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Microlenders, Honored With Nobel, Are Struggling



Kuni Takahashi for The New York Times

Residents of Madoor village in Andhra Pradesh, India. Leaders in the state have accused microloan lenders of impoverishing customers.

By VIKAS BAJAJ
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MUMBAI, India — Microcredit is losing its halo in many developing countries.

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Women in a suburb of Mumbai attending a meeting to learn about microloans. Most of the clients for such loans are women.

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Microcredit was once extolled by world leaders like [Bill Clinton](#) and [Tony Blair](#) as a powerful tool that could help eliminate poverty, through loans as small as \$50 to cowherds, basket weavers and other poor people for starting or expanding businesses. But now microloans have prompted political hostility in [Bangladesh](#), [India](#), [Nicaragua](#) and other developing countries.

In December, the prime minister of Bangladesh, Sheik [Hasina Wazed](#), who had championed microloans alongside President Clinton at talks in Washington in 1997, turned her back on them. She said microlenders were “sucking blood from the poor in the name of poverty alleviation,” and she ordered an investigation into Grameen Bank, which had pioneered microcredit and, with its founder, was awarded the Nobel Peace Prize in 2006.

Here in India, until recently home to the world’s fastest-growing microcredit businesses, lending has slowed sharply

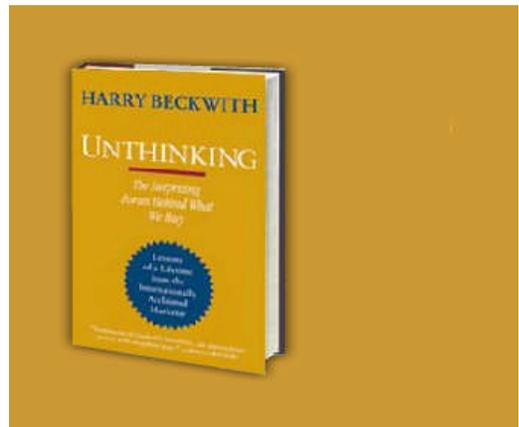
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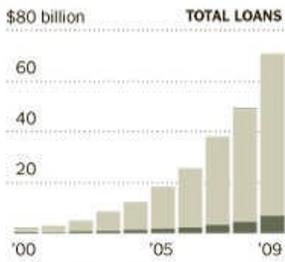
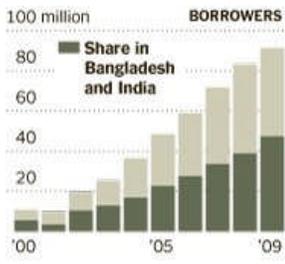


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A demonstration in Hyderabad, India, last October was aimed at microcredit companies, accusing them of high interest rates.

Lending to the World's Poor

Government officials in India and Bangladesh have said microcredit lenders exploit the poor. The two countries account for more than half of the world's microcredit borrowers, although they account for a far smaller share of the total money lent.



Source: Microfinance Information Exchange
The New York Times

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bankers envious. For instance, investors in India's largest microcredit firm, SKS Microfinance, [sold shares last year](#) for as much as 95 times what they paid for them a few years earlier.

Meanwhile, politicians in developing nations, some of whom had long resented microlenders as competitors for the hearts and minds of the poor, have taken to depicting lenders as profiteering at the expense of borrowers.

Nicaragua's president, [Daniel Ortega](#), for example, supported "movimiento no pago," or the no-pay movement, which was started in 2008 by farmers after some borrowers could not pay their debts. Partly as a result of that campaign, a judge recently ordered the liquidation of one of the country's leading microlenders, Banco del Exito, or Success Bank.

"These crises happen when the microfinance sector gets saturated, when it grows too fast, and the mechanisms for controlling overindebtedness is not very well developed," said Elisabeth Rhyne, a senior official at Accion International, a organization in Boston that

since the state with the most microloans adopted a strict law restricting lending. In Nicaragua, Pakistan and Bolivia, activists and politicians have urged borrowers not to repay their loans.

The hostility toward [microfinance](#) is a sharp reversal from the praise and good will that politicians, social workers and bankers showered on the sector in the last decade.

Philanthropists and investors poured billions of dollars into nonprofit and profit-making microlenders, who were considered vital players in achieving the [United Nations'](#) ambitious Millennium Development Goals for 2015 that world leaders set in 2000. One of the goals was to reduce by half the number of people in extreme poverty.

