DEVELOPMENT AND CONFLICT IN COMMUNITY LENDING PROGRAMS

A SOCIO-CULTURAL PERSPECTIVE

Nishi Malhotra

Development and Conflict in Community Lending Programs

This page intentionally left blank

Development and Conflict in Community Lending Programs: A Socio-Cultural Perspective

BY

NISHI MALHOTRA

Indian Institute of Management, Sambalpur, India

emerald
PUBLISHING

United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Emerald Publishing, Floor 5, Northspring, 21-23 Wellington Street, Leeds LS1 4DL

First edition 2026

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-83708-291-9 (Print)
ISBN: 978-1-83708-290-2 (Online)
ISBN: 978-1-83708-292-6 (Epub)

I would like to dedicate this book to my parents, sister, my professors from IIM Kozhikode and to all the mentors, Government of India and self-help groups in India.

This page intentionally left blank

Contents

This page intentionally left blank

List of Abbreviations

AEPS	Aadhar Enabled Payment System
ATM	Automated teller machine
BC	Business Correspondent
BFS	Board for financial supervision
BMMU	Block mission management unit
CGMTSE	Credit Guarantee Fund Trust for Micro and Small Enterprise
CIDA	Canadian International Development Agency
CIF	Community Investment Fund
CLF	Cluster Level Federations
CM	Chief Minister
CRP	Community resource person
CRP	Community resource person
CSC	Common service center
CSO	Civil Society Organizations
DAY	Deendayal Antodaya Yojana
DMMU	District Mission Management Unit
DRDA	District level with District Rural Development Agencies
DRDA	District Rural Development Agency
GDP	Gross Domestic Product
GOI	Government of India
GP	Gram Panchayat
HRD	Human Resource Development
IIBF	Indian Institute of Banking and Finance
IIT	Indian Institute of Technology
IMF	International monetary fund
ISO	International Standard Organization
MAC	Mutually Aided Corporation
MAIN	Majlis Agama Islam Negeri

MAIM	Melaka Islamic Religious Council
MAIS	Majlis Agama Islam Selangor
MFI	Micro finance institutions
MSME	Micro Small and Medium Enterprises
MYRADA	Mysore Resettlement and Development Agency
MNREGA	Mahatma Gandhi National Rural Employment Guarantee
NABARD	National Bank for Agriculture and Rural Development
NGO	Non Government Organizations
NIT	National institute of technology
NPA	Nonperforming assets
NRLM	National Rural and Livelihood Mission
OCEN	Open Credit Enablement Network
OECD	Organisation for Economic Co-operation and Development
ONDC	Open Network for Digital Commerce
RBI	Reserve Bank of India
RBI	Reserve Bank of India
RBV	Resource Based View
RBV	Resource based view
PMSVA	PM Street Vendor's Atamanirbhar Nidhi.
PPP	Purchasing power parity
PRI	Panchayat Raj Institutes
PRADAN	Professional Assistance for Development Action
P2P	Peer to peer
ROSCAs	Rotating Savings and Credit Association
RSETI	Rural Self Employment Training Institutes
SAKSHAM	Stimulating Advanced Knowledge for Sustainable Health Management
SBLP	Self help group bank linkage program
SDG	Sustainable Development Goals
SEWA	Self Employed Women's Association
SHG	Self-help group
SHPAs	Self help promoting association

SLRM	State livelihood rural mission
SMMU	State mission management unit
SVAMITA	Survey of Villages and Mapping with Improvized Technology in Village Areas
TPB	Theory of Planned Behavior
UN	United Nation
UPI	Unified Payment Interface
VLE	Village level enterprises
VO	Village organizations
WTO	World trade organization

