



EMPOWERING COMMUNITIES: THE ROLE OF MICROFINANCE INSTITUTIONS AND SHGS

Dr. Pamula Radha Krishna, Assistant Professor©, Department Of Business Management, Dr. B. R. Ambedkar Open University, Hyderabad

ABSTRACT

Microfinance institutions (MFIs) and Self-Help Groups (SHGs) have emerged as engines of financial inclusion, bridging the gap between marginalized communities and formal banking systems. By empowering individuals, particularly women, to access credit and build sustainable livelihoods, these entities foster socio-economic development and alleviate poverty at the grassroots level. This study examines the impact of MFIs in India, focusing on Telangana, highlighting their role in providing formal credit to disadvantaged communities. An analysis of data from 2009-10 to 2022-23 reveals a consistent upward trend in loan disbursements to SHGs, fueled by government initiatives and NABARD's efforts. Women-centric SHGs showed remarkable progress in savings and loan utilization, emphasizing their pivotal role in rural economic stability and gender equity. The findings underscore the contributions of MFIs in socio-economic development, with recommendations for policy-driven innovation to address challenges and maximize impact.

Keywords: Financial Inclusion; Women Empowerment; Poverty Alleviation; Socio-Economic Development; Rural Economic Stability; Financial Ecosystem and Sustainable Livelihoods

INTRODUCTION:

In today's dynamic world, finance is a critical requirement at various stages of life, ensuring that individuals have access to the necessary funds when needed. To plan for the future, individuals set measurable financial goals at different points in time, helping them manage their resources effectively. With the advent of liberalization and globalization, the financial sector has expanded significantly, influencing the global economic system. Over the past two decades, there has been significant discourse on globalization, economic liberalization, and global integration, especially in relation to India's involvement in global trade. Following the trade agreements in April 1994 and the establishment of the World Trade Organization (WTO) in January 1995, several issues emerged regarding India's participation in international trade. Despite the progress in structural reforms and economic liberalization, around 32% of India's population continues to face external financial challenges.

In developing countries like India, households need financial support for various purposes, including consumption, emergency expenses such as medical bills or weddings, and most importantly, income-generating activities. Access to credit plays a vital role in meeting these critical needs, and it is essential for improving the social and economic conditions of households. Adequate and affordable credit is thus crucial for socio-economic development. A stable, well-distributed banking sector is fundamental for financial inclusion, as only formal credit agencies can meet both the demand for credit at a reasonable level and at a low cost. Numerous studies emphasize the importance of access to safe, formal credit, affordable financial services, and the crucial role these services play for marginalized groups. Furthermore, access to credit in disadvantaged areas and sectors is seen as a prerequisite for accelerating growth, reducing income disparities, and alleviating poverty. This paper examines the role of financial institutions in facilitating access to formal credit for vulnerable sections of both rural and urban populations.

REVIEW OF LITERATURE:

An attempt 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) Chanchal Charan 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 study is to analyze the impact and performance of microfinance institutions in India, with a particular focus on Telangana.
- To examine the role and significance of microfinance institutions in providing formal credit to economically disadvantaged sections of society.
- To explore the contribution of banks in promoting microfinance as a strategy for poverty alleviation.
- To identify the challenges faced by microfinance institutions and recommend strategies to safeguard them from potential risks.

RESEARCH METHODOLOGY

This study employs both primary and secondary data. Primary data was collected using a multi-stage random sampling method from Self-Help Group (SHG) members involved in income-generating activities in Telangana. Secondary data was sourced from books, journals, online resources, and reports from institutions like NABARD, NIRD, APMAS, SERP, and other relevant government agencies.

SCOPE AND IMPORTANCE OF THE STUDY

This research examines the role of microfinance institutions in promoting socio-economic development through SHGs in Telangana. It addresses a gap in regional studies and aims to provide actionable insights for enhancing SHG performance and fostering empowerment. The findings will assist policymakers, NGOs, and planners in formulating strategies to improve SHG participation and microfinance access, particularly for marginalized groups.

MICRO FINANCIAL INSTITUTIONS IN INDIA

Microfinance in India began in 1974 in Gujarat with the Shri SEWA (Self-Employed Women’s Association) Sahakari Bank. India has experienced micro-credit in the form of Self-Help Groups (SHGs) as part of the formal credit delivery system since the early 1960s, giving Non-Governmental Organizations (NGOs) significant freedom to set up SHGs on various models. Micro-credit through SHGs has not only helped the poor become economically stronger but also socially, mentally, and physically empowered. The Government

of India and the Reserve Bank of India, recognizing the importance of micro-credit in development programs, have taken numerous steps to link SHGs with formal financial institutions. In 1992, NABARD began linking SHGs to banks in India, with the primary objective of strengthening the financial health of SHGs by ensuring adequate flow of bank credit to these institutions.

