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Consumer Behavior Analysis in The Selection of Shopping Places (The Preliminary Study in Mapping The Consumer Behavior)

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A B S T R A C T

Along with growth in advanced economies, especially in big cities, there have been changes in various sectors including retail activities in Indonesia. The retail industry mostly handled by a large-scale economic enterprises. On the other hand there are a shift in style from traditional to modern life, creating changes in consumer spending patterns.

The purpose of this study to determine the level of consumer preferences for the factors that influence the choice of store for shopping, which is the most dominant factor to the decision of the places selection to shop, and what type of retail is an option for people to shop. This research respondent are consumers who live in Depok, a suburb city in West Java, Indonesia.

In this study, computational methods of decision-making system were used is Analytical Hierarchy Process (AHP) using Expert Choice software version 11. Findings from this study is the alternative choice of the most preferred by consumers in choosing where to shop. Based on the order of highest to lowest are as follows: Supermarkets / hypermarkets by the percentage of 44.1%, traditional markets by the precentage 22.4% and Foreign Franchise Minimarket with the same percentage of 20.9% , and traditional store/local minimarket with a percentage of 12.6%. Inconsistency ratio is 0.07 (less than 0.1 or 10%), this suggests that the weighting value pairs between elements within the matrix of comparisons is consistent.

Keyword: consumer behavior, AHP, shopping, retail

1. INTRODUCTION

Supermarkets grew aggressively in early the 1990s at the expense of traditional market centers. Supermarkets quickly mushroomed in the Greater Jakarta area and other larger cities in Java till day. Retail sector contribution to employment has a significant role in the response to the problem of unemployment. It would be good for Indonesia's economic growth in creating a society welfare. However, the growth of modern retail to be an obstacle to the growth of traditional retail. Traditional retail in general do not have a good strategy to beat the competition.

According to Indonesian Commercial Newsletter (ICN), by 2010 the estimated number of modern market outlets in Jakarta and surrounding areas (Bogor, Tangerang, Bekasi, Depok) approximately 38.1% (6916 outlets), West Java 14.08% (2556 outlets)., East Java, 12.12% (2200 outlets), Central

Java, 10.2% (1852 outlets), and Sumatra 8.2% (1488 outlets). The rapid growth of modern retail in Indonesia has increased the number of modern retail outlets, therefore influence on consumer's decision-making to choose the alternative of shopping place.

This study is a part and the beginning of a larger study that provides marketing strategies for traditional retail to face the competition from modern retail that have bigger capital. Traditional Retail is owned by Indonesian society, as they are SMEs constitute the backbone of the Indonesian economy. As a preliminary study to a bigger research, this study analyzes consumer behavior in selecting retail outlets and map it, as one of foundations in developing business and marketing strategies.

2. LITERATURE REVIEW

Retail formats emerged and evolved with the development of economy, technology and people's lifestyles are demanding greater convenience in shopping (Pandin, 2009). In Indonesia, local supermarkets have been around since the 1970s, although still concentrated in large cities. Foreign supermarkets began to enter Indonesia in the late 1990s since the policy of foreign direct investment in the retail sector was opened in 1998.

Increased competition has driven the emergence of supermarkets in smaller towns in order to find new customers and a price war. Consequently, when the supermarket in Indonesia only serve the upper-middle class in the 1980's and early 1990's (CPIS 1994), mushrooming supermarkets to the small towns and the predatory practices through price cutting strategy allows lower-middle-class consumers to access the supermarkets. The problem is of course also the case in other developing countries (Reardon et al, 2003; Collett & Wallace 2006).

2.1 Consumer Behavior

The behavior is essentially consumer action can be observed directly (Peter and Olson, 1996). Loudon and Bitta (1993) noted that "consumer behavior may be defined as the decision process and physical activity individuals engage in when Evaluating, acquiring, using, or disposing of goods and services". Engel et.al. (1992) revealing that "consumer behavior is the defined as the acts of individuals directly involved in obtaining and using economic good service Including the decision process that precede and Determine these acts". American Marketing Association (AMA) defines consumer behavior as "a dynamic interaction between the effect and cognition, behavior and events around us where people do exchange aspects of their lives". Therefore, consumer behavior will be different in each subject and each location. It is influenced by psychological and cultural factors, therefore, the study of consumer behavior should specifically explain who are the respondents as the subject of research.

2.2 Consumer shopping places selection attributes

Consumers go to a shopping center with a variety of considerations. In choosing a store, consumers ussually pick the shop which is match to the attributes they need. According to Engel (1995) attributes that influence consumers in choosing where to shop are: price, locations, the nature and variety of quality goods, advertising and promotion, sales personnel, services provided, physical attributes stores, and store's atmosphere.

3. METHODS

3.1 Research Object

Object of this study is the consumer behavior in shopping convenience goods, both in modern retail (minimarket, supermarket and hypermarket) and traditional retail (traditional market) in the territory of Depok city, Indonesia.

The population was consumer goods convinience shopping at both traditional and modern retail, small, medium and large retail, in Depok, West Java. The population of Depok city was 1,738,570 people, made up of the total male population of 880.816 and 857.754 of the number of women (www.jabar.bps.go.id). The trade sector is the largest economic sector in Depok, which is approximately 30.5% of all economic activity.

3.2 Sampling Method

Sample selection in the preliminary research done using purposive sampling, in order to match the results of the research study purposes. Traits respondent as needed to comply with the purposes of research, including: (1) respondents were productive age 17-55 years, assuming the productive age, respondents have the ability and the decision their own in shopping. (2) respondents have income. (3) respondents regularly shop at retail outlets of small, medium and large. (4) respondents residing in Depok, West Java.

3.1 Research Variables

The variables used in this study is the criteria on the selection of shopping place by consumers, which is obtained from preliminary interviews with 30 retail consumers. The operationalization of the above criteria is as follows: (1) Price: the price of goods relative to competitors, can be expressed by the predicate is very cheap, cheap, medium, expensive, very expensive. (2) Quality of merchandise: quality goods relative to competitors. Quality goods can be identified by the usability, durability and design. (3) Facilities: is the physical attributes or facilities provided by the management that serves to provide convenience to consumers while they shop. The physical attributes include facilities such as elevators, lighting, air conditioning, restrooms, parking areas, layout, wide hallway that may affect consumers in choosing the store. (4) Speed Services: is the speed saleswoman/man in serving consumers.

3.4 Data Analysis

Data were collected through questionnaires and processed using Analytical Hierarchy Process (AHP). Saaty et al., (1993) explains that the processing of data using Hierarchy Process Analitycal requires four steps: (1) Describe the problem into a hierarchy of interrelated decision criteria. (2) Use the data collected to generate a pairwise comparison matrix at each level of the hierarchy. (3) Apply the method to calculate the eigenvalues relative weights of decision criteria at each level of the hierarchy. (4) Synthesize the weight of all the decision criteria to the overall weight of the alternatives.

4. RESULT AND DISCUSSION

4.1 Respondents Profile

Respondents totaled 100 people. Profile of respondents grouped by gender, occupation, monthly income, education, the average amount of money spent, and the distance of residence to the nearest shopping place. Profile of respondents can be seen in Table 1.

Table 1. Respondent Profile.

Gender	Freq	%	Monthly income	Freq	%
Male	40	40%	≤ 1 m	42	42%
Female	60	60%	1 m - 3 m	32	32%
Total	100	100%	3.1 m - 5 m	16	16%
Occupation	**Freq**	**%**	≥ 5 m	10	10%
Gov. Employee	8	8%	**Education**	**Freq**	**%**
Entrepreneur	6	6%	High School	51	51%
Employee	22	22%	Undergraduate	17	17%
Accademician	3	3%	Graduate	25	25%
Housewife	17	17%	Post Grad	7	7%
Student	36	36%	**Monthly Spending**	**Freq**	**%**
Profesional	3	3%	≤ 0,5 m	26	26%
others	5	5%	0,5 m - 1 m	49	49%
			More than 1 m - 3 m	20	20%
			More than 3 m	5	5%

As presented in Table 1 more female respondents than male respondents. Most respondents were students (36%), this is because the city of Depok is a university town, where several major universities located in Depok. Respondents came from different social classes, the profile can be seen that the amount spent over 3 million dollars just 5%. That is because the city of Depok populous average middle to lower, still risky well-being. However, people have to face the choice to put personal comfort or the common welfare. Here, the role of government regulation to favor the welfare of the community by empowering SMEs to be more competitive.

4.2 AHP Data Analysis

The first step, formed three hierarchy. The first level of hierarchy, is the peak of the hierarchy that describes the purpose of the issue, that is the choice of where to shop. The second level of the hierarchy are the criteria to be considered in choosing where to shop. There are four criteria in the second level of this hierarchy, these criteria are: Price, Quality, Facilities and Services Speed. The third level of the hierarchy is the shopping alternatives chosen by the respondent. The alternatives are: Foreign Franchise Minimarket (FFM), Supermarkets/Hypermarkets (S/H), Traditional Shops/Local's Minimarket (TS/LM) and Traditional Markets (TM). The next step structured hierarchy as shown in Figure 1 below.

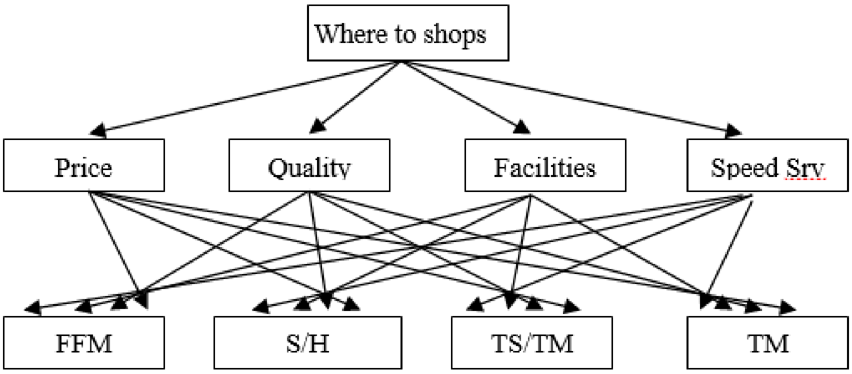


Figure 1. Hierarchy Model

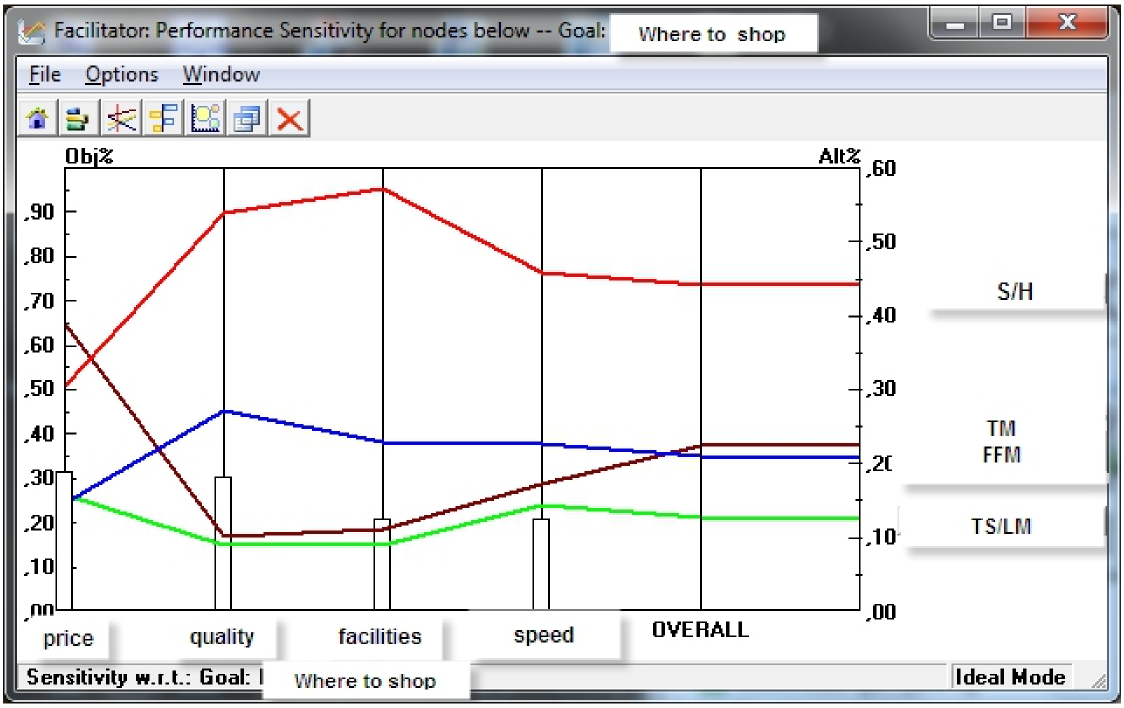
Having arranged the hierarchy, the data were processed using the Expert System version 11. Numerical values between elements of each pairwise comparison matrix were processed in a comparison. Based on the number of sample size, the average method is used in calculating the value of the combined measure for each weight value between elements. The results of the data processing is consumer preference in considering the place to shop. Sequentially consumers shop because of price (0.305), second quality (0.294), third facilities (0.201) and fourth speed of service (0.201).

Table 2. Results Where to shop

Where to Shop	Price	Quality	Facilities	Speed	Overal
FFM	0.146	0.271	0.229	0.226	0.209
S/H	0.305	0.530	0.572	0.459	0.441
TS/LM	0.158	0.089	0.089	0.144	0.126
TM	0.391	0.101	0.110	0.172	0.224
Inconsistency value < 0.1	0.04	0.06	0.06	0.02	0.07

Source: data processing, expert system v.11, 2011

The findings are presented in table 2, showed that separately, in terms of price, consumers will choose the traditional market (TM), while in terms of quality consumers choose to shop at Supermarket/Hypermarket (S/H), as well as in terms of facilities and speed of service. Therefore, as a whole has proven that the first choice of consumers in choosing a place to shop is the supermarket/hypermarket (0.441). This is bad news for traditional stores or local minimarkets (TS / LM) which is only slightly considered by consumers. The owners of local stores and local minimarket are SMEs, which constitute the backbone of the state economy. Several attempts to improve the performance of SMEs has been done, however, with increased competition in the retail sector intensifies, retail SMEs need to get serious attention. Governments can assist SMEs with the disbursement of funds, training, workshop, business incubators and regulations that ease the burden of SMEs, such as restrictions on foreign investors and large investors, regulation of predatory pricing and so on. On the other hand, consumers can not be restricted to choose the best retail, thereby increasing the performance of the local retail should be continuously improved to face competition. Clearly, consumers' preferences in choosing where to shop are presented in the chart, in Figure 2.



