

ROLE OF NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD) AND SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI) IN INDIAN MICROFINANCE

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ABSTRACT: Economists have long agreed that access to finance plays an essential role in the process of dipping the inequality in wealth distribution, it enhancing the household income and provide better employment opportunities. Microfinance in India is now mounting and covering wider boundaries more importantly it gets appreciations as a tool to reduce poverty. It has become a critical tool for reaching all those under privileged groups such as women, socially and economically backward classes for the purpose of empowerment and providing access to the financial services. It is a cost effective mechanism for providing financial services to the poor. This working paper tries to outline the prevailing conditions of the Microfinance in India. Further the paper the paper is highlighting the financial & promotional support by NABARD and SIDBI in the sector of microfinance.

Keywords: *microfinance, self help group, NABARD, refinance, SIDBI and MFIs.*

INTRODUCTION

Small savings of the economically deprived people for the purpose of their future requirement and for the resolution of credit, insurance services and to meet special goal of empowerment of such privileged group is the basic need of development for any developing country. To ensure these amenities microfinance came into existence. The concept of microfinance has become the master concept in deprived countries of Asian, since the success and innovative idea of microfinance by Grameen bank of Bangladesh. The concept of microfinance does not remain restricted to Asian countries only it has widen all around the world and emerged as a powerful tool for poverty alleviation, especially in third world countries including India, it has established its standard in developing countries as imperative means for diminution of poverty. Microfinance is all about finance the inclusive financial system is associated with faster growth and better income distribution (Badu & Jindal, 2000). Microfinance is meant for the wealth supply to people who are extremely poor, as Mohammad Younis founder of the innovative concept of micro finance in Bangladesh said conventional banks look for the rich but Grameen bank look for the absolute poor this clearly indicates that such scheme is meant for unfortunates, and unfortunately people of India is said to be the home of one third of the world's total unfortunate population. The factor like abject poverty, low education, diseases, and infrastructure are major issues which Indian fail to address since its independence. Keeping in view all the factors of socio-economic of poor the World Bank has categorized India under the low income class (World Bank, 1990). So the notion of microfinance has set up an optimistic field in Indian economy.

India constitutes the second largest populated nation in the world but the astonishing is that worlds one third poor population lives in India which in result leads India to abject poverty, low education ratio, low standard of life, low sex ratio and exploitation. Microfinance against poverty has been recognized as one of the best tools by a number of countries including India for the proper address of unfortunate people. In India the program of microfinance has inherent capacity to unveil the untapped potentiality of under privileged by mobilizing them to pool their own funds, building their capacities, and empowering them to leverage external credit (Zubair, 2006). The availability of finance to poor helps them to catch up with the rest of the economy as it grows. Finance also helps extend the range of individuals, households and firms and get a grip in the modern economy.

Microfinance is growing and suitable structure for India poor for their well being in every aspect. It has been confidently agreed that finance supportive schemes for rural development excessively boosts the income growth of the poorest, reduces income inequality, and this is strongly associated with poverty alleviation (Beck, Kunt & Peria, 2006). No doubt that India has grown enormous but majority of ill-fated people still does not seem to have access to finance from conventional sources, it takes an average of 33 weeks to get a loan approved in rural India, with borrowers having to pay up to 42% of their loan amounts in bribes to officials (World Bank, 2005). So clearly means it is very hard for the Indian poor to get credit support from conventional banks and profit earning institution.

