

## **Microfinance in the Improvement of Living Standard and GNH**

*Saugata Bandyopadhyay\**

### **Abstract**

*This paper mainly aims to extend the philosophy of capability development at the micro level for achieving individual happiness as a part of a community through social transformation and to achieve happiness at individual and community level. One of the main indicators for Gross National Happiness is living standard, and this paper will examine briefly the role of microfinance in India, Bhutan, Bangladesh, Nepal, and Pakistan in transforming the lives and social behaviour of the poor people of this part of the world. This paper will try to establish the strong linkage between microfinance and capability building through the process of social transformation by improvement of living standard for arriving at Gross National Happiness.*

### **Introduction**

The people have to be seen in this perspective (development as freedom), as being actively involved – given the opportunity -in shaping their own destiny, and not just as passive recipients of the fruits of cunning developments.

-- Nobel laureate Professor Amartya Sen (Sen, 1999, p.53]

The Gross National Happiness (GNH) concept has evolved over time from highlighting the inadequacies of the traditional economic theories of measuring development and determining the direction of the development policy, introducing the 'four pillar' objective approach (Balanced Equitable Development, Environment Conservation, Preservation and Promotion of Culture and Heritage, and Good Governance) in line with Millennium Development Goals (MDGs), to the effort of operationalising the same with the introduction of measurement indicators. The standard of living, health of the population, education, ecosystem vitality and diversity, cultural vitality and diversity, time use and balance, good governance, community vitality, and emotional

---

\* Assets Reconstruction Company (India) Limited, India,

wellbeing are the nine provisional Gross National Happiness (GNH) indicators identified by the Centre for Bhutan Studies, Bhutan.

GNH is always projected as a simple approach and at the same time so highly encompassing in its objective of happiness to all, that its operationalisation is quite complex. Happiness is a very simple term, often misunderstood by many by dissecting the same completely from the money part. It has to be understood that for a vast majority (poor as we call), the basic requirement of money is for their existence and not for their materialistic fulfilment. Thus, the friction between individual happiness and that of community happiness to national happiness will always be a complex tapestry.

**Hard facts of our world that cannot be ignored**

- Almost 30,000 children under the age of five die every day from malnutrition and preventable disease. (refer: State of the World's Children, 2005, UNICEF)
- Approximately 790 million people in the developing world are chronically undernourished. (refer: World Resources Institute Pilot Analysis of Global Ecosystems, February 2001)
- Nearly a billion people entered the 21st century unable to read a book or sign their names (refer: *State of the World's Children*, 1999, UNICEF).

The discussion on happiness has to include the most neglected part of our world, the vast poor rural segment. In the event that national happiness does not address their basic happiness, then it will fail to live up to its promise as envisioned in the wisdom of the King of the Royal Kingdom of Bhutan, His Majesty Jigme Singye Wangchuck.

According to me, the most important driver for happiness is the upliftment of the living standard of the rural population, especially the poor. Why so much focus is placed on the happiness of rural population? South Asia is the place where almost one third of the world population lives. I will mainly focus on five of the South Asian Association for Regional Cooperation (SAARC) countries, India, Pakistan, Bangladesh, Nepal, and Bhutan, since

the majority of the population lives in rural areas and agriculture, livestock rearing or traditional crafts are the main livelihood. This rural segment of the population needs to be made capable in the entitlements so as to help them to improve their living standard themselves. The theoretical background is the Capability Approach theory, the vision background is GNH and the operational driver is microfinance.

### **Capability building for social transformation of poor class**

Professor Amartya Sen (1993) in his Capability Approach (CA) theory stated that the individual opportunities (capacities) are the deciding factors for conducting a better life as per one's own choices and terms. These opportunities are reflected in the 'Capability Set' that is formed through a process in which resources and income are converted by personal, social and environmental factors (functions of utilisation) into potential human functioning (social, economic and political freedoms), known as 'entitlements'. Thus, the core feature of CA is its focus on what people are effectively able to do and on their capabilities. Sen argues that a person's freedom to live the way one would like has intrinsic value and therefore it is constitutive of a person's wellbeing. According to him, public policy should address questions such as: a) what are the social and economic opportunities available to citizens in leading a life of their choice?, and b) what are the personal and social conditions that facilitate or hinder the individual's ability to transform resources into different functioning? These questions underline the importance of individuals' capability of selection and discrimination along with achieved functioning.

The criterion of 'capabilities' as a public policy mover addresses two interrelated aspects: a) enhancements of capacities or entitlements of people as human beings ranging from fundamental ones (nutrition, health, education, etc.) to complex ones (social, cultural, environmental and political), and b) the opportunities available to the people for exercising their capacities. According to Sen, income and wealth cannot be a straightforward indication of quality of life; they are just means for attainment of functioning. Further, peoples' capacities could indeed be enhanced or curtailed based on the opportunities or

obstacles they face in their family or society. Sen pointed out that even though deprived people (mainly battered housewives, bonded labourers, street children, exploited migrant workers, oppressed minorities) may objectively lack opportunities – such as adequate nourishment, decent clothing, minimal education, basic health care services – their hope and desire has been blighted over generations in a manner that they no longer are able to recognise or articulate these as important components of life.

