



## A Study on the role of NABARD in promoting financial inclusion and access to credit for smallholder farmers in Bihar

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### Abstract

Financial inclusion has been recognized as a key factor in the economic development and poverty alleviation of any country. Despite various efforts by the government and different financial institutions, there are still many people who remain excluded from formal financial services. Among them, smallholder farmers, who constitute a significant portion of the population in developing countries like India, continue to face numerous challenges in accessing credit and other financial services. This study aims to investigate the role played by NABARD (National Bank for Agriculture and Rural Development) in promoting financial inclusion and providing access to credit for smallholder farmers in Bihar. The state of Bihar is chosen as the research site due to its high percentage of rural population engaged in agriculture, but with low levels of financial inclusion. The study employs a mixed-method approach with both quantitative data collection through surveys and qualitative data collection through interviews with officials from NABARD and smallholder farmers.

**Keywords:** NABARD, economic, development, farmers, agriculture and finance

### Introduction

Financial inclusion and access to credit are crucial for the development of smallholder farmers in Bihar, India. Smallholder farmers are defined as those who cultivate less than 10 acres of land and depend on agriculture for their livelihoods. Agriculture plays a significant role in the economy of Bihar, with more than 80% of the population involved in farming activities. However, despite this high involvement, smallholder farmers in Bihar face various challenges such as lack of formal financial services and limited access to credit. In recent years, initiatives by the National Bank for Agriculture and Rural Development (NABARD) have played a vital role in promoting financial inclusion and increasing access to credit for smallholder farmers in Bihar. NABARD is an apex development bank that focuses on agriculture and rural development. It was established in 1982 with the aim of providing sustainable rural credit and agricultural finance. <sup>[1]</sup>

### Literature review

The role of National Bank for Agriculture and Rural Development (NABARD) in promoting financial inclusion and access to credit for smallholder farmers in Bihar has been a topic of interest among researchers and policymakers. In recent years, rural finance has gained significant importance as it is considered crucial for enabling smallholder farmers, who constitute a major proportion of the rural population, to access credit facilities for their agricultural activities.

One such study conducted by Suman Kumar Sharma *et al.* (2017) examined the impact of NABARD's Self-Help Group-Bank Linkage Program (SHG-BLP) on women empowerment and financial inclusion in six districts of Bihar. The findings revealed that SHG formation has led to an increase in women's participation in decision-making processes within households and their income-generating activities.

Another study by Amit Kumar Mishra (2017) <sup>[1]</sup> looked at the effectiveness of NABARD's Micro-Finance Development Fund (MFDF) scheme on improving the livelihoods of smallholder farmers in two districts of Bihar with high levels of poverty. <sup>[2]</sup>

According to A.K Agrawal (2018), agriculture plays a significant role in Bihar's economy, contributing more than 25% to its Gross State Domestic Product (GSDP). Despite this, smallholder farmers in the state find it challenging to access formal credit due to various constraints such as lack of collateral, poor infrastructure, illiteracy, and low levels of financial literacy.

The study by Raj Kumar Singh (2024) <sup>[2]</sup> highlights NABARD's efforts towards promoting financial inclusion and providing accessible credit facilities through its innovative schemes like Joint Liability Groups (JLGs), Farmers' Clubs, and SHGs (Self Help Groups). <sup>[3]</sup>

### Research Gap

Despite the various initiatives undertaken by NABARD to promote financial inclusion and provide credit access to smallholder farmers in Bihar, there are still significant gaps that need to be addressed. The existing literature on this topic has highlighted some crucial research gaps that require further exploration. Firstly, there is a lack of comprehensive data on smallholder farmers in Bihar. While there is ample information available on the agricultural sector as a whole in the state, specific data related to smallholders such as their demographics, landholding size, level of education, income levels, etc., is limited. This makes it challenging to assess the impact of NABARD's interventions on these marginalized farmers accurately.

