Chapter 3

Evolution and Perspective of NABARD

Introduction

After looking at agricultural position and existing credit institutions by the Agricultural Finance Committee (Gadgil Committee Law) found that cooperatives cannot be proved reliable for balanced and planned distribution of credit. In view of the Committee the progress of the cooperatives was very slow and uneven. Therefore, the Committee concluded that an autonomous public corporation should be established for agricultural credit. The operation of the corporation should be in supervision of State but day to day working and normal business to be conducted on independent basis. The Committee cited the examples of several countries.¹

All-India Rural Credit Survey Committee (1951-54) also examined the question of setting-up of all-India organization. The Committee disfavoured the idea of such corporation because there were cooperatives and other banking institutions already available to provide agricultural finance. In their view, the RBI has appropriate resources, the
personnel and experience along with statutory powers to look after the agricultural credit structure in the country.

The Committee on Cooperative Credit (V.L. Mehta Committee, 1960) appraised for widening the RBI's contribution in long-term operations fund on large scale. It did not favour any separate corporation for agricultural development. Accordingly, in Third Five Year Plan a suitable legislative action was taken to set-up a Development Finance Corporation for Agriculture. In the Plan, the functions of the corporations were elaborated in the following terms:

"Corporation will purchase debentures floated by Central Land Mortgage Banks in the normal course and will also provide funds for schemes for increasing agricultural productions which are remunerative in character but involve considerable investment or long period of waiting, such as, rubber, coffee, cashew nut and areca nut plantations, irrigation, contoured bonding and soil-conservation and development of orchards and fruit gardens. The loans advanced by the corporation will be channelised through the Central Land Mortgage Banks." The Agricultural Refinance Corporation was set up in 1963. In 1965, the idea of a National Agricultural Bank was received again by the Committee on Cooperation (Mirdha Committee). After reviewing the role of RBI, in the sphere of agricultural credit, the Committee recommended for taking up necessary steps to
establish a National Cooperative Bank which would act as an apex of the cooperative structure of credit in the country.

In 1969 the All-India Rural Credit Review Committee rejected the proposal to de-link activities of agricultural credit from the RBI and place it under the National Level Agricultural Bank. The Committee suggested that agricultural policy should be formulated. Accordingly, a statutory Agricultural Credit Board for formulation, review and modification of agricultural policy, was established and the Board replaced the earlier standing Advisory Committee on Rural and Cooperative Credit.

The Administrative Reforms Commission of 1970 also disfavoured the creation of a separate bank for agriculture. The Commission observed, "While the need for greater and more pointed attention to agricultural financing was irrejectable. It suggested to establish an agency for this purpose without a direct link with the Central Bank of the country, was open to serious objection."

The Banking Commission of 1972 favoured combining the ARDC and the AFC to form a new institution within the RBI complex, but stressed that all short-term finance should be under the control of a single authority, that is the RBI. The National Commission on Agriculture of 1976 exhorted the RBI to take steps in accordance with its historic role to "integrating the total structure for financing agriculture and
rural development from ground level upwards right upto the creation of an Agriculture Development Bank of India as the apex organization." 

Genesis of NABARD

The Bank has been the off shoot of the recommendations of the National Commission on Agriculture. The Commission had suggested that to overcome difficulties being faced by farmers in obtaining credit and other inputs, an integrated approach should be adopted for the supply of services and inputs including credit. The Commission had recommended that all types of credit needs should be met through a single integrated agency leading up to an agricultural development bank at the apex. It was also suggested that such a bank could consolidate expertise and experience of various national level agencies into a single national organization directing the flow of agricultural credit according to the needs.

At the instance of Government of India, RBI appointed a Committee to Review arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1979. The Committee sought to review, examine, inter alia, the structure and operations of ARDC in the context of an increasing need for term loans for agriculture and the feasibility of integrating short-term and medium-term credit
structure with long-term credit structure at national, state
district and village levels.

