# 'Modern' *Sahukars*

*The institution of the* sahukar *has been thriving in its modern avatar – as for-profit microfinance.*

The offices of India's largest microfinance company in Khammam, Ranga Reddy and Vizag districts of Andhra Pradesh have been ransacked by activists of the Communist Party of India (CPI). The CPI's state secretary, K Narayana, has demanded that the government file criminal cases against those microfinance companies that have been fleecing their poor borrowers by charging exorbitant interest rates and have been humiliating defaulters. The state government has reacted by issuing an ordinance to regulate and monitor the functioning of microfinance institutions (MFIs), prompting the Microfinance Institutions Network (MFIN) to challenge the law in court. Are the MFIs what they claim to be – agents of "empowerment" of the poor? Or, are they "modern" *sahukars/mahajans*?

Indeed, the declared mission of microfinance companies is to "empower" the poor, especially women, by providing access to collateral-free loans for their micro-businesses – in agriculture, livestock, trade (e g, vegetable vending), proto-industry (e g, basket weaving and pottery), services (like beauty parlours), and so on. But can a poor household sustain annual interest rates on micro-loans of the order of 27% to 31%, or more, if one were to add on the hidden charges? The MFIN's president, Vijay Mahajan, doubts if there is any connection between the suicides of some of the loan recipients and the loans taken, but the fact of the matter is that some of their poor clients, facing acute financial distress, have committed suicide.

The charge against the MFIs who have taken the route to becoming non-banking financial companies (NBFCs) and are now aspiring to make an initial public offering (IPO) is that they are enriching themselves and their shareholders at the cost of poor people. Prior to India's largest microfinance company, SKS Microfinance, going public, Vikram Akula (SKS founder) and Suresh Gurumani (then CEO) sold a part of their stake to a hedge fund and reaped huge capital gains. Muhammad Yunus, the so-called "father of microfinance", put it mildly when he expressed his doubts about whether SKS would be able to balance the demands of its social mission with those of its shareholders' maximisation of net worth. The SKS chairman, in contrast, thinks that his business model is the only way to provide micro-loans to the world's three billion poor. The Yunus business model would, however, suggest that the MFIs should work towards converting themselves into banks (getting bank licences) so that they can take deposits from the public to sustain their financing of the poor.

The National Bank for Agriculture and Rural Development (NABARD) and the Reserve Bank of India (RBI) had been promoting microfinance through the self-help group (SHG)-bank linkage route. Typically, a non-governmental organisation (NGO) or a state government agency administering a microfinance scheme (Indira Kranthi Pathan in Andhra Pradesh) aids the formation of an SHG of five to 20 women members, which starts off with its members' small savings and is then given a group loan by the bank, which is then apportioned among the members, with the group being responsible for amortisation and interest payments. Over time, in some cases, the NGOs have taken on the role of financial intermediaries – the banks lend to the NGOs which, in turn, lend to the SHGs with a certain mark-up on costs. However, sensing the growth and profit opportunity, and given the low default rates, some NGOs – like SKS, Spandana, Asmitha, and Share – have transformed themselves into NBFCs, raising equity through private placements and leveraging their equity bases to raise debt from the public sector, private, and/or multinational banks operating in India. Indeed, bank loans to NBFC microfinance companies are also deemed to be part of "priority sector" lending. And now, with the huge commercial success and the enrichment of the promoters of the Mexican microfinance company Compartamos following its IPO in 2007, like SKS Microfinance many of the other NBFC microfinance companies want to follow in its footsteps.

However, the problem is that the business model of SKS Microfinance and its like is not viable because it undermines the creditworthiness of the client. Neoliberals have a radically different perspective on viability and they may well be right. After all, starry-eyed, we are looking at the microfinance business from the perspective of its social mission. But then, from the vantage point of the for-profit "players" on the supply side, has not the institution of the sahukar survived? Indeed, in its modern avatar, it has been thriving in the 21st century.

What next? The MFI corporates – and they are indeed corporates – have powerful backers in India and abroad. After all, large amounts of venture capital, private equity and more have poured into the sector to make a quick buck. The RBI, which has been unable to do anything about the MFIs all these years, has formed a subcommittee under the board to look into the issue. How many more of the poor have to be pushed over the edge before the powers that be realise that for-profit microfinance has no purpose other than to reap the highest returns on the backs of India's poor?