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Role Of Nabard In Refinancing Agricultural Credit In India

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ABSTRACT

Agriculture is the predominant sector in most developing countries. The economic development of developing countries is largely dependent on agriculture. The historical experience of many countries reveals that agriculture played a vital role in the process of economic development. Agriculture contributes for the development of a nation in many ways such as providing food to growing millions of people, earns foreign exchange, provides labour force to manufacturing sector and stimulates capital formation and industrial expansion.

To stimulate the tempo of agricultural production, it is necessary to adopt intensive agriculture. The introduction of new technology, named green revolution in Indian Agriculture has created an unprecedented upsurge in the demand for seeds of high yielding varieties and high levels of fertilizers, insecticides, improved implements and machinery. The increased use of inputs has been slowly accelerating the transformation of agriculture from its subsistence level to a profitable farm business. In the changed scenario, strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure. NABARD has acted as an apex refinance institution as well as developmental institution in the field of rural development and playing a pivotal role in the channelization of the bank credit in the rural sector. NABARD has effectively brought in a number of innovations in the rural credit domains.

1. INTRODUCTION

Agriculture is the predominant sector in most developing countries. The economic development of developing countries is largely dependent on agriculture. The historical experience of many countries reveals that agriculture played a vital role in the process of economic development. Agriculture contributes for the development of a nation in many ways such as providing food to growing millions of people, earns foreign exchange, provides labour force to manufacturing sector and stimulates capital formation and industrial expansion.

The contribution of agricultural sector for the economic development of India is also remarkable. India is predominantly an agricultural economy which forms the backbone of Indian economy and it provides employment to around 65 per cent of the total work force in the country; 14.2 per cent of GDP. Our leading industries such as cotton textile, jute, sugar, vanaspathi, rubber, tea and also certain other small and medium scale industries like handloom, edible oils, rice husking are rely on agriculture for their raw material.

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To stimulate the tempo of agricultural production, it is necessary to adopt intensive agriculture. The introduction of new technology, named green revolution in Indian Agriculture has created an unprecedented upsurge in the demand for seeds of high yielding varieties and high levels of fertilizers, insecticides, improved implements and machinery. The increased use of inputs has been slowly accelerating the transformation of agriculture from its subsistence level to a profitable farm business. Thus, the new technology is a capital using innovation and this has created heavy demand for farm credit.

India's Rural Credit System

The credit is available through two sources (i) Institutional sources and (ii) Non – institutional sources. The non – institutional agencies which supply credit to farmers and other rural people include professional money lenders, agricultural money lenders, land lords, commission agents, friends and relatives. The interest rates were very high usually ranging from 24 per cent to 60 per cent per annum. The incidence of indebtedness was also very high because such loans were highly exploitive by nature and most of the rural poor were never getting rid of the ever expanding spiral of such loans.

In order to reduce the dependence of the rural people on local money – lender, the network of institutional credit structure for the flow of agricultural purposes comprising Co-operative Banks providing short – term and medium term credit is a three – tier structure with 94,647 Primary Agricultural Credit Societies (PACSs), 370 District Central Co-operative Banks (DCCBs), 31 State Co-operative Banks (SCBs) and the Long Term Credit is provided by two tier structure consists of 20 State Co-operative Agriculture and Rural Development Banks (SCARDBs) and 697 Primary Co-operative Agriculture and Rural Development Banks (PCARDBs) , Commercial Banks have a network of over 33,000 branches in rural and semi – urban regions and Regional Rural Banks have a network of 15,480 branches and National Bank for Agriculture and Rural Development (NABARD) is being rapidly expanded throughout the country to provide timely and adequate credit support to the small farmers and artisans.

The Rural Financial Institutions in India are unique in its reach and diversity. Credit disbursed for various activities by them in agriculture can be broadly grouped into two categories namely (i) Production Credit and (ii) Investment Credit. Production Credit is disbursed to enable the farmers to purchase seeds, fertilizers, pesticides and to meet expenses for irrigation, agricultural labour, etc. Investment Credit is disbursed to enable farmers/ organizations to purchase equipment such as tractors, pumpsets, harrows, trolleys, etc. and to undertake land development investments whose productivity is distributed over more than one year.