The Government of India recognized the role of Microfinance Institutions (MFIs) in financial intermediation in the Union Budget of 2005. MFIs were granted "Banking Correspondent" status, and the National Microfinance Fund under NABARD was strengthened with an incremental corpus of Rs.100 crore, which was later, redesigned as the Microfinance Development Equity Fund. In May 2005, the RBI's annual credit policy statement also acknowledged the financial intermediation role played by MFIs. Currently, approximately 8 million SHGs are linked to banks. The government, with NABARD, has been promoting livelihood initiatives and group insurance products to enhance the quantum of loans and provide fresh financing to SHGs. The SHG model has become a flagship poverty alleviation program, launched by the Ministry of Rural Development, Government of India. The National Rural Livelihood Mission (NRLM) aims to harness the innate capabilities of the poor and complement them with resources like information, knowledge, skills, tools, finance, and collectivization, allowing them to participate in the country's growing economy. NABARD, in association with the Department of Financial Services, Ministry of Finance, Government of India, continues to implement schemes for promoting and financing Women Self-Help Groups in 150 identified Left-Wing Extremism (LWE) and backward districts of the country.

On a national level, India has continued to strengthen its microfinance sector, with initiatives like the Pradhan Mantri Mudra Yojana (PMMY) and PMGDISHA (Pradhan Mantri Gramin Digital Saksharta Abhiyan) supporting financial inclusion and digital literacy for women in rural areas. Additionally, more attention has been given to improving the regulatory framework for MFIs, ensuring fair practices and financial sustainability.

Telangana, as a newly formed state, has been performing admirably in promoting socio-economic development. The state is one of the most effective in India, particularly in the southern region. In 2017-18, Telangana had a higher credit linkage with 54.96%, and the average credit disbursed per SHG was also high at Rs.2.84 lakhs. More than 96% of groups availed credit in Telangana, followed by Andhra Pradesh with 89%. However, both Telangana and Karnataka witnessed a moderate fall in the average loan disbursed (around 5%). Regarding credit linkage density, Telangana, along with six other states (three from the southern region), was above the all-India level. Telangana also has more loan accounts than the number of SHGs in the state, as many SHGs have access to bank loans under cash credit, investment credit, and state government loan schemes. The number of SHGs availing bank loans has increased compared to previous years, with more than half of the SHGs in Telangana now accessing credit.

As of 2022, Telangana continued to expand its SHG programs, emphasizing financial inclusion, women's empowerment, and livelihood generation. The state also focused on enhancing digital literacy within SHGs, helping women access various digital banking services.

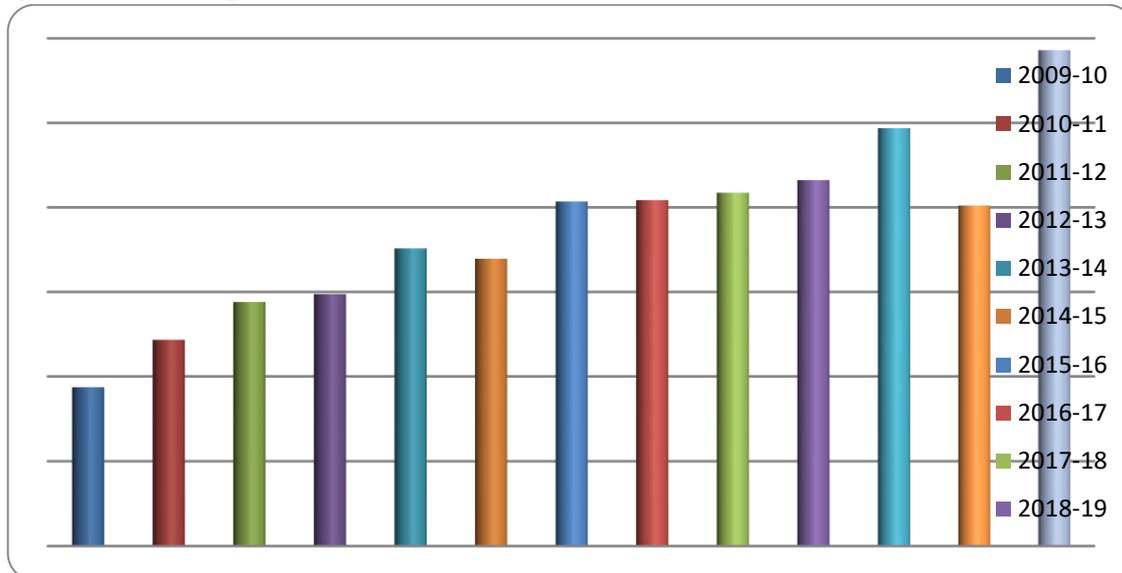
ROLE OF FINANCIAL INSTITUTIONS

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, indigenous 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%.

