

Bottom of Pyramid: A Strategic Design for Micro Finance

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Abstract: Microcredit as the name suggests means extending small loans to weaker section and that too without any collateral. It has emerged as a powerful mechanism to deliver financial services particularly credit to the section of the community that has been excluded from the services of the main stream institutions and that section of society being referred as Bottom of Pyramid. The bottom of pyramid refers to the weaker section of the society that has been neglected by many formal financial sections of the society. Some authors stated it as a tool of combating poverty by seeing the poor households as a bulk of consumers if supported by financial help can create a major demand, others see it as an area of developing suppliers or as entrepreneurs where many job opportunities can be created and can lead to sustainable development. Gradually the concept which has started as Microcredit in most of the developing nations has mushroomed as an umbrella of Microfinance, which not only includes the provision of loan but also the financial services such as savings, remittances, provision of risk mitigation products like insurance and providing financial counseling etc, here the focus is savings and not just the availability of credit. The paper highlights the significance of Micro Finance for combating poverty, how it has been developed as a strategic tool for improving the economic and social status of bottom of pyramid members etc.

Keywords: Bottom of pyramid, Micro-Credit, Self help groups, economic impact, Micro finance.

1. INTRODUCTION

For building fortune at the bottom of pyramid to combat poverty and to bridge the gap between the demand and supply factors Microcredit emerged as a ray of hope. Though many programs have been instigated for providing the access to credit starting from establishment of cooperatives, RRB's (Regional Rural Banks) followed by the nationalization of Banks but the endeavors was futile in bridging the gap between the rich and poor. Many studies reveal that even after liberalization the poor depend more on the informal sources rather than approaching the formal institutions.

Since independence, the priority agenda before the government officials and ministries has been to initiate programs of poverty alleviation and rural development of the poorest section of the society. The poorest socio economic group known as the bottom of pyramid is always being

neglected by the formal institutions due to the fact that it remains far more costly to lend small amounts of money to many people than to lend large amounts to a few. The other side of the coin is that some academicians, corporate noticed it as a fortune of all the companies and MNC's which is still being neglected by many major players. The poor households carry so much of potential and manpower which if being utilized in effective manner supported by the financial help can do wonders for bringing them to the middle section changing them from lower section of society.

Microcredit as the name suggests means extending small loans to poor people and that too without any collateral. It has evolved as a powerful mechanism to deliver financial services particularly credit to the section of the community that has been excluded from the services of the main stream institutions. Gradually the concept which has started as Microcredit in most of the developing nations has mushroomed as an umbrella of Microfinance, which not only includes the provision of loan but also the financial services such as savings, remittances, provision of risk mitigation products like insurance and providing financial counseling etc, here the focus is savings and not just the availability of credit.

The Bottom of the Pyramid (BoP) movement consists of multinationals active in developing countries trying to reach poor people to sell them their products or services. The BoP marketing concept approaches the poor not as victims but as possible customers of products or services. Turning the poor into consumers does not only provide revenue for companies, but also has positive impacts on the welfare of the poor (Prahalad, 2005). A company partners with local people to create a distribution network. Salespeople are thoroughly screened and trained before they can open a selling point for the company's products. Entrepreneurs who sell products of BoP businesses often have to meet guidelines, so that the company's brands remain under control of the firm. Examples of multinationals that work with the BoP concept are personal care and food producer Unilever in India, mobile telecommunications company Vodafone in Kenya, and consumer electronics producer Philips in India.

2. OBJECTIVES

The bottom of pyramid the lower section of the society has been seen as the fortune for many companies. Some authors stated it as a tool of combating poverty by seeing the poor households as a bulk of consumers if supported by financial help can create a major demand, others see it as an area of developing suppliers or as entrepreneurs where many job opportunities can be created and can lead to sustainable development. Thus the study will focus on studying the impact of micro finance as a strategic tool for building the fortune at the bottom of Pyramid with following objectives:

1. To study & understand the conceptual framework of Micro Credit and explore major players of Micro Credit.
2. To study concept of bottom of pyramid & analyze the potential of marketing and development opportunities for said section of society.
3. To measure the impact of Microfinance on the rural segment, whether the notion of Microfinance has achieved its ultimate goals of improving the income and savings of the rural poor and brought about empowerment of rural villagers etc.
4. To see whether there is sustainability of Micro Finance at the Bottom of Pyramid.

3. RESEARCH DESIGN & METHODOLOGY

For the purpose of the study, the secondary sources have been tapped. Secondary sources consist of relevant books, journals, articles, magazines, newspaper reports etc. The existing literature on the subject will be reviewed. In the present study the secondary data has been collected through RBI Bulletin, Grameen Bank Reports, Economic Intelligence Service, Center for Monitoring Indian Economy, Banking Statistics of India, newspapers, journals and Internet.

4. SUCCESS OF MICRO CREDIT

The success of the Microfinance can be seen worldwide as United Nation declared the year 2005 as the international year of credit and also the success of many Microfinance models like Grameen Bank in Bangladesh and Bank Rakyat in Indonesia etc. The efforts of the father of the Grameen Bank Muhammad Yunus has also been appreciated as he was awarded with Nobel prize in 2006. These activities have also created the interest of many private sector towards the Microfinance and especially towards the bottom of pyramid.

