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Role of NABARD and 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.

I. Introduction

Small savings of the economically deprived people for the purpose of their future requirement and forthe 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 poorhelps 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, Indiangovernment 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 andinnovations. 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 ofmicrofinance, different countries and different people define it differently, however many initiators who have worked for elevation of microfinance has definedmicrofinance 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 raisetheir 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 enableunder privileged people to become self-reliant by engaging them in income generating activities. Further by participating in its livelihood and financial literacyprograms. 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 deprivedpeople, 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 loancapacity 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 tothe 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 futuremisfortunate’s. To some extent this microfinance concept of SHG is based on the principle of Adam Smith who said “The best result comes from everyone in the group doing what's best for himself” further he said self-interest is one of the important aspect of nation wealth maximization. The growing rate of SHGs in India shows that the people themselves disciplined towardsthe saving.

a) Status of microfinance in India 2008 onwards

Microfinance in India is running under two basic models of microfinance one is Self Helping Group (SHG) Model and other one is Micro financial institute model. The SHG model works on the principle of directly financing to SHG by the banks and MFI model covers financing of micro finance institutions(MFIs) by banking agencies for the purpose of lending the same amount to SHG's and other small barrowers (NABARD, 2009). From one side it is Self Help Group (SHG) which is based upon the saving of groups (SG) that is selfmanaged community based groups that provide their members access to basic financial services. SHGs are composed of 15 to 25 self-selected individuals whomeet regularly (usually weekly or fortnightly) to save and, if desired, borrow for short periods, paying monthly interest at a rate set by the group (Aga Khan Development Network [AKDN]) even government is coming forward to help these SHG's. From the other side microfinance institutes find out the deprived ones and helps them to have access to finance with their own and from government organizations especially from NABARD and SIDBI.

The financial institutions and SHG's in India have set their standard to reduce poverty since decades. There are some financial institutions which came into existence but do not budge for the long, however their contribution can not the ignored. These institutions have added their best to extend microfinance massage to the people and had accord for the up-liftment of the covered area. We have taken the contributory microfinance institution and SHG's which have helped to make financial assistance available to helpless people since 2008 till 2014. We have shown the variation in the number of SHG's and MFI's. Further their contribution to the world of finance in India.

Table 1 : Showing financial support to self help Groups and Micro finance institutes

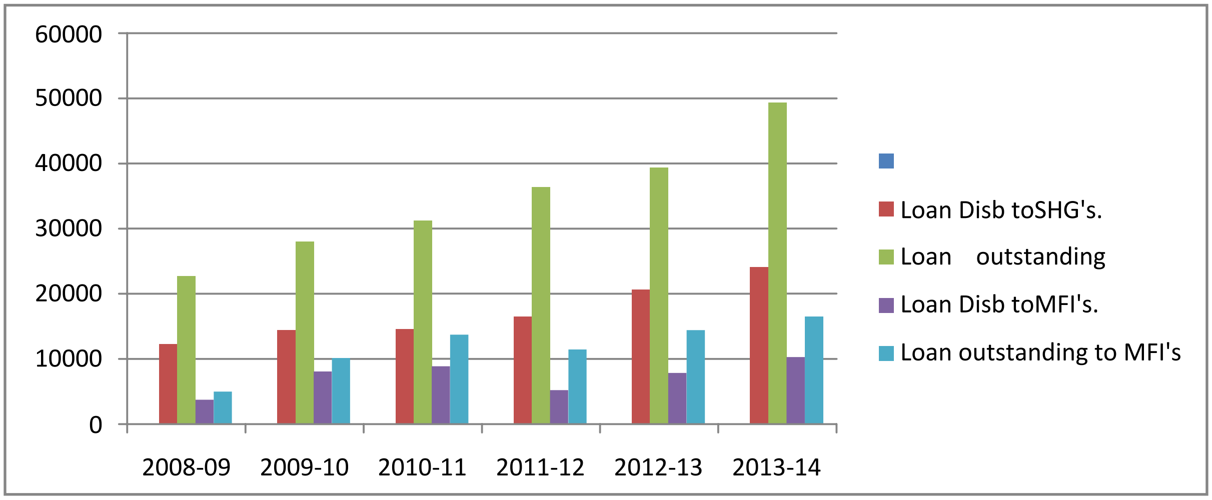
	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
SHG's	Amount in (Cr.)					
Total NO	6121147	6953250	7962000	7660000	7318000	7430000
Loan Disb	12253.51	14453.30	14547.73	16534.77	20585.36	24017.36
Loan O/S	22679.81	28038.28	31221.17	36340.00	39345.30	49297.96
MFI's	Amount in (Cr.)					
Total No	581	691	471	465	426	545
Loan Disb	3732	8062.74	8848.96	5205.29	7839.51	10282.49
Loan O/S	5009.09	10147	13730.62	11450.35	14425.82	16517.43