Source: data processing, expert system v.11, 2011

Figure 2. Overall Performance Curve

Figure 2 clearly shows the weaknesses of the local retail market compared to the other three types. Traditional Store / Local Minimarket (TS/LM) have the lowest curve. Almost in all aspect has a low consumer consideration, although in terms of price is equal to the foreign francise minimarket.

4.3 Mapping The Consumer Behaviour

Mapping can be done after analysis using AHP that produces consumer priority consideration in choosing where to shop, on the city map using overlay analysis. The map is segmented by sub-district. Figure 3 presents the mapping results of consumer behavior based on four different retail selection considerations.

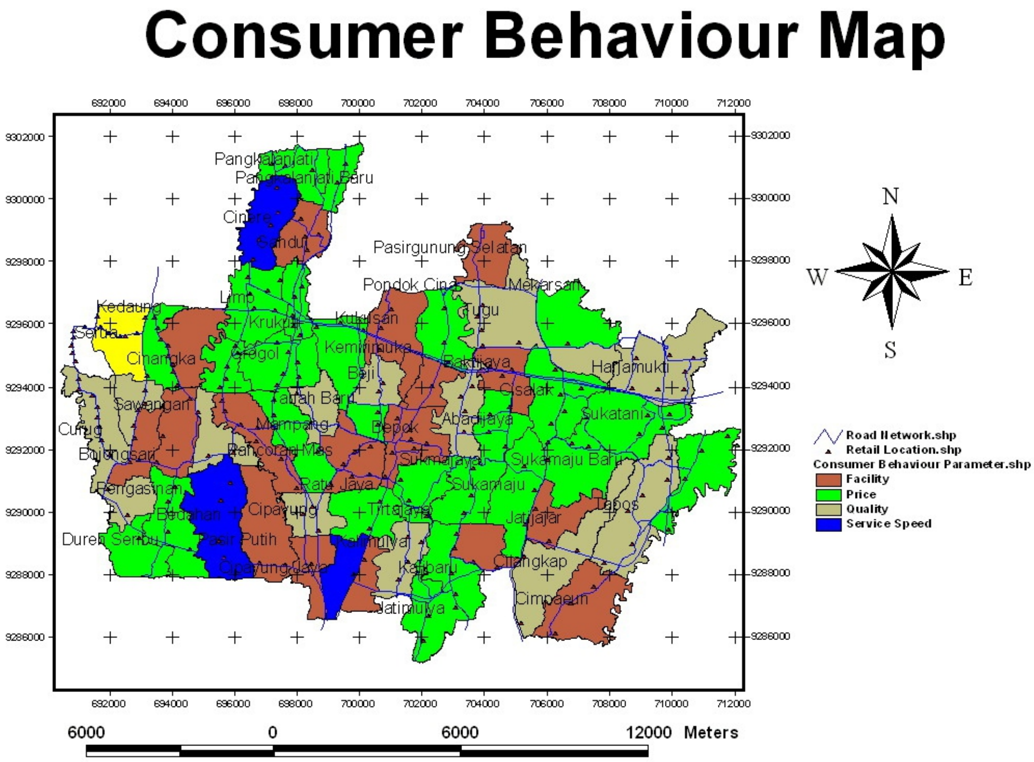


Figure 3. Consumer Behaviour Map

Green area shows where the most retail consumers considering price more than other three variables. Grey area shows where the most retail consumers considering quality, and brown is facility, and the last is blue area that shows where the most retail consumers considering speed of service. Figure 3 also shows the street map and also the competitor map that obtained by GPS survey.

5. CONCLUSIONS

Based on these results, it is concluded, that consumers consider the following decision of where to shop, the first criterion is price, the second quality, third and fourth speed service and facilities. Next conclusion is that consumers prefer shopping at supermarkets / hypermarkets than the other three forms of retail. This is because supermarkets / hypermarkets have superiority in 3 of the 4 aspects of consumer choice in considering the decision of where to shop. The map that obtained from the overlay process and GPS survey can be used to determine where the best place for traditional retail might be survive in the fierce competition. In addition they can prepare new strategy in facing the competitor and learning market led service.

6. IMPLICATIONS

In accordance with the main research objective, after researching consumer behavior towards the selection of the expenditures, the results obtained can be used to map consumer behavior by using Geographic Information Systems (GIS). The maps can be used as a Decission Support System in formulating marketing strategy. In addition to consumer behavior, retail consumer demographics and competitors can also be mapped, so that the consideration of strategies for SMEs become more complete.

7. RESEARCH LIMITATION

This study has a limited number of respondents, in the main research this weakness improved, thus the difference in outcomes may possible.

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Microfinance and Financial Inclusion in Indian Banking Sector

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A B S T R A C T

India has witnessed unprecedented growth in mobilization of deposits, extension of credit, usage of innovative financial services etc. However, access to finances and its services are very limited and many a times not available to poor and vulnerable groups where majority of the Indian population live. There is an uneven spread of financial services creating rural-urban divide.
Financial inclusion is delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups, providing them with timely and adequate access to the financial products, services like Bank Accounts, Savings Products, Remittances & Payment services, Insurance, advisory services, Entrepreneurial and Micro credit, Micro finance. An initial effort has been made for the widespread network of banking system through the establishment of Regional Rural Banks, Microfinance Institutions, Self Help Groups etc with the objective of providing easy and timely finance. Despite of various initiatives undertaken, there are still many obstacles cropping up in attaining Financial Inclusion. Hence, both public and private sector institutions should work together to overcome these challenges and contribute towards Inclusive Growth. The present research paper is an attempt to examine the role of banking system in extending banking services for financial inclusion and to look into the challenges ahead for microfinance in India

KEYWORDS: Financial Inclusion, Micro finance, Self-Help Groups (SHGs), Bank Linkage Programme

INTRODUCTION

Access to finance by the poor and vulnerable groups is a prerequisite for poverty reduction and social cohesion. This has become an integral part of our efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups. Financial Inclusion denotes delivery of financial services at an affordable cost to the vast sections of the disadvantaged and low-income groups. The various financial services include credit, savings, insurance and payments and remittance facilities.

Financial inclusion is a key factor in shaping the growth process of the economy. In India, microfinance has emerged as a powerful tool for the financial inclusion, which links low income groups with banks. Microfinance is dominated by Self-help Groups. So self-help groups are playing a very important role in the process of financial inclusion. All the beneficiaries of microfinance accept that they have gained greater economic and social security due to access to microfinance services through financial inclusion.

Microfinance directly and indirectly intends to help the state in improving the access of finance which can promote the economic development of the state and help to improve the living standard. Access to financial services and the subsequent transfer of financial resources to poor make them to become economic agents of change. People become economically self reliant and contribute directly to the well-being of their families, play a more active role in decision making and are able to confront systematic gender inequalities. Microfinance is not a miracle cure that can eliminate poverty in one fell swoop, but it can end poverty for many and reduce its severity for other. Combined with other innovative programs that unleash people's potential, microfinance is an essential tool in the search for poverty free world.

Financial Inclusion is a very important initiative for the sustainable growth of a country. With a huge rural population, that is economically challenged, Government in India has rolled out many initiatives like Rural Employment Guarantee Scheme, Sarva Shiksha Abhiyan (Education for All), Bharat Nirman Programme. But to support the growth, a committee on Financial Inclusion (FI) was also formed in June 2006, with Dr. C Rangarajan as Chairman to recommend a strategy to achieve a higher Financial Inclusion in the country. India in last 15 years has witnessed unprecedented growth in financial services, unfolded by liberalization and globalization of financial services due to adoption of Information Technology and unlocking of the regulatory framework. But alongside this positive development there are evidences that the formal financial sector still excludes a large section of population.

As on March 2006, the saving accounts per 100 adult populations were 63 and credit accounts were only 16 in all India (RBI, BSR 2006). In 1992, India's National Bank for Agricultural and Rural Development (NABARD) piloted the concept with 500 groups. Since then, the SHG movement has witnessed tremendous growth that brought about one of the world's largest and fastest-growing networks for micro-finance. In 2007, some 40 million households were organized in more than 2.8 million SHGs that borrowed more than US$ 1 billion of credit from banks in 2006/7 alone (Reserve Bank of India 2008). Cumulative credit disbursed to SHGs amounted to some US$ 4.5 billion (or about 10% of total rural credit) in India.

Financial inclusion through Self-Help Group (SHG) and Bank Linkage Programme

A revolutionary step in rural banking is the introduction of SHG-Bank Linkage programme (SBLP).The formal financial institutions like commercial banks and Regional Rural Banks play significant role in financial inclusion, but sparse presence of these institutions and shrinking share of micro credit to total credit disabused by banks showed the essence of programme like Self-Help Group and Bank Linkage. This fills the gap existing between formal financial networks and unbanked poor weaker sections which is the intention of financial inclusion. This links formal financial system (public and private sector commercial banks, Regional Rural Banks, Co –operative banks) with the informal SHGs. SHG-Bank Linkage Programme was started with the intention of extending the outreach of formal banking to poor who mainly consist of women, small and marginal farmers, daily wage labourers, landless farmers, small businessmen, craftsmen etc. To begin with pilot project was launched by NABARD by linking 500 SHGs with banks in 1992. It has increased to 0.5 million in 2002. As on March 2012 total number of SHGs linked with banks were 79.60 lakhs with balance of Rs 6550 crore with banks.

Review of literature

Khawari (2004) revealed that the establishment of microfinance institutions (MFIs) world-wide for the provision of collateral free loans to the poor through mechanisms and instruments not known to normal commercial banks has set new milestones in the field of financial services. With 900 million households in the less developed countries left without any access to formal financial services.

An empirical study of Sendhilvelan .M and Karthikeyan .K (2006) revealed to ensure financial inclusion of all segments of the population, in both rural and urban areas banks should give wide publicity to the facility of "no frills" account. Further efforts must be made to move from the concept ofanytime, anywhere banking to anytime, anywhere and to everyone banking.

Usha Thorat (2007) reported that banks are entering into agreements with India post for using post offices as agents for branchless banking. Setting up of financial literacy center and credit counseling on a pilot basis, launching a national literacy campaign, forging linkages with informal sources with suitable safeguards through appropriate legislation, evolving industry wide standards for IT solutions, facilitating low cost remittance products are some of the initiatives currently underway for furthering financial inclusion. The work of Ghorude .K.N (2009) indicated that attaining the objective of inclusive growth has to necessarily encompass the social, economic and political inclusion. Developing micro entrepreneurship with organizational and community based support is a way of strengthening inclusive growth.

Anamika (2009) analyzed the efforts made by the government of India in the implementation of financial inclusion, identifies the barriers in the process and suggests strategies to ensure maximum financial inclusion for the underprivileged and unbanked areas.

Prasher (2009) suggested that the root cause for advancement in banking sector in rural areas is the cost factor. Technology can help in cutting down the cost factor. Use of IT reduces the costs of financial transactions, improves allocation of resources, and increases competitiveness and efficiency. Most importantly, it enables to take any product or service to the general masses. IT has also enabled efficient, accurate and timely management of the increased transaction volume that comes with a larger customer base.

Muthiah Manoharan. P and Krishnaveni Muthiah (2010) found limited access to affordable financial services such as savings, loans, remittance and insurance services to the vast majority of the population in the rural area and unorganized sector is believed to be a constraint to the growth impetus in these sectors. The behavioral pattern shows that many people were not comfortable with formal financial services. The reasons were difficulty in understanding language, various documents and conditions that come with financial services etc.

Objectives

1. To examine the role of banking system in extending banking services for financial inclusion.
2. To look into the challenges ahead for microfinance in India

Methodology

Secondary sources of data are used. Data published by various institutions such as Government of India, World Bank, Consultative Group to Assist the Poor (CGAP), Reserve Bank of India (RBI), National Bank for Agriculture and Rural Development (NABARD, State Level Bankers‟ Committee (SLBC), etc are used for the purpose of the present paper.

Role of banking system in extending banking services for financial inclusion.

Indian banking system has exhibited tremendous growth in extending its reach, coverage & delivery of financial products to the mass ever since 1881. The All India Rural Survey committee in 1954 recommended the creation of a state sponsored bank to promote rural penetration. Accordingly, SBI was established in 1955. Another step in this direction was taken in 1969 when 14 major commercial banks were nationalized followed by six more in 1980. This strengthened the concept of socialistic & welfare state stature of the country. Lead bank scheme was launched in 1970 to increase banking penetration with special focus on the districts. The emergence of RRBs in 1976 blended the skills of commercial banks with the grass root presence of the cooperative banks helped the mass to access to institutional credit. NABARD established in 1982 regulated institutional credit for agriculture & rural development. Talwar committee & Goiporia committee in the early eighties have made many recommendations to improve the customer services in India. Following are some of the steps undertaken by RBI: The RRBs have been advised to allow limited overdraft facilities in no-frill accounts without any collateral. The idea was that provision of such overdraft facilities provides a ready source of funding to the account holders who are thereby inducted to open such accounts.

Banks also have been advised to provide a General Purpose Credit Card (GCC) at their rural & semi urban branches. From this revolving card system the customer can withdraw money to a limited amount from the concerned branch.

Bhumuheen‟ credit card facility has been arranged apart from Kisan credit cards for the rural & semi urban tenant farmers, landless labourers whereby they can be allowed hassle free credit limit up to 0.25 lacks per person.

Special Agricultural branches have been opened by the PSBs to meet the financial needs for agricultural & allied activities.

On the behest of the RBI, SHG & bank linkage programme has been initiated which has been a major micro finance programme in the country.

The banking industry has shown tremendous growth in volume and complexity during the last few decades. Despite making significant improvements in all the areas relating to financial viability, profitability and competitiveness, there are concerns that banks have not been able to include vast segment of the population, especially the underprivileged sections of the society, into the fold of basic banking services (Thorat, 2007a). So, this lead to the emergence of for financial inclusion as a strategy to bring so called excluded people in to the mainstream.

Financial inclusion is delivery of banking services at an affordable cost to the vast sections of disadvantaged and low-income groups. As banking services are in the nature of public good, it is essential that availability of banking and payment services to the entire population without discrimination is the prime objective of the public policy. Although credit is the most important component, financial inclusion covers various financial services such as savings insurance, payments and remittance facilities by the formal financial system to those who tend to be excluded (Mahendra S, 2006).

