GIDR WORKING PAPER SERIES
No. 195 : December 2009

Social Responsibility of Indian Microfinance: A Critical Review

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Working Paper No. 195

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December 2009

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First Published December 2009
ISBN 81-89023-53-5
Price Rs. 35.00

Abstract

This paper discusses the issue of social responsibility of Indian microfinance using two theoretical streams from business social responsibility research – stakeholder theory and social contract theory. It argues that being distinct entities that aim to produce pro-poor social change through the instrumentality of financial service business, microfinance initiatives should clarify and endorse their responsibility and responsiveness towards the communities they claim to serve. This can be done only by assigning primacy to clients as stakeholders. Meaningful social contracts based on trust and reciprocity, self regulating codes of conduct and concern for inclusive processes are central to being socially responsible.

Keywords : Microfinance, India, self help group, social responsibility, social contract, stakeholder

JEL Classification : D70 and L31.

Acknowledgements

The authors gratefully acknowledge the very useful comments provided by Navin Anand, Graham Wright, Krishna Kumar Singh, Bonny Zare, Sushanta Kumar Sharma and D. Yeswanth. The usual disclaimers apply.

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Social Responsibility of Indian Microfinance: A Critical Review

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1. Introduction

Having started off as a community based solution to the problem of access to financial services for the poor microfinance in India has travelled a long way in just about two decades since the early 1990. Self help groups (SHG) organized around an informal set of norms of mutuality and trust was the earliest institutional form of microfinance in the country. The members of the SHGs were required to save up small amounts of money which they would deposit with formal banks. The savings thus collected would be revolved among the members as small loans carrying relatively lower interest rates to meet emergency expenses. Ever since the institutionalisation of the SHGs in the early 1990s, there have been some experiments around the methodology of group lending. The non government organisations or NGOs, who were seen as facilitators in the SHG model have adapted the Grameen methodology of group lending to directly engage in delivery of micro loans. They concentrated only on lending as not-for profit entities were legally prohibited from mobilising deposits from the public. Some tried to work through cooperatives and federations of SHGs.

Over the past decade, the SHG movement has spread far and wide in the country, while many of the pioneer NGO microfinance programmes have developed into mammoth financial intermediaries. Largely concentrated in the southern states of the country in the initial years, many of the microfinance NGOs also aggressively expanded to other regions during this period. By 2007-08, the number of bank linked SHGs stood at 36 lakh. The cumulative disbursements grew from Rs. 29 lakh to Rs. 17000 crore during the period between 1992-93 and 2007-08. Though

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the country is yet to have an authentic, all-inclusive and single point database on the number and spread of microfinance intermediaries – known as microfinance institutions or mFIs - the available information suggests that both client and credit outreach figures of such organisations are very impressive. The top 50 microfinance intermediaries (mFI) together claim outreach of more than 1.2 crore borrowers and portfolio outstanding worth Rs. 7700 crore. They operate in multiple states too. SKS Microfinance, the largest mFI in the country, operates in 18 states through close to 1400 branches and 12000 staff members as on September 2008 with a portfolio outstanding of Rs. 1800 crore (CRISIL, 2009). The portfolio outstanding of Spandana, the second largest mFI, stood at Rs. 1200 crore and reported membership across 9 states at 17 lakh. Its operation spread across 9 states. It may be noted that among the top 10 mFIs in India, seven are non-banking finance companies or NBFCs that, unlike the NGOs, are regulated by the Reserve Bank of India (RBI) and legally sanctioned to make profits from microfinance activity.

Such phenomenal growth for profit entities, the possibilities of further growth and the ambiguities related to regulation and control of not-for-profit legal entities doing financial intermediation prompt even small and medium mFIs to transform in to NBFCs. By becoming NBFCs they can obtain legal legitimacy and also resolve the issue of capitalization with the help of private equity providers.

