with microcredit was enough to get lakhs of rupees from funding agencies”.*

When foreign donors started to shift their activities from south to north India at the turn of the 2000s, many NGOs focused on microcredit, which they viewed as the only way to maintain the social programs and their staff.

*“Otherwise how could we pay the staff?”*

Many socially oriented activities were reduced, however:

*“We were just like a bank, we had to recruit English speaking staff to write reports and apply for more money. Those educated people don't want to go to*

*villages and are unconcerned by the education of the poor or empowerment”.*

NGO staffs' new working cultures and their increasing administrative workload deeply affected their relations with poor people, who became their clients. As Raju, a former NGO leader, discusses, these everyday changes became starkly apparent when the AP ordinance was passed and NGOs could no longer go to collect the money from the villages:

*“We are now bonded to the people, agents refuse to go to villages, but we still have to repay the funders. How can we do that?”*

While the losses have been huge for the MFIs, the situation is critical for small NGOs, as the government is using administrative barriers to hamper any NGO microcredit involvement.

This situation has led to strong NGO criticism of the politicians and the state:

*“They have killed us. Since when does the government care about people? Since when have politicians been interested in farmers?”* comments Govindappa, an NGO leader.

### **Politics, microfinance and development schemes**

In the 2000s, NGO and MFI practices gradually came under attack from local political leaders, state employees (who were accused of being “inefficient

bureaucrats” by “arrogant” MFI leaders), but also from the developmental agenda of the state and its various schemes.

From the DWCRA of the 1980s, to the 1990s’ neoliberal version of the SHG under Chandrababu Naidu, politicians have always used such schemes to gain electoral favours. SHG members are mobilized as a direct and flexible way to influence the public through political meetings, women’s empowerment, public health campaigns or via any other social issue. SHGs are locked into village power relations and local leaders maintain a stronghold over those groups. MFI leaders see this as the weakness of SHGs:

*“During the elections, repayment rates go down because leaders ask to postpone in order to get votes. Everything depends on who is collecting the money and we were successful. We had money and the people enjoyed our services, so politicians were afraid that we might play a role in politics”.*

This objection points to the importance of politics but also to the social relations within the economics. MFIs pride themselves in getting high repayment rates whatever the local context, an ideological stance some NGO leaders have criticized:

*“MFIs had no limits, they were all competing: how many people do you cover? What is your quote rate? were the*

*only issues. The leaders did not want to know about anything else than 100% repayment. So credit agents even stopped some funerals to force the family to repay the debts”.*

Such competition led to multiple lending and weekly repayments to credit agents coming from outside the village’s social network: Narasimha Reddy concedes that *“there might be some excess here and there”*, clearly being reluctant to critically assess his role.

Criticisms of the NGOs who took part of the same path focus less on violence than its morality. Such organizations claim to be locally integrated, and to offer flexibility and repayment schedule negotiations. The violence however mixes patronage, the sexual harassment of women, honor, and prestige threats with market-based relations, stressing the monetarization of social relations.

Some MFI and NGO leaders claim that the huge flows of money, the lifestyle and salaries of some microfinance leaders and in a few cases, their political ambitions, as well as MFIs’ growing independence, began to irritate many political leaders. Narasimha Reddy argues that the influence of the World Bank was decisive for the government:

*“The state cannot renew its grants from the World Bank with its low records of SHGs*

*and their main argument is that as long as IMFs are successful we cannot move forward*'.

The AP ordinance cannot however be taken in isolation from the state and its development schemes. In the 2000s, growing numbers of schemes were created to address issues considered to be NGO areas. As a key tool at election times, schemes are the flagship of political parties, and are often delivered to the poor (the so-called “beneficiaries”) in the name of a political leader. Any criticism of a program or its implementation takes on local political overtones. From the 2000s, the TDP started to harass NGOs, and Congress from 2004, as Venkatamma, the head of a Dalit NGO, discusses:

*“They used to come to my office to threaten me, telling me that we should not do this and that, otherwise we would not have support anymore”.*

The government moreover increased the restrictions (and the threats) for delivering the crucial Foreign Control Regulation Act (FCRA), which was a very effective way to silence NGOs. In Andhra Pradesh, 667 NGOs lost their license in July 2012<sup>4</sup> (as

opposed to 289 in Karnataka and 110 in Rajasthan) and 54 in Chittoor district<sup>5</sup>.

In this context, powerful local and state leaders were key in silencing NGOs, by refusing any sit-ins or other public demonstrations and by publicly disregarding the works of the NGOs. As such, politicians played a very active role in banning microfinance. In the days following the ordinance, Chandrababu Naidu, the former CM, appeared on television to urge people to throw their sandals at credit agents. Local politicians quickly announced the end of repayments to village residents.