The attention lavished on microcredit helped the sector reach more than 91 million customers, most of them women, with loans totaling more than \$70 billion by the end of 2009. India and Bangladesh together account for half of all borrowers.

But as with other trumpeted development initiatives that have promised to lift hundreds of millions from poverty, microcredit has struggled to turn rhetoric into tangible success.

Done right, these loans have shown promise in allowing some borrowers to build sustainable livelihoods. But it has also become clear that the rapid growth of microcredit — in India some lending firms were growing at 60 percent to 100 percent a year — has made the loans much less effective.

Most borrowers do not appear to be climbing out of poverty, and a sizable minority is getting trapped in a spiral of debt, according to studies and analysts.

"Credit is both the source of possibilities and it's a bond," said David Roodman, a senior fellow at the Center for Global Development, a research organization in Washington. "Credit is often operating at this knife's edge, and that gets forgotten."

Even as the results for borrowers have been mixed, some lenders have minted profits that might make Wall Street



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invests in microlenders. "On the political side, politicians or political actors take advantage of an opportunity. When they see grievances, they go, 'Wow, we can make some hay with this.'"

While a broad thread of resentment and disenchantment runs across the globe, the hostility toward microcredit stems from different circumstances in each nation.

In Bangladesh, Ms. Hasina appears to have become embittered with Grameen after its founder, Muhammad Yunus, who shared the Nobel, announced in 2007 that he would start a political party. At that time, the country was ruled by a caretaker government appointed by the military. Though Mr. Yunus later gave up on the idea, analysts say Ms. Hasina and Mr. Yunus have not made amends.

Ms. Hasina's recent comments about microcredit were prompted by a Norwegian documentary that accused Grameen of improperly transferring to an affiliate \$100 million that Norway had donated to it more than a decade ago. Ms. Hasina said Grameen, 3.4 percent of which is owned by the government, might have transferred the money to avoid taxes.

The bank, which has denied that accusation, reversed the transfer after Norwegian officials objected to it. Norway recently issued a statement clearing Grameen of wrongdoing.

The prime minister's press secretary did not return calls seeking comment.

In India, leaders in the southern state of Andhra Pradesh, which accounts for about a third of the country's microloans, [have accused lenders of impoverishing customers](#). Stories proliferated in the local news media about women who had amassed debts of \$1,000 or more as loan officers cajoled them into borrowing more than they could afford and then browbeat them to repay. Many had used the money to pay for televisions or health care or to soften the blow of failed crops, rather than as seed money for businesses.

Microcredit firms in India were also accused of siphoning borrowers from government-run "self-help groups" — women's organizations that can borrow small amounts at subsidized interest rates from government-owned banks.

The movement against microcredit was started by opposition politicians, who have encouraged borrowers not to repay their loans and have accused senior leaders of the ruling Congress Party of being in cahoots with lenders. The Congress-led state government made the cause its own and passed a tough new law in December to cap interest rates and regulate collections.

The crisis has had ripples across the nation. Banks, the primary source of money for microlenders, have turned off the tap because they are worried about the industry's future. As a result, microlenders have slowed or stopped lending nationwide.

Grameen Financial Services, a microlender in Bangalore that is not related to Grameen Bank, has idled 600 new employees it hired just a few months earlier with plans to expand into western and central India. The firm does not lend in Andhra Pradesh.

"This is frustrating," said Suresh K. Krishna, managing director of Grameen Financial. "This is not what we set out for. The whole objective of floating this was to support entrepreneurs and support people in the rural areas and people below the poverty line."

Industry leaders say they hope the issues will be resolved soon. The federal government and the Reserve Bank of India, the country's central bank, are working on new federal regulations to oversee microcredit, said Alok Prasad, chief executive of the Microfinance Institutions Network.

Still, some industry officials acknowledge that the sector needs to reform itself to overcome political opposition and live up to its promise. They say organizations that now offer only loans need to diversify into microsavings accounts, which many specialists assert are

much better than loans at easing poverty.

The industry, they say, also needs to speed up efforts to build a credit bureau that would reduce overlending. And organizations need to measure their success not just by growth and profits, but by how fast their customers are getting out of poverty, experts say.

“We at microfinance have a job to do to make it easier for politicians to support us,” said Alex Counts, the chief executive of the Grameen Foundation, a nonprofit in Washington that is not part of Grameen Bank. “Rather than make claims that get out in front of the research, we need to impose on ourselves the discipline of transparency about poverty reduction.”

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