Kalpna (2006), discuss about the global development of the Microfinance Programs and explains how the successful model of Grameen bank in Bangladesh has been replicated in India with the starting of SHG (Self Help Groups) and many other programmes.

The following table disclose the success of micro credit programme in Bangladesh:

Coverage of Microcredit Programs

TABLE 1: Market shares Microcredit programs in Bangladesh Based on Bangladesh Bank (2010).

Organization	Number of borrowers	Market share	Outstanding loan (in million Taka)	Market share
NGOs	18,415,878	61.8 %	78,930.57	51.3 %
Grameen Bank	6,908,704	23.2 %	33,235.46	21.6 %
Government programs	1,997,240	6.7 %	7,710.05	5.0 %
Nationalized commercial banks	2,311,150	7.8 %	32,783.45	21.3 %
Private banks	164,113	0.6 %	1,106.46	0.7 %
Grand total	30,096,836	100 %	154,383.43	100 %

As the above table indicates that Grameen Bank has achieved a great amount of success in terms of market share, the number of borrower; etc.

Furthermore, Ted London at the William Davidson Institute at the University of Michigan focuses on the poverty alleviation implications of Base of the Pyramid ventures. They identified the Bottom of Pyramid as a Perspective, as a unique market-based approach to poverty alleviation. London has also developed the Bottom of pyramid Impact Assessment Framework, a tool that provides a holistic and robust guide for Bottom of Pyramid ventures to assess and enhance their poverty alleviation impacts. Companies, non-profits, and development agencies in Latin America, Asia and Africa.

According to a 1998 publication by Paul B McGuire, John D Conroy and Ganesh B Thapa, 2.5 crore poor households in India require Rs. 15,000 crores over nine years ending 2005. In another study, the demand for credit was found to be Rs. 9,000 per annum per household among the urban poor. The Paradigm Group survey concluded that average credit availed by each household was approximately Rs. 10,071 per annum in urban India. The source of more than 93.5 % of credit is from the informal sector, where interest rates are often very high. The formal banking sector provides only 0.8 % of the total credit. It is quite ironic that the fortune of most of the companies resides in the people who require financial help the most are the ones who have little access to banking services.

5. MICRO FINANCE AND BOTTOM OF PYRAMID

Many aspects of Microfinance and bottom of pyramid has been explained in this paper. Various authors have quoted variety of reasons for the need of microfinance institutions. The limitations of formal financial institutions force the rural segment to approach for informal loans.

In the context of restricted role played by Formal Financial Institutions Morduch (1999), explained that it remains far more costly to lend small amounts of money to many people than to lend large amounts to a few. Supporting the view SU (2007), says that the poor households were excluded from the formal credit network because mainstream lending institutions have a different set of attitudes while dealing with them.

Even the study of Basu and Srivastava (2006), elucidate that the reliance of the poorer sections is more on informal finance in comparison to formal financial institutions. Major source of informal borrowing is money lenders (56% households) followed by friends and relatives (21% households) and the largest uses of informal loans are for meeting “family emergencies”(29%) and “social expenditures”(19%) arising from events such as births, marriages, deaths. Some 13% of borrowers report using informal loans for investment related purposes.(RFAS 2003).

Many of them consider Microfinance as a powerful tool for alleviating poverty, gender inequality, an instrument for social transformation etc.

Shankar, Rao, Shah (2007), discovers that the rural credit is one of the cushions against the seasonal, unforeseen shocks.

The study of Khandelwal (2007), termed Microfinance as “banking for the poor” and claimed it as a powerful tool which can be used effectively to address poverty, empower the socially marginalized poor and strengthen the social fabric. Morduch (1999), express the hope is that much poverty can be alleviated and the economic and social structures can be transformed fundamentally by providing financial services to low income households.

Many studies highlights the success of the dominant Microfinance scheme i.e. SHG such as:

Nair (2005), reviewed the future of Microfinance in India stating that there should be convergence between formal and informal systems, the former deriving its strength from adequate financial resources and a robust system of regulation and governance and the later from its capacity to streamline the grassroots delivery of services, appears to be the microfinance model that would eventually evolve in the country.

Leach and Arora (2005), study is based on the lessons to be learned for India from South Africa which is dependent

predominantly on private sector, Indian policy makers need to recognize the importance of improving the outreach of both credit and savings to rural households.

Prahalad (2004) proposes the idea that commercial businesses can be part of the solution to eliminating poverty as part of a mutual value creation. In his opinion, those living at the bottom of the economic pyramid (BOP) should be seen as ‘resilient entrepreneurs and value-conscious consumers’ (Prahalad, 2004). Muhammed Yunus identified the paradox that those at the BOP lack access to financial services, which are often necessary to enable income generation. Yunus, who was awarded the Nobel Peace Prize in 2006, developed the idea of microfinance, leading to the foundation of the Grameen Bank in Bangladesh.

