

## **Role of micro financial institutions in promoting socio economic development of indias**

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### **I. Introduction:**

Each one of us need finance at various stages of our life and to ensure that we have the money the money available at the right time. Individual translate the needs into monetary measurable goals at different times for the future planning and financial investment. With liberalization and globalization there is an increase in financial institutions which further influence the economic market system. The past one and half decade has experienced much debate and decision on globalization, economic liberalization and global integration. The trade negotiation in April 1994 and establishment of WTO in January 1995 have thrown up many issues with respect to India's participation in world's trade. In spite of all the development, structural adjustment and economic liberalization about 32% of the Indian population is experiencing external disturbances.

Households in developing countries such as India requires finance for a variety reasons , consumption and meeting lump expenses like a marriage and illness and most importantly for income generation activities. Since credit essential for meeting critical needs, access to credit is crucial for maintaining and improving the social and economic conditions of households. Therefore adequate credit and reasonable cost is important for socio economic development. So a well settled and even they distributed banking sector is the first need for the purpose of financial inclusion because only formal agencies of credit are able to fulfill both conditions i.e. to meet the needs of demand of credit for households at an adequate level and at low cost. Many studies are argued that "access the safe, formal credit; Easy and Affordable Credit and other financial services are essential to the poor and vulnerable groups. Disadvantaged areas and lagging sectors are recognized a precondition for accelerating growth, reducing income disparities and poverty. The present paper goes through the role of financial institutions in providing access to formal credit to vulnerable sections of rural and urban sector.

### **II. Review Of Literature**

Anattempt has been made to present the literature review of the relevant research work done by researchers in the area of micro finance, where researchers talk of micro finance practices being complex and adoptive in nature. Some of the important studies reviewed in micro finance practices are

(i) Satpute, Ravindra C. Micro-Finance: a critical study of need, practices and future trends with special reference to self-help groups of Amravati district concluded that : The percentage of women were impacted positively by being members of SHGs. Women participation in the SHG enabled them to discover inner strength, gain self-confidence, self-reliance, self-esteem, self-respect, social, economic and political capacity building.

(ii) Siva Nageswara Rao.K, "A study on problems and prospects of micro and small-scale enterprises: with special reference to Krishna district – A.P" concluded that: The small scale sector plays a pivotal role in the development of any economy. The government of India provides financial and other forms of assistance for the growth of small scale industry in India. Various institutions and banks have been instructed to provide adequate support to the small scale sector. The small scale industry and its units are facing a number of problems in the areas like production, marketing, finance and human resource management. The Indian banking sector today is struggling with the issue of non-performing assets.

(iii) Dr. (Mrs)ChanchalCharan Regional Rural Banks& Rural Banks Financing-Miles to Go (A study of Bihar). She made an attempt to find the Recent Trends and Problems in Micro-Finance. And this study concluded that the micro finance has observed noteworthy development in India during the first decade of 21st century. In the past three years, there were many structural and functional changes that have created many complexions and cause for poor growth in the loan disbursement.

**Objectives of the study:**

- The main objective of this is to analyze the working and performance of micro financial institutions in India especially in Telangana.
- To study the role & importance of microfinance institutions in offering formal credit to economically weaker section of the society.
- To study the role of Banks in promotion of micro finance to eradicate the poverty.
- To identify the problems faced by the micro financial institutions and suggest possible measures to protect from threats.

**III. Research Methodology**

The study uses both primary data and secondary data. Multi-stage random sampling method is used for the present study to collect primary data. Primarily data has been collected and analyzed from national wide to selected state. Telangana being the native state of the scholar was purposively chosen for the present study. Opinions from the SHG members, who are engaged in income generating activities, are selected randomly. Primary data was collected from the selected micro financial institutions and selected Self Help group collected. Secondary data was collected from books, journals, articles, internet and from various reports such as reports of NABARD, National Institute of Rural Development (NIRD), CARE, Andhra Pradesh MahilaAbhivruddhi Society (APMAS), Society for Elimination of Rural Poverty (SERP), Andhra Pradesh Academy of Rural Development (APARD), Centre for Economics and Social Sciences (CESS), Department of Women Empowerment & Self Employment (WE & SE), District Rural Development Authorities (DRDAs), NSSO data, various Census reports, Statistical Abstract of Andhra Pradesh, etc.

