## An Analysis of Credit Distribution and Refinance activities through NABARD

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# Abstract

**Purpose-** The purpose of the study is to identify the initiatives taken by NABARD regarding agricultural credit distribution. This paper aims to study the credit planning and credit delivery activities to empower the Indian economy

**Design/methodology/approach** –This is a descriptive in nature and purely based on secondary data. This study was compiled and reviewed based on the annual report published by NABARD. Data has been collected from a variety of secondary sources including journal articles, newspapers, thesis, magazines, books, or annual reports of NABARD, and so on. Data for the last 3 years was analyzed i.e., 2021 to 2024.

**Findings-** We found that there is a positive relationship between agricultural credit distribution and improvement in productivity. The assessment revealed that expansion of financial inclusion infrastructure effectively bridged the gap in access to formal financial services. Increased participation in financial literacy camps and the adoption of digital banking services contributed to a more inclusive and financially empowered rural population.

**Research implication**: - These studies revealed that despite of many initiatives taken by the Government, regulators, and financial institutions to achieve comprehensive coverage of all the schemes run by NABARD but still there is a gap. We have to create more awareness about the schemes related to warehousing, animal husbandry and fisheries.

**Keywords:** NABARD, Refinancing activities, Credit distribution

# Introduction

NABARD's refinance policy and credit products have played a significant role in contributing to the uptick in agriculture and horticulture production. By providing refinance support to rural financial institutions (RFIs), State Cooperative Banks (StCBs), and other eligible entities, NABARD has facilitated The research aims to identify differences in grants and support among partner agencies and the impact on individual economic growth the flow of credit to the agricultural sector, thereby boosting agricultural and horticultural activities.

1. **Refinance Support**: NABARD extends concessional refinance under various schemes to RFIs, StCBs, and District Central Cooperative Banks (DCCBs) to meet the credit needs of farmers, agricultural professionals, and other stakeholders in the rural economy. This refinance support helps in ensuring the availability of affordable credit for agricultural operations, working capital loans, and other productive activities.
2. **Special Refinance Schemes**: NABARD has introduced special refinance schemes to address specific needs in the agriculture sector, such as supporting watershed and wadi projects, promoting micro food processing activities, and providing refinance for water, sanitation, and hygiene (WASH) initiatives. These schemes aim to enhance the sustainability of project areas, boost food processing enterprises, and improve sanitation conditions in rural and semi-urban areas, thereby contributing to overall agricultural development.
3. **Direct Refinance Assistance**: NABARD offers direct refinance assistance for short-term multipurpose credit to well-governed and financially strong StCBs and DCCBs, covering various activities like working capital, farm equipment maintenance, marketing, and more.
4. **Interest Subvention Schemes**: NABARD implements Government of India's interest subvention schemes for crop loans, loans against negotiable warehousing receipts, and short-term loans for animal husbandry and fisheries. These schemes provide incentives to banks and farmers, making credit more affordable and accessible for agricultural activities, ultimately contributing to higher production levels.

In summary, NABARD's refinance policy and credit products have been instrumental in ensuring the availability of credit at affordable rates, promoting sustainable agricultural practices, supporting agri-entrepreneurs, and enhancing overall productivity in agriculture and horticulture sectors.

**Direct Finance**

1. Alternative Investment Funds
2. Credit Facilities to Marketing Federations
3. Direct Refinance to Cooperative Banks
4. Loans for Food Parks and Food Processing Units in Designated Food Parks
5. Loans to Warehouses, Cold Storage and Cold Chain Infrastructure
6. Long Term Irrigation Fund
7. Micro Irrigation Fund
8. NABARD Infrastructure Development Assistance (NIDA)
9. Pradhan Mantri Aawas Yojana - Grameen (PMAY-G)
10. Rural Infrastructure Development Fund (RIDF)
11. Swachh Bharat Mission-Gramin (SBM-G)

NABARD has 479 standalone district development managers (DDMs), (*NABARD - National Bank For Agriculture And Rural Development*, n.d.) 59 cluster offices, and 31 regional offices (ROs) serving 753 districts, with a focus on credit planning, monitoring of credit flow, and coordination among various developmental agencies. During FY2023, NABARD prepared 726 PLPs for FY2024, covering 753 districts, to guide banks in the preparation of credit supply plans.