**Population: a magnitude of challenge to happiness**

Whenever I think of gross happiness in the SAARC countries, I think of the huge population, especially the rural population, with their varied ethnic and social lifestyles, diverse cultural heritage, fluctuating economy, fragile ecosystem and environment, numerous health and hygiene problems and endless other issues. It is these populations which are less understood and as such mostly misunderstood by our so-called policy makers and global development organisations. Population is the challenge for the concept of happiness – if we want to sugar coat this challenge with happiness then we will be trapped in the capital-minded measurement of the Human Development Index (HDI). The top countries in terms of HDI are Norway with a population of only 4.6 million and Australia with only 20.4 million people to manage. If we compare it with India the number is a staggering 1130 million; even Pakistan and Bangladesh are far more in population than Mexico given the population density per kilometre. Thus, the challenge remains in the enormity of the management of this huge mass of people and their happiness.

**Table 1**

| <b>Country</b>       | <b>HDI*</b> | <b>Ranking#</b> | <b>Population (Million)@</b> | <b>Growth (%) @</b> |
|----------------------|-------------|-----------------|------------------------------|---------------------|
| <b>Top Countries</b> |             |                 |                              |                     |
| Norway               | 0.965       | 1               | 4.6                          | 0.4                 |
| Australia            | 0.957       | 3               | 20.4                         | 0.8                 |
| USA                  | 0.948       | 8               | 301.1                        | 0.7                 |
| <b>Mid Countries</b> |             |                 |                              |                     |
| Cuba                 | 0.826       | 50              | 11.3                         | 0.3                 |
| Mexico               | 0.820       | 53              | 108.7                        | 1.2                 |
| <b>SAARC</b>         |             |                 |                              |                     |
| India                | 0.611       | 126             | 1130.0                       | 1.6                 |
| Pakistan             | 0.539       | 134             | 164.7                        | 1.8                 |

|            |       |     |       |     |
|------------|-------|-----|-------|-----|
| Bhutan     | 0.538 | 135 | 2.3   | 2.1 |
| Bangladesh | 0.530 | 137 | 154.4 | 2.1 |
| Nepal      | 0.527 | 138 | 28.9  | 2.1 |

Sources: \* Human Development Index from Human Development Report 2006 as published by UNDP # Ranking out of 177 countries; @ U.S. Census Bureau, International Data Base.

There is a tendency to make a simplistic support in favour of HDI that the so-called capitalist countries, viz. USA, United Kingdom, Germany, Japan, are not heading the list as the money is not the driver for happiness, but if one compares the list then you would appreciate that these countries are within top ten or top twenty countries in the list. I would say HDI also reflects the traditional GNP measurement and has been extended only as a measure for capital productivity in the human development sphere. The population productivity in the SAARC countries also shows the social happiness in reproduction but the challenge is inbuilt in terms of national happiness.

**Table 2**

| Country              | Ranking# | Life expectancy at birth (years) | Infant mortality rate (per 1,000 births) | Under 5 mortality rate (per 1,000 births) |
|----------------------|----------|----------------------------------|--|---|
| <b>Top Countries</b> |          |                                  |  |   |
| Norway               | 1        | 80                               | 4  | 4   |
| Australia            | 3        | 81                               | 5  | 5   |
| USA                  | 8        | 78                               | 8  | 8   |
| <b>Mid Countries</b> |          |                                  |  |   |
| Cuba                 | 50       | 77                               | 6  | 8   |
| Mexico               | 53       | 76                               | 20                                       | 22  |
| <b>SAARC</b>         |          |                                  |  |   |
| India                | 126      | 69                               | 35                                       | 44  |
| Pakistan             | 134      | 64                               | 69                                       | 102                                       |
| Bhutan               | 135      | 55                               | 96                                       | 152                                       |
| Bangladesh           | 137      | 63                               | 59                                       | 85  |
| Nepal                | 138      | 61                               | 64                                       | 90  |

Source: U.S. Census Bureau, International Data Base.

The problems of a large population are reflected in living standard, hygienic and health conditions, social taboos – all these get captured in the life expectancy in years. The life expectancy in the SAARC countries are in the range of 55 years to 69 years as compared to that of developed countries ranging from 76 to 81

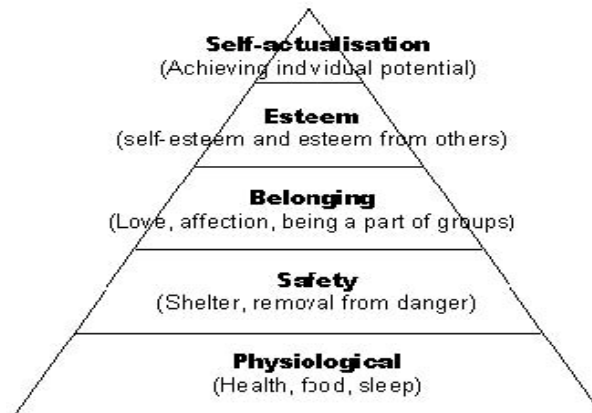
years. However, the major eye opener will be the infant mortality rate which is as high as 96 per 1000 births. Further the 'under 5 years' mortality rate is as high as 152 per thousand if compared with that of developed nations, in which case both these parameters reflect less than 10 per 1000 births. This is really the differentiator and which is clearly linked to unhygienic living conditions, non-availability of health support, social stigma and many other social, cultural and economic factors. These mortality numbers also create a social pressure for higher reproduction as the parents are not sure of the number of siblings to survive. Another major factor is that given the low existence of capital in the hands of the family unit, the survival is at many times linked to the number of working hands in the family. Thus, the creation of capability among this rural population is an important driver for happiness.

