

## NABARD AND MICROFINANCE INSTITUTIONS: AN OVERVIEW

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### **Abstract**

*This research paper is attempted to make an analysis of micro finance institutions and its impact on growth of especially rural economy. It also focuses on the institutional support for Microfinance Institutions in Karnataka with selected institutions. The researcher focused on NABARD as one of the main institution.*

*The microfinance institutions are those financial institutions which fulfill the needs of micro financial requirements of various stakeholder of the society with less effort based on reasonable documents. such as banks, money lenders which provides microfinance services, especially they accepting deposits, providing loans and advances and other services such as money transfers, and insurance etc. Now a day's micro finance is considered as one of much needed financial services or tool in the financial market mainly introduced to grant small loans, open saving accounts and insurance to persons in developing countries like India to help them to start small businesses or engage in other economic activities in order to overcome poverty. The several financial institution providing finance the rural people, especially Microfinance institution served in livelihood, poor and low-income households, health care, housing improvements, small business creation, and other needs in underserved populations, specifically poverty and near-poverty level individuals. It is observed that microfinance sector estimated in India has the potential to grow at CAGR of 40 percent by 2025 and also poised to become a USD 5 trillion economy.*

### **Key words:**

*Micro Finance, Credit, entrepreneurs, economic development, Institutions.*

### **Introduction**

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provides microfinance services, especially they accepting deposits, providing loans and advances and other services such as money transfers, and insurance etc. Now a day's micro finance is considered as one of much needed financial services or tool in the financial market mainly introduced to grant small loans, open saving accounts and insurance to persons in developing countries like India to help them to start small businesses or engage in other economic activities in order to overcome poverty. The several financial institution providing finance the rural people, especially Microfinance institution served in livelihood, poor and low-income households, health care, housing improvements, small business creation, and other needs in underserved populations, specifically poverty and near-poverty level individuals.

*The microfinance is playing a significant role in the Indian economic development. It act as an anti poverty vaccine for the people living in rural area. It serves the needs of economically marginalized group of people. The state and central governments introduced various schemes which support and boost micro financial services since from the post independence. It is observed that microfinance sector estimated in India has the potential to grow at CAGR of 40 percent by 2025 and also poised to become a USD 5 trillion economy.*

In Karnataka more than 30 women borrowers have availed micro finance loans and many have become successful entrepreneurs and also these small micro finance loans have boosted agriculture, sericulture, handicrafts and several other traders. The Microfinance institutions are the emerging and effective financial tool which used to minimize the various social issues like Poverty in India. The different types of institutions offering microfinance in India are-

- The Commercial Banks
- The Credit Unions
- The Non-Government Organizations' (NGOs)

- The Government Sector Banks
- The Co-Operative Banks etc.

**Objectives of the study**

- To Understand the History and Status of Microfinance institution in India
- To study Institutional Support to Microfinance institutions in India

**Hypothesis:**

H<sub>1</sub>-There is a correlation between micro finance institution and growth of Indian rural economy.

H<sub>0</sub>-There is no correlation between between micro finance institution and growth of Indian rural economy.

**History of Micro Finance Institution**

The micro finance origin can be seen in Karnataka dates back to 1984 when Mysore resettlement and Development Agency (MYRADA) is a Non Government Organization engaged in rural development and based in Karnataka, promoted various co-operative societies which provides loans and advances to their members. the Cauvery Grameen Bank of Mysore district become the first RRB (Regional Rural Bank) in the state to promote and credit-link several self help groups which provides micro finance services for the needy people

The micro finance history can be seen India in the mid of 1980 as NABARD (The National Bank for Agriculture and Rural Development) took the lead to launch SHG-Bank Linkage Program (SBLP) in 1991-92 under this program the first concept which is Micro finance and the concept of Micro Credit launched by The private Vysya Bank. The SEWA (Self Employed Women’s Association) Bank was an cooperative Bank which established at Ahmadabad Gujarat State, it was one of the first micro finance institution in India.

**Micro Finance and its Impact on development of Rural Indian Economy**

Micro finance is considered as one of the important financial tool which helps to poverty eradication, economic growth and development in various developing nations like India. As India is most second populous country in the world after china, and more than seventy percent of the Indian population is rural background and majority of them depend on agriculture to lead their lives and the system of agriculture is still in old and traditional which facing lot of financial problems. The micro finance institutions are playing significant role in the growth and development of rural economy by providing micro finance service which impact on Indian Economy in various segment.

**Stability of Finance:**

Micro Finance institution helps to the rural people to maintain financial stability, small and micro credit offers the rural people to generate enough income for their day to day expenses such as food shelter and basic medical needs. These micro finance institutions provide the various opportunities for long-term financial stability.

