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Suicides spark scrutiny of Indian microfinance

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MUMBAI, INDIA

A group of India's largest microfinance institutions filed a lawsuit Tuesday to block strict new regulations laid down by the state of Andhra Pradesh -- a crucial market for small loans -- after reports that high interest and coercive loan collection by microfinance groups had led to some 30 suicides.

Microfinance -- which was initially designed to free the poor from usurious rates charged by moneylenders by giving them small, affordable loans -- has come in for increasing scrutiny as booming growth and profitability have complicated the industry's founding ideals.

The government of Andhra Pradesh, which accounts for nearly a third of all microfinance lending in India, alleges that abuses by microfinance lenders have impoverished people and led some to commit suicide.

It issued an order Thursday requiring microfinance institutions to register with the state government. It also said total interest payments can't exceed the amount of the loan, banned taking security for loans and imposed penalties of up to three years in jail and 100,000 rupees (\$2,257) for coercing borrowers, according to a copy of the order.

Microfinance Institutions Network, an industry body with 44 leading microfinance institutions as members, on Tuesday petitioned the Andhra Pradesh high court to block provisions of the ordinance which it says will severely disrupt business, chief executive Alok Prasad said in an interview.

He said the requirement to register in each district a lender operates in -- the state has 23 -- creates onerous bureaucracy. It's also not clear how long a lender will have to suspend lending and collection activity while it waits for its registrations to be processed, he said.

Requiring borrowers to make weekly repayments at a local government office instead of letting company collectors visit villages "hits at the heart of my business model" and threatens to reduce repayment rates, he said.

"For me to go to the village and make a collection is one reality," he said. "To expect a poor woman to go 12 kilometers (7.5 miles) away to make the same repayment to me is another ballgame altogether."

He said the industry is not opposed to additional regulation, if done properly.

"The central bank of the country, which is a seasoned and experienced regulator ought to examine the matter," he said. "We would welcome the central bank to come in and

deploy whatever regulations they deem fit for the healthy growth of the sector."

The Reserve Bank of India said Tuesday that it is setting up a committee to examine microfinance lending and explore ways of making interest rates charged by lenders "reasonable."

Indian microfinance lenders generally charge between 24 percent and 36 percent annual interest. The rates compare favorably to village moneylenders, who demand 36 percent to 72 percent interest -- or higher. But if clients could get an unsecured personal loan from an Indian commercial bank -- which most of them can't -- they'd pay 16 to 17 percent.

Microfinance lenders say they have to charge higher rates than commercial banks because of the added costs of serving large numbers of small customers in hard to reach places.

While the Reserve Bank of India is eager to get credit to the poor and encourages banks to lend to microfinance institutions, it seems somewhat ambivalent about the proliferation of them in India. It has not allowed them to take deposits -- which has been crucial for the sustainability of founding father Muhammad Yunus' Grameen Bank in neighboring Bangladesh.

Andhra Pradesh is a crucial market for India's microlenders. SKS Microfinance, which recently went public, counts on Andhra Pradesh for 2 million of its 7.3 million borrowers and 28 percent of its 45.7 billion rupee (\$1.0 billion) loan book.

SKS says 17 of the 30 reported suicides were clients, but that they also had loans from other microfinance institutions. The company says it does not use coercive recovery tactics.

"I had no arrears with these people so where is the question of coercive recovery tactics?" SKS spokesman Atul Takle said Tuesday. "I personally don't think a person would take her life for 225 rupees (\$5.08) a week." He referred to two instances in which the client was facing marital problems.

SKS's stock is down 6.4 percent since the order was issued. Its backers include venture capital funds Sequoia Capital and Sandstone Capital, George Soros and Infosys chief mentor Narayana Murthy, considered an august and ethical figure in India's business world.



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