



Microfinance in India with Special Reference to the Role of National Bank for Agriculture and Rural Development

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Abstract: In most developing nations, including India, a lack of access to financial resources is one of the main causes of poverty. Microfinance has shown to be a useful tool in this regard. The provision of financial services, such as loans, savings, insurance, and training, to the underprivileged, is known as microfinance. Through its extensive network of banking and non-banking institutions, the National Bank for Agriculture and Rural Development (NABARD), which is the leading financial institution in the fields of agricultural credit and rural development, has played a critical role in facilitating financial and technical support to the underprivileged segment of the population. In light of the foregoing, this paper aims to examine the development of India's microfinance programme and the role played by NABARD in its promotion, oversight, and development for the benefit of rural populations through Self Help Groups (SHGs).

Key Words: Joint Liability Group (JLG), Microfinance, NABARD, Self Help Group (SHG), Self Help Promotional Institution (SHPI).

1. INTRODUCTION:

One of India's biggest issues is the continuance of mass poverty among a sizeable section of the population. Due to a lack of sufficient financial support, the economic situation of the people in rural India is far from good. According to Rao, Sreekanth, and Trivedi (2010)¹, financial services could help the poor grow their income, assets, and economic security. Since gaining its independence, the Indian government has been carrying out several initiatives to reduce poverty. From the Community Development Programme (CDP) in the early 1950s to the Integrated Rural Development Programme (IRDP) in the late 1970s, India experienced the execution of these programmes. But as a means of reducing poverty, none of these projects has proven to be particularly successful. In this setting, microfinance has become a key weapon in the battle against poverty and a tool for financial inclusion. According to Karmakar (2008)², microfinance is the provision of savings, credit, and other financial services to the underprivileged to help them increase their income levels and improve their standard of living. There are numerous organisations involved in microfinance projects. This programme is mostly carried out in India and has been effective thanks to another institution known as Self Help Groups (SHGs). By definition, an SHG is a socially and economically homogeneous group of up to 20 people that was established voluntarily for credit and savings, without the use of collateral for loans or other forms of end-use credit. They should operate democratically, have bye-laws and norms, hold frequent meetings, and retain credit and savings records (NABARD, 2022)³. The National Bank for Agriculture and Rural Development (NABARD) supported and funded an action research project on "Savings and Credit Management of Self Help Groups" of Mysore Resettlement and Development Agency (MYRADA) during the years 1986–1987, sparking the first official interest in informal group lending in India. In 1988–1989, NABARD conducted a survey of 43 Non-governmental Organisations (NGOs) dispersed across 11 Indian states to learn more about how SHGs operate and explore the potential for Bank–SHG partnership to better mobilise rural savings and provide loans to the underprivileged. In response to the positive results of both research programmes, NABARD launched a pilot project called SHG-Bank Linkage Project, which involved 500 SHGs. NABARD and the Reserve Bank of India (RBI) held extensive discussions before starting the pilot project. As a response, the RBI issued a Policy Circular to all Commercial Banks in 1991 encouraging them to take part in financing SHGs. In February 1992, NABARD also provided the formal banking sector with a comprehensive set of



flexible instructions outlining the project's procedures. Along with commercial banks, the programme was also made available to cooperative banks and Regional Rural Banks (RRBs). A total of Rs. 47,240 crore in savings were made by roughly 119 lakh SHGs during the financial year 2021-22. During the same period, banks provided loans totalling Rs. 99,729.23 Crore to 34 lakh new SHGs. (NABARD, 2022)³. In providing microfinance services for the nation, NABARD has been essential (Dehiya, 2013)⁴. In the financial sector, there are very few institutions of a similar sort anywhere else on the globe. It combines the functions of a central bank, a development organisation, a financial institution, an organisation that finances infrastructure, a microfinance organisation, a planning board, and an apex-level policymaker (Narayansamy, 2018)⁵. In light of this, this study makes an effort to evaluate the microfinance program's progress and NABARD's position as a catalyst for the growth of this industry in India.

2. LITERATURE REVIEW:

Jain (2018)⁶ evaluated NABARD's contribution to fostering microfinance by offering both financial and non-financial support. She has demonstrated how microfinance supported by NABARD contributed to the empowerment of women and the improvement of the well-being of poor households based on primary data gathered from Rajasthan.

Dehiya (2013)⁴ examined NABARD's contribution to the nation's promotion of microfinance outreach. It has been demonstrated that NABARD was essential in bringing forth many improvements in microfinance. The SHG-Post Office Programme, the Micro Enterprise Development Programme for established SHGs, the Revolving Fund Assistance Scheme for Microfinance Institutions (MFIs), the financing of Joint Liability Groups (JLGs), the SHG 2 initiative, and other innovations are among these innovations. The SBLP and MFI models have been contrasted in this work. Along with the loan portfolio under the SBLP and MFI models, the development of the SBLP from 2006–07 to 2011–12 has been analysed. In this article, the performances of several banks kinds have also been discussed.

