CHAPTER IV

RURAL DEVELOPMENT INSTITUTIONS AND NABARD

In this chapter, some of the institutions specially created to provide credit to agricultural and allied activities, National Bank for Agriculture and Rural Development are analysed.

Concept of Rural Development

The concept of ‘rural development’ was born in the context of agriculture, and it remained, for a long time, coterminous with agricultural development in India.\(^1\)

Definition of Rural Development

The World Bank defines rural development as a strategy designed to improve the economic and social life of a specific group of people the rural poor. Rural development involves extending the benefits of development to the poorest among those who seek livelihood in the rural areas. The group includes small scale farmers, tenants and the landless. To

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quote from the World Bank. Policy Paper on Rural Development; “A national programme of rural development should include a mix of activities including projects to raise agricultural output, create new employment, improve health and education, expand communication and improve housing”.

Concept of Rural Banks

Prior to 1967, the commercial banks’ locations were highly concentrated in metropolitan cities and other industrial centres. Their business was also limited to only to industrialists, business men, and traders. For all-round development of the economy, measures such social control of banks was tried between 1966 and 1968. Various committees have suggested that the rural institutional credit structure was weak; therefore some system of rural banks should be created to fill up the credit gap in the rural areas. These banks should work for the provision of credit coupled with extension in the rural areas for rural people as such they must be located in rural areas so as to understand the rural economic environment.

Rural Credit Structure

The credit facilities are available to the rural agriculturists and artisans through financial institutional and non-financial institutions


which are as under:

**Financial Institutional:**

- Government,
- Co-operatives, and
- Commercial banks

**Non-Institutional:**

* Professional money lenders,
* Agricultural money lenders,
* Relatives and friends
* Trades and commission agents
* Land lords and
* Others.

Institutional lending or credit refers to credit or loans provided by financial institutions (in contrast to creditor loans given by private individuals like money-lenders, wholesale and retail merchants, landlords and relatives, etc). Like cooperative societies, commercial banks, the RBI, and specially established financial institutions like regional rural banks, farmers’ service societies, land development banks, lead bank schemes and National Bank for Agriculture and Rural Development. Institutional agencies have organized funds at their disposal and intend to meet short, medium and long-term needs of rural sector. This is not the case in respect of private finance. Secondly, institutions follow a set of rules in granting loans. Institutional structure is a century old system in India.
The non-institutional credit sources are considered as exploitative and high cost system. However, they are very much accessible and easily negotiable with the lenders. It is observed that non-institutional source of credit is continued to be an important source in rural areas.

**Chart 1.1**

**Institutional Arrangements for Rural Credit**
CO-OPERATIVE

The co-operative credit structure in India consists of two parts one engaged in short and medium term credit and the other in long-term credit. The former, in each State, is a three-tier structure. The primary agricultural credit societies at the village form the base. It is on this that the whole edifice of co-operative credit is based. They federate into central co-operative banks, usually at the district level. At the State level, these are federated into an Apex bank serving an entire State. The Apex bank, in its turn, is closely linked with the Reserve Bank of India. The long term credit is provided by a Central Land Development Bank for each State at the apex level. The apex banks operate in some cases through Primary Land Development Banks, each serving an area of a taluka or district and where no land development banks exists, its own branches or central co-operative banks functions.

Agricultural Credit Co-operative Structure

Agricultural Credit

Short & Medium Terms
(Three-tier System)

1. State Co-operative Bank
2. Central Co-operative Bank
3. Primary Agricultural Credit Societies

Long Terms
(Two-tier System)

1. Central Land Development Bank
2. Primary Land Development Bank
Thus, it will be seen that co-operative credit structure is a type of pyramid, the broad base of which is represented by the Primary Agricultural Credit Societies at the village level.

**PRIMARY AGRICULTURAL CREDIT SOCIETY**

The Primary Agricultural Credit Society (PACS) is the kingpin of the agricultural co-operative movement in India. PACSs were established in India after the enactment of the Co-operative Societies Act in 1904. The government made attempts to nurture the co-operative movement to institutionalize efforts to relieve farmers from the traditional burden of debt and to promote thrift. Gradually, they assumed a more positive role as compared to their earlier characteristic of organization for defence against exploitation by money lenders. There was not only a steady quantitative expansion in numbers but also a growing diversity in the functions assumed by co-operative societies.

**Functions**

The main functions of the PACSs are to provide short and medium term credit; supply agricultural and other production requirements and undertake marketing of agricultural produce. In addition, the co-operatives help in formulating and implementing a plan for agricultural production for the village and undertake such educative, advisory and welfare functions as the members might be willing to take up.
The PACS are intended to promote the economic interests of its members in accordance with the co-operative principles and this aim is achieved by activities in different directions such as promoting savings among members, providing loans to them, supplying them agricultural requisites and domestic requirements and arranging for the marketing of their agricultural produce.