Table 2 : Shows increasing and decreasing fluctuation size of MFI's, SHG's and their loan distribution with loan outstanding to the people

Year	Refinance by NABARD			Cumulative Refinance by NABARD		
2009-10	Total of the Year	Growth Amount	%	Total	Growth Amount	%
	3175.56	555.53	21.2	12861.65	3175.36	32.7
		(3175.56-2620.03)			(12861.65-9686.09)	
2010-11	2545.36	(-631.2)	-19.9	15407.01	2545.36	19.8
		(2545.36-3175.56)			(15407.01-12861.65)	
2011-12	3072.59	527.36	20.7	18479.60	3072.59	19.9
		(3072.59-2525,36)			(18479.60-15407.01)	
2012-13	3916.64	844.05			3916.64	21.2
		(3916.64-3072.59)	27.5	22396.24	(22396.24-18479.60	
2013-14	3745.84	-170.8	-4.3	26142.08	3745.84	16.72
		(3745.84-3916.64)			26142.08-22396.24	

The table above shows two important aspects related to the microfinance, *first* one is the table shows the increase and decrease in the number of *Self Help Group* which has marvelous growth in number during theyear2009-10and2010-11butinverynexttwoyears ithasshowndownwardtrendinthegrowthofnumbers. especially the year 2009-10, 12-13 and 2013-14 has astonishing growth, however the year 2010-11 and 2011-12 have not that much impressive growth.

In the second part, the table shows the growth and decline in the number of Microfinance institutions with that it also shows how much loan has been distributed through MFI's and how much loan is outstand yet. The number of MFI are not great in number yet, its total number has been struggling since last five years the number has not touched the 1000 markyetmanyMFIcameintoexistencebutonlyfewhas sustained in the market the number was 581 and 691 in the year 2010 and 2011 but unfortunately and miss management of these MFI the number is coming down and has reached to 545 in the year 2014. However the financialsupportoftheseMFI'sisquiteinspiring,the Further under SHG we have taken how much loan has been distributed and how much loan is outstanding in particular year. The increasing and decreasing trend of loan distribution has been calculated and shown in the graph by taking 2008-2009 as a base year. The loan distribution has shown positive growth in each year loan distribution shown positive growth from the year 2009till2012butunfortunatelythedistributionhascome down with sharp decline in the year 2012-13 but there after it has again moved towards positive distribution direction. Further the loan outstanding is also shown against the amount of loan disbursed. If we analyze the data we came to know that loan repayment is good in case of MFI's even though amount loan distribution is smallinMFI's.Thisloanrepaymentisthefuturegrowth of microfinance sector, good will be loan repayment better will be the growth of the sector at all. SHGs and MFI's, needed bit batter approach for the repayment and timely repayment of credit this definitely will increase the number of barrowers and will take that microfinance sector in India to the newsuccess.



