



Mainstreaming Microfinance through Non-governmental Organizations (NGOs): A case Study of Rayagada District of Odisha State

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ABSTRACT

In recent years, while the significance of the state has diminished, the role of non-governmental organizations (NGOs) has increased in most developing countries. The provision of services to the poor is by definition always difficult, and even NGOs have problems. Recently, microcredit has become a fashionable cure-all for most NGOs.

This paper unveils to evaluate the impacts of NGOs in extending small loans to poor who work in the informal economy towards financial empowerment and independence.

KEYWORDS : NGOs, Microcredit, Self-help groups and Savings

1. Introduction

Over the last four decades or so, microfinance has become a major development policy for fighting poverty and financial exclusion in poor countries. In 2009 it was estimated that around 86.2 million people have had access to microfinance services in India. While microfinance as a development tool for poverty alleviation is supported by numerous actors, including policy makers, activists, philanthropists and development scholars, it is also controversial. This work investigates the impact of microcredit on rural development and poverty alleviation of micro borrowers. However, attempts have been made to surface the initiatives taken by NGOs for rural development and for economic entitlements of the rural poor.

2. Review of Literature

Former Secretary General Boutros Ghali affirmed that NGOs "are an indispensable part of the legitimacy" of the United Nations, while his successor Kofi Annan has said that NGOs are "the conscience of humanity." Former Vice President of The World Bank, Moeen Qureshi, said about the World Bank-NGO relation, "more effective...efforts to eliminate mass poverty". About the same time, Cernea said as "the essence of the NGO approach is not to induce development financially, but to mobilize poor people into organized structures of voluntary group action for self-reliance and self-development".

The empirical evidence on the impact of microcredit on poverty is very mixed. Some impact evaluation studies have found that access to credit by the poor has a positive, large and permanent effect on living standards. Microcredit is based on the premise that the poor have skills, which remain unutilized or underutilized. It creates dependency and takes away the individual's initiative to break through the wall of poverty. Professor Yunus called the process of substituting the provision of collateral with group harmony and other aspects of micro-credit as 'freeing of credit from the bondage of collateral'.

3. Objectives of the Study

The main objectives of this research work are as follows;

- To assess the impact of microcredit on borrowing households;
- To evaluate the institutional and operational effectiveness of NGOs in microcredit expansion among rural poor;
- To analyze the role and impact of NGOs on rural development and rural poor;
- To review existing policies and to suggest necessary policy changes and policy strategies for futuristic study and to assess their economic entitlements towards improvement in the poverty reduction ability of microcredit through NGOs over the years.

4. Hypotheses

These broad hypothesis hypotheses have been built.

- The membership in the microcredit programme improves the employment status and increase income of poor households.
- The membership in the microcredit programme increases entitlement of poor households through increasing their asset base.
- The membership in the microcredit programme improves the fulfillment of basic needs of poor households.

5. Methodology

The study is based on a district framework. Data have been collected

relating to micro borrowers, NGOs and government institutions. Questionnaires have been prepared on two separate sheets i.e. Questionnaire relating to working mechanism of NGOs and Questionnaire relating to micro borrowers (for beneficiaries). It uses a survey method which is commonly employed. Sample study has been made. A randomized sample study of seven NGOs has been taken of the district.

6. Microcredit, Non-governmental Organizations and Process of Rural Development

Low capital, low productivity, low income, low saving and consequently, a weak capital base were perceived to be operating, perpetuating to permanent poverty syndrome in our country. Chief rural credit policies were only designed to provide rural areas with access to adequate capital and decision to get through was mostly political. The multi-agency approach for providing working capital and assets acquisition to rural people has largely tailed. As a result, the rural credit delivery system becomes hazardous to rural development.

Studies regarding organizations and their roles started from the late 19th century. Frank Oppenheimer made a study on 'law of transformation', and Michel's 'iron law of political parties' predicts a general convergence and assimilation of organizational types. Reichard thinks modern organizations normally have four variables for the basis of organizations - rationality, formality, solidarity, and type of exchange. There are different schools of thought to explain the emergence of NGOs and their roles. Many of them are borrowed from economic theories that NGOs are considered as an institutional response due to the failure of 'state' and 'market'.

The expansion of credit through Self Help group formation is the most target oriented approach of NGOs to provide rural people into light. The Stages of SHG Development & Role of NGO's is given in the table -6.1.

Table - 6.1: Stages of SHG Development & Role of NGOs

Stage of Development	Time Period	Role Of NGO	Focus Of Activities
Pre-formation	1-2 months	Initiator/Promoter	Identifying the poor through participatory rural appraisal methods in small villages.
Formation	3-6 Months	Facilitator	Motivation to form groups, select group leaders, develop rules and norms, conduct meetings, pooling savings, issue and collection of small loans.
Stabilization (Phase 1)	7- 12 months	Advisory/Managerial	Leadership stabilization, training of leaders and members, regular increase of savings, handling of groups level transactions, informal interactions with other groups/clusters,
Growth and expansion	12 months onwards	Consultative/institution building	Strengthen linkages with banks, creation of assets for groups and members, spreading concept building and promotion of new groups, attempts at cluster development and federation of SHGs

Source: NABARD (1999)

7. Effectiveness of Microcredit through NGOs in Raygada district

Micro-finance interventions are well-recognized world over, as an effective tool for poverty alleviation and improving socioeconomic conditions of the poor in India. The formation of a group would ensure the best participation of the poor in a credit program. Most of the SHG's are being promoted with facilitation of NGO's and other formal agencies. The SHGs are mainly credit organizations and serving in the primary objective of such groups.

