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"LIFE STAGES & FINANCIAL MANAGEMENT"

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Abstract

As we seen that Financial Awareness is less in individuals compare to actually it is and which relate to savings and investment in various things. As the statutory protector of interest of investors in securities market, Charge of life stages as well as financial life endeavors to educate them, as "an educated investor is a protected investor". Financial education is an important life skill and we consider it as a second skill, which empowers people to make sound financial decisions and take responsibility for the same.

Keep in mind this research paper basically focused on life stages decision making with various Investment Avenues that will push individual and start enthusiasm and energy to take life stage decisions universally.

***Keywords*: Educated Investor, Protected Investor, Second Skills, Life Stage Decision, Efficient Market.**

1. Curtain Raiser

- Every effort is made to avoid errors and omission. Nevertheless any mistake, errors or discrepancy noted may be brought by personal experience only. It is said that an informed investor is an empowered investor. The world of money is simple and complex at the same time. It is simple for those who try to understand the situation at hand and take time to think before making a decision. It is complex for those who are not keen on doing the required homework.

- Financial education helps one understand critical concepts related to money matters. It also makes one aware of the road-blocks and pot-holes on the road to one's life's financial journey.

- Being able to plan your finances is one immediate benefit of financial education.

2. Rational of the Study

- ✓ To Critically Evaluate the Psychology of Individuals right from Children to Old Age.
- ✓ To Study & Understand the Investors Psychology vs. Various Investment Avenues.

3. The pressing need for financial education comes from two areas.

- Living beyond means,
- Credit card debt and Risky investments.
- Proliferation of new, and often complex, financial products that demand more financial expertise of consumers. Add to that the turbulent market conditions and changing tax laws.

For any situation one may be in, it is important to safeguard ones finances. One may come across many temptations. It is important to know the difference between what is good for one and what is not. Historically, there have been many schemes that offer mouth-watering propositions.

4. SAVINGS TO INVESTING

- ◆ Saving is what people usually do to meet short term goals. Your money is very safe in a savings account, and it is usually earning a small amount of interest. It's also easy for you to get to your money when you need.
- ◆ Investing means you're setting your money aside for longer – term goals. There's no guarantee that the money you invest will grow. In fact, it is normal for investments to rise and fall in value over time. But in the long run, investments can earn a lot more than you can usually make in a savings account
- ◆ For one, saving or investing money for your financial goals makes you less tempted to spend it. But the best reason for investing is that your money is actually making money for you. Any interest or investment gains get you that much closer to your financial goals. And you didn't have to do anything for it!
- ◆ Start saving early and you'll be prepared when you need it, whether you're saving for a home, a child's education, or your retirement. If you start saving in your 20s, you'll be off to a great start. If you don't, you'll play catch-up for the rest of your life

- Youngsters have an advantage that older people don't have time. When they understand this concept and use time in their favor, young people have a much better chance of pursuing their dreams and reaching their financial goals.

- Savings
    - Short term
    - Value remains stable
    - Lower returns over long term
- Investing
    - Long term
    - Value moves up and down in short term
    - Potentially higher returns over long term

The choice of investment options will depend upon personal circumstances as well as general market conditions. Based on those two factors, one would like to strike a balance between the following three:

Safety: Will you get your principal amount back?

Liquidity: Will you get the money when you need without loss?

Growth: Will you get more than you invested? How much?

Many Indian kids have a habit of saving money in a piggy bank. If not, at least they have heard of the same.

4.1 CHILDREN

Having defined the goals may be a very important first step in the process of planning, but not enough. You need resources to reach you goals. What if the resources are not enough? Say, for example, you may want to buy books for your next class and you may also want to go for a picnic with your friends. The cost of books may be Rs. 300 and picnic may cost you Rs. 200. What if you are left only with Rs. 350 out of your pocket money and your parents have gone out of city for a week? You need to decide which goals to focus on first. That is known as the process of prioritization.

Difference between Needs and Wants

- Needs are basic necessities one cannot wish away.
- Wants make life more comfortable, but can wait.

4.2 FINANCES FOR ENTREPRENEURS

Retirement is one of the biggest needs of any employee. However, some employed persons also have a dream of becoming entrepreneurs. This transition from being salaried employee to self-employment or entrepreneurship is difficult without proper financial plan.

- Understand financial needs of self and business, Save money in job before jumping in self-employment, Borrow from close relatives/ friends on strict business terms, if required, Start groundwork while still in job, Apply for loans from organizations designed to fund SMEs.

The biggest difference in a salaried person's income stream and that of an entrepreneur is that salary is regular while business income tends to be sporadic. There are times when there is a surge of business activity, hence huge cash inflows and other times when there is low or no income stream.

Entrepreneurs should be prepared for this in the initial days when they are just setting up or changing from job to self-employment.

4.3 RETIREMENT

Retirement plan

- Earn a satisfying income post-retirement
- Enjoy a comfortable life post-retirement

You have successfully passed through many phases of life, overcome many hurdles and seen ups and downs. Now it's the time to enter a new phase of life – retirement.

Retirement means that the regular income – the salary – stops, but life continues and so do the expenses.

A retirement plan helps earn satisfying income post-retirement such that you can enjoy a comfortable life

The four simple steps to arrive at retirement plan are:

Step 1: Decide how much income you require to live comfortably in your post-retirement years

Step 2: Calculate the amount to be received in lump sum at the time of retirement

Step 3: Select the right retirement plan

Step 4: Start investing very early to enjoy the power of compounding

5. IDENTIFY GOALS

Goals can be short term (up to 3 years), medium term (3 to 5 years) or long term (upwards of 5 years)

- Each goal *must* have a target amount and a target date
- Goals without amounts and dates are likely to be missed!
- Understand the risk taking ability
- Income & Expenditure and Assets & Liabilities play a very important role in an individual's risk taking ability
- High income does not necessarily mean high risk appetite if the person also has large amount of liabilities
- Low income used judiciously to build assets, can increase risk appetite
- For two colleges going students will the risk taking ability be same if one's father is the richest businessman in town and the other's father has expired 5 years back and their family is dependent on the investments made by his father.

