

ROLE OF NABARD IN RURAL DEVELOPMENT

C.V.GEETHA

Research Scholar
Dr.B.R.Ambedkar University
&
Assistant Professor
Department of Commerce and Management
Gayatri college of Science and Management
Munsabpeta
SRIKAKULAM

Abstract: National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982 with the paid up capital of Rs. 100 cr. by 50: 50 contribution of government of India and Reserve bank of India. It is the apex banking institution to provide finance for Agriculture and rural development. National Bank for Agriculture and Rural Development (NABARD) was established on July 12, 1982 with the paid up capital of Rs. 100 cr. by 50: 50 contribution of government of India and Reserve bank of India. It is an apex institution in rural credit structure for providing credit for promotion of agriculture, small scale industries, cottage and village industries, handicrafts etc. NABARD provides recommendations to Reserve Bank of India on issue of licenses to Cooperative Banks, opening of new branches by State Cooperative Banks and Regional Rural Banks (RRBs). Many developmental and regulatory works are done by RBI and NABARD in co-operation

Keywords: Agriculture, bank, committee, development, finance, loan, rural, scheme, village

Introduction - NABARD

After the independence there was a large increase in number of banks and Indian banking sector spur growth with many institutions that were coming up. The All India rural Survey Committee that was set up in the year 1951 to 1954 questioned the Agricultural finance committee headed by Gadgil saying that there was no separate need of an establishment by public to manage the agricultural credit of the country as there were already many cooperatives and banks lending for the same. Then the V.L.Mehta Committee was formed in 1960 and also did not supported the idea of a separate institution instead focused on widening the scope of RBI in relation to this. Also post independence Government of India formed the planning commission in the year 1950 and they started with the 5 year plan concept in which different issues were laid and worked on in a course of 5 years. The first 5 year plan took place from 1951-1956 and its major aim was to work on the agricultural sector as this was a main occupation and source of income for many people. But it was in the third 5 year plan (1961-1966) that the legislature recommended the formation of agriculture finance cooperation. Thus the Agricultural Refinance Corporation was formed in 1963. Also the idea to set-up a separate agriculture bank was again given by Mirdha Committee.

But then again during the fourth 5 year plan in 1969 Indira Gandhi nationalized 14 banks this was done to stop corrupt practices done by the already existing banks against the poorer section of society. Under a series of events 6 more banks were also nationalized. Thus the idea was simple to provide the poor and the needy loan or money on a low interest rate and by introducing schemes through these banks so that people take loans from them too. On March 30th 1979 the RBI formed a Committee to Review arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) which reviewed the credit-structure and the loan giving methods at national, state and local level. The committee came to an conclusion after reviewing various anomalies in the already existing structure. There were discrepancies in giving of short term loans and no proper awareness was inculcated among the farmers of the country so that they can better use the banking system.

The committee also stated that as the rural regions are not so developed and that hinders the working of the credit system in the country. Also if one organisation like the RBI was that looked after the agricultural credit by way of ARDC then it cannot completely focus and help in the enhancement of the rural development which is related to the agricultural sector of country.

Thus CRAFICARD suggested the concept of a National agricultural credit bank again and also suggested a name NABARD (National Bank for Agricultural and Rural Benefit) by submitting its report on 28th November 1979 seeking for undivided attention for the growth of agricultural sector. Thus during 1978-1980 when the Rolling Plan was in action due to the political instability in the country, finally NABARD was formed on this committee's recommendations whose chairman was Shri B. Sivaraman.

On 12th July 1982 NABARD came into existence the agricultural credit was shifted from RBI and ARDC. It started its functioning with an initial capital of Rs.100 crore as a vision of Indira Gandhi. According to the data available on the official website its present paid up capital is about Rs.14,080 crore on 31st March 2020. It is a department which is government owned as it is a statutory body formed after the Parliament Act of NABARD 1981.

Need of NABARD

1. The bank was formed to inculcate into itself both developmental and financial role in this sector:
2. Need of a single body to completely focus on the agricultural credit and manage its finances.
3. To avoid divided attention by RBI reducing the effectiveness
4. Rural Development which includes letting people know about the nuances of banking and lending schemes.
5. Manage Agricultural Credit for rural area upliftment specially the farmers and new investors.
6. To fulfill the credit needs both long-term and short-term needs.

Basically the functions of RBI run departments on this sector like ACD (Agriculture Credit Department), RPCC (Rural Planning and Credit Cell) and ARDC (Agriculture Refinance Corporation) was all transferred to NABARD.

