

# A COMPARATIVE ANALYSIS OF NABARD REFINANCING TO OTHER FINANCIAL INSTITUTIONS IN INDIA FROM 2015 TO 2017

**V.R.Radhaakrishnan 1**

Research Scholar, School of Management, SRM University, Kattankulathur, Tamil Nadu, India

**Prof.Dr.V.M.Shenbagaraman 2**

Professor, School of Management, SRM University, Kattankulathur, Tamil Nadu, India

**Abstract:** *The Department of Refinancing is a separate department of NABARD which deals with short-term and long-term refinancing to state co-operative banks, regional rural banks, commercial banks, public sector banks for primary Agricultural credit societies and for non-banking financing companies (NBFCs). The primary objective of refinancing is to supplement their resources for providing adequate credit for supporting investment activities of farmers and rural artisans. The objective of this comparative analysis is to find out whether the NABARD has reached its objective of refinancing to various financial institutions and the target which was set by NABARD was reached by other financial institutions or not. What would be the projected Target and Achievements in coming accounting year 2017-18, If not what was the reason behind this is analysed in this study.*

**Key words:** *Refinancing, NABARD, State Co-operative Bank, Agricultural Credit, NBFCs*

**Full Form:** *NABARD – National Bank for Agriculture and Rural Development*

## **Introduction:**

The Reserve Bank of India had set up set up the agency in the name of Agricultural Refinance Corporation in the year 1963 to provide refinancing arrangement to various financial institutions in providing medium term and long term agricultural credit to support investment credit needs for agricultural development in our country. In the year 1975 this institution was renamed as Agriculture Refinance and Development Corporation with a view to lay emphasize on development and promotional role, besides refinancing activities.

In the year 1982 NABARD was formed and it took over the functions of the erstwhile Agricultural Credit Department and Rural Planning and Credit Cell of RBI and Agriculture Refinance and Development Corporation. Today NABARD has formed a separate department called Department of Refinance (DOR) to deal the functions dealt by other agencies previously.

## **Core Functions of Department of Refinance:**

1. Short term refinance for production credit activities contributing to food security
2. Medium-term and long-term refinance for investment credit activities for giving a boost to private capital formation in agriculture
3. Additionally it also acts as a subsidy channelizing agency for various Govt. of India schemes

## **Short Term Refinance Scheme:**

The NABARD provides refinance to various financial institutions and the advance amount is repayable on demand or on the expiry of fixed periods, not exceeding 18 months to Co-operative Banks, Regional Rural Banks for production, marketing and purchase activities. The core objective of short-term refinance is to supplement the resources of banks and other financial institutions and improve their credit flow at the ground level. This includes, short-term refinance to State Co-operative banks and the Regional Rural banks for their seasonal agricultural operations, similarly for other than seasonal agricultural operations and to lend money to weavers.

## **Long-Term Refinance:**

The NABARD also provides long-term refinance to the following institutions to supplement the resources for providing adequate credit to their investment operations to farmers and rural artisans.

- State Co-operative Banks
- State Co-operative Agriculture and Development Banks
- Commercial Banks
- Regional Rural Banks
- District Central Co-operative Banks
- Primary Urban Co-operative Banks
- NABARD Financial Services Limited
- Non-Banking Financial Corporations
- North Eastern Development Finance Corporation Ltd.,

- Other Financial institutions approved by RBI.

Since it is long-term refinance it starts from minimum of 18 months to maximum of 5 years. These financial institutions can fund for both farm sector as well as off-farm sector activities.

#### Need for this Study:

The need for this study is NABARD refinance to commercial banks and other financial institutions mainly to fund for the agricultural sector. But NABARD is not funding to farm sectors directly, it funds to other financial institutions as refinancing agency. Because most of the commercial banks, even co-operative banks are not willing to fund for farm sectors because of the low recovery rate, so to encourage these institutions NABARD is refinancing liberally. At the same time it fixes a reachable target to other financial institutions, so that they are responsible and accountable for the farm sector development.

#### Objective of this study:

To analyse the Short-Term and Long-Terms refinance functions of NABARD

To know the credit supporting investment activities of NABARD through other financial institutions to farmers and rural artisans

To know how far the NABARD refinanced institutions achieved the target fixed by it.

#### Review of Literature:

1. Bansal and Agarwal (1991) say that the NABARD is now the single integrated agency for meeting the credit needs of all types of agricultural and rural development activities in the country. It also contemplates undertaking of all works relating to the establishment of RRBs and administration of refinance scheme and monitoring of the performance of RRBs. Ever since the NABARD came into being, it has been playing an important role in strengthening and re-organising the cooperative structure in the National Economy. It has actively taken over the responsibilities of the Reserve Bank of India in relation to rural financing and rural reconstruction.