In the original scheme of things empowering the poor and establishing a long term organic relationship with them were central to the very concept of microfinance. Hence, in the initial years the major debate was around the need for regulation and supervision of NGO-mFIs to ensure protection of the interests of the small savers, credit and financial discipline and institution and development of reporting system (NABARD, 1999). In the absence of a proper regulatory mechanism, also emphasized was the need for self- regulatory organizations that could oversee the functioning of mFIs, develop their capacities and be their spokespersons. Such debates yielded precious little in terms of state action, though the governmental recognition of microfinance as a poverty alleviation

tool has borne some visible gains to the SHG movement in the country, especially in states like Andhra Pradesh, Kerala and Orissa.[1]

The for-profit mFIs, as we said earlier, are regulated and have the legal sanction to carry out the business of financial service provision. They also represent a paradigmatic shift in Indian microfinance - the transformation of microfinance from a development model that seeks to enhance social wellbeing through the instrumentality of business into a business initiative, the predominant goal of which is profit maximization. Working within the logic of maximising profit and investor returns, in its current phase, the strategic focus of microfinance seems to have shifted from clients to the mFI. In other words, the mFI is an end, and the clients, sheer instruments for the mFI to achieve its objectives with respect to growth, outreach and profit.

The shift in the focus of microfinance has been accompanied by changes in the structure of management of Indian mFIs, their stakeholder profile and composition and the resultant shift in the ownership and control structures. What are the implications of this rather dramatic change for the sector's assumed ability to be responsible for and responsive to the communities that they serve? Or, as conflict of interests and claims among clients, management and investors become rampant, whose interests will assume primacy and determine mFI strategies - the prescriptions and priorities of the financial market players or the needs, constraints and priorities of the ultimate users of microfinance services? If the latter is not able to assert their stake in this transformation, the original goals of social inclusion and change may not be achieved for a very long time.

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[1] Since 1995 the Andhra Pradesh government has been playing a central role in promoting SHGs and linking them with banks as part of poverty alleviation programme. As on March 2006, for every 1000 households in the state 279 were part of SHGs. (Fouillet and Augsburg, 2007). Launched formally in 1999, the *Kudumbasree* programme, the poverty eradication mission of Kerala government, uses the methodology of women's neighbourhood groups or NHGs. By 2008-09, 500 in every 1000 households were reported as participants of the programme. See, *Annual Administration Report 2008-09* of Kudumbasree. Similarly, *Mission Shakti* the self help movement in the eastern state of Orissa (started in 2001) claims participation of close to 4 million women. See http://www.wcdorissa.gov.in/. This accounts for about 30 per cent of the adult women population (above 15 years of age) in the state.

This paper explores the apparent dilemma of Indian microfinance in keeping the social change focus while chasing economic goals. By drawing on some of the relevant insights from the literature on business ethics and business social responsibility we will attempt to critique the existing attempts at restoring the social development dimension of mF and put forward an alternative perspective that asserts the primacy of the poor clientele.

2. Social Responsibility of Business: Towards a Conceptual Understanding

The role and responsibility of business with respect to society has been a contested issue. Some view that shareholder wealth maximisation is what business social responsibility is all about. The counterview is that the legitimacy of business rests on its service to the community and not on its ability to generate profit for its owners. Society, as represented by a host of distinct constituencies, is the predominant stakeholder of any business which makes societal obligation the *raison d'être* of its functioning. This debate has become more complex when the not-for-profit organisations, driven by the compulsion to achieve economic sustainability, have started organising some of their activities on for profit mode. Addressing such initiatives from the point of view of business responsibility may, *prima facie*, look inconsequential as the very rationale for their incorporation is located in their social change mission. However, it is important to recognize that profit-maximisation objective demands amends in the overall culture and behavioural patterns of even not-for-profit entities, which, in turn, may produce outcomes that do not necessarily increase overall societal wellbeing or serve the entity's original, altruistic goal of social transformation.

Social responsibility is intrinsically rooted in an entity's commitment to the principle of egalitarianism, an ideological commitment that co-exists with individualism (Bobo 1991) Applied to the realm of business, social responsibility means business responsiveness to societal issues and a motivation to go beyond economic, technical and legal obligations towards ensuring greater social wellbeing. In other words, it is an obligation to fulfil the societal demand in such a manner as 'to safeguard the interests of those who deal with it either as employees or consumers *even if the proprietary rights of its owners are thereby curtailed'* (Dodd 1932: 1162 emphasis added).

