

An Assessment of Re-finance Operation of NABARD in Himachal Pradesh

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Abstract

Indian economy is agricultural rural economy. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence, banks and other financial institutions are considered to be a vital role for the development of the rural economy in India. NABARD are playing a pivotal role in the economic development of the rural India. National Bank for Agriculture and Rural Development (NABARD) was established under an Act of the Indian Parliament, viz. NABARD Act 1981, and came into existence on 12th July 1982. NABARD is set up by the Government of India as a apex financial institution with the mandate of facilitating credit flow for promotion and development of agriculture and integrated rural development. The institution plays a developmental role in strengthening the rural financial institutions. The agency extends refinance support for the development of rural economy to SCARDBs, STCBs, RRBs, commercial banks, and other financial institutions approved by RBI. This paper aimed at assessing the refinance operations of NABARD in Himachal Pradesh.

Keywords: NABARD, Refinance, Rural Credit

Introduction

The Banking Commission (1972) favoured combining the Agricultural Refinance and Development Corporation (ARDC) and the Agricultural Finance Corporation (AFC) to form a new institution within the RBI complex but stressed that all short-term credit should be under the control of a single authority, that is RBI. The National Commission on Agriculture (1976) exhorted the RBI to take steps, in accordance with its historic role to “integrating the total structure for financial agriculture and rural development from ground level upwards right up to creation of an Agricultural Development Bank of India as the apex organization” (Singh R. P., 1993).

The importance of institutional credit in boosting rural economy has been clear to the Government of India right from its early stages of planning. Therefore, the Reserve Bank of India (RBI) at the insistence of the Government of India, constituted a Committee to Review the Arrangements For Institutional Credit for Agriculture and Rural Development (CRAFICARD) to look into

these very critical aspects. The Committee was formed on 30 March 1979, under the Chairmanship of Shri B. Sivaraman, former member of Planning Commission, Government of India (NABARD, 2017).

The Committee’s interim report, submitted on 28 November 1979, outlined the need for a new organisational device for providing undivided attention, forceful direction and pointed focus to credit related issues linked with rural development. Its recommendation was formation of a unique development financial institution which would address these aspirations and formation of National Bank for Agriculture and Rural Development (NABARD) was approved by the Parliament through Act 61 of 1981. NABARD came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). It was dedicated to the service of the nation by the late Prime Minister Smt. Indira Gandhi on 05 November 1982. Agricultural credit is considered as one of the most basic input for conducting all agricultural development

programmes. In India there is an immense need for proper agricultural credit as the economic condition of Indian farmers are very poor (Goyal, 2015). NABARD was created in response to the aspirations of the people and Government of India to create a strong public policy institution in rural credit for building a strong rural India and accordingly, NABARD flagged capital formation in rural economy as the thrust area. From its inception NABARD is providing finance for agriculture and rural development under various schemes through different financial institutions in the name of refinance support (Muneendra & Lakshmi, 2016). Refinancing is simply replacing a loan you already have with another loan. The old loan is repaid by the new loan. It can occur with your current lender or you may go to a different lender (Financial Rights Legal Centre., 2017). This paper aimed at assessing the refinance operations of NABARD in Himachal Pradesh.

Review of Literature

Choudhary (2002) explained in his study on "Credit Flow to Agriculture : Sustaining Rural Sector", that since majority of rural population is associated with agriculture in one way or other in India, it becomes obvious that the onus of sustainable rural development is on agriculture sector. He admitted that the government is providing credit for different duration to the agriculturalists to strengthen this sector. The author also pointed out that the Kisan Credit Card Scheme introduced in 1998-99 which facilitates short-term credit to farmers, has gained popularity among them. However, according to him, the problem of recovery of loans faced by credit providing institutions has made the recycling of funds a difficult task.

