Book Review

Micro Finance, Self-help Groups (SHGs) and Poverty Eradication in India

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Micro finance is the provision of a diverse range of financial services and products including small loans (micro credit), saving accounts, insurance, pensions and money transfers. These are designed to assist people living in poverty who are not able to access financial services in the mainstream banking sector, because they have no collateral, formal identification or steady income.

Micro finance is a movement whose objective 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 fund transfers. Many of those who promote micro finance believe that such access will help poor people get out of poverty. For others, micro finance is a way to promote economic development, employment and growth through the support of micro entrepreneurs and small businesses.

The term micro credit, as a part of micro finance, did not exist before the 1970s. Now, it has become a buzzword among the development practitioners. In the process, the term has been imputed to mean everything to everybody. It includes agricultural/rural credit, co-operative credit, consumer credit, credit from credit unions, and from money lenders.

Micro finance sector has grown rapidly over the past few decades. Nobel Laureate Muhammad Yunus is credited with laying the foundations of modern micro finance institutions (MFIs) with the establishment of Grameen Bank, Bangladesh in 1976. Today, it has evolved into a vibrant industry exhibiting a variety of business models. In India, National Bank for Agriculture and Rural Development (NABARD) took up this idea and started micro finance operations in the early 1990s.

India has adopted a multi-agency approach for the development of its micro finance programme. All the major credit institutions, viz. commercial banks, co-operative banks, regional rural banks (RRBs) along with non-governmental organisations (NGOs) have been associated with the micro finance programme. The role of the delivering agents and their interface with the needy has led to alternative models of micro finance.

The book under review explains the factors that have led to increased interest in
micro credit in promoting growth with greater equity. There is increasing recognition of the importance of empowering all people by increasing their access to all the factors of production, including credit. Several micro finance institutions have succeeded in reaching the poorest of the poor by devising innovative strategies. These include the provision of small loans to poor people—especially in rural areas, at low interest rates, without collateral—that are repayable in frequent instalments. Above all, many micro credit programmes have targeted one of the most vulnerable groups in society, i.e. women who live in households that own little or no assets. By providing opportunities for self-employment, many studies have concluded that these programmes have significantly increased women’s security, autonomy, self-confidence and status within the household.

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Micro finance is a broad category of services, which includes micro credit. Micro credit is provision of credit services to poor clients. Micro credit is one of the aspects of micro finance and the two are often confused. Under micro credit, small amounts of loans are given to the borrower but under micro finance besides loans many other financial services are provided such as saving accounts, insurance etc. Therefore micro finance is a wider concept as compared to micro credit.

The term micro credit, as a part of micro finance, did not exist before the 1970s. Now it has become a buzz-word among the development practitioners. In the process, the term has been imputed to mean everything to everybody. No one now gets shocked if somebody uses the term micro credit to mean agricultural credit, or rural credit, or co-operative credit, or consumer credit, credit from the savings and loan associations, or from credit unions, or from money lenders.

The author argues that if micro credit is to play a strong role in development, certain requirements need to be fulfilled. The most crucial requirement is to perceive micro credit lending as part of a comprehensive programme of support to the small enterprise sector. This would entail governments of developing countries formulating plans and programmes to support small enterprises in general, of which micro credit should be an integral part. Furthermore, the regulatory framework should be receptive to small enterprises. Many micro borrowers have complained of this particular shortcoming in
developing countries.

A crucial part of any future effort should be to strengthen the administrative structures of existing micro credit institutions. It is possible that economies of scale are important in micro lending. Dynamic leadership and paid management staff are probably crucial. The provision of information on available services to the poor is particularly essential. This is not at present the case, even in some advanced developing countries. Information on services for the poor is rarely made readily available.

The long-term financial sustainability of micro credit operations deserves particular attention. In the more successful schemes, repayment rates are high, but this is not so with many operations that do not have a high profile. In the absence of long-term sustainability, micro credit operations become a welfare or charity operation. While the latter have their own place in development in some circumstances, they should not characterize micro credit institutions.

Probably the single most important element in ensuring long-term sustainability of these operations is to include in them the savings mobilization function. This is not always the case at the present time. The operation that lends to the poor should also cater to their savings needs. In many developing countries, savings habits are quite widespread, but the institutional structures do not usually cater to them. The possibility of combining savings and lending operations in some form should always be explored.

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