Who should businesses be responsible to while addressing the interests and claims of various groups? Many theorists have made significant contribution

towards unpacking this dilemma through the concepts of stakeholding and stakeholder.[2] Freeman (1984) defined stakeholder rather broadly as any group or individual who can affect or is affected by the achievement of the organisation's objectives.[3] While tracing the history of the term, Freeman argues that the concept was originally defined as 'those groups without whose support the organisation would cease to exist'. Such groups could include shareholders, consumers, users, neighbours, governments, suppliers, creditors, and distributors.[4] Donaldson and Dunfee (2000) extended a more pragmatic explanation: a stakeholder is the one who has an 'obligation-generating stake' in an organization's decision that results from the possibility of getting affected by that decision or from a potential risk. The concepts of stake (including non-financial stake) and risk help one focus sharply on those entities with legitimate claims, irrespective of their power to influence the business firm. The theories of stakeholding emphasize the complexity of transactions that involve multitude of factors.

An interesting attempt to answer these questions came from Mitchell, Agle and Wood (1997) offer a framework to analyse stakeholder salience and identification on the basis of three attributes: 1) power (to influence the firm decisions); 2) legitimacy (of relationship with the firm), and urgency (of claims on the firm).[5] By examining the various combinations of these

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[2] Having originated in the mid 1980s with the publication of Edward Freeman's work, *The Strategic Management: A Stakeholder Approach*, stakeholder theory has evolved into an integral part of strategic management. For an interesting discussion on the evolution of stakeholder theories, see, Freeman and McVea, http://papers.ssrn.com/paper.taf?abstract_id=263511.

[3] Quoted in Sternberg, 1999: p.46. This definition is offered by Edward Freeman in his 1984 work *Strategic Planning: A Stakeholder Approach*.

[4] Some of the broad definitions of stakeholders are provided by Alkhafaji ("groups to whom the corporation is responsible") and Thompson Wartick and Smith (groups "in relationship with an organization"). See, Mitchell, Agle and Wood (1997) for details.

[5] Mitchell, Agle and Wood (1997) have presented an exhaustive list stakeholder classes while trying to model stakeholder identification and salience. These are owners and non owners of the firm; owners of capital or owners of less tangible assets; actors or those acted upon; those existing in a voluntary or an involuntary relationship with the firm; rights-holders, contractors, or moral claimants; resource providers to or dependents of the firm; risk-takers or influencers; and legal principals to whom agent-managers bear a fiduciary duty.

attributes, they classified stakeholders into three broad classes (latent, expectant, and definitive) and seven types (three possessing only one attribute, three possessing two attributes, and one possessing all three attributes).

Table 1 : Stakeholder types by attributes

Class	Type	Attribute	Ability to demand attention
Latent Stakeholders	Dormant	Power	No or little interaction
	Discretionary	Legitimacy	Managers are not encouraged to interact
	Demanding	Urgency	Irksome, but do not warrant attention of management
Expectant Stakeholders	Dominant	Power and Legitimacy	Expect and receive attention, but not the full attention of managements
	Dependent	Urgency and Legitimacy	Support of other stakeholders or guidance by internal management's value needed
	Dangerous	Urgency and Power	Potential risks to stakeholder-manager relationship; to individuals and entities involved
Definitive Stakeholders	Definitive	Power, Legitimacy and Urgency	Managers have clear and immediate mandate to attend to their claims; expectant stakeholder can move to become definitive stakeholder; common occurrence is movement from dominant stakeholder to definitive stakeholder category

Source: Adapted from Mitchell, Agle and Wood (1997).

The definitive stakeholders are the 'mighty' ones in this scheme as their interests become managerial priorities. Within the class of expectant stakeholders both dominant and dangerous stakeholders too can influence decision making. However, the former lacks urgency and the latter, legitimacy. Dependent stakeholders are peculiar in that they have urgent and legitimate claims, but no power. In the transition from expectant to definitive stakeholder, this is the type that tends to lose out unless deliberate efforts are made to 'empower' them.

How does the management engage with its different stakeholders? Social contract theory offers a valuable framework to address the complexities involved in ethically incorporating multiple stakeholder concerns and priorities in routine management. We will elaborate this in the following section.