**Employment generation:**

micro finance institutions may not generate huge employment generation as MNCs and Medium and Large scale industries provide in the cities .but in rural area these institutions are playing significant role in providing employment opportunities, micro finance institution provide the finance to small entrepreneurs for their business start up and which help to rural people in many ways and also generate the employment.

**Helps to poverty eradication:**

The micro finance institutions giving the financial support to low level income and poor families which helps to the rural families to maintain long term financial stability and slowly these institution helps to eradication of poverty in global.

**Helps to start new small business:**

this Micro finance sector has made substantial progress over the past few decades and made many group of people above the poverty line, this sector played a important role in the new small entrepreneurs especially by providing small loan or micro credit in the initial stage and also to expand the small business

**Institutional Support to Microfinance institutions in India**

The Microfinance is also emerging as a fast growing sector, although this segment is still under-penetrated. The government of India introduced various institutions to support and boos microfinance sector in India such as

- Swarnajayanti Gram Swarozgar Yojana (SGSY)
- The National Bank for Agriculture and Rural Development (NABARD)
- The Small Industrial Development Bank of India (SIDBI)
- The Regional Rural Banks (RRBs)
- The Commercial bank etc.

**The National Bank for Agriculture and Rural Development (NABARD)**

The NARARD came into existence on 12<sup>th</sup> July 1982 with an initial capital of rupees of 100 Crore by transferring the agricultural credit functions of RBI and refinance functions. It is a development bank of the nation for fostering rural prosperity and also it promotes sustainable and equitable

agriculture and rural development through participative financial and non-financial interventions, innovations, technology and institutional development for securing prosperity. This NABARD served in the growth and development of Microfinance Institution in India in several ways such as –

- Policy support
- Training and capacity building program
- Support to various Self Help Group (SHGs),NGOs which support Microfinance institutions
- NABARD assisted to microfinance institution with grant support and revolving fund assistance (RFA), later NABARD helped no. of Microfinance institutions with quasi-equity and

subordinated debt instrument from Microfinance Development & Equity Fund (MFDEF).

- This NABARD product facilitates hassle-free credit which is of credit larger in quantum.
- NABARD encourages 100 percent refinance support to banks who works in microfinance sector in India and also entered into 72 memorandum of understanding (MOU) with RRBs, out of which 49 MOU with RRBs, 19 MOU with commercial bank, 02 MOU with co-operative banks and remaining 02 MOU with NABFINS.

The role of NABARD can be seen with the following statement during period from the 2013- to 2020-21

**Table.No.1. Progress under Microfinance -Savings of SHGs with Banks (Rs.in Lakh)**

Year	India		Southern Region		Karnataka		%	%
	No.of. SHGs	Savings Amount	No.of. SHGs	Savings Amount	No.of. SHGs	Savings Amount	No.of. SHGs	Savings Amount
2013-14	7429500	989741.54	3696324	623862.39	709171	108757.29	<b>9.5</b>	<b>10.99</b>
2014-15	7697469	1105984.07	3719621	662140.87	734304	130241.10	<b>9.53</b>	<b>11.78</b>
2015-16	7903002	1369139.01	3545896	866934.33	962446	144242.13	<b>12.18</b>	<b>10.53</b>
2016-17	8576875	1611422.64	3724598	979657.70	1031733	131181.48	<b>12.0</b>	<b>8.14</b>
2017-18	8744437	1959211.52	3649296	1215826.80	835643	114701.74	<b>9.55</b>	<b>5.85</b>
2018-19	10014243	2332448.15	3836418	1289928.25	907391	115494.28	<b>9.06</b>	<b>4.95</b>
2019-20	10243323	2615204.89	3689236	1470084.74	874536	151437.38	<b>8.54</b>	<b>5.79</b>
2020-21	11223400	3747761.37	3961703	2129485.19	784815	180493.18	<b>6.99</b>	<b>4.82</b>

Source: NABARD's Report on Status of Microfinance India from the Period of 2013-14 to 2020-21

The significant role played by NABARD in growth and development of microfinance institutions in India and microfinance savings of SHGs with banks. It is noticed that there is rapid growth in terms of No. of SHGs in 2013-14 recorded 7429500 and increased to 11223400 in the 2020-21. In 2013-14 the savings amount from also increased from Rs.989741.54 Lakh to 3747761.37 lakh in 2020-21.

