



## Serving financially excluded, transforming lives

**M**icrofinance institutions have brought in a paradigm shift in lending to financially excluded individuals. SHARE, a leading MFI in the country, has played a major role in changing the lives of rural women and helped them build grassroot enterprises by offering affordable credit. Faced with a hostile legislation in Andhra Pradesh that has impacted their business, MFIs in the country, are now hopeful of support from the RBI, the government, banks to tide over the situation.

He spent days and months together in remote villages of Andhra Pradesh, talking to people, understanding their consumption patterns, needs and requirements. These travels and interaction,

100 per cent and 150 per cent, she was left with little or no money to save for. Dr Kumar realised that if Laxmi had she been able to borrow at affordable rates, she would have been able to create an economic cushion and raise herself above the subsistence level.

Individuals in rural India, Dr Kumar understood, just as the rest of society, need financial products and services to build assets, stabilize consumption and protect themselves against risks. But the traditional lending models were unable to offer any help to the rural communities, under the fear that they might not be able to repay, leading to a situation of limited opportunities for these individuals in the country.



Dr. M. Udaia Kumar

founder  
SHARE & Asmitha Microfin Ltd

**“MFIs have played a major role in grassroot level development. By offering an affordable credit facility to poor women in India’s rural areas, these institutions have not only helped uplift the underprivileged but also embodied the basic tenets of banking – financial inclusion. Considering the crisis in AP, timely support from lenders and regulator becomes imperative, without which the AP based MFIs would be detrimentally impacted, thereby hurting the general sentiment and confidence among banks, investors and the sector as a whole.”**

although grueling, helped Dr Udaia Kumar, understand and analyse the life of a villager in India. He saw from closed quarters how people living below the poverty line, deprived of basic amenities, struggled to make ends meet.

In one such interaction with a villager - Laxmi, who made bangles, Dr. Kumar learnt that after repaying the moneylenders, at an interest rate of as high as

However, Dr Udaia Kumar was willing to tread the less frequented path. A strong believer in the fundamental principal, Dr Kumar believed that people with low incomes are bankable.

**Our strong fundamentals, systems and transparent processes have helped carry out lending activities in a sustainable manner despite the ongoing microfinance crisis in Andhra Pradesh.**

In rural life, one also faces discrimination in terms of one’s gender. As a result, vast sections of the rural women were deprived of opportunities and oppressed by social

customs and practices. It has been an accepted practice that women were not given enough opportunities to involve themselves in the decision making process of the family as well as in the society. As a result, especially in the rural areas, women were even worse off in terms of eking out a meager pay to support their life or family.

Dr Kumar wanted to provide these rural women an opportunity, an affordable credit offering facility, to help them work their way out of financial distress and enable betterment of the entire family.

And, his efforts, led to the emergence of a new credit model in India - the microfinance institutions (MFIs).

### NEW CREDIT MODEL & INCEPTION OF SHARE

Dr Udaia Kumar, among others, initiated and pioneered the Microfinance model of Joint Liability Group in India in order to mobilize funds to help women groups to set up businesses.

With such first hand experience, in 1989, he went on to set up SHARE, as a two year action research project. That was just the beginning of a long journey. Today, SHARE stands as one of the largest MFIs in the country having served about 4 million women clients to improve the quality of life by providing access to financial and support services.

Apart from being a leading MFI, SHARE has many firsts to its credit. In 2000, SHARE became one of the first MFIs to convert to a Non Banking Finance Company (NBFC), the first MFI to reach out to one million clients and the first MFI to attract US\$ 27 million equity infusion in the microfinance sector globally among many others. This effectively led to the transformation of the microfinance industry in India to one now led by professional financial

services companies, which are able to deliver better products and services to more people at lower cost.

With 24 years of serving India's rural segment the company has developed a model that is both efficient and scalable. The vision and mission of the company is driven by the founders' belief that everyone has a right to the opportunities created by broader financial inclusion, making it possible for them to realise their full potential.

SHARE has been measured up and down and backwards and forwards by financial institutions and rating agencies. Further, research and educational institutions have looked beyond its institutional performance to the changes it had brought about to the lives of women who take SHARE's loans.

**SHARE with its pan India presence in 18 states, has reached out to 36 Lakh households across 215 districts disbursing 1.53 crore micro-loans amounting to a cumulative disbursement of over Rs. 15,285 crore.**

### EMPOWERING WOMEN

'True Microfinance, says Dr Kumar, is not just about giving and receiving money but it is giving credit for empowering women. In the process, women have gained the confidence that 'empowers' them to move forward in their lives.

One of the impact studies conducted revealed a shift in actual family roles in around half of the selected clients of SHARE 'before' and 'after' taking credit from the MFI.

