

Micro-finance group processes : effects of psychological threat and economic threat

Abstract

Rapid expansion of micro-finance in India especially during 2006-07 to 2009-10 generated euphoria among micro-finance practitioners. However, this expansion did not continue for long, for there were reports of several smaller micro-finance crises in Karnataka in 2009 and a much larger one in Andhra Pradesh in 2010. Researchers, who examined the reasons behind the foregoing crises, took different perspectives on the indebtedness of the clients and the extenuating circumstances. However, social psychological perspectives on the genesis of these crises in the micro-finance literature were rather absent. In the research reported in this dissertation, therefore, micro-finance group processes were investigated from the perspectives of the individual borrowers of micro-finance institutions (MFIs). In particular, attempts were made to study member's perceptions at the time of potential default to identify the reasons behind actual defaults, spiraling into repayment crises. There were two key goals. One goal was to use social psychological perspectives on developing the measurement model for the micro-finance group process constructs. Another goal was to test the causal effects of the economic and psychological threats on each of those empirically distinguishable constructs. Accordingly, an experimental, instead of the widely used survey, study was carried out. Toward the preceding goals, the broad measures for the three key micro-finance group constructs, namely, (a) peer pressure, (b) fear of reprisal, and (c) joint liability, were first developed. The data collected showed that these three constructs were further distinguishable as direct peer pressure, indirect proximal peer pressure, indirect distal peer pressure, fear of reprisal, genuine joint liability, and renegeing joint liability responses among the "real" borrowers. Given satisfactory evidence for such construct distinction, the joint effects of the economic and psychological threats on each of those responses were investigated next. That is, how does psychological threat impact group lending mechanisms at the different levels of economic threat? This question is of theoretical importance because implications of the borrowing are commonly framed in the economic terms and conditions, followed by the psychological ones, in most micro-finance lending negotiations. Thus, what has heretofore been left out is the order effect of the psychological-economic terms and conditions on group processes. The experiment reported is novel because it presented information about the economic and psychological threats in counterbalanced orders (that is, the orders of presentation were economic-psychological threat (EP) as well as psychological-economic threat (PE)). The experiment was performed on women members of two urban MFIs at Delhi (Indcare and Prayas) and two rural MFIs at Alwar (Humana People to People India and Matashree Gomati Devi Trust). Tests of the measurement model were highly encouraging. Responses formed the six hypothesized factors. Tests of causal effects further indicated that economic threat remains a key factor but that psychological threat assumes importance contingent upon the contexts. For example, fear of reprisal was high when there was psychological threat to the reputation of the participants than when there was no such threat at all. More important, fear of reprisal was consistently higher at the economic-psychological threat order than at the psychological-economic threat order. More strikingly, there were interaction effects in the renegeing joint liability and direct peer pressure responses. In the former response, the psychological threat was effective when there was low economic threat than when there was high threat. In the latter response, the psychological threat was again effective when it was presented at the economic-psychological order, as if a recency effect were operative, rather than at the psychological-economic order. Collectively, therefore, findings highlighted the subtle roles of psychological threat to reputation in micro-finance group processes in ways never done before. Implications of these findings are discussed.