CHAPTER – I
INTRODUCTION AND DESIGN OF THE STUDY

India lives in villages is true even to-day as it is the mainstay of teeming millions in total areas of the country. Agriculture is the main source of sustenance for people and major source of input for Indian industry. The increase in production and productivity of agriculture sector is imminent to maintain a balance in economic, social and political spheres. But the increase of productivity by employing modern technology and using factor inputs will not be possible without sufficient and timely credit. Finance is a means to economic empowerment, Agriculture, small scale industry or service operations all need funds for its setting up and continuous operations[1], the share of agriculture credit was too low as against its demand as well as other sectoral credits provided by banking institutions. Measures of various kinds including strengthening of cooperatives, social control of banks, nationalization of commercial banks, and introduction of RRBs followed by administrative reforms have been initiated to improve the rural credit scenario. Despite the steps initiated by the Government and RBI the problems could not be solved fully due to its complexity.

One more step in this direction by the Government was the appointment of a Committee to Review Arrangement for Institutional Credit for Agriculture and Rural Development (CRAFICARD) headed by Dr. B. Sivaraman to study rural credit structure and recommend suitable measure to meet the existing challenges. It recommended the establishment of National Bank for Agriculture and Rural Development (NABARD). Since its inception in 1982, the NABARD has been striving to fulfill its objectives.
To understand and analyze different aspects like the background for the establishment of NABARD, its achievements during the last 15 years, the gaps between expectation and performance and the remedial action needed for rectification, at the present juncture, a micro level empirical study covering the operations of NABARD in Sivagangai District is undertaken.

**Indian Agriculture**

Importance of the rural economy in India was eloquently recognized by Mahatma Gandhi with the concept of village Swarajya as the ultimate goal of independent India. According to him, India will perish, if villages perish.

India is a country of 5.76 lakh villages. Every four out of five persons’ in village depend upon agriculture and other activities for their livelihood. According to the All India Rural Credit Survey, “India is essentially rural India and it is virtually the cultivators”. Indian agriculture which provides livelihood for majority of the country’s population also contributes to overall economic growth through supplies of food, raw material and exports and has been experiencing a substantial impact of science and technology since mid – sixties by achieving a break-through in production and productivity. Thus, rural sector is the backbone of Indian economy. In spite of the industrialization in the country, agriculture occupies a pride of place in the overall economy as it provides employment to about 62 percent of its population even now.
Concept and Definition 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. 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 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 and Rural credit structure

Prior to 1967, the commercial banks’ locations were highly concentrated in metropolitan cities and other industrial centers. Their business was also limited to only to industrialists, businessmen 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.
The credit facilities are available to the rural agriculturists and artisans through financial institutional and non-financial institutions which are as under:

A. Financial Institutional

i. Government

ii. Co-operatives and

iii. Commercial banks

B. Non-Institutional:

i. Professional money lenders

ii. Agricultural money lenders

iii. Relatives and friends

iv. Trades and commission agents

v. Land lords and

vi. 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**

- **Commercial Banks**
  - Rural Branches
  - Long-term credit (investment credit)
    - Federal Structure
      - State-level Agriculture and Rural Development Banks
        - Primary and Development Banks
  - Regional Rural Banks
    - Branches
      - Short-term credit (Production credit)
        - Unitary Structure
          - State-level Agriculture and Rural Development Banks
            - District Central Co-operative Banks
              - Primary Agriculture Credit Societies

**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, they 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.

Chart 1.2

**Agricultural Credit Co-operative Structure**

<table>
<thead>
<tr>
<th>Short &amp; Medium Terms (Three-tier System)</th>
<th>Long Terms (Two-tier System)</th>
</tr>
</thead>
<tbody>
<tr>
<td>State Co-operative Bank</td>
<td>Central Land Development Bank</td>
</tr>
<tr>
<td>Central Co-operative Bank</td>
<td>Primary Land Development Bank</td>
</tr>
</tbody>
</table>

Primary Agricultural Credit Societies

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. PACS 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 PACS 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 centers 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;

*Loan 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 promissory 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 (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 food grains. Overdraft facilities are also granted against government securities, by the State Bank of India for financing their affiliated societies.

**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.
The Commercial Banks

The banking sector in India has undergone sea-change during 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 nationalized 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.

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.

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**

i. The bank performs the general commercial bank functions such as accepting deposits, giving loans, providing remittances, issuing letters of credit etc.

ii. It acts as the agent of the Reserve Bank in places where there are no branches of the RBI.

iii. It acts as an agent of the registered co-operative banks.

iv. It is authorized to purchase and sell of gold and silver.

v. 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, 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. Commercialization of agriculture requires long-term finance. Hence, the need for land development banks.

**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:

1. Share capital;
2. Loans from Central LDBs;
3. Admission and other fees;
iv. Grants and subsidies from the government; and

v. Borrowings from other agencies.

The central LDBs get funds from

a. Share capital;

b. Floating of debentures on the security of its assets and mortgage bonds transferred by primary LDBs to it;

c. Loans from State Bank of India on the guarantee of state government;

d. Admission and other fees;

e. Grants and subsidies;

f. Deposits; and

g. Other funds.⁹

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.\textsuperscript{10}

**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 of Lead Banks

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

1. Carry out impressionistic surveys of the districts concerned;
2. Identify growth centers for opening branches;
3. Locate credit gaps;
4. Formulate suitable schemes for growth; and
5. 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.¹¹

**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 a 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 break through 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;\(^{12}\)
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

Former 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”\(^\text{13}\). For this purpose agriculture includes horticulture, animal husbandry, forestry, dairy and poultry farming and other allied activities whether or not understood jointly with agriculture. The Bank has started functioning from 12\(^{th}\) 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.\(^\text{14}\)
**Objectives of NABARD**

The NABARD is an apex development bank which provides help for agricultural and rural development. It has been established with the following objectives:

a. To give undivided attention and purposeful direction to integrated rural development;

b. To act as a centre piece for the entire rural credit system at the national level;

c. To act as a provider of supplemental funding to rural credit institutions;

d. To arrange for investment Credit to small industries, village and cottage industries, handicrafts and other rural Crafts, artisans and farmers.

e. To improve the credit distribution system by institution building, rehabilitation of credit institutions and training of bank personnel;

f. 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;

g. 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 to inspect, monitor and evaluate projects getting refinance from the NABARD.15
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 12th 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.\(^{15}\)

The National Bank for Agriculture and Rural Development (NABARD) is the apex organization with respect to all matters relating to policy, planning and operational aspects in the field of credit for the promotion of, agriculture and allied activities in rural areas. The bank provides refinance to various banks for their term lending operations for the purposes of agriculture and rural development.

The National Bank of Agriculture and Rural Development (NABARD) has emerged as an apex refinancing institution for agricultural and rural credit in the country since July, 1982. It has taken over the refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural
Banks. It has also taken over the ARDC (Agricultural Refinance and Development Corporation), developing a strong and efficient credit delivery system which is capable of taking care of the expanding and diverse credit needs for agriculture and rural development was a task that received the attention of NABARD. NABARD is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association (IDA). There are some other International Aid Agencies which provide assistance to NABARD in respect of various projects. NABARD has been associated with the implementation of 42 projects with external credit out of which 38 projects are assisted by World Bank and its affiliate, i.e. IDA and International Bank for Reconstruction and Development (IBRD).

On 12th July 2012, NABARD completed 30 years. During these three decades, NABARD evolved from a refinancing agency, to an institution which ‘thinks’ and ‘executes’ agriculture and rural development. Though NABARD is a financial institution, it is ‘people centric’ in conceiving, piloting and mainstreaming a range of initiatives, products and delivery methodologies. Though terminology like inclusive growth might not have been coined back then, NABARD’s efforts were indeed towards inclusive growth.

Activities of NABARD now range widely, from formation of financial capital to building social capital, from infrastructure finance to micro-finance, from credit planning to supervising and building up rural financial institutions and helping them find their own space in the overall banking architecture. NABARD, thus, balances its finance and development functions in sync with the financial and
real sector challenges relating to agriculture and rural development. With declining growth, persistent inflation, mounting current account deficit and other structural constraints, the year 2012-13 was a struggle for the Indian economy, as also for the agriculture sector. Land holding size is shrinking. Stagnating incomes are threatening small farmers’ viability. Investments in agriculture – especially in rural infrastructure - need to be stepped up. Post production and marketing management issues need to be addressed urgently. Credit absorption capacity has to increase and flow of credit has to sustain. These challenges are formidable. NABARD tried to address these through its finance and development initiatives.

The growth in the balance sheet, however, has a qualitative dimension too! Be it crop loans or investment finance for creating asset or supporting rural infrastructure, all targets set have been achieved. The major institutional development achievement during the year was bringing about 3,500 branches of STCBs and CCBs on the CBS platform. This was a distant dream for most of the co-operative banks, until NABARD stepped in. Bringing them on CBS and linking them to the payments system at the ATM network has not only removed the threat to their very existence, but has given them a new direction and the armour to carve out their own new business space Watershed and tribal development efforts continued. Nurturing and supporting SHGs, joint liability groups of marginal and tenant farmers, creating producers’ organizations and arranging bank linkages for all of them was at the top on the agenda. Creating livelihood avenues through skills development was aimed at diversifying rural economy. Recognizing that rural innovations are going to play a strategic role in rural India’s growth story,
NABARD instituted Rural Innovations Awards to commemorate completion of its 30 years. These awards reflect NABARD’s commitment to the spirit of innovation which tried to improve efficiency and productivity using local resources. In recognition of its efforts in natural resource management, NABARD has been accredited as the National Implementing Entity by the Adaptation Fund Board of the United Nations Framework Convention on Climate Change (UNFCCC) for taking up Climate Change initiatives in the country. NABARD is the only agency from India and 12th in the world to be so accredited, which will allow NABARD to directly access funds from the Adaptation Fund Board for its own programs as also for its channel partners. A new recruitment and selection policy has been introduced to strengthen and maximize the human resource potential to meet the emerging challenges of the Institution. Implementing the Human Resources Management System (HRMS) has helped in centralizing all administrative process, resulting in reduced.