Governance body of NABARD

It is governed by a Board of Directors who are chosen by the Government under the NABARD Act, there is one chairperson, 3 directors from experts, 3 directors not falling under the ambit of RBI, 3 directors from the central government officials and 4 directors from the state government officials. The experts are to be taken from the concerned field like rural economics, rural development, small and large industries etc. also there shall be a managing director. All the appointments made by the government including the chairperson must be in consonance with the RBI.

Objective of setting up NABARD

1. To increase the development activities in rural area they provided refinance to State land Development Banks, Scheduled commercial banks, cooperative banks and other rural banks. Specially in the local and village areas.
2. Form a more powerful and efficient credit giving system.
3. To achieve the motive policies are formed by it but also it aims to keep it familiar with the central, state and local governmental bodies as well as the RBI.
4. Refinancing is a major objective just to serve the purpose of increasing agricultural production with development.
5. As everything related to this sector now falls with the NABARD it can aim at reducing the variance or contrast in different regions or states.
6. To form a Credit absorptive capacity i.e. bring people into the formal credit system and introduce them to its scope.
7. Also gives guidelines for the promotion of joint activities by providing them with 100% refinance.
8. Also refines Integrated Rural Development programme.
9. Also refines the projects under National Watershed Development Programme' and the National Mission of Wasteland Development'.
10. It also focuses on running of trial and error method on schemes on local or district level so that its future and larger aspect could be analysed.
11. Helps home-grown ventures in this field also self-help groups by providing them or lending them with capitals. Also helps in guiding them.
12. Various plans, schemes and policies are launched keeping the government and RBI in check for the welfare of people.
13. To keep the credit flowing system free and ongoing it also focus on assisting and training the small rural cooperatives or banks for improving their credit delivery system.

NABARD and RBI

After the separation of RBI and separating functions to NABARD, the only involvement remaining was by way of the 3 directors appointed by the RBI. Also the decisions taken by the government is based on recommendations of RBI also. But it is an entirely governmental body now, after the amendment bill of 2017 passed in 2018, it was ensured that the government has 51% of shares in the NABARD capital and before this according to the 1981 Act both government and RBI owned together the 51% of shares. Now the RBI only supervises it like it does with other banks whereas NABARD can suggest or recommend on the licensing of the new cooperative banks and opening of more rural banks and SCB's as well for regional growth.

Amendment Act 2017 (passed in 2018) brought the following changes:

Increased the authorized capital from 5000 crore to 30,000 crore by the central Government.

RBI's share of 51% that it owned along with the central government was completely transferred in the hands of central government. According to the previous Act NABARD had to provide credit to the MSME's having investment of upto Rs. 20 lakh. By passing of this bill the scope of giving credit extended to enterprises with investment of upto Rs. 10 crore in manufacturing sector and Rs. 5 crore in services sector.

Also, the governance structure was added onto by including experts of small scale industries. Giving financial assistance to small enterprises and industries i.e. extending it to all MSME's.

Functions of NABARD

It is the bank to provide credit and support for the agricultural growth and the rural development. According to the food and agriculture organization of the United Nations (FAO) almost 59% of the India's population workforce has farming or agriculture as their occupation and it only accounts for 23% GDP[1], therefore for such a large sector not just a single department can be made under the reserve bank to finance it and thus the NABARD was needed to function as the only single entity that helps finance the agro-economy of the country and make policies for it.

This could not have been achieved if there was no network to reach the rural area therefore the inclusion of rural area upliftment was also required. Today NABARD finances 7,086 crore to SCB's, 2,594 crore to SCARDB's, 1,228 to subsidiaries, 40,000 crore to schedule commercial banks, 11,537 crore to regional rural banks and 2,794 to NBFC's[2]. Under the section 35(6) of the Banking Regulations Act NABARD can ensure supervision over all of the banks by the Board of supervision it can be both onsite and offsite inspection.

NABARD gives loans on basis of promissory note or bill of exchange to the RRB's and SCB's which they shall pay back within a period of 18 months of giving the promissory note it should not exceed that. Such loans and advances shall be paid in lieu of securities. Even for the rescheduling of loans which are given to such banks on recommendations of reserve banks are to be repayed in a span of minimum 18 months to maximum 7 years.

This bank can also purchase and sell share of the investment in securities of any establishment related to agriculture and rural development if notified by central government. They can also give loans to state government for which the repayment deadline is upto 20 years. One can easily find out the anomalies and causes of banking sector corruption and scams if such law prevails. Also all such loans given to state government and direct loans shall be strictly given securities which the central government may keep check on, where there are no securities or guarantees the board shall take the reasons in writing and decide in accordance with the schemes.