When the staff first came to Satyamma's village she used to lock herself in her house to avoid them. "I was afraid of the training because I never thought I would be able to talk to them or learn or write," she says.

These women were paralyzed by shyness. They were afraid to talk to strangers, especially men. As



Padmamma says, "my hands used to shiver to take my wages from my landlord."

Clients in that particular area used to cover their faces while walking on the road. But eventually the entire situation changed wherein the general awareness and confidence levels of micro finance clients have seen tremendous improvement. Participation in credit and credit related activities would lead to greater empowerment of the clients of SHARE. Increase in income and awareness levels helped these clients to allocate more resources for educational needs of their children, leading to an improvement in overall quality of life.

**"India's microfinance companies such as ours are keen to see the passage of a bill in the Parliament that will make the central bank the sole regulator of the sector," says Dr Kumar.**

The prime objective of SHARE is to provide financial intermediation by enabling financially excluded clients to undertake income generating activities. With its pan India presence in 18 states, the Company has reached out to 36 Lakh households across 215 districts disbursing 1.53 crore micro-loans amounting to a cumulative disbursement of over Rs. 15,285 crore.

SHARE's growth and performance, operational strengths, capacity and potential for future growth has led to 40 banks endorsing its efforts by providing financial assistance. Recognised as a valued institution internationally, SHARE has played a crucial role in shaping and leading the microfinance sector in India, and the world at large.

#### CHALLENGES IN AP

However, like its peers SHARE also faced challenges in its business. In October, 2010, the enactment of "The Andhra Pradesh Microfinance Institutions (Regulation of Money Lending) ordinance had brought about a detrimental impact to MFIs' business in the state. The ordinance imposed restrictions on the lending and recovery practices of MFIs in AP, thereby bringing the recoveries from clients in the state to a halt.



But SHARE was not the one to shy away from taking on challenges or adversities. SHARE has all along, implemented fair practices and has also been prompt in making timely loan repayment to the banks and financial institutions. Even, in the face of adversity, the management remained committed to serving its clients and all the stakeholders. Dr. Kumar stresses on the fact that strong fundamentals and systems have so long enabled the company to run the microfinance activities in a sustainable manner amidst the AP crisis.

Microfinance started in the country as onward lending concept which created space for formalised companies attracting banking and finance professionals and social entrepreneurs who brought in their expertise in systems, process and technology. Microfinance, an innovative yet simple model, offered small loans made to groups based on trust, has helped business grow from grassroots and thereby lifting people out of poverty. The sector has received recognition from the government and this is evident from the Reserve Bank of India's (RBI) categorisation of onward lending by banks to MFIs as priority sector lending.

The evolution of Microfinance has opened doors for making billions of dollars in credit available to millions of rural individuals in India. However, given the unorganised and extremely sensitive market MFIs cater to, the sector needs support from the government, bureaucrats, political strata and the regulator – RBI, especially to help AP-based MFIs to wade out of the ongoing crisis and regain national

and international trust and confidence in the sector as a whole.

“India's microfinance companies such as ours are keen to see the passage of a bill in the Parliament that will make the central bank the sole regulator of the sector,” says Dr Kumar.

Currently, the microfinance sector has evolved to put itself under stricter and streamlined processes and regulatory procedures by RBI.

SHARE on its part has adopted fair practice code to ensure client friendly processes, integration of Credit Bureau into the centralised loan approval process to check client indebtedness before sanctioning loans and instituted grievance redressal mechanism to resolve any clients' complaints and disputes.

#### REVIVING & SUPPORTING MFIs

Money, in microfinance, is the working capital which the microfinance institutions need to mobilize from banks, financial institutions and investors and further provide the same to the unbanked. Due to limited funds available with international aid agencies, government, foundations and donors, microfinance institutions are in need of equity and debt funding.

Individuals from rural areas have limitations in approaching formal banking segment. Microfinance has become a convenient credit facility to them as these institutions brought financial services to the very door step of the client.

These institutions through their lending facilities not only helped rural women to shake off their inhibitions but also to step out of their shell by seeking funds from MFIs without the need for collateral and developing their business.



A single client, for instance, has borrowed and repaid an amount of Rs.10,000 in the first year, Rs.15,000 in the second year, and so on, reaching a stage where she has been able to build a business and assets, thereby progressing to a stage where she is in a position to access funds from banks by placing the necessary collateral built thus far.

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As such, it is pertinent to protect this sector from the current crisis situation. At this juncture, the support of the RBI, the banks and the government would be critical to specifically the AP based MFIs so that the development achieved thus far is not threatened and continues to progress toward achieving the national objective of financial inclusion. ■