"The CRAFICARD examined in detail, arguments in
favour and against the establishment of a National Bank for
Agriculture. The Committee found a number of gaps and
deficiencies in the existing arrangements from top to bottom.
They also did not agree with the view that establishment of a
separate all-India organization will make credit costlier for
the ultimate borrower. The Committee also felt that the new
institution being equally responsible as the RBI will manage
the entire credit operation in such a manner as would help
maintaining proper financial discipline ensuring the health
of the system as a whole. The analogy of IDBI as an argument
for the establishment of a national bank was not accepted by
the Committee, since the new bank would have to deal not
only with long-term funds as the IDBI does, but also with
short-term credit.

The Committee felt that the device of a statutory body
for policy-making for agricultural credit had not worked in
the manner envisaged by the All-India Rural Credit Review
Committee. They observed that in the mean time the
problems of agricultural credit have not only grown in
complexity and size but also merged in the larger tasks of
rural development. In view of the situation, they felt that the
need for "An Organizational Device" for providing
undivided attention, forceful direction and pointed focus to
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credit problems arising out of integrated rural development. The Committee, therefore, came to the following conclusions:

"Therefore, the committee is convinced that the balance of advantage in the present context lies in setting up a national level bank with close links with the RBI. However, we envisage the role of the RBI as one of spawning, fostering and nurturing the new banks, somewhat in the same manner as the ARDC. We would cast a special responsibility on the RBI to develop the new institution which in our view is a logical step in the organizational evolution of the RBI itself".7

The concept of national bank was given by CRAFICARD. The Committee to review arrangements for institutional credit for agricultural and rural development considered various names suggested for a national level organization and came to the conclusion that the national level bank should be known as National Bank for Agriculture and Rural Development (NABARD). NABARD has been conceived by CRAFICARD as an exercise in decentralization of the Central Bank’s functions of providing all kinds of production and investment credit to agriculture, small-scale industries, artisans, khadi and village industries, handicrafts and other allied economic activities in an integrated manner with undivided attention, pointed focus and forceful direction. NABARD was established, in terms of the preamble of the Act, "for providing credit for the promotion of agriculture, small scale industries, cottage and village
industries, handicrafts and other rural crafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas. NABARD took over the functions of the erstwhile Agricultural Credit Department (ACD), Rural Planning and Credit Cell (RPCC) of RBI, and Agricultural Refinance and Development Corporation (ARDC). The Bank was established with a paid up capital of Rs. 100 crores equally subscribed by Government of India and RBI.\textsuperscript{8}

**Objectives of NABARD**

The bank was set-up as an apex institution to meet the growing and diverse credit needs of the agricultural and rural sector. The bank is a specialized institution in the field of agricultural credit and is able to tackle the problems arising from integrated rural development. It was supposed that the institution will successfully undertake the functions of apex refinance institution in the country for short, medium and long-term financing of agriculture and allied activities, which would also include marketing, processing, storage and rural enterprises. For this, the bank will combine in itself the developmental and financial role.

As the apex institution it is concerned with policy, planning and operations in the field of agriculture credit and other economic activities in rural areas. The main objectives, which guide the functioning of National Bank, are:\textsuperscript{9}
(i) To provide refinance to eligible institutions, viz., SLDBs, SCBS, Scheduled CBS and RRBs for supporting production and investment credit for developmental activities in rural areas.

(ii) To improve the absorptive capacity of the credit delivery system through institution building by monitoring, formulation of rehabilitation schemes restructuring of credit institutions, training of personnel etc.

(iii) To coordinate the activities of different agencies engaged in developmental work at the field level and to keep liaison with Government of India, State Governments and RBI and other national level institutions connected with policy formulation, and

(iv) To undertake monitoring and evaluation of projects refinanced by it.

The major objectives, which guide refinance support for different activities though, the eligible institutions by National Bank are:

(i) To support national policies for increasing agricultural production and rural employment through efficient use.