RESULTS AND DISCUSSIONS

Average disbursement per SHG's



The table highlights the average loan amount disbursed to Self-Help Groups (SHGs) by banks across financial years from 2009-10 to 2022-23, showcasing a consistent upward trend with significant fluctuations. Initially, during 2009-10 to 2013-14, the disbursement rose from Rs. 93,616 to Rs.1,75,769, marking an 88% growth, attributed to the expansion of SHG-Bank Linkage Programs (SHG-BLP). From 2014-15 to 2017-18, the growth stabilized, with disbursements ranging from Rs.1,69,608 to ₹2,08,682, reflecting the maturity of SHG activities. An accelerated increase followed between 2018-19 and 2019-20, reaching Rs.2,46,850, driven by enhanced government support and loan limits. However, the COVID-19 pandemic caused a temporary dip to Rs.2,01,117 in 2020-21 due to operational challenges. Post-pandemic recovery was robust, with disbursements peaking at Rs.2,93,000 in 2022-23, representing a 45.6% increase from 2020-21.

At the national level, initiatives under NABARD's SHG-BLP have played a pivotal role in empowering SHGs, with Public Sector Banks (PSBs) leading efforts to enhance financial inclusion. National data reveals regional disparities, where states in the Central and Northern regions demonstrated significant growth, while the Eastern and Southern states faced challenges in expanding outreach. Programs targeting women SHGs, particularly in Northeastern regions, have shown exceptional success through private and cooperative banks, emphasizing the importance of regional customization in financial strategies.

In Telangana, the growth trajectory aligns with national trends, underpinned by state-led schemes like *Stree Nidhi Cooperative Federation* and initiatives under the *Society for Elimination of Rural Poverty (SERP)*. These programs have enabled SHGs to access credit, build entrepreneurial capabilities, and reduce dependence on informal lending. The emphasis on microfinance and women-centric financial empowerment has driven significant economic stability among rural communities. Reports indicate that SHG-linked disbursements in Telangana have consistently grown, demonstrating the state's commitment to advancing financial inclusion for its women SHGs. Reviewing NABARD's microfinance reports and SERP's annual

data would provide deeper insights into Telangana's success story.

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.

Growth of SHG's In India

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
2018-19	134.03	58.89
2019-20	102.43	26.15
2020-21	112.23	83.10
2021-22	118.93	99.72

Source: NABARD Data

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 to 2022-23

Name of the Agency	Year	No. of SHGs (Savings)	Savings (₹Crore)	No. of SHGs (Loans Disbursed)	Loans Disbursed (₹ Crore)	No. of SHGs (Outstanding Loans)	Outstanding Loans (₹ Crore)
Commercial Banks	2017-18	42.96 lakh	1.34	1272886	2870762	2904086	4874805
	2022-23	45.50 lakh	1.8	1350000	3050000	3100000	5000000
Regional Rural Banks	2017-18	28,07,744	5807.35	782563	1511934	1658221	2273864
	2022-23	30,00,000	6500	800000	1600000	1700000	2350000
Cooperative Banks	2017-18	13,02,981	2120.53	205683	335891.7	458051	411175.8
	2022-23	15,00,000	2500	250000	400000	500000	500000
Total	2017-18	87,44,437	19592.12	2261132	4718588	5020358	7559845
	2022-23	90,50,000	20800	2400000	5050000	5300000	7850000

Source: NABARD Data

The above data highlights substantial progress in microfinance from 2017-18 to 2022-23, reflecting the increasing role of SHGs in financial inclusion. Savings by SHGs have steadily grown across all institutions, indicating enhanced financial discipline and participation. Loan disbursements have also seen a significant improvement, showcasing improved access to credit for SHGs and greater support for grassroots economic activities. Commercial Banks continue to lead in loan disbursements and savings mobilization, followed by Regional Rural Banks and Cooperative Banks. It is evident from the data that the increase in outstanding loans underscores sustained credit utilization, pointing to active engagement in livelihood generation and business expansion. Overall, the data demonstrates a positive trajectory in microfinance operations, contributing to economic empowerment and rural development. This progress underlines the importance of SHGs as a cornerstone of financial inclusion and poverty alleviation strategies.