The concern for the ‘excluded’ has been the driving force for NABARD and using the ‘people centric’ approach to promote agricultural growth and development has been its strategy. This strategy involves: creating ground level peoples’ institutions; nurturing them; building their capacity; developing pilots for delivery of development inputs; linking these institutions to existing banking institutions; creating financial endowments and paving the way for up-scaling. In fact, some of the endowments created are out of the surplus earned out of its business or NABARD, thus, business for development becomes the philosophy. The resource poor regions, the rural poor, women, tribal’s which were largely
excluded from the mainstream development efforts, have remained the focus of NABARD’s area-specific, gender-specific, group-specific interventions. It is in this sense of its development philosophy and the strategy, NABARD has been striving for ‘inclusive growth’ even when the word inclusive growth was not coined. NABARD’s development initiatives in the year 2012-13 could be viewed in this perspective. NABARD’s development initiatives are diverse and can be viewed in three different dimensions, viz., the farm sector, non-farm sector and the micro finance and financial inclusion. The farm sector initiatives revolve around natural resource management, productivity increase and technology transfer. The non-farm sector initiatives focus on supporting marketing, developing clusters and promoting entrepreneurship and rural innovations. Up-scaling micro finance programme and financial inclusion with focus on information and communication technology initiatives is the third dimension of NABARD’s development efforts. Inclusive natural resource management for sustainable agricultural growth “Man despite his artistic pretensions and many Accomplishments owes his existence to a six-inch layer of top soil and the fact that it rains.” (Old Chinese proverb) Development of input intensive irrigated agriculture got policy priority in the wake of food security concerns. But soon it became clear that the strategy would be inadequate, as large tracts of resource poor regions (and farmers) would remain excluded in the growth process, leaving sustainable and balanced agricultural growth unaccomplished. Recognizing this, NABARD’s response to rain-fed and dry land agriculture was development of watersheds. Watershed, technically is only ‘catching the rain where it falls’, but, NABARD involved people, leveraged their participation for planning, executing and managing it. Development of a micro watershed under the
NABARD’s Watershed Development Programme passes through different phases (at times, not very water-tight).

The first phase, known as Capacity Building Phase (CBP), deals with mobilization of community to ascertain its willingness to participate in the project and also to build its capacity to implement the same. Towards the end of CBP, feasibility study of the project is conducted which is considered as Feasibility Study Report (FSR) stage. This is basically a planning stage for each land holding, commons and drainage line treatments which leads to a detailed Project Report indicating various structures, activities required in the watershed area.

The FSR comes out with the pros and cons of the project implementation and its feasibility from economic and social aspects. On the basis of FSR, the project then moves to Final Implementation Phase (FIP); wherein entire area identified under the project is treated with various measures. At times, there remains some time gap in CBP/FSR and FIP. In order to ensure continuity in the implementation, need based Interim Phase (IP) covering another set of a small area is considered before sanctioning the FIP.

**Role of NABARD in Watershed Development Programmes**

NABARD anchors four programmes viz., (i) Participatory Watershed Development Programme under Watershed Development Fund (WDF) in 15 States, (ii) Prime Minister’s Relief package for distressed districts in four States, (iii) Integrated Watershed Development Programme (IWDP) in Bihar and (iv) Indo-German Watershed Development Programme (IGWDP) in Maharashtra, Andhra
Pradesh, Gujarat and Rajasthan. These four programmes cover an area of around 17.8 lakh ha. The central theme and the methodology governing all these programmes is the successful partnership based on strong commitment by State and local agencies, published to commemorate NABARD’s 30 years of service to rural India and a booklet saluting the rural innovations and innovators was formally released on the occasion. Community leaders and local people at all the stages of implementation of the programme. The difference is only about the source of funding.

**Umbrella Programme on Natural Resource Management**

As per the National Environment Policy of the government of India, (2006) ‘environmental degradation is a major causal factor in enhancing and perpetuating poverty, particularly among the rural poor.’ For quite some time, approach to the natural resource management relied on the implementation of grant based programmes. However, the financing needs of this sector are far greater than the resources available and grant based programme alone cannot meet this requirement. With this perspective, following the success of the Indo-German Watershed Programme and the Adivasi Development Programme, NABARD collaborated with KfW and GIZ to implement Umbrella Programme on Natural Resource Management (UPNRM) based on loan-cum-grant model. The programme aims at augmenting private investment in the sector and assist in developing a suitable policy environment. The objective of UPNRM is to demonstrate the viability of loan-based, community owned approaches to natural resource management. It is envisaged to achieve this by weaving holistic, participatory and financially
sustainable livelihood solutions into public policies and making investments
towards improving the livelihoods of the rural poor. UPNRM will not only help in scaling up existing approaches (Watershed and Adivasi Development), but will also explore other sub-sectors like forestry, farming systems management, agro-processing, natural resource based livelihoods and climate change adaptation. Introducing an innovative concept, the programme provides combined packages of loans and grants tailored to specific project needs in natural resource management. The core elements of the programme include designing, testing and scaling up loan-based economically viable models, extensive capacity development to enhance programme effectiveness and institutionalization of an Information and Knowledge Management system.

**Dealing with challenges from climate change**

The challenges arising out of the climatic change are profound. Eminent agriculture scientist, Dr. M.S. Swaminathan has cautioned that, an estimated one degree rise in temperature in areas like Western Uttar Pradesh, Punjab and Haryana can lead to a loss of 6 million tonnes of wheat per annum. Hence, there is a need to train the people or at least groom some leaders to become climate risk managers so as to adapt the community to mitigate the adverse impact of climate change. NABARD has taken a lead role in promoting initiatives in this regard and facilitate development in an ecologically sustainable manner.
Farm innovation and promotion fund

The Farm Innovation Promotion Fund (FIPF) was created out of the operating profits of NABARD to support innovative ventures in farm sector and its corpus stood at `50 crore as on 31 March 2013. During 2012-13 grant assistance of `0.63 crore was sanctioned for 21 projects in six States under FIPF to support innovations related to agriculture and allied sector. Cumulatively, 185 projects were sanctioned with financial support of `69.08 crore, of which, 72 projects with financial assistance of `3.68 crore were completed. During 2012-13, assistance of `9.90 crore was disbursed for various interventions under the programme.

Farmers’ Technology Transfer Fund

The corpus of Farmers’ Technology Transfer Fund (FTTF), created out of the operating profit of NABARD to support technology transfer projects stood at 101 crore as on 01 April 2012. Two Hundred and twelve proposals in 20 States involving grant assistance of `6.69 crore were sanctioned during 2012-13 under the Fund. Cumulatively, 1,282 projects were sanctioned with financial support of `80.82 crore. Some of the major projects financed under the Fund included proposals under project mode, Pilot Project for Lead Crops, System of Rice Intensification, Master Farmers Training Programme, Village Development Programme (VDP), Farmers’ Club Programme, Capacity Building for Adoption of Technology (CAT), Farmers’ Training and Rural Development Centre (FTRDC), etc. During 2012-13, an assistance of `39.78 crore was disbursed for various interventions under the programme.
Village Development Programme

Village Development Programme (VDP) introduced in 2007-08, is meant to fulfil NABARD’s mandate of bringing about integrated rural development through credit and promotional efforts. The programme envisaged identification of developmental needs of villages in consultation with village community and delivering package of initiatives for holistic development of the villages. The crux of the programme is the convergence of development initiatives of the State Government and NABARD so as to navigate the programme in right direction. In the first phase, the programme was completed in 811 districts and was closed in May 2012. The programme was up-scaled in the second phase and intends to cover 1,068 villages spread across 25 States. During 2012-13, an assistance of `2.06 crore was disbursed for various interventions under the programme.

Capacity Building for Adoption of Technology

Following the motto of ‘seeing is believing’, NABARD organizes Capacity building for Adoption of Technology (CAT) programmes to give exposure to the farmers on new/innovative methods of farming. During 2012-13, 56 exposure visits were arranged in collaboration with select research institutes, KVKs and SAUs to build the capacity of around 1,200 farmers for adoption.