Preparing plan is simple; implementing it regularly is the real challenge

- Where is the money invested – in which asset class – determines the potential returns the investor can expect
- Avoiding risky investments may lead to compromising of goals

6. RISK AND RETURN

"High risk high returns" does not mean by taking high risks one is assured of high returns; it only means that the possibility of high returns exists. Conversely low risk low returns means that if one takes low risks….one should be satisfied with low returns!

- Risk and investing go hand in hand
- Risk increases as the expected potential return increases
- Even "no-risk" products such as savings accounts and government bonds carry the risk of earning less than the inflation rate
- It is crucial to manage your risk

The phrase "high risk high returns" must be changed to "high risk high potential returns"

6.1 **Efficient Market Hypothesis:**

Strong form, Semi-Strong Form, Weak Form indicates that the individual investor should take a call for their investment with the help of Historical and market updates which includes, Angel investors, Brokers, Financial Reports, Technical Matters, Tips etc.

CAUTION:- 94% Individual used to invest by fundamentals which is number based only- more risk is attached with fundamentals.

7. *Comparative Analysis of Investment Avenues*

Helps one maintain his/her standard of living post retirement

SR.NO.	SECURITIES	Return - Current	Return - Capital	Risk	Liquidity	Tax Breaks	Convenience	Denomination
1	Equity	L	H	H	H	N	H	L
2	NCD	H	L	L	L	N	H	M
3	MF- Equity schemes	L	H	H	H	N	H	M
4	MF- Debt schemes	M	L	L	H	N	H	M
5	Bank Deposits	M	N	L	H	N	H	L
6	PPF	M	N	L	N	Y	M	L
7	LIC Policies	L	N	L	N	Y	L	M
8	Res. House	L	H	M	L	N	L	H
9	Gold / Silver	N	H	L	H	N	H	M
		1	**2**	**3**	**4**	**5**	**6**	**7**

8. *CONCLUSIONS & SUGGESTIONS*

- Evaluate risk of every investment
- Decide the investment based on needs
- Do not invest in any scheme that you do not understand
- Do not invest on trust. Have everything backed up by documents
- Take into account tax implication of every income
- Do not blindly follow market tips and rumors
- Anything that appears unnaturally high or low will have some “catch” disguised
- Do not follow schemes where you may protect the interest but lose the principal
- Invest with knowledge after understanding the product well
- Maintain a household budget
- Understand and estimate your current spending patterns
- Make sure you have access to everything
- Understand everything and why it is important
- Gradually share with your partner some financial responsibility
- Discuss contingency plans.

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"FUNDAMENTAL IMPACT OF FOREIGN DIRECT INVESTMENT IN RETAIL IN INDIA".

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Abstract

India today has two type of distinctive customers, one who have ample are quality conscious/ don't hesitate in paying that extra buck to save energy and time, and they shop even their daily needs from established super markets.

The second set is the ones who are hand to mouth. Recently the announcement by the government to allow 100% FDI in retail sector and 51% in Multi Brand retail has been doing the rounds. There has been a lot of hue & cry has been debated widely. The current research work focuses on Fundamental impact of this move on the Indian retail sector & the global economy as a whole.

KEYWORDS: -Multi Brand, Fundamental.

RESEARCH TYPE: Descriptive & Analytical.

INTRODUCTION:

FDI is a cross border investment, where foreign assets are invested into the organizations of the domestic market excluding the investment in stock. It brings private funds from overseas into products or services. The domestic company in which foreign currency is invested is usually being controlled by the investing foreign company.

Government allowed FDI up to 100% in Single Brand Retail and up to 51% in Multi Brand Retail.

Terms & Condition:

- FDI can set up their outlets where the population of city is more than 1 million.
- They should cover an area of 10 km around municipal/urban agglomeration limit.

- For FDI proposals beyond 51% in single brand retail, 30% sourcing from 'Small Industries' has been made mandatory.
- At least 50% of total FDI will have to spend on back end infrastructure.\

Why FDI wants to invest in India?

- India is the 2nd most favored destination for Foreign Investor after China.
- Attracting investments in production and marketing
- Improving the availability of such goods
- Encouraging increased sourcing of goods from India
- Enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices.
- India is the 2nd most favored destination for Foreign Investor after China.
- To take the advantages of cheaper wages in the country.
- Interest rates in India are more than other countries like Mauritius, Singapore, and UK etc.
- To take the benefits of Return on Equity.

FUNDAMENTALS

Impact on Indian Economy:

- Indian Retail sector accounts 14-15% of its GDP, market estimates US$ 450 billion and one of the top 5 retail market in World. Provides 40 million (3.3% of total population) employment.
- Indian economy faces slowdown, High fiscal & Revenue deficits, High WPI & CPI, reduced impact of monetary policy, Unemployment etc.
- FDI in retail will reduce Inflation, Improve Supply chain of food, Improve Technology & quality.
- Our 40% food became waste p.a. and 50 million people are undernourished this condition will be improve.
- Solve employability problem, development of rural area & overall economic development.
- Development of Organized sector.
- FDI provides stability to Indian Currency.
- Govt. major problem is Inflation, Monitory Policy not effectively performed, currently WPI is 7.6 and CPI is 10.25.

- **Retailing in India** is one of the pillars of its economy and accounts for 14% to 15% of its GDP. The Indian retail market is estimated to be US$ 450 billion and one of the top five retail markets in the world by economic value. India is one of the fastest growing retail market in the world, with 1.2 billion people.
- India's retail and logistics industry, organized and unorganized in combination, employs about 40 million Indians (3.3% of Indian population). The typical Indian retail shops are very small. Over 14 million outlets operate in the country and only 4% of them being larger than 500 sq ft (46 m^2) in size. India has about 11 shop outlets for every 1000 people.
- Interest rates in India are higher than other country.
- Return on equity in India is performing well (12.78% YTD)as compared to other countries in the world like Singapore(8.77%), Taiwan(3.17), China(1.18%) etc.

