Micro Credit Delivery Mechanism by Banks and Microfinance institutions – A comparative study in Andhra Pradesh and Tamil Nadu

Abstract
The provision of credit to the poor and underprivileged sections of the society is an important aspect of the larger mandate of social banking today. In India, the institutional credit delivery system of banks has been aptly complemented by the growth of self-help savings and credit groups. This has resulted in bringing together the banking system and the poor for mutual benefit. Micro credit is thus emerging as a viable alternative to achieve the objective of growth and poverty reduction. The experiment of microfinance in India through the SHG Bank linkage programme is an evidence of the effectiveness of group dynamism and credit recycling. Microfinance institutions borrow from banks and undertake on lending to borrowers and thus form part of the credit delivery system. Irrespective of the model of credit delivery, the availability of loans often brings about a change in the household welfare of the borrowers and makes a significant impact on their empowerment and socio-economic status.

Understanding the credit delivery mechanism would require detailed analysis of the perception of the key players in the credit delivery process which includes, self help group members, group leaders, bankers, microfinance institutions. The states of Andhra Pradesh and Tamil Nadu were selected for the purpose of the study as these two states are leading states in India with regard to microfinance. These two southern states have made impressive progress with the regard to microfinance.

The present dissertation is based on an empirical study of responses from members of self help groups in the two states of Andhra Pradesh and Tamil Nadu and also analysis of the performance of banks and microfinance institutions in these two states. The public and private sector banks operating these two states have been actively involved in the credit delivery mechanism.

The performance of public and Private sector banks in financing self help groups and microfinance institutions in the states of Andhra pradesh and Tamil Nadu is compared
and analysed in order to judge the more successful model of credit delivery. The performance of microfinance institutions in these two states has been mapped with the help of ratios which are indicative of their efficiency, portfolio quality, profitability and extent of preparedness of these institutions to handle the credit risk prevailing in the sector.

The results of the study provide an insight into how the availability of credit and membership in Self help groups has contributed to their social empowerment. The impact on the socio economic status of the borrowers as a result of membership in self help groups is also analysed. The relationship between availability of microcredit and financial independence of borrowers has also been studied.

The perception of self help group members, leaders on the organisational aspects of their groups and the role of non governmental organisations and microfinance organisations has also been presented. The perception of bankers who are the providers of credit has also been discussed. The research effort has been made with the intention of providing a holistic view of the credit delivery mechanism by analysing the impact of microcredit on recipients who are members of self help groups in these two states, the providers of micro credit which includes banks and microfinance institutions and making constructive suggestions which can better the existing model of credit delivery.
CHAPTERISATION OF THESIS

The research work is presented in seven chapters which are as follows:
Introduction, Models of Microfinance: Self Help Groups As A Medium Of Credit Delivery and SHG movement: An approach to Women empowerment, Role of Banks and Microfinance Institutions in the credit delivery Mechanism and Risks involved in Microfinance, Literature review, Methodology, Results and Discussions, Conclusions and Recommendations.

Chapter 1 is presented in two parts: Part A and Part B. Part A constitutes Introduction, meaning and definition of microfinance, terminology, key principles of microfinance, Global microfinance scenario, microfinance in Asia, microfinance models and players, microfinance in India and objectives of microfinance. Part B describes emerging issues and challenges in microfinance.

Chapter 2 has two parts. Part A discusses the Models of Microfinance and Self Help Groups as a medium of credit delivery. It also traces the origin of SHG movement and describes the emergence and growth of the concept in the states of Andhra Pradesh and Tamil Nadu. Part B describes SHG Movement as an approach to women empowerment.

Chapter 3 has two parts: Part A describes role of microfinance institutions in the credit delivery mechanism, the working and management of microfinance globally and the transition of this sector in India with special focus on the two states of Andhra Pradesh and Tamil Nadu. The current scenario faced by the sector following the crisis in Andhra Pradesh over the microfinance regulation ordinance is also discussed. Part B provides a view of the risk involved in microfinance.

Chapter 4 focuses on review of literature which presents findings of the various researchers under sub-headings. Keeping in line the objectives of the present study, the review of current literature in microfinance is presented in three parts – (a) SHG outreach and impact (b) commercial banks in microfinance – their role and competing landscape (c) micro credit as a means of socio economic empowerment.
Chapter 5 Research Methodology

Chapter 6 deals with results and discussion of data analysis which includes:

Part A - Demographic profile of the sample in the states of Andhra Pradesh and Tamil Nadu

Part B - Results from the analysis of performance of banks in the states of Andhra Pradesh and Tamil Nadu in relation to the models of credit delivery in operation.

Part C - The performance of selected microfinance institutions in the states of Andhra Pradesh and Tamil Nadu in terms of efficiency is also presented.

Part D - The perception of managers of banks and role of Non-governmental organizations/Microfinance Organizations from both the states is also presented.

Part E - Results from the responses from the members of self help groups and Self help group leaders in the states of Andhra Pradesh and Tamil Nadu

Chapter 7 ends with conclusions and recommendations for improving the credit delivery mechanism.