

FINANCIAL INTERMEDIATION OF MICRO FINANCE NGOS - A CREDIT DELIVERY SYSTEM

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Abstract

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 services of voluntary agencies were felt at all levels because they with flexible organizational models and methods are credited with using innovation in experimentation and providing entry points for radical works. The NGOs are expected to perform better than governments in promoting participation and converting aid money into development. The research paper has been useful in bringing out the role of NGOs as financial intermediaries towards SHGs in the social reformation and economic reformation in the study area. The project reveals that the microfinance NGOs have been instrumental in bringing social and economic changes among downtrodden especially women population through SHG Linkage programmes with the support of Government and banks.

Keywords: Financial institutions, microfinance institutions, microfinance NGO, credit delivery–role of microfinance NGOs, performance of NGOs - testing of hypotheses, etc.

INTRODUCTION

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. India, a developing country, feels it a persistent problem. It is not only pertinent to India but also to all the other countries in the world. Poverty is a global phenomenon and has varied geneses and dimensions. 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 a wheel of low incomes, lack of livelihoods and low resources.

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. Thus, the government had to search for an alternative mechanism for catering to the financial needs of the poor and it was felt imperative.

The structure of the rural financial market in India is dualistic consisting of both formal and informal financial intermediaries.

OBJECTIVES OF THE STUDY

- i.To discuss the role of Microfinance NGOs in the credit delivery chain system.
- ii.To analyse the performance of NGOs in the process of credit acquisition and dispersion.

REVIEW OF LITERATURE

Dr. Harish adke and Dr.R.B.Dhande (2010)¹ in their study felt that the micro finance is a new method to meet the credit requirement in rural area. It is one of the most remarkable social economic developments of our times. In India, the micro finance scene is dominated by SHGs and banks linkage programme aimed at cost effective's mechanism for providing financial services to the unreached poor. In the Indian context, terms like small and marginal farmers rural artisans and economically weaker sections have been used to broadly define micro finance customers. Micro finance is expected to play a significant role in poverty alleviation and development. There is need to evolve an informal credit system with assistance from formal financial institution. Gurmeet Singh, (2010)² in the study found that SHGs are being promoted as a part of micro finance interventions aimed at helping the poor to obtain easy financial services like saving credit and insurance. The main objective of the banking sector reform was to promote a diversified, efficient and competitive financial system with the ultimate goal of improving the allocative efficiency of resources through operational flexibility, improved financial viability and institutional strengthening. On the recommendation of the group, Reserve Bank advised that the bank financing of SHGs would be reckoned as part of their lending to weaker sections and such lending should be reviewed by banks.

RESEARCH METHODOLOGY

The present study is an empirical one based on the survey method. Though the study is empirical in nature, it has been supported by secondary data. The secondary data will be collected from the annual reports of the NABARD, reports on Districtwise Mahalir Thittam NGOs published by the NABARD, reports on Districtwise Non-Mahalir Thittam NGOs published by the NABARD, books and journals relating to NGOs and SHGs, related websites, magazines and newspapers. The primary data will be collected the help of two interview schedules. The first schedule will be to mobilise the opinions of the NGOs regarding their role in the credit delivery system.

OPERATIONAL DEFINITIONS

➤ Financial Institutions

Private or government organisations which carry out the vital function of facilitating the flow of savings from those businesses and households with insufficient funds to meet immediate needs, or carry out a central role in the supply of money and credit. Savers are provided with financial assets and borrowers with the type of financial assistance needed to purchase goods and services.

➤ Microfinance Institutions

Microfinance institutions are of two types: the financial sector and the non-financial sector. Commercial banks, Regional Rural Banks and Cooperative Banks constitute the formal financial sector. The Non-financial sector includes the microfinance NGOs, Trusts, certain forms of Companies and mutually aided

cooperatives.

➤ **Intermediation**

The role of the financial institution in channeling savings and other deposits by lender to borrowers. Financial intermediaries such as commercial banks and societies accept deposits from individuals and business and use these funds to make loans to credit worthy customers. An intermediary profit is the difference between rates paid for deposits and rates on loans.

➤ **Financial Intermediary**

An institution or organisation that brings together borrowers and lenders making available funds to those willing to pay for their use. Credit institutions ranging from commercial banks, mutual savings banks and trust companies to credit unions and various kinds of finance companies fall into this category.

➤ **Microfinance**

Microfinance is provision of thrift, credit and other financial services and products of very small amount to the poor in rural, semi-urban and urban areas for enabling them to raise their income level and improve their standards.

➤ **Men Group**

It is an SHG which consists of male members only.

➤ **Women Group**

It is an SHG which consists of female members only.