Kunjukunju (2005) has analyzed the role of commercial banks, primary agricultural credit societies and primary co-operative agricultural and rural development banks in rural upliftment of Kerela. The loan advanced by banks are inadequate for the respective activities under taken by the borrowers. There is delay in getting credit. Borrowers face a number of problems in obtaining the credit from institutions. Utilisation of loans seems to be satisfactory. There is lack of supervision and guidance by the banks. Repayment performance of the loanees seems to be good. Loans advanced by financial institutions to the rural poor for productive purposes its proper utilization by them have a positive impact on their economic and social conditions.

Lodha and Trivedi (2015) examined a study on "NABARD: A Financial Inclusion through Regional Rural Banks (RRBs)", that RRBs serve the backward section of the society, the rural poor and people belonging to the lower income group. These banks play

a significant role in ensuring sustainable development through financial inclusion. The objective of this study has been proved and it can be concluded that spread of financial inclusions in India through RRBs is more than significant. RRBs is an important player in financial system because of penetration and the increasing amount of loans and customers. RRBs have been able to achieve their objective to great extent by providing banking and financial services to the rural people of India.

Objectives and Methodology

The main objective of the paper is to make an assessment of refinance operations of NABARD in Himachal Pradesh. To achieve the objective secondary have been collected from various focus papers published by NABARD.

Tools and Techniques

For assessing the refinance activities of NABARD in Himachal Pradesh annual growth rate and Compound Annual Growth Rate has been Calculated.

To calculate the Annual Growth Rate in percent following formula has been used:

To calculate the Compound Annual Growth Rate following formula has been used:

$$\text{Annual Growth Rate} = \frac{\text{Current Year} - \text{Previous years}}{\text{Previous Year}} \times 100$$

$$\text{CAGR} = \left(\frac{\text{EV}}{\text{BV}}\right)^{\frac{1}{n}} - 1$$

Where, EB = Ending Value; BY = Beginning Value; n = Number of years

NABARD's Refinance Activities

The refinance facilities provided by the NABARD for different purposes, covers both production and investment credit. These facilities cover a wide range of activities, both in the farm and non-farm sector, these have been shown in Figure 1.

Figure 1: NABARD's Refinance Activities

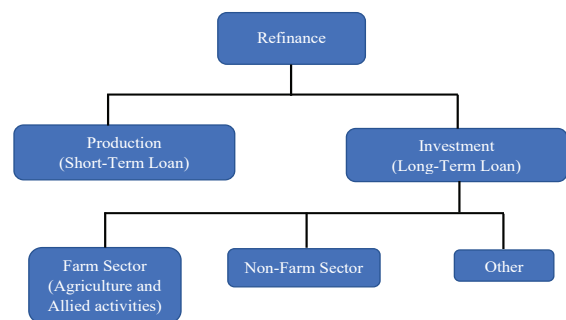


Figure 1: NABARD's Refinance Activities

NABARD's Refinance Operations in Himachal Pradesh

The economic growth in the state is predominantly governed by agriculture and its allied activities (Economics and Statistics Department., 2015). Majority of population in Himachal Pradesh lives in rural areas and their main occupation is agriculture. As the rural people in the country as well as in Himachal Pradesh lives in rural areas. The main occupation of the rural people is agriculture. So, people engaged in agriculture sector or lives in rural areas need supportive activities to enhance their situation, especially, in terms of finance and refinance. In this regard NABARD plays an important role. It not only provides loan opportunities to the rural people but also make provision for refinancing their ventures.

Short Term Refinance

NABARD is providing short term refinance in Himachal Pradesh for seasonal agricultural operation, short term weavers. Year-wise detail of short term refinance provided by NABARD in Himachal Pradesh has been depicted in table 1 and annual growth rate has been in chart 1.

Table 1: Short Term Refinance by NABARD in Himachal Pradesh

Years	Refinance Disbursement (₹ in Crores)	Growth (in %age)
2006-07	11.37	
2007-08	44.7	293.14
2008-09	62.53	39.89
2009-10	120	91.91
2010-11	198	65.00
2011-12	321	62.12
2012-13	403	25.55
2013-14	535	32.75
2014-15	720	34.58
CAGR	58.55	

Source: NABARD, various issues of State Focus Paper Himachal Pradesh.