**Nature of Loans Given**: Only members of a primary co-operative credit society can borrow from the society. Individual members are permitted to borrow from the society and the amount they can borrow is fixed in a definite proportion which is generally one-half of their individual assets. The actual loan given is within this broad limit and depends upon the object for which the loan is taken as also the repaying capacity.

**CENTRAL CO-OPERATIVE BANKS**

In the three-tier credit structure, the PACSs derive their financial strength from the central co-operative banks which operate at the district level. The Central Co-operative Banks work as an intermediary to link the primary societies with the money market. They serve as the balancing centre for adjusting the surplus and deficiency of working capital of the primary societies. The Central Co-operative Banks occupy and form an important position in the co-operative credit structure as they are the important position in the co-operative Bank and the Primary Agriculture
Credit Societies. The success of the co-operative credit movement largely depends on their strength.

**Functions**: The main functions of the Central Co-operative Banks are:

i. To meet the credit requirements of primary member societies for production, marketing and supply operations by arranging a regular of credit to them;

ii. To undertake ordinary commercial banking business (such as acceptance of deposits from the public, collecting bills, cheques, hundies, railway receipts, safe custody of valuables, purchase and sale of securities and advancing loans to individual members against fixed deposit receipts, government paper, gold, silver and agricultural produce in rural areas;

iii. To act as balancing centres for the primary societies by making them available the surplus funds of some societies to those which face shortage of funds and thus equalize the flow of the capital. Their own resources are intended to serve as a cushion to absorb the impact of the defaults and arrears arising at the primary level;

iv. To undertake non-credit activities, such as the supply of seeds, manures, foodstuffs and consumer goods;

v. To maintain close and continuous contact with the primary societies and provide leadership to them;
**Loaning Policy:** Loans are generally advanced to primary credit societies for financing agriculture such as cultivation expenses, purchase of seeds, manure and other requirements for seasonal agricultural operations for a short term (for 12 months); land reclamation, building of cattle sheds, digging and repairing of wells, purchase of cattle and carts for medium term (from 1 to 3 years); for purchase and installation of pumps and oil engines for a medium term (not exceeding 5 years) and for refund of deposits (not exceeding one year). Loans are granted on proper security, land, house mortgage, cattle agricultural produce, gold or ornaments, fixed deposit receipts, life insurance policies, government promissory notes, and pro-notes executed by the borrowing societies. At the society level, the loans are secured by personal security for solvent members and mortgage of lands.

**STATE CO-OPERATIVE BANKS (OR APEX BANKS)**

The State Co-operative Bank is a central institution at the State level which works as a final link in the chain between the small and widely scattered primary societies on the one hand and the money market on the other. It balances the seasonal excess and deficiency of funds and equates the demand for and supply of capital. It takes off the idle money in the slack season and supplies to the affiliated societies and Central Co-operative Banks with fluid resources during the busy season. It is the
vertex of the pyramidal structure in a State for the provision of short and medium term credit to agriculturists on co-operative basis.

**Objectives and Functions**

The chief objectives of the Apex Bank is to co-ordinate the work of the Central Banks and to link co-operative credit societies with the general money market and the Reserve Bank of India. These banks work as real pivots of the Co-operative movement in the State. They act as potential source of credit for seasonal and emergent needs of their members. Their main functions are:

i. To act as bankers’ bank to the Central Co-operative banks in the districts. These banks not only mobilize the financial resources but they also deploy them properly among the various sectors of the movement;

ii. To co-ordinate their own policies with those of the co-operative movement and the government;

iii. To form a connecting link between the co-operative credit societies and the commercial money market and the RBI;

iv. To formulate and execute uniform credit policies for the co-operative movement as a whole;

v. To promote the cause of co-operation in general by granting subsidies to the Central Co-operative Bank for the development of co-operative activities;
Sources of Finance: The primary sources of the working capital of these banks are the share-capital, reserve fund, deposit from members and non-members; borrowing from Reserve Bank of India, State Bank of India, State government and others; and the direct State contributions.

Deposits are obtained from members as well as non-members, individuals and companies and also from local boards, municipalities and educational institutions, in the form of current savings, fixed and call deposits. They also include reserve fund, deposits of affiliated central banks and societies; provident fund deposits of employees and security deposits. The Central Co-operative banks keep their surplus funds as part of their working capital with these banks.