### **Poverty among rural populations – a major barrier**

Happiness has different meanings to different economic strata of population and the needs and its satisfaction defined by Abraham Harold Maslow (Maslow, 1943).

The poverty among rural population is so pervasive and prevalent that their happiness is mainly meeting the first two layers of needs – physiological and safety.

**Figure 1: Maslow's hierarchy of need**



The poverty is so overwhelming in the SAARC countries that around one-third to half of the population is suffering from acute poverty. India, Bangladesh and Nepal are reeling with more than one-third of its population under US \$ 1 per day

Whatever comfort left in the numbers will further get diluted once we understand that around three-fourths to two-thirds of the population is suffering from actual poverty in SAARC countries living with an income of below US \$ 2 per day.

Thus the figures of traditional estimates of poverty in this part of the world will certainly open up the challenge before Gross National Happiness. The social, cultural and, above all, religious fabric of this part of the world helps to a great extent to form a belonging to groups and enhances the social security net.

**Table 3**

| <b>Poverty Estimates</b>   | <b>India</b> | <b>Pakistan</b> | <b>Bangladesh</b> | <b>Nepal</b> | <b>Bhutan</b> |
|--|--------------|-----------------|-------------------|--------------|---------------|
| Poor as % of total rural population, 1999-2000                   | 30.2         | 35.9            | 53.0              | 44.0         | 33.0          |
| GNI per capita (US\$), 2003                                      | 540.0        | 520.0           | 400               | 240.0        | 760.0         |
| Population living below US\$1 a day (%), 1999-2000               | 34.7         | 13.4            | 36.0              | 37.7         | NA            |
| Population living below US\$2 a day (%), 1999-2000               | 79.9         | 65.6            | 82.8              | 82.5         | NA            |
| Population living below the national poverty line (%), 1999-2000 | 28.6         | 32.6            | 49.8              | 42.0         | NA            |

*Source: World Development Indicators, World Bank*

### **The Understanding of poverty**

According to Sen, poverty is the result of capability deprivation (Sen, 1999, p.87). The approach concentrates on deprivation of basic capabilities that are intrinsically important rather than lowness of income. The standard criterion for the identification of poverty is to refer to people living on less than \$1 per day or in the bottom half of those living below their nation's poverty line. We use the term 'poor' to refer to those living in poverty above \$1 per day or in the upper half of those living below their nation's poverty line. However, according to me, this is a mere definition jugglery

and not suitable from the overall direction of Gross National Happiness. It is established that even if the limit is pushed by another US \$ 1 the number represents a staggering percentage. This situation demands an alternate philosophy of development measurement.

### **Poverty driver**

Poverty is a macro problem, and the causes are wide as well as deep. Political instability, natural disasters, corruption, socio-economic disparities and prejudice, lack of access to education and lack of infrastructure are just a few of the key reasons for both poverty and its endurance.

### *Effects of poverty*

While the causes of poverty might be macro, the effects are felt at the micro level, creating hardship for communities, families, men, women and children. Its worst attribute is that poverty breeds poverty; it is virtually impossible to break free from the grasp of its vicious cycle. If one cannot afford proper nutrition or health care for one's family, children grow up at a greater risk of acquiring a life-threatening or disabling disease. If one cannot afford to educate one's children, they will have few avenues for a life different than that of their parents. If one cannot afford to buy one's own land or home or livestock, there are few opportunities to build sustainable assets.

Interestingly, most of the world's poor are self-employed. Without the security of formal jobs, each day they work from dawn to dusk, whether by raising livestock, selling produce in markets or weaving baskets. All or most of this money goes toward basic survival; however, there is little or no money left over to improve their quality of life or to expand their businesses. Thus, living in poverty always means that the harsh reality of today will repeat itself tomorrow.

Another root cause of rural poverty has been the enormous population growth and the pressure this has placed on the environment; this has unleashed problems such as erosion and flooding that in turn aggravate the situation of the rural poor.



*Major bottlenecks*

In many cases the cycle continues because many of the world's poor have little access to the financial support community that helps those in the developed world to bridge the gap during tough times. Without life or health insurance, diseases and illness go untreated and the death of an income earner brings dramatic hardship to a family. Without access to capital, shop-owners cannot buy products in bulk and farmers cannot buy basic tools or even seeds after a natural disaster or a poor yield in the season before. Without access to banking, money is hidden in walls or floorboards where it can be stolen or lost in a flood or fire.

In many cases local money lenders are the only available source of capital. They provide loans to support subsistence livelihood during rough times but they do so at exorbitant interest rates. Under this system, virtually the entire financial security of a borrower is passed directly to the money lender. Individuals fail to reap the rewards of their own hard work and become indebted for generations.

