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BOOK REVIEW

MICROFINANCE BY MARIO LA TORRE AND GIANFRANCO A. VENTO
PALGRAVE MACMILLAN PUBLISHER, NEW YORK, 2006. ISBN: 1-4039-4872-0.
196PP

Reviewer

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ABSTRACT

In recent years microfinance industry has experienced tremendous growth both in developed and developing countries. This growth has encouraged greater professionalisation of the industry into mainstream media by expanding the avenues and forums for discussion and debate. In contributing to this debate Maro La Torre and Gianfranco A. Vento wrote a book titled: “Microfinance”. The book discusses microfinance in modern taxonomy by looking into the recent and future challenges and microfinance risk management. The book is divided into nine chapters presenting the contemporary conception of microfinance, products and services offered in modern microfinance, the key structures and features of microcredits. Other chapters discuss the sustainability and outreach, microfinance risk management, microfinance processes and performance monitoring. The discussions in these chapters are of greater value to students, instructors and all microfinance practitioners. Despite the meticulous discussion provided, the book has some flaws including broad and thorough discussion on the classified main three categories of microfinance namely; formal, semiformal and informal institutions, a discussion on the influence of technological innovations that provide digital transformation role in delivering financial, health, and education services to the poor. Furthermore, a rigorous discussion of microfinance risk management is missing, no insights have been provided concerning gender issues and women participation in microfinance activities particularly in the rural communities. Based on the aforementioned critics, it is recommended that in the revised version the authors should take into account the flaws noticed to enrich the usability of the book. However, the review has established that, the book is still an important resource for university instructors and students especially for those pursuing microfinance disciplines and rural development practitioners.

Keywords: *Microfinance, risk management, economic development and digital application*

1.0 ABRIDGEMENT AND REFLECTIONS OF THE BOOK

Contemporarily, the microfinance industry has experienced a tremendous growth both in developed and developing countries. This growth has encouraged greater professionalisation of the industry into mainstream media by expanding the avenues and forums for discussion and



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debate. In contributing to this debate Maro La Torre and Gianfranco A. Vento wrote a book titled: “Microfinance”. The book is among the instrumental references for teaching, researching and outreach activities in the microfinance sector. The current observed outstanding impression of microfinance products and services on socio-economic policies of developing countries like Tanzania has encouraged a number of scholarly researches focusing on the impact of microfinancing activities (Mgema, 2020). The government of Tanzania enacted the Microfinance Act of 2018 as a great indication of its contribution in the spheres of the economy. The authors of the book have provided numerous discussions of microfinance in the modern taxonomy by looking into the recent and future challenges as well as risk management practices in the microfinance sector. These discussions have presented two problems facing the sector today; Non-clarity of both microfinance operational limits and its nature. In authors words “.....the problem can be abridged into questions frequently suggested among practitioners and academicians in this field as what actually differentiate between microfinance, the better-known microcredit and traditional finance.” (p. 01).

The book is an essential tool for researchers, instructors, students and practitioners in analysing microfinance with respect to the banking managerial approaches adapted for the specificities of microfinance. The book reflects what other authors discussed as far as microfinance discipline is concerned such as Mgema and Komba, (2020) that specificities of microfinance can be viewed in its contribution to societal uplifting and development through extension of small credit to the unemployed, poor entrepreneurs and those who do not have access to formal banking. The book is divided into nine chapters presenting the contemporary conception of microfinance, products and services in a contemporary microfinance, the main structures and features of microcredits, sustainability and outreach and microfinance risk management, microfinance processes and performance monitoring. The discussions in these chapters are essential where authors provide concluding remarks at the end of each chapter to solidify the focal points.

