

Book Review

Karmakar, *Rural Credit and Self-Help Groups: Micro-Finance needs and Concepts in India* New Delhi; Sage Publications, 1999. Pages: 374. Price: Rs. 465/- (India).

Micro-finance is an idea which occurred to developing countries considerably late in the day. When during the colonial era, the modern sector and its peculiar institutional framework emerged in the South Asian continent, the system catered to the needs of the modern sector i.e. trade and industry. Agriculture did not receive the kind of attention that it deserved although colonial rule was responsible for destroying the viability of this vital sector. A compensatory effort to provide finance for the rural sector would have been in order. However, this task was left to the co-operatives and informal sources of credit. The governments in the colonial system only undertook “distress lending” in the form of Taccavi loans on a somewhat limited scale.

In recent decades, however, the need for micro-finance has been discussed largely in the context of poverty alleviation, more so since the late 1970's when the Grameen Bank came into existence as a micro-financing institution and gained worldwide fame.

Dr. K.G. Karmakar, a senior official at the National Bank for Agriculture and Rural Development in India, in the book under review, has focused on the rural credit scene in his country and the role of self-help groups in providing micro-credit. As a banker he has a deep insight not only into the conceptual side of micro-finance and its role, but also its management, delivery system and problems. Being a “no nonsense” kind of professional that he seems to be, he shatters a number of myths about rural credit and also micro-finance.

In a world dominated by bureaucracies, and hence inevitably short of ideas and originality, problem solving is bound to revolve around worn-out phrases and cliches. Dr. Karmakar's analysis of rural credit issues is a bit of fresh air.

Cheap credit, the author underlines, cannot offset the misallocation caused by price and yield distortions. This sentence deserves to be displayed prominently in all places in The Third World where economic policies are articulated. He also criticises the belief common among the Finance bureaucracies that a government-owned bank can defy laws of ‘financial gravity’ and yet remain viable.

He stresses the principles of “repayment ethics” and “recycling of credit” as crucial for any credit delivery system. Simple truth. But how many policies are based on such simple truths?

The author’s review of credit policies for specific groups like rural non-farm sector, rural women and micro-enterprises is also highly instructive, based as it is on the experiences from India. But the most interesting part of the book is his critical assessment of micro-financing and self-help groups in India, Bangladesh and Thailand. He highly praise for the Grameen Bank in Bangladesh but also points out (i) The small number of its female borrowers, (ii) repeat loanees’ repayment record being not as good as that of the first-time loanees, (iii) high cost of supervision, (iv) too many compulsory contributions, (v) the bank being both a co-operative venture and a commercial bank at the same time, and (vi) the bank’s heavy reliance on cheap foreign credit at very low interest rates and favourable repayment terms while it charges commercial interest rates for the loanees.

Pakistan, however, finds a negligible mention only with reference to the Mobile Credit Officers’ scheme. The author fails to look at micro financing in Pakistan by many NGO’s active in both rural and urban areas. Such financing, outside the control of the government machinery and a good example of purely private initiative, is perhaps the final answer to the credit needs of the poor.

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