In India, the drive for financial inclusion, initiated by the Reserve Bank of India, has thus far involved ensuring access to at least one zero minimum-balance „no frills‟ savings bank account to every household. In this context, at least one district in each state has been brought under the purview of this drive with public sector banks in the region taking the lead to open at least one bank account per family in the district.

The broad objective of financial inclusion is to extend the scope of activities of the organized financial system to include within its ambit people with low incomes. Through graduated credit, the attempts must be to lift the poor from one level to another so that they come out of poverty (Rangarajan, op. cit.). Inclusive growth encompasses ideas related to basic needs and equity. It focuses on broad – based growth so that growth covers all strata of society. It seeks to bridge the various divides that may fragment the society. Reduction in poverty and disparities of income and ensuring everyone a basic minimum standard of living are the objective of inclusive growth. In this context access to finance by the poor and vulnerable groups has to be recognized as a pre requisite for poverty reduction and social cohesion. It has to become an integral part of the efforts to promote inclusive growth. In fact, providing access to finance is a form of empowerment of the vulnerable groups.

Thus, limited access to affordable financial services such as savings, loan, remittance and insurance services by the vast majority of the population in the rural areas and unorganized sector is believed to be acting as a constraint to the growth impetus in these sectors. Access to affordable financial services - especially credit and insurance - enlarges livelihood opportunities and empowers the poor to take charge of their lives. Such empowerment aids social and political stability. Apart from these benefits, FI imparts formal identity, provides access to the payments system and to savings safety net like deposit insurance. Hence FI is considered to be critical for achieving inclusive growth; which itself is required for ensuring overall sustainable overall growth in the country. The financially excluded sections largely comprise marginal farmers, landless labourers, oral lessees, self employed and unorganized sector enterprises, urban slum dwellers, migrants, ethnic minorities and socially excluded groups, senior citizens and women.

Challenges Ahead for Microfinance in India

An evaluation of SHGs carried out by the regional offices (ROs) of the Reserve Bank revealed that there was scope for improvement in the area of maintenance of books of accounts. It also brought out that rotation of group leaders was generally not followed by SHGs. However, other best practices like strict adherence to attendance of group meetings, recording minutes of the meetings and prompt repayment of bank loans were being followed. The momentum of growth in the micro-finance sector has brought into focus the importance of regulating the sector to function in an efficient and orderly manner. There would be need for greater transparency in their functioning and for facilitating their reach to un-banked population of the country

Interest rates in the microfinance sector have to be significantly higher than in the banking sector reflecting the much higher cost of doing business. This attracts criticism but it is important to remember that most microfinance institutions charge rates which are much lower than rates charged by money lenders. Borrowers stand to benefit from the experience of micro-finance institutions as these provide competition to money lenders (Planning Commission, 2006).

Over the past two decades, institutions that make microloans to low-income borrowers in developing and transition economies have focused increasingly on making their operations financially sustainable by charging interest rates that are high enough to cover all their costs. They argue that doing so will best ensure the permanence and expansion of the services they provide. Sustainable (i.e., profitable) microfinance providers can continue to serve their clients without needing ongoing infusions of subsidies, and can fund exponential growth of services for new clients by tapping commercial sources, including deposits from the public. MFIs on average have higher returns on assets than commercial banks do, but MFIs produce lower returns on equity for their owners. The median return on MFI owners" equity in 2006 was moderate—12.3 percent, roughly 4 percent lower than the return for banks (Rosenberg, et al.).

There have been incidents of state governments imposing restrictions on micro-finance institutions in a manner which does not reflect an appreciation of the realities on the ground. Excessive regulation and control of this sector may be particularly dangerous as it can prevent the development of a healthy and competitive microfinance sector which could compete with usurious money lenders (Planning Commission, 2006).

Conclusion

As poverty levels decline and households have greater levels of discretionary incomes, they will be first time financial savers. They will, therefore, need to have easy access to formal financial systems to get into the banking habit. Banks will need to innovate and devise newer methods of including such customers into their fold.

The micro-credit and the Self Help Group movements are in their infancy and they still need to gather force. Innovation in the form of business facilitators and correspondents will be needed for banks to increase their outreach for banks to ensure financial inclusion. New entrants to the banking system need households at their doorstep. There has been a burst of entrepreneurship across the country, spanning rural, semi-urban and urban areas. This has to be nurtured and financed. It is only through growth of enterprises across all sizes that competition will be fostered.

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Model of Decision Lending Partnership Program Pertamina (Persero) Region Part II South of Sumatra

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ABSTRACT

The objective of research is to analyze: 1) The effect of simultaneously and partially; character, capacity, economic conditions, capital, collateral on Performance of Partnership Programs Pertamina Co. Ltd Region II South Of Sumatera, 2) directly effect performance on Collectability Partnership Program Pertamina Co. Ltd Region II South of Sumatera. Data selected using simple random sampling, with 250 respondents of the Partnership Program Pertamina Co. Ltd Region II South of Sumatera. Methods of data collection are using questionnaires and interviews. Analysis tool used is the path analysis. The study results are:1) The dimension of 5C; character, capacity, condition of economic, capital, collateral, simultaneously and partially have significant effect on Business Performance Partnership Program Pertamina Co. Ltd Region II South Of Sumatera; 2) Directly Performance have no influence on collectability Partnership Program Pertamina Co. Ltd Region II South of Sumatera.

Keywords: Character, Capacity, Condition of economic, Capital, Collateral Performance, Spiritual, Collectability

1. INTRODUCTION

The concept of community empowerment includes the notion of community development (community development) and development focused on the community (community-based development). Empowerment are the elements that allow a society survive (survive), and in the sense that dynamic develop themselves and achieve progress. Empowerment is a source of insight into what's inside politics at the national level we call national security. Empowering people is an attempt to increase the dignity of our society in its present condition is not able to escape from the trap of poverty and underdevelopment. In other words, is to enable and empower communities. Macroeconomic theories, which generally rely on the role of the market in resource allocation, as well as the assumption that proper macroeconomic policy will benefit all levels of society, in reality it can not produce a satisfactory answer to the problem of the gap. Social forces are not balanced, causing the failure of the market to realize the expectations (Brown, 1995). Therefore, appropriate intervention is required, so that wisdom at the macro level to support efforts to address the gaps that have to do with the activities that are directly aimed at the micro-and bottom layers of society. Community empowerment can be seen as a bridge to the development concepts of macro and micro. In the frame of the various inputs such as funding, infrastructure and facilities allocated to the community through various development programs should be placed as a stimulus to spur accelerated socio-economic activities.

After Adam Smith, Malthus, and Ricardo called the classical flow, developed the modern theory of economic growth with its variations can essentially be divided into two, namely that emphasizes the importance of capital accumulation (physical capital formation) and improving the quality of human resources (human capital). Capital (physical capital formation), is the capital associated with the physical form required to produce a person or company. Physical capital may include capital and capital moving not moving. Human capital (human capital) is one of the resources that exist within a business organization in addition to other resources, such as capital, materials, machinery and technology. In fact, it can not be denied that human capital is an important element in running a business organization. Humans have the functions and strategic role in managing a variety of other resources to be beneficial to the organization. Thus without humans, the presence of other resources is meaningless.

Moral capital lately much discussed by experts. One of the books that discuss aspects of this capital is Moral Intelligence: Enhancing Business Performance and Leadership Success, written by Doug Lennick and Fred Kiel (2005). Both of these experts formulate gauge Moral Competency Inventory (Inventory to measure moral competence). There are four components of moral capital that makes a person has high moral intelligence that is integrity (integrity), responsibility (responsibility), merciful (compassionate), and forgiving (Forgiveness). The importance of moral and spiritual capital is the same as the root of the trees. Without a will, a tree will not be able to live let alone grow. Moral capital becomes increasingly important role as they attempt to build an intelligent man with a high IQ and a man who knows how to manage his emotions in others is associated with human conduct in the meaningfulness of life. Meaningfulness of life is a strong motivation that drives people to do something useful activities. Useful life is life that gives meaning to yourself and others. Besides the moral capital it also gives a feeling of a complete life (wholeness). This is what Abraham Maslow called by the 'Peak Experience', feelings that arise because of the closeness to the Creator. Such a concept is much to call it spiritual capital (see Sinetar, 2000). Stephen Covey (1986) included a section of things that are spiritual in part to increased human activity in order for humans to be effective.

Associated with economic democracy which literally means people's sovereignty in the field of economics, where economic activity takes place is of the people, by the people and for the people. This concept comes to the mastery of technology, equity, access to markets and to the sources of information, as well as management skills. So that economic democracy can be run, which accommodated the aspirations of the people must be translated into formulas real activity. To translate the formula into concrete activities, the state bureaucracy has. The bureaucracy should be able to run effectively, meaning able to outline and implement public policy formulations (public policies) well, to achieve the desired goals and objectives. In understanding the Indonesian nation, the people are the main actors of development, while the government (bureaucracy) is obliged to direct, guide, and create a supportive climate. Community in this context is the community as a whole which is a lot more people who fall into the category of SMEs.

Sector of small and medium enterprises (SMEs) is one of the locomotives that is crucial for development and economic growth in many countries in the world. Another side issue is the difficulty of developing SME funding or working capital factor, so it needed the support and facilitation of the government in this sector mengenjot growth. Funds is a fundamental thing for the company. In principle, every company needs funds. The fulfillment of these funds can come from internal sources or external sources. Although in general, companies tend to use their own capital as a permanent capital rather than foreign capital only as a supplement, but foreign capital is an alternative to meet the shortage of funding needs.

One source of capital requirements above is through the Community Development Partnership Program that exist in the State-Owned Enterprises (SOEs). CSR is the Small Business Development Program and empowerment by environmental conditions through the use of state funds from the profits of SOEs. Partnership Program with the state-owned small businesses and Environment Development Program (CSR) as implementations performed SOE SOE Minister's decision No. PEM 236/MBU/2003. For Small Business Partnership Program, has implemented state-owned since 1989 in line with the publication of Law No. 3 Year 1983 on Procedures for Supervision of Public Corporation, Testament and Limited, while the new Community Development Program was implemented in 1999. The creation of a conducive business environment can largely be met by the availability of funds, thereby receiving coverage partnerships and community development programs will be wider and have a real impact for the improvement of public welfare which in turn is a corporate social responsibility (Corporate Social Responsibility) and will provide revenue regions (autonomous regions) as well as helping the government to open jobs for productive age who are out of work and also had a role in alleviating poverty.

In practice it turns out the target of CSR programs that have been established, fully optimized yet been realized, this is due to some constraints, both the constraints of the state government as a mediator with established partners and also the problems faced by established partners themselves. For it to support the optimization of CSR activities, it is necessary to find a solution that can reach effectiveness and optimal colectability Partnership program itself.

The objective of the research is to analysis: 1) The effect of simultaneously or partially; character, capacity, economic conditions, capital, collateral on Performance of Partnership Programs Pertamina Co.Ltd Region II South of Sumatera, 2) directly effect performance on Collectability Partnership Program. Pertamina Co .Ltd Region II South ff Sumatera.

Literature Review

According to Kashmir (2001:98-99), the aspects that need to be assessed to provide credit include legal aspects, markets and marketing, financial, or technical aspects of the operation, management aspects, socio-economic aspects, and aspects of the EIA. Meanwhile, according to Copeland (1992:455) and Dahlan Siamat (2005:356-357), which needs to be assessed is based on the concept of 5C; character, capacity, capital, collateral, condotion. Further still according to Siamat (1995:100), can also use the concept of 7P is then condensed into the 3R concept. 7P concept includes personality, purpose, prospect, payment, profitability, protection, and party. While the concept of 3R include return, repayment, and risk bearing ability.

According to Helfert (1997:69 the company's financial performance analysis lenders include the current ratio, quick ratio, quick sale value, the pattern of cash flow, debt to assets, debt to capitalization, debt to equity, the trade-off of risk / reward, coverage interest, principal and interest coverage, and cash flow analysis. Analysis of the financial performance of companies by lenders is very important to be known by these companies because this analysis is one of the important analysis in lending decisions.

The Performance and Collectability

Small and medium enterprises (SMEs) play a major role in economic development in every country. Studies indicate that in both advanced economies and developing countries SMEs contribute on average 60 percent of total formal employment in the manufacturing sector (Ayyagari et al, 2007). One measure of the performance of micro and small companies is return on investment (ROI). The lower ROI, the lower their collectability and it affects on the increasing of non performing loan (NPL) of the loan institution. Stephanou and Rodriguez (2008) analyze trend and structure of the SME financing market in Colombia and find that banks in the country regard the SME segment as an attractive company opportunities. They conclude that the market is characterized by a number of institutional and policy constraints, which inhibits further growth of SME lending. Although they have good performance and ability to make loan payment, it does not guarantee that they do, because the bank has credit risk, namely bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms (Basel, 2000). Sinkey & Greenwalt (1991) argue that there are five major.

Based on the theoretical review, we can develop hyphothesis as follows:

H1: Character, capacity, condition of economy, capital , collateral simultaneously or partially have effect on the performance of the Partnership Program established partners PT. Pertamina (Persero) Region II Sumbagsel.

H2: The performance has a direct effect on the Partnership Program collectability PT. Pertamina (Persero) Region II Sumbagsel.

Methodology

The location of the research is at southern sumatera and the number of samples are 250 micro and small companies. According to Roscoe 1975 (Sekaran, 2003) that study that uses multivariate analysis, then the number of samples must be more than 10 times as analyzed variables and the number of samples for the research is more than 30 and less than 500 units.

Operational Variable Definition

The performance of micro and small companies are represented by return on investment (ROI). Return on investment is net profit divided by total assets (investment). Collectability is measured by classifying into 4 categories, namely 1 is good, 2 is fairly, 3 is bad, and 4 is very bad. The research model in the study can be presented as follows.