Dasgupta (2006), investigated the Demand and Supply factors to be considered while providing the access to credit to the poor people explains that the MFI’s (Microfinance Institutions) were set up with the motive to increase the access of the poorer people to financial services and for the fulfillment of same, the following Demand and Supply factors have to be considered.

Demand side includes the ability to:

- Avail the services
- Respect the service
- Utilize the resource efficiently.

Supply side factor include:

- Capital
- Regulation
- Supervision
- Delivery models
- Sustainability
- Adjustment to ability level of the demand side and then improving the ability level.

Nair (2005), paper quotes that the SHGs (Self Help Groups) are the major form of microfinance in India and there are very less chances of delinquencies on the loans provided to these groups. It suggests that federations could help SHGs to become institutionally and financial sustainable because they provide economies of scale that reduce transaction costs and make the provision of these services viable.

A recent study by Padala and Shanmukha (2007), sought to find out that the delivery of microfinance to the poor is productive, effective and less costly, if they are organized into SHGs. The SHGs movement in India in general and Andhra Pradesh in particular has led to rural economic development through the women entrepreneurship with the help of SHGs

which provide them opportunities of self employment on a sustained basis in India.

Sharing the similar opinion Prasad and Mehla (2007), says that the SHGs have resulted in empowerment of women, reduced dependency on money lenders, easy access to credit to their members, and savings and moderate economic benefits.

Certain studies have suggested their outlook that though the SHG's have played a leading role in the development of the weaker section but still there are areas of upgrading Following paragraphs covers the studies offering their suggestion on the areas to be looked upon for the improvement of the working of SHG's:-

Basu and Srivastava (2006), recommend that, if SHG Bank Linkage is to be scaled –up to offer mass access to finance for the rural poor, then much more attention will need to be paid towards: the promotion of High quality SHG's that are sustainable, clear targeting of clients, and ensuring that banks linked to SHGs price loans at cost covering levels. A result of the study conducted in AP and UP state indicates that the majority of the beneficiaries of SHG Bank Linkage are from the poorer groups.

The concept and practice of SHG-based microfinance has developed deep roots in many parts of the country but still the impact assessment of the program is limited so far, as quoted by Chakrabarti (2006) , indicating that, a lot needs to be accomplished in terms of outreach to make a serious dent on poverty. However, the logic and rationale of SHG-based microfinance have been established firmly enough that Microcredit has effectively graduated from an “experiment” to a widely-accepted paradigm of rural and developmental financing in India.

Mahendra (2005), revealed that the leadership experience in SHG's greatly influences the bank account holding. Soundarapandian (2006), says that though there is a positive growth rate of SHGs in states but in terms of the growth of SHGs there is a wide variation among states.

Panda (2003), exclaims that though Microfinance has led to increase in income of the beneficiaries but still it may not be taken as a panacea for poverty alleviation. It has been found that impact of microfinance has not been uniform in all the states. While the so called developing states like Andhra Pradesh, Maharashtra, Karnataka, Tamil Nadu, and Gujarat have responded very well other states like Bihar, Orissa are yet to respond. Tripathy (2006), articulate that Banks are now considering Microcredit as one of their important marketing avenues thereby facilitating to create a new market on Microcredit. Thus it has now become a global initiative and is considered as an important agenda of MDG (Millennium Development Goals) set by United Nations. SHGs formed under various programs provide a great scope for convergence

of the programs / activities of various Ministries, Departments and Organisations targeting for improving the quality of life in rural India.

Schicks Jessica (2010), views that over-indebtedness is currently one of the most serious risks of microfinance, endangering both social impact and industry stability. It has the potential to push customers further into poverty, accompanied by the material, psychological and sociological consequences of debt.

On a similar note Kalpana (2005), examined that microfinance programs did not reach destitute sections, that the extreme poor sections who participated were not a majority and that the majority of the clients belonged to moderate poor and vulnerable non poor households. Satish (2005), concludes that Microfinance is a means or an instrument for development, not an end in itself. The growth of microfinance has to necessarily accompany by the overall growth in mainstream rural finance.

The literature points out many limitations of microcredit as a strategy to alleviate rural poverty. Nevertheless it is also true that this is a fast growing sector that is filling in an important lacuna not only in the rural credit market but also affecting overall development of the county.

6. CONCLUSION

Through the BOP approach, private companies certainly help to alleviate poverty, by focusing on the poor as both consumers of their products through the provision of globalized markets and viewing them as entrepreneurial producers who are aided by the access of financial services. The key question whether BoP is more sustainable than Microfinance can be answered positively. Looking at the totality of incentives for economic and social sustainability the management of BoP corporations seems to be induced more to implement policies for sustainable development than the management of Microfinance firms. In order to bring fortune to the bottom of the pyramid more innovative approaches need to be framed. Thus we can state that undoubtedly the Micro finance can work as a strategic design for BoP in the context of bringing a strategic change in the economic and social life of Bop members but still there is a road ahead. Like Morduch (2013) state that Financial Access like Micro finances is best thought of as a platform and it might just be the foundation that billions of poor families need to build more secure lives on their own terms.

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