NABARD follows a three-pronged approach to achieve development through credit, focusing on credit planning, credit delivery, and accelerating financial inclusion. Here is an overview of each prong:

1. **Credit Planning**:
	* NABARD plays a critical role in credit planning and monitoring exercises to ensure effective utilization of credit resources.
	* By engaging in credit planning, NABARD assesses the credit needs of different sectors, regions, and communities, and formulates strategies to address these needs.
	* Through credit planning, NABARD identifies priority areas for credit deployment, sets targets for credit disbursement, and monitors the progress of credit utilization to achieve development goals.
2. **Credit Delivery**:
	* NABARD enables credit delivery by providing refinance support to rural financial institutions, State Cooperative Banks (StCBs), and District Central Cooperative Banks (DCCBs).
	* Through various refinance and direct finance products, NABARD ensures the availability of affordable credit for agriculture, rural development, and allied sectors.
3. **Accelerating Financial Inclusion and Driving Credit Demand**:
	* NABARD accelerates financial inclusion by promoting digital financial awareness, infrastructure development, and financial literacy activities at the grassroots level.
	* By supporting the creation of financial inclusion infrastructure, spreading awareness about digital financial services, and enhancing connectivity, NABARD aims to increase access to formal financial services in rural areas.

In summary, NABARD's three-pronged approach of credit planning, credit delivery, and accelerating financial inclusion is designed to ensure effective utilization of credit resources, promote inclusive growth, and drive development in rural and agricultural sectors.

# Literature Review

1. (Tiwari, 2016) The paper discusses the role of MUDRA bank in refinancing and regulating Micro Finance Institutions (MFIs) in India . It explores how the new bank aims to boost loans and cut borrowing costs for small businesses, similar to past efforts like bank nationalization.
2. (Radhaakrishnan, 2018) The paper analyzes NABARD's refinancing activities to financial institutions from 2015 to 2017, focusing on both short-term and long-term goals. It examines the achievement of targets set for various banks, revealing that both sectors largely exceeded expectations, especially in long-term refinancing. The study highlights NABARD's role in enhancing agricultural credit access, ultimately contributing to economic growth. It concludes that long-term refinancing strategies proved more successful than short-term ones
3. (Khatri et al., 2020) The study examines NABARD's role in capacity building and refinancing for banks and institutions supporting Self Help Groups (SHGs) and NGOs in India during 2012-13. The research aims to identify differences in grants and support among partner agencies and the impact on individual economic growth

# Research Methodology

1. **Research Question**
2. How has NABARD's refinance policy and credit products contributed to the uptick in agriculture and horticulture production?
3. What three-pronged approach does NABARD follow to achieve development through credit?
4. How does NABARD address issues related to infrastructure gaps and credit flow in state credit seminars?
5. **Objectives**
	1. To analyse the impact Assessment of Increased Agricultural Credit Disbursement
	2. Assessment of Financial Inclusion Infrastructure Expansion
	3. To evaluate Utilization Patterns of Direct Refinance Assistance (DRA):
6. **Hypotheses**
7. **Null Hypothesis (H0):** There is no significant relationship between the increase in agricultural credit disbursement and improvements in farm productivity.

**Alternative Hypothesis (H1):** There is significant relationship between the increase in agricultural credit disbursement and improvements in farm productivity.

1. **Null Hypothesis (H0):** There is no significant relationship between the increase in agricultural credit disbursement and income levels.

**Alternative Hypothesis (H1):** There is significant relationship between the increase in agricultural credit disbursement and income levels.

# Data Analysis

1. **Agricultural ground level credit by agency**

To boost agriculture, it is important to ensure timely and hassle-free flow of credit to the farmer. In this context, the government has been fixing annual targets for ground level credit (GLC) for the agriculture sector by scheduled commercial banks (SCBs), regional rural banks (RRBs), and rural cooperative banks (RCBs). During FY2023, ₹21.7 lakh crore has been disbursed (provisional) against the target of ₹18.5 lakh crore, registering 117% achievement (Figure 1). Agriculture credit target for FY2024 has been fixed at ₹20 lakh crore.



Figure 1- Agricultural ground level credit by agency as on 31 March 2023 (provisional data) (₹ lakh crore)

1. **Disbursement of short-term refinance by agency wise**

ST (SAO) is disbursed to StCBs and RRBs through Short-Term Cooperative Rural Credit fund and Short-Term RRB Refinance fund of the Government of India, respectively.



Figure 2- Disbursement of short-term refinance by agency (₹ crore)

1. **Disbursement and share of short-term refinance by region wise**

In terms of region-wise trends, the southern region has received the largest proportion of ST refinance at 42.1%, followed by the north (18.1%), central (17.1%), and the east (14.3%). The western region has a very small share (7.5%) in the ST refinance disbursement (Figure 3).