The RBI provides loans to these banks for short-term and medium term purposes. The State Bank of India provides loans for marketing and processing societies, consumer co-operatives and for financing procurement of foodgrains. Overdraft facilities are also granted against government securities, by the State Bank of India for financing their affiliated societies.4

COMMERCIAL BANKS FINANCE FOR AGRICULTURE

Till the late sixties, co-operatives were considered to be the most suitable agency for agricultural financing in terms of official policy

and commercial banks, with their inadequate rural coverage and urban-orientation, were not considered equal to this task. Although co-operatives did grow substantially over the years, yet they were still unable to meet the increasing credit needs of agriculture. Further in the wake of the green revolution in the mid-sixties, with its emphasis on the use of high-cost inputs, credit needs of agriculture were expected to increase rapidly and it was felt that co-operative financial agencies by themselves would not be in a position to handle this volume of credit. A complementary role was, therefore, visualized for commercial banks in the field of rural credit, though co-operative were to continue as the principal agency. Social control over the banks in 1968 and more particularly, the nationalization of major commercial banks in July 1969, provided tremendous momentum to the programme of increasing banking facilities in the rural areas and provision of agricultural credit.5

**STATE BANK OF INDIA**

The State Bank of India opened specialized branches known as ‘Agricultural Development Branches’ (ADBs) at selected intensive centres’ for catering exclusive to the credit needs of agricultural and allied activities.

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These ADBs provide a package of assistance, which decides credit-support including technical and other facilities. These ADBs commence with business plans for their areas of operations covering a period of 2 to 3 years, to start with. These plans are based on the development plan prepared with reference to the potential and local resource of the area and the progress of the plan is reviewed at regular intervals.

The State Bank of India was formed on 1 July, 1955, with the passing of the State Bank of India Act, 1955, by taking over the assets and liabilities of the Imperial Bank of India.

**Functions**

1. The bank performs the general commercial bank functions such as accepting deposits, giving loans, providing remittances, issuing letters of credit etc.
2. It acts as the agent of the Reserve Bank in places where there are no branches of the RBI.
3. It acts as an agent of the registered co-operative banks.
4. It is authorized to purchase and sell of gold and silver.
5. It underwrites the issue of stocks, shares and other securities.

**Lending for Rural Development:** Commercial banks are endeavoring not only to fill the credit gaps in the field of agriculture arising out of the inadequate development of co-operatives but are also seeking to
contribute to agricultural development by systematically preparing programmes of development suitable to the resource-base of the area. During the last few years, they have contributed substantially to the development of irrigation, mechanization, land development programmes as also to activities allied to agriculture such as horticulture dairying, etc. For this purpose, the commercial banks have appointed a large number of technical experts for systematically studying the problems of agricultural growth and rural development.  

THE LAND DEVELOPMENT BANKS

The Land Development Banks (LDBs) have a two-tier structure with central Land Development Banks at the state level and Primary Land Development Banks at the tehsil, sub-divisional / district level. They supply long-term credit to the cultivators. The Primary Co-operative Credit Societies cannot advance long-term loans as they themselves draw their funds from the Central Co-operative Bank for short and medium-terms. The Co-operative also lack necessary expertise to evaluate property in order to advance long-term loans. Commercialisation of agriculture requires long-term finance. Hence, the need for land development banks.

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Management of LDBs

The management of the LDBs vests in a Board of Directors consisting of 7 to 9 members. In some states, 2 to 3 Directors are nominated by the Government. In the case of Primary LDBs, one Director is nominated by the Central LDB. The members of the Board work for three years.

Regarding finances, the Primary LDBs depend on:

i. Share capital;
ii. Loans from Central LDBs;
iii. Admission and other fees;
iv. Grants and subsidies from the government; and
v. Borrowings from other agencies.

The central LDBs get funds from

i. Share capital;
ii. Floating of debentures on the security of its assets and mortgage bonds transferred by primary LDBs to it;
iii. Loans from State Bank of India on the guarantee of state government;
iv. Admission and other fees;
v. Grants and subsidies;
vi. Deposits; and
vii. Other funds.\(^7\)

**FARMER’S SERVICE SOCIETIES**

The National Commission on Agriculture has recommended the organization of Farmer’s Service Societies (FSS), one for each block or any other viable unit of convenient size. The strength of FSS lies in the fact that they take into account, a comprehensive view of the problems of the small farmers. As is well known, the small and marginal farmers require not only credit but timely availability of inputs and ancillary services, along with technical advice and services such as storage, transportation, processing and marketing, preferably through a single contact point. These societies have been organized since 1973-74 to meet the above mentioned requirements of poor farmers. The National Commission on Agriculture has recommended a programme of establishing 2,500 such societies over a period of six years, commencing from 1974 with a capacity to form new societies at the rate of 1,000 per years. However, by the end of June, 1979, there were only 1,200 FSSs in the country.\(^8\)

**THE COMMERCIAL BANKS**

The banking sector in India has undergone sea-change during

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the past quarter century. It has emerged as one of the important agents of rural development. Gone are the days when commercial banks were only ‘purveyors of credit’, now they are catalytic agents in the nation’s economic progress. It is for this reason that 14 major commercial banks were nationalised in July, 1969 and six more were nationalised in April, 1980. Efforts are also being made to see that at least 50 per cent of the institutional credit goes to weaker sections. Separate sub-targets have been prepared for the weaker sections and further within this group for the landless labourers, artisans etc.

