

**Institutional Refinancing Operations of NABARD for Agriculture and Rural Development**

**Dr. Pallavi S. Kusugal**

Assistant Professor, Department of Studies & Research in Economics, Tumkur University, Tumkuru-572103, Karnataka, India

**Dr. Narayan D. Arundhekar**

Assistant Professor, Department of Economics, Prakash C. N. Arts, Commerce and Science Degree College, Vijayapur, Karnataka, India

**Abstract**

Agriculture is the basic vocation of any developing economy. It is considered as the backbone of the economy as it contributes in many ways to the growth and development of the economy. However, agriculture is not just an occupation, but it is a way of life for almost 2/3 population of India. Agriculture not only provides employment to such large population but it also contributes by way of providing the essential food grains, vegetables, edible oil seeds, fruits and all essential cattle feed. It is the single largest occupation in the country which caters the needs of the whole population. Though the rural economy largely depends upon agriculture, it also has a very close relation with the urban population too. The network of commercial banks is better than other agencies and thus they are the most popular banks amongst all. The commercial banks also have greater profit volume and thus they can disburse and recover money from borrowers. The National Bank provides refinance through various other agencies like regional rural banks, state cooperative banks and others but the average disbursement is less as compared to commercial banks. The trend in refinance disbursement has changed in the past two three years. The regional rural banks and other banks have not received significant refinance as compared to commercial banks.

**Key-Words:** Refinancing, Agriculture, NABARD, National Bank and Rural Development

**Introduction**

Agriculture is the basic vocation of any developing economy. It is considered as the backbone of the economy as it contributes in many ways to the growth and development of the economy. However, agriculture is not just an occupation, but it is a way of life for almost 2/3 population of India. Agriculture not only provides employment to such large population but it also contributes by way of providing the essential food grains, vegetables, edible oil seeds, fruits and all essential cattle feed. It is the single largest occupation in the country which caters the needs of the whole population. Though the rural economy largely depends upon agriculture, it also has a very close relation with the urban population too. It provides raw material like food grains, vegetables and fruits, oil seeds, pulses, milk and other utilities to a major portion of urban industries. Thus, agriculture occupies a significant place in the economy as a vocation.

Apart from the demographic divided, agriculture faces multiple challenges in the process of development. These challenges can be broadly divided into two parts viz. natural problems and manmade problems. The earlier is not in the control of mankind but the later is much more critical. However, the disastrous problems that the whole mankind has created are huge in number. The number of landholding is one such problem created by man. The problems of availability of cheap and instant credit arise out of scarcity of resources and economic constrains. These constrains are increasing day by day with the increasing population. Thus, in modern day's availability of cheap and hassle free credit for agriculture has become a major issue in India. The structure of banking system in India is largely diversified with the availability of variety of banks for agricultural credit. The commercial banks, regional rural banks, land developmental banks, cooperative banks etc. all contribute to agricultural lending in a significant manner but there are some loop holes in this system which attracted the attention of the Central Government and The Reserve Bank of India towards establishing a national level setup for agricultural and rural financing. This apex institution was named as National Bank for Agriculture and Rural Development or NABARD.

**Elements closely related to Agriculture**

Agriculture continues to be a dominant occupation in Indian economy even after seven decades of independence. The place of agriculture in Indian economy is irreplaceable. It has a rich history and a bright future in Indian context. It is thus rightly said that in India nothing moves unless agriculture moves. The agriculture holds a significant place from several points of view. It is the source of food for ever increasing population, it also serves as primary source of input for

majority of industries across the country, it is still the largest employment shed and it also contributes significantly in the growth of the economy. Thus the discussion regarding the place of agriculture in Indian economy takes center stage. It can be well explained with following aspects.