Chapter 1 forms the foundation of the book by providing new conception of microfinance taking into account the contemporary and anticipated changes in both demand and supply sides of the microfinance market (p. 1-19). In Chapters(2-3) the author recounts on the main landscapes of microfinance from a technical point of view and strategic positions. These chapters analyses the importance of information of financial products available on the market and its significant role in implementing microfinance strategies (p.20-53). Chapters (4-5) introduce the concepts of sustainability and outreach by identifying the key strategies to financial sustainability and outreach with ethical and social goals. The chapters also discuss the field of risks management in microfinancing by proposing the nomenclature known as “taxonomy” of microfinance business, financial and risk analysis of various microfinance risks (p.54-92). In Chapters (6-7), authors provide critical analysis on how Microfinance Institutions should design and implement a monitoring system on various processes and areas of responsibilities. The chapters further describe the main issues concerning performance analysis in microfinance and proposes a new



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model of performance analysis in MFIs (p.93-131). In chapter 8 Captioned; the role of regulation, authors consider some key variables in the management of microfinance risks, regulation and supervision. The focal points are on adherence to capital ratios requirements and their effects on MFI's financial performance (p.132-150).

Chapter 9 is a closing chapter of the book; the chapter illustrate possible future scenarios that may face the microfinance market which includes greater co-operation among international organisations, government bodies, financial intermediaries and MFIs themselves (p.151-157). It is argued that each one of these actors can play a significant role in promoting efficiency of microfinancing initiatives and support ethical sustainability.

2.0 CRITICAL EVALUATION AND DISCUSSION

Concerning the new concept of microfinance, authors argue that the continuously increasing microfinance products and services to most of the disadvantaged groups in developing countries provide a signal of its impact to socio-economic development. Authors argue that the constant extension of financial service and the contemporary increasing diversification of clients extend the boundaries of microfinance beyond the typical role of financial assistance to what known as the 'poorest of the poor', characterised by the Grameen Bank model (p.1). Indeed, the author is in line with what argued by Sarma, (2017) that microfinance meets the credit demand of individual persons and mostly small holder groups at affordable rates and therefore helps to balance between the contemporary challenges in demands and supply of microfinance products. The new conception of microfinance is characterised by its ability to enable individuals and smallholder groups to reduce dependency on government through venturing into entrepreneurial skills development (Kazungu, 2019). This is hardly built on developing people-centred microfinance institutions such as Savings and Credit Co-operative Societies (SACCOS) which emphasis on the inclusive model through community-based microfinance initiatives. However, despite the recommending remarks, going through the book, as a microfinance trainer/instructor and practitioner residing in rural Tanzania communities in Singida region, I noticed some flaws that the authors have not broadly discussed the classified main three categories of microfinance institutions namely formal, semi-formal and informal institutions apart from mentioning them. Community-based microfinance institutions fall into semi-formal MFIs such as HEKIMA SACCOS in Singida and informal MFIs commonly known as Village Community Banks (VICOBA) such FEEDTAN Community Microfinance Group in Moshi. These institutions provide various services and operate exclusively for the benefit of their members-owners. Maro La Torre argues that, it is probable to build an environment of modern microfinance insitutions determined by the possible combinations of what he terms as "Beneficiaries – Services – Institutions". Additionally, he opined that it is possible to identify different areas in the field of microfinance determined by the combination of beneficiaries-services relevant to specified categories of intermediaries (p.10).



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Gianfranco argues that for a long-time microfinance has been operating as a ‘product driven’ where the needs of the client/members are not fully satisfied due to top down approaches used in the product development processes in most of the traditional microfinance institutions. The need for more structured financial products and services is paramount important in supporting the aforementioned credit delivery modality. This is in line with Bhandari and Kundu, (2014) who opined that Product development (credits), diversification, product innovations and capacity building of the rural poor, etc., are some of the important areas to be addressed with utmost care. Contrary to what has been discussed by the authors, the rural poor need more than just credits/loans rather they need other financial services such as insurance services, savings, education and training in various fields, this is actually missing in this book. Additionally, author’s ought to have emphasised on the importance of knowledge of financial products available and the use of technology on the products marketing and its significant role in implementing microfinance strategies in the contemporary economy as argued by Sundaresan, (2008) that “Cutting-edge of technology can provide transformation role in delivering financial, health, and education services to the poor”.

