

Microfinance brings benefits for India's poor

With India's GDP growth pegged at an impressive 9 percent, the country's socio-economic pyramid is turning — albeit slowly — with millions of poor scaling new heights to become entrepreneurs in their own right, thanks to the mushrooming of microfinance institutions in the country. After being trapped for generations, India's poor in far-flung villages are freeing themselves from the clutches of moneylenders — probably forever.

Like Suvarna and her husband Narayana of Nandi Kandi village in southern Andhra Pradesh state who have gone from bare survival to successful shop-owners in just five years.

In 2002, the couple together earned Rs. 60-70 (barely \$2) a day and found it daunting to support their three daughters. Then, Suvarna got a loan of Rs. 7,000 (\$156) from SKS Microfinance, one of India's leading private micro-lending institutions.

And life suddenly took a new turn.

She invested in her husband's unsuccessful grocery shop by buying a refrigerator and bringing in new stocks. Today, the shop is popular among the villagers and Suvarna is putting aside some of her profits for her youngest daughter's education.

"With microfinance as a tool, families move out of poverty in about five-six years," said Vikram Akula, chairperson and founder of the Hyderabad-based SKS Microfinance, who, last year, was named by *Time* magazine as its '100 People Who Shape Our World' list. Akula is often compared with Muhammad Yunus of Bangladesh, who got the Nobel Peace Prize for his work in empowering poor villagers in his country to stand on their own feet with small, collateral-free loans.

"Microfinance provides the economic element to development, which I believe to be the first and most important step in this progression," said Akula, who is also the winner of last year's coveted 'Social Entrepreneur of the Year' award of the Schwab Foundation. Known as the 'Starbucks of Microfinance', SKS Microfinance has so far provided over Rs. 3.2 billion (\$71.5 million) in loans to



Vikram Akula of the Hyderabad-based SKS Microfinance disbursing a loan. SKS Microfinance is one of India's leading private micro-lending institutions.

some 322,000 poor women in 11 states across India.

According to Maxine Olson, UNDP's resident representative in India, microfinance ensures that the poorest benefit from this growth, and also contribute to it.

"The microfinance sector in India is rapidly evolving and earlier constraints to the availability of funds for lending are decreasing with the sharp increase in bank financing for the sector," she emphasised. Now there are more than 1,000 microfinance institutions and 300 commercial banks reaching out to about 17.5 million people with loans worth \$1.3 billion having been given out, said Suryamani Roul, vice president for livelihood and access development with CARE India.

The U.S.-based Vinod Khosla, a partner at Kleiner Perkins Caufield and Byers, a U.S.-based venture capitalist firm, along with other social venture capitalists, recently invested \$2.5 million in SKS Microfinance.

The concept of microfinance emerged in South Asia in the early 1990s, when development agencies initiated the process of providing loans of up to \$100 to poor women to help alleviate rural poverty.

This then started getting utilised by the villagers for their individual economic enhancement — to buy cattle, seeds, fertilisers and many such items to do business. It eventually turned out to be profitable for lending institutions and they became active in India and Bangladesh.

Today, India is one the largest emerging

markets in microfinance in the world and, according to experts, the depth of outreach in India is phenomenal.

According to K.A. Salim, deputy general manager of microfinance with the State Bank of India, the microfinance programme in India has registered an exponential growth in the last few years and 2.3 million SHGs (self-help groups) have been credit-linked, covering approximately 32.2 million households.

But as with any other evolving sector, microfinance in India faces persisting challenges. "One of the challenges we face as an industry is that microfinance

is starting to attract players who do not have a social mission (economic development of the poor) as their primary goal," Akula pointed out.

However, Olson felt that one of the most pivotal issues facing the microfinance sector was that of interest rates.

"While on the one hand, microfinance providers cite high unit transaction costs and financial cost ratio for delivering services at the doorstep of the poor, on the other, poor clients are burdened due to excesses in collection practices, 'zero tolerance' for default and high interest rates," she said.

Yet, microcredit is making rapid strides across the country.

Muhammad Siraj Ali, a young timber merchant in Assam, opened a non-conventional bank — Rani Bholagaon Khudra Sanchay Bank — in July last year in Assam province's remote Sikharhati village to provide microcredit to the villagers there. From just about a dozen people, the bank today boasts of 1,500 account holders with cash deposits growing to Rs. 500,000 (around \$11,000).

"I never heard of Muhammad Yunus till he won the award. It's only after that did I realise that our concept was similar to the micro-lending facilities of his Grameen Bank," Ali, the bank's president, said.

Eight out of 10 most productive microfinance institutions in South Asia are in India with a range of 469 to 2,873 borrowers per staff member, says a state of the sector report launched recently in the capital. ■