The social objectives would be achieved through (i) rapid expansion of banking services through vigorous branch expansion programme specially in the unbanked and neglected areas and (ii) the provision of adequate liberal finances to the ‘priority sector’ which includes most neglected areas such as agriculture, small scale industries, professional and self-employed persons, education, transport operators etc.9

THE LEAD BANK SCHEME

The institutional credit available should be not only adequate, but it should reach all regions, sectors and sections in due proportions. In other words, the services of the banking sector should be shared by all. Special efforts are needed to achieve this objective.

In 1967, the Gadgil Study Group suggested the adoption of area approach to banking development under which commercial banks would be assigned particular districts where they were to act as pace-setters, providing integrated banking facilities. In August 1969, the Reserve Bank of India (RBI) had appointed a Committee of Bankers under the chairmanship of F.K.F. Nariman which made specific recommendation for setting up lead banks, for each of the underdeveloped districts. Accordingly, the lead bank scheme was introduced in December, 1969.

The RBI allotted various districts in the country, other than metropolitan centres and Union Territories Delhi, Chandigarh and Goa, Daman and Diu, to the public sector banks and three private sector banks. The lead banks would take the lead in surveying the potential for banking development, extending credit facilities after locating viable and potentially viable propositions and mobilising deposits out of rising levels of income.

Scope and Objectives

Over the years, the lead bank scheme has undergone a distinctive transformation and attained qualitative dimensions. The lead banks were expected to:

i. Carry out impressionistic surveys of the districts concerned;

ii. Identify growth centres for opening branches;

iii. Locate credit gaps;

iv. Formulate suitable schemes for growth; and
v. Prepare district credit plans to meet the credit requirements of the district in a manner in collaboration with other financial institutions at the district level.

Following the recommendation of the Western Area Regional Consultative Committee, the RBI has appointed two study groups in August, 1975 for Uttar Pradesh and Madhya Pradesh to suggest guidelines for effective implementation of the lead bank scheme. The reports of these study groups (submitted in January 1976) felt that while branch expansion under the lead bank scheme was impressive, the collaborative effort between various financing and development agencies has not been up to the mark.

Under the district credit plan, the responsibility of the lead bank includes:

i. Formulation of bankable projects/schemes;

ii. Implementation of developmental programmes in collaboration with other agencies;

iii. Monitoring the progress of implementation; and

iv. Evaluation of the progress achieved in relation to targets committed and an assessment of the impact of the credit plan on the district economy. The task of the lead bank is to bring about better co-ordination among the participating financial institutions and between them and the government agencies in the districts.
The major objectives of the lead bank scheme are:

i. To specify suitable areas for branch expansion;

ii. To formulate a phased programme for expanding the branch offices with the object of providing banking facilities to the entire area covered.

iii. To earmark the potential area for promoting agriculture and small scale industries schemes inducing local entrepreneurs;

iv. To assess the major constraints on the development of the district and to induce the appropriate agencies for taking up the follow-up remedial action; and

v. To experiment with financial schemes which can help in mobilizing deposits and promoting investment among the local people.\(^{10}\)

**REGIONAL RURAL BANKS**

The Regional Rural Banks (RRBs) came into being under the 20-Point Economic Programme launched in 1975. Earlier, the Banking Commission, appointed by the Government to study the structure of banking development in India, mooted the idea of setting up RRBs in its report in 1972. The Government reviewed the recommendations of the Banking Commission, and appointed the Narasimham Study Group on July

1, 1975. It submitted the report in just 30 days and favoured the setting up of RRBs.

The Government of India promulgated the RRBs ordinance dated 26th September, 1975 which was subsequently replaced by the Regional Rural Banks Act, 1976. On October 2, 1975, five RRBs were established in four states: 2 in Uttar Pradesh, one at Moradabad by the Syndicate Bank and the other at Gorakhpur by the State Bank of India; one in Rajasthan by the United Commercial bank; one in Bhiwani (Haryana) by the Punjab National Bank and one in Malda (West Bengal) by the United Bank of India.

