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Vikram Akula: SKS Microfinance and the Andhra Pradesh Crisis

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In August 2010, investors rushed to buy shares in a company. It lent tiny sums to poor women. Within three months, that same company was fighting for survival.

Vikram Akula founded that company, **SKS Microfinance**. His story shows how fast a microfinance firm can rise. It also shows how fast it can fall.



Vikram Akula, Founder and Chairman, SKS Microfinance, at the World Economic Forum's India Economic Summit, New Delhi, 2008. Photo: World Economic Forum / Norbert Schiller, CC BY-SA 2.0.

Who is Vikram Akula, and how did SKS begin?

Where did Akula come from, and when did SKS start?

Vikram Akula was born on **7 November 1968** in Ryakal village, Medak district, in present-day Telangana. He grew up in the United States. He studied at Tufts, Yale and the University of Chicago. He finished a PhD there in **2004**.

He returned to India in December 1997 and founded Swayam Krishi Sangam, known as **SKS**, in **late 1997**. Some accounts date its birth to 1998. It began as a non-profit. It gave small loans to poor rural women.

Sources: fellows.echoinggreen.org; nextbillion.net; benbellabooks.com

> **Quick check 1.** SKS began in 1997 as a for-profit company. *(True or False?)* See answer ↓

When did SKS become a company?

Around **2005**, SKS changed from a non-profit into a for-profit company. It was then called SKS Microfinance. Akula led that change.

SKS was now a private company, not a bank. Its aim was to grow fast and reach millions of poor women.

Sources: fellows.echoinggreen.org; nextbillion.net

How is SKS different from the NABARD model?

NABARD ran an older model of rural credit. In **1992** it began a pilot to link 500 **Self-Help Groups** (SHGs) with banks. Banks lent to the groups.

NABARD gave banks **refinance**, meaning it funded part of their loans. It mostly lends through banks and cooperatives.

SKS was different. It was a private, for-profit lender. See NABARD: India's apex bank for rural credit for that separate channel.

Sources: gdrc.org; findevgateway.org

How did SKS grow, list on the stock market and meet a crisis?

How big did SKS become?

By 30 June 2010, SKS had about **7.3 million** members. A year earlier it had 4.4 million. In March 2010 it had 6.8 million.

That is very fast growth. Later, the speed of that growth became part of the debate about the crisis.

Sources: business-standard.com; fellows.echoinggreen.org

What was special about the 2010 IPO?

SKS held an **IPO**, an offer of shares to the public, in July and August 2010. It raised about **₹1,650 crore**, roughly $350 million. Demand was strong. Reports put the offer at about 13 to 14 times oversubscribed.

SKS became the **first microfinance company in India** to list on the stock market. It listed in August 2010.

Sources: business-standard.com; findevgateway.org



A microfinance self-help group meeting in progress, Kerala. SKS ran a for-profit version of this same rural-lending model. Photo: Jaimoen87, CC BY-SA 3.0.

> **Quick check 2.** SKS was the first microfinance company in India to list its shares. *(True or False?)* See answer ↓

What caused the 2010 crisis in Andhra Pradesh?

Soon after the IPO, a crisis hit India's microfinance sector. **Andhra Pradesh** was the state hit hardest. The state pointed to borrower distress and to suicides linked to harsh loan recovery.

In mid-October 2010, the state approved an **Ordinance** to rein in lenders. SKS shares fell about 9% on 15 October. The Ordinance made lenders register and curbed coercive recovery.

Sources: businesstoday.in; business-standard.com

Quick check 3. The Andhra Pradesh Ordinance of October 2010 aimed to curb coercive loan recovery. *(True or False?)* See answer ↓

What did the Ordinance cost SKS, and when did Akula leave?

Lending and collections stalled. SKS could not recover about **₹1,400 crore** of loans in Andhra Pradesh. A company executive later said the Act showed the risk of relying on one product.

Akula quit on **23 November 2011**. SKS had just reported a quarterly loss of ₹384.54 crore. A year earlier it had made a profit of ₹80.54 crore. The company said he would help until March 2012.

Sources: business-standard.com; businesstoday.in

Quick check 4. Akula resigned from SKS in November 2011. *(True or False?)* See answer ↓

What changed in the rules, and what did Akula do next?

What new rules did the RBI create?

The crisis changed the rules for the whole sector. In **December 2011**, the RBI created a separate category called **NBFC-MFI**. It set tighter rules for these lenders.

The RBI acted on the **Malegam Committee**, which had studied the sector. It issued a master circular on these rules on 2 July 2012.

Sources: rbi.org.in

> **Quick check 5.** The RBI created the NBFC-MFI category in December 2011. *(True or False?)* See answer ↓

What did Akula do after leaving SKS?