2. ROLE OF NABARD

The most important development in the field of institutional rural credit is the setting up of the National Bank for Agriculture and Rural Development (NABARD) in July 1982 under the recommendation of Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development in 1981. NABARD took over the functions of the

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Agricultural Refinance and Development Corporation and Agricultural Credit functions of the Reserve Bank of India as the nodal institute in the agricultural credit in the country. NABARD draws funds from Government of India, World Bank and other agencies and raises funds from market. It serves as a refinancing institution for all kinds of **Production** and **Investment Credit** to agriculture, small scale industries, cottage industries, handicrafts, rural artisans and other allied economic activities with a view to promoting integrated rural development.

Thus, the National Bank for Agriculture and Rural Development (NABARD) has a dual role to play as an apex institution and refinance institution.

(a) As an apex institution, it performs all the functions performed by Agricultural Credit Department (ACD) and Rural Planning and Credit Cell of RBI with regard to Agricultural Credit.

(b) It performs all the functions of Agricultural Refinance Development Corporation (ARDC).

The business operations of NABARD comprise (a) providing refinance support to State Co-operative Banks (SCB), commercial banks, Regional Rural Banks (RRB), Scheduled Primary Urban Co-operative Banks (PUCB) and Agriculture Development Finance Companies (ADFC) to supplement their financial resources for enhancing credit flow to agriculture and rural sectors, (b) providing loans to State Governments for their Rural Infrastructure Projects under the Rural Infrastructure Development Fund (RIDF) and (c) co-financing viable projects with commercial banks, RRB, SCB & Non-Banking Finance Companies (NBFC).

Against this background, a study on growth of refinance of NABARD in India was undertaken with the following specific objectives.

3. OBJECTIVES

The present study has the following specific objectives.

1. To examine the trends in growth of agency – wise refinance of NABARD in India.
2. To examine the trends in growth of Region – wise refinance disbursement by NABARD in India.
3. To examine the purpose – wise refinance disbursement of NABARD in India.

4. DATA AND METHODOLOGY

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For the present study, the secondary data were collected from the Annual Reports of National Bank for Agriculture and Rural Development for the period of 10 years from 2001-02 to 2010-11.

Compound growth rates were estimated by fitting exponential trend equation of the following type.

$$Y = a\,b^{t} \quad \ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots\ldots \ (1)$$

Where,

Y = Region wise Refinance / Purpose wise Refinance
t = Time variable in year
a = constant
and b = (1 + i)
where i = Compound Growth Rate

The equation (1) takes the following linear form by taking logarithms of both sides of the equation

$$\log y = \log a + x \log b$$

Compound growth rate is computed using the following formula.

Compound Growth Rate (CGR) = (Antilog (log b – 1) x 100

5. RESULTS AND DISCUSSION

AGENCY – WISE REFINANCE

Refinance disbursement made by NABARD in India to various financial institutions during the period from 2001-02 to 2010-11 is presented in Table 1.

AGENCY – WISE REFINANCE DISBURSEMENTS BY NABARD IN INDIA (2001-02 TO 2010-11)

(Rs. in Crores)

YEAR	COMMERCIAL BANKS	STATE COOPERATIVE BANKS	SCARDBS	RRBS	ADFCS/ PUCBS	TOTAL
2001-02	1608.00 (24.1)	1089.00 (16.3)	2732.00 (40.9)	1178.00 (17.6)	75.75 (1.13)	6683.00 (100)
2002-03	1242.00 (16.7)	1784.00 (24.0)	2854.00 (38.5)	1539.00 (20.7)	1.37 (0.02)	7419.00 (100)
2003-04	1714.00 (22.5)	1737.00 (22.8)	2544.00 (33.5)	1589.00 (20.9)	21.70 (0.29)	7605.00 (100)
2004-05	2,569.56 (29.96)	1,243.92 (14.50)	2,709.98 (31.59)	2,049.11 (23.89)	4.89 (0.06)	8,577.46 (100)
2005-06	4,027.74 (46.71)	1,773.72 (20.57)	2,082.47 (24.15)	1,332.40 (15.45)	6.04 (0.07)	8,622.37 (100)
2006-07	4,568.82 (51.95)	1,130.37 (12.86)	1,742.72 (19.81)	1,352.81 (15.38)	-	8,795.02 (100)

