INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, ECONOMICS & MANAGEMENT

IJRCM

A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories
Indexed & Listed at:
Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.,
Open J-Gage, India [link of the same is duly available at Inflibnet of University Grants Commission (U.G.C.)],
Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.
Circulated all over the world & Google has verified that scholars of more than 2980 Cities in 165 countries/territories are visiting our journal on regular basis.
Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA
http://ijrcm.org.in/

CONTENTS

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography: Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript** ***anytime*** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website (***FOR ONLINE SUBMISSION, CLICK HERE***).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____________

THE EDITOR
IJRCM

Subject: **SUBMISSION OF MANUSCRIPT IN THE AREA OF.**

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled '____' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:
Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:
a) The whole manuscript is required to be in ***ONE MS WORD FILE*** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
b) The sender is required to mentionthe following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/ Engineering/Mathematics/other, please specify)
c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
d) The total size of the file containing the manuscript is required to be below **500 KB**.
e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE**: The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS**: The author (s) **full name**, **designation**, **affiliation** (s), **address**, **mobile/landline numbers**, and **email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT**: Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS:** Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.

6. **MANUSCRIPT:** Manuscript must be in ***BRITISH ENGLISH*** prepared on a standard A4 size ***PORTRAIT SETTING PAPER***. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.

7. **HEADINGS:** All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.

8. **SUB-HEADINGS:** All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.

9. **MAIN TEXT:** The main text should follow the following sequence:

   INTRODUCTION

   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

   It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed ***5000 WORDS***.

10. **FIGURES &TABLES:** These should be simple, crystal clear, centered, separately numbered & self explained, and **titles must be above the table/figure**. **Sources of data should be mentioned below the table/figure**. It should be ensured that the tables/figures are referred to from the main text.

11. **EQUATIONS:**These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.

12. **REFERENCES:** The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:

- All works cited in the text (including sources for tables and figures) should be listed alphabetically.
- Use (**ed.**) for one editor, and (**ed.s)** for multiple editors.
- When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
- Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
- The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
- For titles in a language other than English, provide an English translation in parentheses.
- The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:

BOOKS

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19–22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 http://epw.in/user/viewabstract.jsp

ROLE OF FINANCIAL INSTITUTIONS IN DEVELOPMENT OF MSME AND AGRICULTURAL SECTOR IN INDIA: A VISION FOR YEAR 2020

AMOGH TALAN
ASST. PROFESSOR
SRI AUROBINDO COLLEGE (EVENING)
UNIVERSITY OF DELHI
NEW DELHI

GAURAV TALAN
TEAM SUPPORT SPECIALIST (RISK AND GOVERNANCE)
BARCLAYS FINANCE
NEW DELHI

ABSTRACT
Economic structures in emerging countries differ significantly from those of more developed ones, which demand different degrees of role of different types of financing for the economies' development. Financing of households, businesses, and the government are the three main financial activities in any country which can be achieved through personal savings, capital markets or banks. While large companies can easily raise credit through bonds or equity, in a developing and agriculture based country like India where SMEs and agricultural sector has a large contribution in country's development, banks and other financial institutions such as RRBs, MFIs, UCBs, NBFCs and NABARD must have to step in to provide easy credit to these sectors for their development. In our paper we discuss the potential role of the financial institutions in the development of MSME and agricultural sector and make suggestions based on it, which could empower the financial institutions to help develop MSME and agricultural sector over the course of next few years, especially by year 2020.

JEL CODE
G2

KEYWORDS
Financial institutions, economic development, SMEs, Agriculture.

INTRODUCTION
MSME Sector and agricultural sector have been known to possess a great amount of untapped potential for India's economic development. Ironically, since the independence of India, both MSME sector and agricultural sector in particular have faced constant problems and their development has never been close to its actual potential. Due to political and social turmoil in India policies for the upliftment of these sectors have been difficult to formulate. Though, as India's development rate has been increasing and political and social stability has finally been achieved slowly, rules and policies focusing the development of these sectors have constantly been put forward by the government in recent times. In this paper we focus on the role of financial institutions in the upliftment of MSME and agricultural sector, while pointing out the loopholes in the rules formulated by Indian government, RBI or NABARD, and suggestions on how these loopholes may be filled to achieve the Vision 2020. Vision 2020 is a status of MSME and agricultural sector that could potentially be achieved by the year 2020 with the help of initiatives taken by our government and financial institutions for their development. Such status warrants MSME and agriculture sector to achieve a high rate of growth and high level of income generated at the lowest cost possible, which would empower the people related to these sectors and improve their standard of living.

