

NABARD : The Apex Institution of Rural Credit in India

V. K. Gautam* and Yogesh Kumar**

Since the beginning of planned development, the Government has made significant strides in developing rural India through Five Years Plans. The National Bank for Agriculture and Rural Development (NABARD) was set up in July 1982. It became the apex institution to play a pivotal role in the sphere of policy planning and providing refinance facilities to rural financial institutions and for augmenting their resource base for socio-economic transformation in India. This paper examines the role of NABARD in socio-economic transformation of rural India as an apex institution in rural credit. It has been emphasized that NABARD is not just a bank, it is an all important institution primarily intended to develop agriculture/small scale industries, cottage and village industries, handicrafts/rural crafts and other allied economic activities to transform rural India by promoting integrated development for employment and income generation to reduce rural poverty.

[**Keywords** : NABARD, Apex Institution, Agriculture sector, Rural Credit, Rural poverty, Socio-economic transformation]

* Associate Professor, Department of Economics, Meerut College, Meerut and Formerly Principal, N. A. S. (PG) College, Meerut, Uttar Pradesh (India) E-mail: <gautamvk20101@rediffmail.com; veerendragautam321963@gmail.com>

** Former Director, Parag Dairy, Meerut, Uttar Pradesh (India)

CONTEMPORARY SOCIAL SCIENCES, Vol. 30, No. 2 (April-June), 2021
Peer Reviewed, Indexed & Refereed International Research Journal

1. Introduction

Finance has been recognized as the life blood of all economic activities. Like all other producers, agriculturists also need credit. According to an old proverb “credit supports the farmers as the hangman’s rope supports the hanged”. For stimulating the tempo of agricultural production, and non-farm rural income generation, an adequate and timely credit is most essential. Not only this, the Indian rural sector is an important segment of the economy and the basic reason for the slow economic development in our country is due to the neglect of this sector. The rural or agricultural credit through institutional channel is the only way to break production stagnation. Private or non-institutional funding agencies play a limited role keeping in view the larger public interest. Realizing this fact, the Indian government gave top priority to agriculture and rural development.

In India the institutional credit sources for rural sector includes government, Regional Rural Banks, Co-operative credit societies, Commercial banks and NABARD. The National Banks for Agriculture and Rural Development (NABARD) is the apex institution at the national level for agriculture credit and provide refinance assistance to the agencies mentioned above. The Reserve Bank of India as the central bank of the country plays a crucial role in this sphere by giving overall direction to rural credit and financial support to NABARD for its operations.

The setting up NABARD in July 1982 is the landmark in the evolution of agricultural and rural credit in India. Designed specifically as an organizational device for providing undivided attention, forceful direction and pointed focus to the problems of the agriculture and rural sector, NABARD is now the apex bank for rural and agricultural credit in India.

As stated above NABARD is an apex institution in the field of agricultural and rural credit, therefore, it does not directly deal with farmers and other rural people. It provides short term credit to State Co-operative Banks, RRBs and other financial institutions repayable over a period of not exceeding 18 months for agricultural operations, marketing of crops, production and marketing of products in small, cottage and village industries. NABARD also gives medium term loan for period not less than 18 months and not exceeding 7 years to

SCBs and RRBs for agriculture and rural development. It gives long term loans and advances by way of refinance to Land Development Banks, RRBs, scheduled commercial banks, state co-operative banks and other financial institutions.

2. Evolution of NABARD

At the instance of the Government of India, to review/examine, *inter alia*, the structure and operation of ARDC in the context of an increasing need for term loans for agriculture and feasibility of integrating short term and medium term credit structure with long-term credit structure at national, state, district and village level, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was appointed by the RBI in March 1979. It submitted the report in January 1981.

The NABARD has been conceived by CRAFICARD as an exercise in decentralization of central bank's function of providing all types of production and investment credit to agriculture, small-scale industries, artisans, Khadi and village industries handicrafts and other crafts and other allied economic activities in an integrated manner, with undivided attention, pointed focus and forceful direction.

NABARD is also charged by CRAFICARD with the responsibility of promoting integrated rural development and matters concerned therewith incidental thereto. The new organization was expected to work in close unison with the RBI. The proposed bank should have organic links with the RBI.

The Government of India and the RBI approved the proposal of CRAFICARD. The Parliament through the Act of 1981 approved its setting up. The NABARD Act was passed by the Parliament on December 1, 1981. It came into existence on July 12, 1982 and started functioning with effect from July 15, 1982. The bank was dedicated to the service of the nation by Prime Minister on Nov. 5, 1982.

3. Objectives of NABARD

The main objectives, which guide the functioning of NABARD are :

1. The provide refinance to eligible institutions viz, state land development banks, state co-operative banks, scheduled

commercial banks and RRBs for supporting production and investment credit for development activities in rural areas.

2. To improve the absorptive capacity of the credit delivery system through institution building by monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel etc.
3. To coordinate the activities of different agencies engaged in development work at the field level and to keep liaison with Government of India, state governments and RBI and other national level institutions connected with policy formulation.
4. To undertake monitoring and evaluation of project refinanced by it.