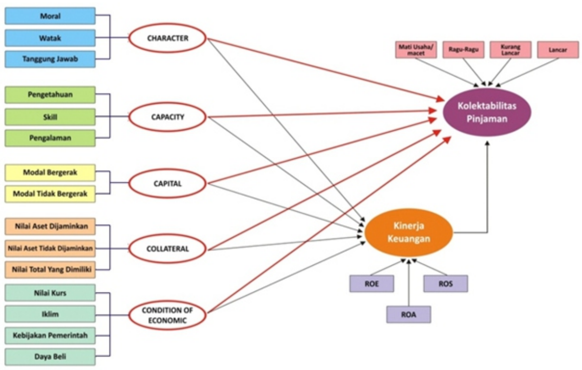

Figure 1. Model of Lending Decisions

Analysis Model

Processing the data collected from the results of questionnaires and secondary data collection is done in 4 steps: editing, entry, tabulation and analysis of data using the help of Microsoft Excel 2007 and SPSS version 16 and Amos Version 18. Given this research model is a model of causality (cause and effect), then to test the hypothesis statistical test equipment used in the research model. First testing data is tested for validity and reliability.

Result and Discussion

5C Effect on Performance (ROI)

To find out how far the influence of variable 5 C; character (X1), capacity (X2) capital (X3), collateral (X4), and economic conditions (X5), the dependent variable Financial performance (ROI) (Y1), the analysis used multiple linear regression model. Based on calculations with the help of SPSS for Windows Release 13:00 obtaining the results obtained, as follows:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.802(a)	0.643	0.636	0.10252

a Predictors: (Constant), COLLAT, CHAR, ECON, CAP, CAPITAL

ANOVA(b)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.627	5	0.925	88.044	.000(a)
	Residual	2.564	244	0.011		
	Total	7.191	249			

a Predictors: (Constant), COLLAT, CHAR, ECON, CAP, CAPITAL
b Dependent Variable: ROI

Coefficients [a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	.963	.133		7.227	.000
	CHAR	.068	.015	.181	4.635	.000
	CAP	.152	.022	.276	7.070	.000
	ECON	.061	.019	.124	3.158	.002
	CAPITAL	-5.1E-009	.000	-.351	-3.593	.000
	COLLAT	-3.6E-009	.000	-.347	-3.546	.000

a. Dependent Variable: ROI

Based on the results of the calculations in the table, the estimated regression function is obtained, are:
Y1 = 0.963 + 0.068 X1 + 0.152 X2 + 0.061 X3 - 5.08 E 3.64 E-009X4-009-X5 + e

From the multiple regression equation above it can be seen that the influence of the independent variables (X) on the dependent variable (Y) is as follows: Character (+), Capacity (+), and the Condition of Economy (+), has a positive influence on Financial Performance dependent variable (ROI). Positive influence suggests that financial performance will change with changes in the variable character, capacity, and condition of economy.

Variable Capital (-), and Collateral (-) has a negative impact on ROI. The result showed that the negative effect of financial performance (ROI) will not change with changes in the variable Capital and Collateral.

Based on multiple linear regression analysis above, it shows that all three independent variables had a significant effect on ROI. The fifth independent variable is the Character demonstrate the value of p = 0.000, suggests capacity value of p = 0.000, condition of economy demonstrates the value of p = 0.002, shows the capital value of p = 0.000, and collateral demonstrate the value of p = 0.000.

Value of the correlation coefficient (R) as a whole amounted to 0.802 or 80.2%, indicating that the relationship between the independent variables together on the dependent variable can be categorized as moderate, since the correlation coefficients of> 50% and <100%. It is known that the relationship can be said to be perfect if the correlation coefficient reached 100% or 1, both positive and negative.

Furthermore the value of R2 (coefficient of determination) indicates the number .643 means that the independent variable is able to explain the dependent variable of 64.3% while the rest is explained by other variables. Or in other words, 64.3% of financial performance (ROI) is affected by the independent variable 5C consisting of character, capacity, condition of economy, capital, and collateral. While the rest influenced by other variables beyond the variables studied.

Hypotesis 1

F test (Test Simultaneously)

Simultaneous testing using the F test is intended to test the statistical significance of the independent variables simultaneously (simultaneously) on the dependent variable. Based on the results of multiple linear regression obtained results, the overall F value is equal to 88.004 means that the calculated F value = 88.004> of the value of F table = 2.26), and with the number of sig (F) = 0.000 (p <0, 05). This suggests that together (simultaneously) The independent variable (character, capacity, condition of economy, capital, and collateral) have a significant effect on the dependent variable of financial performance (ROI).

T test (Partial Test)

Partial test (t test) is aimed to test the statistical significance of the effect of each independent variable (character, capacity, condition of economy, capital, and collateral) on the dependent variable of financial performance (ROI). If the 5% significance level (p <0.05), the partially independent variables (individual) has the effect of significantly (significantly) on the dependent variable. The table below shows the results of a partial analysis:

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.963	.133		7.227	.000
	CHAR	.068	.015	.181	4.635	.000
	CAP	.152	.022	.276	7.070	.000
	ECON	.061	.019	.124	3.158	.002
	CAPITAL	-5.1E-009	.000	-.351	-3.593	.000
	COLLAT	-3.6E-009	.000	-.347	-3.546	.000

a. Dependent Variable: ROI

Character variables on financial performance (ROI) shows the t value obtained is greater than the value of 4.635 t table = 1.645, and the significance level is partially p = 0.000 (p <0.05). This condition indicates that partially on the 95% confidence level character independent variables significantly influence the dependent variable of financial performance (ROI).

Capacity variables on financial performance (ROI) shows the t value obtained is greater than the value of 7.070 t table = 1.645, and the significance level is partially p = 0.000 (p <0.05). This condition indicates that partially on the 95% confidence level independent variable capacity significantly influence the dependent variable of financial performance (ROI).

Variable condition of economy on financial performance (ROI) shows the t value obtained is greater than the value of 3,158 t table = 1.645, and the significance level is partially p = 0.002 ($p < 0.05$). This condition indicates that partially on the 95% confidence level independent variable condition of economy a significant effect on the dependent variable of financial performance (ROI).

Capital variables on financial performance (ROI) shows the t value obtained is greater than the value of -3.593 t table = 1.645, and the significance level is partially p = 0.000 ($p < 0.05$). This condition indicates that partially on the 95% confidence level independent variable capital significantly influence the dependent variable of financial performance (ROI).

Variable collateral on financial performance (ROI) shows the t value obtained is greater than the value of -3.546 t table = 1.645, and the significance level is partially p = 0.000 ($p < 0.05$). This condition indicates that partially on the 95% confidence level independent variable capital significantly influence the dependent variable of financial performance (ROI).

Hypotesis 2 The performance has a direct effect on the Partnership Program collectability PT. Pertamina (Persero) Region II Southern Sumatra

Discriminant test is done to look at predictors of partner grouping assisted by collectability. The following are the results obtained from the data processing

Collectability		**Mean**	**Std.Deviation**
Out of order	ROI	1.1511	0.16368
Lost Swit	ROI	1.13	0.17369
Swit	ROI	1.2268	0.1596
Total	ROI	1.1849	0.16994

From the analysis above can be explained that the partners built the current collectability level has the highest score value in financial performance (ROI), further established partners with category level collectability substandard loans have the lowest scores and category level established partners with collectability jammed with have high scores.

The test results by using Box's M test showed no significant F value that is equal to 0714, this means that the covariance within each group is homogeneous (the same relative), so that further calculations can be done (the assumption is met).

Wilks' Lambda

Test of Function(s)	Wilks' Lambda	Chi-square	df	Sig.
1	.930	17.924	2	.000

Eigenvalues

Function	Eigenvalue	% of Variance	Cumulative %	Canonical Correlation
1	.075[a]	100.0	100.0	.265

a. First 1 canonical discriminant functions were used in the analysis.

Eigenvalue value shows a comparison of the variance between groups to the variance within groups. The greater the value the greater the Eigenvalue mean discriminant function (the effect of independent variables). Eigenvalue of the output value amounted to 0.74 percent of the variance with the value of 100 indicates that the discriminant function obtained amounted to 100%. This means that the discriminant function explain 100% of the total variance of the independent variable. To obtain discriminant function is significant as seen from the value of Wilks' Lambda 0.930 level 0:00 and sign.

Canonical Discriminant Function Coefficients

	Function
	1
ROI	6.077
(Constant)	-7.201

Unstandardized coefficients

Based on the result of canonical output Discriminat Function Value ROI function coefficients obtained for constant values of 6077 and -7201 can be described discriminant function equation is:

$$Z = -7.201 + 6.077 \text{ ROI}$$

Conclusion and Suggestion

The objective of the research is finding that 5C concept in lending decision influence on performance of Small and Medium Enterprise. With the other test by using discriminate analysis showing the partners built the current collectability level has the highest score value in financial performance (ROI), further established partners with category level collectability substandard loans have the lowest scores and category level established partners with collectability jammed with had intermediate scores. So it can be said that the performance has an influence on collectability. For the next research, could be using other factor or variables.

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Role of NABARD in the Rural Development of India

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ABSTRACT

After independence, government of India made enormous schemes for the development of rural India. "Development with social equality" has been the basic objective of the development planning in India. The National Bank for Agriculture and Rural Development (NABARD) was set up in 12 July 1982. It became apex institution which plays a vital role in the sphere of planning and providing refinance facilities, women empowerment, microfinance and technical support for rural upliftment. The main objective of this paper is to analyze the roles and functions of NABARD. It focuses on the various purpose wise disbursements of funds under Investment credit and Rural Infrastructure Development Fund (RIDF) during the year 2011-2012. It also throws a light on NABARD's past and present performance and its major achievements during the year 2011-12.

Keywords: Investment Credit, Rural Infrastructure Development Fund (RIDF), Performance analysis, refinance, microfinance

1. INTRODUCTION

National Bank for Agriculture and Rural Development, more popularly known as NABARD was established by an Act of Parliament on 12th July 1982 to implement the National Bank for Agriculture and Rural Development Act, 1981.It replaced the Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of Reserve Bank of India, and Agricultural Refinance and Development Corporation (ARDC).

It is one of the premiere agencies to provide credit in rural areas NABARD was established in terms of the Preamble to the Act for providing credit for the promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting IRDP and securing prosperity of rural areas and for matters connected therewith in incidental thereto.

1.1 Mission of NABARD

"Promoting sustainable and equitable agriculture and rural development through effective credit support, related services, institution building and other innovative initiatives".

1.2 Objectives of NABARD

i. The National Bank will be an apex organization in respect of all matters relating to policy, planning operational aspects in the field of credit for promotion of Agriculture, Small Scale Industries, Cottage and Village Industries, Handicrafts and other rural crafts and other allied economic activities in rural areas.

ii. The bank will serve as a refinancing institution for institutional credit such as long-term, short-term for the promotion of activities in the rural areas.

iii. The bank will also provide direct lending to any institution as may be approved by the Central Government.

iv. The bank will have organic links with the Reserve Bank and maintain a close link with in.

1.3 Role of NABARD

i. Providing refinance to lending institutions in rural areas
ii. Bringing about or promoting institutional development
iii. Evaluating, monitoring and inspecting the client banks
iv. Acts as a coordinator in the operations of rural credit institutions.
v. Extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
vi. Offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
vii. Helps the State Governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
viii. Acts as regulator for cooperative banks and RRBs.

1.4 Function of NABARD

i. Credit functions, involving preparation of potential-linked credit plans annually for all districts of the country for identification of credit potential, monitoring the flow of ground level rural credit, issuing policy and operational guidelines to rural financing institutions and providing credit facilities to eligible institutions under various programmes.
ii. Development functions, concerning reinforcement of the credit functions and making credit more productive
iii. Supervisory functions, ensuring the proper functioning of cooperative banks and regional rural banks.
iv. It takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
v. It co-ordinates the rural financing activities of all the institutions engaged in developmental work at the field level and maintains liaison with Government of India, State Governments, Reserve Bank of India and other national level institutions concerned with policy formulation.

vi. It prepares, on annual basis, rural credit plans for all districts in the country; these plans form the base for annual credit plans of all rural financial institutions.
vii. It undertakes monitoring and evaluation of projects refinanced by it.
viii. It promotes research in the fields of rural banking, agriculture and rural development.

2. Literature Review

R.S. Dixit and J.S. Chakraborty has opined that NABARD has to pay much more attention on those issues which arc paralyzing the financial discipline by political interference and willful defaults of credit agencies.

All India Rural Credit Review Committee (AIRCRC), 1969 also gave much emphasis on enhancing the need for increase in the credit flow to the rural sector and for co-ordination.

Report of Expert Committee to Review the Supervisory role of NABARD - 1998 under the chairmanship of D.K. Sharma, former Executive Director of RBI, constituted by NABARD .

Report of the high level committee on agricultural credit1"' through commercial banks constituted by RBI in 1997 headed by R.V. Guptat.

The National Bank (which bear) sponsored a study on the RNFS in Assam in the year 1996-97, made an analysis of the potential of RNFS in Assam emphasising development of certain emerging high growth sector i.e. agricultural services, small plantation produce, fish rearing, sericulture etc.

Committee on Banking Sector Reform under the Chairmanship of M. Narashimham which submitted its report relating to rural small industrial credit suggested that delaying of co-operative structure to reduce the cost of intermediation and to transfer the benefits of cheaper finance of NABARD to the ultimate borrower.

The study group on Norm for Involvement of Resources by State and Central Co-operative Banks in Agricultural Lending16 was constituted by NABARD in 1983 under Mr. G.P. Bhave, suggested a minimum level of involvement of resources by SCBs and CCBs is required as a supplementary character of NABARD's refinance for short term agricultural purposes.

The Agricultural Credit Review Committee 17 (1993) formulated by RBI, to review the problem of Indian financial market related to agriculture had examined the issue relating to enhancing the producti vity of agriculture through proper institutional credit.

While assessing the role of NABARD in rural Development, Rudra Pratap Singh (1994) highlights the organizational set-up, functions, financial analysis of NABARD, and its refinance operations developmental and promotional activities in India.

Talking about the disbursement of loan, a study was conducted on Rural Credit Management by Rajendran (1997) in Kerala disclose that the overall performance of the state in this field is very low..

To analyse the linkage effect of women self help group in selected district in Tamil Nadu, Lalitha (2001) observes that the sustainability of the SHGs much depends on linkage of the group with NABARD schemes and other government schemes.

Patel (1992) while doing an analytical study on “A decade of NABARDs performance” reveals that southern and the central region received nearly 50 per cent of the total refinance of NABARD. It also reveals that there was progressive increase in disbursement of refinance facilities and modernization of agriculture received a high share of term loans.

Chadha,G.K.(1993) while analyzing the “Non Farm employment in rural Households in India” recognizes the agricultural development alone cannot provide a solution for alleviating poverty and unemployment which can be removed with the growth of RNFS.