3. Social Contract: A Framework to Create Moral Communities of Stakeholders

The theory of social contract originated in Europe and evolved through the 17th and 18th centuries as part of the intellectual pursuit of political theorists like Thomas Hobbes, John Locke and Jean Jacques Rousseau to find a philosophy that legitimizes the role of government and the authority of the state. According to Rousseau's conceptualization a social contract entered into by a group of people is a special kind that changes their natures and individual personalities. It creates a collective agency out of isolated natural selves of individuals which is capable of both embodying and legislating over their individual wills. Rousseau insisted that the social contract is not a permanent phenomenon. It needs continuous reaffirmation by the citizens.

Donaldson and Dunfee (1994 and 1999) adapted social contracts to the context of business as informal, implicit, but critical agreements that exist within industries, national economies, trade groups and corporations and that bind these into moral communities and provide them with a moral framework for engaging in economic activities. The new social contract theory - the Integrated Social Contract Theory (ISCT) – they introduced in the early 1990s was based on the idea that the rules of behaviour within communities are founded on social norms.[6] The ISCT encompasses two types of social contracts: a normative, hypothetical macrosocial contract used as a heuristic device and the multitude of actual microsocial contracts found in various living communities. The terms of the macrosocial contract can be elaborated thus:

- Local economic communities have 'moral free space' in which they may generate ethical norms for their members through microsocial contracts.

[6] In the ISCT model community is defined as a "self-defined, self circumscribed group of people who interact in the context of shared tasks, values, or goals and who are capable of establishing norms of ethical behaviour for themselves". Donaldson and Dunfee (1994) quoted in Dunfee, Smith and Ross Jr. (1999).

The term 'moral free space' is used to denote the right of the local communities to define the critical aspects of their morality. It reflects the enormous variety in cultural, religious and moral preferences among individuals and communities and provides an ethical justification for diversity.

- Norm generating microsocial contracts must be grounded in consent, buttressed by the rights of individual members to exercise voice and exit.[7]

This clause suggests that there are limits to moral relativism as implied by the term 'moral free space'. While communities have differing norms, within the moral free space, they may generate 'authentic norms' or the norms to which members have consented in a real and informed way (Fort and Noone, 1999). The consent, however, also means that the community respects the right of its members to exit and raise voice. In sum, a norm supported by the attitudes and behaviours of a substantial majority of community members who recognize the right to voice and exit becomes an authentic norm.

- In order to become obligatory or legitimate, a macrosocial contract norm must be compatible with hyper norms.

Hypernorms are the universal principles that limit the moral free space and bound the authentic norms. They are fundamental principles that are used to judge the community generated norms.[8]

A social contract among all the salient stakeholders of the organization serves as a touch stone to review and assess the outcomes of the day to day running of the organization (Sacconi 2004). A typical social contract ensures avoidance of force, fraud and manipulation. It also allows each party to negotiate on the basis of its capacity to contribute and its assessment

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[7] Dunfee, Smith and Ross Jr. (1999) use the term 'protected informed consent' to denote this.

[8] Three types of hypernorms are identified by Donaldson and Dunfee: structural, procedural and substantive. Structural hypernorms are principles that establish and support essential background institutions in society (e.g., to honour institutions that promote justice and economic welfare). Conditions that support consent in macrosocial contracts are called procedural hypernorms (e.g., rights to voice and exit). Substantive social norms consist of fundamental concepts of the right and the good (promise keeping, respect for humanity). See, Donaldson and Dunfee (1999): p. 53.

of the utility of each agreement/ non agreement. With the help of a social contract each stakeholder can make sure that it derives at least the reimbursement of the cost of specific investment that it makes towards surplus generation. In other words, a social contract can be used to regulate the distribution of surplus and may work as a cognitive gap filling tool with respect to the organisation's commitments and the stakeholders' expectations in the presence of incomplete information. It may be noted that the ethical validity of the final agreement depends as much on the process as on the outcome. And the process must be inclusive, democratic and free of power asymmetries.

4. Efforts to Keep the 'Social' in Place in Microfinance

It needs to be recognized that commercialisation of microfinance has led to an increased interest in reasserting the social developmental role of microfinance. Many efforts are on to develop tools and methods to assess the social performance of mFIs as also to ensure that mFIs remain socially responsible. Interestingly, most such efforts are driven by the investors who want to establish that their investments have gone in to poverty focused and sustainable microfinance ventures. Compared to the conventional impact studies that demand costly and elaborate research plans, some of the social reporting methods are simple and easy to administer as the social aspects of microfinance are filtered down to a minimum number of easily traceable indicators with a primary focus on 'outreach to the poor'.[9] In this sense, these instruments do undermine the relevance of qualitative impact studies.

