



## Role of National Bank for Agriculture and Rural Development (NABARD) in rural financing and development of rural economy

Anjay Sonkar<sup>1</sup>, Dr. Urjaswita Singh<sup>2</sup>

<sup>1</sup> Research Scholar, Department of Economics, Mahatma Gandhi Kashi Vidyapith, Varanasi, Uttar Pradesh, India

<sup>2</sup> Assistant Professor, Department of Economics, Mahatma Gandhi Kashi Vidyapith, Varanasi, Uttar Pradesh, India

### Abstract

This paper examines the multifaceted role of the National Bank for Agriculture and Rural Development (NABARD) in rural financing and the development of India's rural economy. Established in 1982 as the apex development finance institution, NABARD has been instrumental in channeling credit to agriculture and allied sectors while fostering rural infrastructure development. The study analyzes NABARD's refinancing operations, credit facilitation mechanisms, and developmental initiatives including the Self-Help Group Bank Linkage Programme, watershed development, and rural infrastructure financing. Using secondary data from NABARD annual reports and Reserve Bank of India publications spanning 2018-2023, the research evaluates the institution's financial performance and its correlation with rural development indicators. Findings reveal that NABARD's credit disbursements have demonstrated consistent growth, with refinance to cooperative banks and regional rural banks expanding significantly. The institution's interventions in microfinance have connected over 119 lakh Self-Help Groups to formal banking channels, substantially improving financial inclusion in rural areas. The paper concludes that while NABARD has made considerable progress in rural credit delivery and infrastructure development, challenges persist in ensuring last-mile connectivity and addressing regional disparities in credit flow.

**Keywords:** Biodiversity conservation, rural economies, economic incentives, payments for ecosystem services, livelihood diversification, policy instruments

### Introduction

India's economic development trajectory remains intrinsically linked to the progress of its rural economy, which accommodates approximately 65 percent of the country's population.

The agricultural sector, despite contributing around 18 percent to the Gross Domestic Product, provides livelihood to nearly 42 percent of the workforce, underscoring its significance in the national economic framework. The historical challenge of directing adequate institutional credit to this sector necessitated the establishment of a specialized development finance institution that could address the unique credit requirements of rural India. The National Bank for Agriculture and Rural Development was established on 12 July 1982 through the NABARD Act, 1981, following the recommendations of the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD), chaired by B. Sivaraman. The committee identified critical gaps in the existing rural credit delivery system and recommended creating an apex institution that would consolidate the functions performed by the Agricultural Credit Department and Rural Planning and Credit Cell of the Reserve Bank of India and the Agricultural Refinance and Development Corporation.

NABARD was conceived as an apex development bank with a mandate extending beyond mere credit provision to encompass planning, promotion, and development of agriculture, small-scale industries, cottage and village industries, handicrafts, and other rural crafts. The institution's role has evolved considerably since its inception, adapting to changing economic policies, financial sector reforms, and emerging rural development paradigms.

### Statement of the Problem

Despite significant institutional interventions, rural India continues to face challenges in accessing adequate and timely credit. The persistence of informal lending, regional disparities in credit flow, and limited penetration of financial services in remote areas indicate that rural financing mechanisms require continuous evaluation and strengthening. Understanding NABARD's role in addressing these challenges assumes critical importance for policy formulation and implementation.

### Objectives of the Study

The present study is guided by the following objectives:

1. To examine the organizational framework and operational mechanisms of NABARD in rural credit delivery
2. To analyze the trends in NABARD's refinancing operations and their impact on agricultural and rural credit flow
3. To evaluate NABARD's developmental initiatives in promoting financial inclusion and rural infrastructure
4. To identify challenges and suggest measures for strengthening rural financing mechanisms

### Scope and Limitations

This study focuses on NABARD's operations within the Indian context, examining its refinancing activities, promotional initiatives, and supervisory functions. The analysis primarily relies on secondary data from official publications, which may not capture ground-level implementation challenges comprehensively. The study period extends from 2018-19 to 2022-23, providing a five-year perspective on institutional performance.

## Review of Literature

The academic discourse on NABARD's role in rural development has generated substantial scholarly attention. A systematic review of existing literature provides the theoretical foundation for the present investigation.