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2007-08	3,951.73 (43.68)	826.55 (9.14)	1,950.58 (21.56)	2,313.99 (25.58)	3.42 (0.04)	9,046.27 (100)
2008-09	5,867.19 (55.69)	801.51 (7.61)	1,986.54 (18.86)	1,879.04 (17.83)	1.01 (0.01)	10,535.29 (100)
2009-10	6057.19 (50.44)	1251.95 (10.43)	2,221.30 (18.50)	2,457.46 (20.46)	21.18 (0.17)	12,009.08 (100)
2010-11	7348.49 (54.49)	1356.62 (10.06)	2351.85 (17.44)	2287.84 (16.96)	141.07 (1.45)	13,485.87 (100)
CGR	21.65	--3.59	-3.28	6.55	5.51	7.22

TABLE NO 1

(Figures in parentheses indicate percentages to total refinance)
Source: Annual Report, National Bank for Agriculture and Rural Development

Table 1 shows that the total refinance made by NABARD in India had increased by more than two fold from Rs.6,683 crores 2001-02 to Rs. 13,485.87 crores 2010-11. In the year 2001-02, State Co-operative Agriculture and Rural Development Banks received the maximum refinance accounted (40.9 per cent), followed by Commercial Banks (24.1 per cent), Regional Rural banks (17.6 per cent) and State Co-operative Banks (16.3 per cent) respectively. Whereas, in 2010 -11, the refinance disbursement to Commercial Banks (54.49 per cent) was maximum which was followed by State Cooperative agriculture and Rural Development Banks (17.44 per cent), Regional Rural banks (16.96 per cent) and State Co-operative Banks (10.06 per cent) respectively.

The estimated compound growth rates for the agency wise refinance made by NABARD in India showed that they were positive for all agencies except for the refinance provided to State Co-operative Banks (-3.59 per cent) and SCARDBs (-3.28 per cent). The maximum growth rate was observed for the refinance made to Commercial banks (21.65 per cent).

REGION – WISE REFINANCE DISBURSEMENT

The region – wise refinance disbursement by NABARD in India during the period from 2002 -03 to 2010-11 is presented in Table 2.

REGION – WISE REFINANCE DISBURSEMENT BY NABARD IN INDIA
(2002-03 to2010-11)

YEAR	CENTRAL	EASTERN	NORTHERN	NORTH EASTERN	SOUTHERN	WESTERN	TOTAL
2002-03	1684.39 (22.70)	813.68 (10.97)	1619.55 (21.83)	119.61 (1.61)	2210.09 (29.79)	971.46 (13.09)	7418.78 (100)
2003-04	1672.89 (21.97)	1069.29 (14.06)	1780.97 (23.42)	122.62 (1.61)	2164.56 (28.46)	794.96 (10.45)	7605.29 (100)
2004-05	2095.32 (24.43)	1035.48 (12.07)	2247.95 (26.21)	218.71 (2.55)	2192.26 (25.56)	787.74 (9.18)	8577.46 (100)
2005-06	2306.95 (26.76)	1057.44 (12.26)	2152.54 (24.96)	147.41 (1.71)	2065.40 (23.95)	892.63 (10.35)	8622.37 (100)

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2006-07	1695.62 (19.28)	1102.83 (12.54)	2111.10 (24.00)	167.87 (1.91)	2710.62 (30.82)	1006.98 (11.80)	8795.02 (100)
2007-08	1810.40 (20.01)	1134.73 (12.54)	1957.78 (21.64)	178.57 (1.97)	3252.53 (35.95)	712.26 (7.87)	9046.27 (100)
2008-09	1526.02 (14.48)	1102.99 (10.47)	2636.45 (25.02)	174.18 (1.65)	4298.91 (40.80)	796.74 (7.95)	10,535.29 (100)
2009-10	1478.60 (12.31)	891.07 (7.42)	2419.87 (20.15)	139.85 (1.16)	5967.90 (49.69)	1111.79 (9.26)	12,009.08 (100)
2010-11	1928.63 (14.30)	1405.35 (10.42)	2810.70 (20.92)	265.82 (1.97)	5821.73 (43.17)	1253.64 (9.30)	13,485.87 (100)
CGR	0.25	3.86	6.57	8.56	14.33	1.32	7.22