This page intentionally left blank

Preface

Community lending initiatives have emerged as panacea for combating the financial woes of more than 1.7 billion people, who are below the poverty line across the globe. The marginalized sections of society not only lack access to collateral, but they also are excluded from the larger social set up called as society. The community lending initiatives provide an opportunity for those at the bottom of the pyramid to become part of the groups. When the social reality of marginalization of these people interacts with the group membership, which comprises of the members from various diverse backgrounds, conflict emerges. The groups which are source of motivation and social capital for the members of the group in lack of effective leadership suffer from various conflicts. A group or community initiative is a mechanism that allows members who are typically marginalized in terms of access to resources to obtain formal finance. However, in reality, these social mechanisms suffer from various inherent conflicts. The complex process of interaction of the social reality of grim poverty, marginalization of the members, and group membership creates conflict of interests. At an empirical level, the group initiatives lead to abuse of power and extreme marginalization of the members, who lack voice within the group. The book aims to explore the negative cases, the instances of abuse of power, and marginalization of the poor members within the group. The resource constrained members get access to resources through aggregation in a social group. But without transformational leadership and financial leadership, the interaction of the individual and the structural factors such as peer mechanism and joint liability leads to violence, making it difficult for the members to achieve their financial objectives. The social cultural imperatives and use of peer pressures within the group without social control can lead to severe conflicts and abuse of power within the group. Financial leadership refers to the democratically appointed chairpersons, who have financial acumen and motivation to ensure the safety of funds and economic interests through proper allocation of resources within the group. Moreover, the co-optation of these initiatives through state intervention to ensure efficient allocation of funds and access to funds has come to play an extremely important role in ensuring development. The book aims to corroborate the role of state intervention and leadership in achieving development through conflict resolution and consensus building in a community lending program. Further, the book aims to develop a comparison between the inclusive and extractive social groups and institutional designs to highlight the factors and role of leadership in achieving financial inclusion of poor.

This page intentionally left blank

Acknowledgment

I would like to thank my parents, the Armed forces, the Government of India, IIM Sambalpur, IIM Kozhikode for the immense support and academic inputs, motivation, and encouragement to author this book. I would like to thank Emerald Publishing, Editor Daniel Ridge, Lydia Cutmore, Lucy loveday, Sally Wilson for this opportunity. Without their academic inputs and encouragement, this would not have been possible.

This page intentionally left blank

Chapter 1

Conflicts in a Community Lending Program: Interaction of Individual and Structural Factors

Abstract

This chapter will examine the conflicts in a community lending program and explore how the interaction of individual and structural factors leads to conflicts in a group. This chapter will use the theoretical lens of developmental conflict theory to study the real-world cases of failures of community lending programs in Asia. This chapter will use the case study method and hermeneutics to explore the underlying factors that lead to conflicts within the community lending initiatives. It will further differentiate between the good and bad groups through a comparative analysis of the groups using multiple case studies. Inclusive groups will be the groups that are successful and do not have any conflicts and lead to equitable distribution of the resources among the members of the group. The extractive groups are the groups that create inequities and suffer from conflicts among the members of the group. While many studies have explored the success of the community lending model, there is a gap in terms of a study on factors that lead to conflict within the groups. This chapter will provide the reader with a comparative study of good and bad community institutions and how they differ. It will provide a conceptual framework of factors leading to conflict within the group. It will also touch upon the issue of resource constraints and scarce resources within the groups. The scope of the study will be diverse, including India, Nepal, Bangladesh, China, and European countries like Germany, Britain, and Ireland.

Keywords: Conflicts; microfinance; development; community; lending groups

---

Development and Conflict in Community Lending Programs, 1–21

Published under exclusive licence by Emerald Publishing Limited
doi:10.1108/978-1-83708-290-220251003

