Chapter 6

Conclusions and Suggestions

The critical study of Organization and Management of NABARD helps us to evaluate its effectiveness in achieving the objective for which it was established. It helps us in understanding the need and types of agricultural credits of Indian farmers and the extent to which the need is met by institutional agencies. With the help of this evaluation we can also know about what is being done in the field of agricultural credit and what more could be done and it could be done so that the farmers would not starve for credit, and ultimately the growth of agriculture is not marred due to paucity of funds.

Economic development and progress of India, in fact, means reconstruction and resurgence of rural communities in the country. This is so because nearly seventy per cent (70%) of our population lives in villages. The provision of banking facilities is one of the important infrastructure facilities that influences the economic development of rural masses in the country. Agriculture and rural finance are not merely questions of money lending they also include subsidised implements and manure etc. to Agriculture Sector of the country. The purpose is
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not to replace individual money lenders with institutionalised money lenders but to enable the agriculture and farmers to move on to a level of technology that would create a sustained basis for increasing agricultural output and to increase the productivity of land, labour and capital. Agricultural credit may be explained as the amount of investible funds made available for the purpose of development of farm productivity. The credit may be called as an important factor of integrated approach in respect of advisory services for improving production and productivity, marketing, land tenures, farmers organizations and other aspects which are dependent on each other.

It is an established fact that agricultural credit is one of the most important inputs in all agricultural development schemes. In the old days, the major sources of rural credit were money lenders and these sources of credit were inadequate, expensive and exploitative. Since independence, a multi-agency approach has been adopted to provide adequate credit to agriculture. The major policy in the field of agricultural credit has been towards the progressive increase with adequate and timely flow of credit to assist the vulnerable sections of the society. The main objectives of the lending policy have been:

➢ To ensure timely and increased flow of credit to the agricultural sector;
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➢ To reduce and gradually eliminate money lenders from the field of rural finances;

➢ To provide larger credit support to areas covered by special programmes, and

➢ To make credit facilities available to all the regions of the country and reduce regional imbalances.

The rural credit requirements of the farmers may be divided into two types—productive loans and unproductive loans. The productive loans are taken to buy seeds, fertilizers, implements and to make permanent improvements on the land. Money is also borrowed for unproductive purposes, such as for celebration of marriages, births and deaths and also for spending on litigation etc.

The need for institutional credit arises because of the weakness or inadequacy of the non-institutional agencies. The non-institutional agencies and the defects of the credit supply have been, because of:-

➢ It is not properly integrated with the need of the agriculture;

➢ It does not flow into the most desirable channels;

➢ It is very expensive and is not usually related to the productivity of land;
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- It is not available for making agricultural improvement and
- It is based on profit motive and is exploitative.

Historically, one of the purposes of establishing the cooperative credit system was to bring together people of small means for promoting thrift and mutual help for development. Commercial banking in India, on the other hand, came up on the traditional lines and was not tuned to rural banking (except lending to plantation) even within the framework of their adherence to security-oriented lending. The leadership and ethos in commercial banks were urban. However, gradual changes started following the recommendations of the all India Rural Credit Survey Committee in 1954, the conversion of the imperial Bank of India into the State Bank of India in 1955. Introduction of social control over banks in 1967, and the subsequent nationalization of the major banks in 1969 had one important aim, namely, to ensure that the banks play a dynamic role in the development process of rural and backward areas and for the upliftment of poorer sections of society.

There are some institutions, which are engaged in rural credit indirectly, namely, the Reserve Bank of India, the Agriculture Finance Corporation and the Agriculture Refinance and Development Corporation (reconstituted as NABARD in 1982). Among these, NABARD is the institution, which provides
refinance facility to credit delivery system engaged in rural finance.

The establishment of the National Bank for Agriculture and Rural Development (NABARD) is a landmark in the evolution of agricultural finance. It has the objective of promoting the health and strength of credit institutions forming a strong front of the delivery system, i.e. cooperatives, commercial banks and regional rural banks. An indepth analysis of the operations of the NABARD had been made in the foregoing chapters.

Based on this analysis, broad conclusions and suggestions are forwarded as follows:

The idea of an all-India organization for agricultural development was mooted by Agricultural Finance Committee (Gadgil Committee 1945) but the all-India Rural Credit Survey Committee, 1951-54 and committee on Cooperative Credit, disfavoured such type of organization for agricultural development. Again, all-India Rural Credit Review Committee, 1960, and the Administrative Reforms Commission, 1970, disfavoured the idea of a separate bank for agriculture. The National Commission on Agriculture, 1976, exhorted the RBI to take steps in accordance with its historic role in integrating the total structure for financing agriculture and rural development from ground level upwards-right upto the creation of
Agricultural Development Bank of India. The RBI appointed a Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in March 1979, at the instance of Government of India under the Chairmanship of B. Shivraman. The Committee examined in details, arguments in favour and against the establishment of National Bank for Agriculture. The Committee found a number of gaps and deficiency in the existing arrangements from top to bottom. The analogy of the IDBI as an argument for the establishment of a National Bank was not accepted by the CRAFICARD, because the new institution would have to deal not only with long-term fund as the IDBI does but also with short-term credit. The Committee came to the conclusion for setting up of a national level bank having close link with RBI. The committee envisaged the role of the RBI as one of the spawning, fostering and nurturing the new bank. The Government of India and the RBI approved the proposal of the CRAFICARD and the NABARD Act was passed by the parliament on 1st December, 1981. NABARD came into function of Agricultural Credit Development (ACD) and Rural Planning and credit cell (RPCC) of the RBI. Just after the establishment of the NABARD the entire undertaking of the ARDC including all business, property, assets and liabilities, rights, privileges and
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obligations were transferred to and vested in the National Bank.

The main objectives of the bank are to provide refinance to eligible institutions for supporting production and investment credit for development activities in rural areas, to improve the absorptive capacity of credit delivery system, to coordinate the activities of different agencies engaged in the development work at the field level and to keep liaison with Government and other agencies. Various activities of the NABARD may be broadly classified as credit functions and other functions. Credit functions include providing production and marketing credit, conversion/rescheduling of loan to artisans, small scale industries, etc. Other functions of the NABARD include, coordination and consultation activities, acting as an agent of Central Government, State Government and Reserve Bank of India, providing training facilities, promotion of research, etc.

The management of the NABARD vests in a Board of Directors. The Director of the NABARD Comprises of Chairman, Managing Directors representatives from the Reserve Bank of India, Government of India and State Governments. The Board of Directors should comprise fourteen members excluding Chairman according to the NABARD Act. This analysis has revealed that the first three Chairmen of the NABARD did not complete their full term of five years. In view
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of non-completion of the full term of five years by the Chairman of the NABARD it is suggested that necessary measures should be taken to ensure that the Chairman remains in the office for full term. This will enable the Chairman to prepare long-term plans for the growth and development of the NABARD. Further, the Board should also ensure that all the fifteen members as prescribed in the Act are appointed and must attend the meetings of the Board regularly.

The Board is broad-based and includes representatives from Cooperative Banks, Commercial Banks, Reserve Bank of India, State Governments and experts in rural finance, rural development and handicraft, etc.

For the efficient performance of its functions, NABARD is empowered to appoint various Committees, for example, there exists an executive committee for discharging such functions as may be delegated to it by the Board. Similarly, NABARD is also authorized to appoint advisory council to advice the NABARD as may be referred to it.

To achieve its objectives and for efficient performance of the work, NABARD has opened twenty eight (28) regional offices at various state capitals and a sub-office. It is suggested that NABARD should also open its branch offices at district level so that they may help and guide the lead banks in the preparation of annual action plans/district credit plans. These
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offices would help improve the quality of credit plans as formulated by the bank branches. It would also plan, coordinate and monitor effectively the credit plans so formulated. The district level offices of the NABARD would prepare a potential linked credit plan for each district, which would serve as the basis for the individual credit plans.

The amount of refinance provided by the NABARD ranges between 50 to 90 per cent. Higher quantum of refinance is made available in respect of certain priority sectors and other programmes to benefit weaker sections. The rate of interest charged by NABARD on its refinance is determined on the basis of amount of refinance, which ranges between 6.75 to 8.50 per cent. The maximum period of loans may be upto 25 years. Refinance support is available on short-term, medium term and long-term basis for farm and non-farm activities.

With a view to improving the economic condition of rural masses in less developed/under-banked states, NABARD should provide more refinance on easy terms and conditions. NABARD should take special measures particularly, seeking to bring about better functional coordination between State Government, banks and other concerned agencies and prepare bankable projects and schemes and credit should be made available on easy terms and conditions.
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The objectives which guide the refinance support for different activities, through the eligible institutions by the NABARD are to support the national policies for increasing agricultural production and rural employment through efficient use of national resources, reduction of regional imbalances, ensuring credit support to weaker sections of the societies through special programmes, increasing the credit absorptive capacity of the credit delivery system and improving the quality of lending through proper control of technical and financial parameters and propagation of repayment ethics.

The terms and conditions regarding short and medium-term loans depend on both the type of facility and the institution to which refinance is provided. The levels of minimum contribution by borrowers depend on their status as small, marginal and large farmers and the nature of investment. Five to twenty percent of investment cost is required to be contributed by the beneficiaries.

