

## Lesson-11

# Role of Financial Institutions and Organisations in Socio-Economic Development



### Learning outcomes :

Students will–

- ✦ know what is socio economic development.
- ✦ know the role of financial institutions and organisations in socio-economic development.
- ✦ understand the functions of NEDFi and NEC in the socio-economic development of North-East India.
- ✦ know the concept, necessity and different schemes of Self-help Groups.

You already have an idea about the role of government in the economic growth. Development of a nation and welfare of its people are the main aim of a government. Economic growth of a nation depends on its domestic income. Increase in production means increase in national income. The total income of all earnings of a country during the year through various productive sectors is called the national income of a country. National income of a country is expressed as total income of the components of production (land, labour, capital and organisation) of a particular year. If the rate of national income is higher than the total population of a country then the per capita income also increases. Increase in per capita income is another indicator of the economy of a country. You have already learnt that the basic systems for development are - roads, bridges, buildings, transport, communication, irrigation, drinking water, hospitals, schools, sanitation, electricity, telephone, etc. Some of these systems directly helps in production. On the other hand, others indirectly influence the formation of social sectors in the country. In the whole the infrastructure will help in increasing the production. Overall development of a country can be possible only if the benefits of the above mentioned measures can be enjoyed equally by the people of all the sections. Economic development and social development are inter dependent (in short socio-economic development). We cannot think about development without any of them.

### Let us know :

The final product is produced to be enjoyed firsthand. These products are not used for other products or service production. For e.g. Mobile, TV, clothes, foods etc.



A government takes up different types of programme, schemes and projects for the socio economic development and implements them. A government (basically a democratic government) is responsible towards its people to carry out such work. Besides different government approved and recognised organisations and institutions also work for the socio-economic development. In this lesson let us learn about the role of some financial institutions in the socio economic development of our country and our state.

You must have heard that during adversity people borrow money from moneylenders or other rich people. Borrowed money is called loan. A moneylender lends money to the borrower in high interest. At one time people from Afghanistan (Kabuliwallas ) engaged themselves as moneylenders in our country. Now they are very less in number. Such moneylenders go against government rules and regulations and fix the rate of interest at their own will. To overcome personal adversity people borrow money at high interest from such moneylenders and suffer from deprivation. Such insecurity still exists among the poor and weaker section of the society.

But along with the changing time, our society has also advanced towards new directions. People no longer stay confined in the same living standard. A number of changes are evident in the socio economic, cultural, political and in several other areas. This changing attitude had a far reaching effect in the world. New principles are also incorporated in various areas for the functioning of a country. As a result there was a transition from old rules and regulations to new rules, regulations and systems. Together with important system like education, health, transport and communication system, there is a reflection of change in the financial system too. As a result various institutions and organisations grew up which we now know as financial institutions. Financial institutions accelerate the overall development of a country.

### Write short answer:

- ★ What does increase in domestic production indicate in a country?
- ★ What is national income ?



### Let us know :

- ★ From socio-economic point of view there are two groups of people in the society. One group spends less and earns more. They have a surplus amount of their income while the other group spends more compared to their income. They have no saving. They are called the deficit group.
- ★ The system which transfers money from surplus group to deficit group is called financial system. Financial system components can be divided into:
  - a) Financial institutions,
  - b) Financial assets,
  - c) Financial market,
  - d) Financial services.



- ✦ When does per capita income in a country increase?
- ✦ What will happen if there is increase in production ?
- ✦ What does a moneylender get in return for lending money ?

The financial institutions and organisations of a country make its citizens productive and self-dependent by providing varied types of loans like - short-term, mid-term and long-term. In modern economic system loan is one of the important system. When you grow up you will know more about loan system. The role and function of a few financial institutions and organisations are discussed below.

