

The Role of Banks in Promoting Micro Finance and Self-Help Group

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Abstract:

The paper focus on microfinance refers to small savings. It is emerging as powerful tool for poverty alleviation in India. The inclusive growth is economic growth that is distributed fairly across society and creates opportunities for all. The government has initiated various schemes for the development of rural India. For many, microfinance is a way to promote economic development, employment and growth through the support of micro-entrepreneurs and small businesses; for others it is a way for the poor to manage their finances more effectively and take advantage of economic opportunities while managing the risks. Financial inclusion can be brought about by alternative agencies such as financial co-operatives societies, SHGs, wherein the decision-making power and profits are retained in the hands of the members themselves, the banks are also playing key role in the development of rural household with the help of Bank Mitra, working as a micro finance facilitator especially in rural and unbanked area. The provision of micro-credit to the poor, especially to youth and women in the rural, is essential in poverty reduction through empowerment.. The measurement of rural and economic development will be done with the help of the growth of the microfinance institutions, savings in MFIs, loan disbursed by the microfinance institutions, growth of the self-help groups and increase in the basic financial services in the rural part of the country. The prospect of micro finance is dominated by SHGs, Banks linkage Programme its main aim is to provide a cost effective mechanism for providing financial services to the poor.

Keywords: Micro finance Institutions, Rural development, Bank, SHGs, Economic Development.

Introduction:

Micro finance is emerged as one of the major catalyst for the upliftment poor people in the barrower economy. Microfinance is not a new or emerging concept its history is way back to two decades. It is quite difficult to carry out the routine work with that income. Generally people in rural area mainly depend on the unorganized lenders. But in last decade the financial institutions increased their reach to the rural area either in the form of their branches or bank mitra. These financial institutions start working in the remote areas and playing a creative role in the growth of the rural area. Commercial banks, regional rural banks, NGOs and grass root savings and credit groups around the world have shown that these micro enterprise loans can be profitable for borrowers and for the lenders, making microfinance. Microfinance Institutions in India emerged in the late 1980s in response to the gap available for banking services for the unserved and underserved rural population. Their business proliferated in 1990s under the open economy regime. Most of the institutions that

entered the field were from the social sector and hence they took the legal form of trusts or Societies. However, not-for-profit status of those institutions started becoming a limitation for the sustainability and scalability, forcing them to morph as MFIs with the business growth. However, due to specificity of the business they were pursuing, these institutions which were then registered as NBFC-MFIs under the category created by RBI based on Malegam committee recommendations.

Review of Literature

Ghate et al. (1992) One way of expanding the successful operation of microfinance institutions in the informal sector is through strengthened linkages with their formal sector counterparts. A mutually beneficial partnership should be based on comparative strengths of each sector. Informal sector microfinance institutions have comparative advantage in terms of small transaction costs achieved through adaptability and flexibility of operations.

Phelps (1995). Microfinance institutions could also serve as intermediaries between borrowers and the formal financial sector and on-lend funds backed by a public sector guarantee.

Vallabh and Chatrath(2006) Banks, Government and Chartered Accountants need to reevaluate their pre-conceived notions about the commercial opportunities in serving the rural and agricultural sector. Banks can achieve commercial success and helps in societal improvement if it conceives the products and services keeping these segments in mind. Banks must also strengthen their credit delivery systems for Rural India. Today, finance and Banking systems are very strong. It is time to focus on people at the bottom of the pyramid and align all sections with the systems they have been put in place. We can also conclude that there are a lot of untouched and unexplored areas for fulfilling social and professional commitments.

Manish Raj (2011) in his research paper entitled “Microfinance Institutions in India and its Legal Aspects” states that Microfinance institutions have been proved a very important financial wing to incorporate the poor in the financial sector, on the other aspect like the challenges faced by the microfinance institutions Mr. Badrudduza found the positive results shown by MFIs in many countries but still there are a number of challenges before the microfinance industry, he shown in his paper. Vallabh and Chatrath(2006) Banks, Government and Chartered Accountants need to reevaluate their pre-conceived notions about the commercial opportunities in serving the rural and agricultural sector. Banks can achieve commercial success and helps in societal improvement if it conceives the products and services keeping these segments in mind. Banks must also strengthen their credit delivery systems for Rural India. Today, finance and banking systems are very strong. It is time to focus on people at the bottom of the pyramid and align all sections with the systems that have been put in place. We can also conclude that there are a lot of untouched and unexplored areas for fulfilling social and professional commitments Vallabh and Chatrath(2006) Banks, Government and Chartered Accountants need to reevaluate their pre-conceived notions about the commercial opportunities in serving the rural and agricultural sector. Banks can achieve commercial success and helps in societal improvement if it conceives the products and services keeping these segments in mind. Banks must also strengthen their credit delivery systems for Rural India. Today, finance and banking systems are very strong. It is time to focus on people at the bottom of the pyramid and align all sections with the systems that have been put in place. We can also conclude that there are a lot of untouched and unexplored areas for fulfilling social and professional commitments One way of expanding the successful operation of microfinance institutions

in the informal sector is through strengthened linkages with their formal sector counterparts. A mutually beneficial partnership should be based on comparative strengths of each sectors. Informal sector microfinance institutions have comparative advantage in terms of small transaction costs achieved through adaptability and flexibility of operations (Ghate et al. 1992)Santhi (2015)The banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the RRBs may enhance the percentage of loan to this sector. **Santhi (2015)** The banks need to encourage the agricultural sector by providing larger amount of term loans. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the RRBs may enhance the percentage of loan to this sector. This finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as RRBs are integral part of the rural credit structure in India. This finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as RRBs are integral part of the rural credit structure in India. Data Collection: This research paper is based on the secondary data. The secondary data is collected from various sources like, research papers, RBI website, National Bank for Agriculture and Rural. Development (NABARD) website etc., Data Analysis: The data taken from various sources is presented in the tabular form.