With regard to the ongoing efforts to assess the 'social' in the performance of microfinance institutions, two developments need special mention. One, the concept of Social Performance Management (SPM) developed by the

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[9] For instance, the Progress out of Poverty Index (PPI) followed by the Grameen Foundation uses 10 locally relevant indicators such as family size, the number of children attending school, the type of housing etc with the help of staff members through client interviews. Each indicator is assigned a score that reflects client response, and all ten indicators receive a total score. The field staff of the mFI matches the total points from the clients' PPI to a poverty level estimate which help in ranking individual clients. PPT, it is claimed, will help the mFIs to (1) better define and adhere to their missions; (2) increase their competitive edge, profitability, and ability to retain clients by responding more quickly and effectively to changes in their communities and by showing documented results; and (3) to provide timely and accurate information to socially.

Imp-Act Consortium and two, client protection principles formulated through the concerted efforts of 33 microfinance investor institutions.[10] The third initiative that needs some attention is that of self regulation.

The Consortium defined SPM as the process of translating mission into practice, including setting social objectives, tracking social performance and using information to improve practice. The efforts of the Consortium are aimed at developing tools and methods that can be used by mFIs to pursue their social mission, if they have one, as part of a deliberate and managed strategy. It is also believed that by managing social responsibility, mFIs will be more successful in achieving their social goals if they can measure, monitor, and manage their progress towards them, a practice they follow with respect to their financial goals. More over, like private sector firms, mFIs can benefit from strategies that allow them to protect and enhance their reputation; attract, motivate, and retain talent; manage and mitigate risk; improve operational and cost efficiency; ensure license to operate; develop new business opportunities; and build stable and prosperous operating environments (Seep Network, 2008).

There is little doubt that the on going work on SPM has immensely helped the mF industry to wake up and review its growth experiences in a new light. Detailed organisation-specific information on aspects like governance, client targeting, HR policies, MIS, transparency, depth of outreach etc has been generated through the social reports that are prepared as part of SPM audits. Social responsibility is regarded as one of the four dimensions of SPM, the other three being mission, strategy and systems, outreach and quality of service. This SR dimension is broken down into responsibility to clients, staff and community.

The formulation of Client Protection Principles (CPP) marks another proactive effort on the part of the industry, especially the investor community, "to ensure that providers take steps to protect low-income

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responsible investors who may want to provide financial resources to their programs. See, http://www.progressoutofpoverty.org/understanding-the-progress-out-poverty-index for details.

[10] *Imp-Act* Consortium comprises of CARD, EDA Rural Systems, Freedom from Hunger, IDEAS, The Microfinance Center for CEE and NIS, The Microfinance Council of the Philippines, and The University of Sussex Institute of Development Studies.

clients from potentially harmful financial products and ensure that they are treated fairly”.[11]

The six core principles to which providers are expected to adhere to are:

- Extend credit if borrowers have the ability to repay; avoid over-indebtedness.
- Pricing and terms and conditions of financial products will be transparent and adequately disclosed
- Debt collection practices will not be abusive or coercive
- High ethical standards will be complied with by the staff while interacting with clients
- Timely and responsive mechanisms will be in place for problem resolution and dealing with complaints
- Privacy of individual client data will be respected

The signatories to the principles have proclaimed their commitment to a process to ‘translate the principles into standards, policies, and practices appropriate for different types of microfinance clients, products, providers and country contexts’. From the point of view of those who believe that self regulation through appropriate and strictly enforced codes of conduct can be an effective way to ensure mFI responsibility to the clientele, these Principles can be critical to bridging the gap between the economic and the social.[12]

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[11] CPP, however, appear more ‘pro-client’ compared to the ‘Fair Practice code’ showcased by some mFIs. The latter is the articulation of the conditionalities that govern the loan contract to guard mFI interests. On the other hand, the investors who sign the CPP commit themselves to a process ‘to translate them into standards, policies and practices appropriate for different types of microfinance clients, products, providers, and country contexts’. The signatories undertake to consider the principle while making their investment decisions and extend support only to those who stand by them. See, *http://www.cgap.org/p/site/c/template.rc/1.26.3701 or www.centreforfinancialinclusion.org*.