Introduction

Community lending is a way to provide finance to the people at the bottom of the pyramid through leveraging social capital and existing network relationships. These people are marginalized sections of society and they do not have access to finance due to the lack of collateral and lack of any information about their creditworthiness. UN Sustainable Development Goals have highlighted the importance of poverty reduction and women's empowerment. The group lending is aimed at promoting financial sustainability, and resilience among the members of society. However, despite maintaining very high repayment rates, the groups often suffer failure in extreme cases due to various reasons. Conflicts among the members of the group are often the reason for the weak institutional sustainability and breaking up of the groups. In the context of the groups, as the social realities of marginalization of the members interact with the social environment, it becomes extremely difficult for the members to raise finance from the formal sector or the banks. Adverse selection and lack of information symmetry regarding the character and creditworthiness of the borrowers are the major reasons for the breaking up of the groups. Generally, the groups are to be formed by people who are of the same risk category, which will help create solidarity and thus reduce the moral hazard or risk of misutilization of loans among the members of the group. Thus, the heterogeneity of the members is one of the most important reasons for the breaking of the groups. Similarly, the social capital among the members of the group is the other reason for the success of the group. Social capital refers to the social relationships and good relationships among the members of the group. This social relationship is generated by the existing professional relationships and personal relationships among the members of the group. Not only social capital but the size of the group also has an important impact on the success and stability of the groups. The study highlights that small groups have higher chances of being successful and generally suffer from fewer conflicts. Thus, various factors lead to issues in lending to these people. There is a lack of studies on what leads to conflict among the members of the group. Previous studies show that socioeconomic factors, or cultural factors, might lead to the breaking of the groups. In this chapter hermeneutics and grounded theory approach have been used to discuss the role of various factors in the success of the groups or community lending programs.

Research Problem

Group lending and collective lending provide loans and credit to the people at the bottom of the pyramid. These people do not have access to physical capital and through the social capital, they can access the loans as part of the members of the self-help groups or community lending programs. In this regard, the groups provide various benefits to the members such as access to finance, credit, and social capital and for banks, it provides benefits such as achieving the objective of financial inclusion for the poor at the bottom of the pyramid. Though the groups are the most viable mechanism for ensuring access to finance to the people at the bottom of the pyramid, various factors impact the success of the groups. Groups are the source of finance and ensure various advantages such as 100% repayment rates and financial viability of the poor. This study will explore the impact of various factors on the economic sustainability of the groups. The case study method will be used for studying the impact of various factors on the financial sustainability of groups. The study mainly classifies the factors responsible for conflict among the group as cognitive factors such as social capital, size of the group, and homogeneity of the members. Besides, affective factors such as the free rider problem, trust erosion due to external influences, lack of trust-building exercises, and lack of interpersonal relationships are cited as the reasons post-formation of the group, responsible for the breakage of the group. The issue of marginalization of the poor refers to first-order cooperative dilemma that refers to a situation in game theory where, for each individual involved, the best course of action based on self-interest is to not cooperate, even though the collective outcome would be significantly better if everyone cooperated; essentially, it describes a scenario where the individual gain from defecting outweighs the benefit of cooperation, leading to a suboptimal outcome for the group as a whole, like the classic *"Prisoner's Dilemma"*. This study also aims to explore the behavioral dimension of group operations and success. The major research problem of the study is to identify the real causes of conflict in a great social innovation like group lending. Most of the communities are subject to conflicts and strife and are often referred to as the fragility contexts. The communities provide various contexts for resilience to combat desolation through social structures and political will. However, the paradox of community is that it can be a source of distress in case of conflict of interest.

Theoretical Lens

A community lending group is predominantly a network of relations among the members. This network could be bonding, which refers to the within-group network relations, or linkages, which refers to the relationship with the banks and other financial institutions in the form of loans and credit relations. In this study, the social capital theory has been used to explore the various reasons for the conflict among the members of the group. Social capital theory highlights the importance of the networks and the existing social relationships on the financial sustainability of the groups. Institutional theory explores the impact of institutional factors such as norms, regulations, practices, and behaviors on the economic sustainability of the groups. The theoretical framework for social conflict theory highlights that social conflicts are largely caused due to various social factors such as gender bias, cultural bias, and network relations in predominantly women-led communities. The impact of these conflicts is that they lead to class struggles, and discrimination of a certain individual, which provides a certain degree of balance. The coping strategies for these are the use of mass media and state intervention. The manifestation of the same is migration.

Table 1 provides details regarding social conflict theory.

Table 1. Social Conflict Theory.

Social conflict theory	Causes: Power, gender, cultural bias and networks Impact: Conflict and class struggles Resolution: Negotiation, intervention and intelligence Manifestation: Migration

Source: Author's work.