Recent Situation in India:

a) India is in Slowdown

b) High Fiscal Deficit(5.3% of GDP) & CAD(3.5% of GDP)

c) High WPI(7.55) & CPI(10.03)

d) Our 40% food production was not reach to end-user

e) 50 million people in India is undernourished

F) Increasing population(1.58%)

Indian Retail Sector:

a) High Potential & boom (US$ 450 billion market)

b) Contribution to GDP is 14%-15%

c) No global reach

d) improper distribution System

<u>Impact on Indian Economy and Market</u>

- **Net Capital Inflow:**
- During First half,
  - H1 2010-11: US$ 38.9 billion
  - H1 2011-12: US$ 41.1 billion
- **Under Net Capital Inflow:**
- FDI shows considerable increase,
  - H1 2010-11: US$ 7.0 billion
  - H1 2011-12: US$ 12.3 billion

- **External Commercial Borrowing (ECB):**
  - H1 2010-11: US$ 5.7 billion
  - H1 2011-12: US$ 10.6 billion
- **Portfolio Investment by FII/ADR/GDR:**
- Large decrease inflow,
  - H1 2010-11: US$ 23.9 billion
  - H1 2011-12: US$ 1.4 billion
- However Net Capital Inflow of GDP shown from 5% (2010-11) to 4.5% (2011-12)

Impact on Markets:

- Indian market shows positive trend after announcement of FDI policy.
- It's seems to be good reform as per Indian Market.
- Due to high Competition between MNC we get better product at lower price.
- Small traders are not so affected in India.
- Contribution of retail Sector in GDP will increase

Impact on Indian Economy and Market

Merchandise Export:

H1 2011-12: US$ 150.9 billion

Increased by 40.6% as compared to H1 2010-11 (29.8%)

Merchandise Import:

H1 2011-12: US$ 236.7 billion

Increased by 34.3% as compared to H1 2010-2011 (28.2%)

Trade Deficit:

H1 2010-11: US$ 68.9 billion (8.9% of GDP)

H1 2011-12: US$ 85.7 billion (9.4% of GDP)

Current Account Deficit:

H1 2010-11: US$ 32.8 billion

H1 2011-12: US$ 29.6 billion

FDI policy in retail India has some positive as well as some negative aspects are describes as follows:

Positive Aspects

a) Access to funds ($ 3 billion over the next five years in multi brand)

b) Supply chain mastery (Better logistics & Technology)

c) Reduced wastage in the food

d) More products, better prices

e) Boost to employment(1 cr jobs in the next 10 years)

f) Higher levels of sourcing and exports

g) Higher tax revenues (mainly indirect Taxes)

Negative Aspects

a) The domestic organized retail sector might not be competitive enough to tackle international players and might lose its market share.

b) Millions of middlemen becomes jobless

c) Unemployment in uneducated & semi-educated people will increase.

Future Impact of FDI

a) Retail Sector will grow with 46% p.a

b) Development of Organized Sector (5% p.a)

c) Standard of living will increase

d) Due to Competition price will controlled(350 players worldwide)

e) Transparency will improved

f) GDP rate will Increased(1-1.5 per cent)

Conclusion

As compare to other Countries Indian Economy is small & but Population is Big, it requires trillions of $ for Basic needs, now It is not possible for Indian Investor & Indian government to fund this expansion, job creation & needed growth, hence global invest Capital through FDI is necessary.

Now, government takes a right step towards Indian economic growth, in a positive way, it should take some further action to remove disadvantages. FDI will definitely change economic situation and achieve expected Aim.

Min Limit to One Entity	US$ 100 Million	Rs. @ 50	Rs. 500 Cr
There are 350 different companies in the world	350	Rs. 500 Cr	Rs. 175000 Cr

9/28 States , 20/53 Cities	If 2 outlets in a city	Total outlets in India	Min. amount	Total amount
20	2	40	Rs. 500 Cr	Rs. 20000 Cr

Rs. 20000 Cr / Rs. 50 = US$ 400 Corer (US$ 4 Billion)

It clearly states that FDI in India will help to reduce the Current Account deficit.

FDI can be a powerful catalyst to spur competition in the retail industry, due to the current scenario of low competition and poor productivity. It can bring about:

- Supply Chain Improvement
- Investment in Technology
- Manpower and Skill development
- Tourism Development
- Greater Sourcing From India

- Up gradation in Agriculture
- Efficient Small and Medium Scale Industries
- Growth in market size
- Greater Productivity
- Benefits to government: through greater GDP, tax income and employment Generation

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GLOBAL RECESSION AND MICRO FINANCE IN DEVELOPING COUNTRIES: THREATS AND OPPORTUNITIES.

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Introduction:-

Microscope on microfinance inevitably draws our attention towards capital starving economies which could not come out of the loop of vicious circle of poverty. In a world where almost half the population lives on less than $2.50 a day, if microfinance as a special purpose vehicle is properly exploited it can prove to be an economic elixir for poverty alleviation, economic growth and development of less developed and poor economies of the world.

Developmental face of the society is determined by its economic alacrity and democratization of capital. Domestic and foreign Investment forms an engine of growth. Paradoxically, owing to adoption of open economy model and rapid globalization such less developed economies are being flooded with foreign capital through foreign direct investment route (FDI) however it is being concentrated in the areas where marginal efficiency of capital(return on invested capital) is promising. Such economies are split into urban and rural divide due to imbalanced pattern of economic growth. Foreign as well as major chunk of state and private capital is being invested in urban areas while rural counterpart still remains capital starving.

In the backdrop of this reality microfinance can play an important role in satiating the financial needs of the poor families thereby keeping the hopes alive for them. For rural borrowers the need for finance is having unique characteristics. Normal capital lending norms of urban based institutions cannot be synergized with borrowing needs of the poor habitants of rural areas. Hence microfinance can help the rural populace with economic activism.

