

A Fistful of Rice

My Unexpected Quest to End Poverty Through Profitability

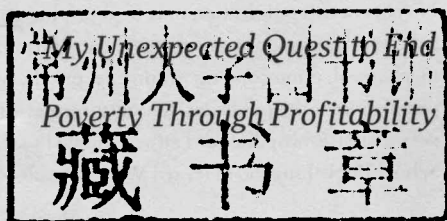


VIKRAM AKULA



HARVARD BUSINESS REVIEW PRESS

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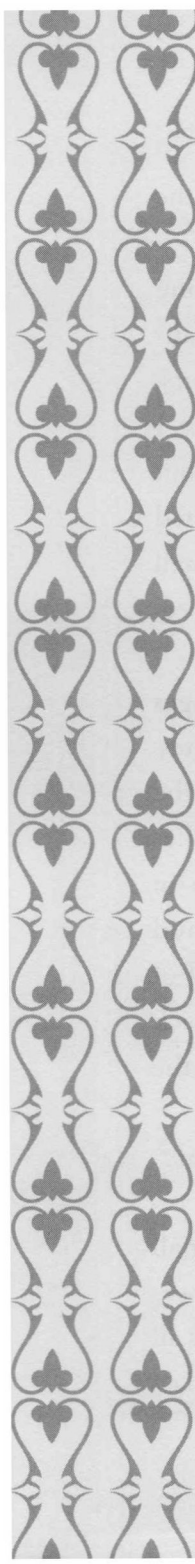
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*This book is dedicated to my parents,
Akula V. Krishna and Padma Krishna.
I am grateful for your love and support.*

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CHAPTER ONE

“Am I Not Poor, Too?”

IT WAS THE SUMMER of 1995 when a woman in rural India asked the simple, five-word question that changed my life.

I was an idealistic graduate student, working in India on a Fulbright scholarship and determined to change the world. This was my second stint working in remote Indian villages with the nonprofit Deccan Development Society (DDS), but my first time working in microfinance. The possibilities of microfinance—lending very small amounts of money to very poor people—seemed

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limitless, and I was excited to be learning about it on the ground.

As head of an agricultural lending program serving thirty villages, I'd putter down dirt roads on an Indian-made Hero Honda motorbike, meeting with borrowers, disbursing loans, and collecting repayments. Each week, I talked with rural Indians who were pulling themselves out of poverty and despair—landless laborers who had started with nothing but were now launching their own small businesses, earning not only money but greater self-respect as well.

The degree of poverty in these remote Indian villages was unlike anything I'd ever seen in the United States. Children with spindly legs and hungry eyes played in the mud alongside mangy stray dogs and farm animals. Piles of garbage dotted village roadsides, and sewage ran in trenches alongside homes. People lived in one-room mud huts, sweltering in the Indian sun. There was a smell of desperation in the air, a sense of resignation that went back centuries. The poor had always been poor, and here in the Indian hinterlands, it felt like they always would be.

Working to help these villagers was incredibly gratifying, though there were definitely hardships to living in remote villages: sleeping on a straw mat on the floor in a small room, fetching drinking water from a distant well, and seeing the effects of poor nutrition and hygienic conditions all around me was certainly a far cry from the middle-class

comfort of Schenectady, New York, where I had grown up. But I felt like I was really making a difference, really helping to end poverty in India.

Then, one day, a woman walked into our regional office. Barefoot, emaciated, and wearing a faded purple sari, she was obviously poor and from a lower caste. But she'd found her way to our office because she'd heard about our program and wanted to learn more. This was no small achievement, as she'd either paid to take a bus or had walked quite a distance to find us.

She asked some questions about our lending, then got quickly to her point. "Can you start this program in my village?" she asked.

I looked closely at her. She was probably in her mid-thirties, but like many poor Indians, she looked older than her years. Her face was worn and her skin weathered, but her eyes were alight with purpose. Life had beaten her down, but it hadn't beaten the hope out of her. This, I thought, was exactly the kind of person we should be lending to. So I promised to ask DDS's director later that day.

Yet when I asked him if we could start lending in the woman's village, I got a disappointing answer. "Our grant cycle is coming to an end, Vikram," he told me. "We don't have the funds to expand right now beyond the villages we're already in. There's nothing we can do."

The next day, I rode my motorbike to the woman's village to break the news to her. The sudden appearance of an

Indian man speaking Telugu, the local language, with an American accent always caused a stir in remote villages, and it didn't take long for word to spread. The woman soon came outside to meet me.

"Here's the situation," I told her. "We don't have the resources right now to expand to new villages. We've got a set amount of money, and we've already committed it elsewhere." Even as the words came out of my mouth, I wished I could take them back. But all I could say was, "I'm very sorry."

The woman looked me in the eye, and with great dignity, she spoke the words that would change my life. "Am I not poor, too?" she asked me. I stared at her, jarred by the question, and she went on. "Do I not deserve a chance to get my family out of poverty?"