2. Nanda (2000) observed that NABARD has been directing its parties and programs to support the rural credit institutions towards achieving the goal of providing adequate and timely credit support for on farm, off-farm and non-farm operations in the rural sectors. Various schemes have been formulated and implemented by NABARD for policy and refinance support to banks, in different fields like creation of aggregation facilities, farm mechanization, plantation horticulture animal husbandry, watershed, development, and agro-processing infrastructure in rural areas. NABARD is supporting large scale investment in rural infrastructure that includes a wide range of support services like irrigation, food control, soil conservation, watershed development, roads bridges, marketing in rural areas. These efforts will go a long way towards improving the productivity and profitability of agriculture and the quality of life in the rural areas. This should also lead to increased credit absorption capacity in the rural areas.

3. NABARD (2000) is a unique development finance institution committed to rural development<sup>15</sup>. It provides refinance to banks and the state Governments, takes development and promotional initiatives to improve the impact of credit on development and attempts to bring about equity and justice in such development. It also supervises the operations of rural financial institutions like co-operative banks and RRBs. The year 1999-2000, gives high degree of satisfaction to NABARD. New heights have been achieved in all its areas of operations. Innovations were introduced and new strategies chalked out for better achievement in future.

4. Das Gupta (2001) says that NABARD will definitely encourage the bankers to lend more in rural areas. Refinance to the states by NABARD should be with held if the repayment performance of rural loans at state level falls below 75 percent. NABARD can consider giving grants to states for better repayments.

5. Arjun Sengupta<sup>28</sup> (2001) says that NABARD will have to take on huge responsibilities, take a lot of risks, become an active operator in the field and would need large funds. The state governments were very hesitant to draw long-term loans from NABARD up to the available limits. This could not be explained by the refinance rates of NABARD, which were substantially lower than the market rates, especially for loans below Rs. 2 lakhs.

6. Hitesh and Viramgami (2003) view that NABARD has a dual role to play as an apex institution and a refinance institution. NABARD services as a refinancing institution for all kinds of production and investment credit to agriculture, small scale industries, cottage industries, handicrafts, real artisans and other allied economic activities with a view to promoting integrated rural development, it provides long term, medium term and short term credit to state co-operative banks, regional rural banks, land development and other financial institutions approved by RBI. During 1993-94, NABARD has given short term agricultural credit of Rs 3940 crores, medium term credit of Rs 8 crores and long term credit of Rs 3232 crores. The NABARD is playing an energetic role is strengthening and re-organizing the co-operative structure in the country and is also working towards an effective integration of cooperative credit institutions.

7. Lakshmi Narayanan and Raman than and Guvav (2010) focus that capacity building is the key to healthy growth and sustainability of SHG Bank Linkage Programme. A variety of capacity building programs for all the partners involved in SHG banking including bank branches, NGOs, Government officials, elected representatives of Panchayat Raj Institutions, IRVs, Farmers Clubs and SHGs should be undertaken. These may include training programs of various durations with

variations in modules according to needs of the participants besides exposure visits, sensitization workshops and meets and working in tandem with Government agencies and NGOs in the district.

### Research Methodology:

Research is a organized, systematic, data-based, critical, objective, scientific inquiry or investigation into a specific problem, undertaken with the purpose of finding answers or solutions to it. In essence research provides the needed information that guides managers to make informed decisions to successfully deal with problems. The information provided could be the result of a careful analysis of data gathered firsthand or secondhand data that are already available. Data can be quantitative or qualitative.

The methodology used here is Empirical Study - analysis of historical secondary data of NABARD.

The data are collected from the NABARD and RBI Website and comparative analysis was made with the help of percentage analysis.

**Table: 1.**

NABARD Short-term Re-Financing from the year 2015 to 2017 and the Projected Target & Achievement in the year 2017-18

Sl No.	Agency	Target 2015-16 (in crores)	Achieved 2015-16 (in crores)	Achievement %	Target 2016-17 (in crores)	Achieved 2016-17 (in crores)	Achievement %	Projected Target in 2017-18 (in crores) (Approx)	Projected Achievement 17-18 (in crores) (Approx)
1	SCB	53,774.00	53,773.68	99.99	64,717.00	62,609.99	96.74	77,886.00	76,608.00
2	RRB	16,000.00	16,000.45	100.0028	10,000.00	10,002.39	100.02	3750.00	3,750.00
3	PSB for PACS	225.00	226.54	100.68	283.00	270.81	95.41	356.00	349.00
	Total	<b>69,999.00</b>	<b>70,000.67</b>	<b>100</b>	<b>75,000.00</b>	<b>72,883.19</b>	<b>97.18</b>	<b>81,992.00</b>	<b>80,707</b>

Full Form: 1. SCB – State Co-operative Bank 2. RRB – Regional Rural Bank 3. PSB for PACS – Public Sector Banks for Primary Agricultural Credit Societies

### Inference:

The above table shows that in the year 2015-16 State Co-operative Banks achieved 99.99% target which is very good and it is treated almost 100% achievement. When we take the Regional Rural Bank performance also fully satisfies with more than 100% achievement. Similarly when we see the Public Sector Banks for Primary Agricultural Credit Societies achievement also more than 100%. And this shows that the overall achievement is 100%. So, we can come to conclusion that short term refinancing is 100% successful in the accounting year 2015-16.