REVIEW OF LITERATURE
Vision and Potential Role of Financial Institutions in the Development of MSME Sector by Year 2020
Significance of Micro, Small and Medium Enterprises in India's Economic Development
MSME sector in India plays a key role in the development of the country via. reduction of poverty, inducing employment, and help in re-distribution of wealth to name a few.
Criteria (Shown in figure 1) to qualify as a micro, small or medium enterprise for manufacturing or service sector is laid down by the definitions provided by world bank and Micro, Small and Medium Enterprise Development Act 2006. [1]
WORLD BANK DEFINATION OF MSME

FIGURE 1 (*Figures in brackets are in USD)*

Enterprise Size	Employee	Assets	Annual Sales
Medium	<300	≤ USD 15 Million (≤ INR 750 Million)	≤USD 15 Million (≤INR 750 Million)
Small	<50	≤USD 3 Million (≤INR 150 Million)	≤USD 3 Million (≤INR 150 Million)
Micro	<10	≤USD 10,000 (≤INR 500,000)	≤USD 10,000 (≤INR 500,000)

***Source:** World Bank2*

MSMED ACT DEFINITION OF MSME

FIG. 2

Initial Investment in Plant and Machinery (in INR Million)*			
Category/ Enterprise Size	**Micro**	**Small**	**Medium**
Manufacturing	<2.5 (<50,000)	2.5 – 50 (50,000 – 1 Million)	50– 100 (1 Million – 2 Million)
Services	<1 (<20,000)	1 – 20 (20,000 – 0.4 Million)	20– 50 (0.4 Million – 1 Million)

Source: *Micro, Small and Medium Enterprise Development Act 2006.*[3]

MSME sector accounts for around 8% of India's GDP and employs around 69 million people. Growth rate of MSME sector in recent years has hiked to around 11.5%[4], which is much higher than the GDP growth rate, and with a substantial contribution to India's GDP it is implied that MSME sector pushes GDP higher, acting as a cushion against inflation. [5]

Despite of being such a prominent part of India's economy, MSME sector faces several challenges, in which acquiring adequate credit tops the list.[6] In fact, other key challenges faced by MSMEs like inadequate infrastructure, obsolete technology, and inadequate market linkages can be linked directly to inadequate finance.[7]

Demand of finance by MSMEs is met either by formal financial sources or informal financial sources. Based on the 2010 figures total finance supplied to MSME sector was 32.5 trillion rupees or $650 billion majority of which (around 78%, INR 25.5 trillion or $510 billion) was catered by informal financial sources (comprising of both institutional sources such as moneylenders and chit funds, and non-institutional sources such as family, friends, and family business) and self finance while rest of the 22% (INR 7 trillion or $140 billion)[8] was catered by formal sources of finance like banks and non-banking institutions, of which commercial banks were dominating .[9]

The biggest drawback of informal financing is that it is not bound by the contract. The result of this is that the lender is reluctant on lending of large sums of money due to the substantial default risk involved, which has implication for the MSMEs' long term development. Due to small amount of financing available to the entrepreneurs, it becomes very difficult for them to invest in long-term revenue sources like large machinery or building, which on a cumulative basis hinders the growth of the entire MSME sector.[10]

While 95% of the informal finance is provided by non-institutional sources like family, friends or family business, rest of the 5% is provided by institutional sources such as registered trade credit, chit funds and moneylenders channel which amounts to a financing of around INR 1.2 trillion ($24 billion). The transactions with these institutional sources of informal finance are bound by legal contracts. Repayment of the debt provided by institutional informal sources carries an interest rate of about 0.5%-3.5% for registered chit funds, 1%-2% for unregistered chit funds, and 1%-10% for registered moneylenders which are payable at daily, weekly or monthly installments.[11]

INFORMAL SOURCES OF FINANCE

Informal sources of finance have advantages for the borrower such as timely disbursal, short turnaround times, and no requirement for collateral security which makes them lucrative sources of short-term finance for working capital.[12] Despite this, there is a major drawback of informal sources of finance- long-term finance is absent. Also, the debt provided carries a high rate of interest. Due to these disadvantages, it becomes impossible to invest in long-term capital which is the most important factor responsible for the development and expansion of MSME sector.