Objectives of the Study

- To study about the role of MFI in rural development.
- To study the impact of financial institutions in growth of SHGs

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Data Analysis:

The data taken from various sources is presented in the tabular form

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Table-1: Overall Progress under SHG-Bank linkage Program

(No. in Lakh/ Amount in Crore)

Particulars	2020-21		2021-2022		2022-23	
	No of SHGS	Amount (Rs)	No of SHGS	Amount (Rs)	No of SHGS	Amount (Rs)
SHG Saving with Bank	112.23 (9.57%)	37477.6 (43.31%)	118.93 (5.97%)	47240.48 (26.05%)	134.03 (12.7%)	58892.68 (24.67%)
Loan disbursed to SHGS	28.87 (-8.23%)	58070068 (-25.22%)	33.98 (17.71%)	99729.22 (71.74%)	42.96 (26.42%)	145200.23 (45.59%)

Source: NABARD. (Percentage show increase or decrease in comparison previous years.)

The table -1 present the performance of banks in terms of savings and loan disbursed to the various HGs in the country under the SHG-Bank linkage program. The data shows a growth in terms of the number of SHGs, who deposited the money with banks. 1.53% SHGs increased in 2013-14 in omparison 2012-13, 3.59% in 2014-15 in comparison of 2013-14 and 2.68% in 2015-16 in omparison to 2014-15, who have deposited their savings in Banks. The total savings deposits in

Bank increased 20.45% in 2013-14, 11.74% in 2014-15 and 23.79% in 2015-16 from the various SHGs in India. The table -1 shows that the performance of banks in terms of savings and loan disbursed to the various SHGs in the country under the SHG-Bank linkage program. The data shows a growth in terms of the number of SHGs, who deposited the money with banks. 9.57% SHGs increased in 2020-21 in comparison 2019-20, 5.97% in 2021-22 in comparison of 2020-21 and 12.7% in 2022-23 in comparison to 2021-22, who have deposited their savings in Banks. The total savings deposits in Bank increased 43.31% in 2020-21, 26.05% in 2021-22 and 24.67% in 2022-23 from the various SHGs in India.

Table-2: Region wise status of Bank Loan Disbursed to SHGs.

(Total Loan Disbursed in Lakh/ Average Loan disbursed and SHGs are in Rs.)

Particular	2020-21			2021-2022			2022-23		
	No of SHGS	Total Disbursed	Average loan disbursed	No of SHGS	Total Disbursed	Average loan disbursed	No of SHGS	Total Disbursed	Average loan disbursed
North Eastern	68,116	1,03,651	1,52,168	94,871	1,84,636	1,94,618	1,23,602	3,13,764	2,53,850
Northern	67,658	94,045	1,39,001	79,532	1,17,102	1,47,239	1,02,931	2,06,437	2,00,559
Central	11,24,578	14,87,551	1,32,276	13,01,505	25,68,978	1,97,385	16,34,604	33,38,333	2,04,229
Western	1,61,159	2,30,331	1,42,921	2,39,086	3,81,363	1,59,509	2,73,253	6,75,144	2,47,077
Eastern	11,24,578	14,87,551	1,32,276	13,01,505	25,68,978	1,97,385	16,34,604	33,38,333	2,04,229
Southern	13,37,266	37,86,063	2,83,120	14,98,951	65,03,860	4,33,894	18,82,772	95,22,672	5,05,779

Source: NABARD

Table-2 present that the number of increased selfhelp Group in each region. The total loan and average loan disbursed is also increased in last three years as shown by the table-2. The eastern and southern regions have more number of SHGs in comparison of the other regions of the country. The North Eastern has the minimum number of SHGs in the country. The increasing number of SHGs and the loan amount disbursed them reflects the growth in rural area in the country. Table-2 Gives information regarding the number of increased self-help Group in each region. The total loan and average loan disbursed is also increased in last three years as shown by the table-2. The eastern and southern regions have more number of SHGs in comparison of the other regions of the country. The Northern has the

minimum number of SHGs in the country. The increasing number of SHGs and the loan amount disbursed them reflects the growth in rural area in the country

Conclusion

The total growth of the country is near about 7-8 %. The country need to do more in the rural area as around India is predominantly a rural country with two-third population and 70% workforce residing in rural areas.. We need to cater the demand of the rural area to achieve the goal of inclusive growth. The lending institutions have major role in the rural development. The financial institutions must think about the growth of the rural area which can further by providing the funds to the needy people and make the hassle free system.

Small saving money will help of lending funds through Finance and credit is the two essential requirements for rural development. The rural areas often suffer from low income leading to low rate of savings will help a lot in increasing the business in rural area. The SHGs also play a significant role in the development of rural are by making people self-sustaining.

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