[12] The self regulatory approach has close links with the instrumentalist view of social responsibility of businesses. ‘As with other corporate governance reforms, a self regulatory approach to corporate social responsibility is the surest way to get meaningful approach to this issue. If there is a case for reforming directors and officers’ duties; the changes needed should not be revolutionary. A self regulatory model is a better way of influencing behaviour by institutionalizing a change that is permissive and reflective of each corporation’s own circumstances. Essentially this approach recognises the benefit of the shareholder primacy model where management’s only duty is to the members of the corporation as a whole as a general rule, but that corporations that want to adopt a different rule can opt out’. See, Lumsden and Fridman (2007): p.31.

Most recently, two institutions came up in India– Alpha Micro Finance Consultants Private Limited and Micro Finance Institutions Network (MFIN) – championed by the major NBFC-mFIs as part of the ongoing efforts to promote self regulation among microfinance institutions, mainly, to avoid problems associated with over lending and delinquency. Lending to the same clients by multiple agencies has emerged as a worrisome tendency in India, especially, in states that have witnessed higher growth in the microfinance activity. It has also been observed that the regions that experienced high penetration levels of microfinance also have presented pockets (for instance, Kolar in Karnataka and Lucknow-Kanpur belt in Uttar Pradesh) with serious repayment problems (Rozas and Sinha, 2010). In this context, Alpha is designed as an agency to help mFIs with credit bureau services, whereas MFIN has come up with a 'code of conduct' that urge mFIs to restrict themselves from over lending, which, it is feared, would lead to instability of current growth (Mahajan and Vasudevan, 2010).

Social responsibility as interpreted within the SPM or client protection or self regulation frameworks is narrow in its scope. SPM models do not address the critical questions related to power and dominance, while client protection principles signify a clear provider perspective devoid of any recognition of the need to work with discursive and multiple stakeholder processes. Again, self regulation efforts set unilateral standards framed primarily within the logic of protecting lender/ investor capital. There is no emphasis in any of these on ascertaining whether all stakeholder expectations are legitimized. Similarly, there are no guidelines to help organisations to devise ways to negotiate between diverse and conflicting interests, say, between the voiceless clients and empowered managers or to ensure that the organisational decisions are not influenced by the 'morality of the mighty'. The SPM model tends to accept the status quo and believe in monitoring the processes within given organisational structures as a means to improve practice and impact. Within this framework SR is seen as a 'necessary evil' in that it confirms the social good outcome of financial investment. The norms and processes through which the organisations arrive at their mission and strategies are taken for granted or ignored as the emphasis is on responding to signals, and not on building strategies based on own moral principles.

5. Socially Responsible Microfinance: Weaving in the Theories of Business Social Responsibility

Microfinance, no doubt, constitutes a distinct business. It is seen as a unique institutional arrangement that seeks to enhance social wellbeing through the instrumentality of business. Social responsibility is intrinsic to the business of microfinance. Microfinance is a classic site that blends the social and the economic, where resources are applied in clear pursuit of the simultaneous creation of both economic and social values for both the investors and investees. It may be noted that the concept of 'blended social value' has been purported by Emerson (2000). According to him "when two understandings of value exist in the same space, a third, unifying framework must be advanced out of which may grow a lexicon of words and numeric analysis capable of capturing the true and comprehensive value being created in this radical centre – which is to say the centre to be found beyond the traditional "left/right" or "social/financial" duality" (p. 26). However, as we discussed earlier, there is an apprehension that the current phase of commercialization patronized largely by traditional capital institutions that seek to maximize financial returns would eventually undermine social value creation by mFIs. This apprehension is justifiably founded on the observed trends in the current phase of development of Indian microfinance sector. These trends include the rise of a class of shareholding promoters, the progressive marginalization of the community of clients as sheer customers and the increasing presence of commercial investors in the boards of governance of transformed mFIs.

