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## SKS and the AP Microfinance Crisis

### The Andhra Pradesh Crisis: Micro-Finance Suicide Epidemic

Andhra Pradesh, India - Reporter: Michael Finan

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"We have lost my mother. No body will support us."

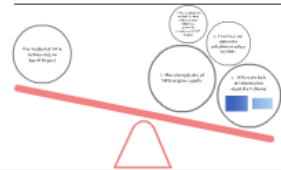


[MFR news] Andhra Pradesh, where three-quarters of the 76 million people live in rural areas, suffered a total of 14,364 suicide cases in the first nine months of 2010, according to state police. And in late 2010, more than 200 poor, debt-ridden residents of Andhra Pradesh killed themselves to escape payments or end the agonies their debt had triggered, according to media reports compiled by the government of the south Indian state. The state blamed microfinance companies — which give small loans intended to lift up the very poor — for fueling a frenzy of overindebtedness and then pressuring borrowers so relentlessly that some took their own lives.

In an interview, the daughter of borrower Dhake Lakshmi Rajyam cried. In fact, Rajyam was unable to pay off AUS\$2,400 owed to eight different companies. Their employees urged other borrowers to seize the family's chairs, utensils and wardrobe and pawn them to make loan payments, her family told the reporter. Unable to bear the results and pressure of the crowd of borrowers who sat outside her home for hours to shame her, Rajyam dunked pesticide on Sept. 16, 2010, and died, the family says. "We have lost my mother," her daughter says. "No body will support us."

A 40-year-old carpenter also dropped dead after a heart attack at a bus station in Hyderabad, 70km (43 miles) away from his rural home in the south-east Indian state of Andhra Pradesh. A government report said Mr. Moorthy had suffered a heart attack "due to pressure put by the micro-finance institutions for repayment". Ketsul Ramachandra Moorthy's family is struggling in debt. "He was so stressed out that he just collapsed and died," says his wife, K. Karuna, 36.

### Root Causes of the Crisis



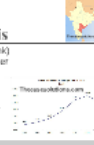
### Lessons Learnt from the Crisis

1. Improving regulation and transparency of MFI operations and governance
2. Capping of interest rates
3. Shifting to a client-centric MFI based model

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#### About India Country and Sector Analysis

- Lower middle income country (World Bank)
- 267 million people (21.9%) are living under the poverty line (\$1.25 per day)
- No. of borrowers increased 5-fold in just six years until 2010
- In 2011, \$4.3 billion loans were given out
- 90% were concentrated in two states: Andhra Pradesh (AP) and Tamil Nadu
- Nickname of AP = Rice Bowl of India



#### Micro-finance in Andhra Pradesh Original Expectation and Eventual Outcomes

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- In 2011, there were 21.4 million MFI clients in India
- For AP: 17.3 million SHG members; 6.2 million MFI clients (highest concentration)
- Loan: up to Rs.62,527 (AUS1,130) per household



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The Andhra Pradesh Crisis is surely the deepest crisis event in micro-finance so far....

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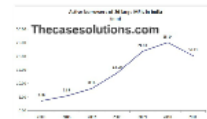
In an interview, the daughter of borrower Dhake Lakshmi Raivam

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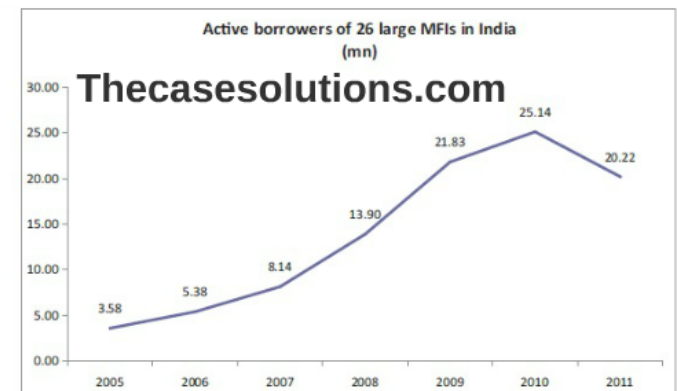