FORMAL SOURCES OF FINANCE

Formal financial sector, comprising of banks, government financing agencies, and non-banking finance companies (NBFCs) provide INR 6.97 trillion ($139.4 billion) debt to MSMEs, of which INR 6.4 trillion($128 billion) is provided by banks and government financing agencies and rest is provided by NBFCs.[13]

Scheduled commercial banks provide for 92% of debt to MSMEs. Scheduled commercial banks comprise of public banks, private banks, foreign banks, and smaller banks such as Regional Rural Banks (RRBs), Urban Cooperative Banks (UCBs) and government financial institutions such as State Financial Corporation (SFCs) and State Industrial Development Corporations.[14] Public banks provide for around 70% of the debt to MSME sector, while private banks provide for 22%, and small banks provide for the rest. The reason for such variation is the differences in the knowledge of the MSME sector, operational efficiencies, internal risk management policies and the reach of the branch network. With considerable access to knowledge, better risk management techniques, and having a substantial higher reach across the country with over 64% of the bank branches[15], public banks have by far a substantial potential to develop the MSME sector.

INITIATIVES THAT SHOULD BE TAKEN FOR PUBLIC BANKS TO ACHIEVE VISION 2020

In order to encourage banks to provide to the demand of debt by MSMEs, government has to implement mandatory rules and guidelines which would have to be followed by the banks. One such initiative is the Priority Sector Lending (PLS) guidelines set by RBI which mandatorily require banks (domestic or foreign) to cater debt demand of the priority sectors such as agriculture, micro and small enterprises to at least 7% of their credit portfolio.[16] Another recommendation of The Nair Committee which could further help achieve Vision 2020 is to have banks commit at least 40% of their Annual Net Bank Credit (ANBC) towards the priority sectors with a sub commitment of 15% of ANBC towards the micro and small enterprises. The Nair Committee has also recommended a ceiling of 5% regarding the indirect finance provided by commercial banks to MSMEs via. NBFCs, which is supposed to encourage banks to increase to their direct lending to MSMEs.

As mentioned earlier, there are several advantages of informal sources of finance such as such as timely disbursal, short turnaround times, and no requirement for collateral security which makes small entrepreneurs prefer them over formal sources of finance. At the same time they put them under the risk of halting their enterprise's growth by not investing in long term sources, and paying high rates of interest on informal sources of finance, they trap themselves in a vicious cycle where they cannot save or invest efficiently. Formal financial institutions should realize this fact and provide schemes to finance MSMEs' long term finance which could includes the advantages of informal financial sources such as short turnaround times or having less or no requirement for collateral security. Debt could be provided on the basis of past performance which may help relieve the collateral security requirement, which most of the small entrepreneurs find hard to afford.

INITIATIVES THAT SHOULD BE TAKEN FOR PRIVATE BANKS TO ACHIEVE VISION 2020

In order to manage risk and cost of transactions, banks usually provide debt easily to mature small enterprises which have higher credit requirement as compared to micro enterprises. As a result Micro enterprises' debt requirement for development is suppressed. RBI has taken the initiative to relax the licensing requirements for Tire II cities and below, yet banks (especially private and foreign) are reluctant on branch expansion for the costs involved and the fear of operational inefficiency. Hence, to tackle these issues the government and RBI should formulate better and uniform cost and risk management policies. Another reason contributing to these issues is the non uniform processes for sourcing and underwriting of the finance given by public, private and foreign banks. While public banks manage risk by setting limits on the amounts approved, private and foreign banks segregate their sales and underwriting terms to manage risk. The more comprehensive the process of risk management is, timelier it would be for MSMEs to acquire finance. Hence, uniformity in risk management policies would ensure a quicker disbursal of finance to MSMEs.