4. NABARD : Organization and Structure

It is a harsh fact that organizational set up, administration and management forms the basis of operational efficiency of any financing or refinancing institution. Realizing the importance of good organization, P. F. Drucker has very rightly remarked, “a poor organization structure makes good performance impossible no matter how good the individual may be”.

4.1 Board of Directors

Direction, management and general supervision of the affairs and business of the NABARD is rested in a Board of Directors, who are appointed by the Government of India in consonance with NABARD Act. Board of Directors consists of 15 members which include a Chairman, with this breakup : (i) Chairman, (ii) Two directors from amongst experts in rural economics, rural development, handicrafts and other rural crafts and village & cottage industries, (iii) Three directors from cooperative banks, (iv) One from commercial banks, (v) Three director from RBI, (vi) Three directors nominated by Government of India out of its officials, (vii) Two directors from officials of state government and (viii) A Managing Director who is assisted by Chief General Manager, General Manager, Deputy General Managers and others staff.

The Chairman and Managing Director are appointed for a term not exceeding five years and may be sacked by central government before the expiry of their terms. The directors are appointed for a

three years term. They may be removed before the expiry of their term also.

4.2 Executive Committee

The Board of the NABARD may constitute an Executive Committee consisting of such number of directors as may be prescribed by Board. The Executive Committee shall consists of the Chairman, the Managing Director and other directors nominated by the Chairman from amongst the directors appointed under clause (ii), (iii), (iv) and (v) of 4.1 and one of the whole time directors.

The Executive Committee shall have all the powers of the board to transact the usual business of the NABARD except powers in relation to matters which are specifically reserved by the Act to the Board.

4.3 Advisory Council

The board shall constitute on advisory council consisting of such number of directors and such other persons who, in the opinion of Board, have special knowledge of agriculture credit, co-operative and rural economics, small scale industries, village and cottage industries or have special knowledge and appreciation of the country's overall development policies and in particular monetary and credit policies, which is considered by the board as useful to NABARD.

The advisory council shall advise the NABARD in such a matter as may be referred to the advisory council by the NABARD. A member of the advisory council shall hold the office for such terms not exceeding five years as the NABARD may fix.

4.4 Other Committees

The board may constitute such other committees either consisting wholly of directors or wholly of other persons or partly of directors and partly of other persons as it thinks fit to discharge such functions as may be delegated to it by the board.

5. Functions of NABARD for Socio-Economic Transformation

The role of NABARD in socio-economic transformation is quite evident from its functions, which may be classified under following broad categories :

(A) Credit Functions : NABARD facilitates central government, state governments and RBI in policy decision regarding credit flow to the agriculture and rural development. For this purpose it prepares Potential Linked Credit Plan (PLCP) annually for each district of the country, taking into account the long term physical potential, availability of infrastructure, extension services, marketing support and the strengths and weaknesses of the Rural Financial Institutions.

Credit functions of NABARD may be sub-grouped in three categories as follows :

1. Production and Marketing Credit : In order to ensure availability of timely credit to farmers, NABARD refinances by way of credit limits for seasonal agricultural operations at concessional rates of interest to the State Co-operative Banks, Regional Rural Banks, and Scheduled Commercial Banks for the these purposes : (i) Ensuring timely supply of agri-inputs like fertilizers, pesticides, seeds etc. to the farmers, (ii) Improving the flow of marketing credit to the cultivators for augmenting their holding capacity and checking incidence of distress sale of their production and (iii) Financing production and marketing activities of village and cottage industries, handicrafts artisans, farmers engaged in pisci-culture and other rural non-farm enterprises

When crop loans on account of natural calamities is substantial, affecting the production activities of farm and non-farm sector to repay their production credit dues to banks, refinance by way of medium term loans is granted to commercial banks and RBRs to enable them to convert or reschedule the short term loans of farmers and artisans into medium term loans.

2. Investment Credit : To induce technological up-gradation resulting in increased production and productivity thereby incremental income to the farmers, investment credit is provided by NABARD through asset creation and construction and development of infra-structural facilities in rural and agriculture sector.

NABARD provides refinance support to approved financial institutions for following major purposes viz. farm mechanization, minor irrigation, land development and soil

conservation, afforestation, horticulture, cattle rearing, poultry, piggery, fishery, sericulture, food-processing etc. and recently introduced solar pumps for irrigation. Non-farm sector includes artisans, small and village-cottage industries, handicrafts handlooms - power looms, diesel generator sets and LPG kits etc.

3. **Direct Credit** : Apart from refinance activities, NABARD also provides direct finance to state governments to contribute to the share capital of co-operative credit institutions and hereby improving their financial strength. To ensure and maintain substantial credit flow to agriculture and rural sector for financing high-tech/export oriented agriculture projects involving large outlays, NABARD supports credit risks of commercial banks. It works for progressive rural credit and ensures that the demand of credit for new and upcoming areas like floriculture, tissue culture, bio-fertilizers, drip and sprinkler-irrigation, milk processing, ethanol production, solar energy system agro-food processing etc. are met.