TABLE NO 2

(Figures in parentheses indicate percentages to total refinance)
Source: Annual Report, National Bank for Agriculture and Rural Development

Table 2 shows that the Region – wise refinance disbursement was maximum accounted 29.79 per cent in Southern, followed by 22.70 per cent in central, 21.83 per cnet in Northern and 13.09 per cent in Western Region respectively. Refinance disbursement across Regions during 2010-11 varied widely with the highest share being in the South (43 per cent), followed by North (21 per cent), Central (14 per cent) and other Regions (22 per cent).

The estimated compound growth rates were positive. Rates of growth of refinance made to Southern region was maximum (14.33 per cent) which was followed by North Eastern region (8.56 per cent) and Northern region (6.57 per cent) respectively. The estimated compound growth rate for total refinance was 7.22 per cent.

PURPOSE – WISE REFINANCING IN INDIA

The purpose – wise financial assistance disbursed by NABARD in India during the period from 2001-02 to 2010-11 is provided in Table 3. The table shows that in 2001-02, Non farm sector received the maximum refinance (39.76 per cent), followed by Self Help Groups (19.78 per cent), Dairy Development (13.28 per cent) and Farm mechanization (11.05 per cent). During the year 2010-11, the major share of refinance was accounted for by Non Farm Sector (25.6 per cent), followed by SHG (18.9 per cent), Farm Mechanization (13. per cent), Minor Irrigation (6.8 per cent) and Dairy Development(6.8 Per cent). Of the total refinance disbursed 43.80 per cent was fro thrust areas. The proportion of refinance for Minor Irrigation, Plantation and Horticulture and Dairy Development showed an increase, while these was decline in refinance for farm mechanization and SHG over the previous year 2009-10.

The estimated compound growth rates for the purpose wise financial assistance made by NABARD in India showed that they were positive for all purposes except for the refinance provided to minor irrigation (-0.27 per cent), fisheries (-0.20 per cent), dairy development (-1.87 per cent), forestry (- 7.37 per cent), SGSY (-9.81 per cent) and SC/ST action plan (- 29.60 per cent) respectively.

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PURPOSE – WISE FINANCIAL ASSISTANCE DISBURSED BY NABARD IN INDIA (2001-02 TO 2010-11)

(Rs. in Crores)