Supplementing income through non-farm sector

Farm sector development has its own limitations especially in terms of promoting sustainable livelihood. The need for diversification from farm to non-farm sector is indispensable in view of the scarce land availability, stagnating farm
incomes and dwindling employment opportunities in rural areas. NABARD’s efforts towards promotion and development of non-farm sector were in this contest

**Rural Entrepreneurship Development and skill Development Programmes**

NABARD supports Rural Entrepreneurship Development Programmes (REDPs) and Skill Development Programmes (SDPs) for facilitating generation of self employment and wage employment opportunities in rural areas. During 2012-13, NABARD decided to institutionalize the process by supporting the REDPs and SDPs conducted through Rural Development Self Employment Training Institutes (RUDSETIs) and Rural Self Employment Training Institutes (RSETIs). Assistance of 5.03 crore was sanctioned during 2012-13 for conduct of 334 REDPs/ SDPs. Cumulatively, NABARD had supported 28,045 REDPs/SDPs, with grant assistance of `101.35 crore, imparting training to around 7.16 lakh unemployed rural youth. Studies have indicated that the success rate of establishing enterprises by the trainee is about 45 per-cent. Considering the role of REDPs in employment generation, GoI has decided to set up RSETIs with dedicated infrastructure in each district of the country to impart training to rural youth for skill up gradation and entrepreneurship development. RSETIs are managed by bank with active cooperation from GoI and State Governments. So far, 556 RSETIs have been set up in collaboration with 35 commercial banks Cluster Development NABARD has been implementing the Cluster Development Programme under National Programme on Rural Industrialization (NPRI) since 1999-2000. The programme envisages comprehensive strategy aimed at holistic development of clusters so as to
increase the income and improve the standard of living of the artisans through various planned interventions. NABARD has approved a total of 120 clusters in 110 districts across 22 States. The handloom clusters (57), handicrafts clusters (43), food processing and rural tourism (7 each) were the prominent clusters supported under the programme. Focus was given on development of clusters in NER, with as many as 23 clusters being supported in the North eastern and backward region. An amount of `0.89 crore was disbursed during 2012-13 towards implementation of the programme.

**SWAROZGAR CREDIT CARD SCHEME**

NABARD acted as the nodal agency for monitoring of Swarojgar Credit Card (SCC) Scheme, introduced to provide adequate, timely and uninterrupted credit to the small artisans, handloom weavers and other self-employed persons including micro-entrepreneurs, SHGs, etc. During 2012-13, around 86,741 SCCs were issued with an aggregate credit limit of `359.67 crore. Cumulatively, 13.96 lakh SCCs were issued by banks, involving credit limit of `5,813.95 crore.

**PROMOTING INNOVATIONS**

The need for inclusive growth demands innovations in economic, social and technological fronts. While some of the technological changes are easier to generate, accessing them and converting them to economically and environmentally sustainable products or services suitable to rural areas, still pose a challenge for the policy maker.
NABARD AWARD FOR RURAL INNOVATIONS

NABARD instituted awards for rural innovations in the year 2012, to commemorate its 30 years of association with India growth story. Through this initiative, NABARD aims to encourage grass root level innovations for improving efficiency and productivity by using locally available resources. NABARD AWARD for Rural Innovations, 2012 received an overwhelming response with more than 1,400 entries coming from five categories of innovators i.e., (i) Public sector, (ii) Government, (iii) Private Sector, (iv) Academic/Research institutions, (v) NGO/Trust and Individuals covering six broad segments i.e., (i) Energy, (ii) Financial Services, (iii) Training and Skill up-gradation, (iv) Agriculture, (v) Technology and (vi) others.

The screening and short listings of entries were carried out by external subject experts in association with reputed consultancy firm for ensuring transparency in the selection process. The final awardees (six winners and six runner-ups) were selected out of the 30 shortlisted innovations in 5 different segments by a panel of expert jury headed by Shri Jairam Ramesh, Honorable Minister for Rural Development. All winners/runners up were awarded cash prize of10 lakh/ 5 lakh respectively. The awardees received the awards from the hands of Shri P. Chidambaram, Honorable Finance Minister at a function held in New Delhi in October 2012.
FINANCIAL INCLUSION WITH FOCUS ON INFORMATION AND COMMUNICATION TECHNOLOGY

A prolonged and persistent financial exclusion of a large segment of population would lead to fall in investment and can also result in fuelling social tension causing social exclusion’ (Dr. K.C. Chakravarty, Deputy Governor, RBI). An inclusive financial system, wherein weaker sections and low income groups have access to appropriate financial products and services, at an affordable cost, in a transparent manner has been the goal of policy makers for quite some time. The barriers to access financial services emanate from both demand side (lack of awareness and non transparency) and supply side (higher transaction cost). The combination of IT and mobile telephony along with other IT enabled services have emerged as viable solution to tide over the transaction cost of serving large number of small value accounts. Awareness creation on financial literacy is another channel to mainstream financial inclusion.

MAPPING OF BANKING OUTLETS THROUGH GEOGRAPHIC INFORMATION SYSTEM:

NABARD had sanctioned and released 21.71 lakh to National Informatics Centre (NIC) for development of web-based Geographic Information System (GIS) Application for assessing the reach and extent of banking in India and also developing a web-based MIS. The Lead Banks in all the districts have uploaded the information using the module and verification of data is under way
ICT BASED PROJECTS IMPLEMENTED UNDER FINANCIAL INCLUSION

Giving due importance to technology, particularly ICT, NABARD played a pioneering role in implementing a number of projects as part of its financial inclusion initiative.

ICT-BASED SUPPORT TO RRBs:

Assistance was sanctioned to RRBs for implementing ICT based solutions by using the BC model - both under Ownership as well as ASP (Application Service Provider) model. As on 31 March 2013, 69 projects with an assistance of '117.89 crore were sanctioned to 54 RRBs, out of which, an amount of '41.87 crore was disbursed.

OTHER PROJECTS IMPLEMENTED BY NABARD UNDER FINANCIAL INCLUSION

Engaging Farmers’ Clubs and SHGs as BC/BFs by RRBs: With a view to widen the BC/BF network, financial support to the tune of 2.08 crore was sanctioned to 22 RRBs in 12 States, as on 31 March 2013, for extending assistance to Farmers’ Clubs acting as their BFs. Similarly, 46.26 lakh was sanctioned to nine RRBs in six States, for supporting the training of authorized functionaries of well run SHGs as BC/BF.

FINANCIAL LITERACY THROUGH AUDIO VISUAL MEDIUM:

In order to give wider publicity to financial literacy, NABARD sanctioned an assistance of 3.28 crore to Doordarshan for producing, directing and telecasting
a half an hour financial literacy programme in Hindi. The programme was telecast by six centers of Doordarshan

**MICRO PENSION MODEL - SUPPORT TO INVEST INDIA MICRO PENSION SERVICES:**

A Pilot project involving an assistance of 2.26 crore was sanctioned to ‘Invest India Micro Pension Services (IIMPS) – Micro Pension Model’, for propagating and enrolling members for micro pension scheme developed by it in association with UTI AMC. The scheme, under implementation in eight districts of four States (Odisha, Uttar Pradesh, Bihar and Tamil Nadu) aims at covering 40,000 persons under old age pension. An amount of 2.03 crore was disbursed by the end of March 2013. Over 20,000 low income rural workers, mainly SHG members, farmers and daily wagers were enrolled under the project and were saving 100-200 per month for their old age. The savings was

Channelized to well regulated, low cost pension product managed by UTI. A dedicated national level multiple regional language helpline has been set up to educate workers and answer their queries.

**CAPACITY BUILDING OF BCS/BFS:**

NABARD had introduced a scheme in 2009 for capacity building of BC/BFs through Certification Course offered by Indian Institute of Banking & Finance (IIBF). The IIBF has trained/certified 26,526 BC/BFs through its Accredited Training Institutes (ACTIs). An assistance of `9.20 crore was sanctioned under FIF for the purpose. The scheme was closed during 2012-13. However, a revised
scheme had been introduced under which IIBF trained 65 State Level Trainers (SLTs), who in turn, trained 772 District Level Trainers (DLTs). These SLTs/DLTs can be used for training the BCs/BFs in their respective States/districts.

**NABARD-UNDP COLLABORATION FOR FINANCIAL INCLUSION**

The NABARD-UNDP collaboration for financial inclusion in seven States (Bihar, Rajasthan, Chhattisgarh, Jharkhand, Uttar Pradesh, Madhya Pradesh and Odisha), to provide better access to financial products and services for reducing risks and enhancing livelihood opportunities for the poor, slowed down during the year 2012 because of reduced commitments by the donor countries on account of economic slowdown. NABARD sanctioned a major project under the UNDP collaboration for financial literacy through FINO Fintech Foundation with an assistance of `1.11 crore for development of training material, training of trainers covering 54,000 villagers through 540 financial literacy programmes in six States (except Odisha). Under the project, financial literacy programmes were conducted. Training and capacity building of stakeholders NABARD gave due recognition to training and capacity building of stakeholders engaged in microfinance programme by conducting 5,098 training programmes and trained around 1.82 lakh participants from various stakeholder groups during 2012-13. With this, cumulatively, around 30.30 lakh participants have been imparted training on various aspects of microfinance, which undoubtedly constitute a strong back up team for implementation of the programme.
SPECIAL INITIATIVES IN BACKWARD REGION

Rajiv Gandhi Mahila Vikas Pariyojana NABARD continued to support Rajiv Gandhi Mahila Vikas Pariyojana (RGMVP), a special initiative of the Rajiv Gandhi Charitable Trust (RGCT) for promotion, credit linkage and federating of SHGs in select districts of Uttar Pradesh in association with participating banks and implementing NGOs. Under this, around 86,529 SHGs were promoted, of which, 29,906 were credit linked as on 31 March 2013. In addition, 2,624 cluster level federations and 68 block level federations were also formed under the programme.