Public schemes, a lack of foreign subsidies and political pressures have radically changed the development landscape and entrenched divisions between organisations, who failed to stay united:

*“We had regular meetings between the NGOs of Chittoor but this gradually vanished and there were more and more conflicts between NGOs and leaders”* recalls Venkatamma.

The development sector in the district is highly fragmented by caste, class and ideologies: Dalit (ex-untouchables) NGOs and trade unions faced internal tensions between Malas and Madigas, which were

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[http://mha.nic.in/fcraweb/fc8\\_cancel\\_query.aspx](http://mha.nic.in/fcraweb/fc8_cancel_query.aspx)

5 Interestingly, Tamil Nadu, where there were NGO-led protests against an atomic power plant, was the most heavily affected, with 794 cancellations.

sustained by political movements dedicated to a caste of ex-untouchables in conflict with the other<sup>6</sup>.

### No future?

The microfinance crisis is part of a broader movement to control the activities of private development organizations as a whole, and to constrain their spheres of intervention to the implementation of state programs. The ordinance had a considerable impact on the ways MFIs and NGOs envisage the future: all the development actors I met only spoke about the past!

While a few MFIs are awaiting the upcoming elections in 2014 and hope for a cancellation of the ordinance, they maintain a capitalist viewpoint as regards the economic crisis and the role of the state. Unsurprisingly, they contrast state bureaucracy with the financial culture and efficiency of microfinance, and also view the crisis as a regulation by the market itself:

*“To start again would be a challenge. After two years, clients have disappeared or have been spoiled; this is the culture here to postpone the repayments if no one*

*comes; it would take another year just to instigate again this culture of repayment. But only the best have survived so that could be faster.”*

Microfinance is however driven by the central question of how to make a profit from poor people. The ‘best’ MFIs are those that are keenest to increase their lending and that are prepared to use the most violent forms of repayment to ensure 100% recovery rates. Only the biggest were able to survive, through lucrative business in other states with varying degrees of legality. A recent scam has again highlighted this. Of the 500 crores of rupees allocated to a government scheme for waivering loans for farmers with less than two hectares of land, 150 crores have been siphoned off by a nexus of banks and MFIs, and the beneficiaries have mostly been big farmers.

Smaller NGOs avoid taking responsibility for the situation, criticising the poor for behaving like ‘clients’, which is however simply a reflection of the monetarisation of social relations these very NGOs put in place. NGOs are rewriting the past with the myth of trust relationships between NGOs and the poor, and are insisting that there is a difference between the capitalist practices of the MFIs responsible for the crisis, and the moral economy on which their activities were supposedly grounded:

<sup>6</sup> The Madiga Reservation Porata Samithi (MRPS), known as Dandora, is fighting Malas for a greater share of the Scheduled Castes quota in public sectors (schools, administration...).

*“We helped them for years and then they stopped repaying and treated us without respect. Since we have no projects, they left us. So we can only work as subcontractors for the government which uses our NGO as cheap labour. No pensions, nothing. NGOs are all finished now.”*

This only highlights the reticence of the public towards NGO paternalism and the gap between NGOs and the working poor’s expectations. NGOs too adopted elements of neoliberal terminology to receive funding. They spoke of the livelihoods of “clients” and “beneficiaries”, to project an image of the poor as responsible, dynamic, consumerist and entrepreneurial. Class relations and power struggles were ignored.

Unsurprisingly, the rising monetarisation of social relations has led to the development of instrumental relations between “clients” and NGOs. From the start of the crisis, the public discarded NGOs, which could no longer sustain social activities, turning instead to small local musclemen and leaders who were in a position to support them effectively, whatever their ideology, with applying for credit or accessing development schemes.

If MFIs have fully separated off their financial activities from their social goals, NGOs have also failed to address the

indebtedness of labourers in relation to the increasing insecurities of labour markets and agriculture over the past ten years (Taylor, 2011; Guérin *et al.* 2012). The crisis of microfinance is one of the neoliberal models of development, where money is the main focus of development programs. The poor are chosen, quantified and categorized in terms of their capacity to borrow and repay, while women’s empowerment is reduced to a financial equation. Despite huge MFI interest rates, the suicides, violent money collection methods and forced multiple lending, some economists (see for instance Banerjee & Duflo 2011: 175) still maintain that government was responsible for the microfinance crisis. They continue to see the market as the solution (assessed by their “economic” trials on the poor), which would guarantee profits for MFI leaders and stakeholders through the business of poverty, but limit profits for women (Garikapati 2008). Out of clientelism, state and politics have halted an activity sold all over the world by the gurus of ‘social business’ as the solution to make poverty history. For the working poor however, the situation proves that financial activities *for* the working poor have to be closely linked to improved wages, rights and changes in power relations.

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