*Understanding the poverty situation in major SAARC countries for capability building*

In this regard, understanding the poverty situation and rural dynamics are important for capability building. The poverty dynamics in the SAARC countries are no different from each other since the core economy of these countries are agrarian and except Bhutan, the other countries are highly populated with large rural segments of the population. As per World Development Indicators 2005, World Bank<sup>1</sup> and Human Development Report 2005, UNDP<sup>2</sup>, Bangladesh is the poorest country in the region with around about 49% of the rural households under the net of poverty; Nepal is a close second with 40% of Nepalese living below the poverty line of US\$12 per person/per month, followed by Bhutan with more than 30% of the people (96% of Bhutan's poor people live in rural areas); India has about 29% of the population in abject poverty; Pakistan, a country slightly better off in the region, has about 10% of the population as chronically poor, but a

---

<sup>1</sup> <http://devdata.worldbank.org/wdi2005/Cover.htm>

<sup>2</sup> [www.sd.undp.org/HDR/HDR05e.pdf](http://www.sd.undp.org/HDR/HDR05e.pdf)

much larger part of the population (about 33%) is considered vulnerable. The main poverty drivers for the region are:<sup>3</sup>

- A large number of the landless population suffers from persistent food insecurity; in Bangladesh, the landless population is around 50% of the rural mass, while in Pakistan 80% of the farming community is comprised of landless labourers.
- Small and fragmented landholdings and/or few livestock with subsistence farming for livelihoods without scale productivity. In Bangladesh 29% of the rural poor belong to this group; the average landholding in Nepal is only 0.8 hectares, while in Pakistan 25 per cent of all farms are less than 1 hectare in size.
- Among extremely poor people, women in general are the most disadvantaged in India, Bangladesh and Pakistan, though their status varies significantly according to their social and ethnic backgrounds.
- Fishing communities are also among the poorest and most disadvantaged groups in Bangladesh and India, while in Bhutan many subsistence farmers are still living outside the cash economy.
- Most households have little or no access to primary health care, education, clean drinking water and sanitation services.
- The rugged terrain and harsh climate do not generate good crop yields in Nepal, Bhutan and most of Pakistan. Villages are isolated, with poor communications and infrastructure and inadequate access to natural resources (reaching the nearest motor road takes anything from a few hours to a few days!).
- Poor people of the region suffer from various forms of addictions viz., country made liquor, tobacco chewing, ganja,

---

<sup>3</sup> [www.ansab.org/research\\_reports/report05020500.pdf](http://www.ansab.org/research_reports/report05020500.pdf)  
[www.ruralpovertyportal.org/english/regions/asia/ind/index.htm](http://www.ruralpovertyportal.org/english/regions/asia/ind/index.htm)  
[www.ruralpovertyportal.org/english/regions/asia/npl/index.htm](http://www.ruralpovertyportal.org/english/regions/asia/npl/index.htm)  
[www.ruralpovertyportal.org/english/regions/asia/pak/index.htm](http://www.ruralpovertyportal.org/english/regions/asia/pak/index.htm)  
[www.ruralpovertyportal.org/english/regions/asia/bdg/index.htm](http://www.ruralpovertyportal.org/english/regions/asia/bdg/index.htm) [19e]  
[www.ruralpovertyportal.org/english/regions/asia/npl/index.htm](http://www.ruralpovertyportal.org/english/regions/asia/npl/index.htm)

opium, *biri*, *doma* and *ara*<sup>4</sup> which in a way are part of their happiness but in many ways are one of the causes of their poor health and deprivation.

- Frequent natural disasters like floods, and earthquake or external shocks like famine and drought, due to overdependence on nature (erratic and extreme climate), and poor and outdated irrigation facilities often force poor people to resort to moneylenders in order to rebuild their life. This pushes them deeper into poverty. This is a common phenomenon in this region.

These conditions have forced a good number of migrations out of SAARC countries in an effort to self-induce capability building. The estimates are mind boggling and create a different kind of management pressure on the mind and shoulders of the policy makers.

I have stated earlier that the root cause of poverty problems in SAARC countries lies in capability building at individual and community levels. As Professor Sen puts it, poverty is man made and an example of divide and rule:

For example, a group of peasants may suffer entitlement losses when food output in their territory declines, perhaps due to local drought, even when there is no general dearth of food in the country. The victims would not have means to buy food from elsewhere since they would not have anything much to sell to earn an income, given their own production loss. Others with more secure earnings may be able to get by well enough by purchasing food from elsewhere (Sen, 1990).

To build a capability structure we require community help and the basic formation of capital in the hands of the poor class so that this class can gradually move through the hierarchy chain to happiness. It may be concluded that microfinance as a concept is an effective weapon in the hands of millions of poor to uplift their living standards and achieve family level happiness.

---

<sup>4</sup> *Biri* is a form of cigar made of tobacco leaf and raw tobacco very popular in the rural areas of SAARC; *doma* is a special kind of fermented beetle nut which increases body temperature in Bhutan; *ara* is a home made Bhutanese liquor specialty in Bhutan.

### **Microfinance and microcredit -a tool for capability building**

The rural finance policy pursued in most developing countries beginning from the 1950s was based on providing subsidised credit through state controlled or directed institutions to rural segments of the population. Expansion of credit coverage through state interventions was based on various theoretical assumptions. Seibel and Parhusip (1990) mention that this approach was based on the premises that rural micro-entrepreneurs are unable to organise themselves, that they need subsidised credit for increasing their income, and that they are too poor to save. Yaron, Benjamin and Piprek (1997) have traced this tendency toward direct intervention in rural finance to Keynesian influence. Under this approach, in addition to the assumptions listed above, the key problem areas in rural financial markets include a lack of credit in rural areas, absence of modern technology in agriculture, low savings capacity in rural areas and the prevalence of avaricious moneylenders.