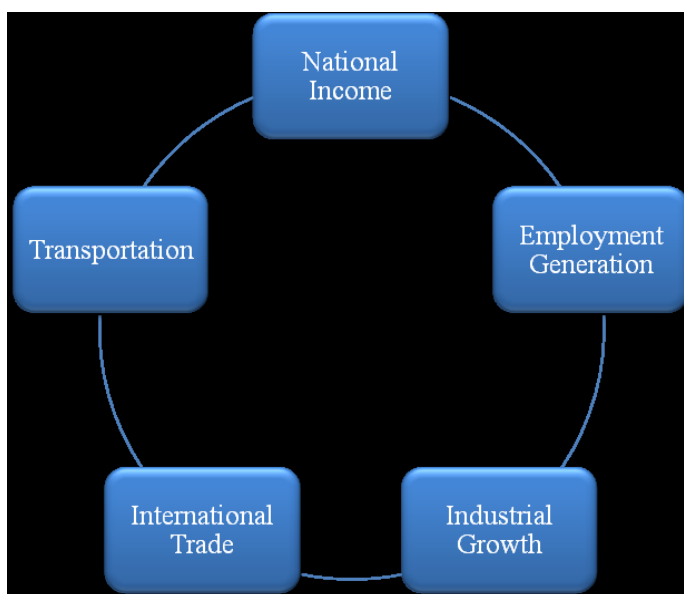


Diagram: Elements closely related to Agriculture

### Refinance Patterns of NABARD:

NABARD, as an apex institution in agriculture and rural finance, holds a key position in Indian banking system. The main objective behind the establishment of NABARD is to strengthen the rural credit delivery mechanism through proper channels and for the overall development of the backward agriculture in the 'country. The agriculture sector is not a profitable venture for commercial banks and is also full with risks and uncertainties at times. Therefore, the rural population largely depends upon the non-institutional credit sources like landlords, zamindars, sahukars etc., at village level. This entire scenario resulted into extreme exploitation of rural poor as well as inefficient and inadequate performance of agriculture and allied sectors in India. Thus, to overcome all these problems, NABARD was established in July 1982. NABARD is national level bank and directly it cannot function at ground level. Therefore the system of refinance through various agencies has been adopted for effective credit delivery to the rural masses. The state co-operative Banks, the central co-operatives banks, the primary agricultural credit societies, the state land development banks, the regional rural banks and the commercial banks have a better outreach and contact with the rural population and thus, NABARD has been given authority to disburse the credit for agriculture and allied activities through this well established channel of variety of banks.

### Institution wise and Year-wise Refinance Disbursement of NABARD

The prime objective of NABARD is to provide credit to rural farmers and rural artisans at an affordable cost and in a hassle free manner. The National Bank operates as an apex institution for rural credit in India and thus, it requires a strong chain of banks to pass on the credit to rural farmers. There is off course, a nationwide network of different banks and financial institutions which cater the diversified needs of credit of the borrowers. However, the most popular and wide spread agency of credit is commercial banks in the country and thus more emphasis has been given on providing credit to the ultimate borrowers through commercial banks. The cooperative banking system also plays a vital role in rural areas as majority of the farmers are the members of PACs or DCC banks. Where, there is two tier systems, the DCC banks are more popular. Apart from these, there is a network of regional rural banks, state cooperative agriculture and rural development banks and other small financing agencies which have a wide coverage in rural areas. The agency wise disbursement of refinance has been analyzed in the following manner.

### Refinancing through Commercial Banks

The National Bank has provided significant amount of refinance to commercial banks as compared to other agencies. Table No. 1 exhibits the disbursement of refinance by NABARD to commercial banks in the study period i.e. from 2005-06 to 2016-17.

**Table 1: Disbursement of Refinance to Commercial Banks**

<b>Disbursement of Refinance(Rs. in Crores)</b>				
<b>Year</b>	<b>Disbursement (Rs. In Crores)</b>	<b>Total Disbursement</b>	<b>% Share</b>	<b>Net Accretion</b>
<b>2005-06</b>	4027.74	8622.37	46.70	-
<b>2006-07</b>	4568.82	8795.02	51.90	541.08
<b>2007-08</b>	3951.73	9046.27	43.68	-617.09
<b>2008-09</b>	5867.19	10535.29	55.69	1915.46
<b>2009-10</b>	6057.19	12009.08	50.44	190
<b>2010-11</b>	7348.49	13485.87	54.49	1291.3
<b>2011-12</b>	8433.75	15421.7	54.69	1085.26
<b>2012-13</b>	8708.77	17674.29	49.27	275.02
<b>2013-14</b>	13254.62	21486.16	61.69	4545.85
<b>2014-15</b>	13675.20	31427.3	43.51	420.58
<b>2015-16</b>	22823.54	48063.72	47.49	9148.34
<b>2016-17</b>	25834.00	53505.51	48.28	3010.46
<b>Total</b>	<b>124551.04</b>	<b>250072.58</b>	-	-
<b>Average</b>	<b>10379.25</b>	<b>20839.38</b>	<b>50.65</b>	<b>1982.39</b>