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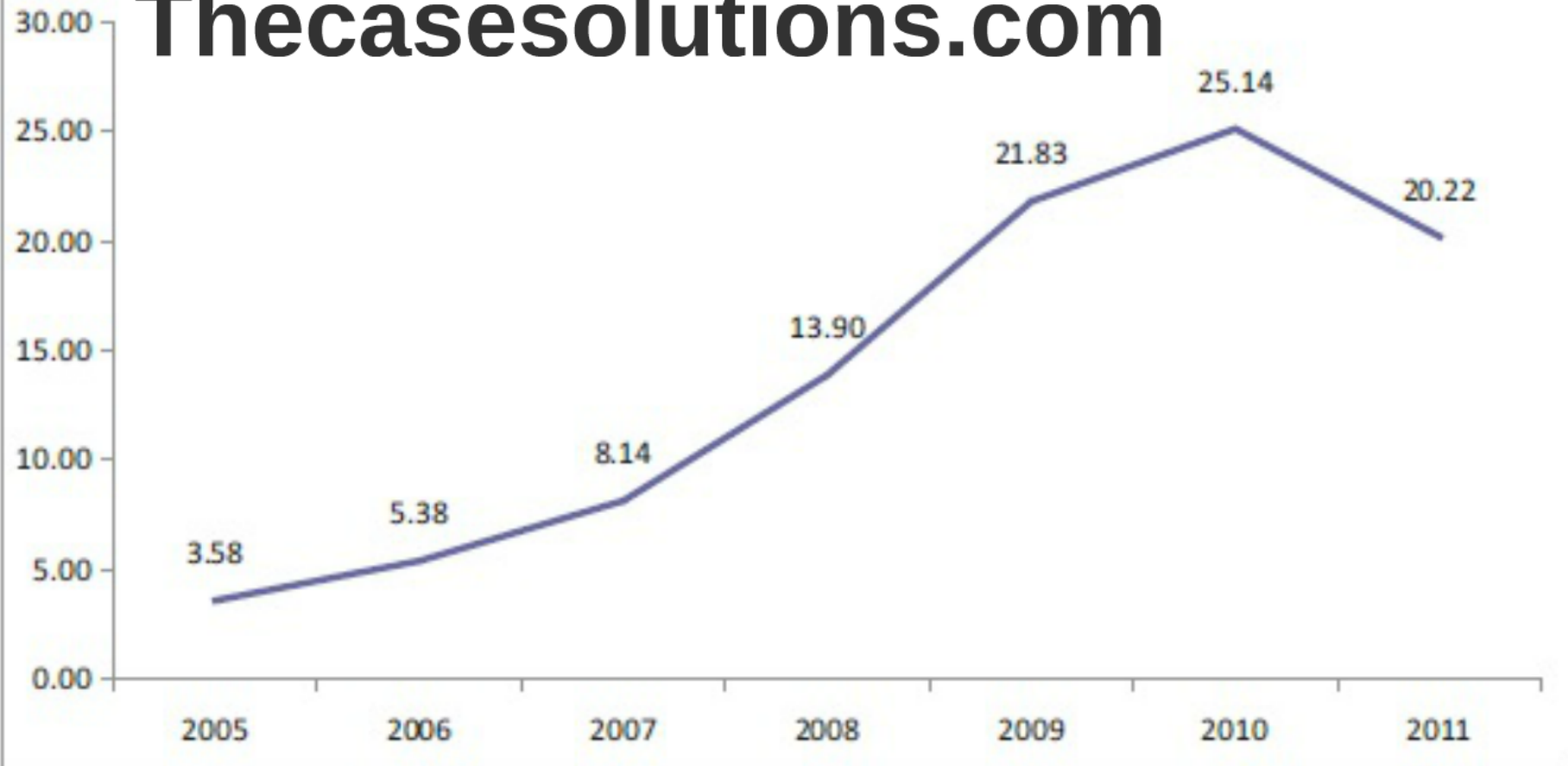
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## Micro finance in Andhra Pradesh

Active borrowers of 26 large MFIs in India  
(mn)