Eapen, Mridul(1996) while doing micro level studies in Kerala show that some non- farm activities like small business would help the rural people to come out of poverty, if timely credit assistance is provided. (Rural Non-Agricultural Employment in Kerala: some reflection on petty production).

A study by Bhattacharya and Mitra (1993) suggest that the Manufacturing sector has not contributed significantly for the employment growth despite its significant contribution to income. Its growth in employment (1.3percent) was less than that of even primary sector (2.0 percent) during the eighties.(Employment and structural Adjustment: A look at 1991 census data).

Mellor,John(1976) have identified in his paper entitled “The new Economics of Growth: A Strategy for India and the Developing World” that agricultural growth induces the growth of Non farm sector in the rural areas through consumption and inputs linkages.

Vaidyanathan,A (1986) attributes the growth of rural non-farm sector as distress induced due to rural unemployment. It was also observed that the ownership of land provided an opportunity for the household to release the educated young person for non-farm sector while retaining old person for agricultural sector (Unni,Jeemol(1994).

3. Research Methodology

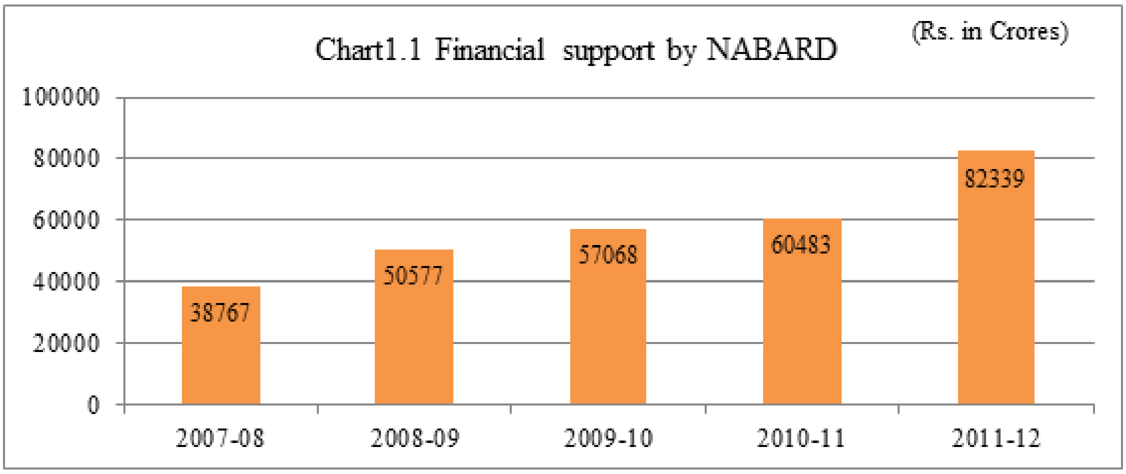
This paper results from an exploratory process. This study is based on a review of key literature and a descriptive analysis of secondary data from data government source i.e. NABARD annual reports. The date is analyzed with the help of Pie chart, Bar graph and tables.

4. Analysis

4.1 Major Achievements

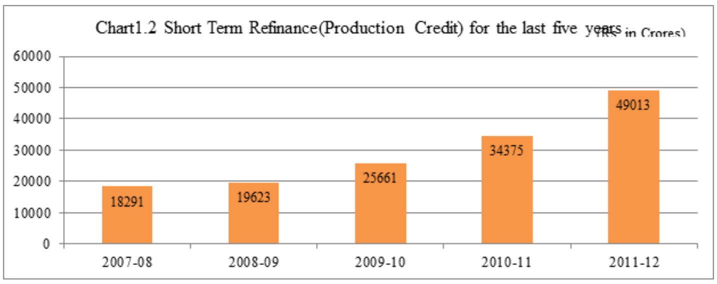
4.1.1 Business Operations

The business operations of NABARD comprise (i) providing refinance (II) co- financing (III) direct lending (IV)financing for rural infrastructure projects by way of the Rural Infrastructure Development Fund (RIDF) and a newline of credit called the NABARD Infrastructure Development Assistance (NIDA), (v) refinancing banks against loans extended by them professional consultancy service (VI) professional consultancy service.



4.1.2 Production Credit

NABARD refinances short-term loans given by Co-operative Banks and RRBs for production, marketing and procurement activities under Short-Term Seasonal Agricultural Operations ((ST-SAO)



4.1.3 Investment Credit

NABARD refinances term loans given by Commercial Banks, Regional Rural Banks and Cooperative Banks for farm and non-farm sector activities. These loans have a currency of 3-15 years.

4.1.3.1 Refinance Policy and Eligibility Criteria

i. Commercial Banks/ PUCBs/ NEDFi with Net NPA exceeding 3 per cent were not eligible for availing refinance during the year.

ii. NBFCs registered with RBI, having AAA rating from a SEBI approved agency and with Net NPA not exceeding 3 per cent, were eligible for refinance.

iii. Refinance was provided to Commercial Banks, SCBs and RRBs at 100 per cent of the eligible bank loan for all activities under 'thrust areas'. With effect from 2 September 2011,

iv. Refinance to SCARDBs was extended as term loans as against the earlier practice of contribution to floatation of debentures.

Under the new system, all SCARDBs are eligible for refinance of 90 per cent of For increasing the credit flow to the States in the Eastern Region (West Bengal, Odisha, Bihar, Jharkhand and Andaman & Nicobar Islands), North Eastern Region (Assam, Arunachal Pradesh, Manipur ,Meghalaya, Mizoram, Nagaland, Tripura including Sikkim), Hilly States (Jammu & Kashmir, Himachal Pradesh and Uttarakhand), Lakshadweep and Chhattisgarh, NABARD continued to apply uniform interest rate on refinance to all client institutions in the north eastern region,

v. Extend 5 per cent relaxation in recovery norms for SCARDBs and relaxation in Net NPA norms by 5 and 3 per cent, respectively, for SCBs and RRBs and

vi. Provide refinance at 100 per cent of the eligible bank loan for all client institutions except SCARDBs for all purposes.

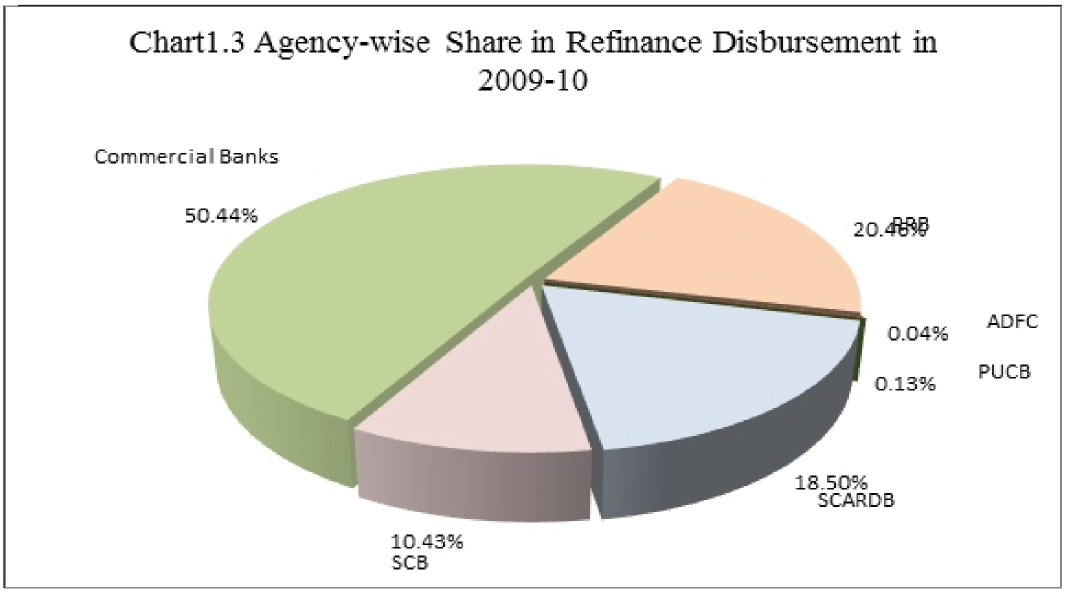


Table2.1 Agency-wise disbursement of Refinance									
Rs. (in Crores)									
Agency	2009-10			2010-11			2011-12		
	Target	Disb.	% Share	Target	Disb.	% Share	Target	Disb.	% Share
SCARDBs	2290	2221.3	18.5	2160	2351.85	17.44	2445	2444.93	15.85
SCB	1040.5	1251.95	10.43	1340	1356.62	10.06	1205	1192.29	7.73
CBs	6085.5	6057.19	50.44	7052	7348.49	54.49	8030	8433.75	54.69
RRBs	1879	2457.46	20.46	2288	2287.84	16.96	3035	3086.19	20.01
PUCBs	-	16.14	0.13	85	84.87	0.63	60	54.08	0.35
ADFCs / NABFINS	5	5.04	0.04	55	56.2	0.42	220	210.46	1.37
Total	**11300**	**12009.08**	**100**	**12980**	**13485.87**	**100**	**14995**	**15421.7**	**100**

Chart1.4 Agency-wise Share in Refinance Disbursement in 2010-11

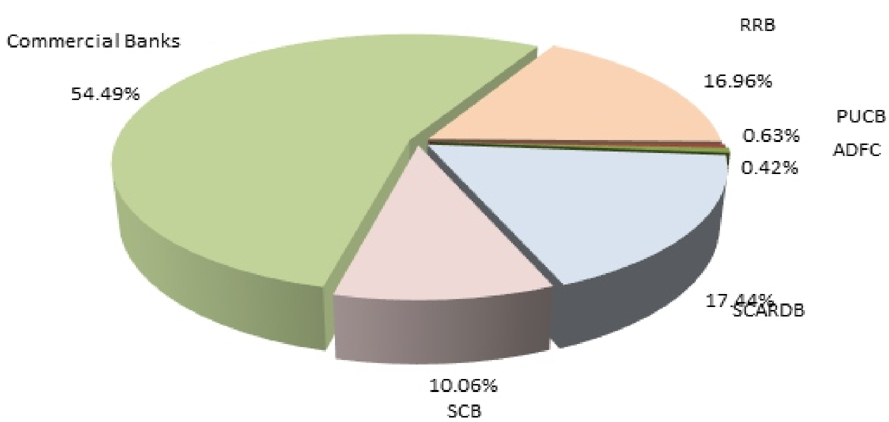
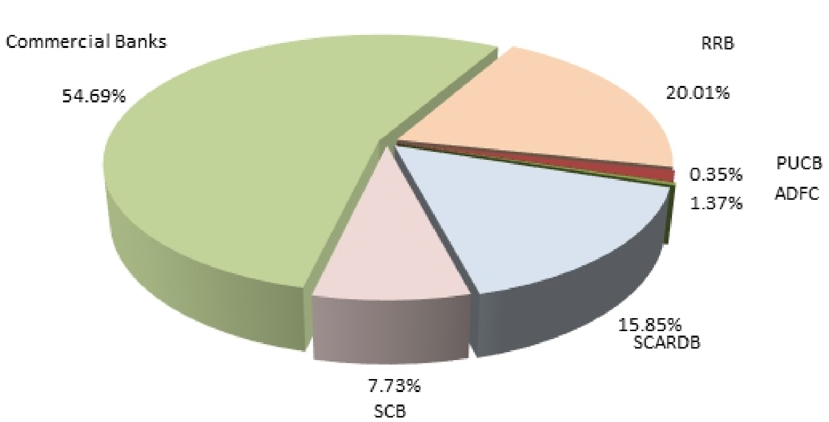


Chart1.5 Agency-wise Share in Refinance Disbursement in 2011-12



4.1.3.2 Special Package for North Eastern and Other Regions

Table2.2 Region-wise disbursement of Refinance									
									Rs. (in Crores)
Region	2009-10			2010-11			2011-12		
	Target	Disb.	% Share	Target	Disb.	% Share	Target	Disb.	% Share
Nothern	2790	2419.87	20.2	2835	2810.7	20.8	2928	2426.37	15.7
NothernEastern	210	139.85	1.2	266	265.82	2	258	232.86	1.5
Eastern	1185	891.07	7.4	1392	1405.35	10.4	1415	1783.53	11.6
Central	1680	1478.6	12.3	1718	1928.63	14.3	1927	1867.05	12.1
Western	935	1111.79	9.3	965	1253.64	9.3	1598	1671.16	10.8
Southern	4500	5967.89	49.7	5804	5821.73	43.2	6869	7440.73	48.3
Total	**11300**	**12009.08**	**100**	**12980**	**13485.87**	**100**	**14995**	**15421.7**	**100**