With growing ambition for attaining economic prosperity developing economies have ushered in triune formula of Liberalization, Privatization and Globalization (LPG). With economies getting integrated to the economies of the rest of the world they are no longer insulated to the foreign shocks of economic slowdown, recession and double deep recession. The fear of global recession has already engulfed European and American economies

where danger of double deep recession is being expressed by economist at the helm of international financial institutions like IMF and World Bank. The most affected sectors of developing economies have been obviously the ones where cluster of foreign capital is concentrated. Now the question remains to be investigated for economic reasoning weather the net of microfinance having its presence mostly in rural areas shall remain affected or insulated due to ongoing wave of global recession.

Naturally the answer to this crucial question lies in the degree of foreign capital existing in micro financing. During the economic recession foreign capital flight takes off for obvious reason of economic prudence leaving the sector high and dry. Hence degree of self-sufficiency and reliance on indigenous capital can make micro financing institutions the main stay of an economy.

Currently, microfinance services (loans, savings, etc.) are available to over 100 million of the world's poorest families. That may partially explain the decline in poverty rates over the last three decades. In fact, 5% of the clients of rural Banks pull themselves out of poverty each year.

In developing economies the income distribution canvass is inverted pyramid, at the bottom of this inverted pyramid majority sections of the population with poverty and subsistence level of standard of living accommodates while at the very narrow top of the pyramid marginal population of elite class exisits.The upward migration of populace from bottom most pyramid to upper one is an indication of inclusive economic growth. Poor people do not want to stay poor. Like everyone else, they wish to put an end to their economic hardship and exploitation by either working or exploring self-employment. In the latter case, money can be raised through friends and family, gathered over time through savings, or obtained through loans from microfinance institutions.

Generally speaking, developed countries feel that the best way to combat the recession in developing countries is simply by dolling out more aid. They believe the real decision-making about the aid should be left up to members of the G-20, IMF, or the World Bank, and not the UN. The main rebuttal for these ideals is summarized in this quote: "As developed nations have increased stimulus packages, developing nations trying to do the same have to fight IMF conditions" Without reform that starts at this most basic level, the developing countries of today may have to live with the decisions made today, which they had no part in implementing.

Grand promises have been made for microfinance over the years that giving loans to the poor shall pull millions out of poverty and improves the level of personal income, health, education and female empowerment, apart

from providing handsome returns to investors. The multi-dimensional nature of microfinance makes it harder to decide the exact meaning of 'social performance' and to determine its link to financial performance.

As a result, people 'deal more in anecdotes than data' Not surprisingly, there are only a handful of tools that determine whether financial services for the poor (loans, savings, insurance) are changing lives and societies, these tools are namely:

- 22 Social Performance Indicators by the SPTF
- Progress out of Poverty Index (PPI)
- Incofin Echos
- Scientific Research
- Simple Surveys and Case Studies,

22 Social Performance Indicators by the SPTF

By far the most comprehensive social performance measurement tool yet.

The Social Performance Task Force (SPTF) recently developed a detailed list of 22 indicators that measure the environmental and social performance of a typical microfinance program.

Core Social Performance Indicators (MFI, Staff and Clients)

- ✓ Mission and social goals (Indicator # 1)
- ✓ Governance (Indicator # 2)
- ✓ Range of products and services (Indicator # 3)
- ✓ Training of staff on social performance (Indicator # 4)
- ✓ Staff performance appraisals and incentives (Indicator # 5)
- ✓ Market research on clients (Indicator # 6)
- ✓ Measuring client retention (Indicator # 7)
- ✓ Social responsibility to clients (Indicator # 8)
- ✓ Transparency on the costs of services to clients (Indicator # 9)
- ✓ Social responsibility to staff (Indicator # 10)
- ✓ Geographic outreach (Indicator # 11)
- ✓ Women's outreach (Indicator # 12)
- ✓ Clients outreach by lending methodology (Indicator # 13)

Secondary Social Performance Indicators

- ✓ Poverty Assessment (Indicator # 14)
- ✓ Social responsibility to community (Indicator # 15)
- ✓ Social responsibility to environment (Indicator # 16)
- ✓ Outreach by non-financial services (Indicator # 17)
- ✓ Employment (Indicator # 18)
- ✓ Children in school (Indicator # 19)

Poverty Measurement

- ✓ Clients below the poverty line at entry (Indicator # 20)
- ✓ Clients in poverty after 3 or 5 years (Indicator # 21)
- ✓ Clients out of poverty after 3 or 5 years (Indicator # 22)
- ✓ A List of Social Performance Indicators for MFIs – By SPTF

Progress out of Poverty Index (PPI)

According to Grameen Foundation, the PPI is a simple yet comprehensive tool that measures poverty levels of groups and individuals after assessing the economic and social conditions of each country, to yield context-based results. This tool can be used by Microfinance Institutes (MFIs) to determine credit needs of their clients, which loan product is most suitable, which programs are most effective, and how quickly clients move out of poverty, through a variety of country-specific indicators.

The tool was developed for CGAP and Grameen Foundation to assess the social and economic impact of microfinance programs in more than 30 countries. They regularly train MFIs in various parts of the world in this regard.

Incofin Echos

Measuring performance from the social investor's point of view.

Incofin developed a list of 45 questions to assess an MFI's social orientation under the following headings:

- Social mission and vision (purpose of existence),
- Outreach and access to loans and savings
- Quality of service (customer service, financial services),
- Human resource policy (developing employees),
- Contribution to the community and to the environment.

Incofin (a microfinance investment management firm – debt and equity investments) developed this tool to highlight the social dimension of its investments under the philosophy of responsible finance. MFIs that score high on this tool have a better chance of securing investment funds from Incofin, compared to those who don't.

Scientific Research

Randomized control trials by researchers offer highly accurate yet mixed result about the social impact of loan programs to the poor, but the biggest limitation of these research methodologies was the short time span of less than two years.

The real impact of microfinance, due to its multi-dimensional nature, takes years to demonstrate, so any research will be unsuitable unless it:

- spans over several years (to determine long-term impact of loan to the client's household),
- covers various geographical areas (to consider individual social and economic circumstance), and,
- Has a strictly monitored control group that in no way, has access to loans (access to informal sources of credit may not be necessary).