How does one define socially responsible microfinance? Emerson's idea of blended social value seems to offer some direction towards resolving this question. Applying Emerson's conceptualization, Woller (nd) proposed the concept of social value in their paper that explores the determinants of mFI performance. In their scheme, social value consists of two components: customer value and social well-being. Customer value is the value customers derive from the consumption of financial services and can be measured as discounted stream of benefits and costs rendered to the customer over the lifetime of products and services. Social well-being is any increase in total social welfare over and above any increase in customer value that results from the provision of financial services to the poor, and is determined by the breadth, depth, and length of outreach. They argue that creation of blended value requires a supportive industry and institutional culture together

with a social monitoring and information system (MIS) infrastructure that incorporates a set of new and appropriate social performance metrics. The social MIS refers to a system to collect, disseminate, and use social indicators like social impact or outreach indicators. They assume that measuring social value creation this way legitimizes it, and over time embeds it into the industry ethos, thereby fostering long-term cultural transformation in the industry.

As we argued earlier in this paper, social performance management alone cannot guarantee responsible behaviour on the part of microfinance institutions. It is too optimistic to believe that measuring social value with the help of outreach indicators would eventually help transform the culture and ethos of the industry as the tools and techniques intrinsically are incapable of addressing aspects like power and dominance. This is especially so in a country like India, where poverty and resource access are closely mediated by social and institutional factors.

5.1 Norm Generation through Social Contracts

Undoubtedly, the proxy norms like the client protection principles potentially can improve the engagement of the mFIs with their clientele.[13] But, they constitute monological processes compared to the norms evolved through microsocial contracts involving other important stakeholders like the clients and the professional management community. Considering the vastness and spatial-cultural diversity of a country of India's dimensions, these communities must be understood as inhabiting widely varied and distinct moral free spaces.[14] For instance, the moral perceptions that inform the communication among local microfinance communities (comprising mFIs, clients, lenders, resource agencies, government functionaries) and their attitudes and behaviours in the state of Uttar Pradesh will be qualitatively different from that in the states of Tamil Nadu or Orissa. The local norms can be fully unravelled and authentic norms generated only through a

[13] Professional codes, corporate codes of ethics, corporate credos, statements by influential business organizations, speeches of business leaders all can serve as proxy norms. See, Donaldson and Dunfee (1999).

[14] These are spaces are seriously bound by institutional and structural specificities. As per CGAP, 'Meaningful client protection requires that clients be well-informed and possess adequate financial literacy skills. Investing in client education protects clients and yields long-term benefits for the industry'. See, http://www.accion.org/Document.Doc?id=443.

discursive process of consent building. Discursive approaches, as explained by Sherer and Palazzo (2007), start with the assumption that in pluralistic societies, a common ground on questions of right and wrong, or fair and unfair can only be found through joint communicative processes between different actors.

In order to develop and institutionalize a system of discursive norm generation, it is important that the mFI clarifies to itself the long term value of microfinance business. This, in turn, would require that the stakeholders are identified and their salience ascertained. This will help the entity initiate a social contract of impartially accepted social agreements of all the stakeholders and a clearly stated policy of surplus distribution. In drawing up the social contract, mFI needs to focus on:

- creation of norms, structures and practices that reflect ethical sensitivity and moral quality of the management in enforcing the social contract
- evaluating the legitimacy of expectations of various stakeholders (voiceless clients and empowered managers?); giving adequate emphasis on those that are congruent with the value perception and the social agreements; and
- making sure using institutional mechanisms that organisational decisions are not influenced by the interests and priorities of the mighty
- ensuring that the clients are aware of their capacity to contribute to the mF programme and assess its utility to them
- building in them a sense of responsibility towards the programme to remain vigilant customers of services and responsible users of credit for the wellbeing of selves and other members of their families; and
- instilling in them the confidence to be the critical conscience of the mF programme by giving out right signals with respect to the impact.

The social contract is a site where the diverse interests of the multiple stakeholders are negotiated (which reflect their relative moral universes) and evaluated against the universal ethical values. In the case of microfinance, a sector, which, by its very definition, is focused on improving the living conditions of the poor, a social contract is expected to assert their salience by incorporating terms that grant them power and legitimacy

while addressing their claims. In other words, social contracts should not be confused with 'multi-stakeholder networks' that rarely disturb the *status quo* with respect to distribution of power.

