

An Analysis of NABARD Capacity Building & Refinancing in India in the year 12-13

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Abstract: *This study is about the role of NABARD (National Bank for Agriculture and Rural Development) in capacity building and refinancing for various commercial banks, rural banks and co-operative banks which are financing for Self Help Groups and NGOs in India in the financial year 2012-13. And also to ascertain the various grants and support to partner agencies for the promotion and broad basing of micro finance operations in India. This analysis also tries to find out that, is there any difference between the various grants and supports to the partner agencies. This research also finds out NABARD ancillary role of formation of informal groups like Joint Liability Groups who are basically livelihood groups who came together on the strength of the mutual guarantee to seek livelihood finance for individual economic growth.*

Index Terms: *Capacity Building, Refinancing, Self Help Group, NABARD, Commercial Bank, Rural Bank, Co-operative Bank, Micro Finance*

I. INTRODUCTION:

The statutory role of National Bank for Agriculture and Rural Development (NABARD) has been clearly spelt out as Credit Function, Developmental and Promotional Function, Supervisory Function, Institutional and Capacity Building and Training. This Bank serves as a Refinancing institution for institutional credit such as long term as well as short term for the promotion of activities in rural areas. NABARD provides refinance support to Bank to the extent of 100% of the bank loans disbursed to Self Help Groups (SHGs). The present study is restricted to the role of NABARD in capacity building and refinancing for various commercial banks, rural banks and co-operative banks which are financing SHGs in India in the year financial year 2012 - 13.

II. NEED FOR THE STUDY:

NABARD provides financial support and capacity building assistance to its partners for the promotion and broad basing of micro finance operations. As part of its efforts to link larger number of SHGs to the banking

system, NABARD also focuses on training and sensitization of partner agencies, through various interventions. The difference between the various grants and supports to the partner agencies.

III. OBJECTIVE OF THE STUDY:

- ✓ To study the role of NABARD in capacity building and refinancing
- ✓ To evaluate whether NABARD refinancing to commercial banks and other banks has reached the SHGs
- ✓ To ascertain the various grants and support to partner agencies in the year 2013.

IV. REVIEW OF LITERATURE:

1. Bansal and Agarwal (1991) say that the NABARD is now the single integrated agency for meeting the credit needs of all types of agricultural and rural development activities in the country. It also contemplates undertaking of all works relating to the establishment of RRBs and administration of refinance scheme and monitoring of the performance of RRBs. Ever since the NABARD came into being, it has been playing an important role in strengthening and re-organising the cooperative structure in the National Economy. It has actively taken over the responsibilities of the Reserve Bank of India in relation to rural financing and rural reconstruction.

2. Nanda (2000) observed that NABARD has been directing its parties and programs to support the rural credit institutions towards achieving the goal of providing adequate and timely credit support for on farm, off-farm and non-farm operations in the rural sectors. Various schemes have been formulated and implemented by NABARD for policy and refinance support to banks, in different fields like creation of aggregation facilities, farm mechanization, plantation horticulture animal husbandry, watershed, development, and agro-processing infrastructure in rural areas. NABARD is supporting large scale investment in rural infrastructure that includes a wide range of support services like irrigation, food control, soil conservation, watershed development, roads bridges, marketing in rural areas. These efforts will go a long way towards improving the productivity and profitability of agriculture and the quality of life in the rural areas. This should also lead to increased credit absorption capacity in the rural areas.

3. NABARD (2000) is a unique development finance institution committed to rural development¹⁵. It provides refinance to banks and the state Governments, takes development and promotional initiatives to improve the

impact of credit on development and attempts to bring about equity and justice in such development. It also supervises the operations of rural financial institutions like co-operative banks and RRBs. The year 1999-2000, gives high degree of satisfaction to NABARD. New heights have been achieved in all its areas of operations. Innovations were introduced and new strategies chalked out for better achievement in future.

4. Das Gupta (2001) says that NABARD will definitely encourage the bankers to lend more in rural areas. Refinance to the states by NABARD should be withheld if the repayment performance of rural loans at state level falls below 75 percent. NABARD can consider giving grants to states for better repayments.