Evidently, this form of research is pretty difficult to conduct, as Micheal Chu (Accion) points out:

Simple Surveys and Case Studies

Field surveys are easy and less expensive to conduct compared to other forms of impact assessments, and they generally show positive results:

- **Poverty-alleviation**: 5% of micro entrepreneurs pulled themselves out of poverty each year during the 1990s (Grameen Bank, Bangladesh). The direct and indirect impact of these loans is difficult to assess.
- **Domestic Violence:** Women who take out loans around the world experience a decrease in domestic violence (Women's World Banking)

- **Job creation:** on average, micro entrepreneurs either created or retained an average of 2.4 jobs during 2007 and 2009 (Accion USA)
- **Wealth Increase:** the median hourly wage offered by micro entrepreneurs was 24% higher than the federal minimum wage, which is $7.25 (Accion USA)
- **Business survival:** 98% of existing businesses were still in business by year-end 2008, which is very high compared to a national average of 70% (Accion USA).

The harmful impact of wild globalization and recession on MFI

- It is widely recognized that "wild" globalization – without any control and driven by an unchallenged trust in the "market" – brings to the fore growing inequalities between the richer and the poorer; recession typically worsens this perverse divergence of status, bringing to an increased necessity of financial access and outreach to relief the poorest. In this, microfinance can play a small but increasingly significant role.
- MFIs operating in developing countries are bound to face some impact during the ongoing global recession despite profiting from the double safety net of both being only partially correlated to their domestic financial markets, which in turn are often segmented from international markets. Bad and good news are blended and interact in many possible combinations, with so many potential outcomes that forecasts are difficult to make.
- The matrix of risks which affects the MFIs, often interacting among them, has a deep impact on the corporate governance of the MFI, since the reaction of the different stakeholders (domestic and foreign shareholders and bondholders; employees; depositors; borrowers; NGOs; local communities related to the MFI; government …) is asymmetric and brings to new *ex post* equilibriums.
- In comparing the impact of recession in rich western countries versus poor and underdeveloped countries, the first – obvious – consideration is that at the very bottom line of poverty, there is not much wealth to be destroyed and if this might paradoxically look as good news for the destitute, well we should also consider that they have no parachutes or safe nets to shelter against adversities. The poorest can't simply loose what they already don't have! And financial exclusion for the destitute is paradoxically protecting them from the global turmoil.
- Recession affects different microfinance stakeholders, starting from the international equity holders and bondholders, which suffer severe cash constraints which might dry up Microfinance Investment Vehicles financing. Even borrowers might face increasing repayment difficulties and when the delinquency rate grows, lenders tend to become overcautious.

- The impact on different MFIs is diverse, and each of them has its own reaction, according to its identifying parameters (location; size; stage of development; Tier classification of capital; type of clients; funding and lending structure …). Some cope better than others and can even take advantage of this Darwinian selection. Time will tell which are the fittest who survive and the weakest might disappear or merge into stronger entities (the sooner, the better); this might drive to a consolidation within the microfinance industry, considering also that the current recession is a concrete obstacle to new initiatives, especially if sponsored by exhausted and cashless Western NGOs.
- MFIs in underdeveloped countries are, at varying degrees, more or less insulated from these problems, even if globalization has sharply reduced their distance from the Western financial markets. Codes of conduct structured around core values such as transparency, fair practices, dignified treatment, privacy, fair disclosure, inclusiveness (outreach), sustainability and client satisfaction can positively affect MFI's governance, easing the relationship among its stakeholders and smoothing conflicts of interest.
- Recession may however bring to delocalization and protectionism, which is – obviously – particularly harmful for poor countries that hardly have anything to protect. A better governance can really help MFIs in underdeveloped countries to get to adult age, making a jump of quality and relying less and less on volatile external help.
- The impact of the recession on the different stakeholders is unsurprisingly asymmetric and winners and losers will emerge when the storm is finished – when rainy days are over, time will tell. Paraphrasing Orwell's Animal Farm, all stakeholders are born equal, but some are more equal than others.

Conclusion

The list of assessment tools is by no means an exhaustive, although it does cover the most prominent social performance and impact assessment tools available today. As microfinance continues to emerge as a lucrative business and social opportunity, new tools and techniques will be developed to optimize the performance of MFIs and determine the true impact of offering loans and savings to the poor.

FIXING finance is easier if you have a clear idea what it is for. What a matter most is setting up a financial sector that can serve the competitive sectors of an economy. In many poorer countries, that means focusing on activities dominated by small-scale manufacturing, farming and services firms. The size and sophistication of financial institutions and markets in the developed world are not appropriate in low-income markets. Small local banks are the best entities for providing financial services to the enterprises and households that are most important in terms of comparative advantage—be they asparagus farmers in Peru, cut-flower companies in Kenya or garment factories in Bangladesh.

The experiences of countries such as Japan, South Korea and China are telling. Those countries managed to avoid financial crises for long stretches of their development as they evolved from low-income to middle- and high-income countries. It helped greatly that they adhered to simple banking systems (rather than rushing to develop their stock markets and integrate into international financial networks) and did not liberalize their capital accounts until they became more advanced.

The experience of the United States is also instructive. Hulking national banks and equity markets become important only when a country becomes more advanced and when large capital-intensive firms dominate the economy.

The rise of the New York Stock Exchange occurred only after the creation of large-scale industrial firms at the close of the 19th century. For the early labour-intensive phase of America's economic development, local banks were dominant.

Stock markets are unlikely to be a major force in poor countries in the near future. Microfinance companies and other non-bank financial institutions will play a more important role in financing poor households. And stock markets are not the best conduit for providing finance to the small- and medium-sized businesses that characterize the early stages of countries' economic development. Instead, the banks will be much more critical when it comes to financing companies.