These distortions and imperfections in rural credit markets were sought to be addressed through government interventions from 1950s to the 1980s. This 'supply led' approach in rural finance caused various qualitative issues such as concerns about the financial viability of institutions on account of a high rate of loan delinquency, cornering of subsidy by well off people in what has been described as 'rent seeking' behaviour, the continued presence of moneylenders, and an inability to reach the core poor. On account of the above developments, the resultant shift took place in rural finance discourse and operational paradigm. The emergence of microcredit in the late 1970s and early 1980s in the backdrop of growing world attention on the deficiencies of earlier approaches in rural finance explains much of its dominant theoretical underpinnings. The initial microcredit innovations in disparate settings of Bangladesh, Bolivia and Indonesia demonstrated the success of micro lending to the poor without collateral requirements (Rhyne, 2001). Rhyne also observes that these interventions demonstrated techniques for lending to the poor with better outreach and cost recovery. Despite the contextual differences, the unifying thread of these early innovations lay in their certain common principles like reliance on character or peer pressure rather than collateral as loan security,

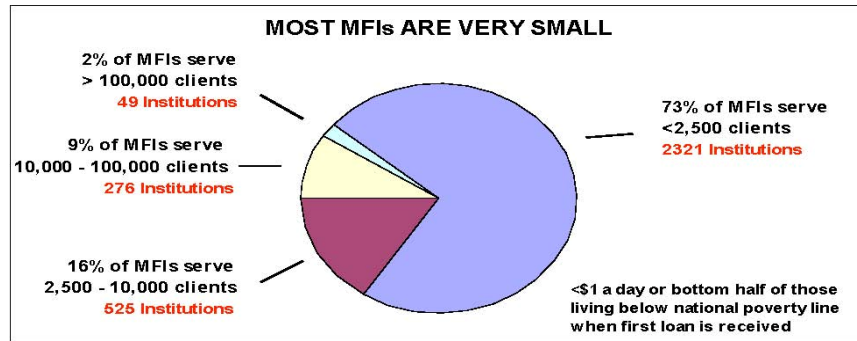
leveraging social capital, positive incentives for repayment and interest rates that approached or covered cost. These innovations acted as catalysts for replication across the globe and their underlying principles continue to form the substratum of microfinance interventions to date.

The universal appeal of microfinance stemmed from its ability to reach to the poor without collateral and its generation of near full recovery rates. Realising the importance of microfinance, the World Bank has also taken major steps in developing the sector. Significant landmarks are seen in the formation of the Consultative Group to Assist the Poor (CGAP) in 1995 as a consortium of 33 public and private development agencies and establishment of the Microfinance Management Institute (MAFMI) in 2003. CGAP acts as a “resource center for the entire microfinance industry, where it incubates and supports new ideas, innovative products, cutting-edge technology, novel mechanisms for delivering financial services, and concrete solutions to the challenges of expanding microfinance” (CGAP, 2003). Since then, microfinance has shown the signs of becoming one of the most sustainable and effective tools in the fight against global poverty.

*The structure fosters community feeling and support for social capital generation*

The most common microfinance product is a microcredit loan which is usually less than US \$100. These tiny loans are enough for hardworking micro-entrepreneurs to start or expand small businesses such as weaving baskets, raising livestock or buying wholesale products to sell in the market. Income from these businesses provides better food, housing, health care and education for the entire family. Most importantly, the additional income provides hope for a better future. Microfinance institutions (MFIs) exist in many forms – credit unions, self-help groups (SHGs) and, most often, non-governmental organisations (NGOs) (Asian Development Bank, 2004). This has been shown in the chart where 73% of the MFIs are having less than 2500 clients.

Figure 2



Source: Microcredit Summit Campaign data, 2005

Many MFIs use social collateral in the form of peer groups to ensure loan repayment. Borrowers take loans in groups of five to eight individuals. If a borrower defaults on her loan, the entire group typically is penalised and sometimes barred altogether from taking further loans. This peer pressure encourages borrowers to be very selective about their peer group members and to repay loans in full and on time, resulting in the higher than 95 percent repayment rates industry-wide.

Microcredit loan cycles are usually shorter than traditional loans – typically six months to a year with payments plus interest, due weekly or even daily. Shorter loan cycles and faster instalment payment cycles help the borrowers stay current and not become inundated by large payments. Thus, microfinance can help break the cycle of poverty and debt trap in a single generation.

*Impact of microfinance<sup>5</sup>*

It may be observed that microfinance institutions (MFIs) increased from 618 in 1997 to 3164 in 2004 with the number of total clients increasing from 13.5 million in 1997 to 92.3 million in 2004. Most importantly, the poorest clients (living on US \$ 1 per day) are to the extent of 72% of the total covered under MFIs which is up from 56% in 1997.

<sup>5</sup> Microcredit Summit Campaign, 2005.