Graph 1 : Loan distribution to SHG's &MFI's and the Outstanding balance of the loan to MFIs

b) National Bank for agricultural and Rural Development (NABARD) and Microfinance

MicrofinanceinIndiaisplayinganimportant roleinpovertyalleviationandiswidelycreditedforits successbothnationallyandinternationally.Asweknow India's labor force is composed of Agriculture (60%), Industry(12%)andservices(28%)whichclearlyindicate thateventodayagricultureisamajorsourceofincome andemployment,keepingthisinviewgovernmentof IndiacameupwithNationalBankforAgriculturaland Rural Development (NABARD) in the year 1982 as a National development bank. The institute was accredited with all matters concerning to policy, planning and operational in the field of credit for agricultureandeconomicactivitiesfurtherallnecessary matterspatterningtoproviding&Regulationofcredit andotherfacilitiesforthepromotionanddevelopment ofagriculture,villageindustries,handicraftsandother rural crafts. The corporate mission of NABARD is to make microfinance available to the abject poor and under privileged group of the rural areas. It offers a meansforreachingthepoorwhoareleftoutofthe substantialpositiveeffectonnon-farmemploymentand output also (Binswanger & Khandker, 1992). NABARD provides refinance support, micro development equity fund, small credit and other facilities for promotion, expansion, of Self Help Groups not only self-help groups its provides support to individual level for the driveofplummetingpovertyandalliedactivitiesforthe purpose of development of the people mostly rural. It has become link between Reserves Bank, Commercial Banks and the people and further 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). It has envisaged as an organizational device to provide undivided attention, forceful direction anda formal financial sector. NABARD is essentially new way to create a scalable and sustainable employment and to meet the unmet availability of funds for businessrelated to agriculture. It has provided linkage to Self Help Group's since last three decades; NABARD had assigned itself the role of a facilitator and a mentor of the initiative. The focus was on bringing in various stakeholders on a common platform, building capacity among the stakeholders to take the movement forward while extending 100% refinance to all banks participating in the program (NABARD, 2012). Besides that NABARD conducts large number of seminars, workshops and training programs to create awareness about the microfinance program among all the stakeholders.

c) Nabard Linkage With Shg's

NABARDwiththeexperimentalstudywithsmall group of people in the year 1992 by linking 255 Small Helping Groups and 48.5 lakh credit-linked SHG's and has become apex body for microfinance in India (NABARD,2009).Sinceitsformationithasprovided pointed focus to the credit problems arising out of an integrated approach to rural development, NABARD provides Opportunities to keep safe their occasional small surpluses in the form of saving and access to consumption loans to meet emergent needs so that people have free access to financial services and products, including loans for micro-enterprises.

d) Refinance Support

Refinance is one of the top and most effective programs of NABARD under this scheme NABARD refinance to banks at 100% at a concessional rate of interest at 6.75% p.a. and financial assistance provided to banks to function as promoting institutions.

Table 3 : Small Industries Development Bank of India (SIDBI) financial supported to MFIs

Year	Loan disbursed		Variation		Loan outstanding		Variation	
	MFIs	Amount Rs(crore)	MFIs	Amount	MFIs	Amount Rs(crore)	MFI	Amount
2009-10	88	2665.75	0	0	146	3808.20	0	0
2010-11	2	843.78	-86	-1821.97 (68.3%)	139	3041.77	-7	-766.43
2011-12	12	239.42	+10	-604.78 (71.6%)	129	1597.11	-10	-1444.6
2012-13	41	408.27	+29	168.85 (70.5%)	102	1880.63	-27	+283.5
2013-14	41	646.01	0	237.74 (58.2%)	84	1979.90	-18	99.27

Graph 2 : **Showing Comparison of cumulative growth**

e) Promotional Support

i. Micro Finance Development and Equity Fund (MFDEF)

It is microcredit initiative by NABARD for the motive of providing promotional support to socialenterprises, stake holders of SHG's and microfinance clients by providing micro-capital for their small and medium business needs. The government of India in the year 2000-01 introduced this promotional support program with the name Micro-finance Development Fund (mFDF) and its initial corpus was Rs 100 crore to be funded by Reserve bank of India, NABARD and Commercial banks in the ratio of 40:40:20. Further in the year 2005-2006 the name has been modified as Microfinance Development and equity Fund(MFDEF) and the budget of this program has been increased to 200 crore in the same ratio (NABARD, 2006). NABARD is socially conscious and is working continuously for the promotional support. In the year 2010-11 the corpus of MFDEF has increased 400 crore and NABARD has contributed Rs29.95 crore as grant towards various promotional activities out of that Rs. 17.45 crore was for the capital support.