The above table shows that in the year 2016-17 Regional Rural Banks achieved more than 100% of the target fixed. The State Co-operative Banks achieved 96.74% and the Public Sector Banks for Primary Agricultural Credit Societies achieved 95.41%. This shows that the Regional Rural Banks performed well in short-term finance for seasonal agricultural operations. When we see the overall performance of short term refinancing achieved by NABARD was 97.18%. Which shows the performance was very good by these financial institutions in this financial year. Based on the performance of past year the projected target and the projected achievement were made.

**Table:2.**

NABARD Long Term Re-Financing from the year 2015 to 2017 and the Projected Target & Achievements in the year 2017-18

Sl No.	Agency	Target 2015-16 (in crores)	Achieved 2015-16 (in crores)	Achievement %	Target 2016-17 (in crores)	Achieved 2016-17 (in crores)	Achievement %	Projected Target 2017-18 (in crores)	Projected Achievement 2017-18 (in crores)
1	CB	20000.00	22823.54	114.12	23,200.00	25,834.00	111.35	26,912.00	30,341.00
2	RRB	13699.00	12139.68	88.62	11,000.00	11,369.82	103.36	8,833.00	8,745.00
3	SCBs	5000.00	6231.12	124.62	6,400.00	6,433.59	100.52	8,192.00	9,255.00
4	SCA & RDB	3200.00	3258.26	101.82	3,400.00	3,398.34	99.95	3613.00	3,645.00
5	NBF Cs & others	3100.00	3611.12	116.49	6,000.00	6,469.76	107.83	11,613.00	13,080.00
		<b>44999.00</b>	<b>48,063.72</b>	<b>106.81</b>	<b>50,000.00</b>	<b>53,505.51</b>	<b>107.01</b>	<b>59,163.00</b>	<b>65,066.00</b>

Note: Based on the previous year data projections were made.

Full form: 1. CB – Commercial Bank, 2. RRB – Regional Rural Bank, 3. SCB – State Co-operative Banks, 4. SCA & RDB – State Co-operative Agriculture and Rural Development Banks 5. NBFCs – Non-Banking Financial Companies.

### Inference:

The above table shows that in the year 2015-16 Commercial Banks achieved 114.12% that means they performed well. The Regional Rural Banks achieved 88.62 %. The State Co-operative Banks achieved 124.62 %. The State Co-operative Agriculture and Rural Development Banks achieved 101.82 %. The NBFCs & others also achieved 116.49. And the overall performance is 106.81% which is more than 100% shows that the long term refinancing was successful in this accounting year.

The above table shows that in the year 2016-17 Commercial Banks achieved the target of more than centum that is 111.35%, The Regional Rural Bank had achieved 103.36%. The State Co-operative Banks achieved 100.52%. The State Co-operative Agriculture and Rural Development Banks achieved 99.95% and NBFCs & others achieved 107.83%. The overall performance of NABARD long-term Refinancing had achieved 107.01% percentage. This shows that the overall performance is excellent in achieving the target fixed by NABARD.

When we compare the overall performance of NABARD short-term refinancing in the year 2015-16 was 100% and long term performance in the same accounting was 106.81%. This clearly shows that long-term refinancing proved to be successful. But, when we compare the overall performance of NABARD Short-term refinancing in the year 2016-17 was 97.18% and Long-term refinancing was 107.01%. The Long-term refinancing had fetched a fruitful result. This shows that the long-term planning will always succeed.

### Conclusion:

The NABARD refinancing helps the Commercial Banks and other Financial institutions to finance for the agricultural sector liberally which leads to the growth of millions of poor farmers and for the economic growth of our country. But when we analyze the short term refinancing and long term refinancing of NABARD. The short-term refinancing in the year 2015-16 was 100% and long term performance in the same accounting was 106.81%. This clearly shows that long-term refinancing proved to be successful. But, when we compare the overall performance of NABARD Short-term refinancing in the year 2016-17 was 97.18% and Long-term refinancing was 107.01%. The Long-term refinancing had fetched a fruitful result. This shows that the long-term planning will always succeed.

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