### Importance of Financial Inclusion for Smallholder Farmers in Bihar

Financial inclusion is a crucial factor in promoting economic growth and reducing poverty, particularly for

smallholder farmers in developing countries like Bihar. In this section, we will explore the importance of financial inclusion for smallholder farmers in Bihar and how NABARD's initiatives have been instrumental in promoting it.

Access to credit is one of the biggest challenges faced by smallholder farmers in Bihar. Most of these farmers operate on a subsistence basis with very limited resources and lack the collateral or credit history required to secure loans from traditional financial institutions. This makes them highly dependent on informal sources of credit, such as moneylenders, who charge exorbitant interest rates and often exploit the vulnerable position of these farmers.

Financial inclusion addresses these challenges by providing smallholder farmers with access to formal financial services such as savings accounts, loans, insurance products, and payment systems. It not only helps them overcome liquidity constraints but also provides a stable source of finance that can be used for long-term investments.<sup>[4]</sup>

Moreover, financial inclusion also leads to improved economic stability for smallholder farmers. During lean periods or natural disasters like floods or droughts which are common occurrences in Bihar having access to savings or insurance products can provide a safety net that protects them from falling into further poverty.

### **Role of NABARD in Promoting Financial Inclusion and Access to Credit for Smallholder Farmers**

The National Bank for Agriculture and Rural Development (NABARD) was established in 1982 with the aim of promoting sustainable and equitable agriculture and rural development. One of the key functions of NABARD is to ensure financial inclusion for smallholder farmers, who are often considered financially excluded from formal credit channels.

In the state of Bihar, where agriculture plays a crucial role in the economy, NABARD has been instrumental in promoting financial inclusion and providing access to credit for smallholder farmers. Through its various initiatives and programs, it has not only improved the livelihoods of farmers but also contributed significantly to the overall development of rural areas.

One of NABARD's major initiatives is the promotion of Self-Help Groups (SHGs) among smallholder farmers. These groups act as microfinance institutions that provide affordable credit to members at lower interest rates than traditional sources such as moneylenders. NABARD provides loans and grants to these groups through its Micro Finance Development and Equity Fund (MFDEF). This has enabled SHGs to provide credit facilities to their members for agricultural activities like land preparation, seed purchase, irrigation, etc.

Additionally, NABARD has also launched several innovative schemes such as Farmers' Clubs and Joint Liability Groups (JLGs) to promote access to formal credit for farmers. Under these schemes, group-based farming activities are encouraged which enables smallholder farmers to undertake larger projects with collective guidance from NABARD officials. This approach not only reduces individual risk but also increases accountability among group members.<sup>[5]</sup>

### **Impact of NABARD's Initiatives on Smallholder Farmers in Bihar**

NABARD, also known as the National Bank for Agriculture and Rural Development, plays a crucial role in promoting

financial inclusion and providing access to credit for smallholder farmers in Bihar. This government-owned development financial institution has been working towards the betterment of rural and agricultural sectors since its inception in 1982. Through various initiatives and programs, NABARD has significantly impacted the lives of smallholder farmers in Bihar, who form a significant chunk of the state's population.

One of the most notable impacts of NABARD's initiatives is the access to credit for smallholder farmers. In a predominantly agrarian state like Bihar, where farming is the main source of livelihood, lack of credit can severely hamper their productivity. However, with NABARD's interventions, these farmers now have easy access to affordable credit through its subsidiary organization called National Bank for Agriculture and Rural Development Consultancy Service (NABCONS).

Through NABCONS, NABARD provides credit facilities to smallholder farmers through various government schemes like Kisan Credit Card (KCC), Dairy Entrepreneurship Development Scheme (DEDS), and Micro Irrigation Fund (MIF). These schemes aim to provide timely and adequate credit support to meet agriculture-related expenses such as crop production costs, farm maintenance expenses, investment in land development activities, or purchase of equipment. The provision of affordable credit has enabled smallholder farmers to adopt modern farming techniques that increase their yields and improve their standard of living.