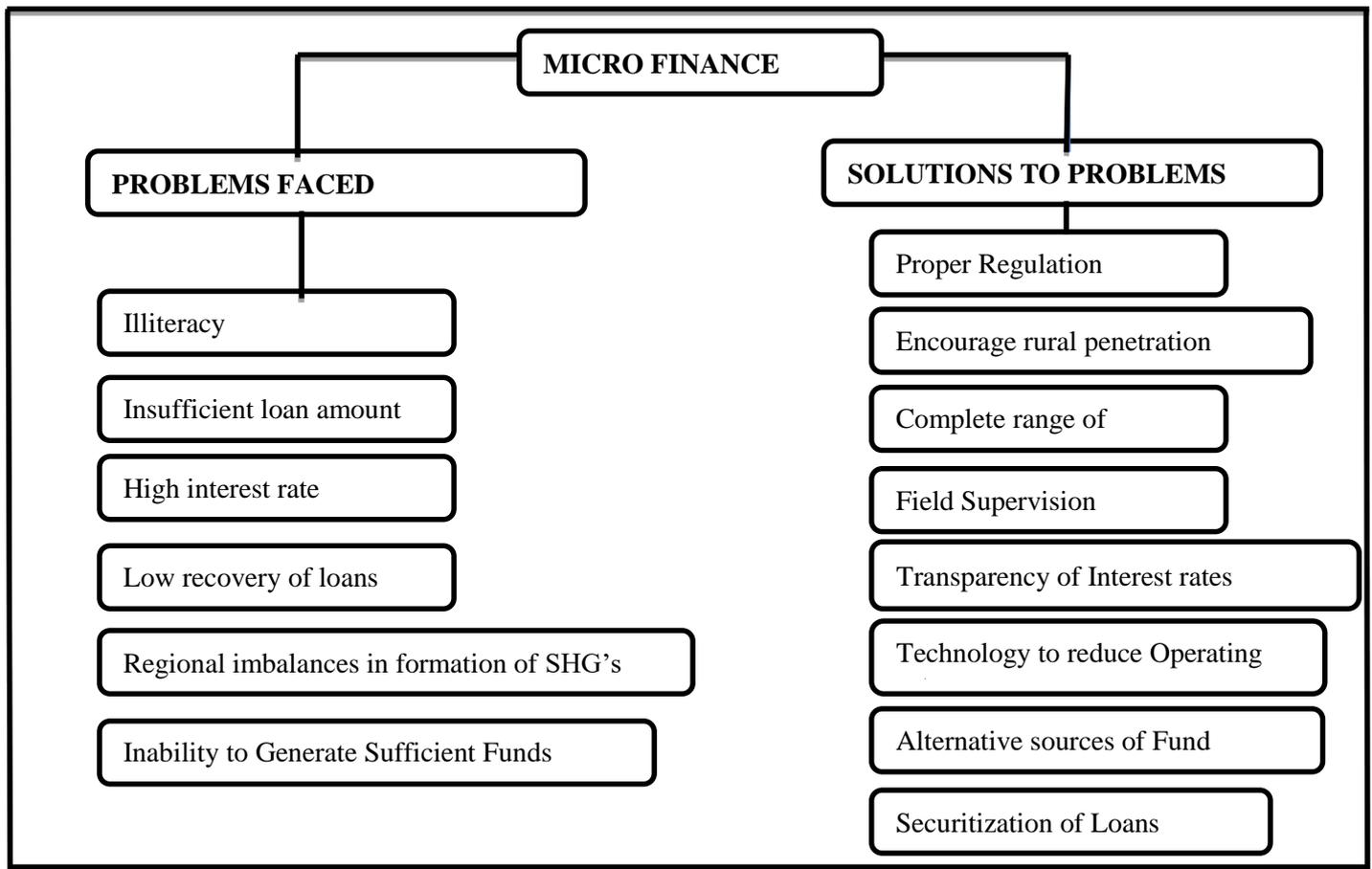
Women SHG Growth Using Micro Financial Institutions and SHGs (2020-21 to 2022-23)

