Microfinance in improvement of living standard and GNH

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ABSTRACT

The 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. The paper will try to establish the strong linkage between micro finance 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, [3, p53]

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 "four pillar" objective approach (Balanced Equitable Development, Environment Conservation, Preservation and Promotion of Culture and Heritage, and Good Governance) in line with Millennium Development Goal (MDG) 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 well being 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 and 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), 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 the National Happiness will always be a complex tapestry.

Hard facts of our world that can not 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 the 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 Royal Kingdom of Bhutan, His Majesty Jigme Singye Wangchuk.

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 the four SAARC[24] countries – India, Pakistan, Bangladesh Nepal and Bhutan since majority of the population lives in rural area and agriculture or livestock rearing or traditional crafts are the main livelihood. This rural segment of population needs to be made capable in the entitlements so as to help them improving their living standard themselves. The theoretical background is the Capability Approach theory, the vision background is GNH and the operational driver is micro finance.

Capability building for social transformation of poor class

Professor Amartya Sen in his Capability Approach (CA) theory [2] stated that the individual opportunities (capacities) are the deciding factors for conducting a better life as per 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 well being. According to him the public policy should address – what are the social and economic opportunities available to citizen in leading a life of their choice? What are the personal and social conditions that facilitate or hinder the individual's ability to transform resources into different functioning? This underlines the importance of individuals' capability of selection and discrimination along with achieved functioning.

The criterion of "capabilities" as a public policy mover is to address 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 straight forward 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 do not anymore recognise or have the guts to 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 – which are less understood and as such mostly misunderstood by our so-called policy makers and global development organisation. 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 form of Human Development Index (HDI). The top countries in terms of HDI is 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

Country	HDI*	Ranking#	Population @ (In Million)	Growth (%) @
Top Countries				
Norway	**0.965**	**1**	4.6	0.4
Australia	**0.957**	**3**	20.4	0.8
USA	**0.948**	**8**	301.1	0.7
Mid Countries				
Cuba	**0.826**	**50**	11.3	0.3
Mexico	**0.820**	**53**	108.7	1.2
SAARC				
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 reflected the traditional GNP measurement and has been extended only as a measure for capital productivity in human development related sphere. Is not it another form of hijacking your intellectual happiness? 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)**
Top Countries				
Norway	**1**	**80**	**4**	**4**
Australia	**3**	**81**	**5**	**5**
USA	**8**	**78**	**8**	**8**
Mid Countries				
Cuba	**50**	**77**	**6**	**8**
Mexico	**53**	**76**	**20**	**22**
SAARC				
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**

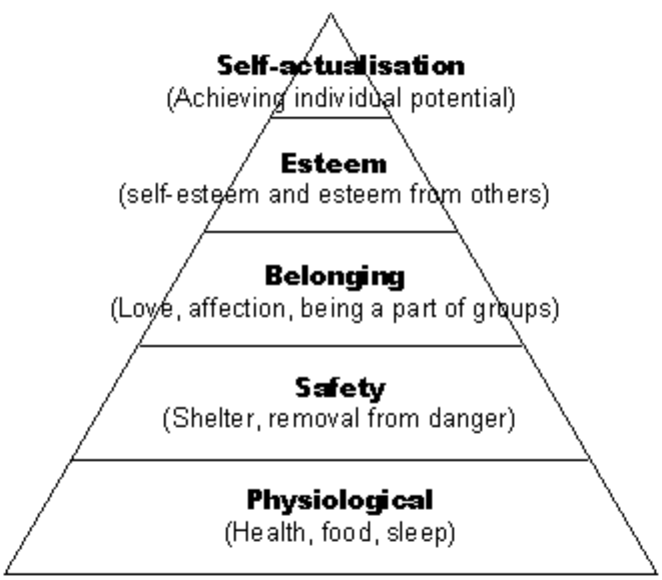
Source: U.S. Census Bureau, International Data Base.

