

Role of NGOs in Credit Delivery System a Study in the Indian Context

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Abstract—Banks are basically commercial organizations. Hence, they were initially hesitant to reach the large number of poor strewn all over the country requiring access to credit. Grass-root level initiatives on the part of several voluntary organizations/NGOs thus became necessary to overcome the resistance of the Banks. As such, a supplement credit delivery system has been developed by encouraging microfinance NGOs to act as facilitators and intermediaries. Currently the micro credit sector is dualistic in nature. The non-formal structure largely comprising NGOs operates outside the legalized structure. Thus, in the matter of micro finance to poor the banks, micro credit institutions and the NGOs have become intermediary agencies. The partnership between the MFI and NGOs has broadened the infrastructure in credit delivery resulting in increased outreach. In the evolution of an alternate credit delivery system, the banks and NGOs have certain specific strengths of their own. Accordingly, the bank-NGO collaboration under the alternative credit system aims at forging a synergy which will complement the role of one another. As such, the NGOs have become a formal interface between SHGs and the banking system. In the credit delivery process, the NGOs have emerged as a key player in the field of micro credit. The role of NGOs has evinced as facilitator on the one hand and as intermediary on the other hand. As a facilitator, their role is limited to non-financial services, whereas as an intermediary, the role is similar to that of a bank in credit acquisition and credit disbursement. The NGOs establish a link with the banks for the acquisition of funds and a link with SHGs in credit disbursement. This has brought the poor into the formal banking system of the country. As such, the NGOs have been acting as a financial intermediary between the microfinance institutions and SHGs. In this context, an attempt has been made to evaluate the role of NGOs as financial intermediary in the credit delivery system.

Keywords: Microfinance, Financial Intermediation, Credit Delivery System, Non Government Organisation.

1. INTRODUCTION

Non-Government Organizations (NGOs) and Voluntary action have been part of the historical legacy. In early 20th century, several voluntary efforts were started in the fields of education, health etc. The NGOs became prominent after independence, especially after 1970s. Development practitioners, government officials and foreign donors Consider that Non-Governmental organizations by the virtue of being small-scale, flexible, innovative and participator, are

more successful in reaching the poor and in poverty alleviating. This consideration has resulted in the rapid growth of NGOs involved in initiating and implementing rural development programmes. According to the estimates of the working groups of NGOs, there are about 30,000 NGOs in India. NGOs play a major role in credit delivery in the rural and urban areas.

India, with all the resources to its credit, has a population of 1027.01 million with 742 million living in rural areas. It is estimated that about 40% of the rural population and 23.62 % of the urban population live below the poverty line. Poverty does not mean only human or income poverty but it also covers deprivation of human dignity caused by vulnerability to social and cultural shocks.

It is created due to the lack of financial resources to generate livelihoods and income, creating wheel of low incomes, lack of livelihoods and low resources. There is an acute need among the poor for credit, both for consumption and production, which often forms the deciding line between survival and succumbing to poverty. Since independence in 1947, India has been fighting poverty through several initiatives to tackle poverty through its special employment generation strategies and productive asset creation programmes. Yet, reaching the poorest was found difficult. Further, the systems and procedures of banking institutions with emphasis on complicated qualifying requirements also resulted in large sections of the rural poor shying away from the formal banking sector. Therefore, the government had to search for an alternative mechanism for catering to the financial needs of the poor and it was felt imperative.

2. EMERGENCE OF NGOS – A NEW ENTRANT IN THE CREDIT DELIVERY SYSTEM:

The structure of the rural financial market in India is dualistic consisting of both formal and informal financial intermediaries. A consensus is growing among researchers that the formal financial sector does not effectively serve the rural population in the third world countries. This is mainly attributed to the failure of financial intermediates in fulfilling their basic functions namely, production credit to finance

income generating activities, consumption credit to maintain and expand human productive capacity, and quality saving schemes for increasing the risk bearing capacity of the rural households. Moreover, these institutions have failed to promote any of their social objectives. To reach the poor, institutional innovations are needed that enable services to be expanded, while substantially reducing transaction costs for both financial institutions and clients.

During 1992-93, the NABARD launched a programme to link between the rural poor and the banking system through the SHG-Bank Linkage Programme. It was conceived with the objectives of developing supplementary credit delivery services for the unreached poor. Though commercial banks have been actively participating in extending financial support to the rural poor in the form of SHGs, the credit needs of the rural poor have to be determined in a complex socio-economic milieu. The commercial banks could not stand with the SHGs in the formation, promotion and development of SHGs all through. And also, there was dissatisfaction with the result of formal credit programmes. It has stimulated evolving a different modality for effective financial services to the rural poor.

As such, a supplement credit delivery system has been developed by encouraging NGOs to act as facilitators and intermediaries. Currently the micro credit sector is dualistic in nature. The formal structure has a legal and regulated component, which provides credit and other services to the non-formal sector. The non-formal structure largely comprising NGOs operates outside the legalized structure. The components of institutional mapping are the intermediary agencies such as banks, micro finance institutions and NGOs. The NGOs are expected to perform better than governments in promoting participation and converting aid money into development. The role of NGOs is to prepare the members to participate in the group activities through changing their mindset; training provided by the NGOs to the members further facilitates enlarging the scope of women in obtaining finance and undertaking economic activities.

The NGOs are concerned with borrowers and lenders. The greatest responsibility on the part of the NGOs is to channelize the funds to the SHGs so as to enable them to be beneficiaries. Thus, by transforming the 'borrowers' into 'beneficiaries' the role of NGOs is very important in the formation, promotion and development of SHGs. In the credit delivery process, the NGOs have emerged as a key player in the field of micro finance. The role of NGOs has evinced as facilitator on the one hand and as intermediary on the other hand. As a facilitator, their role is limited to non-financial services, whereas as an intermediary, the role is similar to that of a bank in credit acquisition and credit disbursement. The NGOs establish a link with the banks for the acquisition of funds and a link with SHGs in credit disbursement. This has brought the poor into the formal banking system of the country.

3. SUGGESTION AND RECOMMENDATION:

- Regulatory mechanism by the NABARD, Reserve Bank of India
- (i.e., Central Bank) Banking institution and the Government should encourage the role of NGOs in financial Intermediation.
- NGOs should enjoy statutory authority in the provision of microfinance.
- NGOs should be treated on par with other financial institutions like Regional Rural
- Banks, Commercial Banks, Cooperative Banks, etc.
- NGOs should be well structural for undertaking financial intermediation activities
- Rating of NGOs is a must to measure the scale of operations.

4. CONCLUSION

An SHG is a unit which functions with the institutional support of NGOs in the matters of formation, finance and development. As such, NGOs have different facets. Though they provide microfinance to SHGs, they are treated on par with other financial institutions. In the process of financial intermediation, the NGOs channelize the funds by implementing their programmes. That is why SHGs access NGOs for financial support rather than for the banks. The non-profit motive has increased the importance of the NGOs in the delivery of credit to SHGs. Thus, the NGOs have introduced themselves as an agency in the development of alternative credit delivery mechanism. The NGOs are the key player in providing the credit services in the rural part of India and play a major role in enhancing the life of the people.

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