INITIATIVES THAT SHOULD BE TAKEN FOR SMALL BANKS TO ACHIEVE VISION 2020

Smaller banks such as RRBs, UCSs, SFCs and SIDCs have a much higher potential for outreach in smaller districts and villages than the commercial banks due to better knowledge of local context and having primary information about the entrepreneurs. They are much more likely than commercial banks to establish one-to-one relationships with the entrepreneurs. Despite of having such a large potential, these institutions provide for only about 8% of the debt demand of the MSMEs. The reason for this anomaly is that RRBs operate in markets where resources are not readily available but unfortunately they have to face the organization structures and operational costs similar to those of full-service banks. Policies should be formulated which should be custom made for branches in keeping in mind the area in which they are operating and keeping in mind their access to the resources. Branches should be given more autonomy so that they won't have to rely on the sponsor bank. This coupled with specialized training provided to the branch personnel will likely solve the conflict of interest, weaker decision making and poor governance problems. RBI should plan to acquire the high non-performing assets of such branches and dedicate resources for proper credit appraisals.

INITIATIVES THAT SHOULD BE TAKEN FOR NBFCs TO ACHIEVE VISION 2020

NBFCs are also considered to have a high potential to help develop the MSME sector. NBFCs usually cater to the financial demands of transport businesses, engineering, vendor supply chains and retail trade (Section 45-IA/B/C of the RBI Act, 1934) NBFCs carry much lower compliance overheads and are more flexible and carry lower operational costs in comparison with banks. Branch outreach is similar to that of RRBs and UCBs hence they have firsthand knowledge about the entrepreneurs. Due to these advantages NBFCs are better placed to finance MSMEs which might be considered risky by banks. However they have disadvantages which our government should take care of. NBFCs cannot public deposits hence they have to heavily rely on commercial banks and promoter's equity for growth. Due to this, NBFCs tend to carry high costs of funds. Because of their operational strengths NBFCs are capable of providing differentiated products and personalized services. They can process loans much faster and allow flexible collateral options, where they tend to use immovable property as collateral too. In fact some larger NBFCs even offer collateral-free debt based on the cash flows and past financial performance. Taking this into account, it becomes imperative for our government to take measures to lower their cost of funds and reduce their reliance on the commercial banks.

INITIATIVES THAT SHOULD BE TAKEN FOR NBFCs TO ACHIEVE VISION 2020

Micro Finance Institutions (MFIs) usually provide for the financial demands of unregistered and unorganized microenterprises segment. MFIs have unmatched potential to reach the non-served areas, and have a better understanding of enterprises' financial performance and potential which enable them to deliver customized services. However, despite of the huge market potential, MFIs usually provide for only the working capital requirements of the entrepreneurs while the long term debt is absent. Current regulations limit them to a loan size of INR 0.05 million ($1,000), or less. Hence, amendments in the policies and regulations are required to enable them to finance the unregistered segment.[17]

INITIATIVES THAT SHOULD BE TAKEN FOR MICRO ENTERPRISES TO ACHIEVE VISION 2020

Micro enterprises have a high higher demand for the credit, though formal financial institutions are inclined to provide finance to small and medium enterprises, with only 31% of the portfolio dedicated to micro enterprises and rest to small and medium enterprises. This results in fulfilling only 40-60% of the financial demand of micro enterprises.[18] A micro enterprise on an average s given a debt of INR 0.15 – 0.3 million ($3,000 – $6,000)[19] , while finance available to small enterprises on an average is around INR 1.5 – 3.5 million ($30,000 – $70,000) and that to medium enterprises is INR 40 million – 50 million ($0.8 – 1 million).[20] The reason attributed to this is the lower transaction cost that is involved in providing loans to small and medium enterprises. Also, micro enterprises are not able to provide adequate collateral to secure the loan. Hence, initiatives should be taken by RBI and government to lower the transaction costs of banks while providing credit to micro enterprises, and other alternatives, such as loan granted on the basis of cash flows and past financial performance should be taken in place of collateral demand for the loan.

INITIATIVES THAT SHOULD BE TAKEN FOR SERVICE SECTOR TO ACHIEVE VISION 2020

If we look at the sector wise financing, we find that service sector receives much lesser financing as compared to the manufacturing sector. The reason is that financial institutions do not have access to any benchmarks to measure and manage risk for service sector, as they have for manufacturing sector enterprises.[21] Further in service sector enterprises, knowledge-based enterprises such as software cos., management and human resource consulting companies receive the lowest of the financing. Ironically these are the very enterprises which have a substantial potential to contribute to the nation's development. Hence, initiatives are needed by RBI or government to device risk management policies for the service sector enterprises.

