Microfinance in India

By K G Karmakar

Sage Publications, New Delhi (2008); Pages: 489; Price: Rs. 695/-

ISBN: 978-81-7829-790-3 (PB)

India is believably unique in comprising two major models of microfinance. One is the time-honored Bank-Self Help Group (SHG) model and the other being Grameen replicator model followed mostly by the MFIs. Microfinance movement in India derives its support from RBI and the Ministry of Finance. The SHG movement benefits from enormous political and non-government support. Studies have established that SHG model where it has been in existence for a long time (five years or more) has an impact on poverty. However, given the small size of loans in both the models, it is hard to envision a rapid decline in poverty as these kinds of loans are insufficient to cover even investment in livelihood assets that can generate a poverty extenuating income.

The microfinance sector in India, for the most part unregulated by annoying regulation and meddling is adolescent and dynamic. It is required to evolve into a full-grown industry. The pool of skilled microfinance professionals is pretty small. It is not unusual to find experienced and expert practitioners involved in more than one organization, serving on either the governing body or management team. Capital infusion is no longer a problem for MFIs in India, because of short-term bank loans and off-balance sheet financing via the trendy partnership model. However, MFIs are wanting in some forms of capital. So far MFIs in India have not issued bonds. Bond issuance would allow MFIs to diversify their funding sources, which are dominated by a few large commercial banks and government-sponsored apex organizations like NABARD and SIDBI. Also, MFIs have been helpless in accessing long-term debt from banks. And, Large MFIs rarely receive equity investment. Growth strategies for MFIs in India can be seen in terms of Horizontal growth, vertical growth and franchisee model.

The advent of new millennium has witnessed vigorous growth and significant developments in the Indian microfinance industry. It is in this backdrop that the book under review is a timely outcome. The book has a very good collection of essays and articles that analyze the potential of the Indian microfinance industry and examine the approaches for microfinance development in India. This edited volume, *Microfinance in India*, by K G Karmakar is aimed at providing wholesome information about microfinance activity in India. The book can be broadly seen to have four parts. The editor has selected the following themes to capture the topic of microfinance in India such as, overview of microfinance; promotion, regulation and sustainability of MFIs in India; SHG Bank Linkage program in India; successful bank models of microfinance; and innovations for growth.

In Part 1, Microfinance: An Overview, the most interesting essay is that of Priya Basu titled "A Financial System for the Poor". The author has lucidly highlighted the importance of the need for a financial system for the poor while analyzing the structure and performance of Indian banking towards achieving inclusive growth. It is rightly observed that by and large microfinance has increased the opportunity and the liability for the poor to escape ossified social structures. Analyzing the status of rural banking in India, the author observes rightly that the policies on interest rates for small loans the policies on interest rates for small have resulted into with unintended consequence of 'credit rationing'. The agenda for achieving inclusive financial system has been proposed by the author with important aspects such as introducing flexible products, need for composite financial services, simplification of procedures to open a bank account access credit; better staffing policies and doorstep banking, making priority sector lending obligations tradable and increasing the efficiency of rural finance markets with better regulation and supervision. K G Karmakar, in the paper, 'Microfinance revisited' underscores the need for microfinance in view of the large mismatch between the services provided by the formal rural finance sector and the loan requirements of the rural people, and hence, the need for parallel credit systems which are better enabled to meet the genuine credit needs of rural people. It is rightly pointed out that rural prosperity is very uneven due to the level of commercialization and diversification while in tribal areas the rural economy is largely non-monetized. However, the author's observation that the formal rural areas to urban areas as is evident from the low-credit deposit ratios is unsubstantiated. While making an emphatic point that there is a need for formal or informal credit markets which will retail rural money for developing rural areas, the same is not substantiated. Because, the rural financial institutions such as cooperatives and regional rural banks have been achieving this objective since quite a long time in the history of Indian banking. In this essay, the author enlists the major issues in microfinance such as up scaling of the program, capacity building, sustainability of SHGs, graduation from microfinance to microenterprises and other specific issues such as transparency, sustainability with outreach and self regulation. It is rightly summed up that the real assault on rural poverty can be possible only when microfinance enables the emergence of a large number of microentrepreneurship in rural areas, who have graduated from various SHGs.

The second section of the book is titled Part 2: Microfinance Institutions (MFIs). In the paper, "MFIs in India: An Overview", the author, Murulidhara Rao, has cogently explained the aspects of MFI activity in

India such as microfinance service providers, emergence of private microfinance industry, MFIs and legal forms and about the regulation and supervision MFIs in India. Commenting on the regulation and supervision of MFIs in India, the author argues that a developmental mode rather than a regulatory mode needs to be adopted for encouraging MFIs to innovate and evolve in areas where financial exclusion for the poor is widespread. In the paper, "Regulatory Framework for MFIs", commenting on the limitations of microfinance sector in India, the author, Krishan Jindal, observes that MFIs except the top 10 are very small in size and lack appropriate systems. Further, advocating the need for regulatory framework for MFI sector, it is emphasized that NGO MFIs should also be made to report to any statutory body as they are not presently doing so. Even though 'section 25 companies' are not allowed to mobilize deposits, yet many of such MFIs are accepting deposits from the public violating the RBI norms. The essay pertinently points out that a regulatory framework could facilitate better access for savings and commercial loans for MFIs thereby upscaling their operations. Since the MFI sector is highly heterogeneous, it is divisible into two broad institutional categories, comprising institutions incorporated under diverse legislative framework and the other incorporated as NBFC and registered with RBI is a workable proposition. In the paper, "Promotion of Linkages Between Banks and MFIs", the author, P Satish, highlights the triad of the statement of the advisors group to the UN International year of Microcredit 2005 (United Nations, 2005). This according to him, rightly, has brought us to the necessity of building up linkages between banks and MFIs which has been manifested in Indian microfinance despite the fact that MFIs cater only to a small segment of microfinance market in India. In the paper, "Sustainability of MFIs", Vijaya Mahajan has pointedly discussed the four dimensions of sustainability of microfinance in India such as; Sustainability of demand, Financial sustainability, Organizational sustainability and sustainability of the mission of MFIs.

Part 3 of the book, "SHG: Bank Linkage Program" is a collection of factual essays. H R Dave has forcefully highlighted the importance of 'SHGs in savings mobilization' and has identified the key issues relating to the savings mobilization by SHGs. While Pradeep Kashyap's paper throws enough light on the interesting topic of 'Livelihood promotion among SHGs', the aspect of 'Emerging SHG Federations and Challenges' has been well-articulated in a paper by C S Reddy. Sustainability of SHGs is an imperative factor for the success of MFIs activity in India and this topic has been dealt very interestingly by N Srinivasan. Swarnajayanthi Grama Swarojgar Yojana (SGSY) is an important rural development program of Government of India started in 1999 mainly encompassing the assistance to SHG activity in the country. Thanksy Francis

Thekkekara in his article has brought out some interesting facts on this aspect.

Part 4 of the book, Successful MFI Models, consists of five essays on different successful MFI models in India. In Part 5, Successful Bank Models, successful experiences of two Regional Rural Banks and two District Central Cooperative Banks have been narrated in an impressive style and arouse the reader's interest. In Part 5, Innovations for Growth, there are four essays that throw interesting ideas for the growth of microfinance in India.

This book is indeed quite useful for development professionals, evaluators, planners, managers, administrators, researchers and social sector students. The book is easy to read and comprehend. It is equipped with subject-author index and contains figures, boxes, tables, references and footnotes in the main text which are indicators of a reader affable book.

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