NGOs and Microcredit: Issues and Challenges

Gopalakrishna Joshi

1Justice KS Hegde Institute of Management, Nitte, Mangalore, Karnataka / Coastal Karnataka, India, 2Vishweshwariah Technological University, Belgaum, Belgaum, Karnataka / North Karnataka, India

This paper tries to examine the implications of NGOs acting as both facilitators and microfinance intermediaries for promoting inter-group lending and larger access to fund with the goal of poverty alleviation. The last two decades have witnessed an explosive growth in micro-credit disbursements in developing countries of Asia and Africa. The studies conducted in Bangladesh and India are instrumental in revealing that the phenomenal growth of MFIs and NGOs itself has given rise to ticklish problems which could not be nipped in the bud. For instance, a study conducted by the Indian Bank’s Special Unit for Micro-finance, Usilampatti, covering southern districts of Tamil Nadu, revealed that the identified factors having high risk are: clubbing too many government programmes, higher than required loan size, frequent switchover of the field staff, lack of monitoring, nontransparent deals devoid of good governance, etc, by the SHG/NGOs. As a large number of activities are conducted through SHGs, quality has become the victim of quantity mainly because of the inadequate supervisory mechanism.

The Decentralization and Development Unit (DDU) of the Institute for Social and Economic Change (ISEC), Bangalore undertook a field study of two NGOs from Andhra Pradesh and Karnataka covering the period 1995 to 1998-99. These NGOs were Grama Vikas and Sangha Mitra services society. The study focused attention on microfinance, poverty alleviation and empowerment of women. No doubt the microfinance programmes in the study areas have helped the rural poor to get an access to credit and enabled them to undertake income generating activities. But the study clearly listed the limitations of the programmes. The NGOs failed to realize the significance of economic infrastructure in alleviating poverty. They also failed to realize on time that micro credit programs can not adequately help the poor so long as there is widespread infrastructure deficit.

The limitations of micro credit programmes carried out in 1990s in India under various institutional arrangements run by NGOs and Government organizations are also highlighted in The Report of Independence Commission on Banking and Financial Policy, (2006) The report, in the light of a study conducted out in Andhra Pradesh, notes with alarm the grave consequences of misuse of these credit programmes like extreme indebtedness, social oppression and even suicides among the rural poor. The Report laments that besides the difference that exist with regard to the extent of coverage of the rural poor and the contribution of micro-credit to pulling its clients out of poverty, the common problems noted are: (i) excessively high rate of interest, hitting the poor; (ii) inability to reach the really poor in a financially viable way; (iii) donor dependence and (iv) financial non-sustainability. Some MFIs play an extremely damaging role in undermining the SHGs themselves by using them as means to ensure high rates of recovery of credit provided at deplorably exorbitant rates of interest.

A case study in Dakshina Kannada, Udupi and Uttara Kannada Districts in Karnataka makes a strong case for SWOT analysis of NGOs and MFIs for assessing microcredit to micro enterprises. It brings to the fore the fact that the supportive role of others like NGOs, should not be expected to remain as permanent fixtures. They have to be considered as scaffoldings, which could be dismantled, when the building is completed. Permanent arrangements are necessary only for training the members of the new SHGs and for the marketing of their products.
Bangladesh during 1970s and 1980s emerged as a breeding ground for NGOs in micro credit. The tremendous growth of NGOs by the beginning of 1990s created more challenges than opportunities so far as the goal of poverty alleviation and women empowerment were concerned. The Grameena Model in Bangladesh succeeded in expanding the market for finance capitals. A recent study highlights that the tale of Grameena Bank’s microcredit programmes is a tale of corporate success. However it failed as a tool for alleviating poverty and empowering women.

The major issues and challenges now may be listed: a) The products and services of NGOs and MFIs should be diversified to fulfill the felt needs of the poor communities; b) The NGOs should devise appropriate innovative programs and financial engineering to help the poorest of the poor; c) The NGOs and MFIs should set performance standard to compare their own achievements to these standards.; d) Given the colossal task of poverty alleviation, the NGOs together with MFIs should conceive bold and rigorous capacity building efforts; e) They have to undertake continuous R&D programmes to prepare novel products and services and (f) They should encourage job generating micro enterprises for realizing the goal of inclusive growth.

References:


