

Microfinance needs more commercial funding: Vikram Akula

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Microfinance in India, one of the largest emerging markets for it, is growing exponentially but needs more commercial funding to grow, says Vikram Akula, winner of the coveted Social Entrepreneur Award.

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Hyderabad-based Akula, founder and chairman of SKS Microfinance Private Limited, shifted to the US at the age of three. However, he returned after his education in some of the top American universities, driven by an urge to do something to address the issues of poverty back home.

"Microfinance in India is a growing sector but it has a long way to go and much more

needs to be done before we can successfully help our poor with the support of credit and microfinance," Akula said in an interview.

He was honoured as Social Entrepreneur of the Year 2006 in India award by Congress president Sonia Gandhi Monday. This is the second award being given by the Schwab Foundation and the Nand and Jeet Khemka Foundation in association with the Confederation of Indian Industries (CII) and the UNDP.

"The regulatory environment created by the Reserve Bank of India (RBI) is unfavourable for the growth and proliferation of microfinance in India," Akula, a Fulbright scholar and a product of Tufts, Yale and Chicago universities, pointed out.

India is one the largest emerging markets in microfinance in the world, but has been able to penetrate to only one-fifth of the country's poor. For the last two years, many public and private sector banks have been aggressively eyeing the market along with various overseas retail banks.

"It is true that all the major domestic and foreign banks have been actively involved in India's microfinance, but we need more commercial funding which is somehow not pacing up," Akula emphasised.

Known as the 'Starbucks of Microfinance', SKS automates microfinance through user-friendly back office and field technology reducing manual processing with minimal labour costs. The organisation has witnessed a growth rate of 300 per cent and has provided over Rs 3.2 billion in loans to 3,22,000 poor women in 11 states.

According to some experts, the microfinance model in India is slowing down due to lack of repayment loan capabilities by the poor who take loans to start up their own enterprise.

But Akula disagrees. "This is not true. This may happen in very rare cases. The current repayment rate is 90-95 per cent. Across the country, poor people do have the capability to repay their loans."

A former consultant with McKinsey, Akula was named by *Time* magazine as one of the world's 100 most influential people.

"Do you know washers, barbers and tailors contribute more to the country's GDP (gross domestic product) than the IT sector?," asks Akula.

The firm has elaborate future plans in its effort to create entrepreneurs from poor people.

"Our goal is now to reach out to 10 million households in the Indian hinterland and disperse funds over Rs 50 billion to them," he said.

Would he compare himself with Mohammad Yunus, who won the Nobel Peace Prize this year for his role in alleviating poverty in Bangladesh through microfinancing?

"They have a different model, and we have a different model," is all that the debonair Akula will say.

According to M-CRIL Microfinance Review of 2003, there are over 100 established microfinance institutions (MFI) in India that have been credit-rated. These MFIs have a combined outstanding portfolio of Rs 5.07 billion with cumulative disbursements of Rs.16.36 billion (\$365 million).

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