Source: Annual Reports of NABARD-Computed and compiled 2005-06 to 2016-17

Rs. 4027.74 crores was disbursed as refinance to the commercial banks in the year 2005-06. The percentage share of this amount of refinance to the total disbursement was 46.70% in 2005-06. The same has increase by more than 500 crores in the next year to reach upto Rs. 4568.82 crores in 2006-07. The percentage share of this refinance was 51.90% of the total refinance in 2006-07. However, the disbursed refinance in 2007-08 recorded a downfall with only Rs. 3951.73 crores were disbursed to commercial banks that year. It affected on the percentage share of refinance which came down by almost 7% as compared to the previous year. Soon after this year, from 2008-09 to 2011-12, there is an increasing trend in the amount of refinance disbursed to commercial banks. Rs. 5867.19 crores, Rs. 6057.19 crores, Rs. 7348.49 crores and Rs. 8433.75 crores respectively were disbursed during those four years. A slight downfall in this has been observed in the year 2012-13 with a difference of more than 5% percentage share as compare to the previous year.

In the year 2013-14, the amount disbursed as refinance rose upto the highest of the lot at Rs. 13254.62 croress (61.69% of that year's total refinance). This shows the significance of commercial banks in credit deliver. However the amount of refinance disbursed to commercial banks have rose since 2013-14 but the overall percentage share in respective year has declined. Rs. 13675.20 crores, Rs. 22823.54 crores and Rs. 25834 crores were disbursed as refinance in 2014-15, 2015-16 and 2016-17 respectively. The total amount disbursed as refinance to commercial banks is Rs. 124551.04 crores in the past 12 years. The average refinance disbursed in this period amounts to Rs. 10379.25 croress with an average share of 50.65 % per year in the past 12 years.

**Disbursement of Refinance to Regional Rural Banks:**

Regional Rural Banks also play a vital role in credit deliver system of agriculture and rural sector. The refinance disbursed to the Regional Rural Banks is presented in the following table.

**Table 2: Disbursement of Refinance to Regional Rural Banks**

<b>Disbursement of Refinance(Rs. in Crores)</b>				
<b>Year</b>	<b>Disbursement (Rs. In Crores)</b>	<b>Total Disbursement</b>	<b>% Share</b>	<b>Net Accretion</b>
<b>2005-06</b>	1332.4	8622.37	15.40	-
<b>2006-07</b>	1352.81	8795.02	15.40	20.41
<b>2007-08</b>	2313.99	9046.27	25.58	961.18
<b>2008-09</b>	1879.04	10535.29	17.83	-434.95
<b>2009-10</b>	2457.46	12009.08	20.46	578.42
<b>2010-11</b>	2287.84	13485.87	16.96	-169.62
<b>2011-12</b>	3086.19	15421.7	20.01	798.35
<b>2012-13</b>	4753.66	17674.29	26.90	1667.47
<b>2013-14</b>	4303.67	21486.16	20.03	-449.99
<b>2014-15</b>	10220.91	31427.3	32.52	5917.24
<b>2015-16</b>	12139.68	48063.72	25.26	1918.77
<b>2016-17</b>	11369.83	53505.51	21.25	-769.85
<b>Total</b>	<b>57497.48</b>	<b>250072.58</b>	-	-
<b>Average</b>	<b>4791.46</b>	<b>20839.38</b>	<b>21.47</b>	<b>912.49</b>