➤ **Mixed Group**

It is an SHG which consists of both male and female members.

➤ **NGO**

An NGO is a voluntary organization working for the betterment of the rural people especially the rural women, aged people and children. It is basically a non-profit making organization. It is an organization of private individuals who have interest in social principles. The NGOs may be socially oriented or economically oriented. In the case of the socially oriented NGOs, their activities are confined to social activities only. In the case of the economically oriented NGOs, their activities are confined to economic activities. In certain cases, the NGO may undertake social services along with economic services. In the case of a Microfinance NGO, it undertakes social intermediation along with financial intermediation.

➤ **Microfinance NGO**

A Microfinance NGO is a voluntary organization, registered either under the Societies Registration Act or the Indian Trusts Act or the Companies Act, which acts as a facilitator or financial intermediary between SHGs and banks in the process of credit delivery.

➤ **Revolving Fund**

A Revolving fund is a fund which is given for the development of the SHGs. Totally, the fund is offered at Rs.50000 by the bank and Rs.10000 as subsidy by the government through the Project Officers, Mahalir Thittam. The revolving fund is released by the bank, after getting subsidy from the Mahalir Thittam.

DATA ANALYSIS AND INTERPRETAION

Credit delivery–role of microfinance NGOs

The financial institutions such as commercial banks, Regional Rural Banks, cooperative banks, the SIDBI, foreign organizations, the DRDA, the TAHDCO and others are the suppliers of loan to the NGOs. Table 4.20 shows on the basis of multiple responses the financial institutions that supply loan to the NGOs with which the NGOs have had tie up for the purpose of loan.

TABLE 1.1
Supply of Loan to the NGOs and Tie up with the Financial Institutions

<i>Sl.No</i>	<i>Financial institutions</i>	<i>Financial institutions supplying loan</i>	<i>Tie up with financial institutions</i>
		<i>No. of NGOs</i>	<i>No. of NGOs</i>
1.	Commercial Banks	20	11
2.	Regional Rural Banks	13	9
3.	Cooperative Banks SIDBI	15	15
4.	Foreign aid	10	10
5.	DRDA/TAHDCO	12	12
6.	Others	13	3
7.		5	-
	Total	88	60

(Source: Primary data)

From Table 1.1 it is noticed that out of the 21 NGOs, 20 (22.7%) get loan from the commercial banks. 15 (17.4%) NGOs get loans from cooperative banks. Around 50% of the NGOs get loans from the Regional Rural Banks, foreign organizations and the DRDA/ the TAHDCO. It is to be mentioned that 11 (18.3%) NGOs have established a tie up with commercial banks for the purpose of getting loan. 15 (25%) NGOs have a tie up with the cooperative banks. 10 to 12 NGOs have a tie up with the SIDBI and foreign organizations separately for the purpose of the loan.

From the above discussion, it is understood that all the NGOs do not approach all the financial institutions for the purpose of getting loan. The preference of particular financial institutions differs from one NGO to another due to various reasons. The discussion with the NGOs shows certain reasons such as services rendered by the financial institutions, easy approachability, less formalities, longer repayment period and reasonable rate of interest which would be the preference of NGOs for getting loan. In this context, an attempt has been made to identify the factor which are responsible for the preference of a particular financial institution

for the purpose of loan.

Table 1.2 shows the reason for the preference of financial institutions by the NGOs.

TABLE 1.2
Reasons for the Preference of Financial Institutions by the NGOs.

Sl. No	Reason	Commercial banks	RRB	Co operative banks	SIDBI	Foreign aids	DRDA	Others	Total
1	Services rendered Easy	12	3	6	1	1	5	2	30
2	Approachability	9	5	4	2	3	4	2	29
3	Less Formalities	8	3	2	2	3	2	1	21
4	More	3	2	3	3	3	1	1	16
5	Repayment period	5	3	2	2	2	2	2	18
	Reasonable rate of interest								
	Total	37	16	17	10	12	14	8	114

(Source: Primary data)

It is clear from Table 1.2 that the services rendered to NGOs by the financial institutions have been a prominent reason for their preferring a particular financial institution. Out of the 114 scores, it has got 30 (26%) scores. The reason 'easy approachability' has secured 29 scores, constituting 25%. As regards less formalities, the score stands at 21 (18%). The reasonable rate of interest has influenced the NGOs to the extent of 15%. According to 16 NGOs, the reason for preference has been longer repayment period, securing 14%.