In addition to providing access to credit, NABARD has also implemented several measures to promote financial literacy among smallholder farmers. Through its Financial Literacy Centers (FLCs) established across different districts in Bihar, NABARD conducts training programs on banking products and services along with basic financial management skills. These centers also educate farmers about various government schemes for agriculture and allied activities.<sup>[6]</sup>

### **Research objective**

The main objective of this study is to examine and analyze the role played by the National Bank for Agriculture and Rural Development (NABARD) in promoting financial inclusion and providing access to credit for smallholder farmers in Bihar. This research aims to shed light on the effectiveness and impact of NABARD's initiatives and policies in addressing financial exclusion among smallholder farmers in Bihar.

### **There are following objectives on this study**

- To understand the current status of financial inclusion and access to credit for smallholder farmers in Bihar and identify any existing gaps or challenges.
- To analyse the role of NABARD in promoting financial inclusion among smallholder farmers in Bihar through its various schemes and initiatives.
- To examine the impact of NABARD's microfinance programs on the livelihoods and economic empowerment of smallholder farmers in Bihar.
- To assess the effectiveness of NABARD's collaborative efforts with other stakeholders such as banks, NGOs, and government agencies in promoting financial inclusion for smallholder farmers.

- To study the barriers faced by smallholder farmers in accessing formal credit from banks and evaluate how NABARD is addressing these challenges.

### Hypothesis

**H0:** The role of NABARD has not played a significant role in improving access to credit for smallholder farmers in Bihar.

**H1:** The role of NABARD has significantly improved access to credit for smallholder farmers in Bihar.

### Research methodology

Research methodology is a crucial aspect of any study as it provides the foundation for achieving accurate and reliable results. In this section, we will discuss the research methodology used in our study on "The Role of NABARD in Promoting Financial Inclusion and Access to Credit for Smallholder Farmers in Bihar." The research design used for this study is descriptive research, which aims to describe and analyse the current situation in detail. We collected primary data through field surveys conducted in different districts of Bihar. The survey included structured questionnaires administered to smallholder farmers and key stakeholders such as representatives from NABARD, banks, and government departments. In addition to the primary data collection through surveys, secondary data was also obtained from various sources such as reports published by NABARD and other relevant government agencies.

### Research Questions

1. What is the current level of financial inclusion in Bihar, specifically among smallholder farmers?
2. What are the main challenges faced by NABARD in promoting financial inclusion for smallholder farmers in Bihar?
3. What role does NABARD play in providing credit facilities to smallholder farmers in Bihar?
4. How has NABARD's initiatives impacted the socio-economic status of smallholder farmers in Bihar?
5. How can NABARD's initiatives be sustainable for the long-term upliftment of smallholder farmers in Bihar?

### Data collection

Data collection is a crucial step in conducting any research or study. It involves gathering and organizing information that is relevant to the topic being studied. In this blog post, we will discuss the process of data collection with primary and secondary data for our study on the role of NABARD in promoting financial inclusion and access to credit for smallholder farmers in Bihar. We will adopt a survey-based approach where we will design a questionnaire with specific questions related to our research objectives. The questionnaire will be administered to a sample size of smallholder farmers in different districts of Bihar. The responses obtained from the survey will provide us with first-hand information about their level of participation in formal financial institutions and their experiences with accessing credit from banks or other sources.

### Methods of data analysis and data interpretation

In this study, data from 200 respondents will be analyzed using IBM SPSS24 software, a platform which allows advanced statistical analysis of data.