**Scope and Importance of the Study:**

The present research was to study the critical study of role of micro financial institutions in promoting socio economic development the country by promoting Self-Help Groups. The study is confined to state of Telangana only, this type of study on self-help group has not been attempted in this region. Hence it is necessary to work in this area. This would be of great help to the implementing agencies to bring necessary improvements in the self-help groups for attaining the overall empowerment of women & men. The knowledge on these aspects could be used to develop strategies to motivate self-help group members for their enhanced participation in the group. The outcome of the study would suggest the factors that are responsible for the good performance of self-help groups formed by Government and Non-Government organization. Further the study would highlight the role and importance of micro-credit, microfinance institution; role of government and self-help groups in offering micro-credit. The results of this study would be offer important input to planners, policy maker, Non-governments organizations for framing policies to empower the women through self-help groups.

**Micro Financial Institutions in India:**

Micro finance in India started in 1974 in Gujarat with Shri SEWA (Self Employed Women's Association) Sahakari Bank. India has been experiencing micro credit in the form of self-help groups (SHG) as a part of formal credit delivery system since early sixties giving a lot of freedom to Non-Government Organizations (NGO's) to set up SHG's on various models . Micro credit through SHG's become a ladder for the poor to bring them economically strong but also socially, mentally and physically sound. Government of India and the Reserve Bank of India realizing the important of micro credit in the development programs have taken up many steps for the linkage of SHG's with formal financial institutions. During 1992, NABARD started linking SHG's to banks in India. The basic purpose of linkage is to strength the financial health of SHG's by ensuring adequate flow of bank credit to these institutions.

The government of India has acknowledged the role of MFI's in finance intermediation and in the union budget 2005. It has accorded 'Banking Correspondent ' status of MFI's and strengthened the national micro finance fund under NABARD with an incremental corpus of finance 100 crore and redesigned it as micro finance development equity fund. In May 2005, the annual credit policy statement of RBI, 2005-06 also mentioned the financial intermediation role played by MFI's. As on today 8 million SHG's are linked to banks. government with NABARD promoting livelihood , group insurance products to enhance the quantum of loans, fresh finance to SHG's . SHG's is a flagship poverty alleviation programme, was launched by the Ministry of Rural Development, Govt. of India. NRLM believes in harnessing the innate capabilities of the poor and complements them with capacities (information, knowledge, skills, tools, finance and collectivization) to participate in the growing economy of the country. "NABARD, in association with the Department of Financial Services, Ministry of Finance, Govt. of India continued to implement the scheme for promotion and financing of Women Self Help Groups in 150 identified Left Wing Extremism (LWE) and backward districts of the country". (NABARD)

Telangana being a new state is working very well in the promoting socio economic development of the people of Telangana. The state is being one of the most effectively working states in India likewise in southern region. During the year 2017-18 Telangana with the higher credit with 54.96, the average credit disbursed to one SHG was also high in Telangana with 2.84 lakhs. More than the 96% of groups availing credit in Telangana followed by Andhrapradeshwith 89%. It can also observe that the Telangana and Karnataka witnessed a moderate fall in average loan disbursed about 5%. With respect to density of credit linkage of SHG's Telangana along with another six states (three from southern region) above the all India level. As the Telangana has the More number of loan account than the number of SHG's in the state due to many SHG's have bank loans, under cash credit, investment credit and state government loan schemes. The number of SHG's availing bank loans during the year was more than the previous. More than the half of the SHG's are availing credit and Self Help groups also.