Source: Annual Reports of NABARD-Computed and compiled 2005-06 to 2016-17

The above table shows the amount of refinance disbursed to RRBs during the study period. Rs. 1332.4 crores was disbursed to RRBs during 2005-06. Which was about 15.40% of the total refinance in that year. This quantum of refinance remained almost same in the next year but in 2007-08, it was increased by almost a thousand crores rupees the amount of refinance disbursed during 2007-08 was Rs. 2313.99 crores (25.58%) which shows the increased demand of credit by farmers and other stakeholders during that year. However the amount disbursed as refinance declined by more than Rs. four hundred crores in 2008-09 to reach upto Rs. 1879.04 crores. The percentage share of refinance also declined from 25.58% in 2007-08 to 17.83 % in 2008-09. The trend in disbursement of refinance has not changes very much in the years 2009-10 to 2013-14 where Rs. 2287.84 crores (16.96%), Rs. 3086.19 crores (20.01%), Rs. 4753.66 crores (26.90%) and Rs. 4303.67 crores (20.03%) were disbursed during these four years respectively. However, there is a tremendous hike in the quantum of refinance disbursement in the year 2014-15 where Rs. 10220.91 crores were disbursed which was about 32.52% of the total refinance disbursed in that year. But again in the consequent years the percentage share of refinance disbursement has declined upto 25.26 % and 21.25% of the total amount of refinance disbursed during 2015-16 and 2016-17 respectively. The amounts of refinance provided to RRBs in these two years stood at 12139.68 crores and Rs. 11369.83 crores respectively in 2015-16 and 2016-17 respectively.

The total amount disbursed during the last 12 years to RRBs as refinance amount to Rs. 57497.48 crores. While the average refinance per year stands at RS. 4791.46 crores with an average share of 21.47% of the total refinance disbursed during the study period.

The trends in refinance disbursement for Regional Rural Banks can be observed from the following chart where there is an increasing trend in amount of refinance disbursed.

#### **Disbursement of Refinance to State Cooperative Banks**

The cooperative structure is also an important chain in the credit delivery mechanism throughout the country. In some states there is three tier systems of cooperative banks comprising of state cooperative banks, district central cooperative banks and primary agricultural credit societies at ground level. While in some states there is only two tier structure comprising of state cooperative banks and district central cooperative banks

**Table 3: Disbursement of Refinance to State Cooperative Banks**

<b>Disbursement of Refinance(Rs. in Crores)</b>				
<b>Year</b>	<b>Disbursement (Rs. In Crores)</b>	<b>Total Disbursement</b>	<b>% Share</b>	<b>Net Accretion</b>
<b>2005-06</b>	1173.72	8622.37	13.60	-
<b>2006-07</b>	1130.67	8795.02	12.90	-43.05
<b>2007-08</b>	826.55	9046.27	9.14	-304.12
<b>2008-09</b>	801.51	10535.29	7.61	-25.04
<b>2009-10</b>	1251.95	12009.08	10.43	450.44
<b>2010-11</b>	1356.62	13485.87	10.06	104.67
<b>2011-12</b>	1192.29	15421.7	7.73	-164.33
<b>2012-13</b>	2071.06	17674.29	11.72	878.77
<b>2013-14</b>	1713.32	21486.16	7.97	-357.74
<b>2014-15</b>	3818.09	31427.3	12.16	2104.77
<b>2015-16</b>	6231.12	48063.72	12.96	2413.03
<b>2016-17</b>	6433.59	53505.51	12.02	202.47
<b>Total</b>	<b>28000.49</b>	<b>250072.58</b>	-	-
<b>Average</b>	<b>2333.37</b>	<b>20839.38</b>	<b>10.69</b>	<b>478.17</b>

Source: Annual Reports of NABARD-Computed and compiled 2005-06 to 2016-17

The National Banks provides refinance to state cooperative banks so that the credit can be percolated to the ultimate borrowers through DCCBs and PACs. Rs. 1173.72 croress was disbursed as refinance to StCBs in 2005-06 which was 13.60 % of the total refinance of that year. The amount disbursed to these banks declined in the consecutive three years with Rs. 1130.67 croress in 2006-07, Rs. 826.55 croress in 2007-08 and Rs. 801.51 croress in the year 2008-09. The declining percentage share stood at 12.90%, 9.14 and 7.61 % of the total refinance disbursed in these three years respectively.