(ii) To reduce regional imbalance;

(iii) To make equitable distribution of growth ensuring credit support to the weaker section of the society
through special programmes like the Integrated Rural development Programme (IRDP)

(iv) To increase the credit absorptive capacity of the credit dispensation; and

(v) To improve quality of lending through proper control of technical and financial parameters and propagation of the payment ethics.

Functions of NABARD

The main functions of the bank under the NABARD Act of 1981 are as follows:

A. Credit Functions

1. Production and Marketing Credit

The Bank may provide by way of refinance, loans and advances, repayable on demand or on the expiry of fixed periods not exceeding eighteen months, of State Cooperative Bank regional rural banks, or to any financial institution or to any class of financial institutions, which are approved by the Reserve Bank in this behalf, for financing.

(i) agricultural operations or the marketing of crops,

(ii) the marketing and distribution of inputs necessary for agricultural development,

(iii) any other activity for the promotion in the field of agriculture and rural development.
(iv) bonafide commercial or trade transactions,

(v) the production or marketing activities of artisans or of small-scale industries, industries in the tiny and decentralized sector, village and cottage industries or those engaged in the field of handicrafts and other crafts.

The securities for getting refinance may be stocks, funds and securities other than immovable property in which a trustee is authorized to invest money by any law for the time being in force and also against promissory notes supported by documents of title to goods. Such documents should be transferred/assigned or pledged to the borrowing institution as security for loan or advance made for any of the above-mentioned purpose/purposes.

According to the circumstances, the NABARD may consider to accept in lieu of the actual assignments on any such security in favour of it. In this regard the declaration should be in writing from the borrower. In such declaration it should be stated that it holds such title to goods as may be set out in the declaration and containing such other particulars as may required by the Bank.

The NABARD may also grant loans and advances to any SCB if the loan or advance is fully guaranteed for repayment of principal and interest by Government. Further, any SCB which is a scheduled bank may be provided such loans and
advances if the loan or advance is secured either by a bill of exchange or promissory note executed by the CCBs and assigned in favour of SCB.

Such loans and advances should also be made by NABARD repayable on demand or on the expiry of the fixed period not more than eighteen months against promissory notes of a SCB or RRB or any approved institution. For such accommodation, the borrowing institution should furnish a declaration in writing setting the purpose of the loans and advances and such other particulars as may be required by the NABARD.

2. Rescheduling of loans

Where the National Bank is satisfied that owing to unforeseen circumstances the rescheduling of any loans and advances made to artisans, small scale industries, industries in the tiny and decentralized sector, by any state cooperative bank, regional rural bank or any such financial institution falling under such class of financial institutions as may be approved by the Reserve Bank in this behalf, has become necessary, it may provide to such bank or institution such financial assistance as it may deem fit by way of loans and advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years against such securities as may be specified in this behalf by the National Bank.
3. Investment Credit-Medium Term:

The National Bank shall provide such financial assistance as it may consider necessary by way of making to State cooperative banks, regional rural banks, loans and advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years against such securities as may be specified, in this behalf, by the National Bank and such loans or advances may be made for agriculture rural development or such other purposes as the National Bank may from time to time determine.

Therefore, loans or advances shall not be made under this category to a SCB unless such loan or advance is fully guaranteed as to the repayment of the principal and payment of interest by State Government. But such guarantee may be waived by the NABARD if other security to the satisfaction of the Bank is furnished, or if, the Bank is satisfied that the guarantee or other security is not necessary.

4. Purchase and Sale of Share

The National Bank may contribute to the share capital of, or purchase and sell share of, or invest in the securities of any institution concerned with agriculture and rural development, which the Central Government may notify in consultation with the Reserve Bank.

5. Loans to State Governments for Share Capital Contribution
The National Bank may grant loans and advances to State Governments, repayable on the expiry of fixed periods not exceeding twenty years from the date of making such loans and advances, from the National Rural Credit (Long-term Operations) Fund established under Section 42 for enabling them to subscribe directly or indirectly to the share capital of a cooperative credit society.