PRIYADARSHINI PROJECT

NABARD is the Lead Programme Agency for implementation of “Women Empowerment and Livelihood Programme in Mid Gangetic Plains” which is also called ‘Priyadarshini Programme’. The programme involving a total outlay of $32.73 million is assisted by IFAD and GoI (Ministry of Women and Child Development). It is being implemented in five districts of Uttar Pradesh (Baharaich, Raebareli, Shravasti, Sultanpur and Amethi) and two districts of Bihar (Madhubani and Sitamarhi). It envisages holistic empowerment of around one lakh rural poor women and adolescent girls through formation and nurturing of around 10,000 SHGs over a period of eight years. NABARD engaged a resource NGO for the purpose of capacity building of the programme staff and field NGOs for implementation of the programme at the grass root level. The field NGOs formed 6,289 SHGs, of which, 4,410 SHGs were savings linked and 1,187 SHGs were credit linked. As per the design of the programme, seed capital of 10,000 is provided to eligible SHGs after grading. Accordingly, an amount of 1.17 crore was
provided to 1,230 SHGs. A total of 1,061 training programmes were conducted for capacity building of more than 25,000 SHG members

**SCHEME FOR PROMOTION OF WOMEN SHGS IN BACKWARD / LEFT WING EXTREMISM AFFECTED DISTRICTS OF INDIA**

The scheme for promotion of women SHGs in backward/ Left Wing Extremism (LWE) affected districts is being implemented in association with GoI, in 150 selected districts spread across 28 states. Under this project, the NGOs work not merely as an SHPI for promoting and enabling credit linkage of these groups with banks, but also in serving as a business facilitator, tracking and monitoring these groups and also being responsible for loan repayments. Under the Scheme, 50,001 Women SHGs were savings linked and around 11,100 of these SHGs were credit linked as on 31 March 2013. An amount of `16.94 crore was released as grant assistance out of the WSHG Development Fund for various activities under the scheme.

**OTHER INITIATIVES**

a. Financing of Joint Liability Groups

b. Micro-Enterprise Development Programme

c. Pilot project on managing over indebtedness and debt trap of poor households

d. Livelihood programme in LWE districts

e. “Moving poor households out of poverty”

f. Pilot project on managing over indebtedness and debt trap of poor households
g. Enhancement of grant support to partner agencies
h. Bringing technology to the SHGs
i. Mobile based accounting system for SHGs
j. Tablet PC based accounting system for SHGs
k. E-book keeping through handheld device
l. Web Based MIS for tracking SHPIs
m. Promoting Research and Development
n. Research Projects/Studies

o. Seminars, Conferences and Workshops: During 2012-13, NABARD sanctioned grant assistance of ₹85.59 lakh to various universities, research institutes and other agencies for organizing 97 seminars, conferences, symposia and workshops, covering subjects/areas related to agriculture and rural development.
p. NABARD Chair Professor Scheme
q. Summer Placement Scheme
r. Offering consultancy NABARD Consultancy Services
s. International visitors programme
t. Rural Infrastructure Development Fund
u. NABARD Infrastructure Development Assistance
v. New directions in investment in infrastructure - Marketing and Warehousing Campaign for awareness creation among warehousemen/farmers
w. Introduction of Human Resource Management System
x. SC/ST welfare measures
AGRICULTURE CREDIT

Adequate supply of credit of farmers and other weaker sections is one of the prerequisites in increasing agricultural production. As the World Bank put it very clearly “Credit is often a key element in the modernization of agriculture. Not only can credit remove financial strains, it may accelerate the adoption of new technologies. Credit facilities are also an integral part of the process of commercialization of the rural economy. However, no amount of credit even at the most reasonable rates can guarantee higher productivity or income among the rural poor. Success in this respect depends on many factors including the availability of inputs and services, sound credit policies, well-managed institutions and appropriate delivery channels”. Again, on the basis of the analysis of experience of developed countries, M.L.Dantwala stressed that, “it is a truism that supply of adequate and timely credit is a crucial constituent of any programme of agriculture development”.

Thus, it is an admitted fact that the provision of credit at the right time, and the rate and quantum constitutes the core for any productive activity. But the agrarian history of India reveals that the single biggest problem that the village farmers had to confront with was the non-availability of credit at the right time, rate and required quantities.

Agricultural credit may be explained as the ‘amount of invertible funds made available for the purpose of development of farm productivity’. As defined by the Agricultural Finance Corporation, “the amount of money needed by a farmer to achieve a proper combination of productive factors, like land, labour, inputs, machinery, livestock and managerial ability, should be commensurate with the land
so that the planned level of income is generated by his farm”. Though the credit
alone cannot generate new resources, but it may be called as an important factor of
integrated approach in respect of advisory services for improving production and
productivity.

In traditional agriculture credit has less important role to play because credit
is used for maintenance rather than expanding agricultural activities. Generally,
credit is used for storage, marketing and processing of the agricultural surplus for
the purpose of ensuring a steady to consumers throughout the year. Besides these
needs the credit is also used to meet the case requirements of the cultivators. In
subsistence agriculture the above needs depend on income. Wing to the close links
of the household with cultivation it is not very easy to make difference between his
consumption and production needs. Again, at different times the credit needs may
differ due to the seasonality in agricultural production. Most of subsistence farmers
rely on maintenance credit and often they fail to repay it due to their poor capacity
to save and these factors increase the poverty and indebtedness of subsistence
farmers.

On the other hand, modern agriculture, a high quantum of credit is needed.
Due to increased consumption of various short-term cash inputs like improved
seeds, fertilizers, insecticides, the emergence of green revolution during late sixties
and the introduction of new agricultural technology in the India, the very nature of
agriculture underwent a radical transformation and the farmers tended towards the
replacement of traditional methods of farming with scientific and developed
methods. It is a fact that “the farmers in the underdeveloped countries cannot
expect their income from farm operations sufficient enough to provide the minimum necessities of life”. And the farmers are compelled to depend upon borrowed funds. This causes the increasing demand for disbursing credit to most of the farmers and further on account of the transformation of agricultural credit has considerably increased and it needs no emphasis.

Further, the modern agriculture also requires co-ordination of various activities, like appropriate estimate of credit, timely and adequate supply of inputs, repayment arrangements favourable to farmers, efficient machinery for recovery of loans and adequate marketing accommodations, etc. Such requirements under traditional agriculture often could not be met. So, in modern agriculture, introduction of institutional channel of credit is necessary. Further, in such cases where credit is required to make a significant impact on agriculture, it is necessary that the credit machinery should be expanded rapidly to meet the growing credit needs of the cultivators.

**AGRICULTURAL CREDIT CLASSIFICATION**

In general, there are two types of agriculture credit viz., direct and indirect. In the former type of credit finance is provided directly to farmers for production purposes, such as, crop production credit, land improvement, irrigation, purchase of implements/ machinery/ equipments, development of dairy/ sheep rearing/ poultry/ fisheries, development of plantation, tea, coffee, rubber, coconut, cashew nut, etc. In the latter type of agricultural credit, finance is provided through the institutions involved in the supply of production inputs and other relative services of agriculture. The indirect credit is given for financing for distribution of farm inputs
to PACBS/ FSS/ LAMPS/ Cooperative marketing societies, Regional Rural Banks (RRBs), financing State Electricity Boards for energization of pump sets, financing for storage facilities, such as, gudowns, cold storages, warehouses, financing for establishment of regulated markets, Custom Service Units, and also to Agro-Industries Corporation, Food Corporation of India, Jute Corporation of India, State Warehousing Corporation, etc.

Credit may broadly be classified under the following four headings.

1. Period-wise;
2. Purpose-wise;
3. Security-wise; and
4. Creditor-wise;

I. Period-wise Credit

On the basis of period, credit needs of the farmers may be classified as short, medium and Long-term credits.

a) **Short-term credit** is granted for the purpose of providing working capital requirements to the farmers ranging generally from 6 to 15 months.

b) **Medium-term credit** is granted for the purpose of land improvement, purchase of implements, machinery, etc. for a period of more than 15 months but not exceeding 5 years.

c) **Long-term credit** is granted for the purpose of development of land, farm mechanization, etc. for longer period covering more than 5 years and upto 15 years.
II. Purpose-wise Credit

a) **Farm credit** is provided for the purchase of seeds, fertilizers, labour, etc.

b) **Non-Farm credit** is provided to meet the working capital requirements of non-farm business, such as repairs of equipment, building, etc.

c) **Consumption credit** is provided to meet the household expenditure like clothing, education, medicine, marriage, death, etc.

III. Security-wise Credit

a) **Secured credit** includes ‘farms mortgage credit’ and ‘chattel or collateral credit.

b) **Unsecured credit** is granted on the personal security of the borrowers i.e. on promissory note.

IV. Creditor-wise Credit

a) **Institutional credit** includes the credit from cooperatives, commercial banks, RRBs and Government.

b) **Non-institutional credit** is provided by money lenders, commission agents, relatives, friends, etc.
Chart 1.3
Agricultural Credit Classification

DEMAND FOR AGRICULTURE CREDIT

Various agencies from time to time have undertaken the task of estimation of credit requirements of Indian agriculture. The estimation conducted by the All-India Rural Credit Survey Committee in 1951-52 showed that the annual borrowings of the farmers were Rs.750 crores. In 1961-62, the All-India Rural Debt and Investment Survey estimated that the annual borrowings of the farmers were Rs.1034 crores. According to the estimation of the working group on Agriculture Credit in 1970-71, the credit requirements were of the order of Rs.1421 crores. Estimation for the year 1970-71 was also prepared by a committee of economists headed by Professor Dantwala basing its calculations on agricultural production and expenditure incurred in respect of various agricultural operations. On the basis of these parameters the committee estimated the short-term credit requirements at Rs.1200 crores, medium-term credit requirements at Rs.100 crores and long-term credit needs at Rs.160 crores. Thus, the total credit for all these three types of credit requirements came to Rs.1460 crores.

Another calculation was made for the Fourth Five year plan which covered the period 1973-74 taking into account the kind and cash component together, the
All-India Rural Credit Review Committee (1969) estimated the credit need per acre at Rs.141 in high yielding varieties programme areas, Rs.60 in non-high yielding varieties programmes in irrigated areas and Rs.25 in unirrigated areas. On the basis of this, the total short-term credit was worked out at Rs.2000 crores during 1973-74 and the medium and long-term credit requirements were placed at Rs.500 crores and Rs.1500 crores respectively during the Fourth Plan period.