Chart1.6 Region-wise Share in Refinance Disbursement in 2009-10

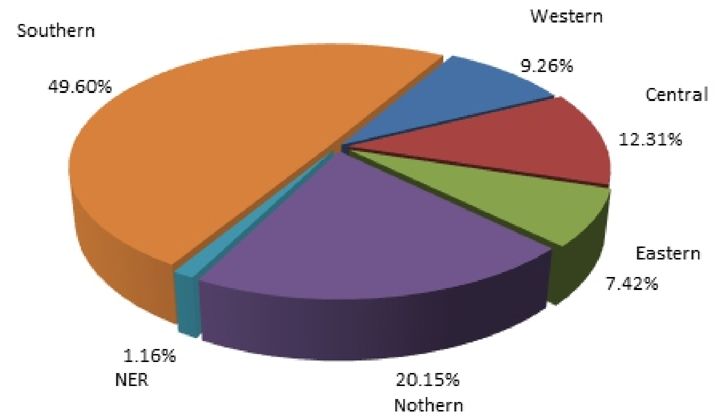
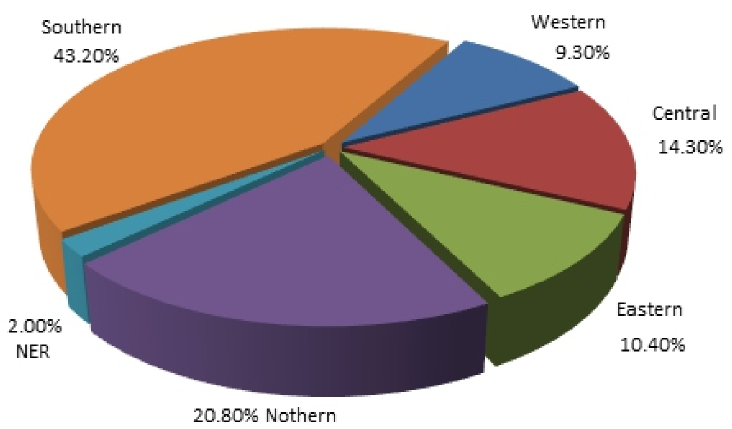
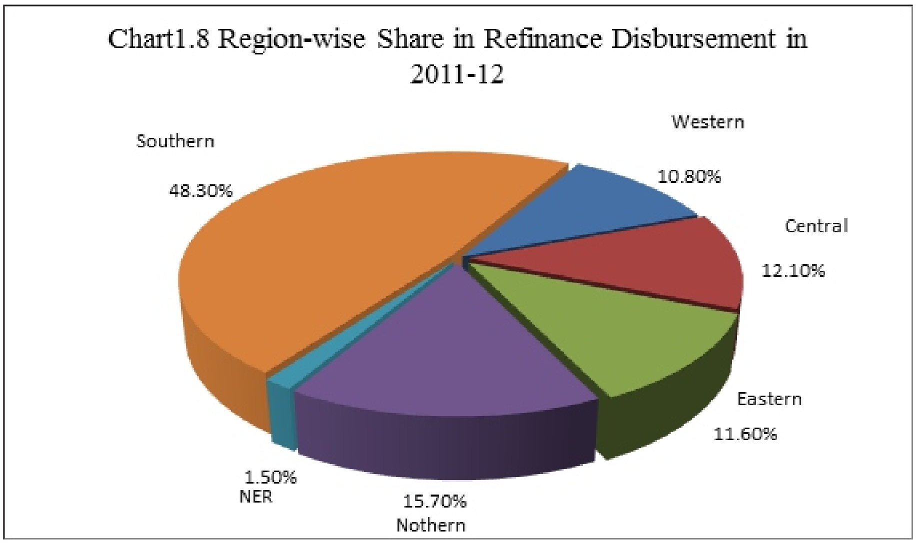


Chart1.7 Region-wise Share in Refinance Disbursement in 2010-11





4.1.4 . Interest Rates on Refinance

During the year, the rate of interest was revised five times in the range of 8.25 to 11.25 percent depending upon the type of agency and quantum of refinance.

4.1.5. Refinance Support

During the year 2011-12 the refinance disbursement was `15,421.70 crore as against the budget of`14,995.00 crore.

Table2.3 Sector-wise disbursement of Refinance									
Rs. (in Crores)									
Purpose	2009-10			2010-11			2011-12		
	Target	Disb.	% Share	Target	Disb.	% Share	Target	Disb.	% Share
Minor Irrigation	660	496.73	4.1	909	920.61	6.8	1071	660.51	4.28
Land Development	976.5	303.67	2.5	1168	295.69	2.1	1243	504.07	3.27
Farm Mechanisation	2194	1714.66	14.3	1817	1762.98	13	1714	2134.51	13.84
Plantation & Horticulture	362	377.4	3.1	579	698.39	5.2	750	1547.5	10.03
PF/SGP/AH-Oth	230	349.79	2.9	266	402.37	3	536	680.2	4.41
Fisheries	132	54.62	0.5	149	47.45	0.4	160	91.88	0.6
Dairy Development	570	725.35	6	649	918.11	6.8	975	889.88	5.77

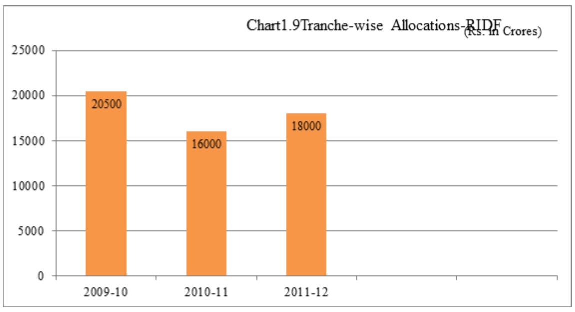
Forestry	38	6.46	0.1	52	9.57	0.1	21	15.97	0.1
Storage Godown & Market Yard	143	187.22	1.6	172	170.79	1.3	429	157.47	1.02
SGSY	274	151.5	1.3	322	228.84	1.7	0	211.98	1.37
Non Farm Sector	2852	3465.99	28.9	3115	3446.4	25.6	4298	3574.21	23.18
SC/ST-AP	91	2.3	0	130	12.63	0.1	0	4.26	0.03
SHG	803	3173.56	26.4	795	2545.36	18.9	3642	3072.59	19.92
Others	1975	999.82	8.3	2857	2026.68	15	156	1876.67	12.17
Total	**11300**	**12009.08**	**100**	**12980**	**13485.87**	**100**	**14995**	**15421.7**	**100**

4.1.6. Rural infrastructure Development Fund

The RIDF was instituted in NABARD after an announcement was made to this effect in the Union Budget of 1995-96 with the sole objective of giving low cost fund support to State Governments and State-Owned Corporations for quick completion of ongoing projects in medium and minor irrigation, soil conservation, watershed management and other forms of rural infrastructure.

4.1.6.1 Allocations

The Corpus of the Fund has grown to`18,000 crore under RIDF XVII (2011-12) from an allocated amount of `2,000 crore under RIDF I (1995-96), taking the cumulative allocation to `1,52,500crore which is inclusive of `18,500 crore under a separate window for funding rural roads under the Bharat Nirman Programme . The Union Budget for 2011-12, allocated an amount of `18,000 crore under RIDF XVII during 2011-12, out of which `2,000 crore has been exclusively dedicated for creation of warehousing facilities in different States on a priority basis. The successive allocations to the RIDF in the Union Budgets have been presented in.



4.1.6.2Sectors/Activities

At present, a wide range of 31 activities, as approved by the GoI, is being funded under the RIDF. These 31activities are classified broadly under three categories as detailed below:

(i) Agriculture and related Sectors

These include irrigation projects, soil conservation, flood protection, watershed, reclamation of water logged areas animal husbandry, plantation and horticulture, seed, agriculture and horticulture farms, forest development, fishing harbor /jetties, riverine fisheries; market yards, go downs, marketing infrastructure; cold storages; grading/certifying mechanisms; testing laboratories; hydel projects (up to10 MW); village knowledge centres; infrastructure for IT in rural areas; desalination plants in coastal areas; and setting up of KVIC industrial estates/centres.

(ii) Social Sectors

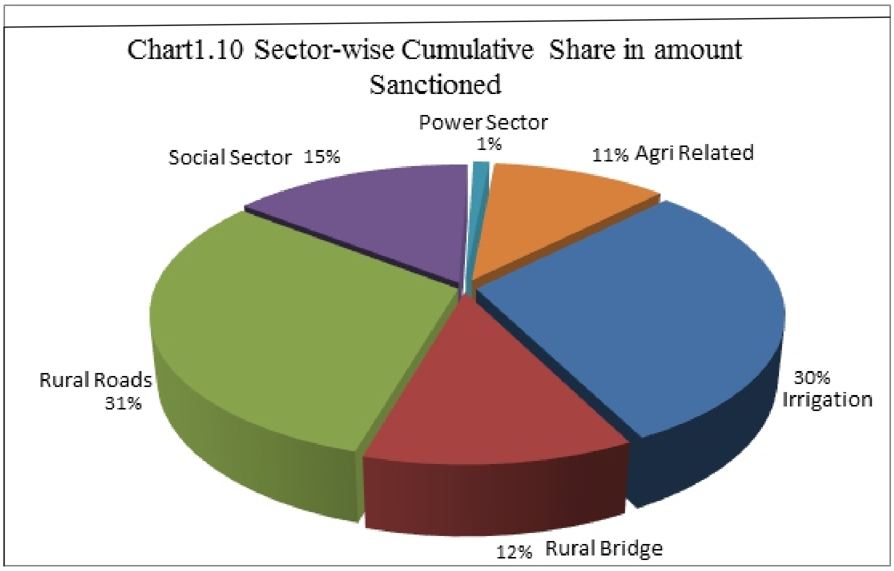
The Social sector include drinking water projects; public health institutions; construction of toilet blocks in existing schools, especially for girls and “Pay & Use” toilets in rural areas, and construction of anganwadi centres.

(iii) Rural Connectivity

Rural Connectivity projects include rural roads& rural bridges

Table2.4 Sector-wise Cumulative Share in amount Sanctioned

Sector	No. of Projects	Share in total number(%)	Amount Sanctioned (Rs. Crore)	Share in Total Amount(%)
Irrigation	2717	14.7	5686.32	27.5
Rural Bridge	860	4.7	2663.97	12.9
Rural Roads	6294	34.1	5011.57	24.2
Social Sector	3311	17.9	3707.11	17.9
Power	5	0.0	127.15	0.6
Ag. related	3857	22.5	2011.18	9.7
Warehousing	1118	6.1	1493.82	7.2
Total	**18162**	**100.00**	**20701.12**	**100.00**



4.2 Other Achievement

4.2.1 Development and Promotional Initiatives

4.2.1.1Farm Sector

i. **Watershed Development**

During the year, 41 watershed projects were sanctioned, taking the cumulative number of such projects to 620, covering an area of 5.29 lakh ha. In 15 States, with a total commitment (loan and grant component) of `239.99 crore.

ii. **Village Development Programme**

iii. **Tribal Development Fund**

During the year, financial assistance of `290.63 crore (`274.11 crore as grant and `16.52 crore as loan) was sanctioned for 98 projects benefiting 72,419 tribal families in 16 states. The cumulative sanction as on 31March 2012 was `1,208.23 crore, covering 3,22,912 families in 415 projects across 26 States/UTs.

iv. **Farm Innovation and Promotion Fund**

During 2011-12, 41 projects were sanctioned under FIPF in 14 States with financial assistance of `56.53 crore as grant.

v. **Farmers' Technology Transfer Fund**

During the year, 395 proposals were sanctioned under FTTF in 29 States with financial assistance of `20.59 crore as grant. The disbursement during the year was `44.59 crore.

vi. **Farmers' Club Programme**

The formation of 25,243 new Farmers' Clubs, taking the total number of clubs to1,01,951 as on 31 March 2012

vii. **Kissan Credit Card**

The mobile enabled Kissan Credit Card(m-KCC) was launched as a pilot project in Villupuram district in Tamil Nadu on 2nd October 2011.

4.2.1.2 Rural Non-Farm Sector

i. NABARD-SDC Rural Innovation Fund

During the year, 108 new innovative projects were sanctioned support of `7.94 crore, taking the cumulative number to 483. With these projects, the cumulative commitment made until 31 March 2012 has reached `57.22 crore (up from `49.28 crore as on31.3.2011).

ii. Strengthening of Rural Haats

Under the scheme, grant support of `3.71 crore was sanctioned to 76 rural haats during 2011-12.

iii. Rural Entrepreneurship Development Programmes and Skill Development Programmes

As on 31 March 2012, 9,852 REDPs/ SDPs with an amount of` 13.09 crore were sanctioned.

iv. Marketing/Other initiatives

During 2011-12, 537 marketing events/ exhibitions/melas across the country were supported with grant assistance of `2.84 crore.

v. . Swarojgar Credit Card Scheme

During the year, 94,479 SCCs having credit limit of `495.81 crore were issued for facilitating hassle-free credit for investment and working capital requirements of small/ micro entrepreneurs. The cumulative number of SCCs issued was 13.06 lakh involving credit limit of` 5,445.32 crore.

4.2.2. Micro Finance

The NABARD SHG-Bank linkage programme, has proved to be a decentralised cost-effective and the fastest growing microfinance initiative in the world .As on 31 March 2011, there were more than 74.62lakh savings-linked Self Help Groups (SHG) and more than 47.87 lakh credit-linked SHGs covering 9.7 crore poor households under the micro-finance programme.

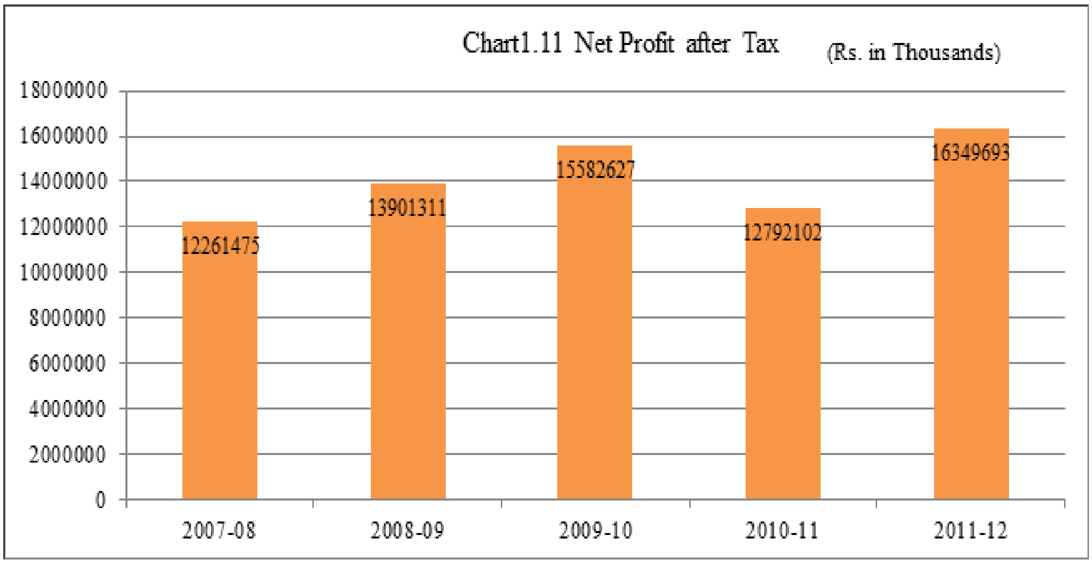
4.2.3 Research and Development Activities

During the year, `17.67 crore was utilized from the fund for supporting activities like research projects/studies (`0.70 crore), seminars (`0.85 crore), training/summer placement (`15.57 crore), NABARD Chair Professor Scheme (`0.48 crore) and other activities (`0.07 crore). Cumulative disbursement stood at `153.86 crore as on 31 March 2012.

4.2.4 Promotion of Hindi

As a part of its efforts towards capacity building of staff in order to enable them touse Hindi in their day-to-day official work, 92workshops were conducted across the offices in which843 staff members were trained.