Particulars	**2001-02**	**2002-03**	**2003-04**	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**CGR**
Minor Irrigation	691 (10.33)	855 (11.5)	651 (8.56)	680.12 (7.9)	540.90 (6.3)	670.97 (7.6)	403.68 (4.46)	545.85 (5.18)	496.73 (4.14)	920.61 (6.8)	-2.07
Land Development	135 (2.02)	251 (3.38)	186 (2.45)	291.28 (3.4)	637.22 (7.4)	651.30 (7.4)	462.14 (5.11)	949.94 (9.02)	303.67 (2.53)	295.69 (2.1)	11.49
Farm Mechanization	1359 (20.33)	993 (13.4)	828 (10.89)	1054.80 (12.3)	1712.96 (19.9)	1857.51 (21.1)	1747.65 (19.32)	1514.03 (14.37)	1714.66 (14.28)	1762.98 (13.0)	6.75
Plantation & Horticulture	280 (4.19)	292 (3.93)	251 (3.30)	235.71 (2.8)	322.36 (3.7)	313.73 (3.6)	341.82 (3.72)	374.54 (3.56)	377.40 (3.14)	698.39 (5.2)	8.27
Poultry /Sheep/Goat/Piggery	176 (2.63)	186 (2.51)	179 (2.35)	361.57 (4.2)	251.53 (2.7)	206.66 (2.4)	216.29 (2.39)	298.70 (2.84)	349.79 (2.91)	402.37 (3.0)	8.00
Fisheries	136 (0.54)	35 (0.47)	23 (0.30)	25.63 (0.3)	38.49 (0.4)	38.30 (0.4)	25.45 (0.28)	77.15 (0.73)	54.62 (0.46)	47.45 (0.4)	-0.20
Dairy Development	821 (12.3)	909 (12.25)	669 (8.80)	754.11 (8.8)	694.72 (8.1)	504.02 (5.7)	605.87 (6.70)	489.41 (4.65)	725.35 (6.04)	918.11 (6.8)	-1.87
Forestry	16 (0.23)	12 (0.16)	11 (0.14)	9.56 (0.1)	7.47 (0.1)	8.38 (0.1)	6.39 (0.07)	6.56 (0.06)	6.46 (0.05)	9.57 (0.1)	-7.37
Storage & Market yard	227 (3.40)	48 (0.65)	25 (0.33)	32.91 (0.4)	52.49 (0.6)	35.61 (0.4)	136.28 (1.51)	141.01 (1.34)	187.22 (1.56)	170.79 (1.3)	12.54
SGSY	559 (8.36)	401 (5.40)	229 (3.01)	483.15 (5.6)	252.52 (2.9)	355.06 (4.0)	258.58 (2.86)	201.12 (1.91)	151.50 (1.26)	228.84 (1.7)	-9.81
Non Farm Sector	1116 (16.70)	1238 (16.7)	1333 (17.53)	2542.58 (29.6)	2285.98 (26.5)	2265.16 (25.8)	2747.95 (30.38)	2706.79 (25.69)	3465.99 (28.86)	3446..40 (25.6)	13.66
Rural Housing	500 (7.48)	770 (10.4)	1030 (13.54)	-	-	-	-	-	-	-	43.52
SC/ST Action Plan	131 (1.96)	112 (1.51)	74 (0.97)	79.62 (0.9)	69.50 (0.8)	28.32 (0.3)	20.52 (0.23)	28.94 (0.27)	2.30 (0.02)	12.63 (0.1)	-29.60
Self Help Groups	395 (5.91)	622	705 (9.27)	967.76 (11.3)	1067.72 (12.4)	1292.86 (14.7)	1615.50 (17.86)	2620.03 (24.87)	3173.56 (26.43)	2545.36 (18.9)	23.00
Others*	241 (3.61)	695 (8.38)	1411 (18.6)	1058.66 (12.4)	708.11 (8.2)	567.14 (6.5)	458.15 (5.05)	581.22 (5.51)	999.83 (8.33)	2026.68 (15.0)	9.21
Total	6683.00 (100)	7419.00 (100)	7605.00 (100)	8577.46 (100)	8622.37 (100)	8795.02 (100)	9046.27 (100)	10,535.29 (100)	12,009.08 (100)	13,485.87 (100)	7.22

TABLE NO.3

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(Figures in Parentheses indicate percentages to total financial assistance)
Include rural go downs and cold storages, two wheelers, home stead farming, contract farming, animal husbandry, etc.
Source: Annual Report, National Bank for Agriculture and Rural Development.

6. CONCLUSION

Agricultural Credit has played a vital role in supporting agricultural production in India. The green revolution characterized by a greater use of inputs like fertilizers, seeds and other inputs, increased credit requirements which were provided by the agricultural financial institutions. Following the changes in the consumption and dietary patterns from cereals to non – cereal products, a silent transformation is taking place in the rural areas calling for diversification in agricultural production and value addition processes in order to protect employment and incomes of the rural population. In the changed scenario, strong and viable agricultural financial institutions are needed to cater to the requirements of finance for building the necessary institutional and marketing infrastructure.

NABARD has acted as an apex refinance institution as well as developmental institution in the field of rural development and playing a pivotal role in the channelization of the bank credit in the rural sector. NABARD has effectively brought in a number of innovations in the rural credit domains, but requires more attention in providing refinance to needy sub sectors of the agricultural sector.

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