1. Kumudini (2017) conducted a comprehensive examination of NABARD's functions in rural development, highlighting its position as a single integrated organization addressing credit requirements across agricultural and rural development activities. The study emphasized NABARD's role in refinancing, direct lending, and promotional activities but noted the need for enhanced coordination among implementing agencies.
2. Ghasiya and Pandey (2022) <sup>[4]</sup> analyzed NABARD's contribution alongside Regional Rural Banks in Indian economic development. Their research underscored that nearly 70 percent of India's population residing in rural areas necessitates robust institutional credit mechanisms for agricultural and allied activities. The study examined credit potential assessments and methodology for preparing Potential Linked Credit Plans, demonstrating NABARD's systematic approach to credit planning.
3. Mathavan and Prema (2024) provided quantitative analysis of NABARD's financial performance using ratio analysis including Return on Assets, Return on Equity, and Operational Self-Sufficiency. Their regression analysis demonstrated a significant positive relationship between NABARD's financial health and rural development outcomes, including agricultural productivity and rural income levels.
4. Yadav and Kawade (2024) examined NABARD's initiatives for agricultural and rural area development, particularly focusing on off-farm initiatives and their achievements. The study documented NABARD's role in fostering rural prosperity through participative financial and non-financial interventions, technology dissemination, and institutional development.
5. Shah and Soni (2022) <sup>[4]</sup> investigated NABARD's financial initiatives in promoting rural finance, emphasizing microfinance as a central poverty alleviation strategy. Their analysis highlighted the Self-Help Group Bank Linkage Programme as a significant mechanism for financial inclusion, connecting millions of rural households to formal banking channels.

## Research Gap

While existing literature extensively documents NABARD's functions and initiatives, there remains insufficient analysis of the institution's performance in the post-pandemic period and its adaptive strategies for emerging challenges in rural financing. The present study addresses this gap by incorporating recent data and examining contemporary operational trends.

## Research Methodology

### Research Design

The study adopts a descriptive and analytical research design, employing both qualitative and quantitative approaches to examine NABARD's role in rural financing and development.

## Data Sources

The research relies exclusively on secondary data sourced from:

- NABARD Annual Reports (2018-19 to 2022 <sup>[4]</sup>-23)
- Reserve Bank of India publications including the Report on Trend and Progress of Banking in India
- Economic Survey of India
- Ministry of Agriculture and Farmers' Welfare publications
- Peer-reviewed academic journals and research papers

## Analytical Framework

Data analysis employs trend analysis for examining temporal patterns in credit disbursement, percentage growth calculations for assessing year-on-year performance, and comparative analysis for evaluating regional and sectoral distribution of credit.

## Organizational Framework of NABARD

### Institutional Structure

NABARD operates as a statutory corporation under the NABARD Act, 1981. The institution is headquartered in Mumbai with regional offices in all states and union territories, ensuring nationwide coverage for its operations. The organizational structure comprises a Board of Directors appointed by the Government of India, with the Chairman serving as the chief executive. The capital structure of NABARD has evolved significantly since its establishment. As of March 2023, the authorized capital stands at ₹30,000 crore, with paid-up capital of ₹16,390 crore. The Government of India holds 100 percent shareholding following the transfer of the Reserve Bank of India's share in 2019.

### Functional Domains

**Credit Functions:** These encompass refinancing commercial banks, regional rural banks, state cooperative banks, and other financial institutions for agricultural and rural development lending. NABARD also provides direct credit to state governments, cooperative institutions, and producer organizations.

**Development Functions:** The institution undertakes promotional activities including capacity building, technology transfer, natural resource management, and institutional development. These functions support the creation of enabling conditions for sustainable rural development.

**Supervisory Functions:** NABARD exercises regulatory supervision over cooperative banks and regional rural banks, ensuring their financial soundness and compliance with prudential norms. This function was expanded following the financial sector reforms of the 1990s.

## NABARD's Refinancing Operations

### Refinance Mechanism

Refinancing constitutes NABARD's primary credit intervention mechanism. The institution does not directly lend to ultimate borrowers but provides refinance to eligible financial institutions against their lending for approved purposes. This approach enables credit multiplication while maintaining institutional viability of the banking system. Refinance is provided for:

- Short-term credit for seasonal agricultural operations.
- Medium and long-term credit for agricultural investment.
- Credit for non-farm sector activities including rural industries, handicrafts, and services.

- Infrastructure development in rural areas.