Further, in this study, we will be using the conflict theory that highlights that the social order is to be maintained using democratization and participation, rather than using power hierarchies. In any kind of group, the scarcest thing is the access to resources. In this regard, the developmental conflict plays an important role in ensuring access to financial capital for financial inclusion. Hence, often a healthy interplay of conflict and developmental initiatives plays an important role in the peaceful existence of the groups.

Research Methodology

For conducting this study, the qualitative research design has been used to get an understanding of the problem. To conduct this study, the primary data was collected by using the semi-structured interview method. Further hermeneutics method has been used for the analysis of the secondary data collected from the books, journals, and publications. While collecting the data, the ethical considerations were duly taken into consideration, which include taking care of the informed consent and confidentiality.

Discussion and Analysis

Beneath the waters of faith, blue domes pierce the sky, their twins reflected in pools below, each doorway opening to new wisdom, where white marble glows. A white elephant and horse stand guard in this sanctuary, like sentinels from ancient tales in this archipelago of art. Enchantress of the east your beauty spans above, below, an oasis of the spirit where tulips and bougainvillea grow. Based on the vision of Islam namely *zakat*, these flowers brave the desert heat, adapting, thriving, and blooming still where sand and sacred waters meet. A journey of enlightenment, where culture, faith, and beauty blend, in this grand mosque's embrace, where East and West transcend. The enchantress signifies co-adaptation, adaptation, and acculturation, enabling evolution and providing room for newer species and new life forms. Within the prosperous country of Malaysia, a religious practice called Majlis is based on five principles of Islam, namely beliefs, Al Shahada (profession of faith), Solat (the prayer), Sawm (the fast of Ramadan), Zakat (compulsory charity) and Hajj (the pilgrimage). In the holy Quran and hadith, the practice of providing money, goods, and charity to others is mentioned as an act of nobility. Out of all these virtues, Zakat (the practice of Islamic charity) is aimed at providing alms to the marginalized sections of society to improve the quality of life. In the city of Malaysia, the practice of Zakat is institutionalized and the state is involved in raising money through Lembaga Zakat Selangor for the poor rightful beneficiaries (*ansaf*) through Majlis Agama Islam Selangor (MAIS). In Malaysia, the practice of Zakat is a socioeconomic practice that is institutionalized to provide benefits to the lower sections of society. Various state agencies and institutions are involved in raising the funds in the form of Zakat which is distributed applying various principles of donations. There are mainly two different types of Zakat, i.e., zakat on self (Fitrah) and zakat on wealth. *Zakat on Fitrah* is a sacrifice made from own wealth, the main purpose of which is to help the less fortunate. Zakat implies to grow, sacrifice, and to grow. This amount is contributed annually compulsorily. Another form of charity is Zakat on wealth, which is paid from existing wealth out of own wealth. Further, the Zakat is distributed among various sections of needy and marginalized sections of society, which include fakir (below nisab or poverty threshold), masakin, amil (administrator of matters relating to zakat), Muallaf Al-Qulub and riqab (free slaves). Another important category for the receipt of Zakat includes Jumhur ullama defined ibnu sabil as Musafir or wayfarers. One of the major reasons for the success of this practice is the increase in access to technology such as Internet banking and mobile banking. In Islam, Majlis or community meetings are the most common form of meeting together and discussing the issues of importance for the survival of life. In Malaysia, the practice of administration of zakat is handled through Majlis Agama Islam Negeri (MAIN). The main issue in the sustainability of these institutions is the moral hazard and the probability that the funds might be misutilize for ulterior purposes. Thus, the monitoring and supervision of these financial institutions play an important role in the sustainability of these groups. Islamic microfinance is based on the principle of interest-free loans to all. The case in point is Grameen Bank, which charges interest for providing loans to the people at the bottom of the pyramid. Evolution is not a simple process and involves a continuous struggle for survival, which involves strife and conflicts among the various life forms to occupy the space in the mosaic or archipelago of life. Similarly, in Islamic microfinance, terms and covenants of loans have evolved over some time to meet the needs of the beneficiaries. Various group lending practices such as amurabahah (cost-plus financing), qard al-hasan (benevolent loans), and musharakah (partnership) have started to provide financial assistance to the people at the bottom of the pyramid. In the case of these three kinds of microfinance lending practices, the loan is provided to the group based on group and spousal guarantees guided by ethics. One such institution Melaka Islamic Religious Council (MAIM) was established in September 1980 to assist with the distribution of Zakat among the lower sections of society. MAIM provides microfinance and supply of loans, through the funds collected from the monthly contribution made by the contributors. The duration of the contribution is determined with mutual consent and the funds collected are disbursed to the small entrepreneurs. The beneficiaries are selected through a stringent screening process to benefit the Miskin (poor) or the destitute (fakir). MAIM is based on the *Qard al Hassan* contract, which aims to repay the loans that are borrowed. The review of the literature highlighted that the main challenge to this practice is the perception that the zakat is their divine right and that repayment is unnecessary. The nonrepayment of loans often leads to conflicts and strife in a group. This principle also applies to the evolution of groups and communities that exist to ensure access to finance for the people at the bottom of the pyramid. Symbiosis refers to the mutually beneficial relationship between two groups and people. Whereas the parasitic relationship in which the parasite thrives on the body of the host. One of the major problems in the case of a group that is lending money is the problem of free riding. From nature, if we look at the example of a Mistletoe, it signifies that given the diversity in nature, the mistletoe has a parasitic behavior, where it thrives on the nutrients of the host plant. This kind of parasitic behavior leads to the death and demise of the host. Similarly, in a group, the parasitic attributes and properties or free rider problem leads to the emergence of conflicts among the members of the group (Darwin, 2024). Thus, the free rider behavior is the major reason for the conflicts among the members of this group.