5. Arjun Sengupta²⁸ (2001) says that NABARD will have to take on huge responsibilities, take a lot of risks, become an active operator in the field and would need large funds. The state governments were very hesitant to draw long-term loans from NABARD up to the available limits. This could not be explained by the refinance rates of NABARD, which were substantially lower than the market rates, especially for loans below Rs. 2 lakhs.

6. Hitesh and Viramgami (2003) view that NABARD has a dual role to play as an apex institution and a refinance institution. NABARD services as a refinancing institution for all kinds of production and investment credit to agriculture, small scale industries, cottage industries, handicrafts, real artisans and other allied economic activities with a view to promoting integrated rural development, it provides long term, medium term and short term credit to state co-operative banks, regional rural banks, land development and other financial institutions approved by RBI. During 1993-94, NABARD has given short term agricultural credit of Rs 3940 crores, medium term credit of Rs 8 crores and long term credit of Rs 3232 crores. The NABARD is playing an energetic role in strengthening and re-organizing the co-operative structure in the country and is also working towards an effective integration of cooperative credit institutions.

7. Lakshmi Narayanan and Ramanathan and Guvav (2010) focus that capacity building is the key to healthy growth and sustainability of SHG Bank Linkage Programme. A variety of capacity building programs for all the partners involved in SHG banking including bank branches, NGOs, Government officials, elected representatives of Panchayat Raj Institutions, IRVs, Farmers Clubs and SHGs should be undertaken. These may include training programs of various durations with variations in modules according to needs of the participants besides exposure visits, sensitization workshops and meets and working in tandem with Government agencies and NGOs in the district.

V. LIQUIDITY SUPPORT TO BANKS FOR SHG- BANK LINKAGES:

NABARD has continued to provide 100 per cent refinance assistance to banks for financing SHGs. The journey of the Self Help Group – Bank Linkage Programme (SHG-BLP) has been successful, having crossed many milestones – from linking a pilot of 500 SHGs of rural poor, two decades ago, to cover 8 million groups, a year ago. Similarly, from a total savings corpus of a few thousands of Indian Rupees in the early years to a whopping ₹27,000 crore today. Further more, from a few crores of bank credit to a credit outstanding of ₹40,000 crores and disbursements touching ₹20,000 crore during 2012-13. The geographical spread of the movement has also been quite impressive -from an essentially Andhra Pradesh – Karnataka phenomenon in the beginning, to even the most remote corners of India, in the present day. Over 95 million poor rural households are now part of this world's largest micro credit initiative.

VI. FINANCIAL SUPPORT TO PARTNER AGENCIES:

NGOs already working in the social sector are encouraged to take up SHG promotion as an "add-on" activity. During 2012-13, ₹33.50 crore was utilised for various promotional activities like promotion, capacity building and other interventions. With large number of on-going promotional projects with 3700 NGO and other partners, NABARD had committed expenses ruling in the range of ₹200 crore. However, with no contributions from other agencies, the Government of India and Reserve Bank of India suggested closure of the Micro Finance Development and Equity Fund (MFDEF) as on 31 March, 2013. A separate portion of the Financial Inclusion Fund (FIF) will be used for supporting capacity building of stakeholders, promotion of SHGs / livelihood groups (JLGs), studies / seminars, publicity/campaign and all activities incidental thereto, with effect from 01 April 2013.

Ever since the SHG-Bank Linkage Programme was launched by NABARD, the Self Help Promoting Agencies such as NGOs, Banks(RRBs, DCCBs), Farmers Clubs and Individual Rural Volunteers(IRV) are being extended grant support to organise and nurture SHGs of the poor. In fact, the phenomenal growth of SHG-Bank Linkage Programme in the country, is the result of the painstaking efforts put in by these agencies in forming and nurturing SHGs especially in areas where the concept never existed. The financial support extended by NABARD to various SHPIs during the year is indicated in the table below.