6. **Security for Credit**

The loans advances granted to an institution other than a scheduled bank under the head “Other investment Credit” ‘Loans to State Governments for Share Capital Contribution and “Direct Loans” are subject to be fully and unconditionally guaranteed by the government as to the repayment of principal and payment of interest. The guarantee shall not be required in such case where the borrowing institution has furnished the security to the satisfaction of the Board.

The accommodations from NABARD under the head ‘other Investment Credit and Issue of Guarantees’ shall not be granted to any scheduled bank unless such scheduled bank furnishes security to the satisfaction of the Board.

In any case no guarantee or security shall be required in which the Board for reasons to be recorded by it in writing, decides having regard to the nature and the scope of scheme
or schemes for which accommodation is granted by NABARD that such security or guarantee is not necessary.

7. **Issue of Guarantees**:

The National Bank may guarantee with the prior approval of the Central Government and on such terms and conditions as may be agreed upon deferred payment in connection with the purchase of capital goods due from a cooperative 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. The guarantee may also be issued for such deferred payments regarding capital goods due from any other person. It should be guaranteed to the NABARD by a state land development bank or state cooperative bank or a Scheduled Bank.

8. **Conversion Loan for Production Credit**

NABARD may also provide such financial assistance to SCBs, and other approved financial institutions for a period upto seven years for the following purposes:

(i) to pay any dues to the NABARD for credit extended for financing agriculture or agricultural operations;

(ii) to make to CCB or PACs loans or advances repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years, from the date of making such loans or advances by way of
reimbursement of loans and advances made by such cooperative banks or societies for agriculture or agricultural operation for reimbursement of such loans or advances which have been converted into loans or advances repayable on expiry of fixed periods not being less than eighteen months and not exceeding seven years.

9. **Investment Credit Medium Term**

If the NABARD considers necessary, it may provide such financial assistance by way of loans and advances to SCBs and RRBs. Such loans and advances shall be repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years. It may be provided against such securities as may be specified by the NABARD in this behalf and such loans and advances may be made for agriculture, rural development or such other purposes as determined by the NABARD from time to time.

No loan or advance shall be made under the category to a SCB unless it is fully guaranteed as to the repayment of principal and payment of interest by the State Government. But the Bank may waive such guarantee if the other security for the Bank's satisfaction is furnished or the Bank is satisfied that the guarantee or other security is not necessary.
10. Other Investment Credit

The NABARD may provide financial assistance for promoting agriculture and rural development. For the purpose the bank may sanction loans and advances by way of refinance on such terms and conditions as the NABARD may think fit to impose. Such assistance is provided to a SCB or a scheduled bank or any other financial institution approved by the RBI in this behalf and also rescheduling the payment of such loan and advances.

The maximum period for the repayment of such assistance shall not exceed twenty five years for both, i.e., whether originally or by rescheduling the payment. Purchasing may also provide such assistance or selling or subscribing to the bonds or debentures issued by any bank or institution (mentioned above). The period of repayment of such assistance shall not exceed twenty five years from the date of issue of such loans and advances.

This type of refinance assistance may be granted for artisans, small-scale industries, industries in the tiny and decentralized sector village and cottage industries and those engaged in the field of handicrafts and other rural crafts and also for rescheduling the payment of such loans and advances. This assistance may be provided either through a state cooperative bank or through a scheduled bank. The Bank may impose the terms and conditions for granting such
assistance. The maximum period of such loans and advances or rescheduling the payment shall not exceed twenty-five years.

Under this category NABARD may also provide loans and advances repayable on demand or on expiry of a fixed period not exceeding eighteen months for the purposes mentioned in earlier paragraphs. It may also include rescheduling of the same into long-term loans, which may be made in favour of such bank and for such period the Bank deem it fit.

11. Direct Loans

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

12. Amount 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 remaining 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. Further,
where an accommodation had been granted to borrowing institutions, all securities held, or which may be held by such borrowing institutions an account of any transaction in respect of which such accommodation has been granted by NABARD, shall be held by such institutions in trust for NABARD.