For a successful entrepreneur, finance is as much important as innovation of ideas and risk bearing factor are. In India the ideas and risk bearing factor was never the problem, the rich ideas and risk taking entrepreneurs are numerous in India, both in rural and the urban areas, but the setback of non availability of funds or finance is hammering these entrepreneurs. Since the independence and prior to that, Indian government has strenuous more on industrialization especially in the beginning years of independence which makes the condition of entrepreneurs even worse. Similarly government promoted commercial banks more than the development banks, those commercial banks never came forward for the promotion of ideas and innovations. These commercial banks always looked forward for the prosperous customer were they can get advantage for the wealth maximization, they never thought about the poor and those customers, where from margin of profit was less. As there was no other promotional support from the government for the proper alleviation of poverty and endorsement of entrepreneurs this led the condition of poor and entrepreneurs worst then the worse. The detraction of financial opportunities to the maximum population of rural India through banking inclusion has indirect effect upon the attainment of education and health opportunities and this in turn, has adverse impact on social, financial, and economic empowerment of poor, since the need of microfinance came into existence.

Microfinance was in India since independence but has attained its recognition in the late years of

1970's with the motive of equality, equity and mutual self-help and on the philosophy of cooperation and mutual benefits. There is no unique definition of microfinance, different countries and different people define it differently, however many initiators who have worked for elevation of microfinance has defined microfinance as. At the initial stage it was believed that microfinance is a narrow concept of financial services, that is general services like saving and credit there to (Ledgerwood, 1999). Later it is said that it can also include other financial services such as insurance and payment services. (Schreiner & Colombet, 2001). With the passage of time and the improvement of microfinance, people start to believe that microfinance is a "provision of carefulness of credit and other financial services and products of very small amounts to the poor in rural, semi urban and urban areas, for enabling them to raise their income levels and improve living standards" (Microfinance study mode, 2009). Further Indian Micro Finance Bill defines it as Micro Finance is an economic development tool whose objective is to assist the poor to work with their way out of poverty. It covers a range of services which include, in addition to the provision of credit, many other services such as savings, insurance, money transfers, counseling, etc. (Standing Committee On Finance, 2014). All together we can summarize microfinance as the service rather than the core meaning of finance, it is the service of providing the finance and financial services to the people in rural, semi urban and urban areas for assisting them to raise their income level and improve living standard. Microfinance is for the intensive development; (severe) growth strategy of microfinance sector can be cost effective and ensure the long term sustainability of the sector (Craig and Cheryl, 2006). Microfinance is now mostly concerned with rural people as the urban market has become overcrowded and vast area of rural is to cover yet, microfinance institutes with the collaboration of central development banks and Non-Government organizations (NGO's) carrying out the operation in these areas.

Microfinance institution and microfinance itself came into existence in early 1980s with small efforts at forming informal self-help groups (SHG) to provide access to much-needed savings and credit services. From this small beginning, the microfinance sector has grown significantly in the past decades. Even though microfinance institutes (MFI) in India works for urban and rural poor in different states of India with different names but the aim of these institutions is to enable under privileged people to become self-reliant by engaging them in income generating activities. Further by participating in its livelihood and financial literacy programs. These Microfinance institutions can either provide savings services directly through deposit taking or make arrangements with other financial institutions to provide savings facilities to tap small savings in a flexible manner (Barry, 1995). The main product which they (MFI's) offer is the micro credit for the deprived people, which is said to be the synonymous to microfinance in Indian context. However microfinance is not confined to credit only other services like savings, thrift and microfinance has not attained its heights (CRISIL, 2009). Microfinance sector in India is fragmented from east to west and from north to south of the national boundary, we have crossed the mark of 4000 solo MFI's, NGO's and mutual NGO-MFIs of which more 400 have active lending programs, the loan capacity of Indian MFI's has crossed the mark of 35000 crore by March 2015. However these microfinance institutions were incomplete without the financial support of National bodies like the National Bank for Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) which are offering significant (financial resources) and financial services to the world of microfinance and financial institutions. Saving of small amount by the number of people in the group can help them at the time of authentic need and saving makes the people of the group more disciplined towards the future Misfortunate's.