The concepts of sustainability and outreach have been discussed by the authors by looking into their relationship through identification of key strategies to microfinance financial sustainability and outreach. Going through the book, I noticed that the sustainability and outreach of microfinance in a given locality is derived from its ability to reach the poorest (p.54). Microfinance institutions actually work with marginalised clientele who are actually ignored by the formal financial system in the fact that they are too risky and not profitable. With regard to Microfinance context financial sustainability should have presented that the microfinance should strive to improve operational income to fully cover operating income, inflation and financial costs. Additionally, it is the views of this review that authors should have present the depth discussion with reference to the level of poverty of the receivers/beneficiaries involved and extent or breadth with respect to the number of customers/members reached. These two taxonomies assume that depth of the microfinancing is proportional to the net benefit that accrues from the provision of financial services to the poor (Balkenhol, 2007).

A rigorous discussion on microfinance risk management needs more attention since the book has paid little attention to risk analysis in microfinance. The ability of microfinance clients to save, access capital and manage various risks exposures through insurance is a prerequisite for economic and social development (Mmari, 2020). This little attention is vested on the main goals of microfinance which lies on social and humanitarian objectives (p.72). The essence of this review is that author should provide risk management and analysis models that could fit modern microfinance which include, firstly identification of risk categories and secondly, classification of microfinance managerial risks. Microfinance risk management becomes a key variable in a successful microfinance institution. Scholars’ recounts that, there is a need for development of micro finance risk management and analysis models in the fact that the market is suffering from



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an uncertain environment which mainly encounters informal and semi-formal microfinance institutions (Bongomin, *et al.*, 2020).

At some points in the last chapter the authors provide illustration on possible future scenarios that may face the microfinance market with regards to government regulations and other local and international organisations co-operation and policies. Recently the government of Tanzania enacted Microfinance Act No. 10 of 2018 which recognises SACCOS as microfinance institutions in tier 3 complementing the co-operative societies Act Na. 6 of 2013 which all together regulates co-operative societies in Tanzania mainland. The government imposes regulatory mechanisms for smooth operation of microfinance institutions. Regulation must eventually be crafted to accommodate modern changes in the microfinance industry. Rosenberg, (2008) argued that dozens of developing countries' governments are now at earlier or later stages addressing these challenges of harmonising the regulations with regard to benefits of the beneficiaries of microfinance services. This implies that most regulatory approaches for community-based microfinance institutions do not fully apply since they combine all traditional and modern microfinance (p.135). It is the view of this review that there should be specificity in terms of sustainability to differentiate them based on their locality, efficiency, competitiveness, conduct of business and transparency and stability. This could be achieved in the rural areas by loosening the minimum requirements for operations and outreach of microfinance institutions set by the regulators with regards to locality in which the microfinance is operating (Bongomin, 2020).

Additionally, reading the book, no insights have been provided by the authors concerning gender issues and women participation in microfinance activities particularly in the rural communities. Various authors have argued on women empowerment via giving them the right to voluntarily participate in the user-owners of the microfinance product and services for their depth and breadth achievements (Sundaren, 2008). This should have been discussed critically by the authors due to the fact that most microfinance clients are women and gender inclusiveness in microfinance discipline is essential (Daley-Harris, Sam (2003).

3.0 CONCLUSION AND RECOMMENDATION

The main objective of reviewing this book was to assess the suitability and its applicability in a contemporary environment given the socio-economic changes happening globally. Based on the contents of this book, the review has established that, the book is of great usefulness to researchers, instructors and students as well as practitioners from the microfinance discipline. The book was designed in such a way that it enables the readers to get the concepts of microfinance step by step. Their parts are planned coherently to build the readers sequentially towards understanding microfinance and its core functions in helping economically the disadvantaged clientele. It is recommended that it's important to take into account the issues of digital application when developing microfinance products and services. Inclusion of these



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techniques will strengthen and make the book of more value. It is important to note that the book is of immediate relevance to African countries particularly Tanzania in this era of mushrooming community-based microfinance institutions such as SACCOS. Lastly, this book should continue to be used in teaching at both undergraduate and postgraduate levels globally.

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