



Financial Support of NABARD for credit expansion

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Abstract

NABARD has been supporting the banking institutions in credit planning, providing refinance assistance and other support for horizontal and vertical expansion of credit flow to agriculture, allied and other priority sectors. It formulates policies for its refinance business (short and long-term credit) and direct finance business, keeping in view the resource position, ground level credit demand, need for maintaining regional and inter-sectoral balance, objectives of national programmes and missions, health status of the rural financial institutions, etc

Keywords: credit planning, Indian agriculture, NABARD, refinance operations, refinance policy

Introduction

Since the attainment of independence, "Growth with Social Justice" has been the basic objective of the Development Planning in India. With the beginning of planned economic development, the Government through Five Years Plans made significant measures in developing rural and remote parts of the country. Keeping this as the motive, the National Bank for Agriculture and Rural Development (NABARD) was set up in July, 1982 by the *National Bank for Agriculture and Rural Development Act 1981*. The Act was passed on the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development" (Shivaraman Committee).

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). NABARD has been accredited with "matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas in India".

Among the multifarious challenges faced by Indian agriculture including climate risks, soil degradation, water deficit, marketing bottlenecks, poor price realisation, and weak value chain integration, perhaps the most acute is the fragmentation of farmers' landholdings. The average land holding size in the country has declined to 1.08 ha, as per Agriculture Census 2015–16, from 1.15 ha five years ago. The area available for farming has also declined by nearly 16 thousand ha and number of small land holdings (< 2 ha) have increased to 86.16% from 84.97%.¹ In such agrarian scenario, intensive farming and institutional credit flow to agriculture become critical for moving towards the national goal of doubling farmers' income by 2022 and raising the agricultural growth rate.

To this end, financing institutions have been consistently surpassing the annual agricultural credit flow targets set by the Government of India. The ground level credit flow to the agriculture sector has increased at CAGR of 11.52% during last five years, from Rs. Rs.8.45 lakh crore during 2014–15 to Rs.12.55 crore during 2018–19. However, the count of 7 crore active Kisan Credit Cards (KCCs), implies nearly half

of the farmers are still out of the ambit of institutional credit system. In order to bring all farmers within the KCC fold, the government, in Interim Budget for 2019–20, has announced a comprehensive KCC drive with a simplified application form to widen the coverage of the scheme. The Union Budget 2018–19 had announced extension of KCC to farmers for animal husbandry and fisheries. In the Interim Budget, interest subvention of 2% and further 3% for timely payment, has been extended to these two allied sectors. NABARD has been supporting the banking institutions in credit planning, providing refinance assistance and other support for horizontal and vertical expansion of credit flow to agriculture, allied and other priority sectors. KCC is conceived as a potent instrument for extending timely financial assistance to farmers.

Credit Planning

NABARD has 423 District Development Manager (DDM) offices functional across the country to focus on credit planning, monitoring of credit flow, and coordination between various developmental and promotional activities within each district. In addition, 186 adjacent districts are tagged to nearby DDMs, while the remaining districts are overseen by the respective Regional Offices. Thus, all the districts of the country are covered under credit planning.

NABARD prepares Potential-linked Credit Plans (PLPs) each year for all districts in the country. The PLPs estimate credit potential, which can be absorbed at the district level for the priority sectors, besides presenting a holistic view of the infrastructural gaps and other support services. During the year, NABARD has prepared PLPs for 710 districts, which guide credit planning by the banks for 2019–20.

The credit potential assessed in PLPs of all districts in a state culminates in State Focus Papers (SFPs), highlighting the credit potential, gaps and strategy for sectoral and infrastructure development of the state. It also highlights the linkage support that the government departments would need to provide. The SFPs for 2019–20 have been prepared with estimation of credit potential under the Priority Sectors to the tune of Rs.30.90 lakh crore. State Credit Seminars have been organised in 29 States and Union Territories (UTs) to discuss ways to bridge the infrastructure gaps and

facilitate future credit flow in the states. The seminars saw participation from officials of various state government departments, financial institutions, and other stakeholders. Many of the suggestions made in the State Credit Seminars were referred to in the State Budgets.

Refinance Policy

NABARD formulates policies for its refinance business (short and long-term credit) and direct finance business, keeping in view the resource position, ground level credit demand, need for maintaining regional and inter-sectoral balance, objectives of national programmes and missions, health status of the rural financial institutions, etc.

Short-Term Seasonal Agricultural Operations

NABARD sanctions refinance limits for State Cooperative Banks (StCBs) for lending under Short-term Seasonal Agricultural Operations (ST-SAO) within their Realistic Lending Programme (RLP) and for Regional Rural Banks (RRBs), with special incentives to Eastern and North-Eastern (NE) states. The NE Region for its inherent geographic reasons has been lagging behind in accessing institutional credit for agriculture sector. In its initiatives to channel more credit in NE Region, NABARD has relaxed norms for NE Region.

The ST-SAO credit limit for StCBs and RRBs included the following components:

- National Mission on Oilseeds and Oil Palm (NMOOP-Oilseeds);
- Development of Tribal Population (DTP);
- National Food Security Mission-Pulses (NFSMPulses).

The policy of linking refinance eligibility with the capital-to-risk-weighted-assets ratio (CRAR) and net non-performing assets (NPAs) of StCBs was continued in 2018–19.

Additional Short-Term Seasonal Agricultural Operations

NABARD continued with the policy of sanctioning additional ST-SAO limits for helping StCBs and RRBs tide over the liquidity constraints arising due to drought, increased ground level demand for credit, low accretion of deposits, etc. during 2018–19. Though additional ST-SAO limit to StCBs and RRBs is over and above the normal ST-SAO limit, the refinance extended will not exceed the prescribed percentage of RLP, including their outstanding under normal ST-SAO.