The RRBs were established with a view to developing the rural economy by providing for the purpose of development of agriculture, trade, commerce, industry and other productive activities in the rural areas, credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans, small entrepreneurs and for matters connected therewith and incidental thereto.

The RRBs are somewhere in between the public sector banks and the co-operative structure. They combine in themselves the characteristics of both these institutions and are expected to play a supporting role in districts where the credit gap is very large and the co-operative structure is weak. In setting up RRBs, certain norms have to be observed. These are:
— Areas should be relatively backward or tribal;
— RRBs are to be set-up in areas where the co-operative banks are not active;
— There should not be any commercial bank in the area; and
— The area should have a real potentiality for development breakthrough with the flow of credit.

While recommending the setting up of RRBs, the Working Group on Rural Banks appointed by the Government in 1975 opined that each RRB combines in itself the “local feel and familiarity with rural problems which the co-operative possessed and the degree of business organization, ability to mobilize deposits, access to central money markets and a modernized outlook which the commercial banks have”.

**Functions of RRBs**

A rural bank was described as “a primary banking institution set-up to serve a compact group of villages generally working as a co-operative bank, or as a subsidiary of a commercial bank”, and its object would be “to provide at one place the special type of credit and banking facilities and related services needed by agriculturists and other rural producers”.

The functions of RRBs are:

i. To mobilize local savings;
ii. To provide short-term and medium-term credit for agricultural and other purposes on its own and long-term credit as agents of the Land Development Banks;

iii. To implement programmes of supervised credit tailored to the needs of individual farmers;

iv. To provide various ancillary banking services to local people;

v. To set-up and medium godowns\textsuperscript{11};

**NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)**

Reserve Bank of India (RBI) combined diverse functions and duties including rural credit. RBI could not devote sufficient attention to the details of complex credit problems of integrated rural development in the midst of its multifarious and growing responsibilities in various other fields. This was the problem of RBI until 1981. In order to rectify this problem, National Bank for Agriculture and Rural Development (NABARD) was established in July 1982 on basis of the recommendations of the Sivaraman Committee (1978). Since then, NABARD has taken over and decentralized the RBI’s functions in the sphere of rural credit for the promotion of agriculture, small scale industries, Cottage and village industries, handicrafts and other rural crafts and allied economic activities in rural areas.

The NABARD, the apex bank has been envisaged as an organizational device to provide undivided attention, forceful direction and a pointed focus to the credit problems arising out of an integrated approach to rural development. On its establishment, NABARD has taken over from the RBI its refinancing functions in relation to State Co-operative Banks and Regional Rural Banks. The Bank is now the Co-ordinating agency in relation to the Central Government, planning Commission, State governments and institutions at all India and State levels engaged in giving effect to the various policies and programmes relating to rural credit.

As a development bank for the rural sector, NABARD will have special responsibility to ensure that the training facilities for the bank staff engaged in rural lending are adequate. To the extent that the training schemes are sponsored and financed by the Agricultural Refinance and Development Corporation (ARDC), these will automatically stand transferred to NABARD. This is a field in which the RBI should continue to take active interest and take the necessary measures to strengthen the efforts of NABARD at improving and expanding the training facilities for project and programme lending.

**Need, Objectives and Credit Functions of NABARD**

Then the Finance Minister, Shri R. Venkatraman said that the National Bank for Agriculture and Rural Development is being established for “providing credit for the promotion of Agriculture, small scale
industries, cottage and village industries, handicrafts and other rural crafts, other allied economic activities in rural areas with a view to promoting integrated rural development and securing property to rural areas\textsuperscript{12}. For this purpose agriculture includes horticulture, animal husbandry, forestry, dairy and poultry farming and other allied activities whether or not understand jointly with agriculture. The Bank has started functioning from 12\textsuperscript{th} July, 1982.

The need for an Agriculture Development Bank (on the lines of the Industrial Development of India) or a National Co-operative Bank or a National Bank of Agriculture and Co-operative was being felt and discussed during the last 8-9 years. In fact, the Indian Co-operative congress had passed long time back a resolution for the settlement of National Co-operative bank, but it is this recommendation of the Committee on which Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was appointed by the Reserve Bank of India in March 1979 and which submitted its Interim Report in November 1979, that the NABARD Act was passed in July 1982 and the bank has been set up\textsuperscript{13}.