In their attempt to evaluate NABARD and SIDBI's roles in the microfinance industry, Bhat and Yadav (2016)⁷ emphasised the financial and promotional support provided by the two financial institutions. They have demonstrated, using data spanning the years 2008–09 to 2013–14, the critical role these two institutions have had in the growth and promotion of this industry. To address the timely and sufficient credit demands of the underprivileged, these two institutions have contributed a sizeable quantity of resources to the microfinance industry.

Singh (2016)⁸ made an effort to illustrate the current condition of microfinance through SHGs and the role performed by NABARD in providing microfinance to the underprivileged segment of society in the study. The study's secondary data from 2013–14 revealed that 17% of NABARD's overall refinancing was given to banks for SHG lending. Despite NABARD's great success in aiding numerous organisations working to promote SHGs, the author claims that there are still certain difficulties and risks in the microfinance industry. The fact that certain microfinance schemes are subsidy-driven is one of this industry's downsides. A clear regulatory structure would be necessary for the sector's improvement.

3. DATABASE AND METHODOLOGY:

The current analysis uses secondary information about microfinance. The information was gathered from NABARD publications as well as other relevant sources.

In this study, straightforward statistical procedures like percentages and compound annual growth rates (CAGR) are used.

4. DEVELOPMENT OF MICROFINANCE IN INDIA:

In India, there are two different models for microfinance services: the Micro Finance Institution (MFI) model and the Self Help Group- Bank Linkage Programme (SHG- BLP). With a variety of providers, low income households can get financial services from the microfinance sector in India. These participants are divided into five groups: banks, non-profit MFIs, small finance banks, NBFC-MFIs, and NBFCs.

Self Help Group Bank Linkage Programme (SBLP)

The Self Help Group Bank Linkage scheme (SBLP) has become the most important microfinance scheme in India. Commercial banks, regional rural banks, and cooperative banks are all carrying it out. The goal of the SBLP is to make it possible for the formal banking industry to offer financial services to the rural poor by linking SHGs' saving and credit activities. This study has demonstrated the expansion of the SBLP and MFI Bank Linkage Programmes. Table -1 displays the growth of SHGs in India that have a saving and credit linkage from 2014–15 to 2021–22.

**Table- 1: Progress of Self Help Group- Bank Linkage Programme**

Year	SHG savings with banks as on 31th March				Loan disbursed to SHGs during the year			
	No. of SHGs	Growth Rate (%)	Amount (Rs. Cr.)	Growth Rate (%)	No. of SHGs	Growth Rate (%)	Amount (Rs. Cr.)	Growth Rate (%)
2014-15	7697469	-	11059.84	-	1626238	-	27582.31	-
2015-16	7903002	2.67	13691.39	23.79	1832323	12.67	37286.90	35.18
2016-17	8576875	8.53	16114.23	17.70	1898120	3.59	38781.16	4.01
2017-18	8744437	1.95	19592.12	21.58	2261132	19.12	47185.88	21.67
2018-19	10014243	14.50	23324.48	19.05	2698400	19.34	58317.63	23.59
2019-20	10243323	2.29	26152.05	12.12	3146002	16.59	77659.35	33.17
2020-21	11223400	9.57	37477.61	43.31	2887394	-8.22	58070.68	-25.22
2021-22	11893053	5.97	47240.48	26.05	3398267	17.69	99729.22	71.74
	CAGR = 6.41%		CAGR = 23.05%		CAGR = 11.10%		CAGR = 20.15	

(Source: Status of Microfinance in India, NABARD)

Table -1 shows that 76, 97,469 SHGs had savings accounts in 2014–15, contributing a total of Rs. 11,059.84 crore. Banks extended loans to 16, 26,238 SHGs within the same period totalling Rs. 27,582.31 crore. In 2021–2022, 1, 18, 93,053 SHGs were savings linked with a savings of Rs.47, 240.48 crore. Banks gave 3398267 SHGs a total of Rs. 99729.22 crore throughout the time. The Compound Annual Growth Rate (CAGR) of credit disbursement by banks and saving of the entire SGHs was respectively 23.15% and 20.15%, which paints a positive image. Only during 2020-21, did the number of credit disbursements and saving linkages decline from the prior year. The poor performance of credit distribution to SHGs may be caused by the spread of Covid-19. But thankfully, the number of credit-linked transactions and credit disbursements increased significantly the next year, with credit disbursements increasing by 71.74% from the year before.