Further in the year 2011-12 NABARD provided Rs.33.31 crore for promotional support out of the Rs. 28.68 was grant support for promotion and Rs. 4.63 was for capital support. NABARD has been expanding these funds from its own resource and has also been crediting interest on the unutilized portion of the funds (NABARD, 2012). In the year 2012-13 NABARD devote Rs. 33.50 crore for promotional support and has utilized 3700 NGO's and other partners for the dissemination of promotional support. On the 31 March 2013 government of India and Reserve Bank of India decided to formally close MFDEF scheme but NABARD has to provide continuous support for the promotion and awareness of microfinance among the people (NABARD, 2013). Inclusive growth has been succinctly defined by the Asian Development Bank as "growth that not only creates new economic opportunities, but also ensures equal access to the opportunities created for all segments of society, particularly for the poor" (Ali & Son, 2007).

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA SIDBI AND MICROFINANCE

NABARD has almost covered every aspect of agriculture and Rural development by delivering its important services to the under privileged people, however there are some areas like industries, services and business which are not covered under NABARD but are important source of employment and income all they need is the finance to grow. So, the Government of India for the micro financing of small industries and enterprise with the help of Micro financial institutions (MFI) and Non-Government Organizations (NGOs) came up with Small Industries Development Bank of India (SIDBI) in the year 1990 which was set-up with the aim of promoting, financing development of Industries in the small scale sector and coordination of the functions of other institutions engaged in similar activities (SIDBI). SIDBI is playing active role in delivering bulk finance to MFI/NGOs so that they can expand their operations and to reach the people who actually are in need of finance at a small amount (SIDBI, 2009). It is believed that the Small scale industries in India are small in size but big in achievement (Prasad, 1974). Ever since the inception of SIDBI it is continuously offering products and services in areas where there is a need, it including direct finance, international finance, government subsidy and fixed deposits mostly the microfinance services are offered indirectly through its main clients like Financial institutions and NGOs to the individuals, investors and entrepreneurs. Financial institutions with the help of SIDBI offers loans to micro and small entrepreneurs (MSE) which is said to be one of the most powerful tools to fight poverty and promote growth (Morduch, 1999; Robinson, 2001). Microfinance is not only the approach towards the poverty reduction it is a complete focus on development and negotiation between outreach and efficiency (Rhyne, 1998).

SIDBI contributes in the Indian microfinance sector by providing credit and capacity building grants to large- and medium-scale microfinance institutions. Micro Finance Scheme of SIDBI are under operation since January, 1999 with a corpus of Rs.100 crore and a network of about 190 capacity assessed rated MFIs/NGOs Under the program (Charantimal,2012). As of March 2012, SIDBI reported total assets of INR 594 billion, 2003, benefiting over 9 lakh beneficiaries. Under the program, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance. SIDBI provides number of services for microfinance such as:

- SIDBI Foundation for Micro Credit (SFMC):-
- Microfinance Equity Fund (IMEF):-
- India Microfinance Platform:-
- Capacity Building Support for the sector:-
- Opening of specialized Microfinance branches

The financial support of SIDBI to the micro financial institutions, in the year 2009-10 the loan disbursed was Rs 2665.75 (Cr.) but the loan disbursed amount has decreased during the next financial years drastically from the 2665.75 (Cr.) to 239.42 (Cr.) in the year 2011-12 with that the number of MFIs also decreased in number but from the year 2012 onward the number of MFIs and amount spend for microfinance start growing again and was Rs. 408.27 (Cr.) in the year 2012-13 against 41 MFIs and Rs. 646.01 (Cr.) in the year 2013-14 as against the same number of MFIs. Further the table shows the loan which remains outstanding to the MFIs, the amount of outstanding loan was very high in the year 2009-10 i.e. Rs. 3808.20 (Cr.) as against to 146 MFIs and has reached to Rs. 1979.90 (Cr.) against 84 MFIs in the year 2013-14 which shows the amount of outstanding loan slowly came down that is very positive sign for the growth of SIDBI.

