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## Role banks in the financing of SHGs in India Parmod Kumar

Research Scholar, IKG Punjab Technical University Kapurthala &  
Assistant Professor, KITM, Kurukshetra.

**Dr. Vivek Mittal,**  
Principal,

CGC Technical Campus (Management), Jhanjeri, Mohali.

### Abstract

The household in rural area are mainly lacking the formal financial services. The Inclusive growth will be possible with the growth of the rural households. The government has initiated various schemes for the development of rural India. The microfinance institutions are playing a key role in the overall development of the country. 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 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 last section of the paper describes the limitations and problems faced in the facilitation of the financial services by the financial institutions in rural part of India.

**Key Words:** Micro finance Institutions, Rural development, Bank, SHGs, Economic Development.

### Introduction:

The rural part of our country is mainly depending on the agriculture income, which occurs twice in a year. 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 availability 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:

**Barbara (1999)** The role played by micro finance banks in Cross River State in terms of granting credit subsidies, interest rate disparities, the number of micro finance bank branches operating and even its technological growth, has no significant effect on credit demand by small scale business enterprises, and hence, has no significant effect on the socio-economic development of the rural communities. The reason for this could be traceable to the complicated nature of services rendered in terms of seeking for guarantors, seeking for collaterals, seeking for minimum deposit flows, and even the time frame of disbursing credit. Therefore, for the socio-economic growth of the rural communities in Cross River State, an efficient and cordial relationship between microfinance banks and the small scale business enterprises must be maintained, as prescribed in the policy recommendations above; through this medium, the syndrome of economic meltdown may cease to linger.

**Vallabh and Chatrath (2006)** Banks, Government and Chartered Accountants need to re-evaluate their pre-conceived notions about the commercial opportunities in serving the rural and agricultural sector. Banks can achieve commercial success and help 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**).

**Chavan and Pallavi (2004)** have examined the growth and regional distribution of rural banking over the period 1975-2002. Chavan's paper documents the gains made by historical underprivileged region of east, northeast and central part of India during the period of social and development banking. These gains were reversed in the 1990s: cutbacks in rural branches in rural credit deposits ratios were the steepest in the eastern and northeastern states of India. Policies of financial liberalization have unmistakably worsened regional inequalities in rural banking in India.

NABARD (1986) published "A study on RRBs viability", which was conducted by Agriculture Finance Corporation in 1986 on behalf of NABARD. The study revealed that viability of RRBs was essentially dependent upon the fund management strategy, margin between resources mobility and their deployment and on the control exercised on current and future costs with advances. The proportion of the establishment costs to total cost and expansion of branches were the critical factors, which affected their viability. The study further concluded that RRBs incurred losses due to defects in their systems as such, there was need to rectify these and make them viable. The main suggestions of the study included improvement in the infrastructure facilities and opening of branches by commercial banks in such areas where RRBs were already in function.

They are better equipped to deal with credit assessment of the urban poor and hence to absorb the transaction costs associated with loan processing. On the other hand, formal sector institutions have access to broader resource-base and high leverage through deposit mobilization (**Christen et al. 1994**).

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

**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.

### 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.

### Data Collection:

This research paper is based on the secondary data. The secondary data is collected from various sources like, research papers, RBI website, NABARD website etc.

### Data Analysis:

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

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

(No. in Lakh/ Amount in Crore)

Particular	2013-14		2014-15		2015-16	
	No. of SHGs	Amount (Rs.)	No. of SHGs	Amount (Rs.)	No. of SHGs	Amount (Rs.)
<b>SHG Saving with Banks</b>	74.3 (1.53%)	9897.42 (20.45%)	76.97 (3.59%)	11059.84 (11.74%)	79.03 (2.68%)	13691.39 (23.79%)
<b>Loan Disbursed to SHGs</b>	13.66 (12.02%)	24017.36 (16.67%)	16.26 (19.03%)	27582.31 (14.84%)	18.32 (12.67%)	37286.90 (35.18%)

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 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. 1.53% SHGs increased in 2013-14 in comparison 2012-13, 3.59% in 2014-15 in comparison of 2013-14 and 2.68% in 2015-16 in comparison 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.

**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	2013-14			2014-15			2015-16		
	No. of SHGs	Total Loan Disbursed	Avg. Loan Disbursed	No. of SHGs	Total Loan Disbursed	Avg. Loan Disbursed	No. of SHGs	Total Loan Disbursed	Avg. Loan Disbursed
North Eastern	16201	12819	79125	18791	15795	84056	26037	21969	84375
Northern	23918	28048	117269	43848	42873	97777	38106	48298	126746
Central	66393	61807	93092	109231	110909	101536	84282	119067	141272
Western	87846	86444	98404	97341	117080	120279	112525	188632	167636
Eastern	297478	151067	50783	351800	329602	93690	412576	349489	84709
Southern	874585	2061551	235718	100527	2141972	213083	1158797	3001235	258996

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.

### Conclusion:

The overall growth of the country is near about 7-8 %. The country need to do more in the rural area as around 70% population lies in the rural part. 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 be provided by providing the funds to the needy people and make the hassle free system. The ease of lending funds and collecting the savings will help a lot in increasing the business in rural area. The SHGs also play a major role in the development of rural area, by making people self-reliant.

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