The bank can issue guarantee on deferred payment of capital goods taken by cooperative banks by discussing with the central government. It provides financial assistance to such SCB's to pay dues on extended credit for agricultural purposes and also advising for the taking up of loans and advances and how to reimburse them. It also has the power to waive the guarantees on assurance of payment of other securities or if satisfied that no other guarantee or security is needed.

The refinance assistance given by the banks by way of loans and advances to such SCB's and RRB's shall not exceed a period of 25 years also includes rescheduling of loans into long-term loans. All the securities which are held by this bank shall be held in trust with it. The bank can also call for an early re-payment of loan if it finds out that the borrower bank has mislead it, is unable to pay back the amount, has gone against the policies of the NABARD or did not comply with any terms as per the contract.

The validity of any lending or credit which is made by the NABARD cannot be challenged just on the basis that it is not in compliance of any other law if such arrangements are not made. The bank has full freedom to form such conditions whichever are necessary protect its interests especially because it deals with large amount of financial transactions with various bodies and thus to accommodate all these it also needs a good set of instructions. It shall also keep an information database of all its credit and activities which shall be reviewed by the central government and the RBI. There are short term refinance schemes, long term refinance schemes and other automatic refinance schemes which help in delivering of these credits.

In India there are many Farmer Producer Organisations (FPO), they are formed by the association of the primary producers such as the farmers, artisans, fisheries, milk producers, craftsman etc. it can be an organisation or a legal entity or even a cooperative society. Its need mainly arose to bring in better pay or income for these producers. As they often suffer prejudice in the hand of intermediary suppliers and end of getting a very small amount for their produce for which the consumers pay.

An individual might not have the knowledge of the same or even have impact to ask for their rights but in groups they have better bargaining skills. Thus they share the benefits among their members. Therefore NABARD grants them credit to expand their market infrastructure, also brought in the concept of Rural Haat or Rural Mart to help them grow. Also by setting up deals with suppliers or direct producers and then implementing the schemes they help these organisations.

They provide incentive of 20% grant support to them. Also for the local and gram level and to avail easy credit to them we have the Primary Agricultural Credit Society (PACS), its basic role to provide farmers with loans to start their basic agricultural activity and the returning of the amount is done once the activity like harvesting of crop for example is done with. It focuses on remote villages and such panchayat systems.

Therefore, to fund such PO's and PACS, the NABARD has instituted Producer Organizations Development Fund (PODF) from which they are financed either taken through CCB or RRB or directly take loans from CCB or RRB its initial capital set up by the bank was of Rs. 50 crore and over the time it has facilitated many services.

Developmental Schemes by NABARD

Kisan Credit Card Scheme for Farmers:

was launched by NABARD in 1998 along with RBI, to avail credit even insurance to farmers, fisheries and animal husbandry works. They can get short-term loans of upto Rs.3 lakh by this means. There are some of the top banks that also provide this like the Axis Bank, ICICI, HDFC, SBI etc. the interest rate can vary though it can be as minimum as 2% or at an average of 4%. In case of disability or death it also furnishes insurance upto Rs.50,000. The repayment can be done after the harvesting season.

RuPay Kisan Cards:

after the establishment of KCC the NABARD brought this Kisan Debit card so that such farmers can directly withdraw money from ATM's and accounts. According to a report submitted by Odisha Cooperative Bank there were 31.98 lakh KCC holders in 2016 who were to be covered under this scheme as well and provided with their cards. Farm Sector Development Department: it has set up watershed development fund, tribal development fund and the farm sector promotional fund along with the PODF too. Therefore it facilitates these funds.

Under the Kyoto protocol Adaptation Fund (AF) was setup by the United Nations Framework Convention on Climate Change (UNFCCC) in 2012. In India NABARD has been appointed as the National Implementing Entity(NIE) for the same and the only one in India. Its duty is to include climate adaptation in the agricultural scheme and techniques and also implementing such projects for the same like, Conservation and Management of Coastal Resources as a Potential Adaptation Strategy for sea level rise in Andhra Pradesh, building adaptive capacities in communities, livelihoods and ecological security in the Kanha-Pench Corridor in Madhya Pradesh etc. Umbrella Programme on Natural Resource Management (UPNRM) was established in 2007 to focus on utilizing in an efficient manner the natural resources of that particular area or state. There was also in 1992 the Self Help Group-Bank Linkage Programme was launched in order to link unorganized sector to the formal banking sector. As according to a report of NABARD in 2018 there were over 23 lakh such linked groups. Main purpose was to provide social help, investments and debt reduction.