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 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 "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 POPULATION – A MAJOR BARRIER

Happiness has different meaning to different economic strata of population and the needs and its satisfaction defined by Abraham Harold Maslow [4]. 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

The comfort whatever left in the numbers will further get diluted once we understand that around three-fourth to two third 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 of being part of groups and enhances social security net.

Table 3

Poverty Estimates	**India**	**Pakistan**	**Bangladesh**	**Nepal**	**Bhutan**
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 A Sen, the poverty is the result of capability deprivation [3, p 87]. The approach concentrates on deprivation of basic capabilities that are intrinsically important rather than lowness of income. The standard criterion for identification of the poverty is to refer to people living on less than $1 per day(i.e. low income) 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 overall direction of Gross National Happiness. As it is established that even if the limit is pushed by another US $ 1 the number represents a staggering percentage which throws up the fallacy of our world and the demand for 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 the poverty among people world over and the continuity of the reasons ensures that poor people remain poor.

Effects of Poverty:

While the causes of poverty might be macro, the effects are felt at 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 its grasp – a 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 assets that be sustainable.

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; unleashing problems such as erosion and flooding that in turn aggravate the situation of rural poor people.

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 and subsistence livelihood is in vogue. Individuals fail to reap the rewards of their own hard work and become indebted for generation.

Understanding poverty situation in major SAARC countries for capability building

In this regard, understanding of the poverty situation and rural dynamics are important for such capability building exercise. 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 mass rural segment. As per world development indicators 2005, World Bank,[21] and Human Development Report 2005, UNDP,[20] Bangladesh is the poorest country in the region with around about 49% of the rural households under the net of the poverty; Nepal is the 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, and 96 per cent of Bhutan's poor people living in rural areas; India has about 29% of the population in abject poverty, while Pakistan, a country slightly better off in the region, with about 10 per cent of the population being chronically poor, but a much larger part of the population (about 33 per cent) is considered vulnerable. The main poverty drivers for the region are: [19a], [19b], [19c], [19d], [19e]

- A large number of landless section suffers from persistent food insecurity - in Bangladesh landless population is around 50% of the rural mass, while in Pakistan 80% of farming community is landless labourers.
- Small and fragmented landholdings and/or small live stock with subsistence farming for livelihoods without scale productivity. In Bangladesh 29% of the rural poor belong to this class; 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 people 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 part of the Pakistan. Villages are isolated, with poor communications and infrastructure and inadequate access to natural resources (reaching the nearest motorable road takes anything from a few hours to a few days!).
- Poor People of the region suffers from various forms of addictions viz., country made liquor, tobacco chewing, ganja, opium, biri, doma and ara [25] 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), poor and outdated irrigation facilities often forced 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 for self induced effort for 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 more or less root cause of poverty problems in SAARC countries or elsewhere in the world is in capability building at individual level and at community level. 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.” [1]

To build a capability structure we require a community help and basic formation of capital in the hands of the poor class so that this class can move through the hierarchy chain gradually to happiness. It may be concluded that micro finance, without its hype and hoopla, as a concept is an effective weapon in the hands of million poor to uplift their living standards and achieving family level happiness. Let us also look into micro finance and understands how it is effective in the SAARC countries.

MICROFINANCE AND MICRO CREDIT - A TOOL FOR CAPABILITY BUILDING

The rural finance policy pursued in most developing countries beginning from 1950s was based on providing subsidized credit through state controlled or directed institutions to rural segments of population. Expansion of credit coverage through state interventions was based on various theoretical assumptions. Seibel & Parhusip [5] mention that this approach was based on the premise that rural micro-entrepreneurs are unable to organize themselves, they need subsidized credit for increasing their income and are too poor to save. Yaron, Benjamin & Piprek [6] have traced this traditional approach in rural finance leaning heavily towards direct interventions to Keynesian influence. Under this approach, in addition to the assumptions listed above, the key problem areas in rural financial markets included a lack of credit in rural areas, absence of modern technology in agriculture, low savings capacity in rural areas and prevalence of avaricious moneylenders.