Micro Finance Institutions (MFI) Model

Table- 2 displays the development and growth of the microfinance industry from 2014–15 to 2021–22 under the MFI Bank Linkage project. Based on bank loans issued to MFIs and bank loans still outstanding with MFIs, Table 2 analyses the expansion of MFI Bank Linkage Programmes during the last eight years.

Table- 2: Progress under MFI- Bank Linkage Programme

Year	Loan disbursed by banks to MFIs				Loan outstanding against MFIs as on			
	No. of MFIs	Growth Rate (%)	Amount (Rs. Cr.)	Growth Rate (%)	No. of MFIs	Growth Rate (%)	Amount (Rs. Cr.)	Growth Rate (%)
2014-15	597	-	14668.17	-	4660	-	21887.13	-
2015-16	647	9.21	20795.57	41.77	2020	-56.65	25580.89	16.88
2016-17	2314	283.42	19304.38	-7.17	5357	165.20	29225.45	14.25
2017-18	1922	-18.63	25515.23	32.17	5073	-5.30	32305.93	10.54
2018-19	1933	0.63	14625.95	-42.68	5488	8.18	17760.68	-45.02
2019-20	4762	161.00	20226.00	38.29	15197	176.91	29288.62	64.91
2020-21	28542	542.65	12120.34	-40.08	61111	302.13	21062.74	-28.09
2021-22	24628	-14.12	23173.45	91.19	58753	-3.86	34865.37	65.53
	CAGR= 70.13		CAGR= 6.75		CAGR= 43.63		CAGR= 6.88	

(Source: Status of Microfinance in India, NABARD)

In the fiscal year 2014–15, 597 MFIs received bank finance totalling Rs.14, 668.17 crore. At the same time, 4,660 MFIs had loans outstanding of Rs.21, 887.13 crore. During the same time, 24,628 MFIs received a total of Rs. 23173.45 Crore and 58753 MFIs had credit outstanding totalling Rs. 34865.37 crore. Sharp oscillations may be seen in the MFI data during the past few years. Even while the CAGR for credit disbursement and credit outstanding in 2020–21 both had positive values of 6.75% and 6.88%, respectively, the development of the MFI Bank Linkage project painted a dismal image. In comparison to last year's numbers, credit disbursement fell this year by 40.08% and 28.09%, respectively. As was already mentioned, the Covid-19 pandemic's global expansion may be to blame for this.



NABARD's function as a facilitator of microfinance:

Currently, NABARD holds the top position in the microfinance sector. It is India's leading institution for development, promotion, and facilitation of SHGs. Through training, exposure visits, seminars, workshops, and other events, it continues to offer incentives and substantial assistance for the creation, upkeep, and credit linking of SHGs with banks as well as the capital building of various stakeholders (Singh, 2016)⁸. The functions of NABARD as facilitator of microfinance are discussed below:

(1) Refinance facilities to banks

To supplement its resources, NABARD has been offering banks up to a 95% refinancing on their loans to SHGs. In comparison to the Rs.12,227.18 crore distributed in the prior year, NABARD extended refinance to the tune of Rs.10,197.40 crore during 2021–22, representing 8.78% of the total refinance supplied to the investment credit throughout the year. As of the end of March 2022, NABARD had disbursed a total of Rs.1, 01,019.40 crore for refinancing SHG lending.

(2) Support for Joint Liability Groups (JLGs)

JLGs are unofficial associations of four to ten people who participate in comparable economic activity and are prepared to collectively commit to repaying the loans the groups have received. Savings by the group are voluntary. In 2004–2005, NABARD launched a pilot programme to finance JLGs. In addition to providing banks with refinance help, NABARD also provides grants to banks and other JLG supporting organisations to aid in the creation and growth of JLGs as well as the capacity building of the stakeholders. In comparison to the 41.27 lakh JLGs promoted during 2020–21, 54.09 lakh JLGs were promoted during 2021–22. JLGs promoted together totalled 187.92 lakh as of March 31, 2022, representing a net increase of 40% over 2020–21.

(3) Assistance to Partner Organisations for the promotion and development of SHGs

Since 1992, NABARD has supported SHG promotion, development, and credit linkage by awarding grants to NGOs, SHG Federations, Commercial Banks, Co-operative Banks, RRBs, NGO-MFIs, PACS, Farmers' Clubs, and Individual Rural Volunteers (IRVs). As of March 31, 2022, there had been a total of Rs. 428.28 crore and Rs.175.86 crore in grant support sanctioned and released, respectively.