Ground level disbursement of refinance by the NABARD showed an increasing trend. Refinance support is available on short-term, medium term and long-term basis for farm and non-farm activities for all these activities. The refinance of the NABARD is provided to the eligible institutions-SCB, RRBs, SLDBs, Commercial Banks and State Governments. The Bank disbursement of refinance at total ground level credit of State
Cooperative Banks stood at Rs. 24,296 crore, Regional Rural Banks Rs. 5467 crore, Commercial Banks Rs. 41033 crore and other agencies Rs. 14 crore in 2003. The National Bank provides facilities to the nationalized institutions for issuing of Kissan Credit Card on its own. Kissan Credit Card aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in a flexible and cost effective manner. As on 31st March, 2003 cumulatively cards of 313.44 lakh involving bank loan of Rs. 76498.80 crore were issued to the farmers. Personal Accident insurance scheme was formulated for KCC holders to cover them against accidental death/permanent disability.

Agency-wise disbursement of refinance by the NABARD showed an increasing trend over the years as it rose from Rs. 4521 crore in 1998-99 to Rs. 7418.77 crores in 2002-03. The refinance amount of SCARDBs moved from Rs. 2168 crore to Rs. 2853.50 crore but amount of SCBs from Rs. 430 to Rs. 1783.73 crore. The refinance support to the RRBs and CBs increased from Rs. 714 crore and Rs. 1206 crore to Rs. 1538.63 crore and Rs. 1241.54 crore by the NABARD. The amount of disbursement of refinance by the NABARD to ADFCs/PCBs rose from Rs. 1 crore to Rs. 75.75 crore. Spatial disbursement of refinance to different states with Uttar Pradesh absorbing the largest amount was Rs. 1175.64 crore.
Purpose-wise sanctions and disbursement of refinance by the NABARD revealed that the largest number of schemes, commitments and disbursements were made for minor irrigation (Rs. 544 crore in 1998-99 and Rs. 854.97 crore in 2002-03) followed by farm mechanization (Rs. 1345 crore in 1998-99 and Rs. 992.60 crore in 2002-03) followed by farm mechanization (Rs. 1345 crore in 1998-99 and Rs. 992.03 crore in 2002-03), plantation and Horticulture (Rs. 4 crore in 1998-99 and Rs. 292.03 crore in 2002-03) land development (Rs. 1.4 crore in 1998-99 and Rs. 250-69 crore in 2002-03), poultry, (Rs. 76.21 crore in 2002-03) sheep/goat/piggery (Rs. 24 crore in 1998-99 and Rs. 109.60 crore in 2002-03) dairy (Rs. 10.1 crore in 1998-99 an Rs. 909.19 crore in 2002-03) and fisheries (Rs. 0.6 crore in 1998-99 and Rs. 34.73 crore in 2002-03) and other purpose (Forestry storage and Market yard, SGSY, non-farm sector, Rural Housing SC/ST Action Plan and Self-Help Group)

The National Banks disbursement as grant assistance towards externally aided projects are as follows:-

(a) **On going project**- In all, nine externally aided projects are at various stages of implementation. NABARD disbursement credit amount are Rs. 367.27 million during the year 2002-03. These project are highlighted below:-

(i) KfW-NABARD V-Adivasi Development Programme in Gujarat
(ii) KfW-NABARD-Adivasi Special Programme in Gujarat

(iii) KfW-NABARD IX-Adivasi Development Programme in Maharashtra

(iv) KfW-NABARD IV-Indo-German Watershed Development Programme, Maharashtra (Phase II)

(v) KfW-NABARD Indo-German Watershed Development Programme in Andhra Pradesh

(vi) KfW-NABARD-SEWA Bank-Capitalisation of Rural Financial Intermediaries

(vii) CEC-BAIF Project-Transfer of Technologies for Sustainable Development

(viii) NABARD-GTZ Technical Collaboration-Linking Savings and Credit SHGs to Banks

(ix) NABARD-SDC Collaboration-HID Partnership in Rural Finance

(b) **Projects in Pipeline-** KfW, Germany has committed to provided grants assistance of Euro 9.20 million and Euro 19.94 million respectively for the rehabilitation of watersheds in Gujarat and Indo-German Watershed Development programme in Maharashtra. Its provide a grant assistance of Euro 15.83 million for watershed
Development in Rajasthan and Euro 7.16 million for extension of Adivasi Development Programme in Gujarat.

It is important to mention here that the operation, working and functioning of the NABARD be streamlined and made more effective. In the matter a realistic and customer oriented approach would be very much meaningful for improving the functioning and lending operations of the NABARD and ensuring the timely availability of credit and other agricultural inputs to the farmers. The following suggestions may be advanced, if they are implemented in a realistic manner with a result-oriented manner, the entire activity of rural financing would become more suitable to farmers.

NABARD would have to make schemes and measures to see the inputs of high quality reach the ultimate user in a realistic manner without diversion and manipulation. The refinancing activity should not be the main objective, the NABARD must make ample provisions for the supply of agricultural inputs of high quality to the rural sector; and the agricultural inputs may be supplied through the state cooperative agencies, Regional Rural Banks and other developmental agencies.