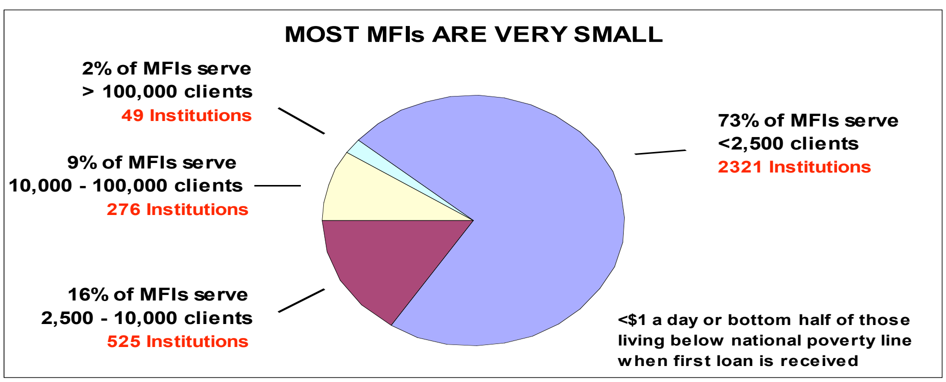
These distortions and imperfections in rural credit markets were sought to be addressed through government interventions from 1950s to the 1980s. This 'supply led' approach in rural finance caused various qualitative issues such as concerns about financial viability of institutions on account of high rate of loan delinquency, cornering of subsidy by well off people in what has been described as 'rent seeking' behaviour, continued presence of moneylenders, inability to reach the core poor and led to a reorientation in thinking around 1980s. On account of the above developments, the resultant shift took place in rural finance discourse and operational paradigm. Emergence of micro credit in the late 1970s and early 1980s in the backdrop of growing world attention on deficiencies of earlier approach in rural finance explains much of its dominant theoretical underpinnings. The initial micro credit innovations in disparate settings of Bangladesh, Bolivia and Indonesia demonstrated the success of micro lending to poor without collateral requirements. Rhyne [7] 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 till date.

The universal appeal of microfinance stemmed from its ability to reach to the poor without collateral and generation of near full recovery rates. Realising the importance of microfinance, World Bank has also taken major steps in developing the sector. Formation of Consultative Group to Assist the Poor (CGAP) in 1995 as a consortium of 33 public and private development agencies and establishment of Microfinance Management Institute (MAFMI) in 2003 are significant landmarks. 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"[8]. This model of lending disapproved all conventional thinking. Microfinance, in its new avatar, was born. 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 micro credit 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 entire family and most importantly, additional income provides hope for a better future. Microfinance institutions exist in many forms — credit unions, self-help groups (SHGs) and, most often, non-governmental organizations (NGOs).[9] This has been shown in the chart where 73% of the MFIs are having less than 2500 clients mostly SHGs.

Figure 2



Source: Microcredit Summit Campaign data, 2005

Many microfinance institutions (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 penalized 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.

Micro credit 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 installment 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 Micro Finance [10]

It may be observed that micro finance 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.

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 Micro credit Summit Campaign Report, 2005.

It is also worthwhile to observe another important pattern is 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.

