

Microfinance - A blessing or a curse

ABSTRACT

Micro-finance has a great impact on the society. While working in the field for more than 5 years I experienced that instead of women getting empowered they are falling in trouble because there is no system of finding out beneficiary whether they have taken loans from other institute or not. So they go on taking loans from one institute to other. Then they are falling in debttraps. I have seen people changing their addresses overnight, attempting suicide, selling their properties to get rid of these debts. From the study at grass-root level I felt that very few people had actually benefited from this initiative.

A Case study from the field.

MICROFINANCE is meant to lift people out of poverty, but the women of Howrah (Shibpur Constituency) say it's become a curse. This city in the West Bengal, has been overrun by loan agents from India's innumerable microfinance industry.

For the cash-strapped women of the neighborhood, the offer of quick money was hard to resist and many now have multiple loans and unpayable debts.

Lakshmi Mullick has nine loans of Rs.10000/each and must make repayments of up to 9000 rupees per month i.e. 2250 rupees per week of the working week,. The Grocery shop she started with her first loan didn't turn a profit but she says microfinance institutions (MFIs) still encouraged her to take on more debt.

"When these people keep coming and offering us money we are tempted," she says. Lakshmi Mullick monthly repayments have reached about 27000 rupees - more than double the family's income. "Most of us have sold our wedding ornaments," she says with a sad smile. "We have sold our kitchen utensils and sometimes we must deny our children food for days so we can make these loan repayments. I'm under tremendous pressure every day to pay."

I personally met 12 of Lakshmis neighbours and each had at least six loans. Lending practices such as this have triggered a crisis in India's \$7 billion microfinance industry and cast a shadow over the strategy of using tiny loans as a solution to poverty.

The problems have centred on West Bengal - one of the world's biggest microfinance markets and home to India's largest MFIs, including SKS Microfinance, Bandhan, Sarala, Village, Mohor, Indian Bank, Ujjaini, Dishari and Share Microfinance Limited. Amid complaints about irresponsible multiple lending, exorbitant interest rates and aggressive debt collection tactics, the government of West Bengal should take interest in sensitizing people otherwise the poor people will go more poorer.

MFIs have mutated "to become exploiters of the poor by their usurious interest rates, multiple loans given without due diligence, lack of transparency and use of coercive methods for recovery".

Encouraged by some local politicians, millions of disgruntled micro-borrowers have stopped loan repayments. At the same time, the stream of cash pouring into the microfinance sector from big banks and other financial organisations has dried up.

The formation of borrower groups where peer-group pressure - or mutual liability - would become a guarantee for repayment.

The cost of servicing millions of tiny loans is expensive, so for-profit MFIs charge relatively high rates of interest. They borrow from banks at 8-14 per cent, but the cost of administering the loans, provisions for bad debts and other costs add another 10-12 percentage points.

The experiences of Lakshmi Mullick and her highly indebted neighbours at Howrah Bakultala highlight many of these problems.

Microfinance loans are meant to be for income generation but none of Lakshmi neighbours has a successful enterprise. Monika, who has six loans outstanding, started a vegetable-selling business that quickly failed and yet the loans kept coming. "Before the MFIs arrived we were happy but now we have lost everything including our self-respect," she says. "The only thing that remains is humiliation."

MFIs are "dumping loans" on the poor by not verifying their capacity to repay. "Far too many of these loans are going on consumption rather than genuine investments - that just leads to a debt trap," he says. "Many of the women don't even know which organisations they had borrowed from. They name these companies after the days they make collections."

MFI leaders acknowledge multiple lending has become a problem. "This problem has started because of the large number of institutions that have entered the sector and their fast growth which led to multiple-lending - too many institutions lending to a single client,"

Recession in this field had already started. They again started going back to their private money lenders to survive.

To me MICROFINANCE IS NOT AT ALL A BLESSING IT IS A CRUSE IT SHOULD BE STOPPED IMMEDIATELY.