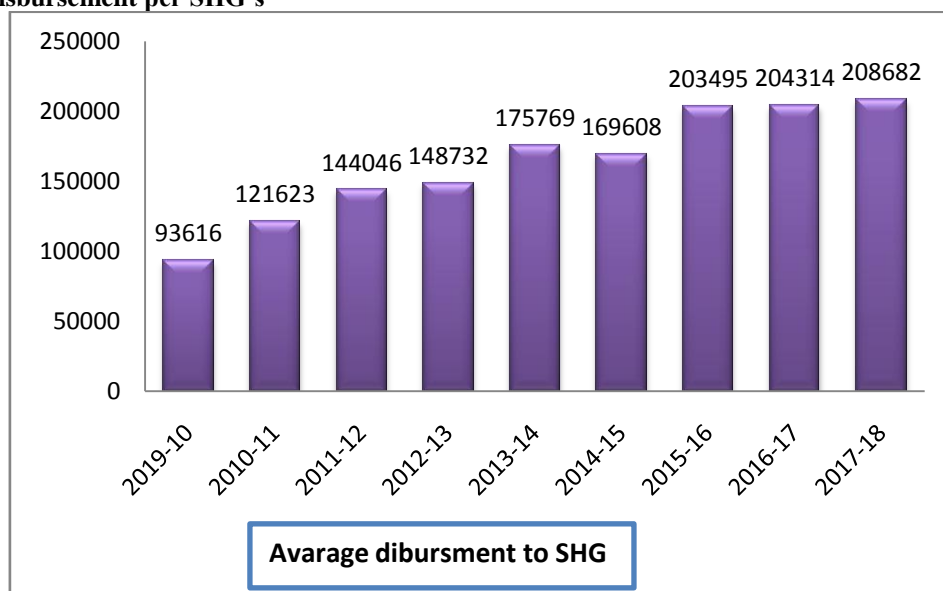
**Role of financial Institutions:**

Provisioning and delivering financial services and adequate timely credit to poor has an important issue in the economic growth agenda of India where about 70 percent of the population depends upon agriculture for their lively hood. More over 40% of over GDP is contributed by over rural sector. Economic development of our country can be achieved on with the upliftment of village folk consisting of farmers, agricultural workers, rural arcticians and small industrial workers. Rural credit delivery of system of India has many diversities and peculiarities. Informal sources of lending once were the only and dominant from rural credit. It consists of village money lenders, indigenious bankers land lords relatives and friends, Later developed the institutional lending or the formal sources of credit. So far as the organized or formal sources is concerned , there exist a multi-agency approach consisting of co-operative banks, commercial banks, regional rural banks which rise the institutional finance to rural sector.

NABARD in association with department of Financial Services ; Ministry Of Finance ; Government Of India financing various agencies like commercial banks regional rural banks cooperative banks and SIDBI. With this the share of informal lending has dropped substantially. Still informal sources dominate the rural credit delivery system to cater the credit of rural masses. Micro finance serves large segments of people from scheduled caste scheduled tribes and minorities. As it can be observed from the data women constitute 96% of total clients, SC, ST's constitute 20% of the clients and minorities constitute 10%.

**IV. Results And Discussions**

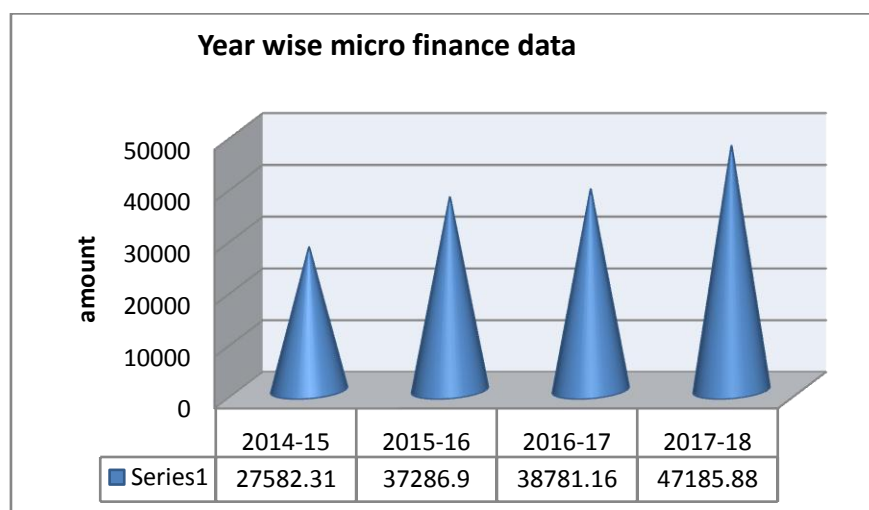
**Average disbursement per SHG's**



The above data shows that the average disbursement per SHG by banks. It has been observed that there is an increasing trend can be seen from the 2009-10 to 2013-14. After 2014-15 the year experienced a small decrease in the disbursement due to some other except in the year 2014-15. The year is low compared with previous year 2014-15 recorded 169608 compared to previous year 175769 per group. The year 2016-17 shown that, there is 0.4% increase in the cash disbursement to one SHG.

Year	No of SHG's with savings with linkage (lakhs)	Amount of loan disbursed(crores)
2014-15	76.97	27.58
2015-16	79.03	37.29
2016-17	85.77	38.78
2017-18	87.44	47.18

Source: NABARD Data



Data source: NABARD report

During the year 2017-18, 25515.23 crore disbursed to 1992 loan accounts. The above data shows that the increasing trend in the year wise increasing trend in the number of SHG with the banks and amount disbursed to SHG groups. It can be observed that there was a continuous increase in both the number of SHG's with savings with linkage banks and the amount of disbursement to self-help groups. NABARD with banks increased the facilitation of financial SHG'S by capacity building programs, training programs, seminars and workshops. Sum of 72.10crore is sanctioned for the above purpose.