According to the estimates of the Fifth Plan 1974-79, the short-term credit for agriculture was Rs.3000 crores. The target regarding investment credits both medium and long-term put together was Rs.2400 crores for a five year period.

The working group on Rural Credit and Cooperatives estimated the short term and long-term credit requirements between 1978 and 1983 at Rs.3240 crores and Rs.47800 crores respectively.

The working group on Agricultural Credit for commercial banks assessed short-term agricultural credit requirements at Rs.3890 crores for the period 1978-83. Estimates in respect of term finance were calculated at Rs.6290 crores.

The National Commission on Agriculture (NCA) had estimated the short-term and long-term credit requirements at Rs.7884 crores and Rs.8665 crores, respectively, for full programme coverage by Rs.1985. Thus, the total credit requirements were Rs.16,549 crores for the period.

**CATEGORY-WISE CREDIT DEMAND**

Desai estimated the category-wise credit demand for crop production for the years 1994-95, 1999-2000 and 2004-05 and projected the credit demand for 2009-
2010. It is clear from table 1.1, that the total credit demand for crop production was Rs.27,824 crores for 1994-95, Rs.33,108 crores for 1999-2000, Rs.39,322 crores for 2004-05 and Rs.47,842 crores for 2009-2010.

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<tr>
<th>Year</th>
<th>Farmers categories</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Small</td>
</tr>
<tr>
<td>1999-2000</td>
<td>9,460</td>
</tr>
<tr>
<td>2004-2005</td>
<td>12,090</td>
</tr>
<tr>
<td>2009-2010</td>
<td>14,359</td>
</tr>
<tr>
<td>2012-2013</td>
<td>17,470</td>
</tr>
<tr>
<td>Credit +</td>
<td>(36.52)</td>
</tr>
<tr>
<td>Operated area +</td>
<td>(28.96)</td>
</tr>
</tbody>
</table>

Source: Secondary Data

Term Credit

The long-term and short-term projected credit demand including the year 2000 A.D. has also been assessed table 1.2.

Projected short-term credit estimated by the Agricultural Credit Review Committee (ACRC) 1999, was Rs.9870 crores for 1999-2000, Rs.17107 crores for 2004-2005 and Rs.25751 crores for 2009-2010, whereas, the term credit requirements were Rs.11717 crores for 2009-2010, Rs.18080 crores for 2004-2005 and Rs.27581 crores for 2009-2010. The total estimated credit for 2009-2010 and 2004-2005 was Rs.21587 crores and Rs.35187 crores respectively and it would further reach Rs.53332 crores by 2009-2010.
Table 1.2  
Projected Demand for Credit  
(Rs. in crores)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>A. Projected Demand for ST Credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Crop Production</td>
<td>8861</td>
<td>15733</td>
<td>23888</td>
</tr>
<tr>
<td>2. Crop Stock Production</td>
<td>772</td>
<td>939</td>
<td>1185</td>
</tr>
<tr>
<td>3. Fisheries</td>
<td>60</td>
<td>120</td>
<td>200</td>
</tr>
<tr>
<td>4. Agricultural Input Distribution</td>
<td>177</td>
<td>315</td>
<td>478</td>
</tr>
<tr>
<td><strong>Total (A)</strong></td>
<td><strong>9870</strong></td>
<td><strong>17107</strong></td>
<td><strong>25751</strong></td>
</tr>
<tr>
<td>B. Projected Demand for Term Credit</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Crop production and Live Stock Production</td>
<td>19768</td>
<td>16964</td>
<td>26279</td>
</tr>
<tr>
<td>6. Poultry</td>
<td>391</td>
<td>558</td>
<td>558</td>
</tr>
<tr>
<td>7. Fisheries</td>
<td>558</td>
<td>558</td>
<td>744</td>
</tr>
<tr>
<td><strong>Total (B)</strong></td>
<td><strong>11717</strong></td>
<td><strong>18080</strong></td>
<td><strong>27581</strong></td>
</tr>
<tr>
<td><strong>Grand Total (A+B)</strong></td>
<td><strong>21587</strong></td>
<td><strong>35187</strong></td>
<td><strong>53332</strong></td>
</tr>
</tbody>
</table>

Source: RBI Report

The working group on Agricultural Credit and Cooperation (including crop insurance) for Ninth Five year plan, 1997-98 to 2001-02 (Chairman P.Kotaiah) estimated that a total of Rs.2,29,750/- crores of credit (both short-term and term loans) is required by the agricultural sector during 9th plan period. The working group has also estimated that about 47 per-cent of credit demand is required respect of the small and marginal farmers.

**SUPPLY OF RURAL CREDIT**

Rural credit in India is supplied through plurality of agencies usually termed as non-institutional and institutional. The former comprises professional money
lenders, agricultural money lenders, relatives, landlords, traders, commission agents and others, while and latter consists of Cooperatives, Commercial Banks, Governmental agencies, Regional Rural Banks (RRBs), SFDC, MFAL and NABARD. The relative importance and role of these agencies have been the function of several historical factors and socio-economic variables. Under the development planning, a deliberate attempt is made by the state to gradually expand the role of institutional agencies.

Table 1.3

Estimated Credit Demand during Eleventh Five Year Plan

(Rs. in crores)

<table>
<thead>
<tr>
<th>Year</th>
<th>Credit Demand</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>ST</td>
<td>MT/LT</td>
</tr>
<tr>
<td>2007-08</td>
<td>22,500</td>
<td>10,875</td>
</tr>
<tr>
<td>2008-09</td>
<td>25,650</td>
<td>12,995</td>
</tr>
<tr>
<td>2009-10</td>
<td>29,250</td>
<td>15,530</td>
</tr>
<tr>
<td>2010-11</td>
<td>33,500</td>
<td>18,608</td>
</tr>
<tr>
<td>2011-12</td>
<td>38,500</td>
<td>22,342</td>
</tr>
<tr>
<td>Total</td>
<td>1,49,400</td>
<td>80,350</td>
</tr>
</tbody>
</table>

Share in small and marginal farmers in total demand (per-centage)

| Source: Secondary Data |

SUPPLY OF RURAL CREDIT

Rural credit in India is supplied through plurality of agencies usually termed as non-institutional and institutional. The former comprises professional money lenders, agricultural money lenders, relatives, landlords, traders, commission agents and others,
while and latter consists of Cooperatives, Commercial Banks, Governmental agencies, Regional Rural Banks (RRBs), SFDC, MFAL and NABARD. The relative importance and role of these agencies have been the function of several historical factors and socio-economic variables. Under the development planning, a deliberate attempt is made by the state to gradually expand the role of institutional agencies.

Table 1.4
Institutional and Non-Institutional Agencies in Rural Credit
(In per-cent)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Agricultural Money Lenders</td>
<td>24.9</td>
<td>27.3</td>
<td>-</td>
<td>12.6</td>
</tr>
<tr>
<td>2.</td>
<td>Professional Money Lenders</td>
<td>44.8</td>
<td>18.2</td>
<td>-</td>
<td>8.3</td>
</tr>
<tr>
<td>3.</td>
<td>Traders and Commission Agents</td>
<td>5.5</td>
<td>8.3</td>
<td>-</td>
<td>8.4</td>
</tr>
<tr>
<td>4.</td>
<td>Others (including relatives, friends and landlords)</td>
<td>17.5</td>
<td>25.0</td>
<td>-</td>
<td>14.5</td>
</tr>
<tr>
<td>5.</td>
<td>Non-institutional Agencies (1+2+3+4)</td>
<td>92.7</td>
<td>69.8</td>
<td>40.0</td>
<td>38.8</td>
</tr>
<tr>
<td>6.</td>
<td>Cooperatives</td>
<td>3.1</td>
<td>21.1</td>
<td>40.0</td>
<td>28.6</td>
</tr>
<tr>
<td>7.</td>
<td>Commercial Banks</td>
<td>0.9</td>
<td>2.3</td>
<td>16.7</td>
<td>28.0</td>
</tr>
<tr>
<td>8.</td>
<td>Government</td>
<td>3.3</td>
<td>6.8</td>
<td>3.3</td>
<td>4.6</td>
</tr>
<tr>
<td>9.</td>
<td>Institutional Agencies (6+7+8)</td>
<td>7.3</td>
<td>30.2</td>
<td>60.0</td>
<td>61.2</td>
</tr>
<tr>
<td>10.</td>
<td>Total (5+9)</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Source: Compiled Report of RBI
### Table 1.5
**Disbursement of Agricultural Credit in India**  
*(Rs. in Crores)*

