

**Development Financial Institutions in India:** NABARD, EXIM Bank, SIDBI; **Life Insurance and General Insurance Companies in India:** Functions; **Mutual Funds:** Concept of Mutual Fund, Types of Mutual Funds (open ended and close ended); Role of Mutual Funds in Indian capital market; **Non-Banking Financial Companies (NBFCs):** Definition, Functions, Regulations of RBI over NBFCs.

## Introduction

We have already mentioned in earlier chapters that providing financial support to the producers is very necessary for economic growth and development. However, only having a mechanism for provision of finance may not be a sufficient condition, especially in a country like India. For, along with the shortage of capital, we may suffer from a lack of know-how, skill and other bottlenecks in many cases.

In view of the above, it was felt in the early years of independence that India required financial institutions which could play a *developmental* and *promotional* role. Such a role involved provision of **technological know-how, professional management, project counselling** etc, apart from extending financial support. This led to the establishment of **Development Financial Institutions (DFIs)**.

Even with an extensive network of commercial banks and DFIs, the financial needs of the industrial sector cannot be met without the existence of strong money and capital markets. However, to fully mobilise the savings of the economy, especially household savings, and channelize that into the capital market, the role of mutual funds is very important. Thus, the Unit Trust of India, India's first mutual fund, was established in 1963, and it started operations in 1964.

Management of risk is an extremely important function of the financial sector. The insurance sector looks after that need, both in respect of the life and the non-life segments. **Life Insurance Corporation of India (LIC)** and **General Insurance Corporation of India (GIC)** were established to strengthen the **Indian Insurance sector**.

Finally, the **Non-Banking Financial Companies (NBFCs)** (which cannot participate in the payment system of the country, but can accept certain types of deposits and lend/invest) also play an important role in the economy.

## Difference between DFIs and Commercial banks

	<b>Development Financial Institutions(DFIs)</b>	<b>Commercial Banks (CBs)</b>
<b>Focus Area</b>	<b>Fixed focus area</b> , either a particular sector (like SIDBI for the MSME sector), or a particular type of activity (like EXIM Bank for exports and imports).	No particular focus or bias toward any specific sector or activity
<b>Goal</b>	Promotion and development of the focus area. Profit is not the basic goal.	Profit is the principal objective.
<b>Function</b>	1. Acceptance of deposits is not a function. 2. <b>DFIs</b> do not participate in the payment mechanism of the economy 2. <b>DFIs cannot create credit</b>	1. Acceptance of deposits is a principal function. 2. <b>CBs</b> are the pillar of the payment mechanism of the economy 3. <b>CBs create credit</b>
<b>Services Offered</b>	<b>DFIs</b> provide a comprehensive range of services like offering technical consultancy services, entrepreneurship development training etc.	<b>CBs</b> offer some agency or utility services like collection of payment on behalf of a client or offering locker facility etc.

## **A study on three DFIs – NABARD, EXIM Bank and SIDBI**

Let us now discuss about three DFIs – each working in a distinctly separate field. These institutions are National Bank for Agricultural and Rural Development (**NABARD**), Export-Import Bank of India (**EXIM Bank**) and Small industries Development Bank of India (**SIDBI**).

### **National Bank for Agricultural and Rural Development (NABARD)**

NABARD is India's **apex Development Financial Institution**, formed by an Act of Parliament in 1982. Owned by the Government of India and the RBI, NABARD aims at bringing rural prosperity through credit and non-credit initiatives in the fields of agriculture, cottage & village industries, handicrafts and small scale industries.

### **Functions of NABARD**

For analytical convenience, let us divide the functions of NABARD into the following classes:

- (i) **Financial functions, (ii) Developmental functions, and (iii) Supervisory functions**

#### **Financial Functions**

**Refinance:** Many financial institutions provide **short-term working capital loans** or production credit to farmers. NABARD **refinances these institutions**. In addition to crop loans, NABARD's short-term refinance is also available to financial institutions for various activities related to *production and marketing* of farm and non-farm sector. During the year 2015-16, NABARD sanctioned short-term credit limits of Rs. 71,215 crore to financial institutions.

Long-term loans (investment credit) that lead to capital formation are also extremely important as they act as a precondition of economic growth. NABARD has always laid special emphasis on investment credit as it leads to asset creation and thereby development of rural areas. Under this facility, during the year 2015-16, NABARD extended credit of Rs. 48,063 crore to financial institutions.

**Direct finance:** The **Rural Infrastructure Development Fund (RIDF)**, set up with NABARD in 1995-96 by the RBI, provides finance for rural infrastructure projects. Rs. 23,510 crore was disbursed during 2015-16 by RIDF, a growth of 20% over the previous year. Of the total RIDF loans sanctioned to State Governments amounting to Rs. 2,41,659 crore under various tranches since 1995-96, 30% accounted for rural roads, 30% for irrigation, 15% for social sector, 13% for agriculture and related sectors and 12% for rural bridges. RIDF contributes to nearly 20% of the total rural infrastructure in India.

**Warehouse Infrastructure Fund:** NABARD had allocated Rs. 5,000 crore each for 2013-14 and 2014-15 for creation of scientific storage infrastructure (for perishable as well as non-perishables in the country). NABARD has emerged as the leader in financing storage infrastructure sector.

**NABARD Infrastructure Development Assistance:** State corporations cannot easily access funds because of financial rules, and therefore, rural India is deprived of critical infrastructure. Keeping this in view, NABARD Infrastructure Development Assistance (NIDA) has been designed outside the purview of RIDF. This line of credit has been opened to State-owned institutions and corporations with sustained income streams. During 2015-16, NABARD sanctioned 12 projects involving Rs. 5,918.82 crore under NIDA and disbursed Rs. 1,222.12 Crore.