### Trends in Refinance Disbursement

Table 1 presents the trends in NABARD's refinance disbursements over the study period.

**Table 1:** NABARD Refinance Disbursements (₹ Crore)

Category	2018-19	2019-20	2020-21	2021-22	2022 <sup>[4]</sup> -23
Short-term (Production Credit)	90,230	96,475	1,10,340	1,24,890	1,38,560
Long-term (Investment Credit)	22,850	25,340	28,670	31,240	35,180
Total Refinance	1,13,080	1,21,815	1,39,010	1,56,130	1,73,740

Source: Compiled from NABARD Annual Reports

The data reveals consistent growth in refinance disbursements, with a compound annual growth rate of approximately 11.3 percent during the five-year period. Short-term refinance for seasonal agricultural operations constitutes the major component, reflecting the seasonal nature of agricultural credit demand.

### Institution-wise Refinance Distribution

NABARD's refinance operations reach farmers through three primary institutional channels:

**State Cooperative Banks:** These institutions receive refinance for short-term agricultural lending through the cooperative credit structure. The cooperative channel remains significant despite challenges of governance and financial health in several states.

**Regional Rural Banks:** Created specifically for rural lending, RRBs receive substantial refinance support from NABARD for both agricultural and rural non-farm sector lending.

**Commercial Banks:** Scheduled commercial banks participating in agricultural lending are eligible for refinance support, though their dependence on NABARD refinance has reduced with improved liquidity positions.

### Developmental Initiatives

#### Self-Help Group Bank Linkage Programme

The SHG-Bank Linkage Programme, pioneered by NABARD in 1992, represents the world's largest microfinance program. The program connects informal self-help groups of rural poor, predominantly women, with formal banking institutions.

**Table 2:** Progress of SHG-Bank Linkage Programme

Parameter	2018-19	2019-20	2020-21	2021-22	2022 <sup>[4]</sup> -23
SHGs with Savings Linkage (Lakh)	100.14	102.43	112.23	119.22	137.83
Savings Amount (₹ Crore)	23,324	26,152	37,477	47,240	58,012
SHGs with Credit Linkage (Lakh)	50.77	55.46	67.40	75.26	87.83
Credit Disbursed (₹ Crore)	87,098	1,00,724	1,17,221	1,46,556	1,85,782

Source: Compiled from NABARD Status of Microfinance Reports

The program has demonstrated remarkable expansion, with savings linkage growing from approximately 100 lakh SHGs in 2018-19 to over 137 lakh in 2022-23. Credit disbursement has more than doubled during this period, reflecting deepening financial inclusion through the group-based lending approach.

### Rural Infrastructure Development Fund

NABARD operates the Rural Infrastructure Development Fund (RIDF), which finances state governments and state-owned corporations for rural infrastructure projects. RIDF was established in 1995-96 with an initial corpus of ₹2,000 crore, contributed by commercial banks falling short of priority sector lending targets.

Projects funded under RIDF include:

- Rural roads and bridges
- Irrigation and flood protection structures
- Rural drinking water and sanitation
- Educational and health infrastructure
- Village knowledge centers

Cumulative sanctions under RIDF have exceeded ₹4,00,000 crore across multiple tranches, creating substantial rural infrastructure assets across the country.

### Watershed Development Programme

NABARD's watershed development initiatives focus on holistic natural resource management in rain-fed areas. The Indo-German Watershed Development Programme and subsequent initiatives have covered over 4,200 watershed projects, benefiting approximately 12 million hectares of land.

### Key outcomes include

- Increased ground water recharge
- Enhanced crop productivity in treated areas
- Diversification of livelihood options
- Community institution building for resource management

### Financial Inclusion Initiatives

NABARD has undertaken multiple initiatives to enhance financial inclusion in underserved areas:

**Financial Literacy:** The institution supports Financial Literacy Centres operated by various banks and organizations, promoting awareness about banking services, credit facilities, and financial planning.

**Credit Linked Capital Subsidy:** Under various government schemes administered through NABARD,

capital subsidies are provided to beneficiaries for establishing rural enterprises, particularly in the micro and small enterprise sector.

**Farmer Producer Organizations:** NABARD promotes and supports the formation of Farmer Producer Organizations, providing capacity building, credit linkage, and market access support to collective farming enterprises.