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Cooperatives</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ST</td>
<td></td>
<td>3007</td>
<td>3824</td>
<td>4987</td>
<td>3995</td>
<td>2822</td>
<td>4403</td>
<td>7170</td>
<td>7839</td>
<td>9462</td>
<td>9966</td>
</tr>
<tr>
<td>MT</td>
<td></td>
<td>585</td>
<td>688</td>
<td>809</td>
<td>577</td>
<td>366</td>
<td>570</td>
<td>2208</td>
<td>2278</td>
<td>2454</td>
<td>2800</td>
</tr>
<tr>
<td><strong>LT</strong></td>
<td></td>
<td>615</td>
<td>734</td>
<td>655</td>
<td>684</td>
<td>785</td>
<td>827</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub Total</strong></td>
<td></td>
<td>4207 (55.97%)</td>
<td>5246 (43.32%)</td>
<td>5551 (56.72%)</td>
<td>5256 (51.60%)</td>
<td>3973 (44.22%)</td>
<td>5800 (51.77%)</td>
<td>9378 (61.82%)</td>
<td>10117 (61.33%)</td>
<td>11916 (56.43%)</td>
<td>12766 (48.26%)</td>
</tr>
<tr>
<td><strong>Commercial banks &amp; RRBs ST &amp; Term Loans</strong></td>
<td></td>
<td>3309 (44.03%)</td>
<td>4009 (43.32%)</td>
<td>4234 (43.28%)</td>
<td>4930 (48.40%)</td>
<td>5010 (55.78%)</td>
<td>5402 (48.23%)</td>
<td>5791 (38.18%)</td>
<td>6377 (38.18%)</td>
<td>9197 (43.57%)</td>
<td>13684 (51.74%)</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td></td>
<td>7005 (100%)</td>
<td>7516 (100%)</td>
<td>9255 (100%)</td>
<td>10816 (100%)</td>
<td>8983 (100%)</td>
<td>11202 (100%)</td>
<td>15169 (100%)</td>
<td>16494 (100%)</td>
<td>21113 (100%)</td>
<td>26450 (100%)</td>
</tr>
</tbody>
</table>

**Source:** Report of Economic Survey, Government of India, Ministry of Finance in India.

### Table 1.6
**NABARD IN INDIA: AT A GLANCE**  
**PERFORMANCE UNDER FINANCIAL INCLUSION**

<table>
<thead>
<tr>
<th>PERFORMANCE UNDER FINANCIAL INCLUSION (No. of A/C’s)</th>
<th>Agency</th>
<th>During, 2011-12</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Deposit</td>
<td>Credit</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td></td>
<td>2357418</td>
<td>2357402</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td></td>
<td>321394</td>
<td>4178122</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td></td>
<td>224447</td>
<td>5162281</td>
</tr>
<tr>
<td>Others</td>
<td></td>
<td>124</td>
<td>NA</td>
</tr>
<tr>
<td>All Agencies</td>
<td></td>
<td>2903383</td>
<td>1169780</td>
</tr>
</tbody>
</table>

55
PERFORMANCE TO FULFILL NATIONAL GOALS

<table>
<thead>
<tr>
<th>Agency</th>
<th>Priority Sector Loans</th>
<th>Loans to Agr Sector</th>
<th>Loans to Weaker</th>
<th>Loans Under DRI</th>
<th>Loans to Women</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount ('000)</td>
<td>% of Total Loans</td>
<td>Amount ('000)</td>
<td>% of Total Loans</td>
<td>Amount ('000)</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>6931538</td>
<td>19.34</td>
<td>4087391</td>
<td>11.40</td>
<td>7885914.08</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>1468367</td>
<td>35.46</td>
<td>1136690</td>
<td>27.45</td>
<td>2898975.8</td>
</tr>
<tr>
<td>Cooperative Banks</td>
<td>1000119</td>
<td>20.26</td>
<td>246842</td>
<td>5.00</td>
<td>1974151.2</td>
</tr>
<tr>
<td>Others</td>
<td>1319655</td>
<td>514.11</td>
<td>756371</td>
<td>294.67</td>
<td>56470.92</td>
</tr>
<tr>
<td>All Agencies</td>
<td>1071967</td>
<td>23.73</td>
<td>6227294</td>
<td>13.78</td>
<td>12815512</td>
</tr>
</tbody>
</table>

SECTOR-WISE PERFORMANCE UNDER ANNUAL CREDIT PLANS

<table>
<thead>
<tr>
<th>Broad Sector</th>
<th>2009-10 Target ('000)</th>
<th>2009-10 Ach' Ment %</th>
<th>2010-11 Target ('000)</th>
<th>2010-11 Ach' Ment %</th>
<th>2011-12 Target ('000)</th>
<th>2011-12 Ach' Ment %</th>
<th>Average Ach (%) in Last 3 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Crop Loan</td>
<td>4787604</td>
<td>5808</td>
<td>121</td>
<td>3857410</td>
<td>8936110</td>
<td>232</td>
<td>4056697</td>
</tr>
<tr>
<td>Term Loan (Agr)</td>
<td>403679</td>
<td>5132</td>
<td>127</td>
<td>1795610</td>
<td>534719</td>
<td>30</td>
<td>1946497</td>
</tr>
<tr>
<td>Total Agri. Credit</td>
<td>5191283</td>
<td>6321</td>
<td>122</td>
<td>5653020</td>
<td>9470829</td>
<td>168</td>
<td>6003194</td>
</tr>
<tr>
<td>Non-Farm Sector</td>
<td>1259817</td>
<td>5737</td>
<td>46</td>
<td>1421811</td>
<td>345100</td>
<td>24</td>
<td>1590890</td>
</tr>
<tr>
<td>Other Priority</td>
<td>2757740</td>
<td>2384</td>
<td>86</td>
<td>2630300</td>
<td>4245810</td>
<td>161</td>
<td>3656443</td>
</tr>
<tr>
<td>Total Priority</td>
<td>9208840</td>
<td>9280</td>
<td>101</td>
<td>9705131</td>
<td>14061739</td>
<td>145</td>
<td>11250527</td>
</tr>
</tbody>
</table>

Management of NABARD

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

i. A chairman

ii. Two directors from amongst experts in rural economics and rural development, etc

iii. Three directors out of whom two will be persons with experience in Co-operative Banking and one with experience in commercial banking.
iv. Three directors from out of the directors of the Reserve Bank
v. Three directors amongst the official of the Central Government
vi. Two directors amongst the official of the State Government
vii. A managing director, and
viii. 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**

a. NABARD has a share capital of Rs. 100 crores contributed by the Union and the Reserve Bank on a 50 : 50 basis
b. 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.
c. 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.
d. For the purpose of converting short-term loans into medium-term loans, funds will be drawn from National Rural Credit (stabilization) Fund to which will be transferred the National Agricultural Credit (stabilization) fund of the Reserve Bank of India with further contribution made to it every year.
e. For its short term operations, it will draw funds mainly from the Reserve Bank.
f. A ‘Research and Development Fund’ will be created and maintained through contribution from profits every year.


Chart 1.4

<table>
<thead>
<tr>
<th>NABARD FUNCTIONS</th>
</tr>
</thead>
<tbody>
<tr>
<td>CREDIT FUNCTIONS</td>
</tr>
<tr>
<td>NON-CREDIT FUNCTIONS</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Providing refinance for -</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Agricultural operations, marketing of crops</td>
</tr>
<tr>
<td>3. Any other activity relating to agriculture and rural development.</td>
</tr>
<tr>
<td>5. Production/ Marketing activities of artisans/ small scale, tiny or cottage industries/ handicrafts, other rural crafts.</td>
</tr>
<tr>
<td>6. Purchase and sale of shares of any institution.</td>
</tr>
<tr>
<td>7. Loans to State Governments for Share Capital contribution.</td>
</tr>
</tbody>
</table>

Source: Records of NABARD, Regional Office, Chennai.

### I. CREDIT FUNCTIONS OF NABARD

#### 1. Credit for Production and Marketing

The NABARD may provide loans and advances repayable on demand or on expiry of the fixed period (maximum being eighteen months) by way of refinance. The SCs, RRBs or any other financial institution or any class of financial institution approved by the RBI may avail of this refinance from NABARD. The purposes for
which the refinance may be provided are agricultural operations or marketing of crops, the marketing and distribution of inputs necessary for agriculture and rural development. The bonafide commercial/ trade transactions and production and marketing activities of rural artisans/ small scale industry in the tiny and decentralized area, village and cottage industries or those engaged in the field of handicrafts and other crafts are also eligible for refinance.

2. Conversion of Loan for Production

The NABARD is authorized to provide loans and advances to SCBs, RRBs or any institution approved by the RBI. The refinance for drought, famine or other natural calamities is repayable on expiry of fixed period not exceeding seven years on such terms and conditions as specified in this behalf by the Bank. Loans and advances may be made under this category only for the purpose of enabling borrowing bank or institution to pay any dues to NABARD for credit extended for financing agricultural operations or the marketing of crops.

3. Rescheduling of Loans

The NABARD may provide refinance by way of loans and advances where it is satisfied that owning to unforeseen circumstances, the rescheduling of loans and advances made to artisans, small scale industries, industries in the tiny and decentralized sector, village and cottage industries and those engaged in the field of handicrafts and cottage industries and other rural crafts by SCBs, RRBs or other financial institutions approved by the RBI in this behalf.
4. Investment Credit

NABARD may provide loans and advances to SCBs and RRBs which shall be repayable on the expiry of fixed periods not less than eighteen months and not exceeding seven years. They may be provided against such securities as may be specific by NABARD.

The NABARD may provide refinance assistance as and when it considers necessary for promoting agriculture and rural development on such terms and conditions as it may think fit. Such assistance is provided to SCBs, or any other financial institution approved by the RBI and also the repayment is rescheduled. The maximum period for the repayment of such assistance shall not exceed twenty five years for both. Such assistance may also be provided by purchasing or selling or subscribing to the bonds or debentures issued by any bank or institution.

5. Purchase and Sale of Shares

The NABARD may contribute to the share capital or purchase and sell shares or invest in the securities of any institution engaged in agriculture and rural development which the GOI may notify in consultation with the RBI.

