Enabling Sustainable Enterprises

Negative media reporting against MFIs – Reputational Risk Event for the Microfinance Sector

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On 15 January 2015, a report appeared in The Wire, relating to suicides of two MFI clients in Purushottampur village of Azamgarh district in June 2015. (http://thewire.in/2016/01/15/why-microfinance-is-becoming-a-bad-word-all-over-again-18937/)

In the specific cases cited in the report, the deceased had passed on their loans to another person. This person had taken many such pass-through loans and after finding it difficult to repay these loans, she migrated from the village. The MFIs continued to press the remaining group members to repay their installment resulting in suicides.

The journalist investigating the matter further reports that according to an MFI Branch Manager in Eastern Uttar Pradesh the trend of women leaving their homes after being indebted is on the rise, due to the high concentration of MFIs in the area. According to the report many clients in the area are facing stress in repaying their loans on account of over-indebtedness.

The most worrying aspect of this report is the fact that the situation has been compared to what was happening in Andhra Pradesh prior to the Andhra Pradesh Microfinance crisis of 2010.

Following this an opinion column by Prof MS Sriram appeared in The Mint on 27 January 2016.
(http://www.livemint.com/Opinion/Gn7z2lGvfvwgoyjxByRHpO/Murmurs-of-a-fresh-crisis-in-the-microfinance-sector.html)

Prof Sriram suspects that such instances of suicides have the potential to become a full-blown crisis for the MFIs in the new microfinance hotspots like Eastern Uttar Pradesh. He warns MFIs to not dismiss such instances as ‘Sporadic’, particularly if these instances result in the suicide of clients.

The following specific practices/phenomenon concerning MFIs have been cited in the above-mentioned reports

- Pipelining – where a client passes on her loan to some other client, leading to over-indebtedness. The situation becomes acute when several clients pass on their loans to a single person.

- Too many MFIs operating in a limited geographical area

- Sharp growth in the loan portfolio of MFIs without a corresponding increase in the number of clients. This is also aided by the increase in loan sizes following the changes in RBI's guidelines on individual loan limits

- Aggressive client acquisition targets for the MFI staff.

- Pressure on credit officers to collect from delinquent borrowers, at all cost, without appreciating ground realities

- Meta level industry data are not reflecting specific instances of client stress and systemic issues

M2i's own observations from recent visits to MFI branches are consistent with the observations in the two reports cited above.

M2i's recommendations

In our opinion, the situation is alarming and will require systematic changes in the way MFIs operate. The following are some of the specific actions, which the MFIs can undertake:

- In every branch, maintain a list of clients who have migrated on account of over-indebtedness. Assign experienced staff to monitor such groups/centers so that signs of stress on other clients are identified early. Discuss specific cases, which can be taken up for rescheduling.

- In every branch maintain a list of groups/centers where pipelining is suspected. Place such groups/centers under special monitoring to identify early signs of stress or migration.

- Train staff to be judicious in enforcing joint liability particularly in cases where delinquency results from migration of clients.

- Review the process of providing targets to the credit officers. Targets should reflect activities of other MFIs and overall economic potential of the area. On a quarterly basis, the MFI Boards should review targets assigned to individual credit officers and their relationship with activities of other MFIs.

- In the induction/refresher training have special sessions on the factors, which may cause over indebtedness of clients and train staff to identify signs of stress, which the clients may be facing.

- On a sample basis, the internal audit/vigilance/risk management teams should investigate cases of migration, suspected pipelining and the process of assigning targets to identify practices of the organization that are causing over-indebtedness.

- Prepare and present summary reports on the clients who may be facing stress in repayments in the Risk Committee meetings of the board and management.

- Discuss such issues the meetings of the industry associations – in the local chapters and at the national level. Member MFIs should be encouraged to name the MFIs who may be indulging in undesirable practices.