Nonetheless, gigantic banks are not the way to go. In Africa and other parts of the developing world, relatively large foreign banks that were set up in the colonial era have long played a role. But these institutions tend to serve relatively wealthy customers. Smaller domestic banks are much better suited to providing finance to the small businesses that dominate the manufacturing, farming and services sectors in developing countries. There is evidence to suggest that growth is faster in countries where these kinds of banks have larger market shares, in part because of improved financing for just these kind of enterprises.

It is true that bigger banks can exploit economies of scope and scale that make them more diversified, thus enhancing systemic stability. But local banks are stable in a different way. In America the country's 7,630 community banks have so far been only mildly affected by the financial crisis as they have continued to deal with the same small, local clients that they have had for years

Governments in low-income countries should recognize the strategic importance of small, private domestic banks. They should also carry out some fundamental reforms. On the demand side of the equation, entrepreneurs in developing economies need to be able to signal more easily that they are creditworthy.

Sustained efforts to improve credit and collateral registries offer large pay-offs. Credit registries enable first-time entrepreneurs to document their personal credit histories and share them with lenders. Collateral registries enable lenders to verify that assets such as property and vehicles have not already been pledged by the borrower to secure past loans. Transparent and efficient court procedures allow lenders to seize collateral in the event of loan defaults.

On the supply side, underachieving banks, be they large or small, should be rooted out through merger or liquidation. In many developing countries, supervisory authorities find it difficult to intervene and dispose of troubled banks' assets quickly. Supervisors in some countries face legal challenges from the owners of such banks, sometimes long after they have left office. All this impedes the efficient exit and entry of institutions that make for a vibrant local banking sector. Failing local banks should be acquired by stronger local banks or liquidated if no such purchaser can be found. After liquidations well-capitalized new banks should be allowed to enter the sector.

Facilitating the creation of new local banks and improving the methods for intervening to deal with troubled banks will encourage competition and provide healthier incentives. That will help banks promote the private-sector-led growth that will be crucial to recovery from the current financial crisis. Leave the developed markets to worry about how to reform their highly evolved financial systems. To make sustained progress in lifting the weight of the extreme poverty that will remain after the crisis has subsided, low-income countries need to make their financial institutions small and simple.

The global recession started in fall 2008 is proving an unprecedented perfect storm creating widespread social unrest. Microfinance institutions (MFIs) in developing countries are less affected by the worldwide turmoil, due to their segmentation and resilience to external shocks.

If contagion is milder, the biggest risk is probably that of becoming out of scope, being unable to collect the much needed foreign capital at competitive costs.

Recession has a big impact on corporate governance mechanisms, altering the equilibriums among different stakeholders and increasing the risk of investment returns; in such a context, any governance improvement is highly welcome and recommended. No governance, no money for growth or bare survival.

Corporate governance sets the rules of cohabitation and the behavior of the different stakeholders that pivot around the MFI (borrowers, lenders, shareholders, supervisory authorities …). Information asymmetries – a classical governance problem – traditionally arise since borrowers have better information about their creditworthiness and risk taking than the lending bank has. They originate conflicts of interest which might seriously prevent efficient allocation of finance.

Adverse selection is a typical problem in money lending and it occurs even in traditional banks, when – not knowing who is who – they cannot easily discriminate between good and risky borrowers, who should deserve higher interest rate charges.

Moral hazard is a classical "take the money and run problem", since borrowers might try to abscond with the bank's money or try not to fully engage them.

Strategic bankruptcy is false information that the borrower gives about the outcome of his financed investment, stating that it has failed even if it's not true only in order not to give back the borrowed money. Poor borrowers generally have little or no collateral, so they might have little reason to avoid a strategic default.

These classical corporate governance problems are well known in traditional banking and they naturally bring to sub-optimal allocation of financial resources and to capital rationing problems that frequently affect even potentially sound borrowers, if they are not able to differentiate themselves from those who bluff. During crises, governance problems tend to exacerbate and since microfinance borrowers are normally unable to give any worthy guarantee, as we have seen before, these problems normally are even more acute in a context that has also to take care of greater information fallacies and weak judicial systems.

The standard agency problem concerns conflict of interests between a potential lender (the principal), who has the money but is not the entrepreneur, and a potential borrower (the agent), a manager with business ideas who lacks the money to finance them. The main differences in dealing with these problems between traditional banks and microfinance institutions are the following:

- Limited liability companies, where shareholders risk only the capital invested, are frequently financed by traditional banks, whereas MFIs mainly finance households or small companies with unlimited responsibility;
- The motto "no collateral, no money" traditionally applicable in standard banking undergoes severe problems in poor areas, where the collateral is mostly nonexistent or difficult to seize;
- Microloans have very short maturities, if compared with traditional banking loans, and this gives the lender a big monitoring and enforcing power, checking weekly or monthly the repayment pattern;
- Microloans typically consist of very limited amounts, which strongly reduce the magnitude of the lending risk and allow for a better diversification;
- Monitoring MF borrowers is more expensive and difficult, since credit scoring devices, computerized data, credit histories with delinquency rates and proper bookkeeping from the borrower are normally nonexistent or present at an infantry stage; on the other side, weekly meetings between the MFI and the group members (borrowers) allow the creditor to monitor the repayment status of each debtor publicly;
- Reputation also plays an important role in preventing opportunistic behavior;
- Strong information fallacies and asymmetries which evidently affect poor borrowers are in reality offset by good local information and enforcement mechanism which characterize rural lenders;
- MF might soften information asymmetry problems, if relationship lending and peer monitoring – often associated with mutual responsibility – is in place;
- Micro saving and micro insurance can be positively linked to microloans, with a synergic effect.

The lender and the borrower might align their interests, paddling in the same direction – so reducing opportunistic behavior, one of the worst and most slippery hidden problems. In synthesis, microfinance can in some cases become a "magic tool" to produce new, cheap, flexible and simple ideas to circumvent information problems and asymmetries that are the main obstacle to optimal allocation of capital, exploiting smart innovations in corporate governance, contract theory and (flexible) product design.

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"SELF-HELP GROUPS: A KEYSTONE OF MICROFINANCE THAT STIMULATES THE CONCEPT OF RURAL MARKETING IN INDIA".