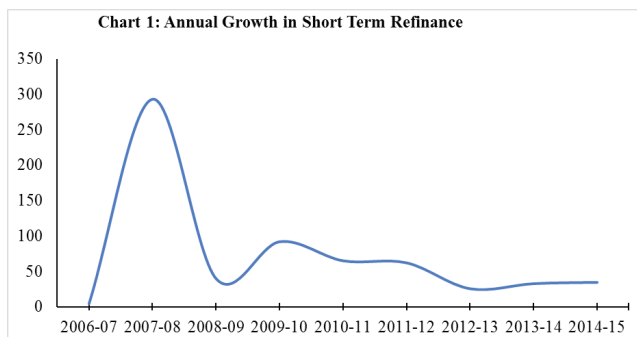


Table 1 depicts that during the 2006-07 Rs 11.37 crores were disbursed in Himachal Pradesh which increased to Rs. 720 crores in the year 2014-15. The table clearly indicates that in term of amount the short term refinance has shown an increasing trend during the period under study.

The annual growth during the year 2007-08 was recorded highest that is 293.14 per cent over the previous year. Whereas in the year 2012-13 this growth was at its lowest point that is 25.55 per cent. The compound annual growth rate (from 2006-07 to 2014-15) is showing an encouraging picture. The short term refinance grew at the rate of 58.55 per cent during the period under study.

Agency-wise ShortTerm Refinance

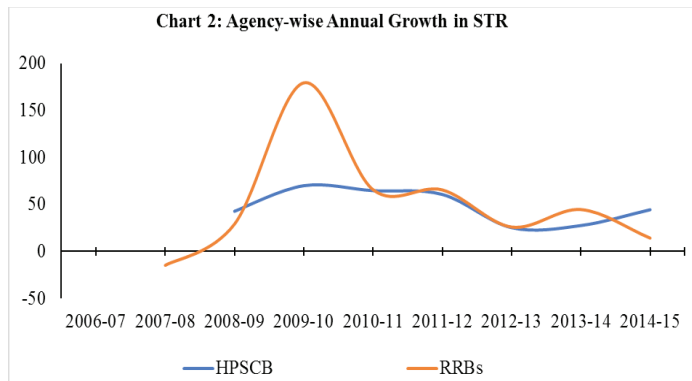
To fulfil the needs of rural people, especially, farmer, NABARD is one of the most important institution in the state. It may provisions for short term refinancing through different agencies such as Co-operative Banks, Commercial Banks, Regional Rural Banks etc.. Hence it is important to evaluate the agency wise short term refinance operations of NABARD. The detail of agency wise refinance operations has been given in Table 2 and the annual growth has been shown in Chart 2.

Table 2 reveals that in Himachal Pradesh NABARD is providing short term refinance facility mainly through HPSCB and RRB. Data shows that in the year 2007-08 the HPSCB disbursed a total of Rs.35 crores under refinance scheme of NABARD. This amount shows an increasing trend and increased to Rs. 520 crores in the year 2014-15.

Table 2: Agency- wise Short Term Refinance (STR) by NABARD in Himachal Pradesh

Year	HPSCB (₹ in Crores)	Growth (in %age)	RRB (₹ in Crores)	Growth (in %age)
2006-07	NA		11.37	
2007-08	35		9.7	-14.69
2008-09	50	42.86	12.53	29.18
2009-10	85	70.00	35	179.33
2010-11	140	64.71	58	65.71
2011-12	225	60.71	96	65.52
2012-13	282	25.33	121	26.04
2013-14	360	27.66	175	44.63
2014-15	520	44.44	200	14.29
CAGR	34.96		37.52	

Source: NABARD, various issues of State Focus Paper Himachal Pradesh.