**Objectives of NABARD**

The NABARD is an apex development bank which provides

\begin{itemize}
\item \textsuperscript{12} The Economic Times, dated June 26, 1982.
\item \textsuperscript{13} Tyagi, B.P., Agricultural Economics of Rural Development, Chand Publication, New Delhi, pp.662-668.
\end{itemize}
help for agricultural and rural development. It has been established with the following objectives:

1. To give undivided attention and purposeful direction to integrated rural development;
2. To act as a centre piece for the entire rural credit system at the national level;
3. To act as a provider of supplemental funding to rural credit institutions;
4. To arrange for investment Credit to small industries, village and cottage industries, handicrafts and other rural Crafts, artisans and farmers.
5. To improve the credit distribution system by institution building, rehabilitation of credit institutions and training of bank personnel;
6. To provide refinance facilities to State Land Development Banks (SLDBs), State Co-operative Banks, (SCBs), Regional Rural Banks (RRBs) and Commercial Banks (CBs) for development purposes in rural areas;
7. To Co-ordinate the working of different agencies engaged in development work in rural areas at the regional level, and to have liaison with Government of India, RBI, State Government and other policy making institutions at the national level; and
8. To inspect, monitor and evaluate projects getting refinance from the NABARD\(^{14}\).

It was indeed a singular misfortune of the Indian Agricultural Banking System that it did not have a national level component at the top even after three and a half decades of country’s independence. The Reserve Bank of India set up a Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) which submitted its interim Report in November 1979. The CRAFICARD made recommendations for the establishment of NABARD as an apex institution for agricultural financing.

The NABARD was established on 12\(^{th}\) July, 1982 as an outcome of amalgamation of past of Agricultural Credit Department of the Reserve Bank and whole of Agricultural Refinance and Development Corporation. The NABARD has a share capital of Rs. 100 crores to start with and the amount is to be raised to Rs 500 crores. The NABARD is empowered to borrow from the Government. It can also borrow foreign currency\(^{15}\).

**Management of NABARD**

The management of NABARD is vested in the Board of Directors consisting of:

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a. A chairman
b. Two directors from amongst experts in rural economics and rural
development, etc
c. Three directors out of whom two will be persons with experience in
   Co-operative Banking and one with experience in commercial
   banking.
d. Three directors from out of the directors of the Reserve Bank
e. Three directors amongst the official of the Central Government
f. Two directors amongst the official of the State Government
g. A managing director, and
h. One or more whole time directors if and when appointed by the
   Government.

The chairman as well as the Managing Directors will have a
five years term whereas each director’s term will be 3 years.

Sources of Funds

1. NABARD has a share capital of Rs. 100 crores contributed by
   the Union and the Reserve Bank on a 50 : 50 basis
2. For its long term operations, NABARD will draw funds from the
   Government of India, the World bank and other multilateral and
   bilateral agencies and the market.
3. Another source of long term operation will be ‘National Rural
   Chit Fund’ that NABARD will maintain and to which will be
transferred the ‘National Agricultural Credit (Long term operations) Fund’ of the Reserve Bank of India, with further contributions to the fund every year.

4. For the purpose of converting short-term loans into medium-term loans, funds will be drawn from National Rural Credit (stabilisation) Fund to which will be transferred the National Agricultural Credit (stabilisation) fund of the Reserve Bank of India with further contribution made to it every year.

5. For its short term operations, it will draw funds mainly from the Reserve Bank.

6. A ‘Research and Development Fund’ will be created and maintained through contribution from profits every year.

**Functions of NABARD**

The functions performed by NABARD can be divided into three groups.

a. Distribution of credit

b. Development functions; and

c. Regulatory functions.

**Distribution of credit**

The NABARD provides refinance facilities to different institutions in the following manner.
Short term credit

It provides short term facilities to state Co-operative banks, Regional Rural Banks and other financial institutions approved by the Reserve Bank of India. The purpose for which short-term credit is being provided by NABARD are:

a. seasonal agricultural operations;

b. marketing of agricultural produce;

c. marketing and distribution of agricultural inputs;

d. other activities related to rural / agricultural development;

e. rural commercial trade activities and;

f. production and marketing of handicraft goods produced by small industries and village and cottage industries, craftsmen and artisans. Theses short term loans are provided for a period ranging up to 15 months.

Short Term Credit

It provides medium term credit to various institutions for a period ranging between 18 months and 7 years for investment projects in the area of agriculture and rural development.

Long Term Credit

It provides refinance facilities to the institutions indicated above for investment in – minor irrigation, land development, soil conservation, dairy development, poultry farming, pig and sheep rearing,
farm mechanisation, afforestation, fish farming, storage and market yard, agricultural operations through aeroplane, biogas and other alternative sources of energy, silk production, bee-keeping, cattle driven carts, compost equipment, pumpset etc. The duration of such loan is for a period up to 25 years.