A collaborative effort of DRDA and NGOs in the district reveals that more than half of the SHG's were promoted by NGO's under Swarnjayanti Gramin Rojgar Yojana. The SHGs formation under SGSY is given in Table-7.1.

Table-7.1: Indicators Highlight the Scheme of SGSY During, 2006-07 and 2007-08

Particulars	Achievement upto 31 st March of	
	2006-07	2007-08
No. of SHGs formed	6999	7131
Number of SHGs that have taken up Eco-activities	770	957
Total number of Swarojgaris assisted	1987	2588
Number of SHG Swarojgaris assisted	1968	2331
NO. OF sc/st Swarojgaris assisted	1742	2202
Number of Women Swarojgaris assisted	1924	2173
Total Investment (Out of which	595.19	730.35
a) Subsidy disbursed (in lakhs)	179.73	237.94
b) Credit disbursed (in lakhs)	415.46	492.41
Total Allocation (Out of which)	274.05	418.28
a) Central allocation (in lakhs)	205.54	313.70
b) State allocation (in lakhs)	68.51	104.57

Source: Annual Plan Report, Raygada District, 2008.

Savings per group of NGOs, savings per member of SHGs, Credit per group of NGOs and Credit per member of SHGs are shown in figure-7.1(a), 7.1(b), 7.1 (c) and 7.1 (d) respectively.



Figure-7.1(a) & 7.1(b) shows both per group saving (Rs 26160) and per member saving (Rs 2552) is highest in SHED, while it is low in NIRVAR. It is true that poor are accountable for saving. Poor can save. Ultimately, the standard of living, quality of life can be changed. Figure-7.1(c) & 7.1(d) represents the success of average credit of SHGs of different NGOs respective members of SHGs. SHED has the highest financial credit both in case of per group (Rs 100469) and per member (Rs 9802) of SHGs, while ASHA has the lowest performance in credit expansion

in both cases. It is clear that NGOs performance is appreciable in the district. The poor has gained their credibility. Credit expansion is inevitable through viable NGOs.

8. Summary of Findings

After studying all the indicators, it is learnt that the fruits of general development have not even marginally reaped by the masses of the district. This speaks of two things: (i) Institutional failure to link mass with the growth pole and (ii) Entitlement failure because of skewed property distribution and leptokurtic work opportunities. They are remotely connected with formal institutions, governance and voluntary organizations. Blatant state sponsored activities are half-way done and voluntary missionary's zeals are lost somewhere. Therefore, good results are lost in totality. It is learnt that both formal and voluntary institutions have done something but could not propel the momentum of growth of raygada district.

However, state weaponry along with non-state agencies will prepare kit-bag that will contribute a great deal towards realization of rural development and poverty alleviation. All such institutions (both state and non-state) are bulwark. The long run implications of pitch are more important for both economic development and social justice. At present, the aggregate picture of the district is unfavorable for the natives and favorable to few non-co traders who are not the natives. So the work suggests employment generation role model in the context of entitlement failure of the masse who only owes own labor entitlement.

In state-led welfare activities, the role of voluntary organizations has been slandered in service delivery. Critics argue that it enables the state to renege on its responsibilities and is a distraction to underlying causes of deprivation. However, the provisions of services – such as education, health and sanitation – remain core development concerns and the subject of citizen's entitlements. Rather than rejecting service delivery, the characteristics of VOs are such that they can improve on how the government meets their obligations. With their proximity to the local, VOs can understand and interpret the need and desires of the poor and implement interventions that are relevant and people driven. Thus, top-down delivery of welfare can be reversed, with VOs facilitating demand driven development, local control ownership and better targeting. VOs also inform the state of the efficacy of their schemes and inform the poor of their entitlements, linking them into government schemes.

9. Prospective Notes

- The study inevitably descends down to its prescriptive part as;
 - Urgent need for streamlining procedure for applying, seeking, accessing and releasing of credit from banks;
 - Involvement of NGOs in customer-contact-programs especially for women for dissemination of information of various schemes, new products and financial needs of women;
 - Transformation of the repayment culture towards small loans to poor people, including women, as a social obligation to treat them as potential business entrepreneurs;
 - Recognition of the potential of micro financial services to support investment and growth in key economic sectors and its contribution towards economic growth;

10. Conclusion

Although the growth of micro-credit to the poor is encouraging, there is still number of constraints for expansion of micro-credit. Most critical problem faced by NGOs today is fund creation and fund management in lending out the poor. Lending NGOs running micro-credit programmes have now reached a stage of development where they may seriously consider the pros and cons for converting themselves into formal financial institutions. For fastest expansion of the outreach, NGOs proved to be the best vehicle. Poverty outreach and financial sustainability are thus the twin goals that make up the essence of NGO-led microfinance.

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