

eration activities they are organised into groups and clusters are formed out of them which further combine to shape up the federation at the top most level as a formal legal entity.

4. **Input and Output Linkages:** Once the formal legal entity is formed it is then provided the required technical and professional support to start activities on a large scale.

This process has following advantages:

- First of all it develops a habit of saving amongst the members.
- It makes them especially the women members aware of the financial transaction processes.

- It makes them realize the importance of credit worthiness thus developing a sense of responsibility in the loan repayment which is very necessary for the sustainability of the model.
- The ownership of the SHG fund also develops a high sense of responsibility in using the fund which is mostly done for various livelihoods initiatives like dairying, small scale enterprise development etc and these initiatives are carried out seriously to generate profit which ultimately results in more savings for the SHGs thus forming a constructive cycle.

POTENTIAL EXPLOITATION OF VULNERABLE POOR BY PUBLICLY HELD MICROFINANCE FIRMS*

Ganesh N Prabhu (PRM 8)

Microfinance firms fill a financing gap left by banks in reaching the vulnerable poor and are expected to charge less than moneylenders. However microfinance annual interest charges actually range from 30% to 90% - such high interest charges are due to high transaction costs and risks of small lending to the poor. There appears to be no significant way to reduce these transaction costs and risk. Welfare oriented microfinance reduces the interest charged to the poor as donors who create the microfinance fund expect no return or marginal returns. In India banks offer concessional rates to microfinance firms as it is

counted as a priority sector. While urban microfinance typically operates under competition, rural microfinance is typically a local monopoly. Microfinance firms that operate as local monopolies can profitably exploit the vulnerable poor by charging high interest rates and penalties as long as their interest rates are lower than that of local moneylenders. As they grow, microfinance firms are now seeking to go public with the IPO route used to access public funds at a market cost of capital. These IPOs based expansions are assumed to result in more efficiency as scale results in savings on IT and reduces cost of market

* An extended version of this note was presented at the Academy of Management Meeting held August 12-16, 2011 at San Antonio, USA.

Ganesh N Prabhu (PRM8) is Professor of Strategy at Indian Institute of Management Bangalore.

access to investors. However their IPO investors will expect market levels of returns which is unsustainable without charging even higher interest rates. No drop in interest rates to clients can be expected as client service costs and client default risk do not fall with scale. The large IPO based microfinance firm offers no significant way to reduce transaction cost/risk. These firms may moreover eliminate other alternative lending options in that market and then charge more from poor clients with no alternatives. They are also likely to eliminate welfare microfinance by offering higher salaries to move experienced field workers to their larger firm and then exploit the local monopoly nature of rural microfinance. Overtime rural clients are likely to be charged more to stay in business as their urban interest rates may not be competitive enough to cover costs in urban microfinance. I therefore argue that microfinance firms that go for an

IPO will increase interest rates over time to retain acceptable profit levels demanded by their shareholders. They will do so as they face increased lending risk with growth and also face increased operating costs with growth. They will therefore avoid lending to the poorest of the poor over time as their portfolio risk of including them will be higher. They will also aggressively take over clients from other competitors to grow fast or aggressively eliminate their microfinance competitors through coercive means. Subsequently these large microfinance firms will increase coercive modes of loan recovery, create high social stress for their poor clients and force a majority of them into debt traps. Policy should therefore be directed towards supporting welfare microfinance in rural areas and monitoring and in controlling the coercive and potentially criminal behavior of large profit motivated publicly held microfinance firms.

SANGAM 2011

A famous US general once said, "Never tell people how to do things. Tell them what to do and they will surprise you with their ingenuity."

Emulating the very idea, IRMA organised the annual inter-block mime acting competition called SANGAM on 21st august at the SAC. The event not only gave PRM32 participants a chance to portray their creative abilities but also enabled them to experience a healthy Inter-block rivalry for the first time.

The participants acted on different thought provoking themes that ranged from women issues to college life romance, thus touching upon a variety of subjects, making the competition a visual treat. The actors exuded great energy and enthusiasm and succeeded in their endeavour to communicate their message to the audience without the use of words. The venue resembled a street play arena and the actors performed amidst noisy cheers and beatings of the drums.

The top three positions in the competition were bagged by the following blocks:

- Block F came first with their theme of 'Godhra killings and hindu-muslim unity'.
- Block D came Second with their theme of 'seven cardinal sins'
- Block E came third with their theme of 'depletion of natural resources'.