Book Reviews

K. G. Karmakar. *Rural Credit and Self-help Groups—Micro-finance Needs and Concepts in India***.** New Delhi: Sage Publications, 1999. 374 pages. Hardbound. India Rs 465.00.

Inadequacy of capital results in inefficient utilisation of resources in the rural areas. It does not only impact negatively on national economic growth but also proves to be instrumental in keeping the poor trapped in poverty as formalised traditional capital markets remain beyond the reach of the poor. In such cases, then, micro-financing services offer the best solution to the aforementioned problem. It is encouraging to note that micro-financing is being recognised as a powerful tool in alleviating poverty and promoting growth and development at the grassroots level.

In the book under review, Karmakar argues that various credit policies launched by the successive governments in India have had a poor impact on rural development and have not produced any advantage for all the stakeholders, including rural borrowers, banks, and the government. This lead to the introduction of micro-credit schemes in the rural areas. The book is divided into 20 chapters which are categorised in four parts. Part I discusses the problems and prospects of rural credit with a brief history. Part II critically analyses the need for micro-finance with a special emphasis on credit for rural women. Part III deals with the role of self-help groups (SHGs), while the last part of the book (Part IV) focuses on the strategies for yielding a sustainable rural credit delivery system.

The author points out that one of the major problems facing traditional rural credit is the poor performance of the recovery mechanism. This poor performance is due both to internal and external factors. It would have been more appropriate if the author had classified the defaulters into well-recognised categories/classes with a brief explanation on the motives/factors responsible for the default. Certainly, it could have been of much more significance for the policy-makers. Moreover, the suggestions tendered by him to curb the default rate are rather generalised in form. Furthermore, the author has overlooked the importance of supporting services while emphasising more on the supervisory services. It is being widely recognised around the globe that multidisciplinary and holistic approaches should be followed in credit operations. This is especially true for the agriculture sector, where it is generally being recommended that credit service must be coupled with the agricultural extension services, and so on.

Referring to the findings of the "Agricultural Credit Review Committee" in 1989, the author points out that the increase in institutional credit failed to translate into an increased agricultural production. This Report contained more than 300 recommendations, which could not be implemented; it was shelved as the Narasimham Committee, 1991 was in place next. The salient features of the Committee Report included lowering the liquidity ratio to 25 percent, phasing out of concessional rates, instituting special tribunals for recovery of the dues, etc.

Karmakar has also critically analysed the rural credit agencies. He points out that money-lenders charge a 2 percent to 30 percent interest rate per month on their lendings. He points out that despite the efforts of the successive governments to contain the dominance of the money-lenders in the lending operations, they continue enjoying the same status, vigour, and strength. The important features of the rural non-institutional credit sector include flexibility, monitoring, low default rate, transaction costs, and market orientation.

Part II of the book pertains to the analysis of Micro-finance Needs. It begins with the credit requirements of the tribal people. The author points out that exploitation of the tribal people is increasing and it gives birth to the need for specialised cooperatives for tribals.

The author holds the opinion that micro-enterprises generate employment opportunities but have some constraints, such as their tendency to remain small due to lack of resources, lack of adequate infrastructure, poor marketing information mechanisms, inadequate technological transformation to meet quality standards, inability to access financial markets, and the absence of clear-cut government policies, etc. He emphasises the role and importance of micro-finance in the development of micro-enterprises and recommends that group-, region- and issue-specific approaches should be followed.

He further highlights the importance of credit for women and refers to various case studies in Orissa which demonstrate a positive correlation between credit availability and the empowerment of women. He observes that Indian women produce as much as 30 percent of all food items consumed but get only 10 percent of the income and own just 10 percent of the property in the country. The irony is that women have been ignored while designing rural credit packages in the past. Karmakar discusses the merits of group lending, arguing that it reduces risk and monitoring costs. The concluding chapter of Part II briefly debates the issue of credit for micro-enterprise development. The author holds the belief that micro-enterprise development helps in improving the quality of life and poverty alleviation through generating income and employment opportunities for the poor segments of the population. He refers to the Micro-Credit Summit held in Washington, D.C. in February 1997, which set a target of making micro-credit facilities accessible to 100 million of the world's poorest families by 2005. The annexure attached with this chapter contains draft guidelines for small credit associations and income-generating activities.

Part III of the book emphasises the role of self-help groups (SHGs). The author comprehensively explains the basic concepts of self-help. He gives an overview of the self-help group in India. He is disappointed that, despite the massive expansion of credit in India, the dependence of the poor on the money-lenders has not diminished. The author maintains that the banks have finally realised that security of any type does not guarantee repayment of loans. But he overlooks the fact that guidance may put the lenders on the inefficient or wrong track, as in this case the lenders will have to follow the creditor. The fact is that they just need facilitation; the people themselves decide their own course of action.

The book also contains a critical review of the BAAC System in Thailand and the Grameen Bank model in Bangladesh. He is of the opinion that the BAAC Model is a success story as it yields a high rate of loan repayment and, therefore, it can be emulated in India. The author also points out some weaknesses of the BAAC System; for example, high transaction costs. So far as the Grameen model is concerned, Karmakar holds the opinion that the Grameen Bank has been aiming to reach not only the small farmers but also the landless families and women, and has been instrumental in mobilising savings. The author wrongly thinks that an Islamic country provides fewer rights to women than to men. The truth of the matter is that Islam has given greater rights to women than any other religion in the world. Karmakar points out that as per the experiences of the Bank, the loan repayment rate tends to fall as the number of loan repetitions to a certain loanee increases. Similarly, the experiences of collective enterprises have also not been encouraging. The author brings a number of weaknesses of the Grameen model to light. These include a high cost of supervision, smallness of the loans, inefficiency of asset creation, and a high staff drop-out rate. Karmakar concludes that the Grameen Bank model is impractical and could not be replicated in India.

The author has also precisely discussed linkages between self-help groups and the banks. He describes success stories of some SHGs like Kalahandi/Balangir, food security measures in Koraput, village savings mobilisation in Dhenkanal, stopping tribal exploitation in Kalahandi, mechanical farming in Mayurbhanj, and banning social ostracism in Bhadrak.

The last part of the book is about sustainable rural credit delivery. Karmakar divides bank mismanagement into four phases vis-à-vis technical mismanagement, cosmetic mismanagement, desperate management, and outright fraud. He comprehensively discusses the various banking management perspectives, including general management, personnel management, financial management, marketing management, and management information systems, and gives recommendations to cope with the identified pertinent issues. Towards the end of the book, the author discusses the design for an appropriate system for micro-enterprises. He concludes that micro-finance can be used as a useful additional strategy to fight poverty, but within a limited operational area.

The book is a useful addition to the literature on micro-finance. The important contribution of the book is that it contains a substantial critical analysis of some important micro-credit models which are popular in the world. It does not make many recommendations to improve the banking system in India. One element lacking in the book is that a concrete micro-credit banking model has not been outlined by the author in a precise, consolidated manner. Basically, the real function of the micro-credit systems is to reach the unreachable. That is a feature which clearly differentiates, at least in theory, the micro-finance banking from general banking. The fact is that this is the feature which has created the need, and paved the way, for the establishment of micro-credit banking. The author should have thoroughly emphasised this vital issue.

Atiq-ur-Rehman

Pakistan Planning & Management Institute (PPMI),
Islamabad.