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Introduction

Self-help group (**SHG**) is a village-based financial intermediary usually composed of 10–20 local women. Most self-help groups are located in India, though SHGs can also be found in other countries, especially in South Asia and Southeast Asia.

Microfinance is the provision of financial services to low-income clients or solidarity lending groups including consumers and the self-employed, who traditionally lack access to banking and related services.

More broadly, it is a movement whose object is a world in which as many poor and near-poor households as possible have permanent access to an appropriate range of high quality financial services, including not just credit but also savings, insurance, and transfers. Those who promote microfinance generally believe that such access will help poor people out of poverty.

Microfinance has evolved over the past quarter century across India into various operating forms and to a varying degree of success. One such form of microfinance has been the development of the self-help movement. Based on the concept of "self-help," small groups of women have formed into groups of ten to twenty and operate a savings-first business model whereby the member's savings are used to fund loans. The results from these self-help groups (SHGs) are promising and have become a focus of intense examination as it is proving to be an effective method of poverty reduction.

Rural Marketing is defined as any marketing activity in which one dominant participant is from a rural area. This implies that rural marketing consists of marketing of inputs (products or services) to the rural as well as marketing of outputs from the rural markets to other geographical areas.

This paper examines the SHG operating model, the state of SHGs today, their impact on civil society and how they need to be supported going forward along with this the importance or impact of SHG on rural market

A Study-

Self Help Group

Self Help Groups SHG is group of rural poor who have volunteered to organize themselves into a group for eradication of poverty of the members. They agree to save regularly and convert their savings into a Common Fund known as the Group corpus. The members of the group agree to use this common fund and such other funds that they may receive as a group through a common management. The group formation will keep in view the following broad guidelines: Generally a self-help group may consist of 10 to 20persons.However, in difficult areas like deserts, hills and areas with scattered and sparse population and in case of minor irrigation and disabled persons, this number may be from 5-20. The difficult areas have to be identified by the State Level SGSY Committee and the above relaxation in membership will be permitted only in such areas. Generally all members of the group should belong to families below the poverty line. However, if necessary, a maximum of 20% and in exceptional cases , where essentially required, upto a maximum of 30% of the members in a group may be taken from families marginally above the poverty line living contiguously with BPL families and if they are acceptable to the BPL members of the group. This will help the families of occupational groups like agricultural laborers, marginal farmers and artisans marginally above the poverty line, or who may have been excluded from the BPL list to become members of the Self Help Group. However, the APL members will not be eligible for the subsidy under the scheme. The group shall not consist of more than one member from the same family. A person should not be a member of more than one group. The BPL families must actively participate in the management and decision making, which should not ordinarily be entirely in the hands of APL families. Further, APL members of the Self Help Group shall not become office bearers(Group Leader, Assistant Group Leader or Treasurer)of the Group. The group should devise a code of conduct (Group management norms) to bind itself. This should be in the form of regular meetings (weekly or fortnightly), functioning in a democratic manner, allowing free exchange of views, participation by the members in the decision making process. The group should be able to draw up an agenda for each meeting and take up discussions as per the agenda. The members should build their corpus through regular savings. The group should be able to collect the minimum voluntary saving amount from all the members regularly in the group meetings. The savings so collected will be the group corpus fund. The group corpus fund should be used to advance loans to the members. The group should develop financial management norms covering the loan sanction procedure, repayment schedule and interest rates. The members in the group meetings should take all the loaning decisions through a participatory decision making process. The group should be able to priorities the

loan applications, fix repayment schedules, fix appropriate rate of interest for the loans advanced and closely monitor the repayment of the loan installments from the loanee. The group should operate a group account preferably in their service area bank branch, so as to deposit the balance amounts left with the groups after disbursing loans to its members. The group should maintain simple basic records such as Minutes book, Attendance register, Loan ledger, General ledger, Cash book, Bank passbook and individual passbooks. The sample proforma for maintenance of above records by the group is in the Annexure II for guidance. These could be used with necessary changes/ modifications wherever required.50% of the groups formed in each block should be exclusively for the women. In the case of disabled persons, the groups formed should ideally be disability-specific wherever possible, however, in case sufficient number of people for formation of disability-specific groups are not available, a group may comprise of person with diverse disabilities or a group may comprise of both disabled and non-disabled persons below the poverty line.

Self-help groups are started by non-profit organizations (NGOs) that generally have broad anti-poverty agendas. Self-help groups are seen as instruments for a variety of goals including empowering women, developing leadership abilities among poor people, increasing school enrolments, and improving nutrition and the use of birth control. Financial intermediation is generally seen more as an entry point to these other goals, rather than as a primary objective.[2] This can hinder their development as sources of village capital, as well as their efforts to aggregate locally controlled pools of capital through federation, as was historically accomplished by credit unions

Microfinance-

Poor people borrow from informal moneylenders and save with informal collectors. They receive loans and grants from charities. They buy insurance from state-owned companies. They receive funds transfers through formal or informal remittance networks. It is not easy to distinguish microfinance from similar activities. It could be claimed that a government that orders state banks to open deposit accounts for poor consumers, or a moneylender that engages in usury, or a charity that runs a heifer pool are engaged in microfinance. Ensuring financial services to poor people is best done by expanding the number of financial institutions available to them, as well as by strengthening the capacity of those institutions. In recent years there has also been increasing emphasis on expanding the diversity of institutions, since different institutions serve different needs.

SHGs are member-based micro finance intermediaries inspired by external technical support that lie between informal financial market actors like moneylenders, collectors, on one hand, and formal actors like micro finance institutions and banks on the other. Other organizations in this transitional zone in financial market development include accumulating savings & credit association.

Self-Help Group may be registered or unregistered. It typically comprises a group of micro entrepreneurs having homogenous social and economic backgrounds; all voluntarily coming together to save regular small sums of money, mutually agreeing to contribute to a common fund and to meet their emergency needs on the basis of mutual help. They pool their resources to become financially stable, taking loans from the money collected by that group and by making everybody in that group self-employed. The group members use collective wisdom and peer pressure to ensure proper end-use of credit and timely repayment. This system eliminates the need for collateral and is closely related to that of solidarity lending, widely used by micro finance institutions. To make the book-keeping simple enough to be handled by the members, flat interest rates are used for most loan calculations.