Annual growth shows a mixed trend. In the year 2008-09 the annual growth rate over the previous year was 42.86 per cent which increased to 70.00 per cent in the year 2009-10. Since 2009-10 the growth rate have shown a decreasing trend and decreased to 25.33 per cent in the year 2012-13. Then again the growth rate shows an increasing trend. In the year 2014-15 it become 44.44 per cent. On the other hand the data related to Regional Rural Banks depicts that in the year 2006-07 the total disbursement by the RRB was Rs. 11.37 crores which decreased to Rs. 9.7 crores in the year 2007-08. Since then the total disbursement by the RRB has shown an increasing trend and increased to Rs. 200 crores in the year 2014-15. The annual growth rate over the previous year has shown a fluctuating trend during the period under study. In the year 2007-08 the annual growth rate was found negative that is -14.69 per cent. While in the year 2009-10 the annual growth was highest that is 179.33 per cent. After 2009-10 the growth rate decreased to 14.29 per cent in the year 2014-15. The analysis of compound annual growth rate reveals that the disbursement of short term refinance by HPSCB grew at the rate of 34.96 per cent while that of RRB it grew at a rate of 37.52 per cent over the period under study (2006-07 to 2014-15).

Long Term Refinance

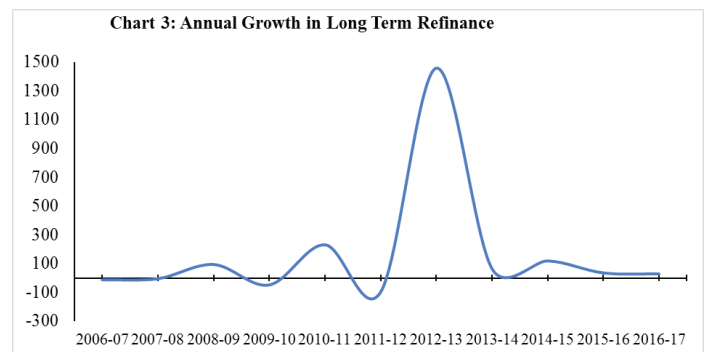
Along with short term refinance it is important that there should be the provision for long term and medium term refinance facility show that agriculture production and productivity could be enhanced. In this investment credit can play a major role, as it leads to capital formation through asset creation. NABARD provides long term and medium term refinance for banks providing adequate credit for taking up investment activities. The year wise detail of long term refinance has been enumerated in Table 3 and growth rate has shown in Chart 3.

Table 3: Long Term Refinance (LTR) by NABARD in Himachal Pradesh

Years	Refinance Disbursement (₹ in Crores)	Growth (in %age)
2005-06	167.28	
2006-07	146.18	-12.61
2007-08	138.76	-5.08
2008-09	269.07	93.91
2009-10	139.43	-48.18
2010-11	461.06	230.67
2011-12	7.5	-98.37
2012-13	116.83	1457.73
2013-14	192.14	64.46
2014-15	420.44	118.82
2015-16	568.89	35.31
2016-17	728.92	28.13
CAGR	13.05	

Source: NABARD, various issues of State Focus Paper Himachal Pradesh.

Figures in Table 3 reveals that the total disbursement (long term refinance) during the year 2005-06 was Rs. 167.28 crores which decrease to Rs. 138.76 crores during the year 2007-08. Then with some fluctuations the amount of disbursement has increased to Rs.461.06 crores. In the year 2011-12 the amount was Rs. 7.50 crores, which increased to Rs. 728.92 crores in the year 2016-17. Annual growth rate reveals both negative and positive trend during the period under study. In the year 2006-07, 2007-08, 2009-10, 2011-12 the annual growth was found negative (-12.61, -5.08, -48.18 and -98.37) respectively, while in the remaining year the positive growth rate was register.



In the year 2012-13 the growth rate over the previous year was found highest that is 1457.73 per cent. Compound annual growth rate with regard to long term refinance reveals that the disbursement grew at the rate of 13.05 per cent over the period of time (from 2005-06 to 2016-17).