The Karnataka Microfinance sector has recorded 9.5 and 10.99 percent respectively in 2013-14 as no. of SHGs and total amount of savings. From 2013-14 to 2016-17 statement shows that there is continuous increasing in no. of SHGs and also in

terms of amount savings from the selected SHGs but in 2016-17 little negative. From 2018-19 to 2020-21 is recorded negative growth in terms of No.of. SHGs decreased from 907391 to 784815, but the amount of saving proportionately increasing rate. It is observed that southern region occupied more than or nearly 30-40 percent in terms of no of. SHGs and amount of savings out of total. In southern region Andhra Pradesh, Telangana and Tamil Nadu acquired to first, second and third places in terms of both no. SHGs and amount of savings, then 4<sup>th</sup> place acquired by Karnataka.

**Table.No.2. Progress under Microfinance – Bank Loans Disbursement (Rs.in Lakh)**

Year	India		Southern Region		Karnataka		%	%
	No.of. SHGs	Savings Amount	No.of. SHGs	Savings Amount	No.of. SHGs	Savings Amount		
2013-14	1366421	2401735.85	874585	2061550.70	175778	296401.97	12.86	12.34
2014-15	1626238	2758231.06	1005227	2141972.13	225031	480337.12	13.84	17.41
2015-16	1832323	3728690.09	1158797	3001235.44	281389	625908.13	15.36	16.79
2016-17	1898120	3878115.64	1136692	3102331.73	265043	572200.91	13.96	14.75
2017-18	2261132	4718587.61	1255603	3508834.10	399295	819680.29	17.66	17.37
2018-19	2698400	5831762.88	1474208	4286255.78	478490	844587.46	17.73	14.48
2019-20	3146002	7765934.84	1636481	5484696.40	451938	997408.55	14.36	12.84
2020-21	2887394	5807067.81	1337266	3786062.64	216748	469245.12	7.51	08.01

Source: NABARD’s Report on Status of Microfinance India from the Period of 2013-14 to 2020-21

The above table Microfinance and Bank loan disbursement shows that the total no. Of SHGs and the amount of savings recorded in India is 1366421 and 2401735.85 respectively out of which Karnataka has recorded 12.86 and 12.34 percent

respectively in the progress of microfinance- bank loan disbursement. From 2013-14 to 2020-21 it noticed that the no.of SHGs constantly increasing in Karnataka

**Table.No.3. Progress under Microfinance –Bank Loans Outstanding against SHGs (Rs.in Lakh)**

Year	India		Southern Region		Karnataka		%	%
	No.of. SHGs	Savings Amount	No.of. SHGs	Savings Amount	No.of. SHGs	Savings Amount		
2013-14	4197338	4292752.40	2221038	3179133.30	337196	391583.93	8.03	9.12
2014-15	4468180	5154546.14	2389972	3863968.54	529953	592751.77	11.86	11.50
2015-16	4672621	5711923.47	2543219	4310725.23	632437	747474.74	13.53	13.10
2016-17	4848287	6158130.36	2541356	4664964.98	649709	814933.36	13.40	13.23
2017-18	5020358	7559845.12	2639415	5762488.76	744479	1112606.82	14.83	14.72
2018-19	5077332	8709815.43	2538090	6427520.94	612742	1188275.39	12.10	13.64
2019-20	5677071	10807507.24	2818863	7777427.45	666043	1415440.77	11.73	13.10
2020-21	5780244	10328970.83	2539325	6885761.66	433297	1087908.22	7.50	10.53

Source: NABARD’s Report on Status of Microfinance India from the Period of 2013-14 to 2020-21

The above statement shown that there is constantly increasing in no. of SHGs and amount of savings as Bank loan outstanding against SHGs. It is one of the big issues every time we observe repayment system is always in negative it impact on economies of state and central government

### **Findings and Conclusion of the study**

It is found that micro finance institutions are financial companies which provide small loans (Micro credit/Loan) to people who do not have access to banking facilities and where banks not extend their business operation. It also observed that micro finance institution beneficiaries are generally from low income background, as they get very small amount of loan for short period with high rate of interest, the borrowers of the micro finance institutions need not provide any collateral asset as security. It is found that Governments are not actively involving in the process of micro finance activities such as motivating to rural people to savings, in the process of bank disbursement to microfinance as compared to Andhra Pradesh, Telangana and Tamilnadu. It is suggested to all the official in supervisory level they have get touch with each person in village and motivate them regarding saving and benefits of microfinance

It is suggested that central and state government should bring various updated schemes where banks are not ready to work and provide the

level of finance services to the rural people through Microfinance so that people can involve in several activities which generate employment and income which leads to growth of rural economy. Finally, government should make sure that objectives of various institution must be fulfill those working for Microfinance institution in India and Karnataka.

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