**Table 4**

| Numbers of MFIs and Total Client Numbers Reporting to Micro credit Summit |                |                                   |  |
|---|----------------|-----------------------------------|--|
| Year  | Number of MFIs | Number of Total Clients (million) | Number of 'Poorest' Clients* (million) |
| 1997  | 618            | 13.5                              | 7.6                                    |
| 1998  | 925            | 21.0                              | 12.2                                   |
| 1999  | 1,065          | 23.6                              | 13.8                                   |
| 2000  | 1,567          | 30.7                              | 19.3                                   |
| 2001  | 2,186          | 55.0                              | 26.9                                   |
| 2002  | 2,572          | 67.6                              | 41.6                                   |
| 2003  | 2,931          | 80.9                              | 54.8                                   |
| 2004  | 3,164          | 92.3                              | 66.6                                   |

\*( $<$  \$1 per day or bottom half of those living below national poverty line when first loan is received)

Source: *State of the Microcredit Summit Campaign Report, 2005.*

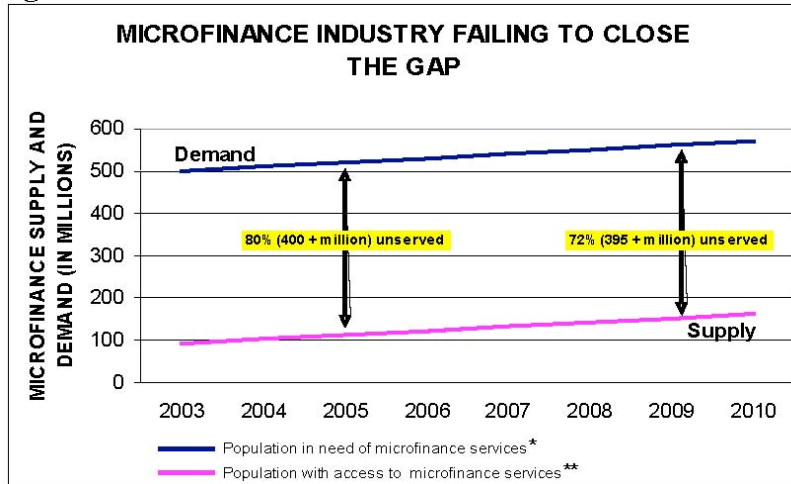
It is also worthwhile to observe another important pattern in that MFIs' clients are mainly women. At a macro level, it is because women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. Women are usually the primary or sole family caretakers in many developing countries. It is observed that helping them gain additional daily income improves the condition of their entire household as women typically put their children's needs before their own. As a result, children are more likely to complete their education and escape the poverty trap. In the process of providing women access to microcredit, a multiplier effect is generated (Whitaker, 2007).

It is observed that microfinance has definite impact on the building of social capital while it has marginal impact on income levels. At this point it is useful to clarify that while a positive contribution on the social sphere is by itself a significant achievement, the problem lies with the extension of positive impacts to sustainable economic activities.

Microfinance supply gap continues to remain at the same level<sup>6</sup>

During the past 30 years, microfinance has proven to be a powerful poverty alleviation tool. It is one of the only development tools so far with the potential to be financially self-sustaining.

Figure 3



\*Based on CGAP data and population Growth rates from the UN Population Division

\*\* Current and forecasted numbers based on Microcredit Summit Campaign Data, 2005

According to Microcredit Summit 2005, however, even after more than 30 years of concerted efforts, about 80 percent of the working poor (more than 400 million families) are still not having access to microfinance services. At current growth rates, the gap is expected to be lower by 8 percentage points by 2010 and as such will not be closed for decades. For microfinance to achieve its potential as a global poverty alleviation tool, the microfinance supply must grow to a scale with more structured capital flow to this segment.

<sup>6</sup> Countdown, 2005.



### **The story of microfinance successes and happiness achieved**

Now we need to look into the success stories of some of these poorest clients of MFIs and how their capability increased, enabling them to achieve substantial happiness through satisfaction of at least the first four needs: physiological, safety, belonging and esteem. The highest hierarchy of self-actualisation will also be attained over the years. The stories highlight the capability development at the individual as well as community levels through microcredit structure.

#### *Govindammal – India<sup>7</sup>*

When Govindammal lost her husband at an early age of 28, she and her two children moved back into her mother's house. To continue the family business of making bamboo baskets, sieves and fans, she borrowed from the local money lender. Govindammal's income of less than \$1.78 per day was not enough to pay the exorbitant interest on her loan and also take care of her family. After joining a SHG in 2003, Govindammal used her first loan of \$67 to pay off debts to local money lenders and build up her business. With her subsequent loan of just \$89, she set up a small shop in front of her house to display and sell her products. The shop has done well and she is now making more than \$4 per day, double her previous rate, and she no longer worries about being stuck in a cycle of dependence upon the local money lenders.

Govindammal proudly states, "My SHG has saved me from the dreadful clutches of the money lenders. I can face the world bravely and independently, as long my SHG is there to support me. I am now confident that I can take good care of my children and also provide them with a quality education and thereby achieve my life's ambition."

---

<sup>7</sup> [www.unitus.com/sections/partners/partners\\_india\\_asa.asp](http://www.unitus.com/sections/partners/partners_india_asa.asp)

*Kishwar's story – Pakistan*<sup>8</sup>

Kishwar lives with her family in a slum near the railway station in Lahore, Pakistan. Health and sanitation conditions are extremely poor, causing frequent disease and infections. Kishwar's husband and sons together run their shoe-making and selling business, selling from the shop and taking orders from wholesalers. In 2001, their business suffered huge losses and they nearly went bankrupt. The family underwrote a loan from a moneylender to rejuvenate their business. Unfortunately, the exorbitant interest rates, coupled with harsh penalties for late repayments, caused the family's debt to spiral out of control. In a desperate attempt for a way out, Kishwar discovered a MFI through a friend. The first loan of Rs. 5000 (equivalent to US \$125) was used to purchase leather, rexine, ready-made soles, thread and other material for their shoe shop. Kishwar and her husband were slowly able to pay back the moneylender. Savings in the first year of the MFI's loan were nominal because of this, but now their weekly profits are between Rs. 1000-2000 (US \$25-\$40). Kishwar plans to take the next loan to increase the product range.

