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Finance minister wants regulation, but not 'strangulation', of microfinance

Hurt MFIs, hurt the poor

TIMES VIEW

Here's some solace for beleaguered microfinance institutions. A future regulatory structure, the finance minister says, won't "strangulate" them. MFIs have been reeling since Andhra Pradesh authorities sought to excessively monitor their functioning, following reports of debtors' suicides. The state is a major microfinance hub. So, an AP ordinance, with stipulations on registration, interest rates, repayment deadlines, etc, had a severe impact, compounded by populist exhortations that borrowers stop repayment. This, despite Andhra's MFIs not having seen worrying defaults, making reports of overlending seem hyped. Clearly, our politicians are yet to realise that a sure-fire way to kill any industry is to try to control it by fiat.

If a few microlenders did adopt strong-arm debt recovery tactics, must the entire sector be demonised? Nor are draconian methods needed to make MFIs trim interest rates. Asking banks lending to MFIs to lean on them on the issue, the finance ministry shows there are other ways of finding solutions. While wanting borrowing costs to be moderate, the ministry seems to leave room for self-regulation since, reportedly, it won't cap interest rates so as to allow for flexibility. This is sensible, given the risks involved in microfinance. To argue that 'commercialisation' compromises the goal of "responsible finance" cuts no ice. MFIs needn't apologise for trying to be economically viable, or mobilising resources through the bourses. Only by doing well can they boost social good.

Apart from helping banks fulfil priority sector lending obligations, MFIs give millions without banking cover an alternative to informal sources of funds, such as moneylenders charging extortionist rates. Giving access to credit to weaker sections and in places risk-averse banks fear to tread, MFIs push financial inclusion and poverty alleviation. Squeeze them hard, and the ultimate victims will be the very section politicians claim to champion: the poor.

MFIs have run amok

COUNTER VIEW

Ajay Vaishnav

Currently, MFIs are facing a crisis of confidence as they face a severe political backlash in Andhra Pradesh amid rising farmer suicides. At the heart of the problem lies the failure of MFIs to balance social objectives with their lust for profit. Tough regulations must therefore be brought in to prevent them from exploiting the poor. They are alleged to have charged interest rates as high as 32-42 per cent to provide finance to the poorer sections of the society when they themselves borrow funds from banks at 9-14 per cent. In addition, what adds to the injury is the strong-arm tactics employed to recover the loans triggering the latest crisis.

But, in their greed to achieve so-called scale and efficiency in operations, they have indulged in usurious practices while completely neglecting the philosophy behind the MFIs. They don't appear any different from the traditional moneylenders. Such a state of affair cannot be allowed to continue anymore as it jeopardises all our efforts since Independence to reform the rural economy Hence, there is an urgent need for an agency to cap interest rates by these MFIs, to ensure their conformity with the broader goals of financial inclusion.

Let's not forget that the emergence of the MFIs has been a saga of hope and success for millions of poor and landless in India's rural areas. In just two decades, MFIs have achieved what the nationalised banks could not in the first four decades after Independence. MFIs have transformed the rural landscape as they have provided organised credit-access to some 2.6 crore people, which include some of the most isolated communities. However, the major driver behind the phenomenal growth of MFIs has been their inherently non-profit character and a thrust to build social capital. Care must be taken to see that MFIs remain wedded to these aims, if they are to inspire confidence among their clientele.

SNAP JUDGMENT