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AFP

Mallaram Poshamma (right) and her daughter in-law Mallaram Kaveri pose with their microfinance 'loan recovery books' at their residence in Ranga Reddy District, in the outskirts of Hyderabad.

DEBT TRAP

By **INDRAJIT BASU** in KOLKATA

What was seen as the right path until a few months ago has gone grievously wrong. That's an irony. Microfinance that has long been perceived as a potent tool to set up business and make a modest living has turned out to be a death trap for many poor defaulters in India. That's tragic. A small loan taken on high interests has turned out to be a big curse for countless people in a country, where in World Bank estimates, 80 percent live on less than $2 a day.

With more than 60 defaulters taking their lives in India's southern province of Andhra Pradesh last year, the country's booming microfinance industry, which is funded by mainstream national and international banks and private-equity funds, faces the worst crisis. Experts see an ominous portent.

"If things in India's microfinance sector go awry, it could lead to another global financial crisis," says Shabbir Ahmed Chouwdhury, director of Bangladesh Rural Advancement Committee, a microfinance organization.

The crisis in India is a result of a combination of factors: abject poverty, crop failures, multiple lending, unregulated interest rates (ranging from 25 percent to 100 percent a year), "over-indebtedness, coercive recovery practices, and unseemly enrichment by promoters and executives of micro-credit companies". Vote-seeking politicians, and even religious clerics, have entered the fray exhorting borrowers to stop repaying loans.

The ripple effect is being felt beyond the shores of India, notably Pakistan and Bangladesh, and questions are being asked about the sustenance of the multi-billion industry. There are also lessons to learn, particularly for many developing countries, including China where microfinance is still a fledgling.

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