

The Washington Post

Microcredit industry in India facing backlash

By Rama Lakshmi
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NEW DELHI - Designed to give poor women easy access to small loans, India's microcredit industry is battling for survival amid a political backlash, dwindling cash flows and high default rates.

To rein in the \$4 billion industry, the government recently proposed a set of regulations that would require credit checks and crack down on the strong-arm tactics some lenders use to collect payments.

A government-appointed review panel has also recommended capping loan amounts and prohibiting women from borrowing from more than two lenders.

But microfinance advocates say such rules could kill an industry that has helped lift millions of women out of poverty.

"How can we promote the goal of financial inclusion for the poor with these restrictions?" said Sanjay Sinha, managing director of Micro-Credit Ratings International, a company that assesses the industry.

The panel also said an eligible borrower should earn less than \$1,000 a year, a figure that some say excludes a large number of

urban poor.

India's central reserve bank set up the review panel after political parties called for an investigation of the industry. The bank will decide in April which recommendations to adopt.

India's microfinance industry has grown by 70 percent annually over the past five years. But the lack of confidence in the system has meant that "the cash flow from banks to the microfinance companies has virtually dried," Sinha said.

Concerns about the industry first surfaced last year, when authorities in the southern state of Andhra Pradesh reported that dozens of suicides might be connected to abusive lending practices.

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The state, which has the highest number of microlending businesses in India, introduced a law banning aggressive collection practices and restricting the number of loans per borrower. The law also called for greater disclosures by the lending companies.

But problems persist, and some women have stopped repaying their loans, said Jamuna Paruchuri, project manager for gender at Andhra Pradesh's Society for Elimination of Rural Poverty.

"They just cannot cope anymore," Paruchuri said. "A woman's right to life is bigger than the companies' right to collect loan payments."

In a meeting last week in Hyderabad, the state capital, women from self-help groups demanded compensation for those who had committed suicide and the arrest of the agents who harassed them.

"The companies are now asking us in the self-help groups to collect money from borrowers. But the companies did not consult us before luring women and dumping them with so many loans. It is not our responsibility to ensure they repay," said Yamma Yadaiah, 28, president of a women's group in the village of Sultanpur.

About 200 women in her village have stopped repaying their loans since October, she said.

A spokeswoman for one of the largest microlenders, Spandana Sphoorty, said the company has received payments on only about 30 to 50 percent of loans in the past three months in Andhra Pradesh.

Microfinance companies are "neither a magic wand against poverty nor a fiendish trap," she said, speaking on the condition of anonymity because of company policy.

The microcredit industry has also had trouble in Bangladesh, the country of its birth. Nobel Peace laureate Muhammad Yunus, whose Grameen Bank became the microfinance model, was recently accused of transferring a portion of \$100 million in aid money from Norway and other countries to one of his companies to evade taxes.

Yunus, 70, has denied any wrongdoing and said he welcomed the probe because he

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