## Bank :

Bank is the most important and significant financial institution of all the government and private institutions established for socio economic development of a country. For economic development certain basic facilities can be provided by bank . Through certain rules and regulations some banks provide facilities to all people of the society to become customers. Such customers are called depositors. They deposit their money in banks. Banks provide various types of saving schemes to attract customers. Bank pays interest on saving amount to the customers. Banks loan money to the people with the people's savings. In this way the bank develops a relationship between the depositor and the investor. The rules and regulations are secured and reliable. Customers are never cheated by bank. Bank take every precautions to protect its customer from being cheated . You have already read about moneylenders who cheat customers while lending money. Even educated people sometimes fall prey to such practices. On the other hand banks loan money to people and encourage them to become economically sound and productive. At times banks also provide loan with subsidy to individual or society and involves them in productive activities. Banking system is essential for the economic development of a country.

A producer needs a large amount of capital for qualitative development of the various sub units in the economic sector. Without government support no individual can invest a large amount of capital. Bank help such investor so that their investment is utilized in productive activities and every person is benefited by these services.

Financial transaction and loan are an important process in the development of socio-economic sectors like agriculture , industry and commerce. In our country there are different types of banking systems. Central Bank, Commercial Bank, Industrial and Investment Bank, Co-operative Bank, Land Mortgage Bank, etc., are some important banks. Let us learn about the functions of some important

### Let us know :

- ✦ The first bank in India was established in 1770. The name of this bank was Bank of Hindustan.
- ✦ The first bank in Assam was established by local initiatives, is the Guwahati Bank. It was established in 1926.

*(Source - Higher secondary Economics, Prof. Dilip Kumar Barua and Indira Barua)*



*Reserve Bank of India*



banks from the discussion given below.

### Central Bank :

The head of all banking systems of a country is the Central Bank. Look at a ten rupee or twenty rupee currency note and observe the name of the bank on it. Is it not the Reserve Bank of India ? This Reserve bank of India is our Central Bank. This bank was established in 1935. The Central Bank has the sole authority to print paper currency which we use. No other bank is authorised or has the right to print this paper currency. Reserve Bank is the highest and topmost financial institutions of our country. Central Bank is the bank of all banks. The Reserve Bank examines the accounts of all other banks. All the State Bank of India work as an agent of the Reserve Bank. In short the Reserve Bank functions as the government bank.

### Commercial Bank :

A large section of the banking system of India is managed by the Commercial bank. People save their income in commercial bank and can also apply for loans if they need. The savings collected by commercial banks from the public can be divided into four parts:



*State Bank of India*

#### Let us know :

- ★ The Commercial Bank provides educational loan to students to promote higher education . A student has to repay / return such a loan only after completion of studies. Even after completion of studies, 18 months term is extended for repayment of loan.

- Savings Deposit,
- Current Deposit,
- Fixed Term Deposit,
- Recurring Deposit.

In the process Banking business certain conditions are laid down between the bank and the depositors. For example (a) the bank is forced to allow the depositor to withdraw money from account at own will (b) an agreement between the loan borrower and bank to repay loan with interest to the bank. Commercial Bank provides long-term and short term loan to customers on agreement. The commercial banks provide loans from the money deposited by the depositors to different categories of people like- the industrialists, farmers, artisans, service holders, students, etc. However, it is seen that the

banks adopted certain precautionary measures to grant loans. Lest, some dishonest customers may not repay the loan and as a result the bank may face loss and even sometimes there is a threat of closing the bank. As a result of the Bank Merger Initiative, effective from 1<sup>st</sup> April, 2020, the number of nationalized banks in our country is now 12. State Bank of India (SBI), Punjab National Bank (PNB), Bank of Baroda (BOB) are some examples of Nationalized Banks. In addition to these, private sector commercial banks have also played a significant role



in raising savings and providing personal loan to the public. Some noteworthy banks in this regard are ICICI Bank, Axis Bank, HDFC Bank, Kotak Mahindra Bank.

### Activity :

- ✦ How are the Commercial Banks dependent on the Central Bank ? Discuss with the help of your teacher .