13. Power to Call for Repayment before Agreed Period

NABARD may require any borrowing institution to which it has granted any loan or advance to discharge forthwith in full its liabilities to the NABARD.

(i) If it appears to the Board that false or misleading information in any material particular was given in the application for the loan or advance; or

(ii) If there is a reasonable apprehension that the borrowing institution is unable to pay its debts; or

(iii) If the borrowing institution has failed to comply with any of the terms of its contract with NABARD in the matter of loan or advance, or

(iv) If for any reason, it is necessary to protect the interests of the NABARD.

14. Validity of Loans or Advance 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.

15. **Power to impose conditions for Accommodations**

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

16. **NABARD cannot grant loans against its Bonds or Debentures**

The National Bank is not allowed to grant any loan or advance on the security of its own bond or debentures to any of the borrower agency in any form.

17. **National Bank to have Access to Records**

The National Bank has the right to have free access to all records of any institution which avails any of credit facility of NABARD. The Bank also can have free access to all such records of any such person who seeks to avail any credit facilities from such institution. In such cases perusal may appear to NABARD which is necessary in connection with the providing of finance or other assistance to such institution or the refinancing of any loan or advance made to such person by the borrowing institution. The NABARD may require any
institution or person to furnish to it copies of any of the records, in such circumstances the institution or the person, as the case may be shall be bound to comply with such requisitions.

18. Commission

The NABARD may record commission or other consideration in respect of rendering of any services related to its various credit functions and other functions.

B. Other Functions of the NABARD

The NABARD may also perform some other functions discussed below:

(a) Coordination, Study and Consultation

NABARD shall coordinate its operations and the operations of various institutions engaged in the field or rural credit. It shall maintain expert staff to study all problems relating to agriculture and rural development. It shall also be available for consultation to Central Government, the RBI, the State Governments and the other institutions engaged in the field of rural development.

(b) NABARD may act as an Agent

The NABARD may act as an agent for the Central Government or a State Government or the Reserve Bank in the transaction of any business in respect of loans and advances granted or to be granted or bonds or debentures
purchased or subscribed for or to be purchased or to be subscribed for.

(c) Training Facilities and Promotion of Research

The NABARD may provide facilities for training, for dissemination of information and for promotion of research including, the undertaking of studies, researches, techno-economic and other surveys in the field of rural banking, agriculture and rural development. For these purposes the Bank may make grants including grants by way of provision for fellowship and chairs to any institution.

(d) Incidental Powers

The NABARD may do all such things necessary or incidental to or consequential upon the exercise of its powers, discharge of its functions and the performance of its duties under the Act or under any other law for the time being in force.

(e) Credit Information

The NABARD may, for the purpose of the efficient discharge of its functions under the act, collect from or furnish to the Central Government, the RBI or any banking company or such other financial institutions as may be notified by the Central Government in this behalf, credit information or other information.
(f) **Deposits and Investments**

The NABARD may invest its funds in promissory notes, stocks of the securities of the Central Government. It may keep its money deposits with the RBI or with any agency of the RBI or in consultation with the RBI with a state cooperative bank or a scheduled bank.

**Challenges to Develop Cooperative Credit Institutions**

The cooperatives have been playing a very vital role in making agricultural credit available for agricultural production which has been given the highest priority in our planning for economic development. Over the years, the major policy thrust in the field of agricultural credit has been its progressive institutionalization.

Cooperative institutions continue to play a predominant role in supporting agricultural production credit. As a matter of fact, the cooperatives have been considered as the most ideally suited institutions for dispensing rural credit in the Indian context. They have the advantages of having the large network in the form of primary agricultural credit societies (PACs), farmers service societies (FSS) and large sized adivasi multi-purpose cooperative societies (LAMPS).