NABARD's 'SHG Bank Linkage' program

Many self-help groups, especially in India, under NABARD's SHG-bank-linkage program, borrow from banks once they have accumulated a base of their own capital and have established a track record of regular repayments.

This model has attracted attention as a possible way of delivering microfinance services to poor populations that have been difficult to reach directly through banks or other institutions. "By aggregating their individual savings into a single deposit, self-help groups minimize the bank's transaction costs and generate an attractive volume of deposits. Through self-help groups the bank can serve small rural depositors while paying them a market rate of interest.

NABARD estimates that there are 2.2 million SHGs in India, representing 33 million members that have taken loans from banks under its linkage program to date. This does not include SHGs that have not borrowed. The SHG Banking Linkage Programme since its beginning has been predominant in certain states, showing spatial preferences especially for the southern region – Andhra Pradesh, Tamil Nadu, Kerala and Karnataka. These states accounted for 57 % of the SHG credits linked during the financial year 2005-2006

Advantages of financing through SHGs

An economically poor individual gains strength as part of a group. Besides, financing through SHGs reduces transaction costs for both lenders and borrowers. While lenders have to handle only a single SHG account instead of a large number of small-sized individual accounts, borrowers as part of an SHG cut down expenses on travel (to & from the branch and other places) for completing paper work and on the loss of workdays in canvassing for loans

SHG & RURAL MARKETING

As the SHG is the route for the rural marketing, it is necessary to have the infrastructure facility for marketing the SHG product. Some initiative taken by government for the same

To enable Self Help Groups (SHGs) to sell their products better, three malls that will serve as marketing hubs, have been lined up in rural areas of Pune district, which has over 90 lakh SHGs.

These malls, with dormitories, basic amenities and even play areas, will help members of SHGs to directly sell their products throughout the year and they would not have to travel to cities to find buyers.

Besides, SHGs mostly push their products mostly during exhibitions. At the rural malls, they would have an address where buyers can approach them directly. The malls would have dormitories, too.

The state cabinet recently approved the proposal to set up rural malls to make these products more marketable. Such trading centers will be able to avail of 100 per cent aid from the state and central governments.

In Pune, there would be three village malls and land will be allocated for them. The district is yet to allot land for this initiative that will benefit self-help groups.

As per the Rural Development Department, each district will have three malls. “These will be well-equipped with all basic amenities, including dormitories for traders. There would be good lawns and play areas to complete the mall look,’’.

The Centre will fund 75 per cent of the cost of the centres to be be built under the Swarnajayanti Gram Swarojgar Yojana while 25 per cent will be borne by the state government. These centres will be equipped with all basic amenities, including dormitories for traders and there will be good lawns and play areas to complete the mall look, to market the products, the union government has already sanctioned 99 trading centres at gram panchayats and has released Rs 5.56 crore as its share. Work on 129 trade centres at various tehsils has commenced and 158 more are in the pipeline, besides providing SHG members dormitory facility at village malls, they would be given training in packaging and branding of products. SHG members have welcomed the move.

Empowering Women Consumers

As the SHG is the concept keeping in mind the growth of women, it aim is to empower the women as she plays vital role in the economy of the household. Keeping this in mind many giants have entered in the rural market through the SHG.

Hindustan Lever, whose 2006 revenues were $2.8 billion, The company's Project Shakti (its name means "strength") was born out of this realization,. "The objectives of Project Shakti are to create income-generating capabilities for underprivileged rural women by providing a small-scale enterprise opportunity, and to improve rural living standards with greater awareness of health and hygiene," Hindustan Lever's was initiated this way to cope up with the growing competition as the market was open in early 1990 ,drive into rural India was forcing Hindustan Lever to seek higher revenues and growth by reaching into villages with 1,000 or fewer residents. Launched in 2001, Project Shakti was an important part of this strategy. It involved working with rural self-help groups (SHGs) to educate rural women, while also making them part of the company's marketing network. "Women from SHGs become Shakti entrepreneurs -- direct-to-home distributors [of Hindustan Lever products] in rural markets," This micro-enterprise offers low risks and high returns. The products distributed include a range of mass-market items especially relevant to rural consumers," such as soap, toothpaste, shampoo and detergent.

However companies are using the concept of marketing in the rural segment also by considering the product design, price & distribution of the product through the consumer in the rural area. For example,Godrej tapped into the connections of Swayam Shikshan Prayog, leveraging some of the microfinance institution's customers—local self-help groups(SHGs)—to "co-create" a custom product for the rural market: a mini fridge without a compressor that runs on a battery, weighs less than 8kg,has a top-loading storage system andis priced at only INR3,200 (US$67).Developed through iterative rounds of consumer feedback, this unique product demonstrates the value of capturing the many nuances of the rural consumer's Building social networks with local participation

Challenges

Apart from weak market linkages in the context of income-generating activities, there are also a few other concerns in relation to women's empowerment. First is the capacity building of self-help groups, which are in need of support in accounting, financial management, and organizational development. The second concern is about the gender focus in rural financial services. Despite the focus in project design, there were gaps during implementation. In Maharashtra Rural Credit Project, women tended to be small borrowers and were able to capture only 32 per cent of the bank credit that was provided. Therefore gender focus in designing and implementing rural microfinance services should be enhanced. The third challenge is about how to link self-help groups to agricultural activities, which are of key importance for the livelihoods of small farm holders in India, but at the moment self-help groups have not taken much agricultural activities, as the decisions on agriculture are mainly taken by men.

Conclusion-

From the study it is clear that self-help group is helping the poor people to earn their lively hood & also to cope up with the other financial needs. As SHG is linked with the banks for financial assistance members aware about the banking practices. SHG is the route for the distribution network for the companies as rural consumers are more educated through their people only it leads to the growth of rural marketing in India.

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