Majlis for Women

The emergence of grassroots movements in desert communities, often called "flowers of fire," represents a powerful symbol of resistance and resilience, particularly among women and marginalized groups. Like hardy desert blooms, these social movements flourish in challenging conditions. These movements have attracted the attention of various non-governmental organizations and advocacy groups, which catalyze social change and empowerment. Their involvement helps amplify local voices and supports community-led initiatives. Unlike natural evolutionary processes, the growth of these movements stems from conscious human action and organized responses to systemic inequalities. The "seeds" of change are deliberately planted and nurtured through collective action. The widespread impact of these disparities (the "umbrella effect") between privileged and disadvantaged groups continues to shape social dynamics. These differences manifest in access to resources, opportunities, and representation. However, through established legal frameworks and institutional support systems, these movements have achieved some success in challenging existing power structures. This has created pathways for disadvantaged communities to gain greater agency and voice in societal decisions. Social structures include the avenues to deliberate and reach a mutual consensus through social cooperation and collaboration. In the case of the marginalized sections of society, the people living below the poverty line do not have any access to physical resources. Within the definition of the marginalized section of society is included the definition of the indigenous people. These people are at odds with other sections of society, as they are not allowed access to public places due to their antecedents. These people are vulnerable to the prowess of the higher castes and they need state intervention to secure some basic rights, and struggle to protect economic and social value. When we compare the individuals residing in a country or a nation in terms of diversity, we find that indeed all of them are so diverse and different from each other due to the varied living conditions, climates, genes, education, income, and gender. This brings us to the conclusion that diversity indeed leads to many conflicts and complex dynamics in the group. The homogeneity of the members within the group is the precursor of the group membership and paves the way for development and growth. Thus, the criterion of selection of the members of the group paves the way for institutional sustainability. Homogeneity of the members in terms of color, race, and gender sets the trajectory for the success and financial sustainability of the common lending programs.