### Impact Assessment

#### Credit Flow to Agriculture

The overall flow of institutional credit to agriculture has shown substantial increase, with NABARD's refinance operations supporting this expansion. Total ground level credit to agriculture increased from ₹12,55,394 crore in 2018-19 to ₹21,55,618 crore in 2022-23, representing a compound annual growth rate of approximately 14.5 percent.

#### Financial Inclusion Indicators

Financial inclusion metrics demonstrate positive trends:

- Bank account penetration in rural areas exceeds 80 percent
- SHG coverage provides financial access to over 14 crore rural households
- Regional Rural Banks operate over 22,000 branches predominantly in rural areas

#### Infrastructure Development

RIDF investments have contributed to:

- Construction of over 6.5 lakh kilometers of rural roads
- Creation of irrigation potential covering approximately 30 million hectares
- Establishment of rural educational and health facilities across states

#### Challenges and Constraints

Despite substantial achievements, NABARD's operations face several challenges:

#### Regional Disparities

Credit flow exhibits significant regional concentration, with southern and western states accounting for disproportionately higher shares. Eastern and northeastern states, despite greater developmental needs, receive relatively lower credit allocations.

#### Cooperative Credit Structure Weaknesses

The cooperative banking structure, a primary conduit for NABARD refinance, suffers from governance issues, inadequate capital, and operational inefficiencies in several states. This constrains effective credit delivery to the intended beneficiaries.

#### Climate Change and Risk Mitigation

Increasing climate variability poses risks to agricultural lending. While crop insurance schemes provide some coverage, the integration of climate risk considerations into credit planning remains inadequate.

#### Technology Adoption

Digital technology adoption in rural credit delivery, though expanding, faces challenges including connectivity issues,

digital literacy gaps, and infrastructure limitations in remote areas.

#### Suggestions for Strengthening Rural Financing

Based on the analysis, the following measures are suggested:

**Strengthening Cooperative Structure:** Comprehensive reforms in cooperative banking governance, including professional management, capital infusion, and merger of weak units, would enhance credit delivery efficiency.

**Technology Integration:** Expanding digital platforms for credit application, disbursement, and monitoring can reduce transaction costs and improve access in remote areas.

**Climate-Resilient Financing:** Developing specialized credit products incorporating climate adaptation measures and linking them with insurance coverage would address emerging agricultural risks.

**Regional Rebalancing:** Special focus on credit flow enhancement in underserved regions through targeted refinance allocations, concessional terms, and capacity building of lending institutions.

**Convergence with Government Programs:** Enhanced coordination between NABARD's credit operations and government developmental programs would maximize resource utilization and development outcomes.

#### Conclusion

The National Bank for Agriculture and Rural Development has established itself as a pivotal institution in India's rural development architecture. Through its refinancing operations, developmental initiatives, and supervisory functions, NABARD has contributed significantly to expanding rural credit access and building rural infrastructure. The Self-Help Group Bank Linkage Programme stands as a globally recognized model of community-based microfinance, while the Rural Infrastructure Development Fund has created substantial developmental assets across states.

The institution's performance metrics indicate consistent growth in refinance disbursements, expanding coverage of financial inclusion programs, and diversification of developmental interventions. However, challenges related to regional disparities, cooperative banking weaknesses, and emerging climate risks require continued attention and adaptive strategies.

NABARD's role becomes increasingly important as India pursues inclusive and sustainable development. Strengthening institutional mechanisms, embracing technological innovations, and maintaining focus on underserved populations and regions would be essential

#### References

1. National Bank for Agriculture and Rural Development. Annual Report 2023–24. Mumbai: NABARD, 2024.
2. National Bank for Agriculture and Rural Development. Status of Microfinance in India. Mumbai: NABARD, 2023.
3. Reserve Bank of India. Report on Trend and Progress of Banking in India. Mumbai: RBI, 2023.

4. Government of India. Economic Survey of India. New Delhi: Ministry of Finance, 2022.
5. Chen MA. The Informal Economy: Definitions, Theories and Policies, 2012.
6. Kabeer N. Gender Equality and Women's Empowerment: A Critical Analysis of the Third Millennium Development Goal, 2005.
7. Farmer BH. Agricultural Development and Rural Economy in India, 2016.
8. World Bank. Rural Finance and Agricultural Development Report. Washington DC, 2020.