INITIATIVES THAT SHOULD BE TAKEN FOR LOW INCOME STATES AND NORTH EASTERN STATES TO ACHIEVE VISION 2020

If we look at the region wise disbursal of finance, we find that Low Income States and North-eastern States receive the lowest amount of debt finance, with an aggregate of 17% as compared to 83% for rest of the India.[22] The reasons for non catering low income states are operational inefficiencies, infrastructural problems, and political instability. The reasons for not serving the north-eastern states are attributed to poor transportation infrastructure, security and law and order instability.[23] In order to improve the situation regarding the financing, it is imperative for the government to take macro-economic measures. More entrepreneurial activities induced through financing could also lead to stability of these regions, and improvement of the standard of living of such reasons. Low income states and north-eastern states have low rate of industrialization and hence services firms have a much larger potential to develop. Unfortunately, as we discussed, service sector is significantly lesser served by financial institutions due to non-uniformity of risk management practices. Hence, this warrants changes not only on macroeconomic level, but at other levels as well.

VISION AND POTENTIAL ROLE OF NABARD IN THE DEVELOPMENT OF RURAL AREAS AND AGRICULTURE SECTOR BY YEAR 2020

National Bank for Agriculture and Rural Development (NABARD) is an apex development bank which facilitates the credit flow for the promotion and development of agriculture, small-scale industries, and cottage and handicrafts industry in rural areas. NABARD provides refinance to lending institutions, and loans to state governments, non government organizations (NGOs), panchayati raj institutions (PRIs) for the development of rural infrastructure development. It also finances and monitors regional rural banks (RRBs) and cooperative banks for the same purpose. In this paper we will highlight few of the most recent and prominent schemes launched by NABARD which have a long term consequences which would help achieve Vision 2020.

NABARD INFRASTRUCTURE DEVELOPMENT ASSISTANCE (NIDA)

Partnering with Boston Consulting Group, NABARD has undertaken an initiative called Nabard Infrastructure Development Assistance (NIDA), a credit support product which would fund infrastructure projects by funding government owned institutions with longer repayment period of up to 15 years. The long term advantage of this scheme would ensure to tackle the drawbacks of Rural Infrastructure Development Fund (RIDF). Under RIDF funding borrowing power of state governments is limited under Article 293, hence investment in rural infrastructure suffer from severe disadvantage under RIDF funding. Projects with larger potential for development usually demand a high investment, which now can be made available through NIDA. Also, RIDF is highly politically motivated, which directs the funding in means other than those required for rural development. Infrastructure projects are prioritized for funding under RIDF which can directly be linked with political interference. With the introduction of NIDA, projects shall no longer be prioritized in the same manner as in RIDF, hence political interference can be reduced to a great extent. NABARD Infrastructure Development Assistance programme would finance rural infrastructure projects by providing credit to state governments and other state-owned organizations, through direct credit based upon risk appraisal of the project involved. [24]

NABARD WAREHOUSING SCHEME (NWS) 2013-14
One of the major challenges faced by Indian agriculturists is the damage occurred to the cultivated food grains due to extreme weather conditions of India, because either they cannot afford the warehousing facilities or because the warehousing facilities are so far away or unavailable in their region, that it becomes infeasible to store the food grains before distribution. For example, last winter rains alone deemed to have damaged 80 lakh tone of wheat grain in Punjab and Haryana alone stored in open areas. Out of 121 lakh tone wheat stock, only 40 lakh tone gained warehouse protection.[25] To avoid such tragedies in future, Reserve Bank of India issued guidelines for creation of Warehouse Infrastructure Fund (WIF) in NABARD. NABARD initiated NABARD Warehousing Scheme (NWS) 2013- 14 which would finance public and private sectors for construction of warehouses, silos, cold storages and other cold chain infrastructure in places wherever necessary. Priority will be given to the projects proposed in Eastern & North Eastern due to the extreme weather conditions there and food grain deficit states. Credit will be offered to the state governments and organizations sponsored by the government and panchayati raj institutions, and even individual entrepreneurs at a repayment period of 7 years. [26]