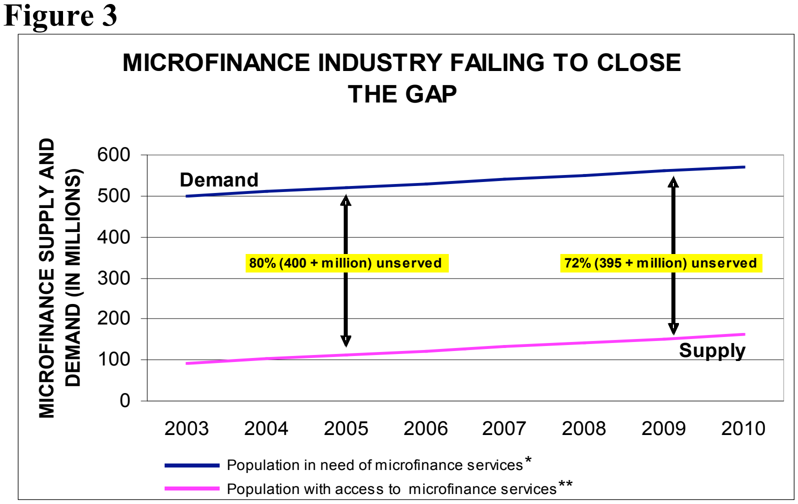
Women are usually the primary or sole family caretakers in many developing countries. It is observed that helping them gain additional daily income improves the condition of their entire household as women typically put their children's needs before their own. As a result, children are more likely to complete their education and escape the poverty trap. In the process of providing women access to micro credit, a multiplier effect is generated and the same increases the impact of microfinance among the poor section of the society.[12]

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

Microfinance Supply gap continues to remain at the same level [11]

During the past 30 years, microfinance has been 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 point 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.

Story of Micro Finance successes and happiness achieved

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

Govindammal – India[23]

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, doubled than before, 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."

Kishwar's story – Pakistan [22]

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 also 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 and to make better lives for themselves and their families.

A group of women in allo [25d] **processing group enterprise (Hampal Allo Udhyami Group, Salija, Parbat)** [18] **– Nepal**

A three day Market Analysis and Development (MA&D) workshop was organized 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 of 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 bag. 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 recognized 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).

Micro Finance will get a boost as Muhammad Yunus and **Grameen Bank, Bangladesh got awarded Nobel Peace Prize 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 bamboos. 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 traditional banking system. On hi 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 realizing immense opportunities in the microcredit domain. Micro-credit has proved to be an important liberating force in Bangladesh societies where women in particular have to struggle against repressive social and economic conditions.

It may be observed that all these stories (and few thousands or more similar stories) across the countries highlight the social capital formation in the hands of individuals when they are working within a group for their living. This certainly created 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 [13, p53] 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 “Thus, 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”. While Simanowitz & Walter [14, p3] 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 utilization of scarce resources [15]. Robinson [16] is 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 of debt burden and erosion of self confidence and suggests that this segment should not be the target market for financial sector but 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 mean to achieve a life that people value. In a world inundated with poverty which Mahatma Gandhi, the Father of India, termed “…as the worst form of violence”, the 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 and unhappiness of a majority will destroy the happiness of the other privileged class 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 has a long way to improve the living standard and happiness at individual and community level. As Gandhi pointed out that "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."[17] This is the pillar of capability building initiative.

Micro finance or micro credit has played an important role in Asia more specifically in SAARC countries in the development of capability at the group level on a co-operative 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 development pyramid to improve their living standard significantly, but also it helped in creating a multiplier effect through participation and co-operation at the social, community, regional and national level. Thus the concept of capability approach in the process of social capital formation through tools like microfinance and micro credits are pathways for Gross National Happiness.

It can be concluded that there certainly exist a possibility for linkages between the micro level development initiatives in the form of micro finance at self help group level either through government participation, banking initiatives and non governmental organisations endeavour to the upliftment of 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."[17] Without the improvement in the living standard of the poorest class Gross National Happiness can not meaningfully gain foothold in our world.

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[24] South Asian Association for Regional Cooperation (SAARC) with member countries of Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka
[25] a. Biri is a form of cigar made of tobacco leaf and raw tobacco very popular in the rural areas of SAARC; b. Doma is a special kind of fermented beetle nut which increases body temperature in Bhutan; c. Ara is a home made Bhutanese Liquor speciality in Bhutan, d. *allo* is a traditional cloth made from nettles
[26] Self Help Group (SHG) – Bank linkage programme is the largest microfinance programme in Asia in terms of outreach. It is based on linking of informal groups of poor with banks for credit and savings
[27] Imp-Act is a global action research programme in collaboration between 30 MFIs in 20 countries and a team of academics from the UK universities of Bath, Sheffield and IDS, Sussex.