Then Eshakti was also launched in order to digitise and provide micro-credit to the SHGs by giving them access to wide range of financial services and bettering the connection between these groups and banking services. Also provides them with Aadhar linked identity for the same. In other developmental programmes NABARD has focused on skill development programme by promoting and providing assistance and also taking up marketing expansion initiatives. By setting up Incubation centers in order to aware people about the schemes, policies and the banks role.

Conclusion

NABARD has been instrumental in grounding rural, social innovations and social enterprises in the rural hinterlands. As of May 2020, NABARD operates at 32 Regional Offices in the country.^[10] It has in the process partnered with about 4000 partner organisations in grounding many of the interventions be it, SHG-Bank Linkage programme, tree-based tribal communities' livelihoods initiative, watershed approach in soil and water conservation, increasing crop productivity initiatives through lead crop initiative or dissemination of information flow to agrarian communities through Farmer clubs. Despite all this, it pays huge taxes too, to the exchequer – figuring in the top 50 tax payers consistently. NABARD virtually ploughs back all the profits for development spending, in their unending search for solutions and answers. Thus the organization had developed a huge amount of trust capital in its 3 decades of work with rural communities.

References

- [1] Arora, S. and Meenu (2012), "Microfinance interventions and customer perceptions: A study of rural poor in Punjab", Decision, Vol. 39, No. 1, 2012, pp. 62-76, Indian Institute of Management Calcutta, ISSN: 0304- 0941.
- [2] Battilana, J. and Dorado, S. (2010), "Building sustainable hybrid organizations: The case of commercial micro finance organizations", Academy of Management Journal, Vol. 53, No. 6, 2010, pp. 1419-1440.
- [3] Chen .1997. Cited in Linda Mayoux, Gender and empowerment concepts, September 2005
- [4] Davis, I. (2009), "Rural banking: Designing an effective legal framework for microfinance", The Journal of Business, Entrepreneurship & Law, Vol. 2, Issue 2, 2009, pp. 393-423.
- [5] Ghate ,Prabhu. 2008. Micro finance in India – A state of the sector report (2007). New Delhi: Sage publications.
- [6] Indian Microfinance: The Challenges of Rapid Growth Prabhu Ghate
- [7] Jothi, V. N. (2010), "Socio Economic Impact: Micro financing of SelfHelp Groups", SCMS Journal of Indian Management, 2010, pp. 91-103, SCMS Journal of Indian Management.
- [8] K. Rajendran and R.P. Raya (2010) Impact of Micro Finance - An empirical Study on the Attitude of SHG Leaders in Vellore District (Tamil Nadu, India). 'Global Journal of Finance and Management' - ISSN 0975 - 6477 Volume 2, Number 1, pp. 59-68.
- [9] Ledgerwood, Joanna and Victoria White. Transforming Microfinance Institutions: Providing Full Financial Services to the Poor. World Bank, 2006.
- [10] Maimbo, Samuel Munzele & Dilip Ratha (eds.) Remittances: Development Impact and Future Prospects. The World Bank, 2005.
- [11] Microfinance in India K G Karmakar Microfinance India: State of the Sector Report 2010 (SAGE Impact).
- [12] Pitt, M. Mark, Shahidur R. Khandker and Jennifer Cartwright. 2006. Empowering women with micro finance: Evidence from Bangladesh, Economic Development and Cultural Change.
- [13] Rafiq, B. R. et al. (2007), "Microfinance program in developing countries: An analysis of the impact of micro-credit for the women in Bangladesh", International Journal of Business Research, Vol. VII, No. 1, 2007, pp. 211-222, International Journal of Business Research.
- [14] Ranjula Bali Swaina and Fan Yang Wallentin (September 2009) Does microfinance empower women Evidence from self-help groups in India, 'International Review of Applied Economics' Vol. 23, no.5, pp. 541– 556.
- [15] Regi, E. M. (2011), "Microfinance and women empowerment: evidence from field study", Journal of Rural Development, Vol. 30, No. 1, 2011, pp. 25-44, NIRD, Hyderabad.
- [16] Dutta, P. (2011), "The growth and impact of NABARD's SHG-Bank linkage program in India", Indian Journal of Finance, Vol. 5, No. 12, 2011, pp. 38-43, Associated Management Consultants (p) Ltd.

- [17] Shetty, K. N. and Veerashekarapa (2009), "The microfinance promise in financial inclusion: evidence from India", The IUP Journal of Applied Economics, Vol. VII, No. 5&6, 2009, pp. 174-189, ICFAI University press.
- [18] Shylendra, H. S. 1999. Micro-finance and Self-Help Groups (SHGs): A study of the experience of two leading NGOs, SEWA and AKRSP in Gujarat (India), Research paper No. 16. IRMA.