FINDINGS

This working paper tries to outline the prevailing condition of the Microfinance in India and the financial & promotional support of important financial institutions. The prospect of Micro-Finance is dominated by SHGs (Self Help Groups) - Banks linkage Program. Its main aim is to provide a view how NABARD and SIDBI like institutions are working continuously for the development of the country through developing the under privileged group of rural India.

- The microfinance is a cost effective mechanism for providing financial services to the poor. It mostly works on the SHG model in countries like India. It is a financial systems approach to expanding outreach of the Indian financial sector to cover the comparatively comprehensive sector.
- Microfinance is a critical tool for reaching all those under privileged group such as women, socially and economically backward classes for the purpose to empower them and greatly improve their lives.
- The microfinance, in India is now a growing appreciation of the 'empowerment' dimension of finance, of the extent to which it can give ordinary people and the poor access to opportunity and the ability to escape from the ossified social structures.
- Although the sustainability and profitability of microfinance enterprises is frequently questioned, it is important to understand that microfinance is nonetheless a crucial component of development.
- NABARD and SIDBI are two important institutions being setup for the Purpose to improve income and reduce vulnerability of poor people and small producers by expanding their access to finance and markets. Microfinance is one of the important services provided by these institutions to achieve their mission of alleviation of poverty.
- NABARD is providing financial as well as promotional support to the SHGs and the individuals. Refinance, Capacity Building Program and Micro Finance Development and Equity Fund (MFDEF), are the important services of NABARD, which helps in meeting the equity needs of SHG and MFIs to some extent.
- It was reported for several years that the repayment rates of loans under microfinance were above 95 per cent. In fact, the high repayment rates in this sector were considered to be the most prominent feature of micro finance.

- While SIDBI is not showing positive growth like NABARD, it is because SIDBI is losing confidence in lending to MFIs is evident from the fact that the fresh lending to MFIs will increase the Nonperforming Assets (NPA) to the bank, the lending operations has declined by over 75% in year 2014 as compared to year 2010. There has also been a major decline in the number of MFIs availing fresh loans the number of MFIs was 146 in the year 2010, 139 in 2011, 129 in the year 2013 and 84 in the last year. In spite of the fact that the loan outstanding against MFIs has come down dramatically during the past years banks like SIDBI are not ready for the risk of lending.
- Beginning with the refinancing agency to banks and other state level financial institutions for their credit, SIDBI has expended its activities including direct finance, bills finance, subsidies and promotion and development to small and medium entrepreneurs.
- The SIDBI and NABARD are two model institutes, for poverty alleviation and an groundbreaking approach to ensure access in rural contexts of India, where few options for financial services exist.

RESEARCH METHODOLOGY

The present study is based on secondary data. Data has been collected from the Published records of SIDBI and NABARD Publication in addition to this secondary data has been collected from daily business news papers, Magazines, books & Journals. Duration of study period is five years from 2010-11 to 2014-15. For the purpose of analysis, correlation is used through SPSS.

CONCLUSION

Financial development through outreach of microfinance program has an important bearing on the growth of human capital and thus, in turn, influences the incidence of poverty and under privileged empowerment. Institutions like NABARD and SIDBI have call for the coordination effort with the objective of strengthening and main-streaming the future operations of microfinance for the uplift of each sect of the society. NABARD and SIDBI has improves the sector of microfinance and has witnessed substantial amount of resources being earmarked towards meeting the credit needs of the poor. The banking network underwent an expansion phase without comparables in the world and more importantly deprived people got the benefits of the different financial services. These two institution bring the concept of deserve to desire in the world of microfinance in India.

An attempt has been made in this study to understand the role of Microfinance on the growth and development of Micro-Enterprises this paper assessed Micro-Enterprises owners who have received credits from Micro Finance institutions. The finding also revealed that most of the respondents in this study reported that their business had expanded.

The study concludes that accessibility to the products offered by Microfinance Institutions affects financial performance of Micro Enterprises positively.

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