4.3 PROFT & LOSS ANALYSIS OF NABARD



5. Interpretation

In Table 2.1 Agency-wise disbursement of Refinance is being analyzed. During 2011-2012 the maximum amount is being disbursed to Commercial Banks.

i. In Table 2.2 Region-wise disbursement of Refinance is being analyzed. During 2011-2012 the amount is being disbursed to Northern Eastern region is being decreased by 0.5%.

ii. In Table 2.3 Sector-wise disbursement of Refinance is being analyzed. During 2011-2012 the maximum amount is being disbursed for the purpose of Non-farm sectors.

iii. In Table 2.4 Sector-wise cumulative share in amount sanctioned under RIDF is being analyzed. During 2011-2012 the maximum amount is being disbursed for the development of Irrigation.

iv. In Chart 1.1, the long term source of fund disbursed by NABARD is being analyzed from a period ranging between 2007-08 to 2011-12. The maximum amount is disbursed during the financial year 2011-12.

v. In Chart 1.2, the short term source of fund disbursed by NABARD is being analyzed from a period ranging between 2007-08 to 2011-12. The maximum amount is disbursed during the financial year 2011-12.

6. Conclusion

As we analyse the data it shows that NABARD is working for the 360 degree development of rural India. By analysising the table we can see that in 2007-08 to 2008-09 the profit of NABARD is increased by 13.37%, in 2008-09 to 2009-10 the profit is increased by 12.09%, again in 2009-10 to 2010-2011 NABARD suffered from a loss of 17.9% but again again the facts & figure had change to a remarkable increase in profit i.e 27.81 % during the period 2010-11 to 2011-12. So by analysis the above data we can conclude that NABARD is also trying to make full contribution towards the growth &n development of rural India. In short we can say that NABARD is providing rural India all round assistance and proved to be an institution where "Growth with Social Equality" exists.

7. Limitations

i. There are enormous numbers of parameters to be analyzed but my research is based on above mentioned parameter.

ii. The data available is in general not in particulars.

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CREDIT CHALLENGES FACED BY FINANCIAL INSTITUTIONS AND SMALL BUSINESSES IN INDIA: A REVIEW OF LITERATURE

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ABSTRACT

The Small business sector is considered as the powerhouse of growth and development, large source of employment and the cradle of innovation for most economies. It plays an important role in shaping the socio-economic profile of the country. In a country like India, small businesses have an important role to play in the generating income for individuals who cannot afford to invest large funds but still do not lack entrepreneurial capabilities. This sector also helps ordinary consumers fulfil their needs which are usually not met by large industrial businesses. While the importance of this sector is never denied, the challenges faced by this sector have always been a hindrance in the development of this sector. Of all the challenges, the most important is the financial challenge or the inability of the sector to meet its credit needs.

This paper focuses on the problems that formal financial institutions face in lending to small businesses and the problems that small businesses face in resorting to formal sources of credit. These two focused areas helps on understanding the bilateral issues that usually never get solved.

INTRODUCTION

The role of small business sector is different in developed and developing countries. In developed countries, small businesses are active in bringing about new products and new applications of technologies (Pavitt & Townsend, 1987). They also enhance the competitiveness of different industries in which they operate. However, in the developing countries, the role of small businesses as entrepreneurs is not truly entrepreneurship in the sense of innovation; it is a source of employment and generation of independent revenues for many individuals. Also the choice of small business is usually a last resort for many individuals (Beck, Demirguc-Kunt, & Levine, 2005). However, the growing importance of this sector plays an important role in the development and growth of emerging economies (Kula & Tatoglu, 2003).

The small business sector or the Non-Corporate business sector is the most dynamic and vibrant sector in the Indian Economy. Studies have shown that there is a positive relationship between the size of the small business sector and the economic development of a country (Tripathi, Tripathi, & RikinDedhia, 2016). Small businesses complement large industries, through sourcing of raw materials, undertaking of outsourced work, proving ancillary services, etc (Vasu & Jayachandra, 2014) . The sector not only catalyses the economic development of backward and rural areas, it is also a large source of employment at lower cost of capital as compared to large industries sector. Hence, it reduces regional imbalances, contributes to the socio-economic development of the country and acts as a complementary to the large businesses.

In India, the sector consists of 36 million units offering 6000 different products (and services), providing employment to over 80 million people. Its contribution towards GDP is 8%, to the manufacturing sector is 45% and 40% towards exports (MSME at a glance 2016). Over 90% of the sector is unorganised and less than five percent resort to formal sources of finance (MSME Census, 2007).

1. OBJECTIVES OF THE STUDY:

The primary objective of the paper is to identify the current challenges faced by the MSME sector through the literature review with specific focus on challenges related to getting credit from banks. The study approaches the issue from two different angles. Factors that discourage financial institutions from lending to small businesses; and the factors that discourage small businesses from borrowing from formal sources of credit.

2. THEORETICAL BACKGROUND

The theoretical background that surrounds the issues addressed in the paper, consists of the definition of small business, the norms regarding priority lending for small businesses, statistical
positions regarding, the current credit demand of the small business sector, sources of finance that the small business sector are exposed to for meeting their financial needs and the current level of lending by banks to the small business sector.

DEFINITION OF SMALL BUSINESS

The term small business is vague in its definition and usually represents private owned business units that are small in size defined by the value of assets, number of employees and returns. Many countries have their own definition of what a small business is. According to the World Bank, enterprises that meet two of the three criteria (Table 1) can be classified as Medium, Small and Micro Enterprises (MSMEs)

Table 1: World Bank Definition of MSME

Enterprise Size	Employees	Assets	Annual Sales
Medium	<300	≤ USD 15 Million	≤ USD 15 Million
Small	<50	≤ USD 3 Million	≤ USD 3 Million
Micro	<10	≤ USD 10000	≤ USD 10000

Source: World Bank

In the Indian scenario, the Micro, Small and Medium Enterprise Development Act, 2006 defines the MSME sector. The criterion adopted to define a MSME is based upon their investment in fixed assets (Table 2).

Table 2: MSMED Act, 2006 Definition of MSME

	Initial Investment in Plant and Machinery (in INR Million)		
Category/Enterprise	**Micro**	**Small**	**Medium**
Manufacturing	<2.5	2.5-50	50-200
Services	<1	Jan-20	20-50

Source: MSMED Act, 2006

The ministry that frames policies, facilitates/promotes programmes, projects and schemes, and monitors their implementation has been created with the emergence of the ministry of small scale industries and the ministry for Agro and Rural Industries and renamed as the ministry of Micro, Small and Medium Enterprises. Although the development and promotion of small businesses belongs to the state list, the M/O of MSME assists the state governments' efforts in building entrepreneurship, generating employment and bringing about competitiveness in the MSME sector.

PRIORITY LENDING TO THE MSME SECTOR:

Lending by banks in India is governed and guided by RBI. Although banks have the freedom to decide whom to lend and whom not to lend, they are subjected to the provisions of priority sector lending prescribed by RBI. Priority sector lending demands a specified portion of their lending to certain sectors that usually do not attract commercial banks. The aim of priority sector lending is to create a balanced portfolio of lending and to curb banks from involving in high credit risk and also for the economic development of weaker sections of the society.

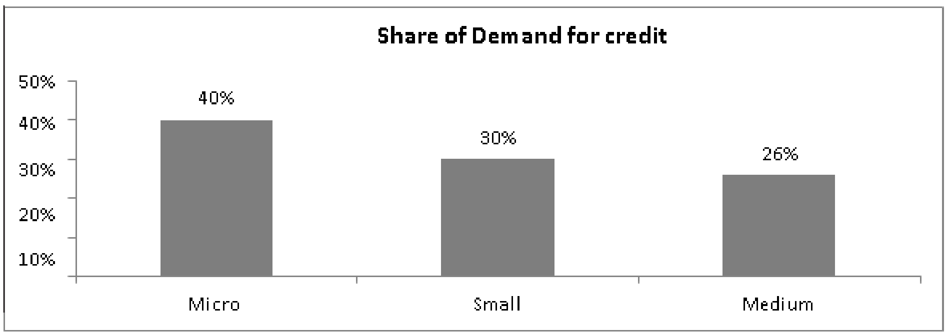
Lending to small businesses forms a part of priority sector lending and hence forces banks to lend to small businesses. Banks' loans to MSMEs in both the manufacturing sector and the service sector are eligible for priority sector lending under the following norms:

7.5% of banks' total Adjusted Net Bank Credit (ANBC) or Credit Equivalent Amount of Off-balance Sheet Exposure whichever is higher. The set target is to be achieved in two phases 7 percent by March 2016 and 7.5 percent by March 2017 for scheduled commercial banks in India. For foreign banks with 20 branches or above the set target would be applicable post 2018 after a review in 2017. As of today, there is no set target for foreign banks with branches less than twenty (Indian Institute of Banking and Finance). Loans eligible for priority sector lending vary for manufacturing and service enterprises. MSMEs engaged in the manufacture or production of goods that belong to any industry that is specified in the Industries (Development and regulation) Act, 1951. The size of the enterprise is defined in terms of the level of investment in plant and machinery. Similarly, loans up to ₹ 5 crores for small and medium enterprises and ₹ 10 crores for medium enterprises that are engaged in providing or rendering of services whose size is defined in terms of investment in equipment under the MSMED Act, 2006.

CREDIT DEMAND:

Studies have shown that, of the total unfulfilled demand for debt from the MSME sector, 32 percent can be immediately addressed (one – two years' time frame) by the formal financial institutions. Close to 90 percent of the total debt in demand arises from the unregistered sector. According to an IFC-Intellecap Analysis it was observed that 61 percent of the total debt in demand was to meet the working capital needs of the enterprise. Banks tend to prefer lending to medium size enterprises, rather than small and micro size enterprises, due to their predictable operations and steady returns. However, studies have shown that the highest demand for credit comes from the Micro sector (44%) which was nearly double the demand from the medium sector (Figure: 1).

Figure 1: Credit Demand in the MSME Sector



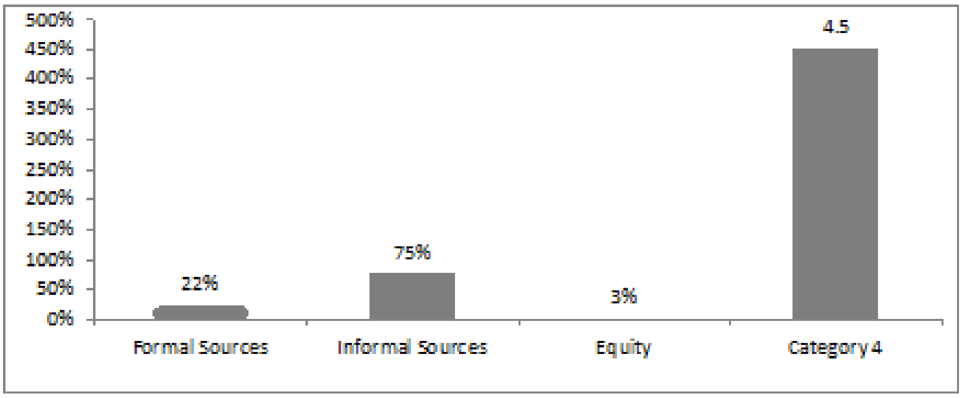
Source: MSME Census, SIDBI, FC-Intellecap Analysis

When the demand for credit was studied based on the type of enterprise (Manufacturing and Service), it was observed that of the variable debt demand that could be addressed by the formal sector, 61 percent was from the manufacturing sector and the rest from the service sector. The higher share of demand from the manufacturing sector can be ascribed to the heavy capital intensive operations in the manufacturing sector rather that the service sector. On the other hand, small businesses in the service sector which majorly consisting of retail trade, maintenance and repairs and restaurants are cash based businesses and hence require lesser working capital needs.

SOURCES OF FINANCE:

In the above section, it can be observed that formal financial institutions have a huge potential to meet the demands for credit in the MSME sector. The current situation in the MSME sector however is ironical. Sources of finance for an enterprise belonging to the MSME sector can be dived into three categories namely informal, formal and Equity (Figure 2). Equity financing is marginal due to its impracticality and legal hurdles.

Figure 2: Current Sources of Finance to the MSME Sector



Source: RBI, SIDBI, SME Times – 2010, IFC-Intellecap Analysis

INFORMAL SOURCES:

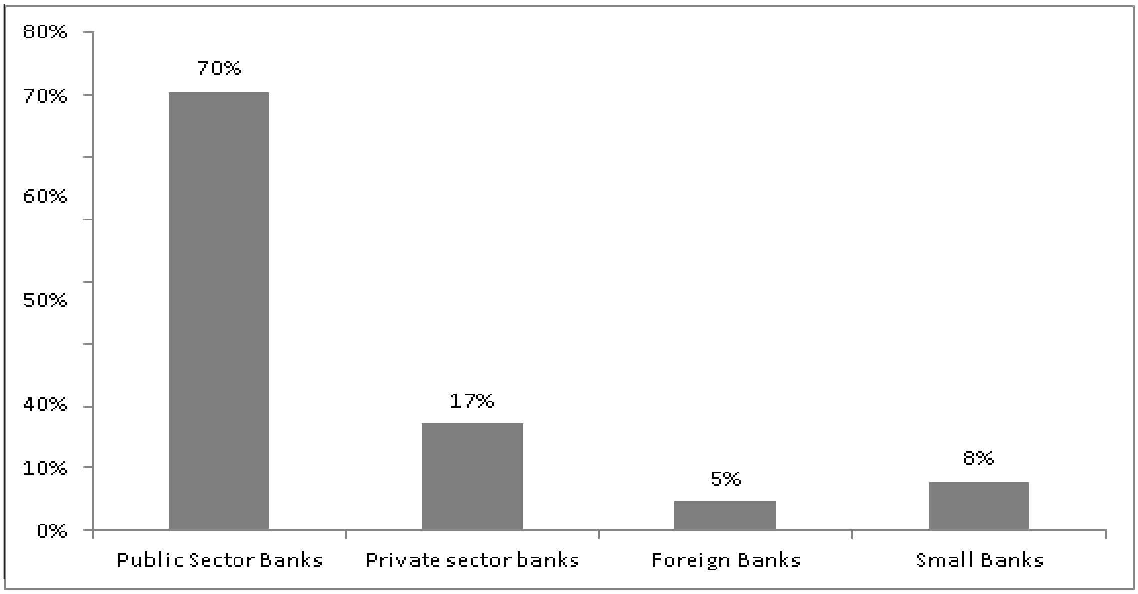
The biggest source of finance is the informal source which consists of 95 percent from Non-Institutional informal sources. These include Own Funds (31%), Family Business (22%) and Family & Friends (47%).The rest of the informal sector consists of registered trade credits, Chit Funds and money lenders.

