DFIs that have not lived up to expectations

NABARD and SIDBI have not been invoked in the context of the farm sector and MSME crises. This calls for introspection

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When there is high inflation, the RBI comes to mind. When capital markets misbehave, SEBI is on the radar. When an insurance problem surfaces, the IRDAI comes into the picture. These are institutions with proven credibility.

But when credit does not flow to agriculture or when farmers commit suicide, why does NABARD (National Bank for Agriculture and Rural Development) not come to mind? Why do farmers go to the government for a resolution? Similarly, when MSMEs (micro small and medium enterprises) do not get credit on time or do not get the services promised, why is SIDBI not under the scanner? Why should the RBI still have a department to resolve issues relating to agriculture and MSMEs and prescribe priority sector boundaries, despite these other institutions?

NABARD, a statutory corporation, was set up in 1982 to take up the work of the Agricultural Refinance and Development Corporation (or, Agriculture Refinance Corporation, till 1970), as well as some functions of the Agriculture Credit Department.

The NABARD Act was passed in 1981. Its preamble states that it is: "An Act to establish a development bank...for providing and regulating credit and other facilities for the promotion and development of agriculture (micro-enterprises, small enterprises and medium enterprises, cottage and village industries, handlooms), handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas, and for matters connected therewith or incidental thereto."

NABARD is a development finance institution (DFI) established under the statute to serve the purpose of providing and regulating credit and other facilities for the promotion and development of agriculture. It started regulating cooperative credit, but that space was ceded to commercial banks. It also started with regulating RRBs, but most of them merged into larger entities and RRB branches are now mostly seen in urban and metro centres. When the statute provided for regulation of credit to agriculture, why did the RBI continue to hold the reins? Is it because of lack of confidence in NABARD, or a reluctance to cede control?

Institutional credit has poor traction

The Rural Infrastructure Development Fund is administered by NABARD. Why should NABARD fund States for infrastructure projects, and in the bargain became a banker for the State — not for agriculture and allied activities, rural and cottage industries? It undertakes more treasury business (pure financial operations) than refinancing of cooperative banks and RRBs at very soft rates, and through them, lends to the farmers of all hues. There has been a compromise of objectives, with full concurrence of both the RBI and the government. NABARD's income comes more from investments than refinancing or development projects.

Commercial lending

Let us see the other DFI — the Small Industries Development Bank of India, or SIDBI — set up under a separate statute in 1989. There are several Centrally-supported 'funds' for the development of small enterprises. But there is no review in the public domain as to how these funds are performing.

The Centre established SIDBI Venture Capital and the ventures funded were of the real estate sector and MFIs. It has no credible record of financing and promoting MSMEs or clusters. SIDBI started direct lending sparsely, with a minimum of ₹50 lakh. It did not consider, during the first decade of financing, SME marketing activity as a term-lending portfolio. Manufacturing enterprises did not get venture capital at a lower cost than the normal venture capital funds.

Commercial objectives continue to govern its functioning. Its regional offices are so autonomous that they do not even consider responding to RBI guidelines. Most of SIDBI's lending is through collateral securities. It basks under sovereign protection to diversified activities.

Schemes such as MUDRA, CGTMSE, 59Minute Loan are all under its umbrella, albeit indirectly. No one has questioned SIDBI's way of functioning in relation to the objectives spelt out in the statute: "An Act to establish the Small Industries Development Bank of India as the principal financial institution for the promotion, financing and development of industry in the small-scale sector and to co-ordinate the functions of the institutions engaged in the promotion, financing or developing industry in the small-scale sector and for matters connected therewith or incidental thereto."

Thus, both the DFIs targeting specific sectors are non-performers in their supposedly dedicated domains. At a time when the Finance Minister is keen on bringing about institutional reforms, she should shift her antenna from mergers to these two DFIs.

The writer is an economist and risk management specialist. Views are personal