### Industrial and Investment bank :

Industrial and Investment bank that was established in 1985 played a very important role in the development of Industrial sector in India. Such banks provide long term to industrial sectors. To purchase machines, tools, nuts and bolts and to establish factories long term loan is required. Industrial Bank provide and promotes industrial development which pave the way for economic development.

### Co-operative Bank :

In order to help the poor people from the clutches of the village *mahajans*. and to lend money easily at the rate of low interest the cooperative banking system has been established. The cooperative banking system in our country is three fold-

- a. State cooperative banks in each state at the top level.
- b. Central cooperative bank at the district level and
- c. At the grass root level, Agricultural co-operative societies operate in rural areas.

Cooperative banks provide low interest loans to poor farmers, weavers, micro-enterprises etc for productive work. The contribution of the cooperative bank to the economic development of the country should be taken into consideration, as the majority of the people in India are farmers.

### Land Mortgage Bank :

The Land Mortgage Bank provides long term loan to farmers. This means that the farmers deposit all original documents to bank on conditions and take loans. Farmers can avail up to 50 percent of the land value as loan. To repay the loan the farmers get 20 to 30 years long time. Moreover since the interest rates on the loans are very low they are benefitted from it and can develop interest to focus on manufacturing.

### NABARD :

The Government of India established the Agricultural and Rural Development Bank in 1982 to promote agriculture and rural development of the country. This bank loans money for all forms of

### Let us know :

- ✦ The government of India nationalized 14 commercial banks in 1969 and 6 commercial banks in 1980 to facilitate economic development through banks.
- ✦ Regional rural banks are established on the basis of partnership and financial assistance of the Central Government of India, State Government of India and nationalized commercial banks. For e.g. Assam Gramin Bikash Bank (AGVB)



**NABARD Bhawan**



agricultural activities and for different schemes and programmes directed towards rural development. These loans are granted for short term (18 months) and long term (25 years). NABARD loan money to Co-operative Bank, Land Development Bank, Regional Gramin Vikash Bank and Commercial Banks. NABARD works as a representative of Central Government in providing rural loan.

## Insurance Company :

Various insurance companies in the government and private sector available in our country fund productive investments. Insurance companies provide financial security in case of any accident like or risk related to life as well as industry, factories, vehicles etc. In addition, the public can take out long term loans from insurance companies against to the money deposited in their insurance policies. Even with a current insurance policy, the public can take a loan from another financial institution by mortgaging the current policy. In many a time it can be seen that the general population suffers from a variety of complex diseases and is financially strained. It is important to invest in a health insurance plan in advance to avoid such a situation. Launched by the government of India in 2018, the Ayushman Bharat Prime Minister's Public health insurance scheme has enabled a large number of low-income people in our country to avail free health care. Insurance Regulatory and Development Authority of India (IRDA) looks after the workings of India's insurance companies and controls them.

### Write answer

- ✦ What types of institutions are the banks?
- ✦ What plays an important role in the modern economic system ?
- ✦ What does a producer require for production ?
- ✦ Who prints paper currency ?
- ✦ With whom does a bank establish relationship ?

### Activity :

- ✦ Collect names of some banks other than those banks mentioned in the lesson and prepare a list of them.

From the above discussion you have got an idea about the different types of banks and their roles and functions. For the socio-economic development of our country, some other institutions and organisations also loan money to industries, agriculture, commerce, handlooms, small and cottage industries, etc. The economic development of Assam and all other states of North-Eastern India is very slow. Because several unfavourable conditions of the region obstruct the growth of industries. As a result in the economic field, we are dependent on others. To make the region economically self-dependent, the Central Government has set up some special financial institutions and this establishments aim at highlighting the concept of industrial development



among the people. In this lesson we will discuss about two such important institutions.