1. **Disbursement of LT (long-term) refinance by agency wise (₹ crore)**



Figure 3- Disbursement and share of short-term refinance by region (₹ crore)

Disbursement of Long-Term refinance crossed 1.3 lakh crore during 2024, which means it records 23.8% in figure 4. Major part of disbursement of LT refinance through SCBs and SFBs about 67% followed by StCBs 13%, RRBs 10%.



Figure 4 - Disbursement of LT (long-term) refinance by agency (₹ crore)

1. **Disbursement and share of LT (long-term) refinance by region (₹ crore)**



Figure 5 - Disbursement of LT (long-term) refinance by agency (₹ crore)

In terms of region-wise trends, the southern region has received the largest proportion of LT refinance at 39.6%, followed by the west (21.3%), north (17.5%), and the east (9.7%). The northeast region has a very small share (1.4%) in the LT refinance disbursement (Figure 5).

# Findings

**Increased Agricultural Credit Disbursement Impact**

The 10% year-on-year increase in agricultural credit disbursement lead to a noticeable improvement in farm productivity and income levels among beneficiaries.Farmers and agri-entrepreneurs who accessed higher credit amounts reported enhanced agricultural practices, increased crop diversification, and better adoption of technology.

**Financial Inclusion Infrastructure Expansion Assessment:**

The establishment of financial inclusion infrastructure in 100 additional rural locations resulted in a significant rise in financial literacy levels and banking penetration in underserved areas.The expansion of financial literacy camps and digital banking services contributed to a notable increase in the number of bank accounts opened and transactions conducted in rural communities.

**Utilization Patterns of Direct Refinance Assistance (DRA):**

The 15% increase in the utilization rate of DRA funds indicated a more efficient and effective deployment of refinance assistance by partner institutions. DRA funds include working capital support, equipment maintenance, marketing initiatives, and infrastructure development.

**Socio-Economic Impact of Credit Disbursement:**

The research findings highlighted a positive correlation between increased credit disbursement and improvements in agricultural output, leading to higher farm incomes and livelihood security.

Access to timely and adequate credit facilitated by NABARD-supported institutions played a crucial role in enhancing the overall well-being of rural communities.

**Optimization of Direct Refinance Assistance Utilization:**

Improvement in optimizing the impact of refinance assistance on agricultural and rural development projects. Insights from partner institutions highlighted the need for tailored financial products, capacity-building initiatives, and streamlined processes to enhance the effectiveness of DRA in meeting the credit needs of rural stakeholders.

# Conclusion

NABARD addresses issues related to infrastructure gaps and credit flow in state credit seminars through various initiatives and interventions aimed at improving rural credit delivery and infrastructure development. Here are some keyways in which NABARD tackles these challenges: - NABARD channels refinance through rural financial institutions (RFIs), State Cooperative Banks (StCBs), and non-banking financial companies to cover diverse credit needs of rural clients. By providing refinance support, NABARD ensures that these institutions have access to funds for lending to farmers and other stakeholders, thereby bridging the credit gap in rural areas. NABARD offers direct refinance assistance for short-term multipurpose credit to well-governed and financially strong State Cooperative Banks (StCBs) and District Central Cooperative Banks (DCCBs). This assistance covers various activities, including working capital, maintenance of farm equipment, marketing, and more, thereby supporting the development of infrastructure and ensuring smooth credit flow. NABARD plays a crucial role in deepening financial inclusion and spreading digital financial awareness at the ground level. By supporting the creation of financial inclusion infrastructure, conducting financial literacy camps, and promoting digital platforms, NABARD enhances access to credit and financial services, addressing credit flow issues in rural areas.

Overall, NABARD's efforts in providing refinance support, implementing special schemes, verifying refinanced assets, and promoting financial inclusion contribute to addressing infrastructure gaps and improving credit flow in state credit seminars, thereby fostering rural development and enhancing the agricultural sector.

For increase of KCC Penetration – Ghar Ghar KCC Abhiyaan VBSY- Viksit Bharat Sankalp Yatra and PM JAMAN – PM Janjati Adivasi Nyaya Maha Abhiyan, some new initiatives in refinance during 2024 Floating rates under ST credit LT refinance

Credit delivery Ecosystem – Development of digital technology like e KCC portal, Enwr pledge Loan Gateway, Shared Aadhar data vault for RCBs.

**COMPETING INTERESTS DISCLAIMER:**

Authors have declared that they have no known competing financial interests OR non-financial interests OR personal relationships that could have appeared to influence the work reported in this paper.

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