PRODUCER ORGANIZATION DEVELOPMENT FUND (PODF)
Most of the producer organizations in India are in infancy stage are not able to avail value chain addition advantages, and market linkage advantages because of having small scale of operations, fragmented supply chain, lack of marketing facilities and poor market linkages. India has around 13 crore farmer households of which over 85% are marginal and small farmers who own less than 2 hectares of land on an average. Due to disorganization and fragmentation of land they are unable to adopt latest technology and use high yielding seeds or fertilizers in the production of food grains. Due to marketing and value chain inefficiencies faced by them, they are unable to get a fair price for their produce. Recognizing the importance of the marketing infrastructure in advancing the efficiency of agricultural production and the supply chain thereof, NABARD uses PODF to initiate activities such as development of warehouses and cold chains, funding of storage infrastructure with assistance of marketing federations having primary agriculture cooperative societies (PACS) as their members. The biggest drawback such federations and cooperatives have faced is the unavailability of timely and adequate credit support. With the help of PODF NABARD hopes to alleviate the value chain and marketing hurdles faced by farmers and small producer cooperatives. [27]

BUSINESS CORRESPONDENCE MODEL
Financial exclusion has been a bane in India for a very long time because of which a vast majority of poor have been unable to seek formal access to formal financial institutions, which in turn restricts them to access financial services made available by these formal financial institutions. When NABARD or any other government organization initiates programs for the upliftment of poor, such programs or services are offered to the poor via financial services, directly or indirectly. If someone is financially excluded, it becomes almost impossible for him/her to avail such services. According to 2008 data from India's National Sample Survey Office, 45.9 million farmer households, of the total 89.3 million farmer households, did not have access to formal credit. Research has shown a strong link between the level of financial exclusion and level of poverty and inequality (see table below): the higher the financial exclusion, the higher the inequality and poverty. [28]

FINANCIAL INCLUSION AND POVERTY INDICATORS AMONG SELECTED ASIAN COUNTRIES

TABLE 1

Country	Composite Index of Financial Inclusion Percentage of adults (aged 15+) with accounts at a formal financial institution in 2012	Poverty Percentage of population below national poverty line	Unemployment Percentage of labor force	Gini Index
India	35.2	29.8 (2010)	4.4 (2005)	33.4 (2005)
Bangladesh	39.6	31.5 (2010)	5.0 (2009)	32.1 (2010)
Brazil	55.9	21.4 (2009)	8.3 (2009)	54.7 (2009)
China	63.8	2.8 (2004)	4.3 (2009)	42.5 (2005)
Indonesia	19.6	13.3 (2010)	7.1 (2010)	34.0 (2005)
Korean Republic	93.0	–	3.7 (2010)	31.6 (1998)
Malaysia	66.2	3.8 (2009)	3.7 (2009)	46.2 (2009)
Philippines	26.6	26.6 (2009)	7.4 (2010)	43.0 (2009)
Sri Lanka	68.5	8.9 (2010)	4.9 (2010)	40.3 (2007)
Thailand	72.7	8.1 (2009)	1.2 (2009)	40.0 (2009)

Source: World Bank, 2012

In 2006, Reserve Bank of India issued guidelines directing banks to assign Business Correspondents (BCs) to increase their outreach. A BC is an entity which acts as a teller for the banks, acts on its behalf and carries out a full range of financial transactions with the client.[29] NABARD has since joined the initiative of RBI and help banks allot and train BCs in rural or underdeveloped areas. An NGO, MFI, post offices or NBFCs can act as a BC. The objective is to reach each village in the country in the phased manner over next three to five years. Banks can thus reach financially excluded people especially in rural areas through BCs and provide their full range of services at their doorsteps. This way a bank can reach out to backwards areas which lack formal financial facilities at a much faster rate and at lower cost. This doorstep banking helps faster loan disbursement and recovery. Because NGOs and other BCs are linked personally to the clients, this improves loan performance and repayment rates.[30] This initiative has shown a significant achievement as the number of banking outlets increased from 54258 in 2010 to 107604 in 2011. Of these 84274 were business correspondence outlets and rest were brick and mortar branches with about 40% being added in villages with populations under 2000. [31]As of June 2011, over 79 crore no-frills accounts (accounts with no requirement for a minimum balance) were opened by banks, in comparison with 49.3 crore accounts as of march 2010. [32]

With the advent of this program, poor people who had to take high interest loans from money lenders in case of medical emergencies will now have access to finance. With the assistance from NABARD, over the years this program is supposed to help achieve an overall community development and social empowerment by reducing poverty and inequality.