5.2 Clients: The Primary Stakeholders?

In an overtly commercial microfinance industry the poor, at best, are dependent stakeholders who lack the power to stake their urgent and legitimate claims on the resources of the mFI and build their capabilities. Management and leadership may recognise their needs as urgent and legitimate, but conceding them the power to steer strategic decisions (with respect to targeting, products, lending policies) is near to impossible, given the singularly profit-centred economic calculus. The graver concern is whether in a scenario where new forms of domination emerge (like profit oriented investors, professionals with superior skills and sophistication) clients' position would erode further to make them latent or even non-salient stakeholders.

The uncomfortable prospect of clients getting reduced to customers of microfinance services and instruments to build the net worth of the promoters and the financial institution can be illustrated with examples. In one case, an mFI, started off as a not-for-profit society in the early 1990s transformed in to a company later with more than 97 per cent of the shares owned by the clients. Only about 2.5 per cent of the shares was with the promoters. In 2006 the promoters and their relatives acquired majority stake in the company through a buyout of the shares from the clients. From 2006 onwards the company also started distributing dividend of 10 per cent. In 2008 the promoters were offered sweat equity worth USD 2.5 million. While the company is hailed as a commercial success with increasing shareholder value, the poor customer continues to be bound by the same terms and conditions. No one bothers whether there has been an increase in the social and economic value that a poor household expects to gain by participating in the microfinance programme and by investing its already overstretched and undervalued resources like time and reputation. Surely, the benefits of growth of the microfinance industry are not shared equitably by the poor client and the successful mFI.

There are a few instances, however, where organisations have tried out innovative frameworks to assert the primacy of mF clients. For instance, a non banking finance company set up in the late 1990s by a non-

governmental organisation assisted the SHGs it had promoted to federate at the regional level into Mutual Benefit Trusts (MBT). They in turn invested in the company's equity. This led to the genesis of a unique company fully owned by the community of clients. The MBTs are permitted by their bye-laws to raise external resources for meeting the credit needs of the SHGs and also to invest in shares of other corporate entities. This case demonstrates the possibility of designing for-profit-microfinance models that can strategically incorporate 'client value maximization' as the long term objective and clients as definitive stakeholders rather than passive 'beneficiaries' of micro credit. Seen differently one may argue that a client owned company combines the ethical prescriptions of a normative approach towards social responsibility and the positivist obsession of value maximization of the dominant stakeholder.

6. Conclusion

In the present times the relevance of a theme like social responsibility of microfinance cannot be overstated in the context of India. There are huge gaps between the self-perceived image of mFIs, managerial practices, ways of engaging with the community and the image of mFI that is nurtured by the client communities. These gaps, unfortunately, are not taken seriously as the industry is performing phenomenally well in terms of outreach and repayment performance. Even some of the disturbing trends like the decline in the performance of SHGs and mFIs are treated as 'isolated' cases.

There is another challenge too. The poor in independent India have historically been a scapegoat for populist politics. With the power oriented political parties realising the significance of microfinance as a convenient way to mobilize mass support, the sector truly face challenges to its sustained and successful existence.[15] Added to this is the fear that unbridled growth and over-lending may land the industry in a delinquency crisis in the near future. Though not reported by the mainstream media or publicized by the lending organisations, mFIs in some pockets have experienced client indifference and non-cooperation and resultant repayment crisis in recent times. Not all of them lack in managerial expertise or professional support. But they surely lack the vision that clients form the primary constituency of microfinance.

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[15] See, Kumar (2004) and Siddiqui (2009).

As microfinance business decisions entail substantial influence over the lives of individual clients, the decision variables that mFIs employ need to align closely with their needs, priorities and anxieties. This has to be done with utmost care and responsibility as the moral spaces within which the different communities operate vary substantially. This warrants that every mFI that envisions it to be socially responsible constructs a social contract involving its salient stakeholders and acknowledges the primacy of clients.

While concerted efforts are needed to put the 'social' back in the social enterprise called microfinance, we need to go beyond techniques and tools that merely help us showcase performance on select indicators. Such performance reports surely ensure patronage of investors and fund providers, but do not always result in development outcomes that the poor communities are desperately seeking. In order for microfinance institutions and programmes achieve those outcomes they need to reaffirm the social embeddedness of microfinance and clarify and endorse their responsibility and responsiveness towards the communities whose future they are trying shape. Meaningful social contracts based on trust and reciprocity, concern for inclusive processes to form such contracts, self regulating codes of conduct, and consistent efforts at tracking client level impact are central to being socially responsible.

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