Within a group, the shared norms and social relations are dynamic and keep on varying with the change in the circumstances and conditions, both external and internal to the group. To preserve the homogeneity and yet create financial prudence, the state often conducts various social intermediation initiatives to ensure the financial sustainability of groups. Despite the homogeneity of the traits, hardly there is any perfect machine that can ensure behavioral homogeneity and no moral hazard. It is only through continuous monitoring and surveillance that the group leader can identify the deviations and variability of financial behavior. In this regard, the role of financial intermediation and social intermediation cannot be overemphasized. If we look at the living world, we will find instances of conflict emerging due to the struggle for life and the underlying principle of survival of the fittest. This principle is at odds with the principle of solidarity in a group. Even in the natural world, there is a practice of evolution and discrimination and the origin of new species and forms. In a world of marginalization, there is hardly any other remedy than putting in place certain screening criteria for creating homogenous groups that can sustain and can as a group work collaboratively toward the achievement of financial goals. The natural world is diverse and living beings are diverse in terms of genes and genetic makeup across the globe. Darwin's theory cites examples of coexistence and the correlation of growth, and inheritance as the first phase of human evolution. Within this phase, the organisms stay together and fight for survival, during which the weaker species go extinct. Contrary to sexual selection, the rudimentary organs become extinct, which gives way to living independently. Similarly, in the initial phases of the group, the members select each other and then they cooperate and collaborate for the distribution of scarce resources based on sexual selection. Conflict arises due to the unequal distribution of resources and is resolved through sexual selection.

This gives rise to new breeds and new traits and the evolution of new forms and species. In a human species that is more than a million years old, the material and capitalist world order is based on deliberate efforts to select members based on certain predetermined criteria to reduce the chances of adverse selection. In such groups, weaker members are hand-held and nurtured by the other members, which is contrary to the natural theory of survival of the fittest. Through solidarity and cooperation, the members motivate the defaulting members to pay the loans. Within a group, the shared norms and social relations are dynamic and keep on varying with the change in the circumstances and conditions, both external and internal to the group. To preserve the homogeneity and yet create financial prudence, the state often conducts various social intermediation initiatives to ensure the financial sustainability of groups. Despite the homogeneity of the traits, hardly there is any perfect machine that can ensure behavioral homogeneity and no moral hazard. However, the homogeneity of the members is the ultimate defense against adverse selection. For marginalized that gain financial traction, it becomes viable to exercise constitutional remedies for the dignity of the human species. The objective of this study is to analyze the influence of the dominance style, and social power on conflicts within a group or community. The group lending programs are aimed at providing access to finance for the people at the bottom of the pyramid. Society and culture refer to the relational system of interaction among individuals. In his study, the author draws an analogy between the Macaque world and the communities that thrive within the society. The literature highlights that the social relationships among the rhesus macaque are characterized by agnostic asymmetries, whereas Tonkean macaques are characterized by no asymmetries (Thierry et al., 2004). Conflicts among the members of a group are propagated by the dominance of a single individual or refer to egalitarian rule, while in the case of the more tolerant group, are characterized by the sharing of power and hierarchies among the members of the group. The groups characterized by the power concentrated in the single individual are often termed despotic, which leads to strife among the members of the group. The outcomes of the conflict and the strives among the members of the group are characterized by the social contract and understanding among the members of the group. It depends upon the alliances and relationships among the members of the group and the social knowledge about the group among the members. The literature highlights the importance of the distribution of social power among the individual as the reason for the conflicts among the members of the group. Self-help groups are community lending programs that are aimed at providing access to finance for the people at the bottom of the pyramid. These are the people who lack the physical resources and collateral to access finance. Thus, these are the people whose social realities when interacting with the environment, lead to friction and conflicts. The factors that lead to conflict among the members of the group include the exogenous factors and the endogenous factors. The exogenous factors are the factors that exist in the external factors and impact the sustainability of the groups. Besides, the endogenous factors refer to the internal factors that impact the solidarity and harmony in the group. Endogenous factors refer to group dynamics such as unequal participation, free rider problem, and conflict resolution, which lead to conflicts and friction within the group, (Magambo, 2024). Various other external factors include macroeconomic conditions, and regulations to name a few. The external regulatory environment exerts immense influence on the success of community lending programs. The financial institutions should exercise conflict resolution mechanisms to ensure the sustainability of the group lending programs. In their 2020 study, N. Sabin and F. Reed-Tsochas point out that a group's social structure often encourages its members to informally enforce loan