

European Microfinance Platform Urges for Rational Response to Indian Crisis

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Yesterday, at the European Microfinance Week 2010, the future of the microfinance sector was discussed, taking into account the backlash of the Indian Andhra Pradesh crisis. 382 participants, representing 285 organisations (NGOs, banks, investors, researchers, and development institutions) voiced their confidence in the future of microfinance, highlighting that the majority of microfinance institutions continue to practice responsible lending, contributing to financial inclusion and achieving the Millennium Development Goals.

The emergence of an over-indebtedness bubble that caused the crisis in Andhra Pradesh rightfully caused a stir of alarm within the microfinance sector. Yet microfinance actors emphasise the multi-dimensional nature of the situation which led to the tragic events and proposed alternative solutions to the inadequate regulation currently being enforced.

Andhra Pradesh, one of the 28 states in India, has a specific microfinance context. It has a well developed financial lending sector that has been supported and encouraged by the Rural Development arm of the state government. The strong presence of self-help-groups (SHGs) that were started in the 1980s encouraged many microfinance institutions (MFIs) to set up their practices in Andhra Pradesh, taking advantage of an emerging culture of rural borrowing. These MFIs became the first to attract capital from international markets. The growth has been impressive but became unsustainable due to multiple lending practices that led to the over-indebtedness of some clients.

Current emergency measures being enforced in Andhra Pradesh such as debt cancellation or interest rate caps are not appropriate and may ultimately undermine the sector. The microfinance industry needs to respond to such crises by returning to the principles of microfinance with its initial and only objective - to assist vulnerable people to be productive and autonomous.

The importance of financial and social performance needs to be emphasised at all levels of the microfinance chain. The [European Microfinance Platform's](#) (e-MFP's) work to date on responsible practices and its support of "[The Smart Campaign for Microfinance Consumer Protection](#)" and the "[Microfinance Transparency](#)" initiative defending fair, transparent and responsible pricing are practical steps taken to ensure that European actors promote socially responsible microfinance principles.

The microfinance sector must also develop, adopting self-sustaining and efficient economic models which take into account the real costs of providing services to the clients. The maximisation of profit is not the goal but of course losses would lead to an unsustainable industry.

Financial infrastructure such as credit bureaus and regulation are important to provide a framework for interest rate transparency as well as appropriate controls at institutional level, to avoid over-indebtedness and encourage sound recovery practice. The recent [Basle Committee](#) guidance on deposit-taking microfinance provides useful reference concerning banking supervision.

More substantially, the European Microfinance Week called for the further development of microfinance practices towards real financial inclusion. This means the development of further financial products such as savings, micro-insurance and money-transfer services for the poor. Such services would not only allow the poor more support in their economic endeavours but, for example, MFIs that accept savings would develop objectives more closely aligned to their clients' well-being.

The United Nations 10 year intermediary results conference for the [Millennium Development Goals](#) earlier this year emphasised that microfinance practices and financial inclusion should be scaled-up in order to accelerate progress towards the Millennium Development Goals, especially with regards to reducing poverty and the empowerment of women. The European Microfinance Week represents the embodiment of this cause and microfinance actors this week plotted a confident trajectory towards results. It is through responsible lending that the industry will avoid instability and continue to prosper whilst achieving its social potential.

The European Microfinance Platform (e-MFP) was founded formally in 2006 and it has a total membership of over 130 European organisations and individuals with microfinance activities in the developing world (including banks and financial institutions, government agencies, NGOs, consulting firms, researchers and universities). The main objective of the European Microfinance Platform is to facilitate information exchange and to promote cooperation among diverse European actors involved in microfinance in developing countries.

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