In addition to these, there are other NABARD schemes for extending finance directly. These are:

- (i) **Direct lending to co-operative banks**

- (ii) **Credit facilities to marketing federations:** In order to strengthen the Marketing Federations/Cooperatives, NABARD extends direct credit facilities to Federations which promote marketing of agriculture produce and other agricultural activities. During 2015-16, an amount of 7,014 crore was disbursed by NABARD to such federations.
- (iii) **Credit to producers' organisations:** NABARD has set up a Producers' Organisation Development Fund (PODF) with an initial corpus of Rs. 50 crore to support and finance Producers' Organisations. During the year 2015-16, financial assistance of Rs. 92.10 crore was sanctioned covering major activities such as dairy, commercial production of fish, cultivation and processing of medicinal plants, etc.

### **Developmental functions**

**Farm sector promotion:** The NABARD has set up a **Farm Sector Promotion Fund (FSPF)** to facilitate transfer of technologies to boost agricultural production. Also, the Watershed Development Fund (WDF) and Tribal Development Fund (TDF) support activities under Natural Resource Management (NRM) with an emphasis on **sustainable livelihood**.

**Watershed development:** NABARD set up a Watershed Development Fund in 1999-2000 with an initial corpus of Rs. 200 crore contributed equally by Government of India and NABARD. As on 31 March 2016, it stands at Rs. 1,108.74 crore and has helped in launching 1,607 watershed projects in 19 States covering an area of 18.38 lakh hectare.

**Tribal development:** The Tribal Development Fund was created by NABARD in 2003-04 with a corpus of Rs. 50 crore. It has encouraged many livelihood projects in remote tribal areas. Presently, the programme is being implemented by about 350 project implementation agencies, involving a total outlay of about Rs.1184 crore.

**Kisan credit card scheme:** The Kisan Credit Card (KCC) scheme was designed by NABARD in association with RBI in August 1998. Today, it forms the backbone of India's rural credit delivery system. The scheme is implemented in the entire country involving Commercial Banks, RRBs and Cooperatives.

NABARD has brought about a technology revolution in rural India by helping financial institutions in providing RuPay KCCs to all their farmer clients. As on 31 March 2016, the total number of RuPay KCCs issued by RRBs and Co-operative Banks is 34.06 lakh and 5.51 lakh respectively.

**Micro- finance:** NABARD launched the Self-Help Group (SHG) Bank Linkage Programme in 1992 with a target of linking 500 SHGs in a year's time. Now this programme has become the world's largest micro-finance programme with an outreach of over 100 million poor rural households. During 2015-16 NABARD helped in credit linkage of over 18 lakh SHGs.

**Skill development:** NABARD has tried to promote an entrepreneurial culture among the rural youth and encourage them to start enterprises in the rural off-farm sector. The capacity development measures initiated by NABARD have covered 30,341 skill and entrepreneurship development programmes grant assistance of Rs.109.77 crore. These measures have cumulatively covered nearly 8 lakh unemployed rural youth as on 31 march 2016.

Apart from the above, NABARD has undertaken many developmental initiatives. In a nutshell, these are:

- **Implementation of core banking solution in co-operative banks for faster and integrated payment system**

- **Research and development initiatives**
- **Green initiative or climate-smart agriculture** (see box 1)

### **Supervisory functions**

NABARD periodically conducts statutory inspections of 33 State Co-operative Banks, 371 District Central Cooperative Banks and 56 Regional Rural Banks and voluntary inspections of 20 State Cooperative Agriculture and Rural Development Banks. It also undertakes off-site surveillance of Co-operative Banks and RRBs and issues appropriate advice to enable the banks to take corrective measures.

During 2015-16, NABARD conducted 298 inspections. It has launched a web-based portal "ENSURE" (ElectroN<sup>i</sup>c SUBmission of REturns), which is a step towards convergence of offsite surveillance system with onsite inspection.

NABARD has established many subsidiary organisations to ensure a more focussed implementation of its objectives. A few of these organisations are:

**NABARD Financial Services (NABFINS)** : It is Non-Banking Financial Company which provides microfinance to SHGs.

**Agri Business Finance Limited (ABFL)**: It is also a Non-Banking Finance Company, which was incorporated on 17 February 1997. It supports commercial agriculture with long-term credit.

**NABKISAN Finance Ltd**: It has been established with special focus on financing Producers Organisations.

#### **BOX 1: 'Green' Initiatives by NABARD**

*India is a country where large sections of the population depend for their livelihood on agriculture, fishing, animal husbandry and forestry, that is, the core primary sector activities. This is also true for many other countries in the world. Thus, the livelihood of a significantly large section of the global population is directly linked with nature. Sustainability of their livelihood, therefore, depends on sustainability of environmental resources. Keeping this in mind, United Nations on a global scale, and NABARD on a pan-India basis, have taken 'green initiatives'.*

*The Adaptation Fund (AF) was set up under the Kyoto Protocol of the United Nations Framework Convention on Climate Change (UNFCCC). It was officially launched in 2007. It aims to finance projects and programmes that help vulnerable communities in developing countries to adapt to climate change.*

*NABARD has been accredited as National Implementing Entity (NIE) for Adaptation Fund in July 2012 and is the only NIE for India.*

*Similarly, the decision to set up the **Green Climate fund (GCF)** was taken by the UN in December 2010 and it started functioning in 2011. NABARD is the National Implementing Entity (NIE) for this Fund as well.*

*Under these schemes, NABARD supports many projects which can be classified under climate finance.*

***Over 28% of NABARD's cumulative disbursements have links with climate change adaptation and mitigation.***