(4) Micro Enterprise Development Programme (MEDP)

To increase the employability and productivity of the working poor and so combat poverty and exclusion, skill development is a crucial instrument. To encourage the entrepreneurial talent of members of established SHGs to start and operate micro firms as a viable choice in the farm and non-farm sectors, either on an individual basis or in groups, NABARD introduced the Micro Enterprise Development Programme in 2006. Potential economic prospects are identified, the training is designed, and it is delivered through Self Help Promotional Institutions (SHPIs), which are eligible training institutions. To facilitate skill development training, grants are given to all qualified training institutes. In 2021–2022, more than 2,500 members received training through 769 MEDPs with grant funding of Rs.7.37 crore. Cumulatively 5.47 million SHG members have received total training through 19,203 MEDPs with funding totalling Rs. 42.46 crore as of March 31, 2022.

(6) Assistance for capacity building and training

NABARD gave due recognition to the training and capacity building of various stakeholders. The goal of NABARD was to unite different stakeholders and give them the tools they needed to advance the SHG-BLP movement (Jha, 2015)⁹. Key players including bankers, NGOs, government representatives, SHGs, SHG Federations, and trainers participated in a variety of training and capacity-building courses. The NABARD is aware of the necessity for such training to improve the stakeholders' knowledge, understanding, exposure, and skills to guarantee the effectiveness and calibre of programmes. More than 3lakh participants were trained in 2021–2022.

(7) Pilot Project for SHG Bookkeeping Digitalization

In Maharashtra state, a web/tablet-enabled SHG bookkeeping solution was put into place for 100 SHGs. The tablet will be used by NGOs' field staffs to update and maintain SHG data, which will make SHG monitoring easier. For 50,000 SHGs, the project has been scaled up on a "pay as you use" basis; each SHG will pay Rs. 35 per month for the services, and NABARD will contribute Rs. 5 per month for the first two years.

(8) Grant support for Village Level Programmes

To ensure an adequate flow of credit to SHG members and repayments from SHGs to banks/financial institutions, banks, SHPIs, and SHGs collaborate closely. Village Level Programmes (VLPs) are being carried out on the ground with the cooperation of banks to create a better understanding of mutual requirements between banks, SHGs, and SHPIs and to resolve issues of credit linkage, repayment, etc. NABARD funded 2100 village-level programmes in 2021–2022 with



45,440 participants, bringing the total number of beneficiaries and trainees served to 22,974 and 1,1 27 lakh, respectively.

(9) Introduction of E-Shakti

The "Digital India" programme was established by the government of India to transform India into a knowledge-based society and economy. In March 2015, NABARD began Project E-Shakti, a pilot project for the digitization of SHG data, in the districts of Ramgarh (Jharkhand) and Dhule (Maharashtra), in line with the initiatives of the Government of India. Phases of the project's expansion included 281 districts. Through 'one-click' access to the financial and non-financial characteristics of the Self Help Groups keeping Saving Bank accounts with banks, the project intends to digitise SHG data for improving banks' convenience of doing business with SHGs. The Focused Approach is currently being employed to carry out the project in 130 districts. Data for 12.74 lakh SHGs with 146 lakh members in more than 1.73 lakh villages across 281 districts were digitalized as of March 31, 2022. Since July 1, 2021, data on 8.68 lakh SHGs in 130 districts across 15 States and one UT have been updated monthly using a targeted methodology.

(10) Research and Development

The Centre for Microfinance Research (CMR) was established in Bankers Institute of Rural Development (BIRD), Lucknow in 2008 with the vision and goal of strengthening the microfinance sector through research inputs that support policy initiatives and improvement in design & delivery systems that give the underprivileged sustained access to high-quality financial services. The Centre was renamed as the Centre for Research for Financial Inclusion and Microfinance (CRFIM) in 2016. CRFIM used a grant worth Rs. 87.40 lakh in 2021–22.

5. CONCLUSION:

Microfinance has grown to be a crucial instrument for integrating the underprivileged into formal banking activity. With more than one crore SHGs linked to banks, SHG-BLP in India has soared to incredible heights. The MFI-bank linkage model involved more than 25,000 participants and disbursed more than Rs.23, 000 crore during the previous fiscal year. It has also emerged as a successful type of microfinance delivery system. Through its numerous initiatives, NABARD has emerged as a significant force in the promotion, training, and financing of SHGs. NABARD brought together several stakeholders and developed their capacities to successfully manage the microfinance scheme. To educate the concerned stakeholders about microfinance, it also routinely held seminars, workshops, and training courses throughout the year. A significant accomplishment of NABARD is the implementation of information technology and digitalization in the microfinance sector. Additionally, it has been contributing enough money to research and development. However, timely access to sufficient credit is indeed essential for the program's success. Furthermore, credit by itself won't amount to anything unless everyone involved makes a concerted effort. The effort done by NABARD is very much appreciated, but much more work needs to be done to broaden the SHG's application so that it can benefit a sizable number of the underprivileged population.

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