## North Eastern Council (NEC) :

All the eight states– Assam, Meghalaya, Arunachal Pradesh, Tripura, Nagaland, Manipur, Mizoram and Sikkim together forms the North east India. You have already learnt that North-east India inspite of being rich in natural resources is still lagging behind in the field of industries. Therefore the economy of this region is weak compared to other regions of the country. For the overall development of this region the government of India formed the North-Eastern Council in 1971. The President of India nominates one member as the chairman of NEC from among the Chief Ministers and Governors of all the states of North-east India. The President is also authorised to nominate only one member from the cabinet ministers as its member. The head office of North Eastern council is in Shillong. The aims and objectives of this institution are–



*Head Office of NEC*

1. To take appropriate measures for the socio-economic development of North-East India in a systematically planned manner.
2. Maintaining equilibrium and removing inequality through a well balanced development.
3. To develop co-operation, planned endeavour and unity among the states of Northeast.
4. Endeavour to develop the infra-structural framework of partner states of North-east India
5. To carry out methodical survey of the economic resources of North-east India and based on these utility of the resources, to take up various schemes and projects.

## North Eastern Development Finance Corporation Ltd :

The North Eastern Development Finance Corporation Limited or NEDFi was established in 1995 to provide financial assistance to the states of North-East India. Its head office is in Guwahati. The NEDFi provides facilities to small industries, cottage industries, handloom and cloth industries, Self-Help Group, etc. to sell their products. There is a commercial point called NEDFi Haat at Ambari in Guwahati where products produced with NEDFi's assistance are sold.



*A weaver promoted by NEDFi*

NEDFi helps in identifying and supporting the environment and infrastructure of various projects needed for proper utilisation of local resources of a region. The main function of NEDFi is to provide support to the various resources of a region in productive work and add to the economic growth of the people.





**Garden of medicinal and aromatic plants**

The different types of landforms and climate of North-East India has made it a suitable home for variety of plants and animals. The forests are full of medicinal and aromatic plants. NEDFi is trying to promote several agriculture based industries. Medicinal plants are grown as crops in gardens with assistance from NEDFi and industries are growing up.

NEDFi has been providing financial assistance to the people of North-East India in different areas like agriculture, growing medicinal plant, silk industries, cottage industries, handloom industries, nursery, poultry farming, pig farming, fish farming, etc., NEDFi provides loan to them with subsidy specially to those who fail to fulfil the conditions laid down by a bank for loan. North-East India is rich in natural gas, crude oil, lime, coal etc. A large quantity of jute is produced in Assam but due to lack of infrastructure 70 percent of these raw materials are sold outside the state. There is a scope for several industries in the region based on jute and presently NEDFi is taking up the matter seriously.

NEDFi is helping women to be self-dependent through its Micro Finance Scheme. This scheme also works for the economic development of North-East India. Self-help Groups were benefited through this scheme. The Self-help Groups have earned respect as a strong force in the economic development of this region. Let us discuss about them—

## Self-help Group :

Self-help Group is a voluntarily formed self employed unit or a group of people engaged in some productive work. Generally 10 to 20 members are required to form one such group. The main aim of this group is to work together to remove poverty of each member. Generally economically



**Members of Self-help Group at work**

backward and unemployed members form such groups and loan money from bank, NEDFi and other financial institutions. Self-help Groups help in opening up opportunities for unemployed youths. Through these groups, people below poverty line can apply for loan and engage themselves in various productive activities like poultry farming, weaving, stitching, flower farming (floriculture) and can become self-employed. Each member of a Self-help Group saves their income regularly in a general fund. They have a saving account either in any nationalized bank or in a regional rural bank (Gramin Vikash Bank). It is observed that if an individual takes up a business individually, sometimes due to various reasons, he/she becomes unsuccessful and

### Let us know :

- ★ There are 296,983 Self-help Groups in Assam till July 2021. Out of which 1.72 are women Self-help Groups.

Source: [www.nrlm.gov.in](http://www.nrlm.gov.in)



ultimately has to give up. But if the same business activity is managed by a group, then it is sure to become permanent and profitable. Not only in the case of economic development but even in other activities like civic amenities, if the village people form associations and work together, then it becomes more effortful. Therefore formation of Self-help Groups should be encouraged among the village people to empower them and to make them economically secured.