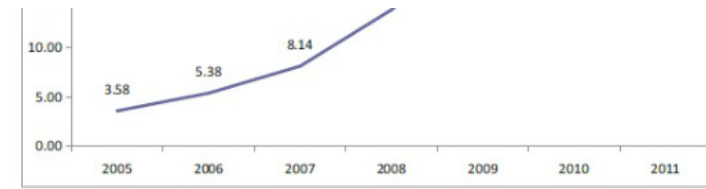
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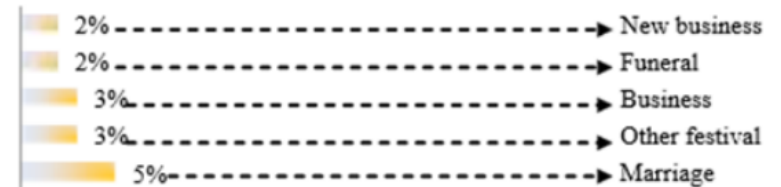
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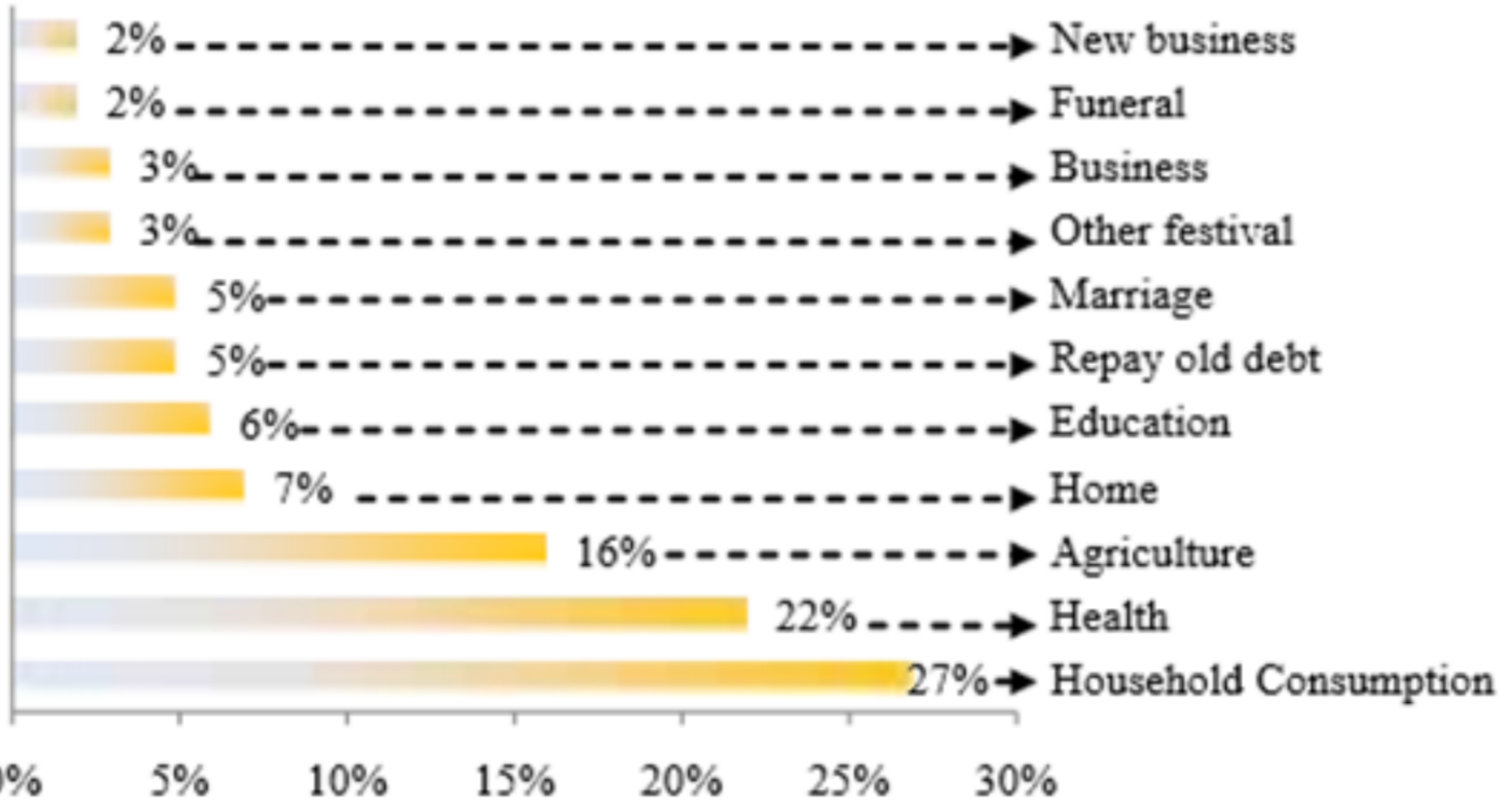


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<b>Acquisition of Assets</b>	- to buy auto and commercial vehicles for renting - to buy machines for their business such as drilling machine for carpentry business, soda maker for a cold drink store, or sewing machines and raw material for preparing jute and bamboo items
<b>Agriculture</b>	- to purchase seeds and fertilisers to grow crops
<b>Business</b>	- to set up or expand small businesses, e.g. kirana shop, tiffin

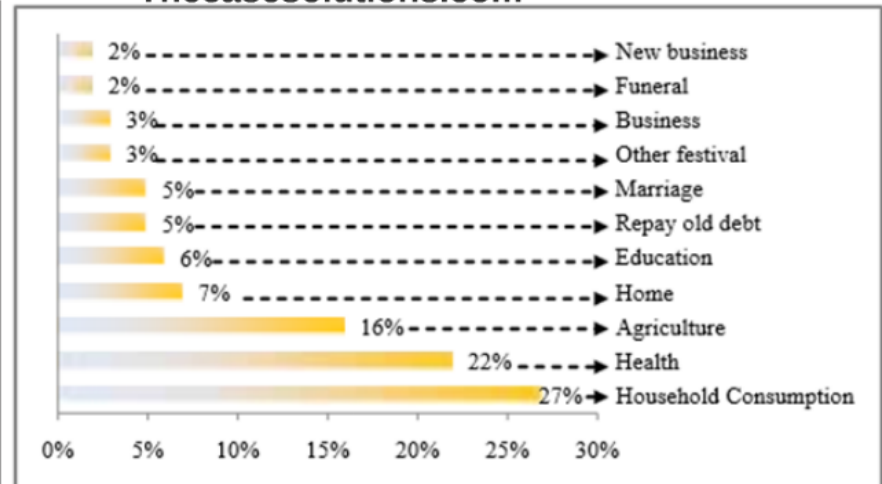


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<b>Business</b>	- to set up or expand small businesses, e.g. kirana shop, tiffin centers and cycle repair shop
<b>Consumption</b>	- to support children's education, - to buy household items such as fan and TV
<b>Heath</b>	- for emergency, e.g. illnesses and accidents - for pregnancy and baby care - to pay medical fee
<b>Life Cycle Expenses</b>	- for house, land, marriage and death

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