

To  
The Chief Editor  
Wall Street Journal

Dear Sir/ Madam,

It is saddening to note that a professional and reputed Journal like WSJ could publish an article, namely- ***A Global Surge in Tiny Loans Spurs Credit Bubble in a Slum by Ketaki Gokhale***- that demoralizes the upcoming and dynamic microfinance sector as a whole. The article, which was published on August 13, 2009, studies an outlier case specific to one village in India and derives devastating conclusions and generalizations about the state of microfinance in the entire country. The sources used in the article are limited and have been chosen to support the anxiety against microfinance created in the article. The inference drawn in the article is based on a pilot study conducted on a small sample by Rajalaxmi Kammath and Arnab Mukherji. On the whole, the article is an emotionally motivated piece of work- a disaster that ruins the growth and prospects of an influential sector that can positively impact the very economy of a developing country like India.

A trend observed through the article is the use of selected and limited sources with no mention of the vast majority of studies conducted endorsing the upliftment brought in the lives of millions of poor toward financial sustainability due to the microfinance movement in India.

The premise running through the article suggests that most microfinance institutions operate in few select areas and hence these areas are "carpet bombed" with microfinance services. However, let me bring to your notice that Sa-Dhan has recently published The Bharat Microfinance Report- Quick Data 2009 wherein it is reported that Microfinance Institutions' (MFIs) outreach has increased from serving 63 percent of India's poorest districts in 2008 to 71 percent in 2009. The author of the article only mentions the growth in portfolio of the MFIs but totally disregards the growth seen the outreach and geographical penetration of these institutions which has been deepening steadily. For example, Asmitha has expanded into 9 more states in the last fiscal year and now serves 13 states of India. Asmitha presently serves over a 1.16 million members, observing a growth of about 60 percent in its client base in a one year frame. India being a large country with cultural diversity, a study on a single village, namely, Ramanagaram, should not be extrapolated to the condition in the entire country.

Microfinance clients typically are those who are deprived of formal financial services and as such, it becomes difficult to check their credit worthiness. Asmitha has for this purpose relied on both the market intelligence of its staff and the information given by the clients themselves. Apart from this, Asmitha's field staff gathers information from the neighborhood so as to cross check the member's profile. Credit overlap is an issue that is inevitable given the growing number of players in the industry but Asmitha has consciously placed certain checks such as loan utilization checks to mitigate this issue. Further, microfinance institutions par India are now in the process of constituting a joint entity called "Alpha" which would invest in a credit bureau- a formal tool that would enhance sharing client profiles including their credit worthiness among microfinance institutions.

The article attributes the transformation of MFIs to legal forms to be fueling the growth of the MFIs but completely ignores the fact that the growth in MFIs is spurred due to the demand and need for these services amongst the Indian masses. The Reserve Bank of India has recently estimated that despite the efforts of many MFIs, the penetration of microfinance still stands at about 3.5 percent. Through the various success stories and case studies on the clients of these MFIs by institutions like CGAP, microfinance is considered as a sustainable mechanism which effectively deals with the poverty issue. Through various events, like Prof. Yunus receiving the Nobel Prize, microfinance has come to limelight and stands as an impressive, proven tool for poverty reduction. Institutions such as Bath, Sheffield and Sussex Universities have conducted impact studies on microfinance in India wherein these studies have revealed a considerable reduction in poverty levels and significant improvement in women empowerment through microfinance. This brought forth a phenomenon wherein bankers and other financial institutions have begun to endorse and support microfinance operations through debt and equity structures. In fact, even the public sector banks now accept microfinance as an effective business model materializing the long desired vision of inclusive financial growth and progress set forth by the Indian policy makers. The article has no reference to any such various studies and noteworthy accomplishments of the Indian microfinance industry.

The article then compares the microfinance loans to “no-documentation” loans of the U.S. mortgage crisis, which is very absurd given the in-depth, analysis and the processes and systems followed by MFIs in loan disbursements. Let me point out that this is not the case at least among the major microfinance institutions which cater to the majority of the microfinance clients. As such, most regulated MFIs report PAR less than 1 percent. In case of Asmitha, we follow a strict operational methodology wherein Asmitha’s members go through a compulsory training for a period of 5 to 7 days. During this training, the field staff informs them of the institutional processes, loan methodology and other loan product related information. Post this period, they are tested on the same and then permitted to form into groups. The operational processes of Asmitha have been perfected through the years of experience. Loans are given for income generation purposes and not consumption.

Members are formed into groups of five of their choice and the loan approval, disbursement and repayments fall under their responsibility. Since members mostly form into groups with people they know, they are aware of the financial position and obligations of their group mates. As such, they tend to choose those who have sufficient financial capacity to form a part of their group. This forms a check on the indebtedness of the member.

This intricate process of delivering credit at doorstep evolves into a high operational cost ranging between 8 to 9 percent. The MFIs depend on banks for sources of funds through debt for onward lending. This cost of funds ranges between 11 to 13 percent. Apart from this, a loan loss provision accounts for 1 to 2 percent. As such, the cost of delivering microfinance services typically is around 22 to 24 percent. Interest rates factor in these costs along with the need to provide for growth and expansion. The Reserve Bank of India regulates the MFIs and ensures that they do not charge any exorbitant rates. With regard to the scenario in rural India, MFIs serve clients who are deprived of formal financial services. Apart from MFIs, the other sources for financial assistance would be money lenders and other informal routes where the financial cost to borrowers would be much higher, even as high as 80 to 100 percent. The article conveniently ignores such facts governing the realities in the small towns and villages of India and proves to be irresponsible.

Further in the article, the author finds it ironic that “MFIs touted themselves as bankers to the nation’s impoverished minority Muslim community” and have now stopped lending to the community due to their revolt. The microfinance industry has never made such religion-based statements. In case of Asmitha, all clients are treated the same and Asmitha’s portfolio contains a mix of the varied religious groups of India. Infact, in case of such revolts, Asmitha has often been supported by its clients. There have also been cases where Asmitha has deliberated and held discussions with the Muslim leaders and has seen a change in their mindset toward being more open to microfinance services. Asmitha does not in any way differentiate between clients and targets a clientele strictly based on their economic status.

Had there been more research done in terms of number and geographic spread, the article would have given a more realistic picture of the Indian microfinance sector. Such misleading and biased information is alarming, highly disappointing and disturbing. We suggest the concerned authorities to be more careful in releasing such articles that can dampen the very spirit of an industrious and impactful sector from its growth.

Regards,

Dr. Vidya Sravanthi

Managing Director  
Asmitha Microfin Limited