Kishwar, though illiterate, understands the value of education. She has decided to use the family's paltry resources to educate her two daughters, rather than her five sons, because she believes her daughters are more serious about their education. Kishwar has aspirations for sending both her daughters to college and also helping her sons to establish profitable enterprises of their own. In a society where male children are given first priority in everything, Kishwar has bravely broken with tradition and set an example for her entire community.

With this new sense of self-esteem and confidence, Kishwar mentors other women in her community, encouraging them to take advantage of the opportunity and to take control of their economic situations in order to make better lives for themselves and their families.

---

<sup>8</sup>

[www.grameenfoundation.org/where\\_we\\_work/south\\_asia/pakistan/kishwar\\_s\\_story/](http://www.grameenfoundation.org/where_we_work/south_asia/pakistan/kishwar_s_story/)

*A group of women in allo<sup>9</sup> processing group enterprise (Hampal Allo Udhyami Group, Salija, Parbat) – Nepal*

A three day Market Analysis and Development (MA&D) workshop was organised by an MFI in 1999 at the district headquarters for 22 women participants, who were selected as potential micro-entrepreneurs from Salija (located in the remote north of Parbat with more than 95% people living on subsistence agriculture and of which above 90% lives below the poverty line). As a follow-up process, MFI formed a group, called Hampal allo Udhyami group in August 2000 comprising of 14 interested women from the pool of the training participants. These women were then given entrepreneurship training, which resulted into preparation of a group business plan, primarily for processing *allo*. Due to the lack of capital, the group could not start their *allo* business. The group got linked to Kaligandaki Multipurpose Cooperative for a loan. The group received Rs. 3,500 (US \$ 85) at an interest rate of 18%. With MFI's technological support, the group purchased manual weaving machines, wrapping drums, and other necessary accessories, and started the *allo* micro enterprise in August 2000. The women themselves collected *allo* from their community forest and nearby farm land. The main products of the group were *allo* shawl, clothes, bags, mufflers, threads, and woolen mixed bags. Their products were mostly sold in the local markets, and the remaining sold to buyers in Pokhara and Kathmandu. The group repaid the credit within 16 months, and expanded their business scale with additional sets of *allo* processing and weaving machines. With their reputation in the *allo* business and enhanced skills, Ms. Ghammaya Garbuja, and Ms. Jasmaya Purja among their group members are recognised as *allo* trainers and resource persons in the district. The impact study of MFI shows that the average per capita income of the 14 entrepreneurs increased from Rs. 4,921 (in August 2000) to Rs. 6,400 (in November 2004).

---

<sup>9</sup> *Allo* is a traditional cloth made from nettles.

*Microfinance will get a boost as Muhammad Yunus and Grameen Bank, Bangladesh was awarded the Nobel Peace Prize for 2006*

Mohammed Yunus, founder of Grameen Bank, one day in 1974 met a woman from a small village in Bangladesh who made bamboo chairs for sale. Despite her endeavour, the woman was left with barely any surplus after repaying the middlemen the money for the raw bamboo. He also discovered that some 42 people in the village suffered a similar fate and were in debt for a mere aggregate amount of US \$27 (then prevailing exchange rate). Mr. Yunus repaid the loan so that these people could break free from the clutches of money lenders. He also offered himself, in the process, as a guarantor for the poor at a local bank but could not get the loan sanctioned. This opened up before him the fallacy of the traditional banking system. On his own initiative, Mr. Yunus began to issue microcredits and in 1983 formed the Grameen Bank. Since then, the concept of microcredit has come a long way in Bangladesh. Many developmental agencies world over have started to comprehend its essential role in poverty alleviation, and financial institutions are realising immense opportunities in the microcredit domain. Microcredit has proved to be an important liberating force in Bangladesh societies where women in particular have to struggle against repressive social and economic conditions.

All these stories highlight the social capital formation in the hands of individuals when they are working within a group for their living. This certainly creates a sense of belonging in a community. The capability building has helped them to achieve higher living standard and happiness for their family and community.

Weber (2006, p.53] says that while the virtuous impact of microfinance is used to justify its expansion, much of this assessment is based on institutional success. He points out quite strongly this focus by observing that “as long as institutional sustainability obtains, it has been fairly common practice among the policy makers – and their commissioned researchers – to interpret financial viability as indicative of the social, political and economic success of microfinance programmes”. Simanowitz & Walter (2002, p.3) correctly observe that: “Microfinance is a compromise between social and financial objectives. To date most

emphasis has been on financial and institutional performance.” In order to bring the social aspect back into microfinance, Imp-Act, based on three years of action research covering 30 organisations in 20 countries, has been advocating mainstreaming of Social Performance Management (SPM) to improve the effectiveness of microfinance in reducing financial exclusion and poverty.