FORMAL SOURCES:

In the Indian economy, formal sources of finance contains only of two groups, Banks and Non- Banking Financial Institutions (NBFCs). While banks are big, structured, well regulated and highly influential, NBFCs are small, fragmented and unstructured. NBFCs' share in credit lending is very small (8.18%)

as compared to the formal banking sector (91.82%). Further into the banking sector, the biggest lender is the public sector, followed by the private sector and other banks (Figure 3).

Figure 3: Structure of the banking sector - Supply of credit to the MSMEs



Source: RBI; SIDBI; Sa-Dhan, Annual Reports of NBFCs; SME Times, 2010; Primary Research; IFC- Intellecap Analysis

3.5 CURRENT LEVEL OF BANK LENDING TO THE SMALL BUSINESS SECTOR:

While there is a significant overall growth in the quantum of lending to small businesses in the last decade, there are substantial differences in the level of growths for different sectors within the banking sector. It can be observed that the highest year on year growth in lending to the small business sector is the highest for private sector banks (Table 3). Lending by the private sector has over the decade has increased more than twenty five times of what it was in 2005. However there is an overall reduction in the growth of lending from 2014 onwards. This is a matter of serious concern that must be dealt with.

Table 3: Outstanding Bank credit to Micro and Small Enterprises

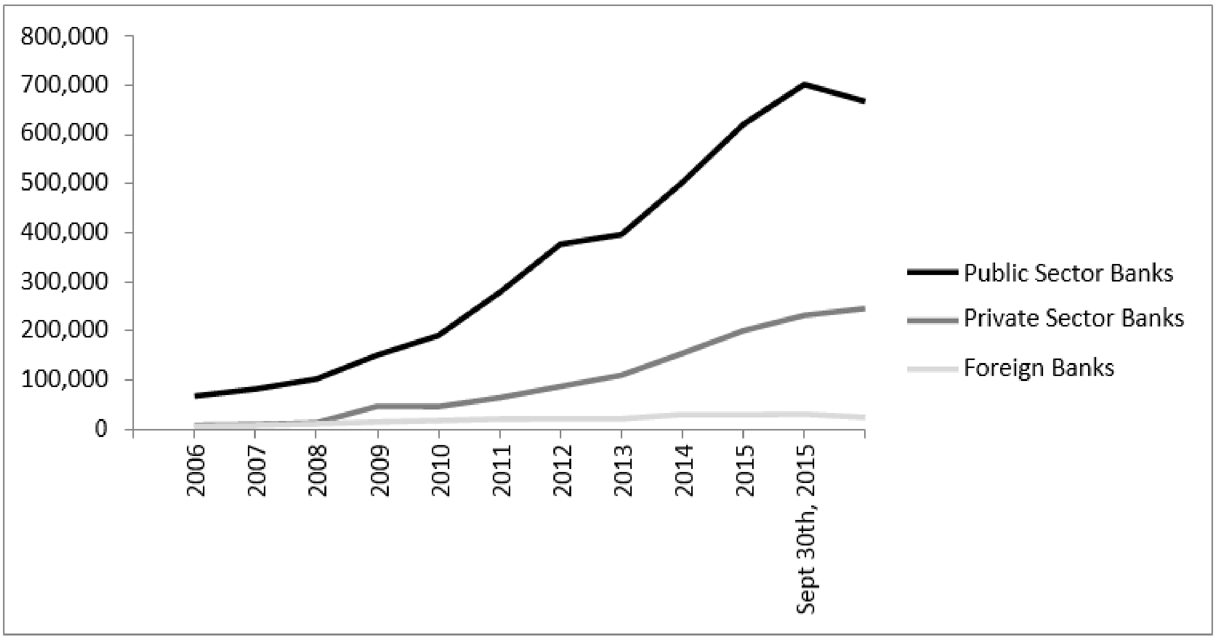
In Crs

As on last reporting Friday of March	Public Sector Banks	Private Sector Banks	Foreign Banks	All Scheduled Commercial Banks
2005	67,800	8,592	6,907	83,498
2006	82,434	10,421	8,430	1,01,285
	21.60%	21.30%	22.10%	21.30%
2007	1,02,550	13,136	11,637	1,27,323
	24.40%	26.10%	38.00%	25.70%
2008	1,51,137	46,912	15,489	2,13,538
	47.40%	257.10%	33.10%	67.70%

2009	1,91,408	46,656	18,063	2,56,127
	26.60%	-0.50%	16.60%	19.90%
2010	2,78,298	64,534	21,069	364001
	45.40%	38.30%	16.60%	42.10%
2011	3,76,625	87,857	21,535	4,86,017
	35.30%	36.10%	2.20%	33.50%
2012	3,96,343	1,10,514	21,760	5,28,617
	5.20%	25.80%	1.00%	8.80%
March 31st,2013	5,02,459	1,54,732	30,020	6,87,211
	26.77%	40.01%	37.96%	30.00%
March 31st, 2014	6,20,139	2,00,840	29,491	8,50,469
	23.40%	29.80%	-1.80%	23.80%
March 31st, 2015	7,01,571	2,32,171	30,837	9,64,578
	13.10%	15.60%	4.60%	13.40%
Sept 30th, 2015	6,66,931	2,45,660	24,729	9,37,319
	-4.90%	5.80%	-19.80%	-2.80%
Average Growth	**26.92%**	**48.96%**	**17.04%**	**28.62%**

Source: IFC MSME Report

Figure 4: Growth of Outstanding Credit to SMEs



ANALYSIS OF THE LITERATURE REVIEW FINANCIAL INSTITUTION POINT OF VIEW:

1. CREDIT CHALLENGES

Despite its huge contribution to the nation's GDP, exports and employment, the small business sector does not get the due support from the government, formal financial institutions like banks, etc. The inability of small businesses to survive beyond a year of start of business is largely attributed to lack of timely financial support (Amoako, 2013).Credit helps small businesses to undertake productive investments like investment in latest technology; and expansion of business (Improving the Competitiveness of SMEs in Developing Countries, 2001).Financial problems faced by small businesses is the root cause of all problems faced by these enterprises (Aruna, 2015). This has handicapped the growth and development of the sector and the competitiveness in the national and international markets. Lack of adequate credit forces the SMEs to remain curtailed low-key, self-sustained and unambitious.

2. CHALLENGES FACED BY FINANCIAL INSTITUTIONS

Lending to small businesses has its own set of constraints from both the lenders and borrowers. While lenders find it unprofitable to lend to SMEs, SMEs find borrowing from formal credit sources very costly and cumbersome. Some of the major problems faced by lenders are:

3. INFORMATION ASYMMETRY

The incompleteness of information regarding the quality of a proposed business by a bank's customer raises the problem of adverse selection (Type two error) is a major cause of banks' disinterest in lending to small businesses (Stiglitz & Weiss, 1981). It becomes too costly for banks to gather all the information required before granting a loan.

4. LACK OF SIZEABLE SECURITY

Small businesses are sensitive to the changes in the economy at large and also local conditions with makes it highly unpredictable in terms of business cycles, growth of the business, sustainability, etc. Therefore, banks find it safe to lend, with some form of security. However, small businesses especially in the service sector find it hard to provide sizable security to the banks due to low capitalisation, insufficient assets and high mortality rates (Bhattacharya, Faiz, & Zohir, 2000).

5. ABSENCE OF ACCOUNTING AND FINANCIAL RECORDS

Many studies have shown that it becomes very hard for small businesses to gain credit from financial institutions due to lack of financial records (Williams, Haka, Bettner, & Carcello, 2008).

6. LITTLE OR NO CREDIT HISTORY

Credit footprints are nearly impossible to detect for small businesses in India. The sector largely consists of unregistered businesses that are difficult to be traced. Over indebtedness has become a serious issue in case of micro finance and small business lending. Credit information is costly to acquire and not the worth the income from small businesses (Myers & Majluf, 1984).

7. MORAL HAZARD

This is a very interesting aspect that many bankers consider important. Interest rates are determined based on the risk of the projects undertaken. Charging high interest rates will force the customers to invest in even higher risky projects to earn higher returns (Carbó-Valverde, Rodríguez-Fernández, & Udell, 2008). Also constant monitoring of the activities of the enterprise is very costly for the banks (Lean & Tucker, 2001).

8. SMALL TICKET SIZE

Small businesses being small in nature have smaller credit needs than big businesses. This discourages banks from opting to lend to small businesses and look out for large businesses with the same effort. It costs the banks just as much as it takes to underwrite a small loan as it does to a big loan (Banks not lending to small businesses , 2015).

8. HIGH TRANSACTION COSTS

Loans to SMEs are small in size and hence increase the cost of doing business through administration costs, maintenance costs, cost of getting information etc (Kumar, Batra, & Sharma, 2009).

9. BUSINESS/FINANCIAL ILLITERACY

Emerging nations rank in the lower half of World Banks list of ease of doing businesses indicators. The biggest contribution to it is the borrowers' financial illiteracy (Chironga, Dahl, Goland, Pinshaw, & Sonnekus, 2012). Entrepreneurs who are unable to financially plan their revenues and expenses are exposed to higher levels of business risk and are on a straight path to failure (kamo, 2015).

ANALYSIS OF THE LITERATURE REVIEW FROM SMALL BUSINESSES POINT OF VIEW:

Enterprise or the borrowers also face lot of challenges that makes borrowing from banks and other formal sources very cumbersome. It discourages small business firms to take credit from formal sources. Some of the reasons are:

1. CUMBERSOME PROCEDURES

According to the observations made in a national level study on banks, the organisational systems and internal processes have made the banks move far from task orientation and have generated a bias against small loan portfolios (Sebastian & Basanth, 2005). The entire process of getting even a small loan is time consuming and requires the borrower to visit the banker several times and involves a lot of paper work. Thus it becomes unattractive and the borrower looks out for easier sources, like local money lenders.

2. LACK OF CUSTOMISED PRODUCTS

Unlike in developed countries, loans to small businesses in developing countries are standardised. Cash flow cycles, nature of business (cash/credit), business payback period, etc are never considered in determining the interest rates and loan repayment instalments (Vasu & Jayachandra, 2014).

3. HIGH INTEREST RATES

Due to higher risks banks perceive, high interest rates are charged from small businesses. Unpredictability, sensitivity to local conditions, uneven cash flows all adds up to reasons why banks charge high interest rates (Banks not lending to small businesses , 2015) .

4. INSUFFICIENT CREDIT

Usually small businesses are severely starved of funds. Revenues generated are either insufficient or just sufficient to run the business without any growth or expansion. Firms need some sort of external finance for further development of the business. Looking at the position of the business, financial institutions find it difficult to entirely meet the proposed needs of the business (Singh, Pareek, & Kapoor, 2014).

5. DELAY IN DISBURSEMENT OF FUNDS

Unavailability of credit at the right time can create a serious issue of liquidity and can also lead to shutting down of the business (Tripathi, Tripathi, & RikinDedhia, 2016).

6. NO STANDARD PROCEDURES TO EVALUATE CREDITWORTHINESS

Financial institutions follow out dated evaluation procedures to study the creditworthiness of a business. These archaic processes do not reflect the credit standing of businesses in a dynamic economy (Ingole, 2014).

7. LACK OF BUSINESS FREEDOM

Firms that are very small have flexibility to change their business to meet the changing commercialness of businesses in the local scenario. They are always on a look out for more profitable avenues. However, many times lenders do not permit the borrowers to venture into these businesses that they may perceive as risky (Kumar, Batra, & Sharma, 2009).

8. INABILITY TO GET FURTHER CREDIT

When a firm has utilised its maximum credit capacity, it becomes extremely difficult to seek further any formal sources of credit even in times of emergency, then firms resort to informal sources of credit (Aruna, 2015).

SUGGESTIONS THAT NEEDS TO OVERCOME SUCH CHALLENGES:

- Use of credit scoring models by lenders will help in taking informed decisions and increase credit to small business that are credit worthy.
- The government must employ its resources on establishing Credit Bureaus that cater to the focused assessment of creditworthiness of small business enterprises.
- RBI must focus its resources on encouraging banks to increase their lending to the small business sector through increase in quota of small business lending in priority sector, providing free/subsidised credit scoring systems for underwriting small businesses, etc.
- Participation of private and foreign banks in lending to small business is negligible compared to their counter parts in developed countries. Foreign banks must be encouraged as they bring with them efficient technology that can be very useful in the systemisation of lending and underwriting procedures.
- Although there are numerous government financial schemes for the MSME sector, there is hardly any development in the sector. The main cause is the lack of knowledge by small businesses regarding these schemes. The government must actively promote these schemes even in rural areas.
- Bank Branches must be given targets along with incentives to increase their outreach of finances they provide to the small business sector.
- In today's dynamic environment, traditional bank debt financing may be ill- suited for new, innovative and fast growing businesses. Enterprises must look out for less utilised sources of
- credit like private equity funds, venture capital, leasing, supply chain financing, equity through SME exchange, etc.
- Studies have shown that relationship banking has helped reduce information asymmetry between banks and small businesses and help the enterprise in convincing the lender regarding the quality of their business investment.
- An Entrepreneur must focus on improving his/her financial skills to better manage the business, decide the right investments and to influence the lender in convincing regarding the quality of his/her investments.
- A new World Bank study lays emphasis on a break away from the traditional thought of subsidising small enterprise credit as a key to growth and development of the sector and instead build an overall business environment for small businesses for faster growth of the sector.

CONCLUSION:

The small business sector in India largely comprises of informal enterprises. Nurturing the sector is important for the growth and development of the entire economy. While the sector faces a host of challenges, financial impairment is the most important of them. From the sides of both the lenders and borrowers there are challenges that have historically soured the relationship between credit providers and seekers. Financial institutions are discouraged to provide credit to small businesses due to high risks that are inherent in the form of information asymmetry, high transaction costs, lack of financial literacy in entrepreneurs, lack of collateral, etc. On the other hand, small businesses find it cumbersome to deal with financial institutions due to high interest rates, time taking procedures, untimely disbursement of funds, lack of business freedom, etc. Credit scoring model and also supporting & hand holding the small business firms in ways of better utilizing the availed resources and providing consultancy through the association of established academic institutions would help both the financial institutions as well as the small business firms.

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