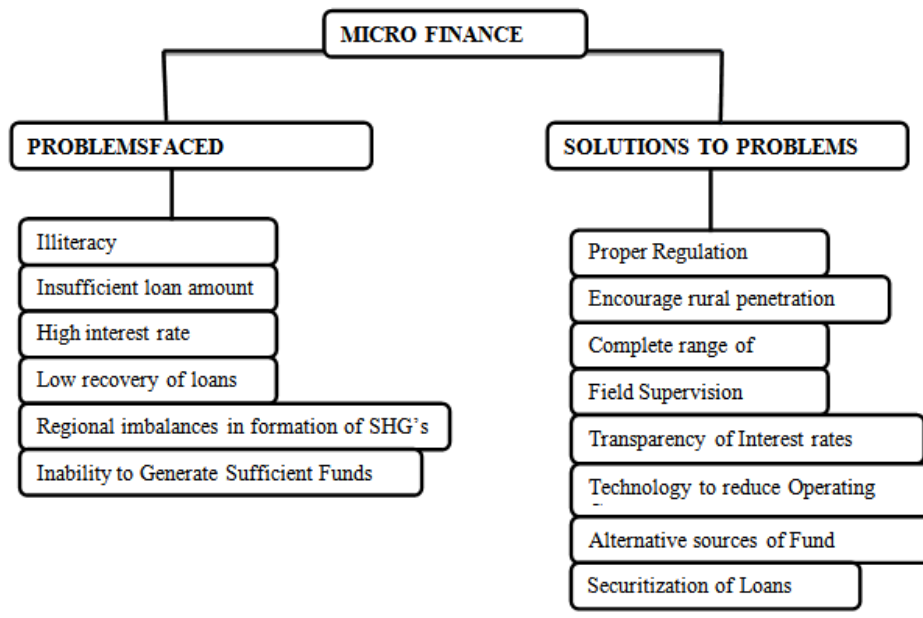
#### Progress under microfinance during the year 2017-18

Name of the agency	Savings of SHG's		Loans disbursed to SHG's		Outstanding loans	
	No of SHG's	Savings	No of SHG's	Loans disbursed	No of SHG's	Loan out standing
Commercial banks	4833712	1166422.45	1272886	2870762.37	2904086	4874805.16
Regional rural Banks	2807744	580735.20	782563	1511933.55	1658221	2273864.21
Cooperative banks	1302981	212053.87	205683	335891.69	458051	411175.75
<b>Total</b>	<b>8744437</b>	<b>1959211.52</b>	<b>2261132</b>	<b>4718587.61</b>	<b>5020358</b>	<b>7559845.12</b>

Source: NABARD

Commercial banks with highest savings are playing a significant role in ensuring financial development of the rural people. The above data shows that commercial banks with highest 59.53 being the top position in savings , regional rural banks with 29.64% and cooperative banks with lowest 10.82% . with respect to geographical Andhra Pradesh with highest 6,68,242 lakhs , Telangana holds with second position savings 2,64,669 lakhs union territories with lowest deposits are reported with daman and diu with 6.60 lakhs Lakshadweep 11.35 lakhs Chandigarh with 23.32 lakhs(source NABARD) . The total loans disbursed to SHG's by banks 47,18,587.6 lakhs out of which commercial banks with 28,70,762.37 lakhs regional rural banks 15,11,933 lakhs and cooperative banks with 3,35,891.69.

**V. Problems And Solutions**



**VI. Findings, suggestions and Conclusions:**

Despite all efforts, the World Bank estimates that the Indian micro finance activity currently reaches 4% to the poor. According to a 2003 national government survey found that 22 % of all cultivator households access credit from informal sources and only 27% from formal sources. This shows that there exist wide annual supply demand gaps in micro credit. It is there fore suggested to increase outreach of micro finance particularly by formal institutions. Since self help micro-credit schemes are often landed as one of the most effective mechanism to reach the poor, measures must be taken to ensure that poor are not excluded.

Participation of poor in formation, implementation and monitoring of the program affecting the poor is a necessary. Micro finance or micro credit program should no longer be a sub program of SGSY. It should rather be an independent economic program. There is also a need to develop the capacity of SHG's. More innovation in the form of business facilities and correspondents will be needed for banks to increase their outreach for banks to ensure financial inclusion.

In India, Economic Reforms with a human face have been accepted as the guiding principle of sustainable development. Keeping the Poor at centre stage, the Policies need to be reoriented so as to develop and optimize the potential of such a large segment of the Population and enable them to contribute in the growth process significantly in terms of output, income, employment and consumption. After the pioneering efforts of the last ten years, the Micro Finance Scene in India has reached a take-off point. With some efforts substantial progress can be made in taking MFIs to the next orbit of significance and sustainability. This needs innovative and forward-looking policies, based on the ground realities of successful MFIs. This, combined with a commercial approach from the MFIs in making Micro Finance Financially Sustainable, will make this Sector vibrant and help achieve its single-minded mission of providing Financial Services to the Rural Poor. In addition to that, the focus of micro finance institutions has continued on expanding the outreach of micro finance programme with little attention on depth, quality and viability of the financial services.

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