Purpose-Wise Disbursement of Refinance

NABARD is making provision for refinance in different area such as minor irrigation, land development, farm mechanization, plantation and horticulture, animal husbandry, non farm sector and others. Therefore purpose wise disbursement of refinance in Himachal Pradesh has been analyzed in Table 4.

Table 4 shows that non-farm sector is getting more priority in the state. During the year 2005-06 the total

disbursement in non-farm sector was Rs. 12.75 crores which increased to 42.14 crores in the year 2007-08. In the year 2008-09 the disbursement came down to Rs. 24.14 crores, which again increased to Rs. 298.66 crores in the year 2010-11. Whereas the disbursement in other activities comes at the second place. In the year 2005-06 the total disbursement to other activities was Rs. 6.66 crores which increased to Rs. 120.52 crores in the year 2010-11. Data related to other purposes also shows an increasing and decreasing trend.

Table 4: Purpose-wise Disbursement of Refinance in Himachal Pradesh

Purpose	Year						
	2005-06	2006-07	2007-08	2008-09	2009-10	2010-2011	CAGR
Minor Irrigation	8.7	5.97	2.98	6.76	0	9.9	2.18
Growth (in %age)		-31.38	-50.08	126.85	-100	0	
Land Development	6.66	19.59	4.51	8.47	0	14.6	13.98
Growth (in %age)		194.14	-76.98	87.8	-100	0	
Farm Mechanization	7.76	3.3	2.44	8.69	0.75	15.12	11.76
Growth (in %age)		-57.47	-26.06	256.15	-91.37	1916	
Plantation and Horticulture	2.12	1.39	1.55	2.74	0	1.09	-10.49
Growth (in %age)		-34.43	11.51	76.77	-100	0	
Animal Husbandry	9.63	5.03	2.67	4.42	1	1.16	-29.72
Growth (in %age)		-47.77	-46.92	65.54	-77.38	16	
NFS	12.75	25.22	42.14	24.14	26.15	298.66	69.15
Growth (in %age)		97.8	67.09	-42.71	8.33	1042.1	
Other	6.66	85.68	82.47	21.13	111.53	120.52	62.03
Growth (in %age)		1186.49	-3.75	-74.38	427.83	8.06	
Total	167.28	146.18	138.76	269.06	139.43	461.05	18.41

Source: NABARD, various issues of State Focus Paper Himachal Pradesh

The analysis of annual compound growth rate shows that the disbursement in minor irrigation grew at a rate of 2.18 per cent, in land disbursement it grew at a rate of 13.98 per cent, in farm mechanization it is 11.76 per cent, in non farm sector the disbursement grew at a rate of 69.15 per cent and in other activity it grew at a rate of 62.03 per cent. The CAGR related to the disbursement of refinance in plantation and horticulture and animal husbandry was found negative that is -10.49 per cent and -29.72 per cent respectively.

Conclusion

NABARD not only provides loan opportunities to the rural people but also make provision for refinancing their ventures. It reflects that NABARD is an important

institution for meeting short term need of rural farmers, artisans, small entrepreneurs etc. The study indicates that though the amount disbursed by RRB is less than HPSCB, yet the CAGR of RRB is higher than HPSCB. Further, it can be said that HPSCB and RRB are the most important agencies that helps NABARD in fulfilling its objectives in Himachal Pradesh. The analysis clearly indicates that the disbursement of long-term refinance in Himachal Pradesh is showing a good trend. It helps the rural people in the creation of assets required for their well-being. Furthermore, it can be said that non-farm sector and other activities are the most favored areas for refinancing by the financial agency in Himachal Pradesh. Whereas plantation and horticulture and animal husbandry seem to be in the neglected areas. In other

words, most of the investments was done in non-farm sector followed by other activities in Himachal Pradesh. In nutshell, it can be said that NABARD is playing an important role in the lives of rural people of Himachal Pradesh.

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