PERFORMANCE OF NGOs - TESTING OF HYPOTHESES

The performance of an NGO can be assessed on the basis of the prominence of the programmes and effectiveness of programmes conducted by the NGOs, the tenure of existence, the extent of success of the SHGs in respect of the trades undertaken by them and the role of the NGOs in SHGs in the matters of financial intermediation. As such, ten hypotheses have been formulated and tested with the help of Chi-Square Test and ANOVA. The results show the performance of NGOs in the capacity of financial intermediary on the basis of their perception. It is to be noted that all the hypotheses have been formulated in the context of the NGO-SHG linkage score as discussed table 1.3.

Ho: There is no significant relationship between the NGO-SHG linkage score level and the extent of

success of the SHGs.

Table 1.3 shows the NGO-SHG linkage score and the extent of success of the SHGs

TABLE 1.3
NGO-SHG Linkage Score and Extent of Success of SHGs

<i>Sl.No</i>	<i>Extent of Success</i>	<i>NGO-SHG linkage score</i>			<i>Total</i>
		<i>Low (<=67)</i>	<i>Moderate (68-80)</i>	<i>High (>=81)</i>	
1	40	3	1	1	5
2	60	2	3	2	7
3	80 and above	1	3	5	9
	Total	6	7	8	21

(Source: Primary data)

TABLE: 1.4
NGO-SHG Linkage Score and Extent of Success of SHGs- Chi-Square Test

	<i>Value</i>	<i>df</i>	<i>Sig.</i>
Chi-Square	26.12	4	**

It is understood from Table 1.4 that out of the 21 NGOs, 9 (45%) have said that the members of SHGs are successful in their trade to the extent of 61- 80%. 12 (559%) NGOs are of the opinion that the members are successful in their trade upto the extent of 60%.

Applying the Chi-Square Test for the above, the computed value comes to 26.12. The Table values at the 1% level of significance for 4 degrees of freedom is 13.277. As the computed value is greater than the table value, the H_0 is rejected. It is concluded that there is significant relationship between the NGO-SHG linkage score level and the extent of success of the SHGs

H_0 : There is no significant difference between the NGO-SHG linkage score level and the prominence of programmes conducted by the NGOs

Table 1.5 shows the NGO-SHG linkage score level and the prominence of programmes conducted by the NGOs.

TABLE 1.5
NGO-SHG Linkage Score and Prominence of Programmes Conducted by the NGOs.

<i>Sl.No</i>	<i>NGO-SHG linkage score</i>	<i>Prominence of programme score</i>		<i>No. of NGOs</i>
		<i>mean</i>	<i>S.D</i>	
1	Low<=67	11.14	1.57	8
2	Moderate (68-80)	11.32	1.06	7
3	High (>=81)	11.44	1.19	6
	Total			21

(Source: Primary data)

TABLE 1.6

NGO–SHG Linkage Score and Prominence of Programmes Conducted by the NGOs: ANOVA

Sl.No	Source of Variance	Sum of Squares	df	Mean Square	F	Sig.
1	Between Groups	1.730	1	0.865	0.378	
2	Within Groups	187.633	19	2.288		
	Total	189.363	20			

(Source: Primary data)

It is noted from Table 1.6 that the perception of the prominence of programmes conducted by the NGOs for the members of SHGs in terms of average ranges from 11.14 to 11.44 on the different levels of NGO–SHG linkage score.

Applying the ANOVA for the above, the computed value comes to 0.378. The Table value at the 5% level of significance for 2 degrees of freedom is 3.079. As the computed value is less than the table value, the H_0 is accepted. As such, it is concluded that there is no significant difference between the NGO-SHG linkage score level and the prominence of programmes conducted by the NGOs.

H_0 : There is no significant difference between the NGO-SHG linkage score level and effectiveness of the programmes conducted by the NGOs.

CONCLUSION

The NGOs should approach the agent for finance and not the banker. In turn, the agent approaches the bank to get funds for lending to the NGOs. The agent scrutinizes the applications of the NGOs and arranges for funds from the bank. The agent thus channelises the funds to the NGOs, reducing the administrative burden of the banks. However, he is responsible to the banks for the funds obtained. He will be given sufficient amount of authority to visit the SHGs and enquire about the performance. In case, he is not satisfied with the performance of a particular SHG, further funding may be stopped. Even, the NGOs concerned may not be considered for further lending. The agent may be permitted to collect a commission at a particular rate from the NGOs.

This research paper has been useful in bringing out the role of NGOs as financial intermediaries towards SHGs in the social reformation and economic reformation in the study area. The project reveals that the microfinance NGOs have been instrumental in bringing social and economic changes among downtrodden especially women population through SHG Linkage programmes with the support of Government and banks. If the present study helps in any way to undertake the studies of a similar nature in other areas, the researcher will feel happy that his study has helped the future researchers and he will have a sense of satisfaction that he has undertaken a useful study.

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