NABARD should lay stress on research and development efforts in the matter of agricultural, agricultural inputs,
agricultural marketing, storage, transportation and plant protection work etc. NABRAD would have to ensure effective coordination in the working of various state binding agencies engaged in the field of rural financing and supplying inputs to farmers.

Steps should be made to see that loans are not misused, and the chances of duplication of agricultural advances be contained.

NABARD should make easy terms for agricultural advances and the rate of interest on rural sector funding be curtailed. The lending norms, rate of interest, legal formalities rules relating to the security be made more practical.

NABARD on all India level should make more practical and realistic terms for the rural financing. The legal implications and unnecessary formalities be liberalized and be made comfortable so that rural peasants are not exploited.

NABARD at the national level should lay more stress on the loan recovery and timely repayment of agricultural loans. The recommendations made by the Agricultural Credit Review Committee (ACRC) should be implemented effectively.

It may be stressed that there have been some limitations in the working of NABARD and if these hurdles were done away with the NABARD would certainly be doing its work in a better
way in the matter of rural development and rural sector financing. If the suggestions as advanced were followed effectively, they would make the functioning of the NABARD realistic and result oriented. If the schemes of the NABARD are made more practical and accessible to the rural masses this would make the entire rural economy more glaring. Effective and timely credit availability to the farmers living in rural areas may alone make their future bright and meaningful.

The Government of India constituted a Committee on banking sector reforms under the Chairmanship of M. Narsimham which submitted its report in April 1998. The following is the summary of major recommendations of the committee relating to Rural and Small Industrial Credit:

➢ The direct credit has high percentage of NPAs but needs to be continued on commercial consideration. The 10 per cent share for weaker sections in net bank credit should continue. Branch Managers should be made responsible for identification of beneficiaries. Priority sector should also include food processing and related services in agriculture, fisheries, poultry and dairy sector.

➢ The banking system should evolve norms to identify eligible clients for Government sponsored programmes and be fully responsible for all aspects of credit decisions. The committee urged against loan waivers.
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➢ A distinction among client specific institution and general (agro climatic and environmental) factors behind NPAs be made and non concessions for the client specific reasons should be granted. Concessions for distress situations be made on techno-economic considerations by the NABARD.

➢ Debt-securitisation for priority sector is recommended whereby the banks with shortfall on account of priority sector lending can purchase debt from the banks which exceed the mandatory limits in lending to this sector.

➢ Provisions for bad and doubtful debts not exceeding 5 per cent of income and 20 per cent of average advances of rural branches may be allowed as deduction under Income Tax Act present norms of 5 per cent and 10 per cent.

➢ RRBs and Cooperative should reach a minimum of 8 per cent Capital to Risk Assets Ratio (CRAR) over five years.

➢ Capital structure of RRBs be reviewed to enlarge public subscription and greater ownership and responsibility for the sponsor banks. Merger of RRBs sponsored by the same bank in the same state may be pursued to provide economies of scale and optimal use of manpower. The low cost nature of RRBs may not be further diluted.
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➢ The committee suggested that cooperatives should not function as intermediary and loan should be given directly to the borrower. This will reduce the cost.

➢ Supervisory function over RFIs may continue with NABARD but be transferred in the long run to the Board of Financial Regulation and Supervision (BFRS).

➢ Duality of control on cooperatives by state governments and RBI/NABARD be eliminated and the cooperatives may be brought under Banking Regulation Act under the aegis of RBI/NABARD/BFS.

➢ Banking should facilitate evolution and growth of micro-credit institutions.

➢ Banks should devise appropriate criteria for small industries sector and be responsive to its genuine credit need. The present setup of state-level financial and industrial development institutions may be reviewed.

➢ The committee stresses on dedicated and effective debt recovery mechanism.

➢ The power of sale of mortgages be vested through separate statute with LDBs, State Financial Corporations and be extended to other agencies.

As suggested and elaborated by Prof. Dantwala, it is indeed a necessity to simplify the loan procedures, updating
of land records, 'one window system' and issuing a loan pass book. It can help a lot in simplifying the loan procedures.

In the end, after going through the whole working of the National Bank, it could be said that its establishment and participation in agricultural financing has quantitatively and qualitatively improved the agricultural financing in India and its working and success could be compared with State Bank of India, Agricultural Bank of Japan or with any other such bank.

To conclude, NABARD has acted as an apex refinance institution as well as development institution in the field of agriculture and rural development in true sense. The overall performance of the NABARD can be said as satisfactory. What is needed is making available more resources at the disposal of the NABARD and active cooperation of various state Governments and agencies disbursing credit directly. The measures suggested in earlier paragraphs would go a long way in further improving the management and administration of the NABARD and its operations.