Am I not poor, too? With these words, this driven, determined woman suddenly made me see how unfair—unjust, really—our microfinance program was. Yes, we were helping hundreds of poor Indians take the first steps to pull themselves out of poverty. But my program had just \$250,000 to spend in thirty villages—that was all DDS had been given for the project. And once that money was disbursed, there was no money left for other poor Indians who desperately wanted a chance too.

This woman wasn't asking for a dole. She wasn't asking for a handout. She was simply asking for an opportunity. But we couldn't give it to her.

This was a defining moment for me. We had to find a way to change microfinance—to make it available to any Indian, or any poor person anywhere in the world for that matter, who wanted to escape poverty. Microfinance was a fantastic tool, but a deeply flawed one. There simply had to be a way to scale it beyond the constraints of how it was currently being practiced.

I rode my motorbike home over those same dirt roads, but everything had changed. I had a new mission: to solve the problem of how to make microloans available on a mass scale, far larger than the few million people worldwide who were then being served. The search for that solution—and the incredible results, white-hot controversy, and vigorous ongoing debate it engendered—is what this book is about.

Like many people, I believe microfinance is a core solution to the global poverty problem. It provides poor people with the tools to find their own way out of poverty. It puts the power squarely in their hands, giving them a larger stake in their own success than simple one-time donations of food, goods, or cash. And it offers innumerable side benefits—not only to the poor themselves, but to economies, banking systems, and political systems where microfinance is practiced. It is an incredibly powerful, versatile tool.

But unlike some, I believe that microfinance institutions, or MFIs, must be set up as highly commercial, for-profit entities if we have any hope of eradicating poverty.

This point of view puts me at odds with many of my colleagues, but it's one I feel very strongly about. So strongly, in fact, that in late 1997 I started my own company, SKS Microfinance, to do just that. We launched as a nonprofit out of necessity, but the goal was always to turn it into a for-profit company, which we did in 2005.

Many of the people I've worked with over the years—people whose opinions I respect, and whose love for India and desire to help the poor are deeply felt—have expressed keen disappointment in my choice. They say it's unacceptable, even unethical, to make money from charging interest on loans to the poor. But I believe the opposite: that doing well by doing good is not only acceptable, it's absolutely ethical. In fact, I believe that offering microfinance as a highly commercial, for-profit venture is the *more* ethical choice, by far.

I didn't come to these beliefs overnight. They're the culmination of a journey, one that took me through the worlds of academia, philosophy, nonprofits, and business. But the very first step of that journey was discovering what poverty really was, as a young boy visiting India.

THOUGH I WAS BORN in the south Indian city of Hyderabad, my family immigrated to the United States in 1970, as part of the “brain drain” that led so many educated Indians to seek their fortunes abroad. My father, Akula

Krishna, a surgeon, brought us to upstate New York when I was two to start our new lives. Years later, when I went back as an adult to live in poverty-stricken rural India, my parents were baffled: why would I return to such a place, after they'd taken such pains to create a better, more comfortable life for us in America?

The answer lay in a few grains of rice. When I was about seven, my parents took me back to India for the first time to visit with family. I had no memory of my first two years there, and thought of myself as fully American. But during that trip, India made an impression on me that I would never forget.

I was at my aunt's house, a comfortable home in a middle-class Hyderabad neighborhood, when someone knocked at her door. It was a woman with a half-dozen steel pots and a young boy in tow. She was selling the pots door to door. And by the look of her sari and her drawn, sallow face, she desperately needed whatever she could get in barter for them.

My aunt invited the woman in and began looking over her wares, while her son hovered near the doorway, unsure whether he was allowed to come in. As children do, he and I shyly sized each other up. It was clear from his dirty clothes and gaunt frame that he and I lived in completely different worlds, but he was about my age, so I felt a kind of connection with him right away. We didn't speak, but we continued to eye each other as my aunt and his mother

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bartered over what she would receive in exchange for the pots.

A price was agreed upon, and my aunt went into the kitchen to bring out rice for payment. I watched as the woman squatted down and held out her *pallu*, the folds of her sari. My aunt poured the rice grains into the outstretched garment, and a few grains—maybe fifteen in all—fell to the floor. The floor was made of dark, shiny *shabbad* stones, so the smattering of white grains stood out. I figured my aunt would just sweep them away when the woman and her son left.

To my astonishment, the woman reached down and pressed her finger against each grain to pick it up. My aunt was already heading back to the kitchen with her rice container, but this woman was carefully scouring the floor, making sure she hadn't missed a single grain. This, I suddenly realized, was what it meant to be truly hungry.

Like most middle-class American kids, I'd heard the refrain, "Don't waste your food! There are children starving in India." I was a conscientious child, so I always did try to eat everything I was served. But watching this boy and his mother, I understood for the first time that hunger was not an abstraction. These were real people—people not so different from myself—and fifteen grains of rice really mattered for them.