However, the amount of refinance increased in the year 2009-10 and 2010-11 with an amount of Rs. 1251.95 croress and 1356.62 croress in respective ears. But again in 2011-12, the quantum of refinance disbursed declined upto Rs. 1192.29 croress (7.73% of the total refinance) so there was fluctuating trend in the refinance disbursement to StCBs. Rs. 2071.06 crores were disbursed in the year 2012-13 which was almost 900 croress more than the previous year. But right after a year the amount of refinance disbursed was reduced by almost 300 croress in 2013-14 where the amount of refinance stood at Rs. 1713.32 croress (mere 7.97% of the totals refinance disbursed that year). The amount of refinance has been increasing in the last three years with Rs. 3818.09 croress in 2014-15, Rs. 6231.12 croress in 2015-16 and Rs. 6433.59 croress in 2016-17 respectively. A total amount of refinance disbursed during the last 12 years was Rs. 28000.49 croress. Average refinance disbursed during the study period stood at Rs. 2333.37 croress while the average percentage share of refinance stood at 10.69 % per year.

#### **Disbursement of refinance to State Cooperative Agriculture and Rural Development Banks (SCARDBs)**

The state Cooperative Agriculture and Rural Development Banks play a vital role in credit delivery to rural farmers and artisan's through a chain of banks comprising of cooperative banks.

**Table 4: Disbursement of Refinance to SCARDBs**

<b>Disbursement of Refinance(Rs. in Crores)</b>				
<b>Year</b>	<b>Disbursement (Rs. In Crores)</b>	<b>Total Disbursement</b>	<b>% Share</b>	<b>Net Accretion</b>
<b>2005-06</b>	2082.47	8622.37	24.20	-
<b>2006-07</b>	1742.72	8795.02	19.80	-339.75
<b>2007-08</b>	1950.58	9046.27	21.56	207.86
<b>2008-09</b>	1986.54	10535.29	18.86	35.96
<b>2009-10</b>	2221.3	12009.08	18.5	234.76
<b>2010-11</b>	2351.85	13485.87	17.44	130.55
<b>2011-12</b>	2444.93	15421.7	15.85	93.08
<b>2012-13</b>	1741.31	17674.29	9.85	-703.62
<b>2013-14</b>	1814.95	21486.16	8.45	73.64
<b>2014-15</b>	2923.97	31427.3	9.30	1109.02
<b>2015-16</b>	3258.26	48063.72	6.78	334.29
<b>2016-17</b>	3398.34	53505.51	6.35	140.08
<b>Total</b>	<b>27917.22</b>	<b>250072.58</b>	-	-
<b>Average</b>	<b>2326.44</b>	<b>20839.38</b>	<b>14.75</b>	<b>119.62</b>

Source: Annual Reports of NABARD-Computed and compiled 2005-06 to 2016-17

NABARD has disbursed significant amount of refinance to these banks in the past 12 years. Rs. 2082.47 crores were disbursed in 2005-06 which was 24.20% of total refinance disbursed in that year. The amounts disbursed in the following three years declined in comparison to what it was in 2005-06. Rs. 1742.72 crores in 2006-07, Rs. 1950.58 crores in 2007-08 and Rs. 1986.54 crores in 2008-09 were disbursed in these three years. However the amount of refinance disbursed in this three year. However the amount of refinance disbursed to SCARDBs increased in the later three years in terms of money disbursed. Rs. 2221.30 crores in 2009-10, Rs. 2351.85 crores in 2010-11, and Rs. 2444.93 crores in 2011-12 were disbursed. But the per year share of refinance has declined in these three years viz. 18.5 % in 2009-10, 17.44% in 2010-11 and 15.85% in 2011-12. However, the percentage share of refinance per year has further declined from 2012-13 to 2016-17 with the lowest share of 6.35 % in 2016-17. The total refinance disbursed in these 12 years to SCARDBs stood at Rs. 27917.22 crores and average disbursement is calculated as Rs. 2326.44 crores in the study period. The average percentage share per year stood at 14.75% in the same period.

The fluctuating trend in refinance disbursement can be observed from the following chart. The amount of disbursement has slowly increased in the first seven years and then has been reduced for the next two years. The amount of refinance disbursement has crept in the last three years where the minimum amount has been the chart showing percentage share per year of refinance disbursement clearly shows that the per year share has been falling down from 24.20% in 2005-06 to only 6.35% in 2016-17. That signifies that NABARD has preferred providing refinance through other agencies than SCARDBs.

#### **Primary Urban Cooperative Banks (PUCBs)**

The PUCBs cater the diversified needs of credit by urban and semi urban people. It is one of the very important institutions in the cooperative credit mechanism.