6. Loans to State Governments

The loans and advances may be made by the NABARD to State Governments from National Rural Credit (Long-term operations) fund established under Section 42 of the NABARD Act for enabling them to subscribe directly or indirectly to the share capital for a cooperative credit society. These loans and advances may be provided for a period not exceeding twenty years.
7. Direct Loans

The NABARD is authorized to make loans and advances otherwise than by way of refinance to any institution approved in this behalf by the Central Government in such terms and conditions (including security) and repayable within such period not exceeding twenty five years as the NABARD may deem fit.

8. Security for Credit

The loans and advances granted to an institution other than a scheduled bank under the heads ‘other investment credit’, ‘Loans to State Government for share capital contribution’ and ‘Direct Loans’ are subject to the fully and unconditionally guaranteed by the Government as to the repayment of principal and payment of interest.

9. Amounts and Securities to be held in Trust

Any sum of money which a borrowing institution has received in repayment or realization of loans and advances refinanced wholly or partly by the NABARD shall, to the extent of the accommodation granted and remains outstanding, be deemed to have been received by the borrowing institution in trust for the NABARD, and shall accordingly be paid by such institution to the NABARD, as per the repayment schedule fixed by the NABARD.

10. Commission

The NABARD may receive commission or other consideration in respect of rendering services relating to various credit and other functions.
11. Issue of Guarantees

The NABARD is authorized to issue guarantees, with the prior approval of the Central Bank, on such terms and conditions as may be agreed upon. This guarantee is provided for deferred payments regarding purchase of goods due from a co-operative society approved by the RBI in this behalf or such other institutions which may be approved by the Central Government in this behalf on the recommendation of the RBI.

12. Power to Impose Conditions for Accommodation

In entering into any transaction related to its functions, the NABARD is authorized to impose such conditions as it may think necessary or expedient for protecting its interests.

13. Power to Call for Repayment before Agreed Period

In the absence of any contrary arrangements in any agreement the NABARD may require any borrowing institutions to which it has granted any loan or advance to discharge forthwith in full its liabilities to NABARD.

14. National Bank of have access to Records

The NABARD shall have free access to all such records of any institution which seeks to avail of any credit facility from the NABARD. The bank also shall have free access to all such records of any such person who seeks to avail of any credit facilities from such institution. The NABARD may require any institution or person of furnish the copies of any records.
15. Validity of Loans or Advances not to be questioned

In the absence of any contrary arrangement contained in any other law for the time being in force, the validity of any loan or advance granted by NABARD, under the provisions of the NABARD Act, 1981, shall not be called in question merely on the ground of non-compliance with the requirements of such other law as aforesaid or of any resolution, contract, memorandum, articles of association or other instrument.

II. NON-CREDIT FUNCTIONS OF NABARD

NABARD, besides these, refinance operations is also engaged in various coordinating and development activities for the promotion of agriculture and rural development. Being an apex institution the NABARD is responsible for fostering a healthy growth of rural credit. Keeping it in view, the NABARD has undertaken a number of measures since its inception such as strengthening and rehabilitation of co-operative credit institutions and RRBs, improving the rural credit activities of commercial banks, improving the recovery performance of financing institutions, inspecting and monitoring, evaluating, training and extending support to banks.

The NABARD may also perform some other functions. This includes:

i. Coordinating the operations of various institutions;

ii. Studying the problems relating to agriculture and rural development by experts;

iii. Making itself available for consultation with Central Government;

iv. Acting as an agent for Central and State Governments;

v. Providing facilities for training;
vi. Promoting research by undertaking studies and surveys relating to techno-economic conditions;

vii. Exercising powers incidental while discharging the duties;

viii. Monitoring and disseminating credit information to Government and RBI; and

ix. Keep deposits and invest funds in promissory notes and securities of Central Government.

REFINANCE OPERATIONS OF NABARD

The refinance facility provided by the national bank for different purpose, covers both investment and production credit. These credit facilities include a wide range of activities both in the farm and non-farm sectors. The eligible institutions for the purpose of obtaining refinance facilities from NABARD are SLDBs, SCBs, CBs and RRBs. The short-term refinance is provided to SCBs on behalf of CCBs in such states where there is three-tier cooperative credit structure. In such states where three-tier cooperative credit structure does not exist, refinance is provided to SCBs. The purposes for which ST refinance facility is provided are crop loans, marketing of crops, inputs distribution, working capital requirements of cooperative sugar factories, procurement of raw materials, production and marketing activities of weavers and other industrial societies and production and marketing activities of rural artisans. The period of this type of refinance is 18 months.

The medium-term (MT) refinance facility for approved agricultural purposes and conversion of ST crop loans into MT loans due to natural calamities and enemy action is provided by NABARD to SCBs and RRBs. But, for the purpose of
purchase of shares of processing societies, refinance is available to SCBs only. This type of MT refinance accommodation is provided for the period from 18 months to 7 years. Some other medium and long-term (not exceeding 25 years) accommodations are provided to SCBs, LDBs, RRBs, and CBs for the purpose of fixed investments in agricultural and non-farm rural activities under schematic lending.

**1. FARM ACTIVITIES**

1. **Short-term Loans**
   
   a. Seasonal agricultural operations and marketing of crops.
   
   b. Stocking and distribution of chemical fertilizers, and
   
   c. Financing co-operative sugar factories.

2. **Medium/ Long-term Loans**
   
   a. Approved agricultural purposes
   
   b. Conversion Loans
   
   c. Purchase of shares in the cooperative sugar factories and other processing societies
   
   d. Various minor irrigation investments such as construction of dug wells, dug-cum-bore wells, filter points, shallow/medium/deep tube-wells, lift irrigation units, agricultural pump-sets, sprinkler irrigation, linking of water courses, etc.
   
   e. Farm mechanization, including tractors, power tillers, threshers, etc.
   
   f. Land development, soil conservation, shaping of land for irrigated or dry land farming.
   
   g. Plantation and horticulture crops, such as, coffee, tea, rubber, cashew, coconut grapes, spices, etc.
h. Animal husbandry programmes covering dairy, poultry, sheep, goat, piggery, etc.

i. Inland and marine fisheries.

j. Storage godowns and market yards.

k. Forestry including growing specified varieties of timber for paper, pulp and fiber.

l. Activities under RDP.

m. Work animals, animal driven carts, etc.

n. Other purposes, like dry land farming, command area development projects, export oriented agricultural project, etc.

II. NON-FARM ACTIVITIES

1) Short To/ Working Capital Loans

a. Production and marketing activities of Power loom/ handloom weaver’s Societies, Primary coir cooperatives, other cottage and small scale industrial cooperatives and village artisans through primary societies.

b. Procurement and marketing activities of apex/ regional weavers societies and central coir marketing societies.

c. Silk reeling and twisting activity of cooperatives.

d. Collection and marketing of minor forest produce.

2) Medium/ Long Term Loans

a. Purchase of shares by power loom owners/ power loom weavers societies and hand loom weavers in consumer type of cooperative spinning mills.
b. Handlooms acquisition, modernization, etc. of looms, Constructions of work shed, acquisition of shares in consumer type cooperative spinning mills by weavers, opening/ renovation of handloom emporia, etc.

c. Power looms acquisition of power looms.

d. Coir establishment of coir delivering units, setting up of show rooms/ sales depots in hired premises, etc.

e. Sericulture – Including irrigation facilities for mulberry cultivation, new planting/ replanting, acquisition of rearing equipments. Setting up of grainage units by individuals, etc.

f. Cottage and Village Industries – Activities of industrial cooperatives engaged in the production and marketing activities of 22 broad groups of cottage and small scale industries, industrial activities of rural artisan members of primary agricultural credit societies (PACS), large-sized Adivasi Multi Purpose Societies (LAMPS) and farmer’s service societies (FSS) for purchase of equipments and tools, etc.

g. Tiny/ Cottage and Village Industries – Package of credit measure involving automatic refinance to CBs and RRBs comprising General Refinance Scheme and infrastructural and promotional support schemes. Refinance to registered societies for investment in plant machinery and tools.

h. Automatic refinance facility to SCBs and SLDBs for financing tiny, cottage and village industries.

i. Diversified non-farm purposes falling under the industries, services and business (ISB) component of RDP and Scheduled Caste (SC)/ Scheduled Tribes Action Plan outside RDP.
j. Bio gas plants – Installation of different types of bio gas plants.

k. Purchase of dual fuel engine and installation of bio-gas plants of respective size.

l. Other non-conventional energy sources, such as wind mills, etc.

m. Term loan assistance to meet the margin money requirement of cottage, tiny and village industries units.

**NABARD REFINANCE OPERATIONS PERFORMANCE IN TAMILNADU**

The NABARD is expected to cover different operations to fulfill its avowed objectives. The major task of NABARD is to provide refinancing facilities to institutions like CBs, cooperatives and RRBs which are involved in financing the activities related to integrated rural development programmes both in farm and non-farm sectors. The refinancing operations of the NABARD in terms of year, agency, purpose, region and scheme-wise at All India level from the subject matter of this chapter.

