Abstract

The microfinance sector in India's state of Andhra Pradesh was recently marred by a series of mishaps that occurred due to extensive lending, which resulted in over-indebtedness and ultimately, defaults. Lending institutions resorted to coercive measures for loan recovery that led to suicides amongst borrowers. In this paper, we explore the reasons that led to such circumstances. We will consider how the widespread operations and omnipresent Self-Help Groups, together with their linkages with banks, attracted private microfinance providers. This, coupled with the absence of adequate regulatory mechanisms, resulted in over-lending to the poor. The paper discusses policy implications of the various regulatory measures that the Government subsequently took to harness and regulate micro-lending practices in the state. It is argued that the regulatory measures initiated to address the issue do not focus on the social structures, i.e., the unequal distribution of the community institutional infrastructure base for delivery of microfinance among different states, and the singular focus of private-sector MFIs on maximizing profits in an inefficiently regulated environment, that gave rise to the current circumstances.

Keywords: self-help groups, microfinance, poverty, microfinance crisis, Andhra Pradesh, India

Dr Anurag Priyadarshee is an Indian civil servant currently serving as Director (Rural Business and Planning) at India Post.

Dr Asad K. Ghalib is External Associate at the Brooks World Poverty Institute, The University of Manchester, UK.