**Table 5: Disbursement of Refinance to Primary Urban Cooperative Banks**

<b>Disbursement of Refinance(Rs. in Crores)</b>				
<b>Year</b>	<b>Disbursement (Rs. In Crores)</b>	<b>Total Disbursement</b>	<b>% Share</b>	<b>Net Accretion</b>
<b>2005-06</b>	6.04	8622.37	0.10	-
<b>2006-07</b>	0	8795.02	0.00	-6.04
<b>2007-08</b>	3.42	9046.27	0.04	3.42
<b>2008-09</b>	1.01	10535.29	0.01	-2.41
<b>2009-10</b>	21.18	12009.08	0.17	20.17
<b>2010-11</b>	84.87	13485.87	0.63	63.69
<b>2011-12</b>	54.08	15421.7	0.35	-30.79
<b>2012-13</b>	69.29	17674.29	0.39	15.21
<b>2013-14</b>	30.00	21486.16	0.14	-39.29
<b>2014-15</b>	0.00	31427.3	0.00	-30
<b>2015-16</b>	0.00	48063.72	0.00	0
<b>2016-17</b>	531.75	53505.51	0.99	531.75
<b>Total</b>	<b>801.64</b>	<b>250072.58</b>	-	-
<b>Average</b>	<b>66.80</b>	<b>20839.38</b>	<b>0.24</b>	<b>47.79</b>

Source: Annual Reports of NABARD-Computed and compiled 2005-06 to 2016-17

Though the number of such banks is high in the country but the refinance disbursed by the National Bank is negligible. Rs. 6.04 crores disbursed to PUCBs in 2005-06 which was less than half percent of total disbursement. There was no disbursement made to these banks during 2006-07, 2014-15 and 2015-16. The highest refinance disbursed to PUCBs is Rs. 531.75 cores in 2016-17, which was about 1% of the total refinance disbursed that year. The total amount disbursed as refinance to PUCBs amounted to Rs. 801.64 crores in the 12 years of study period. However the average of the refinance disbursed during past 12 years amounts to Rs. 66.80 crores which is mere a quarter of a percent in average. The graph following the table shows that NABARD has not provided much refinance to these institutions as they are not widespread. Comparatively the share of refinance received by PUCBs is just negligible.

### Conclusions

The average share of refinance disbursed to commercial banks is higher than other agencies. The network of commercial banks is better than other agencies and thus they are the most popular banks amongst all. The commercial banks also have greater profit volume and thus they can disburse and recover money from borrowers. The National Bank provides refinance through various other agencies like regional rural banks, state cooperative banks and others but the average disbursement is less as compared to commercial banks. The trend in refinance disbursement has changed in the past two three years. The regional rural banks and other banks have not received significant refinance as compared to commercial banks. The National Bank thus has to check the mechanism for such credit delivery and credit disbursement.

### References

1. Annual Reports of NABARD published by NABARD for 2005-06 to 2017-18.
2. Singh, R.P., NABARD, Organization, Management and Role, Deep and Deep Publications, New Delhi, 1993.
3. K. Prabhakar, Rajkumar, Agricultural Credit in India-Role of NABARD, Himalaya Publication, New Delhi, 2008.
4. Shandilya, Tapan Kumar, NABARD and Agricultural Finance, Deep and Deep Publication, New Delhi, 2009.
5. Reddy, K. Venkata, Agriculture and Rural Development, Himalaya Publishing House, New Delhi, 2012.
6. Ruete, Marina, Financing for Agriculture: How to boost opportunities in developing countries, Policy brief No. 3, International Institute for Sustainable Development, 2015.
7. Katar, Singh and Anil, Shishodia, Rural Development, Principles, Policies and Management, SAGE Publications India (Pvt.) Ltd, New Delhi, 2016.
8. Kaur, Tejinder, Role of NABARD in Rural Development, SOPAAN-II, Volume 1, Issue 1, 2016.
9. Muneendra, K. and Lakshmi, C.Swarajya, Impact of NABARDs Refinance Operations on the Beneficiaries in Chittoor District of Andhra Pradesh State, India, IOSR Journal of Economics and Finance, Volume 7, Issue 4, Ver. II., 2016.
10. <http://www.nabard.org>
11. Various issues of Economic and Political Weekly, 2017
12. Various issues of Kurukshetra, 2017