**Refinancing of Industries in Rural Areas**

The NABARD provides refinance to all small, village and cottage industries in rural areas.

**Facilities for Rearrangement**

In the event of changes and rearrangement of credits, when there are natural calamities like drought and famine army as enemy operations etc., the NABARD provides refinance to State Co-operative Banks and Regional Rural Banks for a period not exceeding 7 years – NABARD also provides these facilities to provide loans to artisans, small industries, etc.

**Developmental Functions**

The following development functions are performed by NABARD –

i. Co-ordination of rural credit institutions;

ii. institutions building for the improvement of capacity of credit delivery system;
iii. developing specialisation for solving the problems relating to agriculture and rural development efforts;

iv. performing agency functions on behalf of the Government and the Reserve Bank for monitoring and evaluating the work in agricultural related activities;

v. providing facilities for research in agricultural and rural development activities out of its Research and Development fund. The training facilities are provided in the field of rural banking, agriculture and rural development through Bankers of Rural Development Institute and National Bank staff colleges at Lucknow, Bhopal, and Mangalore and college of Agricultural Banking at Pune;

vi. disseminating information regarding, rural banking and development;

vii. helping the State Government in subscribing to the Share capital to State Co-operative banks;

viii. providing direct credit in cases, approved by the Government of India, connected with agriculture and rural development; and

ix. maintaining an Easy Credit Aid Fund out of its profits so that entrepreneurs getting refinance facilities for village, cottage and small industries may be provided margin money. This is
interest free and is recovered in annual instalments after the
loan has been fully repaid.

**Regulatory Functions**

The following regulatory functions are performed by the
NABARD:-

i. It undertakes inspection of regional rural banks and of Co-
operotive banks except the primary agricultural credit societies,
apex co-operative marketing federations, state handloom
weaving societies etc.,

ii. Applications for opening of a branch by the regional rural bank
as Co-operative bank other than the primary agricultural credit
societies, are to be submitted to the Reserve Bank of India
through the NABARD; and

iii. The NABARD is empowered to obtain any information or
statement from the Co-operative banks and the regional rural
banks, that it may deem necessary.

**Recent Additions to the Functions of NABARD**

During recent years, NABARD has extended its functions
and made them more broad based. These additional functions have been
undertaken by NABARD both in the agricultural sectors as well as in the
non-agricultural sector. These functions are;
Agricultural Sector

The additional programmes undertaken by NABARD in the agricultural sector include;

i. Refining and updating the potential Linked Credit plans and synthesising them with the service Area plans;

ii. introducing full refinance scheme in districts where such synthesis has been completed;

iii. rationalising and liberalising the eligibility criteria for refinance of term credit;

iv. rationalising interest rate structures;

v. issuing guidelines to banks on new schemes for diversification of lending for the development of agriculture;

vi. introducing Self-Help Groups Scheme for the provision of institutional credit to weaker sections; and

vii. creating a Co-operative Development Fund to strengthen institutional activities.

Non-Agricultural Sector

The programmes initiated in the non-agricultural sectors include;

i. introducing Small Road Transport Scheme under which automatic refinance is provided to banks for financing vehicles for
transporting farm produce and products of village industries for marketing;

ii. providing finance to commercial banks for projects of financing non-agro small industrial units;

iii. helping khadi and village Industries Centres in modifying their schemes to bring them in conformity with banking norms and becoming eligible for automatic refinance facility;

iv. setting up an Advisory Committee in its office to advise in the formulation of policy to promote non-agricultural sector and to introduce new schemes;

v. appointing technical experts in non-agricultural sector in its offices for identifying, formulating and appraising schemes and for conducting surveys for assessing industrial potential;

vi. formulating District Rural Industries project, and;

vii. creating Agriculture and Rural Enterprises Incubation Fund

On the establishment, The National Bank has taken over the entire undertaking of the Agricultural Refinance and Development Corporation and has taken over from the Reserve Bank its refinancing function in relation to the State Cooperative Banks and the Regional Rural Banks.

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This Bank is now the coordinating agency in relation to the Central Government, Planning Commission, State Government and institutions of all-India level and State level engaged in the development of small-scale industries, village and cottage industries, rural crafts, etc., for giving effect to the various policies and programmes relating to rural credit.

The Bank will undertake all types of credit functions – (a) production and marketing credit, (b) loan conversion, (c) rescheduling of loans, (d) investment credit (medium term), (e) other investment credit, (f) loans to State Government for share capital, (g) they may make direct loans, (h) It can also issue guarantees.

The Bank has powers (a) to coordinate the operations of various institutions engaged in the field of rural credit, (b) to act as agent of the Government of Reserve Bank of India, (c) to provide facilities for dissemination of information and the promotion of research. There is a special provision for the creation of a Research and Development Fund to which the banks, annual surplus will be credited for the first 15 years. The Banks income, profits or gains are free from taxation.

