

# How to fix the microcredit crisis in India

Leading microfinance researchers including several IPA affiliates write in *The Indian Express* on the current crisis in microcredit and the government's response. They argue that the heavy-handed response by the Andhra Pradesh government risks making the poor worse off, and instead propose five immediate starting points for reform:

1. The AP government should withdraw, or at least suspend, its ordinance until a more comprehensive way of achieving its legitimate aims is worked out.
2. A consumer grievance redressal process should be created as part of a larger structure for consumer protection, as suggested by the Committee for Financial Sector Reforms (myriad agencies for grievances will increase confusion and costs).
3. While regulation that sets strict interest rate ceilings should be avoided, regulation should reward MFIs that charge reasonable interest rates as well as those that introduce innovative products that provide flexibility in repayment. For instance, built-in insurance that protects the borrower during times of distress.
4. The establishment of a well-functioning credit bureau to which all MFIs are required to report their entire portfolio of lending is key to preventing over-indebtedness. The introduction of Unique IDs greatly facilitates the establishment of such a bureau, which would benefit the industry as a whole.
5. MFIs recently created a Microfinance Institutions Network (MFIN) that adopted a code of conduct that focuses on fair practices with borrowers. The industry should accelerate MFIN implementation as well as the credit bureau. The RBI should examine, approve and monitor the implementation of this code of conduct, which could form the basis of future regulation.

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