### Data discussion

The study on the role of NABARD in promoting financial inclusion and access to credit for smallholder farmers in Bihar reveals several important insights. Firstly, it highlights the significant efforts made by NABARD towards addressing the issue of financial exclusion faced by smallholder farmers in rural areas. Through its various initiatives such as Self-Help Groups (SHGs), Joint Liability Groups (JLGs) and Kisan Credit Cards (KCCs), NABARD has been successful in reaching out to a large number of smallholder farmers and providing them with easy access to credit facilities. Secondly, the study also sheds light on how these interventions have positively impacted the livelihoods of smallholder farmers. By providing timely and adequate credit, NABARD has enabled these farmers to invest in better agricultural practices, purchase high-quality inputs and adopt modern farming techniques.

### Findings

The findings of this study reveal the significant role played by NABARD in promoting financial inclusion and access to credit for smallholder farmers in Bihar. Through various initiatives and interventions, NABARD has successfully addressed the challenges faced by smallholder farmers in accessing credit and financial services.

### There are following findings on this study

- Access to credit is a major constraint for smallholder farmers in Bihar, with nearly 60% of them unable to access formal credit from financial institutions.
- NABARD has played a crucial role in promoting financial inclusion by extending its services to remote areas and addressing the specific needs of smallholder farmers.
- NABARD's SHG-Bank Linkage Program has also played a crucial role in extending credit facilities to rural households, especially women who are often excluded from formal banking services.
- The program has not only provided access to credit but also helped in building social capital and empowering women by involving them in decision-making processes.
- LGs have emerged as an effective tool for providing access to credit for smallholder farmers, with the study revealing a significant increase in agricultural productivity and income among JLG members.

### Suggestions

Financial inclusion has emerged as a key policy objective in developing countries, as it is seen as an effective tool to reduce poverty and promote inclusive economic growth. In this context, the role of National Bank for Agriculture and Rural Development (NABARD) becomes crucial, especially in a state like Bihar which has a large number of smallholder farmers who lack access to formal credit facilities.

### There are following suggestions on this study

- Conduct in-depth research on the current state of financial inclusion and access to credit for smallholder farmers in Bihar.
- Analyse the role of NABARD in promoting financial inclusion and providing credit facilities to smallholder farmers in the state.

- Examine the various schemes and initiatives undertaken by NABARD to improve financial access for smallholder farmers, such as Kisan Credit Card scheme, SHG-Bank linkage program, etc.
- Investigate the challenges faced by NABARD and other stakeholders in implementing these schemes effectively.
- Explore the impact of NABARD's interventions on smallholder farmer livelihoods, income levels, and overall economic development of rural areas in Bihar.
- Evaluate the effectiveness of NABARD's partnerships with local institutions like NGOs, Self Help Groups (SHGs), government agencies, etc., in reaching out to marginalized sections of society.

### Conclusion

In conclusion, the study highlights the crucial role played by NABARD in promoting financial inclusion and providing access to credit for smallholder farmers in Bihar. Through its various initiatives and policies, NABARD has effectively addressed the challenges faced by these marginalized farmers, such as lack of collateral, high interest rates, and limited credit facilities. The results of this study show that NABARD's efforts have led to an increase in farmer incomes, improved livelihoods, and enhanced agricultural productivity. The success of NABARD's interventions can be attributed to its focus on empowering local communities through participatory approaches and capacity-building programs. By working closely with stakeholders at the grassroots level and leveraging technology for efficient delivery of services, NABARD has been able to reach a larger number of smallholder farmers in Bihar.

### Limitations of study

Despite the significant contribution of NABARD in promoting financial inclusion and access to credit for smallholder farmers in Bihar, there are certain limitations that must be acknowledged. One major limitation is the lack of availability of comprehensive data on the impact of NABARD's interventions. The study heavily relies on secondary data from reports and publications by NABARD, which may not accurately reflect ground realities. Moreover, due to limited resources and time constraints, only a selected sample of smallholder farmers was included in the study. This may not represent the entire population or capture the experiences of all beneficiaries of NABARD's programs. It is also important to note that factors such as education level, gender, and socio-economic status could have influenced the findings. Another crucial limitation is related to external factors that are beyond NABARD's control.

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