Further in the year 2011-12 NABARD provided Rs.33.31 crore for promotional support out of the Rs.28.68wasgrantsupportforpromotionandRs.4.63was forcapitalsupport.NABARDhasbeenexpandingthese fundsfromitsownresourceandhasalsobeencrediting interestontheunutilizedportionofthefunds(NABARD, 2012).Intheyear2012-13NABARDdevoteRs.33.50 crore for promotional support and has utilized 3700 NGO's and other partners for the dissemination of promotionalsupport.Onthe31March2013government ofIndiaandReserveBankofIndiadecidedtoformally close MFDEF scheme but NABARD has to provide continuoussupportforthepromotionandawarenessof 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 alsoensures equal access to the opportunities created for all segmentsofsociety,particularlyforthepoor"(Ali&Son, 2007).

II. 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 andbusinesswhicharenotcoveredunderNABARDbut areimportantsourceofemploymentandincomeallthey needisthefinancetogrow.So,theGovernmentofIndia forthemicrofinancingofsmallindustriesandenterprise 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/NGOssothattheycanexpandtheiroperationsand 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)whichissaidtobeoneofthemostpowerfultools to fight poverty and promote growth (Morduch, 1999; Robinson,2001).Microfinanceisnotonlytheapproachtowards 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,benefitingover9lakhbeneficiaries.Under the program, NGOs/MFIs are supposed to provide equity support in order to avail SIDBI finance. SIDBI provides number of services for microfinance suchas:

- SIDBIFoundationforMicroCredit(SFMC):-
- Microfinance Equity Fund(IMEF):-
- India MicrofinancePlatform:-
- Capacity Building Support for thesector:-
- Opening of specialized Microfinancebranches

Table 4 (Here) Small Industries Development Bank of India (SIDBI) financial supported to MFIs.

The above table shows the financial support of SIDBItothemicrofinancialinstitutions,intheyear2009- 10 the loan disbursed was Rs 2665.75 (Cr.) but theloan disbursed amount has decreased during the next financial years drastically from the 2665.75 (Cr.)to239.42(Cr.)intheyear2011-12withthatthenumberof 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 outstandingtotheMFIs,theamountofoutstandingloan 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 downthat isverypositivesignforthegrowthofSIDBI.

III. Findings

Thisworkingpapertriestooutlinetheprevailing conditionoftheMicrofinanceinIndiaandthefinancial& 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 underprivilegedgroupofruralIndia.

- The microfinance is a cost effective mechanism for providingfinancialservicestothepoor.ItmostlyworksontheSHGmodelincountrieslikeIndia.Itis a financial systems approach to expanding outreach of the Indian financial sector to cover the comparatively comprehensivesector.
- Microfinance is a critical tool for reaching all those underprivilegedgroupsuchaswomen,sociallyand economically backward classes for the purpose to empowerthemandgreatlyimprovetheirlives.
- 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 socialstructures.
- Although the sustainability and profitability of microfinance enterprises is frequently questioned, it is important to understand that microfinance is nonethelessacrucialcomponentofdevelopment.
- NABARDandSIDBIaretwoimportantinstitutions beingsetupforthePurposetoimproveincomeand reduce vulnerability of poor people and small producersbyexpandingtheiraccesstofinanceand markets. Microfinance is one of the important services provided by these institutions to achieve theirmissionofalleviationofpoverty.
- 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 someextent.
- Itwasreportedforseveralyearsthattherepayment 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 microfinance.
- 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 Non- performing 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 loansthenumberofMFIswas146intheyear2010, 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 oflending.
- Beginning with the refinancing agency to banks and otherstatelevelfinancialinstitutionsfortheircredit, SIDBI has expended its activities includingdirectfinance, bills finance, subsidies and promotion and development to small and medium entrepreneurs.

• TheSIDBIandNABARDaretwomodelinstitutes,for povertyalleviationandangroundbreakingapproach to ensure access in rural contexts of India, where few options for financial servicesexist.

IV. 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.InstitutionslikeNABARDandSIDBIhave 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 thesociety. 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 moreimportantlydeprivedpeoplegotthebenefitsofthe different financial services. These two institution bring the concept of deserve to desire in the world of microfinance inIndia.

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