To meet the credit demand for completion of on going rural infrastructure projects, RIDF was setup with NABARD in 1995-96 with the contributions from commercial banks by way of deposits, resulting from short fall in their agriculture lending targets. The infrastructure projects refer to irrigation projects, watershed management, cold-storage, market yard/godowns, rural roads and bridges etc. However the disbursement in relation to the sanction under RIDF has been around 60% which is an area of concern.

(B) Development & Promotion Functions

1. **Institutional Development** : Various initiatives have been taken to strengthen the rural financial institution to deliver adequate and timely credit to the sector by adopting the these measures : (i) **MOU-DAP** : By signing MOU with state governments and other rural credit institutions to undertake a critical review of their operations and come up with Development Action Plan (DAP) for themselves, (ii) By amalgamation and merger of RRBs so that RRBs with poor track record can be vanished away, (iii) NABARD had created a

Co-operative Development Fund to improve their quality of project formulation computerization, purchase of vehicles for recovery work, HRD, publicity of Kisan Credit Card (KCC) schemes etc. and (iv) It provides Organization Development Intervention through training institutes like Bankers Institute for Rural Development (BIRD) Lucknow, National Bank Staff College, Lucknow, College of Agricultural Bankers (CAB) Pune to the staff of RRBs, CO-operative Banks, NABARD and selected staff of NGOs, working in the field of agriculture and rural development.

2. **Research & Development Fund** : NABARD maintains a Research and Development fund to : (i) Formulate and design the area specific projects, (ii) Upgrade and transfer the technology from labs to land, (iii) Conduct research activities of topical interest in rural banking and economics, (iv) Organize national and international seminars, conferences, symposia etc. on the topics related to rural development and banking, (v) Conduct programmes for upgrading skills of prospective borrowers, and (vi) Provide grants to selected NGOs, research institutes, agriculture universities, KVK etc. to conduct study in the field of agriculture.
3. **Micro Finance through Self-Help Groups (SHGs)** : The success story of Grameen Bank in Bangladesh and such experience of other countries in involving participatory approach to the micro-credit programmes for poverty alleviation provided ground for this type of action in India. Micro finance is a novel approach to the 'banking with poor' as they attempt to combine lower transaction costs and high degree of repayments. Major thrust of these micro-finance initiatives is through the setting up of Self Help Groups, started by NABARD in 1992 with a objective of extending formal banking services to the unreached rural poor by evolving a supplementing credit delivery system in a cost effective manner.
4. **Agriculture Insurance** : In 1999-2000, the Government of India announced National Agriculture Insurance Scheme (NAIS) or Rashtriya Krishi Bima Yojana envisaging coverage of all food crops, oil, seeds, horticulture and commercial crops against

natural calamities both area specific and individual basis. To implement NAIS, Agriculture, Insurance Company of India was established in Dec. 2002 with special participation of NABARD, General Insurance Corporation of India and its four subsidiaries.

5. **Kisan Credit Card** : As a pioneering credit delivery system, Kisan Credit Card Scheme was launched in 1998-99 with the help of NABARD, aims at provision of adequate and timely support from banking system to the farmers for their farming needs in a flexible and cost effective manner.
 6. **Watershed Development Programmes** : NABARD has been actively supporting Watershed Development Programme as a comprehensive approach to enhance productivity of dry land through conserving soil, rainwater and vegetation.
 7. **Women Development** : In order to give focus to women in various developmental activities and to increase their access to institutional credit, NABARD has formulated these programmes : (i) Gender sensitization, (ii) Women Development Cells in co-operative Banks and RRBs, (iii) Assistance to Rural Women in Non-farm Development (ARWIND) for entrepreneurial development among rural women, (iv) Assistance for Marketing of Non-Farm Products of Rural Women (MAHIMA) and (v) Development of Women through Area Programme (DEWTA)
 8. **Development of Weaker Section of Society** : NABARD has introduced special programmes for the uplift of weaker sections of the society like small and marginal farmers, SCs/STs and people below poverty line.
- (C) **Regulatory or Supervisory Function** : Apart from the role of a development bank, NABARD under takes supervisory and regulatory functions in respect of co-operative banks and RRBs under the Banking Regulation Act.
- (D) **Other Functions** : With vast experience in rural and agriculture finance and data pool at its command, NABARD provides consultancy service for various agencies both at national and international level. Rural non-farm sector (RNFs) is a thrust area of NABARD because of its employment generation potential in rural areas. NABARD provides refinance as well as promotional support for development of this sector.

6. Conclusion

In conclusion, it may be said that NABARD has carved for itself a special place in the unfolding story of India's socio-economic development. A journey of this kind has no end. Every mile that we travel throws up new challenges and new opportunities. It is the combination to pause or stop and never to band or yield. NABARD is not just a bank, it is an institution primarily intended to develop agriculture. Hope and trust that NABARD make a world class rural banking a possibility in the country. ★