It is felt that realisation of a substantial trade off between sustainable economic impact and exponential growth, calls for courageous public policy decisions. Segmentation of credit demand based on economic and social status is key to optimum utilisation of scarce resources. Misra Alok (2006) and Robinson (2001) are probably right in observing that providing credit to people who are too poor to use it effectively helps neither the borrower nor the lender and would only lead to increasing the debt burden and erosion of self-confidence; he further suggests that this segment of the population should not be the target market for the financial sector, but rather of state poverty and welfare programmes. In addition to this, irrespective of socio-economic status, credit can be put to little productive use in resource deficient and isolated areas. In such areas, credit flow has to follow public investments in infrastructure and provision of forward and backward linkages for economic activities. Homogenisation of service delivery without fully taking into account situational context and client needs will continue to have limited impact.

### **Conclusion**

The concept of measuring the Gross National Happiness through its nine indicators places the focal emphasis on human beings – the main constituent of the welfare state. The capability approach starts with total freedom of the people (socio-economic agent) of the welfare state as to their social choice. The approach establishes a direct relation between the resources available to an agent and his level of welfare (happiness). However the resources have to be ‘potential’ – that is, the agent should be able to use it. And secondly it views the formation of social capital as an endowment – a means to achieve a life that people value. In a world inundated with poverty, which Mahatma Gandhi, the Father of India, termed “the worst form of violence”, happiness in its

truest form cannot be achieved without capability building of the poorest class.

In this world of global access and sharing, the prevalence of such kind of poverty may not be good for global happiness as it will create a global divide; the unhappiness of a majority will destroy the happiness of the other privileged classes and will create negative destructive forces working at cross purposes. The social planners and political policy makers need to understand that enhancement of entitlement of the rural population and their capability creation will go a long way in improving the living standard and happiness at individual and community levels. As Gandhi pointed out: "If I have the belief that I can do it, I shall surely acquire the capacity to do it even if I may not have it at the beginning...the difference between what we do and what we are capable of doing would suffice to solve most of the world's problems" (Fischer Louis, 2002). This is the pillar of the capability building initiative.

Microfinance, or microcredit, has played an important role in Asia, more specifically in SAARC countries in the development of capability at the group level on a cooperative basis. In the process, social capital formation at the lowest social network level has taken place, which not only helped the people at the bottom of the development pyramid to improve their living standard significantly, but also helped to create a multiplier effect through participation and cooperation at the social, community, regional and national levels. Thus, the concept of capability approach in the process of social capital formation through tools like microfinance and microcredits are pathways toward Gross National Happiness.

There certainly exists a possibility for linkages between multiple micro level development initiatives through government participation, banking initiatives or non-governmental organisations; such endeavours will uplift the living standard of the vast rural population, including the poor classes. This is certainly a necessary condition for Gross National Happiness although it may not be the sufficient condition for other pillars of GNH. I would like to conclude with another quote of Mahatma Gandhi: "Whenever you are in doubt ... recall the face of the poorest and weakest man whom you may have seen, and ask

yourself if the step you contemplate is going to be of any use to him. Will he gain anything from it? Will it restore him to a control over his life and destiny? True development puts those first that society puts last” (Fischer, 2002). Without improvement in the living standard of the poorest class, Gross National Happiness can not meaningfully gain a foothold in our world.

### **Reference**

- Asian Development Bank (2004). ADB Annual Report 2004, Special Theme: The Changing face of the microfinance industry, Manila.
- CGAP (2003). *Focus Note No.24*. Washington, DC
- Countdown (2005). *Microcredit Summit Campaign*. Washington, D.C.
- Fischer Louis (ed.) (2002). *The Essential Gandhi: An Anthology of His Writings on His Life, Work, and Ideas*. Vintage.
- Maslow, Abraham (1943). Theory of human Motivation. *Psychological Review*, 50, 370-396
- Microcredit Summit Campaign (2005). *State of the Microcredit Summit Campaign Report 2005*. Washington, D.C.
- Misra, Alok, (2006). *Microfinance in Indian and Millennium Development Goal: Maximising impact on Poverty*. Victoria: University of Wellington.
- Rhyne, E. (2001). *Mainstreaming Microfinance*. Connecticut: Kumarian Press.
- Robinson, M. (2001). *The Microfinance Revolution, Sustainable Finance for the Poor*. Washington, D.C.: World bank.
- Seibel H.D. & Parhusip, U. (1990). Financial Innovations for micro enterprises – linking formal and informal institutions. In Harper, M. (Ed.) (2003), *Microfinance: Evolution, Achievement and Challenges*. London: ITDG Publishing.
- Sen, Amartya (1993). Capability and Well-Being. In Nussbaum, M. & Sen, A. [Ed.], *The Quality of Life*. Oxford: Clarendon Press.
- Sen, Amartya, (1990). *The Fourth Annual Arturo Tanco Memorial Lecture*. Queen Elizabeth II Conference Centre London/ 2 August 1990. Public Action to remedy Hunger, Hunger

- Project, London.
- Sen, Amartya (1999). *Development as Freedom*. Oxford: Oxford University Press.
- Simanowitz, A. & Walter, A. (2002). *Impact. Occasional Paper No.3*. Sussex: IDS.
- Weber, H. (2006). The global political economy of microfinance and poverty reduction: locating local 'livelihoods' in political analysis. In Fernando, J. L. (ed.), *Microfinance Perils and Prospects*. Oxford: Routledge.
- Whitaker, Dana Elizabeth (2007). *Transforming Lives \$40 at a Time, Women + Microfinance: Upending the Status Quo, Opening Eyes*. London
- Yaron, J., Benjamin, M. & Piprek, G. (1997). *Rural Finance. Issues, Design, and Best Practices*. Washington D.C.: World Bank.