The Economic times

End-use data famine hits microcredit
March 21, 2011

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Microfinance that helps improve income-generation opportunities for the poor has a long history in the country, but in the recent past, it has come in the news for wrong reasons. As more and more people reach out to microfinance institutions, the financial aspects of microcredit are routinely highlighted to explain the success and failures of the schemes. The guiding principle behind microcredit is to create entrepreneurs among the poor so they can carry out gainful economic activities, generate employment and build trust. Through inclusive growth, microcredit spurs economic activities in rural areas and can be considered a potent tool for socioeconomic development. The ultimate aim is to eliminate the dependence of the poor on microcredit and eventually help them qualify for receiving normal institutional credit.

But is that what happens? What usually happens is that people take multiple loans to repay old loans, pay health bills or repair homes. As adequate checks on 'absorption capacities' are not carried out, it is not possible to curtail incidents such as the suicides in Andhra Pradesh by overindebted clients of microfinance institutions (MFIs). Now, the question arises: has microcredit been inappropriately used to 'induce and trap' borrowers to pursue activities in areas and at a scale through which it is not possible for them to even 'service' their debt?

Going by the experience of the joint liability groups (JLGs) and self-help groups (SHGs) in Andhra Pradesh, a report of the Reserve Bank of India subcommittee set up to study issues and concerns of MFI sector indicates that only about a quarter (25.6% for JLGs and 25.4% for SHGs) of loan was used to undertake direct income generation activities; rest was used for other activities such as repayment of old loans (25.4% for JLGs and 20.4% for SHGs), health (10.8% and 18.6% respectively), home improvement (22.1% and 13.0% respectively) and education (4.4% and 5.7% respectively). The subcommittee was set up under the chairmanship of Y M Malegam.

If we go by the above-mentioned report, there is a need to change the mindset of people that see microcredit programmes as anti-poverty programmes. It should be recognised that microcredit schemes - both implemented Nabard SHG-type programmes and the private not-for-profit MFIs - can be potent instruments for strengthening inclusive finance in rural areas and have the capacity to bring out the latent growth potential of the rural population, including the poor. But that can happen only if the economic aspects fully complement social aspects. In short, stakeholders have to become true business partners of the borrowers and take certain responsibility for their business failure. Otherwise, the percentage of default on repayment of loans may rise higher even if interest rates are low, benefitting no one.

Microfinance should be treated with utmost seriousness and at par with a normal business activity financed by institutional commercial credit. There is a need to comprehensively study several aspects of microcredit and its use. Some of these that need to be addressed are:

- What activities are pursued through microcredit?
- Do they know enough about the marketability of their products and services?
- What has been the income-generating record of the activities over time?
- Are they aware of the importance of better quality, user-friendliness, design or productivity of their product and services on sustainability of their business?
- Are they being assisted by any of the stakeholders in the above areas?
- Have they progressed in their business? What are the constraints they have faced?

As far as we know, no information is available on these issues. How can we formulate strategies on strengthening micro activities if we do not have access to such information? The total outstanding microcredit in 2010 has been 22,500 crore against a total demand of 50,000 crore. Such a huge amount of resources should be used productively. It is a pity that we do not know anything about their distribution by activity types. National institutions such as Nabard should start collecting information on the 'real' side of microcredit to ensure that a strategy can be made and this modality of financing can become a prime instrument of 'inclusive growth' through 'inclusive finance'. Microfinance should be able to transform poor borrowers into micro-entrepreneurs with positive contribution to the country's economic growth.

But this will not happen with just wishful thinking. Stakeholders have to shoulder considerable responsibility in addition to providing finances and collecting repayments. Stakeholders, in this context, mean the government, banks, SHGs, MFIs and donors. It should be their joint responsibility to put microcredit on a productive footing similar to what we expect from 'performing institutional loans'. The big question is how do we do it? Sufficient information is required before specific steps can be taken. Yet, there is no denying that institutional reform is imperative and coordinating the activities of the institutions that are already out there and those that may come up to work in favour of the small borrowers so that they continue to do 'good business' will be a task.

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