In 2006, **TIME** magazine named Akula one of its 100 most influential people. That same year he won the **Schwab** Social Entrepreneur of the Year award.

He wrote **A Fistful of Rice** about SKS. Harvard Business Press published it in 2010.

In 2014, he became chairman of **Vaya Finserv**. It offers financial services to low-income groups. This marked his return to microfinance.

Sources: fellows.echoinggreen.org; benbellabooks.com

> **Quick check 6.** TIME magazine named Akula one of its 100 most influential people in 2006. *(True or False?)* See answer ↓

What debate does his story raise?

Akula's career reflects a larger debate in Indian development policy. Can a market-driven, for-profit model serve the poor responsibly?

Or does it risk the same pressure as informal moneylenders? His career is often cited on both sides of that question.

Sources: businesstoday.in

1997 SKS founded as a non-profit
2005 Becomes a for-profit company
2010 IPO in Aug, Ordinance in Oct
2011 Akula quits in Nov; NBFC-MFI in Dec
2014 Vaya Finserv
Read the strip in order. The listing and the Ordinance came within about three months of each other. The new RBI category came a month after Akula left.

What traps do exam questions set?

Which mistakes do students make most often?

Do not group SKS with NABARD's SHG programme. SKS was a private, for-profit lender. NABARD works through non-profit, bank-linked groups.

Do not blame the crisis on one company. Many lenders pushed aggressive lending in one concentrated state market.

The crisis led directly to the **NBFC-MFI** category in December 2011. Remember the order: IPO in August 2010, Ordinance in October 2010, resignation in November 2011.

Sources: findevgateway.org; business-standard.com; rbi.org.in

Practice MCQs

1. In August 2010, SKS Microfinance's listing on the Bombay Stock Exchange marked what milestone for the sector?

A. The first microfinance company to receive an RBI licence

B. The first foreign-owned microfinance venture

C. India's first microfinance IPO

D. The first bank-sponsored microfinance fund

See answer ↓

2. When did the Andhra Pradesh microfinance Ordinance take effect, and roughly how much in loans could SKS Microfinance not recover as a result?

A. 15 August 2010, about ₹1,650 crore

B. 1 November 2011, about ₹1,400 crore

C. 15 October 2010, about ₹1,400 crore

D. 15 October 2010, about ₹350 crore

See answer ↓

3. Vikram Akula's career at SKS Microfinance is most often cited in Indian development policy debates as illustrating tension between which two things?

A. Rural cooperative societies and urban commercial banks

B. Public-sector banking and private equity investment

C. Market-driven, for-profit lending and the risk of predatory-lending pressures on the poor

D. Foreign direct investment norms and domestic ownership caps

See answer ↓

4. Which organisation promoted the concept of Self-Help Groups (SHGs) for financing the rural poor in India?

A. NITI Aayog

B. The RBI

C. NABARD

D. The Union Ministry of Labour

See answer ↓

5. Does NABARD lend directly to individual farmers?

A. No, it refinances banks and cooperatives, which then lend to farmers

B. Yes, every farmer loan in India is issued directly by NABARD

C. Yes, but only to farmers in NABARD's home state of Maharashtra

D. No, NABARD only funds urban infrastructure projects

See answer ↓

Answer Key

1. **C.**
   SKS listed in August 2010 as the first Indian microfinance company to go public. The other options describe things that did not happen.
   ↑ Q1
2. **C.**
   The state approved the Ordinance in mid-October 2010, and SKS shares fell on 15 October. SKS could not recover about ₹1,400 crore. The other amounts and dates do not match.
   ↑ Q2
3. **C.**
   Akula's career is often cited in the debate on for-profit microfinance. The question is whether it can serve the poor without predatory pressure. The other pairs are not that debate.
   ↑ Q3
4. **C.**
   NABARD began the pilot linking Self-Help Groups with banks in 1992. NITI Aayog, the RBI and the Labour Ministry did not start it.
   ↑ Q4
5. **A.**
   NABARD mostly refinances banks and cooperatives. They lend onward to farmers. NABARD does not issue every farmer loan itself.
   ↑ Q5

Quick-check answers

1. **False.** SKS began as a non-profit. It became a for-profit company only later. ↑ 1
2. **True.** Business Standard and CGAP both describe the 2010 SKS listing as the first by an Indian microfinance company. ↑ 2
3. **True.** Reports on the Ordinance link it to borrower distress and harsh recovery methods. ↑ 3
4. **True.** Business Today reports that he quit on 23 November 2011. ↑ 4
5. **True.** The RBI directions on NBFC-MFIs are dated 2 December 2011. ↑ 5
6. **True.** Two profiles of Akula record the 2006 TIME 100 listing. ↑ 6

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