### **Aims and objectives of Self-help Group :**

1. To develop energy and perseverance to work collectively by forming Self-help Groups.
2. To provide opportunity to approach financial institutions for loan.
3. To involve the members collectively in economic programmes.
4. To develop the practice of savings in the members of a group.
5. By creating an awareness among the rural people to develop an attitude to help oneself.
6. To establish a correspondence with the financial institution and help in getting loan collectively, etc.

To sum up, through Self-help Groups, a number of unemployed youths, men and women are benefited economically. Self-help Groups have played an important role in generating the concepts of self-employment and self-dependent.

### **Let us remember :**

- ✦ The monetary value of the final goods and services produced in different economic segments of a country in a given year is called the national income of the country. National income is also expressed in economics as the sum of income of the components of production (land, labour, capital and organization) in a given year.
- ✦ If the national income is high than the growth rate of population, then there is increase in per capita income.
- ✦ Economic development and social development- these two areas are interdependent.
- ✦ Bank is the most important institutions among all the government and private financial institutions established for the socio-economic development of the country.
- ✦ People who deposit their savings in banks are called depositors.
- ✦ Banks establish a relationship between the investors and the depositors
- ✦ In our country there are different banking systems directed towards the development of various sectors. Among them Central Bank, Commercial Bank, Industrial and Investment Bank, Co-operative Bank, Land Mortgage Bank are important.
- ✦ The Reserve Bank of India is our Central Bank. It was established in 1935. The Reserve Bank has the sole authority to print the paper currency which we use.



- ✦ The major part of the Indian banking system is managed through the Commercial Bank.
- ✦ Three types of accounts can be opened in a Commercial Bank- (a) Current Account, (b) Saving Account, (c) Fixed Account.
- ✦ Industrial and Investment Bank provide long term loans to industrial sector. In 2012, it was approved in Central Budget that this kind of bank has far closed down.
- ✦ Co-operative Bank provides short term loan to farmers.
- ✦ Land Mortgage Bank provide long term loan to farmers against land mortgage.
- ✦ National Bank for Agriculture and Rural Development (NABARD) was established in 1982.
- ✦ North Eastern Council was formed in 1971 for the overall development of North-east India. Its head office is in Shillong.
- ✦ North Eastern Development Finance Corporation Limited (NEDFi) was established in 1995. Its head office is in Guwahati.
- ✦ The main function of NEDFi is to promote the use of natural resources of the region into productive works and work for the economic development of the people of the region.
- ✦ Self- help Groups are groups of economically backward people of a particular place working together at own will.

### Exercises :

1. Write short answer-
  - a) What does a government do for the socio-economic development of the country?
  - b) Name some factors of economic development.
  - c) What are financial institutions and establishments?
  - d) Write two important functions of a bank.
  - e) What is the name of the Central Bank in India?
  - f) Where are the products produced with the assistance with NEDFi ?
2. Discuss in details—
  - a) Contribution of Commercial Bank in the socio-economic development
  - b) Role of North Eastern Council and North-East Development Finance Corporation Limited (NEDFi) in the economic development of North-East India.
  - c) Aims and objectives of Self- help Groups.
3. Write short notes—
  - a) Co-operative Bank,    b) NABARD,    c) Central Bank,    d) Self- help Group.
4. Say true or false—
  - a) Increase of per capita income obstructs growth of a nation.
  - b) Industrial and Investment Bank provide long-term loan to industrial sector.
  - c) Self- help Group must open a saving account in the Central Bank.
  - d) The head office of NEDFi is in Shillong.
  - e) Economically sound people can become members of a Self- help Group.
5. Project—
  - a) Visit any bank in your locality and find out the procedures for opening a bank account for people above 18 years of age.
  - b) Visit any Self- help Group in your locality. Collect information on their functions, annual work, savings, profits, etc. and write a detailed note.