If I had grown up in India, I doubt I'd have been struck at all by the scene that unfolded in my aunt's house that

day. But I was an Indian boy growing up American in Schenectady, New York. I went to Cub Scouts, to birthday parties, to restaurants with my family. We lacked nothing, and we also weren't confronted with the daily reality of others' poverty: I was growing up in a happy, insulated bubble. But in India, poverty and hunger were right there for all to see—even right in my aunt's house. The contrast was stark and unforgettable.

We continued to go to Hyderabad over the summers, when I was out of school. I practiced my rudimentary Telugu, and kept learning more about India each time we visited. But I still considered myself 100 percent American, and even had asked my friends to call me Vic, rather than Vikram, so I could fit in better as I moved up through junior high school. Then, the summer I was twelve, I witnessed another incident in India that struck me as powerfully as the rice grains incident had five years earlier.

We had gone back for a family wedding, which in India, as in many parts of the developing world, is quite a lavish affair even if you're solidly middle class. Families will save money for years in order to put on the most extravagant celebration possible, with multiple courses served at the meal, fancy decorations, expensive gifts, and even rented camels or elephants for the bride and groom to ride in on.

Everyone was dressed in beautiful silk saris and ornate *kurtas*, with the women's gold jewelry glinting in the evening light. When we sat down for dinner, waiters

brought out the food on traditional leaf plates. Course after course was served—piping-hot chicken biryani, glistening ghee-laden curries, sweet meat, dal, paneer, and sugary jelabi—with the waiters swiftly refilling each half-empty plate, as everyone ate and drank and the volume of the party increased.

Finally, the last course was finished. The happy, sated guests rose to begin migrating from the dining tent to another tent for the continued celebration. As I walked away from my table, I happened to glance back as the last leaf plates were being cleared.

Two boys about my age, in threadbare clothes and with lean, hungry faces, had made their way into the open-air dining tent. I watched as they took as many leaf plates as they could and carried them a short distance away, to the top of a hillock. They sat beneath a tree there, then quickly got to work: one boy scraped the leftover food off plates while the second, older boy held another plate to collect it all. Then the two boys, clearly ravenous, began scooping the leftovers into their mouths.

I stood and stared. I couldn't believe their desperation, literally eating our castoffs, our waste. In Schenectady, I thought, these boys might be my friends, or on my soccer team. Here, they were scavengers, too hungry to care who might see them filching the scraps of food we didn't want. It felt so unreal to me—and yet I was standing here, watching it happen. I almost couldn't stand that such



desperation existed, and that it was on view, right there in front of me.

That was the moment I knew, beyond doubt, what I would do when I got older: I wanted to come back to India and help people like those boys get out of poverty. Why should I have an easy, comfortable life while others, by luck of the draw, had to struggle so hard to survive? It's probably too clear-cut, or too romanticized to say I made a vow right then to try and eliminate poverty in India. But that was the moment when what I'd seen lodged so firmly in my consciousness that I couldn't imagine doing anything else.

INDIA IS A LAND of breathtaking beauty, deep history, and astonishing diversity. It's a land with so many languages and dialects that fewer than half its people claim the national language, Hindi, as their native tongue. Depending on which city or village you go to, you're as likely to hear Bengali, Telugu, Urdu, Malayam, Punjabi—or English—as you are Hindi. All told, the country has fifteen official languages and hundreds of distinct dialects.

It is also a land of amazing religious and ethnic diversity. Though more than 80 percent of Indians identify as Hindu, a walk down any street in any city will take you past Muslim mosques, Sikh temples, Zoroastrian shrines, and Christian churches. And even within the Hindu religion, a

plethora of gods vies for attention: Shiva, Ganesh, Krishna, Rama, and literally hundreds of others. Hindu temples, from sprawling complexes to tiny roadside shrines, pay homage to a vast and vibrant religious culture.

To be Indian is to share in a heritage that's at once common to a billion others and unique to each family, region, or faith. India is impossible to characterize in a few words; it is as colorful and chaotic as the wild, lurching traffic that flows through its streets. It is full of the hope and potential of an emerging economic power, and the excitement of becoming a potent new force in the world. And with its call centers, software developers, and eager embrace of the technology age, it is poised to enter a new era.

Yet India is also a land of extreme poverty. According to figures released by the World Bank in December of 2008, based on the results of the 2005 International Comparison Program (ICP), fully 42 percent of India's people live in poverty—meaning they exist on the purchase-power equivalent of less than \$1.25 per day. With a population of more than 1 billion, that works out to more than 450 million poor people—more than the populations of the United States, Germany, and France put together.

If that's not bad enough, the numbers spike even more when you consider how many Indians live below the level of just \$2 per day. According to the same World Bank report, 828 million Indians live at this standard—a number that represents more than 12 percent of the Earth's people,