It took over the functions of the erstwhile Agricultural Credit Department, Rural Planning and Credit Cell of the Reserve Bank of India and Agriculture Refinance and Development Corporation. It subscribed and paid-up capital stands at Rs. 330 crore at the end of March 1995,
contributed by the Central Government and the Reserve Bank of India in equal proportions at various phases. NABARD was established for providing credit for promotion of agriculture, small scale industries, cottage and village industries, handicrafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas.

NABARD as the apex institution, is concerned with all policy planning and operations in the field of credit for agriculture and other economic activities in the rural areas. Its functions are to: (i) serve as an apex refinancing agency for institutions providing investment and production credit for promoting various development activities in the rural areas; (ii) take measures towards institution building for improving absorptive capacity to credit delivery system including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.; (iii) coordinate rural financing activities of all institutions engaged in the development work at field level and maintain liaison with Central/State governments, Reserve Bank of India and other national institutions concerned with policy formulation and also (iv) undertake monitoring and evaluation of project refinanced by it.

NABARD provides refinance to the state land development banks, state cooperative banks, scheduled commercial banks and regional rural banks, while the ultimate beneficiaries of investment credit can be
individuals, partnership concerned companies, state owned corporations etc. During 1995-96, NABARD sanctioned short-term credit limits aggregating Rs. 4,750 crores to state co-operative banks for financing seasonal agricultural operations as compared to Rs. 3,753 crore sanctioned during 1994-95. NABARD also disbursed Rs. 665 crore as refinance assistance to regional rural banks. The total disbursement of NABARD during 1995-96 to the commercial banks for various purposes was Rs. 842 crore.  

**Role of NABARD**

The establishment of NABARD on July 12, 1982, marked a landmark in the development of Indian agriculture in general and warehousing in particular. It holds out a new hope for the rapid development of warehousing in the states.

In view of the pronounced inadequacies of owned capacities of the State warehousing Corporations and the Consequential adverse effect on the growth of post-harvest agricultural infrastructure, the NABARD can almost play a historical role in pushing up scientific public warehousing efforts in the country. Instead of toeing the conventional line, it must assume a positive role in providing credit stimulus as well as credits for the construction of new godowns to various State Warehousing

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Corporations. It can and should provide credit stimulus to State Warehousing Corporations to increase their owned capacities. Earlier, when no bank finance was available for storage, there was hardly any question of credit stimulus in the field. The ARRC provided it in a limited way; but the NABARD can provide credit stimulus in a big way indeed.

In so far as the provision of investment credits for storage is concerned, the NABARD can resort to the open money market and float debentures for the purpose, even if it does not get concessional IDA credits. It is already a priority sectors finance and it would not at all be a problem for Government to guarantee the debentures. Economic assistance in the field can also be availed of from the International Agricultural Development Fund, the FAO, the Kredinstalt, the Asian Development Bank and the EEC – Even if no international aid or loan is available, the NABARD can mobilise adequate resources for storage finance within the country itself.

Selling credit is an art and that too, not necessarily at the expense of the borrowers. The borrowing institutions have to be taught proper techniques for the formulation of viable project reports. The NABARD will have to take an initiative for this purpose, and develop a number of modalities for project formulation which are suitable for different regions in the country with due regard to topographical and
ecological variations. This is indeed badly needed to match the willingness of the borrowing agencies to go in for investment credit for storage.

The provision of long-term credit for storage on the basis of properly formulated project reports necessarily implies a large amount of project discipline in the disbursement as well as a proper utilisation of credit. Appropriate technical consultancies will have to be made available to the beneficiaries by the NABARD so as to achieve an optimum productivity for its lendings. These consultancies should be made available on a regular basis for purposes of project implementation as well as for the evaluation of the on-going projects. The NABARD will have to equip itself with the necessary technical staff, which may be a charge on the various projects on a pro rata basis. As income generation from the newly – created assets in the shape of godowns is an important determinant of the total repayment schedule of the borrowed loans, this may provide an impulse to the borrowing warehousing corporations to rationalise and modernize their storage charges structure. The adoption of economically appropriate tariff structure has to be an essential ingredient of any storage project financed by the NABARD. For purposes of project execution and appropriate funds, materials, time and personal management, the NABARD may insist on the provision of suitable managerial cadres in the corporations at the base,
intermediate and top levels. This may be done in consultation with the central warehousing corporation\textsuperscript{18}.

This chapter helps to understand the rural development institutions and the objectives, functions, need and role of NABARD.