Short-Term (Others)

Assistance is extended under ST (Others) through refinance for activities including marketing of crops, pisciculture, working capital requirements of the professional and the self-employed, annual maintenance of Small Road Transport Operators (SRTOs), social infrastructure projects, and micro, small, and medium enterprises (MSMEs). Further, financing of procurement and marketing activities of state-owned federations/state and apex marketing societies, are included as eligible activities.

Refinance Support for Marketing

Marketing federations and cooperative institutions play an important role in procurement of agricultural commodities, aggregation, storage, value addition, and marketing.

Farmers, Farmer Producer Organisations (FPOs), and Primary Societies depend upon these institutions for marketing of their produce and for value-added services such as input supply, value addition, and storage facilities. The marketing operations of these federations and cooperatives require seasonal and timely short-term credit to support their day-today operations.

Credit Facility to Federations

Credit Facility to Federations (CFF) provides short-term credit support to state or central government entities like agricultural marketing federations or corporations, dairy cooperatives or federations, agriculture marketing cooperatives or federations, and registered companies for marketing of agricultural commodities, inputs supply, and value and supply chain management. Under this facility, credit support is made available for procurement of food grains, pulses and oilseeds and other agricultural commodities by marketing federations and civil supply corporations, marketing of fertilisers by federations, and procurement and processing of milk-by-milk unions/federations. The facility is extended as short-term loan for a period of 12 months. However, a shorter-term product of three months has been introduced to meet the specific requirements of the procurement agencies which need short-term credit.

Direct Refinance Assistance to DCCBs for Short-Term Multipurpose Credit

While NABARD has been providing refinance to StCBs for various lending purposes, on behalf of District Central Cooperative Banks (DCCBs), direct assistance to DCCBs was designed as an additional line of credit for diversification of lending and enhancing their earnings through profitable portfolios. The credit limit is sanctioned to well-governed and financially strong 'A' and 'B' rated StCBs or DCCBs, as per the latest inspection report of NABARD, against the unencumbered fixed deposit receipts (FDRs) pledged by the banks. The purpose of the loan covers inter alia working capital, repair and maintenance of farm equipment and other productive assets, storage/grading/packaging of produce, marketing activities, non-farm activities, etc. The limit is in the nature of cash-credit operative for one year from the date of sanction.

Long Term Refinance

NABARD extends long-term (LT) refinance support for asset creation and capital formation in rural areas, which is critical for increasing agricultural productive capacity, agricultural growth, and rural development. It is extended to SCBs, RRBs, StCBs, SCARDBs, Small Finance Banks (SFBs), Non-Banking Financial Companies (NBFCs), NBFC-Microfinance Institutions (MFIs), Primary Urban Cooperative Banks (PUCBs), and NABARD subsidiaries. Refinance is available for loans to farm investments, allied activities, and nonfarm activities, with repayment periods ranging from 18 to 60 months. The purposes for loan extended under LT refinance include farm investments, allied activities, MSMEs, agro-processing, organic farming, non-conventional energy, self-help groups, joint liability groups, rural housing, etc. There is a renewed focus on Area Development Schemes (ADS) under sectoral development plans for enhancing investment credit.

Long-Term Rural Credit Fund

In order to boost capital formation in agriculture, Government of India had set up the Long-Term Rural Credit Fund (LTRCF) with NABARD to exclusively provide LT refinance support to Cooperative Banks and RRBs. The corpus of the LTRCF was Rs.15,000 crore in 2018–19. During 2018–19, the interest rate on refinance was revised to 4.95% per annum because of a change in Bank Rate, with an advisory that the banks pass on this benefit to the borrowing farmers.

Refinance Operations

Production and working capital requirements of farmers, weavers, artisans, etc. are met by rural financial institutions through short-term credit. During 2018–19, an amount of Rs.90,088 crore was disbursed to StCBs (Rs.73,142 crore) and RRBs (Rs.16,946 crore) to meet the seasonal credit demand for rural economic activities.

During the year, eight government corporations/ federations were sanctioned credit limit of Rs.24,435 crore under Credit Facility to Federations for the procurement of paddy, wheat, pulses, oilseeds, fertiliser, and milk. Ten entities availed of the facility with a total disbursement of Rs.29,679.82 crore, recording 16.65% growth over the previous year. CAGR of disbursement during last seven years was 59.13%.

Channelling Centrally Sponsored Schemes

Interest Subvention Scheme envisages providing crop loan at 7% interest for loans up to Rs.3 lakh to farmers for short term activities. To ensure this, Government of India incentivises banks at the rate of 2% and further extends an additional 3% subvention to the farmers who make prompt repayment of loans thereby making credit available at 4%. NABARD has been playing an important role in channelling subsidy to eligible banks under various subsidy-oriented credit-linked Government of India schemes, primarily for agriculture projects and other priority sector activities. Implementation of these schemes has also enabled enhancement of ground level credit (GLC) to agriculture and allied sector and priority sector activities.

Conclusion

Although the agricultural credit outflow has been rising steadily in the last few years, regional imbalances have persisted. Even with higher percentage of operational land holdings, Eastern, Central and North Eastern regions have lagged in terms of credit flow to agriculture. To enhance agricultural production, productivity and farmers' income, regional disparities need to be stemmed through region and state-specific targeted interventions to enhance the share of LT finance to RRBs and Cooperative Banks as they are better placed to provide credit to the rural population and meet credit-delivery target and ultimately create more demand for LT Refinance of NABARD. Over the past few decades, the trend of short-term and long term agricultural credit in the country has reversed. Small and marginal farmers accounting for about 86% of total land holdings take more short-term loans than farmers with medium or large landholdings do. To increase agricultural productivity and income levels, long-term loans need to be increased in comparison to crop loans.

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