**THE REFINANCE OPERATIONS**

The short-term (ST) refinance is provided to State Cooperative Banks (SCBs) and Regional Rural Banks (RRBs) for the purpose of crop loans, input distribution, marketing, etc. for a period of 18 months. The medium-term (MT) refinance facilities is provided for the purpose of ‘Approved Agriculture Purposes’ (AAP) and conversion of ST crop loans into MT loans to SCBs and RRBs, for a period from eighteen months to seven years. Other medium and long-term (not exceeding 25 years) accommodation is made available to SCAB, SAROBs, RRBs and CCBs. The State Governments have also provided the refinance support for contributing to share capital of cooperative credit institutions for a period of 20 years. (See Chart 1.5)
EFINANCE FACILITY FOR THE DEVELOPMENT OF AGRICULTURE

The National Bank for Agriculture and Rural Development (NABARD) has reduced the rate of interest by 20 basis points (bps) on its long term refinance facility (3-5 years and 5 years) and by 50 bps for the medium term refinance facility (18 months to 3 years) to banks with an objective to give a spur to investments in agriculture. According to a statement issued by NABARD, the new rates of interest on refinance will now be 9.30 per-cent for five years and 9.50 per-cent for three-five year period and 9.5% for 18 months to three years period. In addition to this rate cut, NABARD shall further give 50 basis points reduction for area development projects and innovative activities which enhance production and productivity of agriculture.
These activities among others include production under controlled conditions like poly houses, water saving drip and sprinkler facilities and precision farming. Banks availing more than Rs 500 crore in a single draw will further be incentivized by 10 bps. In addition to the above, NABARD has also reduced rate of interest by 50 bps on short-term loans to State Co-operative Banks, and Regional Rural Banks (RRBs) for financing of other prescribed activities (other than crop loans) like financing to Weaver’s Cooperative Societies, Handloom Development Corporations, marketing of crops etc. The revised rate of interest will now be 10 per-cent per annum. The new refinance rates are be applicable from August 14, 2014.

**NEED FOR THE STUDY**

The National Bank for Agriculture and Rural Development (NABARD) is the apex organization with respect to all matters relating to policy, planning and operational aspects in the field of credit for the promotion of, agriculture and allied activities in rural areas. The bank provides refinance to various banks for their term lending operations for the purposes of agriculture and rural development. The National Bank of Agriculture and Rural Development (NABARD) has emerged as an apex refinancing institution for agricultural and rural credit in the country since July, 1982. It has taken over the refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural Banks. It has also taken over the ARDC (Agricultural Refinance and Development Corporation), developing a strong and efficient credit delivery system which is capable of taking care of the expanding and diverse credit needs for agriculture and rural
development was a task that received the attention of NABARD. NABARD is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association (IDA). There are some other International Aid Agencies which provide assistance to NABARD in respect of various projects. NABARD has been associated with the implementation of 42 projects with external credit out of which 38 projects are assisted by World Bank and its affiliate, i.e. IDA and International Bank for Reconstruction and Development (IBRD).

Every since NABARD started functioning there have been many studies by different agencies evaluating the varied aspects of performance of NABARD. The micro studies on specific area are a few. Hence the present study is focused on Sivagangai District; an integral part of drought prone region of Tamilnadu assumes a greater significance.

**STATEMENT OF THE PROBLEM**

Sluggish economic growth, failure of development effect to trickle down to the lower rungs of the society, massive population increase and growing unemployment and poverty have prompted the Government of India to concentrate on the provision of credit to those who are dependent on agriculture, economic conditions. Before the advent of planning in 1951, rural credit to the greater extent was largely provided by informal agencies, such as, money lenders, friends, relatives, etc. and to a limited extent by formal agencies like cooperatives and Government. Ever since the first plan the Government of India and the Reserve Bank of India have taken several measures to strengthen cooperatives. In spite of the concerted efforts of Government, cooperatives could not rise to the occasion
and as a result it had mixed record of success. The commercial banks which from an important credit agency had neglected the priority sector in general and agriculture in particular for a long time. It was since nationalization of major private sector commercial banks and subsequent introduction of Lead Bank Scheme in 1969, the commercial banks had begun extending both short and long-term credit facilities to agriculture and other allied activities like marketing, processing, storage, etc. in higher doses with greater enthusiasm. Inspite of tremendous improvement in the functioning of commercial banking both in quantitative and qualitative terms of branch expansion, deposit mobilization, credit advancement especially to the priority sectors in rural areas there has been lacunae in owning up the responsibility for the overall development. Towards this, NABARD was set up by an Act of Parliament on July 12, 1982. It took over the entire undertaking of the Agricultural Refinance and Development Corporation (ARDC) as well as the refinancing functions of the Reserve Bank of India in relation to State Cooperative Banks (SCBs) and Regional Rural Banks (RRBs). NABARD has to provide by way of refinance all kinds of production and investment credit to agriculture, small-scale industries, artisans, cottage and village industries, handicrafts and allied economic activities. It has organic links with RBI by virtue of the latter holding 50 per-cent of its share capital and three members of the Reserve Bank’s Central Board being appointed as directors of NABARD.

Though NABARD has been functioning for the last 30 years since its inception, it is beset with various problems in its dealings with other financial institutions. This is due to several internal and external factors. Hence the problems affecting the functioning of NABARD are to be identified for toning up its performance in the interest of banking development in general and beneficiaries’
development with proper customer service in particular. This study is an attempt in that direction.

OBJECTIVES OF THE STUDY

The following are the objectives of the study

1. To study the working of NABARD in India and Tamilnadu since its inception.
2. To know the Banking Development in Sivagangai District
3. To analyse the refinance operations of NABARD in the Study Area.
4. To assess the impact of refinance of NABARD on the beneficiaries of different financial agencies in Sivagangai District.
5. To give concrete findings, suggestions for overcoming the various problems and conclusion.

SCOPE OF THE STUDY

It is hoped that the findings of the study would be of much more useful for the Government, Non- governmental organisantions and financial institutions to formulate strategies for the development of agriculture and rural development.

METHODOLOGY

Method of Data Collection

Primary Data

For the purpose of collecting data two schedules, one for the bankers and other for loan beneficiaries were framed and administered among the sample units.

The first schedule was used to collect the information relating to advances refinanced by NABARD under different schemes, the deficiencies and difficulties
in getting the refinance from NABARD by the banks and to ascertain the administrative difficulties in dealing with NABARD. Suggestions were also invited from bankers with regard to the formation of schemes and NABARD refinancing under Long-term/Short Term/Medium-Term loans.

The second schedule was administered to beneficiaries to collect information relating to identification of beneficiaries, their interaction with bankers in receiving the loans and making repayments, and the impact of loans on beneficiaries. The primary data were gathered from beneficiaries and at their residences through personal interview and focus group discussion. The data were collected by administering a pre-tested interview schedule.

Secondary Data

Secondary data were collected from published journals, IOB Lead Bank, Sivagangai and Office of the Zonal Manager, NABARD, Sivagangai and related websites

Sampling Design

Survey method is adopted for the study by using the random sampling frame. All the Two Revenue Divisions of the District (Sivagangai and Devakottai) are covered for selecting the bank branches refinanced by NABARD and the beneficiaries of sample branches. From Sivagangai, relatively bigger divisions over the rest of the one division, four Commercial Bank Branches, Sivagangai District Central Cooperative Bank Branches and Six Pandian Grama Bank branches have been chosen at random from the list of bank branches prepared alphabetically. The sample works out at 25 per-cent to the total number of branches in each division.
In the second stage, 203 beneficiaries from a total of 1280 have been chosen from Commercial Bank Branches, 150 out of 1007 from Central Cooperative Bank Branches and 237 out of 1422 from Pandian Grama Bank Branches, at the rate of 6 per-cent sample, were chosen for the purpose of study. Thus, the bank sample constitutes 36 Commercial Bank branches, 12 Sivagangai District Cooperative Central Bank branches and 30 Pandian Grama Bank branches (Total 78) with 203, 156 and 237 beneficiaries (Total 590) respectively for the present study (See table 1.6).

**Table 1.7**

**Number of Sample Branches and Beneficiaries selected from the Sivagangai District**

<table>
<thead>
<tr>
<th>Sl.No</th>
<th>Banks</th>
<th>Regions</th>
<th>Total No. of sample Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Sivagangai</td>
<td>Devakottai</td>
</tr>
<tr>
<td>1.</td>
<td>CommercialBanks</td>
<td>26</td>
<td>10</td>
</tr>
<tr>
<td>2.</td>
<td>SivagangaiDistrictCentralBanks</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>3.</td>
<td>PandianGramaBanks</td>
<td>20</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>52</strong></td>
<td><strong>26</strong></td>
</tr>
</tbody>
</table>

**PERIOD OF THE STUDY**

The reference period for the study is confined to 2005-2012

**TOOLS OF ANALYSIS**

The data were analyzed using statistical techniques such as per-centages, averages, linear growth rates, compound growth rates, coefficient of variance and regression analysis, etc.
COMPOUND ANNUAL GROWTH RATE

\[ \text{CAGR} = \left( \frac{\text{Ending value}}{\text{Beginning value}} \right)^{\frac{1}{\text{# of Year}}} \]

LINEAR GROWTH EQUATION

\[ N(t) = N(0) + Kt \] is the amount in your wallet after \( t \) year

LIMITATIONS OF THE STUDY

1. Since some of the respondents were hesitant to furnish data and information this study is likely to suffer from non-sampling error.
2. There was much variation in the information given by the sample respondent the information found in the official records
3. The findings of the study can be applied to Sivagangai district only and it may not be possible to apply for other districts.

ORGANISATION OF CHAPTERS

- The **FIRST CHAPTER** presents with introduction and design of the study.
- The **SECOND CHAPTER** covers the review of related literature and research gap
- The **THIRD CHAPTER** provides District profile and banking development of the study Area.
- The **FOURTH CHAPTER** presents Refinance operations of NABARD in Sivagangai District.
- Chapter **FIVE Focuses** NABARD’s Refinance impact on beneficiaries in Sivagangai District.
- The **SIXTH CHAPTER** comprises of summary of findings, suggestions and conclusion.
REFERENCE


14. Tyagi, B.P., Agricultural Economics of Rural Development, Chand Publication, New Delhi, pp.662-668