Particulars	2020-21	2021-22	2022-23	Growth (2020-21 to 2022-23)
No. of Women SHGs (Savings)	97.25 lakh (10.11%)	104.05 lakh (6.99%)	112.92 lakh (8.52%)	16.16% increase
Savings Amount (₹ Crore)	32,686.08 (40.16%)	42,104.77 (28.81%)	52,455.48 (24.58%)	60.48% increase
% of Women Groups (Savings)	86.65%	87.43%	84.25%	--
No. of Women SHGs (Loans Disbursed)	25.90 lakh (- 10.19%)	31.50 lakh (21.63%)	41.42 lakh (31.49%)	59.91% increase
Loan Amount Disbursed (₹ Crore)	54,423.13 (- 25.75%)	93,817.21 (72.38%)	1,39,315.69 (48.50%)	155.99% increase
% of Women Groups (Loans Disbursed)	89.71%	92.70%	96.42%	--
No. of Women SHGs Linked (Outstanding Loans)	53.11 lakh (3.89%)	62.65 lakh (17.96%)	65.15 lakh (3.99%)	22.65% increase
Outstanding Loans (₹ Crore)	96,596.60 (- 4.00%)	1,42,288.61 (47.30%)	1,79,468.42 (26.13%)	85.85% increase
% of Women Groups (Outstanding Loans)	91.89%	92.95%	93.65%	--

Source: NABARD Data

From 2020-21 to 2022-23, Women SHGs showed significant growth, with the number of savings-linked groups increasing by 16.16%. The savings amount rose by 60.48%, reflecting greater financial inclusion. Loan disbursement to SHGs grew by 59.91%, with a 155.99% increase in the loan amount. The number of SHGs with outstanding loans increased by 22.65%, and the outstanding loan amount surged by 85.85%. This growth underscores the pivotal role of Micro Financial Institutions in empowering women through financial support.

PROBLEMS AND SOLUTIONS



FINDINGS, SUGGESTIONS AND CONCLUSIONS

The COVID-19 pandemic had a significant impact on the global economy, and this effect continued into 2022 and 2023, with several challenges and shifts in business operations. For instance, the World Bank reported that the pandemic exacerbated issues like inequality, poverty, and unemployment, though by 2023, there were signs of recovery, especially in sectors adapting to remote work and digital transformation (Review, Nov 2022). Economically, the years 2022 and 2023 witnessed continued inflationary pressures and disruptions in supply chains, but some regions began to see positive growth rates. The International Monetary Fund (IMF) noted global economic recovery in 2023, particularly in emerging markets, though this was coupled with the risks of rising debt and inflation. On the other hand, countries like India and China have managed to bounce back with strong growth, though challenges in labor markets and shifts in consumer behavior were still evident. Moreover, sectors like tech and e-commerce have thrived post-COVID, as businesses increasingly embraced digitalization. The pandemic also reshaped work culture, leading to greater emphasis on work-from-home setups and hybrid work models, which continued well into 2023 (Bank, 2022). The analysis reveals a consistent rise in loan disbursements to SHGs from 2009-10 to 2022-23, driven by strategic initiatives under NABARD's SHG-BLP and government policies promoting financial inclusion. Despite a dip during the COVID-19 pandemic, post-pandemic recovery was strong, with disbursements peaking at ₹2,93,000 in 2022-23, reflecting resilience and enhanced outreach. Women-centric SHGs showed exceptional growth, marked by increased savings, loan disbursements, and outstanding loan amounts, underscoring their role in rural empowerment. However, regional disparities persist, highlighting the need for customized approaches to address gaps in underserved areas. These trends affirm the significance of SHGs in fostering grassroots economic development and underscore the potential for further strengthening microfinance systems to ensure inclusive growth.



BIBLIOGRAPHY

- Bank, W. (2022). World Bank Annual Report 2023 . *World bank Group* .
- Review, I. M. (Nov 2022). Micro Matters: Micro View India Micro Finance Review FY2021-22. A *MFIN Publication* , 92.
- Satpute, Ravindra C. (2019). *Micro-Finance: A Critical Study of Need, Practices and Future Trends with Special Reference to Self-Help Groups of Amravati District*. Ph.D. Dissertation, Sant Gadge Baba Amravati University, Maharashtra.
- Siva Nageswara Rao, K. (Year Unknown). *A Study on Problems and Prospects of Micro and Small-Scale Enterprises: With Special Reference to Krishna District – A.P.*
- Charan, Dr. (Mrs) Chanchal. (Year Unknown). *Regional Rural Banks & Rural Banks Financing: Miles to Go – A Study of Bihar*.