In recent years, the idea of giving small loans to poor people became the darling of the development world, hailed as the long elusive formula to propel even the most destitute into better lives.

Actors like Natalie Portman and Michael Douglas lent their boldface names to the cause. Muhammad Yunus, the economist who pioneered the practice by lending small amounts to basket weavers in Bangladesh, won a Nobel Peace Prize for it in 2006. The idea even got its very own United Nations year in 2005.

But the phenomenon has grown so popular that some of its biggest proponents are now wringing their hands over the direction it has taken. Drawn by the prospect of hefty profits from even the smallest of loans, a raft of banks and financial institutions now dominate the field, with some charging interest rates of 100 percent or more.

“We created microcredit to fight the loan sharks; we didn’t create microcredit to encourage new loan sharks,” Mr. Yunus recently said at a gathering of financial officials at the United Nations. “Microcredit should be seen as an opportunity to help people get out of poverty in a business...
Banks Making Big Profits From Tiny Loans - NYTimes.com

In Mexico City, Maria Vargas has borrowed larger and larger amounts from Compartamos, a Mexican firm, over the past two decades to expand her T-shirt factory to 25 sewing machines from 5. More Photos »

The fracas over preserving the field’s saintly aura centers on the question of how much interest and profit is acceptable, and what constitutes exploitation. The noisy interest rate fight has even attracted Congressional scrutiny, with the House Financial Services Committee holding hearings this year focused in part on whether some microcredit institutions are scamming the poor.

Rates vary widely across the globe, but the ones that draw the most concern tend to occur in countries like Nigeria and Mexico, where the demand for small loans from a large population cannot be met by existing lenders.

Unlike virtually every Web page trumpeting the accomplishments of microcredit institutions around the world, the page for Te Creemos, a Mexican lender, lacks even one testimonial from a thriving customer — no beaming woman earning her first income by growing a soap business out of her kitchen, for example. Te Creemos has some of the highest interest rates and fees in the world of microfinance, analysts say, a whopping 125 percent average annual rate.

The average in Mexico itself is around 70 percent, compared with a global average of about 37 percent in interest and fees, analysts say. Mexican microfinance institutions charge such high rates simply because they can get away with it, said Emmanuelle Javoy, the managing director of Planet Rating, an independent Paris-based firm that evaluates microlenders.

“They could do better; they could do a lot better,” she said. “If the ones that are very big and have the margins don’t set the pace, then the rest of the market follows.”

Elisabeth Malkin contributed reporting from Mexico City.

This article has been revised to reflect the following correction:

Correction: April 16, 2010

A picture caption on Wednesday with an article about high interest rates and fees on small loans to poor people misstated the annualized interest rate paid by Rosa Gonzalez Abad, a borrower in Mexico City shown in the photograph. While analysts have calculated that Compartamos, Ms. Abad’s lender, charged an average of nearly 82 percent in interest and fees in 2008, the most recent year available, Ms. Abad said she was not sure that was her own annualized rate.

A version of this article appeared in print on April 14, 2010, on page A1 of the New York edition.