Table: 1. Various Grants and Support to Partner Agencies in the year 2012-13(₹ in lakhs)

| Agency | Cumulative Sanction up to 31.03.2013 | | Cumulative Achievement (31.3.2013) | |
|----------------|--------------------------------------|---------------|------------------------------------|---------------|
| | Amount | SHG Nos. | Amount | SHG Nos. |
| NGOs | 19932.18 | 526699 | 6647.68 | 362803 |
| RRBs | 744.99 | 49250 | 185.43 | 45852 |
| Coop. Banks | 1046.23 | 73634 | 353.50 | 51266 |
| IRVs | 460.12 | 26883 | 77.04 | 11228 |
| Farmers Clubs | 40.63 | 2544 | 20.40 | 9832 |
| SHG Federation | 28.61 | 250 | 1.85 | 46 |
| PACS | 397.45 | 8533 | 4.28 | 85 |
| Total | 22650.21 | 687793 | 7290.18 | 481112 |

VII. FINANCING OF JOINT LIABILITY GROUP:

Besides, the SHG-BLP, NABARD has been supporting formation of informal groups like Joint Liability Groups with 4-10 members. These are basically livelihood groups who come together on the strength of the mutual guarantee to seek livelihood finance for pursuing an economic activity. This was basically targeted at mid-segments clients engaged in similar economic activities like crop production and who are willing to jointly undertake to repay the loans taken by the Groups. Unlike in the case of SHGs, JLGs are intended basically as credit groups for tenant farmers and small farmers who do not have proper title of their farmland or security to offer, but needed longer term credit or seasonal credit for pursuing their economic activities. Thus, regular savings by JLG is purely voluntary in nature and there was no intermediation of credit by its members. Loans were given based on mutual guarantee to individuals in a group or as group loans. NABARD besides extending financial support for awareness creation / capacity building of all stakeholders also extends 100% refinance support to Banks on their lending to JLGs. About, 1,96,500 JLGs were promoted and credit linked during 2012-13, as against 1,91,500 JLGs promoted during the previous year. There has been expansion in credit flow to JLGs to the extent of ₹1,837 crore as against ₹1,700 crore (8% increase over the previous year), taking the cumulative number of JLGs to 5,29,246 and the cumulative loan disbursed to JLGs to ₹4,683 crore. The growth of JLGs in the country is less skewed than the SHGs. Although the Southern States top the list with over 2 lakh JLGs credit linked so far, Eastern Region closely follows with 1.81 lakh JLGs. In terms of actual loans disbursed, however, Southern States account for over 60% of the total loans disbursed.

VIII. RESEARCH METHODOLOGY:

The methodology used here is Empirical Study - analysis of historical secondary data of NABARD.

Hypothesis

There is no difference between the various grants and support to partner agencies. The chi-square test was applied and the results are presented in the following table.

Table – 2

| | Value | d-f | Table Value |
|------------------|-------|-----|-------------|
| Partner Agencies | 24.41 | 8 | 15.5 |

The calculated value of chi-square 24.41 is greater than the table value of (15.5) at 5% level. Therefore, the null hypothesis stands rejected.

Hence, it can be inferred that there is a difference between the various grants and supports to the partner agencies.

IX. MICRO ENTERPRISE DEVELOPMENT PROGRAMME:

NABARD has been supporting need based skill development programmes for mature SHGs which already have access to finance from banks. Often, the requirements for skill development or refinement of skill sets of the SHG members is a felt need which NABARD supports through appropriate resource NGOs and other support organizations locally. These are on location skill training programme which attempts to bridge skill deficits or facilitates optimization of production activities already pursued by the SHG members. Inter alia, these include optimization of rice production through improved techniques like “System of Rice Intensification” or maintenance of milch animals, embroidery, tailoring etc. Brief inputs of enterprise related skills does promote entrepreneurial talents of members of mature SHGs to set up and run micro enterprises as a livelihood option. Grant is provided to eligible training institutions and SHPIs to provide skill development training in farm/non-farm/service sector activities leading to establishment of micro enterprises either on individual basis or on group basis. Nearly 9000 skill upgradation training programmes have been conducted under these initiatives

covering about 2.41 lakh members of mature SHGs. Most of the trained SHG members have since started their journey to become promising entrepreneurs by availing loans from their SHGs.

X. FINDING OF THE STUDY:

- ✓ NABARD has been playing a very crucial role in capacity building and refinancing to the SHGs.
- ✓ The refinancing efforts of NABARD have borne fruit over the years and have reached the target customer i.e. the SHGs
- ✓ Partner agencies have benefited a great deal during the year 2013 via the various grants and support programs of NABARD

XI. CONCLUSION:

NABARD has been quite successful in its efforts to contribute its mite in the promotion of institutional credit to the SHGs. It has been able to achieve, in totality, its stated objectives of Capacity Building and Refinancing.

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