The short-term cooperative credit structure, comprising 30 state cooperative banks, 369 central cooperative banks and 92400 primary agricultural credit societies with a membership over 87 million constitutes the most important
component of the institutional credit system in India. Even though the structure has gained in strength at the apex level and to some extent at the district level. It continues to be weak in most of the states at the base level. Thus the first challenge faced by the National Bank was to pay its utmost attention to strengthening the cooperatives and strengthening the procedures for loaning so as to make them financially sound and operationally strong. In this connection, the National Bank took certain concrete steps in respect of the following:

**Reorganisation of Primary Agricultural Credit Societies on the Basis of Viability**

The Agricultural Credit Department of the Reserve Bank of India had initiated action in this direction even before National Bank was set up. However, a number of objectives sought to be achieved by this reorganization remained unaccomplished. On the suggestion of the Reserve Bank of India the state governments undertook a programme of reorganization of PACs and made sincere efforts to retain only those units, which were considered to be viable on the basis of loan business of at least Rs. 10 lakhs for each of the societies. Although the programme of reorganization had been completed inmost of the States, yet a large number of PACs continued to be non viable on account of low volume of business, increased establishment costs, high incidence of overdues and competition from commercial and regional
rural banks under multi-agency approach. The objective of the programme was to transform the PACs into truly multi-purpose service units with close interaction with members. Under this programme, the National Bank had offered financial assistance by way of additional share capital contribution, meeting the salary of an additional secretary, meeting a part of the cost of safe banking counter, godown, storage facilities etc. Since this was done on experimental basis in respect of selective societies, a specific funding arrangement is necessary to cover all the PACs so as to have countrywide impact on the working of the PACs. The CRAFICARD had suggested that formation of the Primary Cooperative Development Fund to be set up by the State cooperative banks and central cooperative banks and used for the development of the PACs. The suggestions, however, received a poor response. As a national level institution, the National Bank feels that in the larger interest of making PACs the real mini rural banks, it is necessary to pursue this idea vigorously. Central assistance for augmenting the DDF may be necessary.

The problem of willful default which is widely prevalent in the cooperative credit system is being viewed very seriously by the National Bank as several expert committees have opined that willful default should be dealt with severely and no mercy should be shown to them. The Regional Offices of National Bank have already taken up this
issue with the respective state governments for expeditious
disposal of all execution proceedings filed by the
cooperatives.

While the problem of overdues, whether arising out of
willful or non-willful defaults, should be tackled in the
manner as stated above. It is imperative that the members of
PACs who repay their loans do get fresh finance for carrying
on their agricultural operations. While the financial
discipline introduced by RBI/NABARD no doubt aims at
continuous credit support for agricultural production
programme by re-cycling scarce resources, it has to be
ensured that those who repay are not denied credit for want
of adequate resources. The National Bank has examined this
aspect and introduced a scheme of Instant Fresh Finance to
members of PACs who repay their dues in full. This scheme
is applicable to central cooperative banks, which are eligible
for short-term agricultural operations limit (SAD) or already
enjoy such limit, but are not able to draw upon the limit due
to deficit in the non-overdues cover and also do not have
adequate resources of their own to provide fresh finance to
members of PACs who have already paid their earlier dues.
Under the scheme, the banks are allowed to draw on the
credit limit sanctioned without insisting on non-overdues
cover or compliance with the seasonal discipline for 3
months from the commencement of the major lending crop
season to the extent of crop loans recovered from their
members, or the amount of fresh advances to be made to such members, whichever is higher.

In short the NABARD is assigned a number of functions and has successfully its achieved objectives. In this background the next chapter deals with the Structure of Organization and Management Pattern of NABARD.
References:

1. Canadian Forms Loans Board, the Mortgage Corporation of New Zealand, The Credit Agricole, Egypt, Federal Land Banks and the Banks for Cooperative in USA and Central Bank of Agriculture and Forestry in Japan

2. CRAFICARD, p. 256

3. Ibid. p. 256

4. Ibid p. 258

5. Ibid. p. 258

6. The Role of National Bank in the Sphere of Rural Credit, NABARD, 1987, p. 2

7. CRAFICARD, p. 261