DISCUSSION

With the help of this paper we analyzed the present status of the role of financial institution in the development of MSME and agricultural sector, and made suggestions regarding the loopholes in the policies and rules that our government have formulated which could help achieve the Vision 2020. The status and suggestions discussed are not comprehensive and are just little segment of the network of potential improvements and initiatives required to achieve the vision 2020. Non-financial sector also has a great role to play in the development of MSME and agricultural sector. Political and social factors can be highly responsible for the plight or upliftment of these sectors. Cultural factors matter to a great extent too. Over the time, attitude of people has been changing towards entrepreneurship and a lot more people are being diverted to this sector. One reason could be unemployment. However, the need is for people to realize the real potential of these sectors and divert to them not due to unavailability of opportunities in other sectors, but due to availability of the opportunities in these sectors.

REFERENCES

1. http://msme.gov.in/
2. http://www.worldbank.org/
3. http://msme.gov.in/
4. Ministry of MSME, Annual Report, 2009-10; RBI
5. A Research Study on Needs, Gaps and Way Forward (November, 2012), International Finance Corporation, World Bank Group
6. Report of Working Group on Rehabilitation of Sick MSMEs, Reserve Bank of India.
7. How Important are Financing Constraints, Ayyagari, Kunt, Maksimovic, 2005.
8. Fourth All India MSME Census, 2007; SIDBI MSME Database, 2010, IFC-Intellecap Analysis.
9. RBI, SIDBI,SME Times – 2010, Primary Research, IFC-Intellecap Analysis.
10. A Research Study on Needs, Gaps and Way Forward (November, 2012), International Finance Corporation, World Bank Group
11. IFMR, All India Association of Chit Funds, IFC – Intellecap Analysis.
12. Financing Firms in India, Allen, Chakrabarti, De, Qain, 2007.
13. RBI, SIDBI, Sa-Dhan, Annual Reports of NBFCs, Primary Research; IFC-Intellecap Analysis.
14. RBI; SIDBI; Sa-Dhan, Annual Reports of NBFCs; SME Times, 2010; Primary Research; IFC-Intellecap Analysis.
15. Statistical tables relating to banks of India, Reserve Bank of India, 2009-10.
16. The Nair Committee Report on Priority Sector Lending, February 2012.
17. Report on financial performance of Indian MFIs, Sa-Dhan, 2010.
18. RBI, SIDBI, Primary Research, IFC-Intellecap Analysis.
19. RBI, Statistical Tables Relating to Banks of India, IFCIntellecap Analysis, Primary Research.
20. RBI, Statistical Tables Relating to Banks of India, IFCIntellecap Analysis, Primary Research.
21. RBI, SIDBI, Primary Research, IFC-Intellecap Analysis.
22. RBI, SIDBI, Primary Research, IFC-Intellecap Analysis.
23. Census, 2011.
24. www.nabard.org/
25. The Times of India, 'Rains damage food grains in Punjab, Haryana, 19/1/2013.
26. www.nabard.org/
27. www.nabard.org/
28. U. Thorat, Inclusive Growth—Role of Banks in Emerging Economies, Reserve Bank of India, Mumbai, 2008.
29. Anupam Kishore, 2012. Business Correspondent model boosts financial inclusion in India, Federal Reserve bank of Minneapolis publication.
30. Anupam Kishore, 2012. Business Correspondent model boosts financial inclusion in India, Federal Reserve bank of Minneapolis publication.
31. Anupam Kishore, 2012. Business Correspondent model boosts financial inclusion in India, Federal Reserve bank of Minneapolis publication.
32. K. C. Chakrabarty, Financial Inclusion and Banks: Issues and Perspectives, Reserve Bank of India, New Delhi, 2011.

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, Economics & Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you tosupply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail**infoijrcm@gmail.com** for further improvements in the interest of research.

If youhave any queries please feel free to contact us on our E-mail **infoijrcm@gmail.com**.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-
Co-ordinator

DISCLAIMER

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals