A CRITICAL STUDY OF ORGANISATION AND MANAGEMENT PATTERN OF NABARD-AN APPRAISAL

ABSTRACT

THESIS

SUBMITTED FOR THE AWARD OF THE DEGREE OF

Doctor of Philosophy

IN

COMMERCE

Supervisor

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Abstract

Economic development and progress of India really means reconstruction and resurgence of rural communities in the country. The Indian economy is dependent on agriculture. There are links between agriculture and rest of the economy in the product and factor markets. Agriculture supplies the major wage good (food) and raw materials for the economy. Agriculture has potentials for exports and it has been contributing to foreign exchange earnings. On the demand side, agriculture provides a market for non-agricultural products and services. At present (i) 70 per cent of the population is dependent on agriculture (ii) it engages 60 per cent of workforce, and (iii) it contributes around 20 per cent of exports, 80 per cent of farmers are small and marginal and 75 per cent of the poor are in rural areas. The need for stepping up the growth of the agriculture sector from the present level of 2.73 per cent (during the period 1990-91 to 2000-01, at 1993-94 prices) to more than 4 per cent by the year 2005 has been recognized in the National Agricultural Policy. The agricultural growth of this order is expected to put the other sectors also on a higher growth trajectory by stimulating demand for the goods and services of these sectors through improvement in rural income.
levels. The first-generation economic reforms initiated in the country from 1991-92 do not have significant impact on agricultural sector. Agriculture is a way of life, a tradition, which for centuries has shaped the thought, the outlook, the culture and the economic life of the people of India. Agriculture therefore, is and will continue to be central focal point to all strategies for planned socio-economic development of the country. Rapid growth of agriculture is essential not only to achieve self-reliance at national level but also for household food and in avoiding food shortage in the country. The pattern of growth of agriculture has, however, brought in its wake uneven development across regions and crops as also across different sections of farming community and is characterized by low level productivity and degradation of natural resources in some areas. Capital inadequacy, lack of infrastructural support and demand side constraints such as controls movement, storage and control of agricultural products, etc., have continued to affect the economic viability of agriculture sector. Consequently, the growth of agriculture tended to slacken during the nineties.

In the olden days, the major source of rural credit was moneylenders and this source of credit was inadequate, expansive and exploitative. To meet the credit requirements a multi-agency approach was adopted after independence 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: (i) to ensure timely and increased flow of credit to the agricultural sector (ii) to reduce and gradually eliminate the money lenders from the field of rural finance (iii) to provide larger credit support to areas covered by special programmes; and (iv) to make credit facilities available to all the regions of the country and reduce regional imbalances. There are two sources of credit available for the farmers. They are institutional agencies and non-institutional agencies. Non-institutional sources include money lenders, traders and commission agents, relatives and landlords, whereas the institutional sources include the cooperative, commercial banks, RRBs, SBI and the Government.

However, gradual change started following the recommendations of the All-India Rural Credit survey committee in 1954. The conversion of 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 played an important role in the development process of rural and backward areas and for the upliftment of the poor sections of society.
The committee on cooperative credit (V.L. Mehta Committee 1960) did not favour any separate corporation for agricultural development. But, in the third five plan a suitable legislative action was taken to set-up a Development Finance Corporation for Agriculture. The Functions of the corporation are 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 production which are remunerative in character but involve considerable investment or long period of waiting, such as, rubber, coffee, cashewnut and arecanut plantations, irrigation, contoured bunding and soil-conservation and development of orchards and fruit gardens. The loans advanced by the cooperation will be channelised through the Central Land Mortgage Banks”.

The Agriculture Refinance Corporation was set up in 1963. The Mirdha Committee 1965 recommended for taking up necessary steps to establishing a National Cooperative Bank which would act as apex of the cooperative structure of credit in the country.
In 1969\textsuperscript{1} the All India Rural Credit Review Committee rejected the proposal to delink activities of agricultural credit from the RBI and place it under the National Level Agricultural Bank. The Committee favoured that agricultural credit infrastructure should be continued under RBI and a statutory Agricultural Credit Board for formulation, review and modification of agricultural policy, should be established. Accordingly, a statutory Agricultural Credit Board replaced the earlier standing Advisory Committee on Rural and Cooperative Credit.

The Administrative Reforms Commission in 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, is suggesting 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\textsuperscript{2} (1972) favoured combining the ARDC and the AFC to form a new institution within the RBI complex but stressed that all short-term credit should be under the control of a single authority, that is the RBI to take steps in accordance with its historic role to “integrating the total

\textsuperscript{1} CRAFICARD Report, p. 256
\textsuperscript{2} Ibid. p. 258
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”.

The CRAFICARD appointed by the RBI under the Chairmanship of Shri B. Shivaraman in March 1979 at the instance of the Government of India in its report submitted in January 1981 examined the role of Reserve Bank of India in the rural credit system. The important among them accepted by the Government of India for its far-reaching consequence are the control, regulation and promotional responsibility of RRBs, should be transferred to the newly proposed NABARD from the Government of India and RBI concerned and recommended the establishment of the NABARD. The Parliament through act 1981, NABARD, took over the functions of the erstwhile Agriculture Credit Department. NABARD was established for providing financial support for promotion of agriculture and allied activities.

NABARD refinancing is available to Land Development Banks, Scheduled Commercial Banks, Regional Rural Bank and Cooperative Bank.

The main objectives which guide the functioning of National Bank are:
(i) To provide refinance to eligible institutions for development activities in rural areas.

(ii) To improve the absorptive capacity of the credit delivery system.

(iii) To coordinate the activities of different agencies engaged in development work at the field level, and

(iv) To keep liaison with Government of India, SG and RBI and other national level institutions connected with policy formulation.

The functions of Bank are as follows:

(i) It works as an apex body for development policy, planning and operational matters relating to credit for agriculture, allied activities, rural industries and rural artisans and other rural development activities.

(ii) Training research and consultancy relating to credit for agricultural development.

(iii) Co-ordination and monitoring of all agricultural and rural development activities with a view to typing them up with planned development activities in the rural sector.³

³ Vasant Desai, A study of Rural economic, rural credit, Himalya Publication House, New Delhi, 1990, p. 279
Because, Indian Economic development depends on agriculture. So, Government of India provides maximum facilities to the agriculture for development. The main purpose of establishment of the NABARD is development of rural areas. Therefore, the bank should provide more refinance on easy terms and conditions. Bank should take special measures particularly seeking to bring about better functional coordination between state Government, banks and other concerned agencies and prepare bank able projects and schemes and credit should be made available on easy terms and conditions. The objectives which guide the refinance support for different activities through the eligible institutions (like cooperative banks, commercial banks, regional rural banks and agencies) by the NABARD are to support the national policies for increase agricultural production and rural employment through efficient use of national resources, reduction of regional imbalances, equitable distribution of growth, ensuring credit support to the weaker sections of the society through special programmes, like, the Integrated Rural Development Programme (IRDP), increasing the credit absorptive capacity of the credit delivery system by improving the health of the agencies, involved in disbursement of credit and improving the quality of credit through proper control of technical and financial parameters and propagation of the repayment ethics.
The highlight of refinance support provided by the National Bank to nationalized institutions is given in the following table, diagram and graph.

### Agency wise refinance disbursements

(1998-1999 to 2002-03) (Rs. in Crore)

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<td>-</td>
<td>7</td>
<td>-</td>
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<tr>
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<td>100</td>
<td>5215</td>
<td>100</td>
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Percentage increases

|              | 15.27  | -      | 15      | -       | 18      | -       | 8.52      | -        | 11        | -         |

Sources: Annual Reports of NABARD 1999-2003
The total refinance assistance provided by the National Bank, during the year 1998-99 and 1999-2000, aggregated to an amount of Rs. 4521 crore (growth rate in comparison to previous year is 15.27 per cent) and Rs. 5212 crore respectively (15 per cent grow rate shown in Table and graphs). Again in the year, 2000-01, the aggregate amount was Rs. 6158 crore which shows 18 per cent increment in comparison to previous year, also in the year 2001-02, 2002-03 aggregate amounts were Rs. 6682.92 crore and Rs. 7418.77 crore with growth rates of 8.52 per cent and 11 per cent respectively.
Hence, the total growth rate of increment in disbursement for the following five years (1998-99 to 2002-03) is 13.56 percent and agency-wise disbursement and growth rate is shown in graphs.

National Bank provides loan to state government. The total ground level credit flow by state cooperative banks was Rs. 24,296 crore, regional rural banks Rs. 5467 crore, commercial banks Rs. 41033 crore and other agencies Rs. 14 crore and loan to the state government was over Rs. 18000 crore in 2003. Further, the National Bank provides facilities to nationalized institutions like cooperative banks, Regional Rural Banks, commercial banks for issuing of Kisan Credit Card on its own KCC Scheme aims at provision of adequate and timely support from the banking system to the farmers for their cultivation needs including purchase of inputs in flexible and cost effective manner. As on 31st March 2003 cumulatively 313.44 lakh cards involving bank loan fo Rs. 76498.80 crore were issued to the farmers. Personal Accident insurance scheme is formulated for KCC holders to cover them against accidental death/permanent disability.

NABARD began an experiment for looking at innovative ways of taking the banking system to these (SHGs) people and trying to link them to the banking system. The SHGs NABARD ensured that very poor people come together, start saving, start
lending to each other, and once they are able to reach a stage that they can enforce the will of the group on the individual, the banks can start giving funds. Today the SHG concept is a resounding source in India and is one of the most successful programme run by NABARD. “There are about 71400 SHGs that are linked to the banking system and one crore women are benefited by this programme.⁴

The bank provides refinance to farm sector and non-farm sector. Non-farm sector (including rural housing) claimed the highest share in the total refinance at 27.1 per cent followed by animal husbandry (14.7 %), Farm mechanization (13.4%) and minor irrigation (11.5%). The Bank has been implementing a externally aided projects. The amount of Rs. 367.27 million (as against the amount disbursed at Rs. 357.41million) has been actually received as grant assistance towards various projects.

After all structure of organization and management is an important part of any institution. “A poor organization structure makes good performance impossible, no matter how good the individual may be” in the same way, “management is the organ, the life giving acting dynamic organ of the institutions management”.⁵ (As expressed by Peter F. Drucker)

⁴ Business India-Cooperate Reports, June, 9-22, 2003, p. 63
“A key to the successful performance of any institution and maintenance of a healthy portfolio is the existence of an efficient and adequate organizational set-up”.^6

Thus, “the success of management of a development bank depends to a great extent on its organizational set-up, the degree of delegation of authority that exists and the extent of independence it enjoys in its day-to-day functioning”^7.

In the organization, there are four common aspects namely (i) a set of objectives (ii) a set of individuals (iii) clearly differentiated led responsibilities for its members and (iv) structure or system of coordinative relationship in rural development programmes.^8

The management of the NABARD vests in a Board of Directions. The Directors of the NABARD are comprised of Chairman, Managing Directors, representatives from Reserve Bank of India, Government of India and State Governments.

For better management of the Bank, a provision is made for the constitution of an executive committee consisting of some members of the board to discharge such functions as may be prescribed by the Board. There is also a committee to guide

^6 Chari V.V., Performance & Problems of SPC, edited by Dalgi, V. “Financial Institute of India” 1976, p. 281
^7 Sinha, S.L.N., Development Banking in India, 1976, p. 18
the all activities of various departments. The committee is named as management committee. The aim of this committee is to assist the Board to take major policy decisions and to monitor the process of implementation of the decisions made by the board. The members of the committee may invite other members accordingly to the agenda of the meeting which be held once in every week.

NABARD operates through its head offices at Mumbai, 28 Regional offices situated in the state capitals, a sub-office at Port Blair and 330 district offices, NABARD has on its rolls around 2853 professionals who are supported by adequate number of other staff. The head office operates through different departments. All head office departments mostly headed by Chief General manager who reports directly through EDs to the MD. The regional offices are headed by General Manager/Deputy General Manager/Regional Office in-charge and managers depending upon the coverage of the region and demand of the refinance from the respective area. Managers and Deputy General Managers head these sub-office and division and discharge duties assigned to them. However, NABARD looks forward to redesigning its strategies for satisfactory accomplishment of future tasks. This largely

9 NABARD - A Profile, 2003, p. 1
10 NABARD-Training Centre Lucknow, 1996, p. 66
depends on factors like, mobilization of required resources, expanding prospective avenues of business, acquiring necessary skills, quality lending, etc. Various legal, structural and governance issues have rendered many of the RFIs, particularly cooperative banks financially weak. Against the background of the estimated rural credit flow of Rs. 7,36,570 crore during the tenth five year plan period and the adoption of improved technologies, a greater infusion of capital resources would be necessary. These investments must be induced to make the agriculture enterprise profitable through a multi-pronged strategy by providing incentives to the producers for adoption of new technologies. RFIs would need greater financial and technical support for investing in irrigation structure, land development, farm mechanization, animal husbandry, plantation and horticulture, bio-technology, cold storage, value adding enterprises and marketing to improve the productivity and profitability in agriculture. Major policy initiatives may be needed to fully exploit the emerging opportunities. The bank administration is expected to come up to the mark in discharging its duties.

\[\text{Annual Report of NABARD, 2002-03, P. 243}\]
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By
MOHD. FURQAN

DEPARTMENT OF COMMERCE
ALIGARH MUSLIM UNIVERSITY
ALIGARH (INDIA)
2005
CERTIFICATE

Certified that Mr. Mohd. Furqan has completed his thesis entitled "A CRITICAL STUDY OF ORGANISATION AND MANAGEMENT PATTERN OF NABARD - AN APPRAISAL" for award of Ph.D. in Commerce under my supervision. To the best of my knowledge it is an original work. He has also fulfilled all the conditions laid down in the relevant ordinances.

(Dr. Sibghatullah Farooqui)
Research Supervisor

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Residence : 0571-2701219
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At last not the least I wish to place on record my gratitude towards my Parents and Sister.

(Mohd. Furgan)
Preface

The literature on history and theory of economic development has always recognized the dominant role of agriculture in the economic development of countries. The depth with which the role is played depends upon the stage of economic development.

Although India has crossed the take-off stage, yet 70 per cent of its population depends upon agriculture for their livelihood. Agriculture sector contributes nearly 50 per cent to National Income of the country. There is a definite inter-relationship between industrial and agricultural development. The proper balance between these two was maintained till the middle of the eighteenth century. The interference from the alien British government and its deliberate policy of throttling the village handicrafts and cottage industries destroyed the fabric of balance; thus economy of the country was badly shattered. Besides this, they created a class of intermediaries (Zamindars) who sucked the very blood of agro-based rural economy and this became a ‘subsistence’ occupation which yielded ‘too little to live on and too much to die on’.
For consolidating the situation the concept of ‘Priority Sector’ financing and the ‘Lead Bank Scheme’ were introduced. In 1975 the idea of the Regional Rural Banks (RRBs) was mooted, as need of an institution with the attitude of Cooperatives and expertise of Commercial Banks.

In India the whole agricultural financing was done under the supervision and with the assistance from the Agriculture Credit Department of the Reserve Bank of India and Agricultural Refinance and Development Corporation (ARDC). But it was felt that due to diversified activities and multifarious roles, the RBI was finding it difficult to coordinate and streamline the activity of agricultural financing.

The Sivaraman Committee set up in March 1979 by the RBI at the instance of Government of India to review arrangements for institutional Credit for Agriculture and Rural Development, recommended the establishment of a National Bank for Agriculture and Rural Development. Accordingly a break-through was achieved with the establishment of the NABARD on 12 July, 1982 as per NABARD Act 1981 as a specialized apex organization in respect of all the matters relating to policy and planning and the operational aspects pertaining to credit in the rural areas for the small scale sector and other allied activities. NABARD is now the single integrated agency for meeting the credit needs of all types of agricultural and rural development activities in the
country. NABARD now undertakes all works relating to the establishment of Regional Rural Bank and administration of refinance scheme and monitoring of the performance of Regional Rural Banks. Ever since the NABARD came into being, it has been playing an important role in strengthening the cooperative structure in the national economy. It has actively taken over the responsibilities of the Reserve Bank of India in relation to rural financing and rural reconstruction.

It is in this background that the present study has been designed. The entire work has been divided into six chapters. In the first chapter, the necessity and types of credit for agriculture sector have been discussed. Second chapter highlights the institutional sources of agricultural credit. It has particularly dealt with specialized institutions like Cooperative Banks, Land Development Banks, Commercial Banks, RRBs and NABARD. In third chapter an attempt has been made to discuss the genesis, establishment, objectives and functions of the NABARD at length. Chapter fourth shows structure of organization and management pattern of the NABARD. Chapter five highlights NABARD's assistance to various agencies like cooperative banks, commercial banks and RRBs. Chapter six is devoted for conclusions and suggestions to various problems. In view of limited spaces, it has not been possible to discuss in detail each and everything in regard to the agricultural financing operation of the NABARD,
and therefore, I have discussed only the prominent and most important aspect of the NABARD.

The Management Pattern and Organisational set up also has its aspect on the working of an institution. The NABARD is not an exception. I have, therefore, discussed the organizational and management pattern while discussing its role in the economic development of the country.
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<tr>
<th>Abbreviation</th>
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<tr>
<td>ACD</td>
<td>Agricultural Credit Department</td>
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<td>ACTEN</td>
<td>Advisory Council for Training Establishments of National Bank</td>
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<td>ARDC</td>
<td>Agricultural Refinance and Development Corporation</td>
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<td>CBs</td>
<td>Commercial Banks</td>
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<td>International Development Association</td>
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<td>IRDP</td>
<td>Integrated Rural Development Programme</td>
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<td>KFW</td>
<td>Kreditanstalt Fur Wiederaufbau</td>
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<td>LAMPS</td>
<td>Large-sized Adivasi Multi Purpose Society</td>
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<td>Abbreviation</td>
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<td>SSI</td>
<td>Small Scale Industry</td>
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<td>ST(SAO)</td>
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<td>World Trade Centre</td>
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<td>World Trade Organization</td>
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Chapter 1

Introduction

Significance

Credit is an important input for the development process. Its impact being pervasive on various sectors of the economy, the mobilization of resources by the financial system and their allocation to sectors and projects in conformity with priorities under lying the development plans have become integral part of the overall planning process. Planned allocation of the scarce credit resources among different sectors of the economy in accordance with priorities implicit in the development plans has come to be accepted as a strategic instrument in planning, given the natural tendency for credit to gravitate towards rural development irrespective of their contribution to the overall balanced economic development. In a developing economy, rural markets are generally characterized by large imperfections, and as such, the free market forces are unlikely to provide the right incentive or the required momentum for optimum utilization of scarce capital resources. In contrast, a planned system could ensure better allocation of available limited resources among various competing demands.
The Committee to review arrangements for institutional Credit for Agriculture and Rural Development (CRAFICARD) set up by the Reserve Bank of India (RBI) under the Chairmanship of Shri. B. Sivaraman conceived and recommended the establishment of the National Bank for Agricultural and Rural Development (NABARD). The Parliament through the Act 61 of 1981 approved its setting up and the bank came into existence on 12 July, 1982. NABARD took over the functions of the erstwhile Agricultural Credit Department (ACD). Its subscribed paid-up capital was Rs. 100 crores, contributed by the Government of India (GOI) and RBI in equal proportions.

NABARD was established for providing financial support to the promotion of agriculture and allied activities, small-scale industries, cottage and village industries, handicrafts and other rural areas of the country with a view for promoting integrated rural development and securing prosperity in rural areas of the country.

NABARD is an apex institution accredited with all matters concerning planning policy, and operations in the field of credit for agriculture and other economic activities in rural areas. The main functions of NABARD are:

1. Serving as an apex refinancing agency for the institutions providing investment and production credit for promoting various developmental activities in agricultural areas and rural sector;
2. Taking measures towards institution building for improving absorbing capacity of the credit delivery system including monitoring, formulation of rehabilitation scheme, restructuring of credit institutions, training of personnel etc;

3. Coordinating the rural financing activities of all the institutions engaged in developmental work at the field level and maintaining liaison with GOI, State Governments, RBI and other national level institutions concerned with policy formulation;

4. Undertaking monitoring and evaluating project refinanced by it; and

5. Undertaking regulating measures in relation to regional rural banks and cooperative banks.

NABARD’s refinancing is available to State Land Development Banks Scheduled Commercial Banks, Regional Rural Banks and State Cooperative Banks. While the ultimate beneficiaries of investment credit can be individuals, partnership concerns, companies, state-owned corporations or cooperative societies, but production credit is generally meant for individuals.

Review of Literature

A study under ARDC (NABARD) on lending in Tamil Nadu carried out in Madurai District revealed that a major share of the total loans provided to the small farmers went to
the target groups. As a result of this, the gross income of small farmers increased from Rs. 7800 to Rs. 10,100 and thus, the scheme had definite impact on the small farmers. The scheme covered only 10 per cent of the weaker sections. Their very weak asset base and instance of security denied them the benefits of institutional finance. However, there was no willful defaulter. Milch animals and sheep rearing programmes registered good repayment due to tie-up arrangement for marketing.¹

Charan. D. Wadhwa in his book on Rural Bank for Rural Development has made an attempt to evaluate the role of institutional credit in rural development. The author shows that several financial institutions have been established to fulfil the financial needs of rural poor and has given several reasons like influence of local leaders, complicated banking procedures like warm attitude of banking personnel, and corruption etc. due to which the poor have not been benefited at all. He mostly stresses upon the point that rural banks must develop simple schemes and cooperative attitude for providing requisite financial help and assistance to the need of the rural poor.²

R.K. Narula and D.P. Sharma conducted a detailed study on the positive role to be played by commercial banks in the agricultural development. They analysed that without adequate development of agricultural sector it is not possible for the country to be self-sufficient in food grains. They gave
their view of agriculture development as a profitable profession and in such a case the commercial banks have an important task to perform.3

S.K. Basu in his study, entitled Commercial Bank and Agricultural Credit, and V.G. Rao and Paramjit Malya in their book Role of Commercial Banks in Agricultural Development, have made an attempt to assess the contribution of commercial banks in the development of agriculture. They have raised certain questions pertaining to agriculture viz., whether the farmer community has been getting adequate financial facilities from the commercial banks or not, and how the commercial banks advance money for this purpose. They opine that nationalization of the commercial banks has done a commendable job in developing agriculture yet, there is a dire need to have a fresh look on the problem to bring more improvements in the future plan.4

R.C. Arora and G.c. Sristava5 have presented a vivid and penetrating analysis in their book Role of Rural Industries and Rural Development. ACC to them the industrialization of rural areas is the best response to tackle the gigantic problems of economic stagnation, poverty, underemployment and unemployment. They further observe that rural industries can create employment opportunities in the rural sector, which would ultimately amount to prosperity. Stress should be laid on the industrialization of rural areas with a view to attain some other objectives like
accelerated rate of industrial growth; steady improvement in income and standard of living of rural masses.

Kishore C. Pandhey\textsuperscript{6} and Ajit Singh\textsuperscript{7} in their separate books have presented on account of the banking system of India and its role in rural development. They opine that the commercial banks have been playing a pivotal role to improve upon the socio-economic plight of rural masses and that's why they are called development agents or change agents.

S.K. Basu in his book Industrial Finance in India made an attempt to study the main problems of Industrial Finance in India and the role of principal agencies, which have been entrusted with responsibility of providing industrial finance not only in India but also in some other countries of the world like Japan. He opines that industrial progress and development without which the industrialization is difficult, if not impossible.\textsuperscript{8}

Singh L.R. in his study revealed the level of use and the rational of allocation of credit among farm inputs between progressive and less progressive farms in Varanasi district. He viewed that investment on irrigation and fertilizers had significant and positive impact on the level of total credit availed by progressive farms, while investment on draught cattle influenced the level of total credit in less progressive farms. He also found that there is an important and positive role of credit on returns from crops.\textsuperscript{9}
Introduction

Misra has observed in his study in U.P. that the loan obtained from government was the highest in the case of large sized farms. Short-term credit has shown a remarkable impact on the output of major crops viz., paddy, wheat and sugarcane. The study revealed that there was much scope for increasing medium and long-term advances.\(^\text{10}\)

Sharma and Prasad in their study extracted that the credit in needed farm size-wise at different stages of technological development in agriculture. Linear programming technique was used to estimate credit requirements and its impact on cropping pattern and income. The study revealed that irrigated farms and improved technology would call for more credit. Adequate credit increased income substantially even the existing level of technology.\(^\text{11}\)

According to Lee W.F. agricultural finance was the economic study of the acquisition and use of capital in agriculture. It dealt with the supply of demand for funds in the agricultural sector of the economy.\(^\text{12}\)

Arumugam in his study revealed problems of the lenders at the institution level and borrowers at the farm level and also the factors contributing to better farm credit management. He also concluded that the rural financial institutions supplied 28 per cent of the credit needs of the farmers. There were varying degrees of credit gaps among
different farm size groups, while the gap was the highest for the smallest farm size group.\textsuperscript{13}

S. Sudarshan in his article entitled Financing of Integrated rural Development has scholarly presented the role of commercial banks in financing various schemes under the Integrated Rural Development Programme. The functional analysis by the author has empirically showed the financial assistance provided by all the financial institutions and reveals that share of commercial banks in the advancement of loans for various schemes under the IRDP is much higher than that of Cooperative and Regional Rural Banks.\textsuperscript{14}

Rao and Rao has examined the role-played by informal and institutional agencies in the supply of credit for financing modern inputs. The study shows that institutional sources met 30 per cent of the borrowings. Except medium farm all were direct borrowed funds. According to the authors productivity of land and potentialities for future investment could be improved if additional capital was given to the small and marginal farmers.\textsuperscript{15}

A. S. Kahlon and Karan Singh in their work, “Managing Agricultural Finance pointed out that despite the presence of plethora of financial institutions like cooperatives, Regional Rural Banks and Commercial Banks etc. still the agricultural sector suffers for want of funds. Keeping in view the shortage of agro-credit, the need of effective management of agriculture credit has been stressed upon by the authors, as it
is awfully needed in the adoption of new technology and improved methods and practice to enhance agricultural production.°

To Murray, agricultural finance would comprise the borrowing of funds by farmers; the organization and operation of farm lending agencies; and society's interest in credit for agriculture.°

Another study made by Lee classified agricultural credit into three types namely; (i) investment credit; (ii) operating credit; (iii) consumption credit. Investment credit might be required for investment on land, building machinery and livestock. These investments would give a good production. Credit required for operating expenses on feeding livestock, repairing farm machinery and buildings, buying seed and hiring labour, constitute operating cost. Consumption credit used to buy goods and services was not directly connected with the process of production.

G.A. Naryana in his work “Problems of Agricultural Loans” has discussed that farmers are into getting bank loans properly and he has also given suggestions to remove this problem. He holds that farmers do not go to bank due to non-cooperative attitude of the bank employees, complicated and dilatory procedure and their dependence on the Sarpanch and other functionaries for getting loans.

Article entitled, “Rural Banking for the Rural Poor,” by M.N. Mishra holds the view that the Regional Rural Banks...
were established with a view to provide financial help to the rural poor. But benefit is mainly availed by the rich farmers and not the small and marginal ones. According to the author this practice is mainly due to the connivance of the bank officials and the hindrances of local leaders. \textsuperscript{20}

K.V. Murthy and Vijay Kumar in their article “Small Industries and Rural Development” have made a joint effort to describe as to how the rural industries can be helpful in the gigantic task of rural development. The authors hold that setting up of small-scale industries in the rural areas can generate extra employment opportunities, reduce poverty and dependence of the rural population on agriculture. They can play a vital role in improving the overall socio-economic condition of the rural poor. \textsuperscript{21}

The National Bank for Agriculture and Rural Development (NABARD) undertook a survey with the sample of 1948 beneficiaries of the Integrated Rural Development Programme (IRDP), covering 122 branches of the financing banks spread over 60 blocks in 30 districts of 15 states. The survey revealed the defects of the implementation of IRDP like (i) the provision of credit for a single activity; (ii) financing of defective and substandard assets; (iii) undue stress on financing animal husbandry programmes; and (v) lack of supervision on the end use of credit. The survey suggested that the targets of the diversified investment activities for a block should be fixed keeping in mind the
resource potential, availability of infrastructural facility, and agro-climatic conditions of the area concerned. The programme could be made effective if the family would be treated as the basic unit in the identification of beneficiaries and a package of activities would be financed rather than confining to a single activity.  

B.K. Lal and K.L. Mukhopadhay in their work “Agricultural Finance in West Bengal,” made a joint effort to assess the credit requirements of the farmers of West Bengal. They hold that inspite of the cooperative banks and Government sponsored institutions meeting the credit needs of the farmers, yet the agriculturists are suffering for want of funds. The authors recommend suitable institutional changes to bridge the credit gap, which is likely to widen in near future. Finally they opine that the Reserve Bank of India and other financial institutions should amend their working procedures to enable common agriculturists to get the benefits of agricultural credit in an easy manner.  

An article by L. Nadu and B. Nagraja Financing of Small Scale Industries by Commercial Banks: Some Problems and suggestions, reveals that in an agricultural country like India, where unemployment and underemployment is acute, small scale industrial sector has to play a prominent role. A significant feature according to the authors of small-scale sector is that it helps in diffusing economic power and ensures equal disbursement of wealth-which is essential to
Introduction

achieve the equalitarian objective of a socialistic society. The small-scale industries aim not only to provide employment opportunities but also to make a great contribution to the rapid decentralized growth of our economy. Therefore, realizing the potential of small-scale industries institutional credit should be made available to them by the financial institutions like commercial banks. The authors have also highlighted the problem faced by the Commercial Banks and at the end of the study have listed its eradication.24

A study on cooperative long-term finance by Kurulkat had covered 18 villages in three taluks of Aurnagabad. He made his study that the credit advanced by the Land Development Banks, was neither producing good results nor was cheap.25

J.S. Hanmashetti & M.D. Dodkey in their work “NABARD’s role in rural credit” present that the National Bank for Agricultural and Rural Development (NABARD) is an apex. Development Bank of the country for promoting sustainable and equitable agriculture and rural promoting sustainable and equitable agriculture and rural development through effective credit support related services, building institutions and other innovative initiatives. NABARD today is at the center of development activities in the rural areas and a bedrock of prosperous rural India.26

A scholarly effort was made by Rayudu on NABARD’s Rural Credit and Cooperative, examined the role of the
NABARD in rural credit with reference to cooperative & analysed the progress in its refinance activities during its short period of working. The various areas covered for analysis were functions, re-finance to cooperatives, schematic assistance to cooperative disbursements, purpose wise, distribution, loans to state Governments for contribution to share capital of cooperative institutions, medium and short-term loans to SCBs.27

Surender Sud in his article emphasized on strengthening of the NABARD. He proposed to increase the share capital of the NABARD, the apex agricultural refinance body, from Rs. 500 crore at present to Rs. 2000 crore in the next five years. He has also suggested to the private local area banks to help is mobilizing the rural savings by local institutions and make them available for investment in the same area.28

Gupta G.P. (1982) gave a varied look on the structure of agencies providing credit in rural areas. He concluded in his study that “In the matter of structuring the agencies for rural credit; one must not only take full account of spectacular increase in the tempo of agricultural activity; it must also be based on various other important implications of the new situation which are emerging with the change in the outlook, regarding occupational structure and socio-economic aspirations of the rural sector.29
Another paper concentrated on the strategies and policies adopted by the NABARD with respect to schematic re-finance for investment for rural development and pleads for major policy review in the context of less satisfactory rural development. He also highlighted the technological problems of the industrial sector in rural areas and has asked for its revolution. At the end the author has also given suggestions that NABARD can perform the task of providing finance with the help of rural capital and if needed, attracting capital from elsewhere.\textsuperscript{30}

Dixit in his article has mostly concentrated on the problems of agriculture and rural development in the country and how NABARD should overcome these problems. According to him NABARD should take care about the rate of interest charged from the final borrower, create proper understanding between cooperative banks on one hand and the commercial and the regional rural banks on the other, strengthen and streamline the working of Primary efficiency of cooperative credit agencies especially at the grass-root level and to reduce the level of overdues in every credit agency, commercial banks, cooperative banks and regional rural banks.\textsuperscript{31}

Another article by Gopal "Agricultural Financing in changing perspective-An overview", has stated that hither to Five Years Plans, no deliberate effort was made by the Indian Government for the development of agriculture and
insufficient attention was given to this sector. The author remarks that no doubt, after nationalization, the commercial banks are actively engaged in the task of financing agricultural sector, but even after the passage of two and half decade, there appears to be no significant change in the socio-economic status of peasant community. Some restrictions like faculty lending policies, inadequate loan amount non-cooperative attitude of bank employees and complicated procedures of granting loans by the banks, etc. are in the way of financing by the banks. The author opines that the time has come to have a fresh look of the problems of the farmers and to make the banks to amend their existing banking practices, rules and regulations to enable the people to get the bank aid easily.32

The Indian Economic Survey 1999-2000 reveals that NABARD has taken several initiatives in the development of agricultural sector. In recent years Kissan Credit Card (KCC) and the self Help Groups (SHGs) have been introduced for this purpose. NABARD has increased its capital base from Rs. 500 crore to Rs. 2000 crore so that it can leverage its capital funds for raising more resources. NABARD is also getting a general meet short-term credit requirements of cooperative and Regional Rural Banks (RRBs). NABARD also introduced Rural infrastructure Development Fund (RIDF) in 1995-96 to provide funds to state Governments and state owned corporations to enable them to complete various types of rural infrastructure projects.33
Jacob revealed in his study the role of nationalized banks in agricultural lending and found that there was satisfactory banking development in rural and semi-urban areas after nationalization. In his study he concluded that the small and marginal farmers were left on the mercy of the private moneylenders. Agricultural credit was mainly concentrated in the areas where there were better infrastructural facilities. He gave his suggestions that the principle of one farmer, one account and one source would benefit both the farmers and institutions.34

Ramadass made study on demand for and a productivity of farm credit in Pondicherry Region. He revealed that the operational area of the farm, farm assets and irrigated areas of the farm were the significant determinants of the demand for credit for large, medium and small farms respectively. Besides, family consumption expenditure exerted positive and significant influence on the demand for credit of large and medium farms, while it exerted lesser influence on demand for credit of small farms and revealed that it was interest elastic for large and other farms respectively. It also found that credit had positive and significant impact on the productivity of small and medium farms and the same was negative on large farms.35

Murray classified agricultural credit on the basis of six criteria namely (i) time; (ii) purpose; (iii) security; (iv) lender; (v) type of borrower; and (vi) productivity.36
Planning Commission and National Bank followed similar classification for Agriculture and Rural Development (NABARD) in India. In the case of planning commission (a) short-term credit might go for 15 months; (b) medium term credit from 15 months upto five years; and (c) long term credit above five years. Under the refinancing programme of the National Bank for Agriculture and Rural Development, (a) short-term credit would go upto 18 months; (b) medium-term credit would cover periods between 18 months and seven years; and (c) long term credit might go for periods not exceeding 25 years.

Banyopadhyay studied agricultural credit with reference to small farmers in Genetic plains of West Bengal. He examined the co-existence of multiple systems of loans, as the result of varying degree of bargaining powers of lenders and borrowers. The author has examined various points viz., imperfections of agricultural credit market rested with the lenders enabled them to charge high rate of interest on loans given to farmers. It concluded that small farmers did not have access to organized sector due to unfavourable terms and conditions and hence forced to borrow from informal sources.

The book entitled “Agricultural Financing in India by S.N. Ghoshal deals with the short-term and medium-term credit needs of the farmers. The author feels that, lack of credit facilities suffered agricultural development. He holds
that because of the failure of cooperative credit structure, the responsibility has been entrusted to commercial banks for financing this neglected sector.\textsuperscript{40}

Rayidhranath highlighted in his study that the farmers who have facilities accounted for a major share in the institutional and non-institutional credit. The small and marginal farmers could not get the loan for dairy because they were not available in the village cooperative societies.\textsuperscript{41}

Lal highlighted the role of the institutional and non-institutional credit agencies in financing agriculture in Eastern Uttar Pradesh. It was revealed that 65.7 per cent of the sample households was in debt, 66.2 per cent of credit was diverted for consumption. Institutional agencies did not solve the credit needs of the agriculture. The study concluded that the credit provided was not of right type; and did not serve the right purpose.\textsuperscript{42}

According to Banerjee, credit was the heart of the agrarian system in India. The demand for credit for farm operation was mixed up with that for consumption purpose. Hard-pressed farmers failed to control their consumption expenses, which were mostly on the substance level.\textsuperscript{43}

Singh and Singh in their article highlighted the allocation of institutional credit in relation to farm assets, farm cash expenses and use of fertilizers among different farm-size groups in Punjab. The study highlights that the
institutional credit in terms of its allocation was found concentrated in favour of big farmers. Kewal Kumar in his book *Institutional Financing of Indian Agriculture with Social Reference to Commercial Banks* has remarked that the development of agriculture is kingpin of our development. The present study gives varied number of problems of agricultural finance, as it is much needed input for the development of agriculture. The author has also attempted to assess the importance and impact of the agriculture credit on the agricultural produce. At last he suggested that the institutions supplying agricultural finance should adopt integrated credit policy for the future, as the provision of agricultural credit in the context of modernization of agriculture has become a necessity.

Basu in his study pointed out that, although commercial banks lending to agriculture increased several fold such financing was not regionally equitable. The level of agricultural credit per hectare of net sown area was determined by per capital bank credit, central cooperative banks' outstanding credit per hectare of net sown area, number of bank offices per lakh population, per capita bank deposit, degree of urbanization and intensity of cultivation.

Dhawan and Kahlon pointed out the inadequacy of institutional credit even at the existing level of technology. The functional analysis of this study revealed that the small
farmers were rational in making investments on implements and machinery, milch animals, seeds, manures and fertilizers because marginal values productivities of these resources were significant. Therefore, they could further increase their income by expanding on labour and draught animals.\textsuperscript{17}

L.K. Naidu (ed.) in his book, “Bank Finance and Rural Development” has curtailed the problem that public sector banks have been extending credit facilities to hitherto neglected sectors of the rural economy. He opines that financing, agriculture, small business and small scale industries in a creditable manner will eradicate poverty and unemployment from the rural sector.\textsuperscript{18}

The study by B.N. Choubey, “Agricultural Banking in India” describes various institutions which are actively engaged in the task of financing agriculture. But after reviewing the impact of the institutional credit on agriculture, it has been keenly observed by the author that inspite of various problems of institutions like cooperatives, commercial banks, Regional Rural Banks, Agricultural Refinance Development Corporations, and National Banks for Agriculture and Rural Development (NABARD) etc. the agricultural sector still has been suffering for want of adequate funds.\textsuperscript{19}

Choubey explained agricultural production credit as (i) settlement credit; (ii) development credit; and (iii) production equipment credit. Settlement credit would be
defined as “Credit required for purchase of land for a new settlement, rehabilitation, rounding off holding, construction of farm-shed and godowns, Development credit would be required for permanent improvement or development of land, such as soil conservation, leveling, proper irrigation and drainage, fencing or enclosures, the building of proper barns and shearity sheds. Production equipment credit was intended to provide production facilities and running of operational expenses which were less permanent as compared to land and its permanent improvements. These expanses were for major implements, livestock, plantation of fruit trees and expenses in the payment of wages, purchase of seeds, fertilizers, fodder and other agricultural requisites.

R.D. Sharma, “Agricultural Financing in India-Role of State Bank of India”, is an empirical study conducted to evaluate the role of State Bank of India in the agricultural development. The author opines that State Bank of India has been playing an appreciable role in the development of agriculture inspite of having a wide network of branches.

Ajiya Raj, in his study revealed that village cooperatives were the most successful source of institutional credit; institutional loan was largely used for purchase of current inputs among lower size-groups, while big farmers with 10 acres of land invested it largely on land development, irrigation and agricultural tools and
implements; and the modern technology could be followed by big farmers with their self-finance.\textsuperscript{52}

Pandey in his article concluded that credit dispersion has increased the income of the farmers even at the existing level of technology. Coming of modern technology without credit would not have significant impact on the income of the farmers.\textsuperscript{53}

B.S. Rohilla in his study entitled “Initiatives of NABARD for rural non-agricultural financing and development discussed the major credit, promotional development and development scheme of NABARD for non-farm sector development such as training cum production centers, rural entrepreneurship development programmes, mother units etc. The article has also put emphasis on strengthening linkages between self-help groups and banks as well as international collaborations by NABARD for the non-farm sector growth.\textsuperscript{54}

Another article by Shojakhani in “Critical Evaluation of the Role of NABARD in strengthening the cooperative Movement” emphasizes the strengthening of the cooperative movement firstly at the grass root level so that it can cater to the expanding credit needs of India’s rural economy & secondly at the apex level for developing policies and procedures to serve rural economy. At last, in conclusion the author has given solutions of the problem to launch a special fund-cooperative rehabilitation found out of its profits 

this fund to be utilized for advancing necessary finance, at only service charges.\textsuperscript{55}

Reddy in his book has scholarly presented the problem of distribution of institutional Credit. According to him the credit distribution is biased in favour of developed regions and big farmers. The dominance of agricultural moneylenders in comparison to professional moneylenders remains unchanged. He has given his views that the creation of cooperative, RRB & NABARD has improved the share of institutional credit in the total rural credit.\textsuperscript{56}

Khan made an operational comparative study of the performance of rural banking system in India and Bangladesh. He highlighted the points viz., relative share of agencies, extension of rural credit, change in relative share, etc.\textsuperscript{57}

An article by H.N. Rao, Expanding Role of Banks in Rural Economy B.N.Rao tries to evaluate and predict the role of banks in the rural economy. He feels that no doubt, commercial banks have contributed substantially for the development, but then also bank credit has not helped landless labourers small and marginal farmers so far. He mainly expresses that the banks shall have to play a leading role in this respect in the coming days.\textsuperscript{58}

The National Bank for Agriculture and Rural Development’s survey revealed, that there had been a 20 per cent leakage in lending connected with the Integrated Rural
Development Programme and 15 percent of its beneficiaries’ were not poor.\textsuperscript{59}

B.P. Sharma in Role of Commercial Banks in India’s Developing Economy, has observed that thought he financial institutional particularly commercial banks have been playing a laudable role, in the promotion of agriculture and in mobilizing rural savings yet there remains a lot to be done. The banks have failed to touch landless, labourers, small and marginal farmers, who directly or indirectly need bank credit facilities.\textsuperscript{60}

Penson and David, together pointed out that the study of agricultural finance varied in scope from every micro concept of agricultural finance, such as the study of the financing liquidity services provided by credit, to a very macro concept of agricultural finance, such as the examination of agriculture’s role in integrated macro economy\textsuperscript{61}

Jain discusses out the role of commercial banks in promoting rural economy in Bhil-wara district. His study highlights that the agricultural advance of the nationalized banks increased by 136 per cent from 1971-72 to 1975-76, there was 70 per cent automatic recovery. Medium-sized farmers had an easy access to bank credit and 75 per cent of the loan was properly utilized. It was also shown that productivity of borrower and non-borrower farmer increased by 76 per cent and 45 per cent respectively. Farmer
borrowers mainly used their incremental income for agricultural development.$^2$

Business India, June 2003 has given a detailed account of the activities of NABARD. Most important was the fact that this bank is non-depending on market for finances. Earlier it depended on resources from the government NABARD got substantial support from RBI by way of contributions, to the tune of Rs. 500 crore for its long-term operational fund for investment credit. However, this stopped in 1993. Today that contribution has declined to only Rs. 1 crore a year, that too because of the statutory condition under the Act. In another blow the organization, which was also exempt from income tax for all these years, also lost that status in the last two years. NABARD has paid about Rs. 390 crore by way of tax for 2001-02 and about Rs. 400 crore for 2002-03. Therefore, the little support the government was providing by way of tax exemption is also gone now.$^3$

The profile of NABARD 2003 has given a detailed account of the activities undertake by NABARD during 2002-03 for facilitating credit flow for agriculture and rural development, promoting and supporting policies, practices and innovations conducive to rural development, strengthening rural credit delivery system through institutional development and supervising rural financial institutions (Cooperative Banks and Regional Rural Banks).
The report says that on March 2003 the total sources of NABARD as on 31 March 2003 were Rs. 50.885 crore and the owned funds were Rs. 20.738 crore. Investment in the schematic refinance was Rs. 25,416 crore which was 11.13% higher than the previous year. During the year, RIDF loans outstanding increased by 25.18%. Market borrowings increased by 43.17%. RIDF Deposits increased by 25.03% and Foreign Currency Loans increased by 20.8%. The operating surplus was Rs. 1542 crore, most of which (after payment of tax) was ploughed back into different development funds maintained by NABARD.64

Objectives of the Study

Ever since the NABARD came into being, it has been playing an important role in strengthening the rural economy. The objectives are as follows:

1. The NABARD has now completed 22 years of its operation and has been criticized on various grounds by that beneficiary. This calls for a close evaluation of its functioning in fulfilling the objectives for which it was established and to find out the fields in which its performance needs improvement.

2. And the study will evaluate the effectiveness of its management in discharging the function assigned to it. Whenever necessary the suggestion will be given for better management.
3. Generally the cooperative sector demands that activities related to rural financing be assigned to a National Cooperative Bank: However, the government has not so far favoured the proposal.

4. The study will suggest measures to overcome the hurdles in its working and effective management with a view to develop healthy sound economic scenario.

5. It is a government bank and as such it is administered and managed by the Government. Although debate on the banking sector reforms is still not over & it is repeatedly said that financial institutions should be guided by professionals and not bureaucrats, the administration of this bank has not yet been taken seriously.

Scope of the Study

The study is based on the published data of NABARD and many other scholars who have published their results in different journals. However, the data is interpreted before any comment is made on any aspect of facility of the bank.

Research Methodology

This study is based on the published material of Government of India, NCUI, NABARD, surveys conducted from time to time committees appointed to review problems of rural India, to look into the problems of financing of rural ventures and strengthening the economy.
Introduction

There is no alternative to truth and therefore to research. Research means to get nearer to the truth, to understand the reality. Research has passion of mankind of all times.

Research methodology is a specification of methods and procedure for acquiring the information needed. Research methodology contributes the blueprint for the collection, measurement and analysis of data. It is a way to systematically solve the research problem. It is the sum total of the steps adopted for doing the research work along with the logic behind them.

Since a researcher has to work in a practical situation, one is required to set one self to the task of translating the idealized design into a realistic working producer i.e. the practical research design. The practical research design results from adaptation of the scheme of optional requirement of research to the practical requirements of a study in such a manner that compromises between the ideal and practical aspect are not accomplished at the cost of scientific virtue.

Hypothesis

The study would test the following hypothesis:

1. The NABARD has failed to fulfil its objectives with regard to financing and credit disposal, cheaper costs due to low level of management efficiency, and too
much attention on loaning to priority sectors with little attention on recovery ratio, more political consideration on loaning and financing, defective laws of recovery and dependence on Government for directors.

2. The present strategy of the management would not serve the mission of the NABARD in the liberalized economy and it has to change its strategy accordingly.

Outline of the Study

The work is divided into six chapters including one on summary of findings and conclusions.

The first chapter deals with the Introduction. The second chapter covers Need and Source of Agriculture Finance in India. The third chapter discusses Evolution and Perspective of NABARD. The fourth chapter is Structure of Organization and Management Pattern of NABARD. The fifth chapter discusses the Role of NABARD in Rural Financing. The sixth chapter of the work gives Conclusion and Suggestions.
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Chapter 2

Need and Source of Agriculture Finance in India

In the economic history of a country, banking and bankers have always occupied a respectable place. In case of India also “there is plenty of evidence to show that even prior to the advent of occidental ideas, India was not a stranger to conception in of banking”. Chanakya’s Arthashashtra (about 300 B.C.) is full of facts to show that there were in existence powerful guilds of merchants bankers who received deposits, advanced loans and carried on other banking functions. Manu in his Smiriti, has written considerably on such types of activities by a section of persons of the society. It was the foreign invasions from 6th century onwards and consequent political instability that seriously undermined their status and standing. But individual bankers continued to prosper so much so that the famous Dilwara Temple of Mount Abu “is said to have been built by two bankers during 1197 and 1247 A.D. Mr. J.B. Travernier, a French traveller in 17th century, has mentioned that practically every village of India was having a shroff who according to him acted as a banker. During the Mughal period, the indigenous bankers were fairly prominent in the financing of trade and the use of instruments of trade.
Emperor Aurangzeb in his regime conferred the title of ‘Seth’ on the most eminent banker of his time known as Maneekchand. Seth Maneekchand and his five other brothers were equally great bankers. Emperor Farrukhsiyar conferred on Fatehchand, nephew of seth Maneekchand, the title of “Jagat Seth” the banker of the world. The house of Jagat Seth Virtually came to occupy the position of the Rothschild’s of India and rendered great assistance so the East India Company, in the early days of the British advent. Lord Cleve in 1859 is said to have entertained Jagat Seth for four days at a cost of Rs. 17,374. In those days the revenue of the East India Company was collected primarily through these indigenous bankers of various districts particularly in Bengal.

But banking in the modern sense came to be established in India with the setting up of three Presidency Banks—the Bank of Bengal in 1806, the Bank of Bombay in 1840 and the Bank of Madras in 1843. These were successors to agency houses, which invariably combined banking with their commercial and trading activities, and were floated by the East India Company to facilitate the borrowings of the Government and maintenance of credit. These presidency banks were amalgamated in January 1921 into the Imperial Bank of India. The intention was to create a Central Bank in the country with monopoly of note issue and serve as bankers’ bank and a government bank. To begin with, it was
shareholder's bank until its transformation as the state Bank of India in July 1955. By this time, a number of joint stock company banks had come to be established after the acceptance of the principle of limited liability in 1860. The year 1860 is therefore, considered to be a landmark in the banking history of India as it was after wards that some of the well-known banks were formed—the Bank of Upper India (1863), the Allahabad Bank (1865) the Bangalore Bank (1868), the Alliance Bank of Simla (1874), etc. Indian-managed joint stock banks also began to be floated; the first being the Oudh Commercial Bank in 1881, followed by the Punjab National bank in 1894. Then the Swadeshi Movement of 1906 gave rise to the Bank of India, the Indian Bank at Madras, the Central bank of India, the Bank of Baroda, and the like.

The two world wars proved a boon to the banking industry when many large and small banks were started. A good proportion of them stood the test of time and survived the subsequent crises, especially the Great Economic Crash (1929-33). But at least an equal number of them failed and fell like the leaves of autumn as soon as the boom and prosperity of the war was over. Though the Reserve Bank of India was constituted in 1935, much could not be done in respect of bank failures till the Banking Companies Act was put on the statute book in March 1947. It changed the whole approach towards commercial banking and Government came
to recognize it as a positive instrument for faster economic
development.

Sources of Agricultural Finance

It would be incorrect to categories the Indian banking
system into modern and indigenous, or into organized and
unorganized sectors. If at all it has to be classified, the basis
should be nothing else then functional, where its constituents
are: ¹

➢ Cooperative Banks
➢ Land Development Banks
➢ Indian Commercial Banks-Scheduled and Non-
scheduled
➢ Regional Rural Banks
➢ Agricultural Refinance and Development
Corporation
➢ Agricultural Finance Corporation Ltd
➢ State Bank of India and its Associates
➢ National Banks for Agriculture and Rural
Development

Cooperative Banks

The establishment and growth of Cooperative is
regarded as one of the important instruments for economic,
social and cultural development as well as human
advancement in developing countries.²
The cooperative credit movement was officially launched in India in 1904 after the famous prescription of Nicholson to “Find Raiffeisen”. It represents a three-tier structure—Primary Agricultural credit societies (PACSs) forming the ground floor, the central cooperative banks (CCBs) the middle level, and the state cooperative bank (SCBs) the top floor as the open institutions whereas the Primary societies deal directly with individuals, the central banks deal with primaries and are in turn dealt by the state cooperative banks. To begin with, the primary credit societies were established with unlimited liability but now limited liability is accepted principle as it is with central and state cooperative banks and land development banks. Banking laws (Application to cooperative societies) Act 1965 with affect from March 1, 1966, the date on which this Act come into force, these state cooperative banks and primary non-agricultural credit societies which have a paid-up capital and reserves of not less than Rs. 1 lakh have been brought within the regulatory framework of the Reserve Bank. Accordingly, the name of the banking companies Act was changed into Banking Regulation Act. The number of licensed cooperative banks coming under the purview of the banking Regulation Act, as on June 30, 1982, numbered 1634 comprising 30 SCBs, 346 SCB and 1258 PACs.

An integrated approach to development calls for a well conceived development and productive plans duly supported
by a well-knit infrastructure, service facilities and timely credit through institutions. To bring about change such as structural, economic and social is not a quick or easy task. Cooperatives offer one way, perhaps the best way to attack these problems at the grass root level. A cooperative society is an organization, which has as its objective the proportion of the economic interest of its members or the promotion of thrift, self common economic needs, so as to bring about better living better business and better methods of production. Thus cooperatives have a major responsibility in the total effort to improve and develop communities.\(^3\)

Cooperative method of banking or any other business has been applauded by most of the theorists as well as by the people in the practical lines of business. But especially in the countries like India, which have been stamped as ‘underdeveloped’, this method is of overwhelming importance. In India, the need for capital is enormous but its supply is not sufficient. This is due to the low rate of capital formation through savings. The banking business in the country has been in the hands of big capitalists who never care to mobilize their funds in the common interest of the people except in the cases they receive huge profits. Their landing policies are such that only a small number of top class businessmen can get loans from these banks.
In such a situation, cooperative banks can play a vital role in the finance of developing economy. Agriculture is the main industry in India but that is out of the reach of the commercial banks in the country. It is only cooperative banks that can help the agriculture since they are established on the lines of cooperative and the rise, which is there in business, is distributed among all the persons equally. Cooperative banks can also be more successful in collecting deposits in small amounts from the villagers. Developing Indian economy offers a vast scope for the application of cooperation in its various forms. The socialist pattern of society necessitates the creation of a large number of decentralized units, both in industry and agriculture.

In its report published in 1954, the All India Rural Survey Committee laid emphasis on a coordinated scheme of the development of cooperation in India involving cooperative credit cooperative economic activity and cooperative education. “The prevailing conditions cannot be transformed by the very persons who are oppressed and rendered weak by their very existence. The forces of transformation have at least to be powerful which are sought to be counteracted. Such forces can be generated not by cooperation alone but by cooperation in conjunction with the state”. This recommendation of the Rural Credit Survey Committee Report is being implemented by the organization
Need and Source of Agriculture Finance in India

of state partnered cooperation in the sphere of credit and other economic activities.4

The cooperative credit sector consists of state cooperative banks (SCBs), state land development banks (SLDBs), central cooperative banks (CCBs), primary agricultural credit societies (PACs), primary land development banks (PLDBs) and primary cooperative banks (PCBs).5

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Primary Agriculture Credit Societies

As indicated in the beginning the primary agricultural credit societies (PACs) constitute the foundation of the three-tier Cooperative credit structure being developed over the past several decades with a view to institutionalize farm credit in the country. Latest additions to these societies are the Farmer’s Service Societies (FSS) and the Large Size Adivasi multi Purpose Cooperative Societies (LAMPS). The main features of these three types of societies may be seen in the chart given below:

Distinguishing Features of Different Types of Primary Agricultural Credit Societies

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<tr>
<td>Area Coverage</td>
<td>Generally a small area of not less than 2,000 hectares of cropped areas.</td>
<td>A large area of operation extending up to a block or population of 10,000</td>
<td>Area up to a block or a tehsil</td>
</tr>
<tr>
<td>Type of beneficiaries</td>
<td>Generally all types of farmers (big, medium and small)</td>
<td>All farmers and other rural households including rural artisans, agricultural labourers, etc.</td>
<td>Mainly tribals</td>
</tr>
</tbody>
</table>
### Nature of Credit business

<table>
<thead>
<tr>
<th>Nature of Credit business</th>
<th>Short-term crop loans and medium-term loans for agricultural and allied activities.</th>
<th>Multi-term and multi-purpose credit.</th>
<th>Short-term, Medium-term and long-term loans including consumption loans</th>
</tr>
</thead>
</table>

### Structure of non-credit business

<table>
<thead>
<tr>
<th>Structure of non-credit business</th>
<th>Supply of farm inputs, distribution of essential commodities, etc.</th>
<th>Package of services</th>
<th>Package of services including supply of consumer goods and marketing of minor forest produce and other products of members</th>
</tr>
</thead>
</table>

### Management

| Management | (a) Full time paid secretary, (b) Board of Directors consisting of 11 members of whom not less than 50 per cent shall represent weaker sections | (a) Whole-time Managing Director and Functional Specialist. (b) Board of Directors consisting of 11 members of whom five shall be representatives of weaker sections and two shall be elected from among other members besides two nominees of the Registrar of Cooperative Societies, one nominee of the financing bank and the Managing Director, ex-officio. | (a) Whole-time Managing Director and other staff. (b) Board of Directors consisting of 11 members of whom five shall be elected from among tribal members, besides two nominees of the Registrar, Cooperative Societies, one nominee of the financing bank and the Managing Director, ex-officio. |

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**Sources:** Chobey, B.N., Agricultural Banking in India, Supplemental Role of Commercial Banking, National Publishing House, N. Delhi 1994, p. 170

### Central Cooperative Banks

In the formal sense, cooperation was launched in India in 1904. The original schemes of cooperation provided for organization of Primary Agricultural Credit Societies at the
village level with a view to reduce the exploitation of the poor peasants by the private money-lenders. It did not contemplate the organization of federal societies to function as financing agencies for the village primaries, which in most cases could not mobilize adequate financial resources through share capital from members, and thus failed to meet the ever increasing demand for agricultural credit by farmers.

In order to mitigate the above problems faced by the primaries, the Central Government passed another cooperative legislation in 1912. The Act of 1912 provided for the organization of higher federal societies. Taking advantage of the new enactment, primary cooperative credit societies in compact areas federated themselves into banking unions and formed Central Cooperative Banks which in view of their financial strength and management competence were expected to mobilise funds through various kinds of deposits and divert the flow of funds from urban areas to village societies most of which where starving for want of funds. Thus, Central Cooperative Banks as federal institutions-formed, composed and governed by primary societies themselves, came to be organized all over the country.

The National Bank for Agriculture and Rural Development Bill, 1981, already passed by the Parliament in December 1981 for establishment of a national bank for
agriculture laid down the following definition of a Central Cooperative Bank:

"Central Cooperative Bank" means the principal cooperative society in a district of a State, the primary object of which is the financing of other cooperative societies in that district.

"Provides that in addition to such principal society in a district, or where is no such principal society in a district, the State Government may declare any one or more cooperative societies carrying on the business of financing other cooperative societies in that district to be also or to be a central cooperative bank or central cooperative banks within the meaning of this definition.

Following the recommendations of the All-India Rural Credit Survey Committee (1954), the structure of Central Cooperative Banks was rationalized and small banking unions/Central Cooperative Banks in a district were reorganized into a single District Central Cooperative Bank with a view to make it strong and viable institution. Thus, Central Cooperative Banks constituted the second tier in a three tier cooperative agricultural Credit structure in the country.
State Cooperative Bank

The state cooperative bank is the open institution of the cooperative credit structure. These banks act as a banking medium between central cooperative bank and state cooperative banks (SCBs) acts as the banker of banks in respect of central cooperative banks. These banks also link the cooperative credit societies with the country money market. Central cooperative banks are guided and supervised by these open banks. The state cooperative bank generally provides short and medium term loans to central cooperative banks. The medium term loan is provided on slightly higher rates.8

The state cooperative banks provide long-term credit through primary agricultural credit societies, farmer services societies and large size adivasi multi purpose societies of farmers.9

The following chart gives an idea about the position of a State Cooperative Bank in the three-tier cooperative credit and banking structure:

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State Cooperative Bank

Central Coop. Bank
PACS PACS PACS PACS PACS PACS PACS PACS
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It is evident from the above structure that a State Cooperative Bank derives its strength and support from the Primary Agricultural Credit Societies (PACs).

As mentioned earlier most of the Union Territories were served by a two-tier structure comprising of a state cooperative bank at the state level and the PACs (Primary Agricultural Credit Societies) at the village level. This is a departure from the accepted three-tier pattern contemplated under the Integrated Scheme of Rural Credit recommended by the All-India Rural Survey Committee.

Although the official policy regarding the three-tier pattern continues to be the same, there have been controversies between the three-tier and the two-tier structure of the Cooperative.

National Commission on Agriculture Recommends FSS

The National Commission on Agriculture, which has examined in depth the requirements and problems in respect of credit services for small and marginal farmers and agricultural labourers had come to the conclusion that the existing cooperatives had failed to take care of small and marginal farmers. The commission also found that even commercial banks had failed to reach the small and marginal farmers. It also observed that whatever credit was made available to the farmers through cooperative or commercial
banks it was not integrated with easy availability of inputs, extension and other services for supporting production and successful marketing which resulted in inadequate and ineffective end-use of credit.

In the light of their findings, the Commission recommended the organization of Farmers' Service Societies (FSS) for each tehsil/block or any other viable unit of convenient size with as many branches as might be required in the area.\textsuperscript{12}

**Bawa Committee Recommends LAMPS**

In the meantime, a special Study Group was appointed to go into the institutional arrangement for the providing agricultural credit and other facilities for the development of agriculture and allied activities in certain backward tracts and Adivasi/Tribal areas.

From the above discussion, it may seen that at the primary level three types of cooperative organizations have been accepted, namely PACs? FSS and LAMPS, the comparative feature of which is already indicated earlier. The primary structure, therefore, comprised of 1.13, 124, 1,577 and 1,424 LAMPS as on 30.06.1978.\textsuperscript{13}

**Land Development Bank**

The LDB (Cooperative & Rural Development Banks grant medium and long-term advances against the
The conveyance of land as security. The duration of such loans is generally 5 to 20 years, and their common purposes are (i) repatriation of old debts, (ii) purchase of land (iii) purchase of livestock and costly agricultural equipments (iv) consolidation and improvement, of holdings and (v) effecting permanent improvement in the productivity of land. Why their earlier name of land mortgage banks was restrictive and the new designation better places their role in providing investment credit for improved agriculture. Although the first such bank was established at Punjab in 1920, the real beginning of the movement was made with the formation of the central Land Mortgage Bank in Madras in 1929 and then, the lead was followed by many other states.

These have been established on cooperative lines because of the merits of cheaper management better information about credit worthiness of clients and the availability of Government subsidy.\textsuperscript{14}

The All-India Rural Credit Survey Committee was in favour of a two-tier structure of land mortgage banking (1954) in the country, which contemplated the establishment of a Central Land Mortgage Bank in each State affiliating Primary Land Mortgage Banks at the taluka or district level. According to the Committee, all the areas in a State should be gradually covered by Primary Land Mortgage/Development Banks to be ultimately affiliated to
the Apex Central Land Mortgage Banks at the state level. The Primary Land Mortgage Banks were preferred as the Committee thought that they could play a very useful role in the involvement of the beneficiaries in the process of development, assessment of the credit needs of the borrowers, examination of loan applications for improvement of land and supervision over the use of loans with the help of intimate local knowledge and experience which could not be otherwise done effectively by a branch of a Central Land Mortgage Bank. For those States in which land mortgage banking had not yet started, the Survey recommended that in the first instance a Central Land Mortgage Bank should be organized and this Bank should take initiative to open branches in the districts and subsequently convert them into Primary Land Mortgage Banks.15

Central Land Development Bank also undertakes to develop long-term banking in the country. For that it extends necessary help and assistance to the Government in the implementation of schemes of agricultural and cooperative development in the area of its operation. The State Land Development Bank coordinates the policies and programmes of long-term banking with that of other organs of the cooperative banking structure engaged in dispensing short and medium-term credit. They provide the necessary links to the whole system with the RBI, ARDC and the Government.
By issuing Rural Debentures it helps in mobilisation of rural savings and creates favourable conditions under which capital formation in the agricultural industry might be made possible.

The Rural Development Banks save the small and medium agriculturists from the clutches of private moneylenders, stop alienation of lands, distress sales and help them in effecting permanent improvement on their lands and in productivity.

As an apex organization it is the main pivot for the organs of long-term credit structure and acts as a friend, philosopher and guide for all the Primary Land Development Banks affiliated to it.  

**Commercial Banks**

At the close of the 19th century, the Swadeshi movement led to the establishment of banks owned and run by Indian capital and management. The Punjab National Bank was the first such bank established in 1895. A number of other banks with Indian capital and management were established in the beginning of 20th century such as the Bank of India Ltd. in 1907, the Bank of Baroda Ltd. in 1908 and Central Bank of India 1911. In 1920, the three presidency banks were amalgamated to form the Imperial Bank of India. During the pre-world war II period the banking business witnessed tremendous growth, so much so, that by 1939 there were 1500
Joint Stock Banks operating in India, some of which were tiny establishment, and were later liquidated, while some other later on, got amalgamated with other banks. All these banks were, however, established at important trading centers, and catered to trading centers and to the needs of growing trade and commerce.

Till the end of the 19th century, various banks in India were catering to the needs of trade and commerce and were, providing service to the people of cities and towns.

Indian banking system recorded rapid progress. This was due to plan economic growth, increase in money supply, growth of banking control and guidance by Reserve Bank and the nationalization of banks, etc.

In 1950-51 there were 430 commercial banks but the number of banks declined rapidly due to the Reserve Bank's policy of mergers amalgamations of small banks with big banks, as a measure of strengthening the banking system. In 1960-61, for instance, there were 256 small non-scheduled commercial banks but in 1979-80 there were only 6 such banks; the rest of them were merged with bigger banks and had became large banks, themselves. In 1985, there were 256 reporting scheduled commercial banks in the country.

Commercial banks can be divided into two groups: public and private sector banks. The public sector group is the most important and consists of the State Bank of India
along with its seven affiliates and 20 other nationalized banks.\textsuperscript{19}

The promulgation of the ordinance dated 19\textsuperscript{th} July, 1969 ring the acquisition of the following Private Mercial Banks by the Central Government:

- The Central Bank of India, Limited
- The Bank of India, Limited
- The Punjab National Bank of India, Limited
- The Bank of Baroda, Limited
- The United Commercial Bank, Limited
- Canra Bank, Limited
- United Bank of India, Limited
- Dena Bank, Limited
- Syndicate Bank, Limited
- The Union Bank of India, Limited
- Allahabad Bank, Limited
- The Bank of Maharashtra, Limited
- The Indian Overseas Bank, Limited\textsuperscript{20}

Subsequently, the Ordinance was replaced by the Banking Companies (Acquisition and Transfer of undertakings) Act, 1969, which came into force from 9\textsuperscript{th} August 1969. The names of the above mentioned 14 banks were incorporated in the first schedule of the Act after dropping “The” prefix and suffix “Limited”. Otherwise, the identity of all these banks has been kept intact and they are
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functioning as usual. The property in these banks now vests in the Union Government as per the provisions of the Act.

Nationalisation of 6 More Banks

On April 15, 1980, the President of India issued an Ordinance nationalizing 6 more banks each with demand and time liabilities in India of not less than Rs. 200 crores. The 6 banks were:

- The Andhra Bank, Limited
- The Corporation Bank, Limited
- The New Bank of India, Limited
- The Oriental Bank of Commerce, Limited
- The Punjab & Sind Bank, Limited
- The Vijaya Bank, Limited

With the nationalization of above 6 banks, the number of public sector banks excluding Regional Rural Banks increased from 22 to 28 (comprising the State Bank of India, and its 7 subsidiaries and 20 nationalised banks). The share of the public sector banks in the total outstanding deposits and credit of the commercial banking system went up to 91% each; it was 84% each prior to nationalization.21

Regional Rural Banks

The Government of India announced a ‘New Economic Programme’ called the ‘Twenty-Point Economic Programme’ on July 1, 1975 (soon after the declaration of Emergency on
June 25, 1975). Some of the points specifically aimed at ameliorating the lot of weaker sections of the rural society. These programmes contained a ‘plan for liquidation of rural indebtedness through a legislation or moratorium on recovery of debts from landless labourers, small farmers and rural artisans.\textsuperscript{22} In July 1975, the Government of India issued guidelines to the State Governments asking them to take suitable legislative action to ensure that all the debts of marginal farmers holding up to 2.5 acres of unirrigated land are treated as totally discharged, and those of the small farmers holding land between 2.5 to 5 acres are suitably scaled down, and to declare through the courts a moratorium on the recovery of loans for a period of one year. Similar scaling down of loans for farmers holding irrigated land as per defined conversion ratios was also to be ensured. It was felt that these legislative actions will in all likelihood dry-up the sources of finance for the village people, and the traditional sources will start demanding exorbitantly high rates of interest for supplying credit to the poor farmers, therefore, the Government of India seriously considered devising new alternative sources of credit to meet the needs of the weaker sections of rural society. It was in this context that the Government of India felt the necessity of establishing rural banks as ‘new institutions on the basis of attitudinal and operational ethos different from those operating in the public sector.\textsuperscript{23} The idea of such new rural
banks emanated from the considerations of (a) lowering the costs of rural banking, and (b) operating such banks with local staff in an environment which the poor people in the villages would find most homely. In order to further rationalize and operationalize this idea, the Government of India appointed a working group on Rural Banks, under the Chairmanship of M. Narasimhan on July 1, 1975 to examine in depth the setting up of new rural banks as subsidiaries of public sector banks to cater to the credit needs of the rural people. The working group submitted its report on July 30, 1975.

Based largely on the scheme recommended by the Working Group on Rural Banks, the first set of 5 Regional Rural Banks was set up in October 1975. The scheme of Regional Rural Banks as accepted and implemented by the Government of India differed greatly from the concept of ‘rural banks’ advocated by the Banking Commission of 1972, except in so far as it involved the Commercial Banks as equity holders in same proportion-through that ratio was also different from the ratio suggested by the Banking Commission.

The RRBs were to be set up mainly 'with a view to developing the rural economy by providing for the purpose of development of agriculture trade, commerce, industry and other productive activities in the rural areas, credit and other
facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs, and for matters connected therewith the incidental thereto.\textsuperscript{25}

Each RRB will be sponsored by a Scheduled Commercial Bank (mainly a Public Sector Bank), which shall initiate the proposal in consultation with the concerned State Governments, and will finally come into being under licence from the RBI with the approval of the Central Government. The sponsoring bank will provide assistance to the RRB by subscription to its share capital equal to 35\% of its issued and paid up capital, and by providing managerial and other staff assistance within the first five years of its existence on mutually agreed, terms and financial assistance through refinancing on mutually negotiable terms.\textsuperscript{26}

**Dantwala Committee on Regional Rural Banks**

RBI appointed a committee under the Chairmanship of Mr. M.L. Dantwala to examine the working of Regional Rural Banks. The main findings may be summarized as follows:

- With some modifications in their organization and functioning, the RRBs "can become a very useful component in the totality of rural credit structure"
- The Dantwala committee was convinced that within a short period of two years, RRBs have demonstrated their capability to serve the purpose for which they are established.
- The RRBs have established "their image as a new type of institutions catering to the credit needs of a class of..."
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borrowers to whom institutional credit was hereto not available.

Hence, the Dantwala Committee does not approve of the idea of scrapping of RRB structure

The RRBs are well suited for the purpose of “progressively filling up the credit gap in the rural section”.

Hence, the programme for the establishment of more RRBs deserves to be accelerated.

In the Dantwala Committee’s view establishment of RRBs will not disturb the cooperative credit structure at the base level”. It is assured that the reorganized primary Agricultural Cooperative credit societies and Farmers service societies, whether they can be effectively organized will constitute “the base of the rural credit structure”.

RRBs should “Function at the intermediate level”

As regards RRBs relationship with the cooperative institutions at the intermediate level (Central Cooperative Bank, District Central Cooperative Banks) and at the retail level (i.e. Primary Agricultural Cooperative Credit Societies and Farmer’s Service Societies) are weak and inadequate, RRBs can fill up the gap”.

In the first instance, RRBs should be extended to such areas where the Central Cooperative Banks (i.e. DCC Banks) are not able to adequately serve primary credit societies within their jurisdiction. Where the cooperative structure at the intermediate level (i.e. DCC Banks) is fairly strong, the question arises as to whether RRBs and the Cooperative pattern at the intermediate level can co-exist.

The Dantwala Committee was of the opinion that “the credit was of the opinion that “the credit gap, both
quantitative and qualitative, is so large that given a spirit of understanding both RRBs and central cooperative banks can function side by side without a class of interest. This means that the most relevant criterion for the selective extension of RRBs at the state level and the cooperative credit structure at the district level”. In as many as 182 districts, the DCC Banks are weak, the 48 RRBs, established covered 55 of these 182 districts. To start with the programme of establishing new RRBs should be jointly chalked out by the Agricultural Credit Department of RBI and the Department of Banking operations and Development of RBI in consultation with the state Governments and Commercial Banks.

- Commercial banks operating in the ‘commercial area’ of RRB should be persuaded to ‘progressively entrust their rural credit business which their rural branches are currently doing to RRB and its branches, keeping in view RRBs capacity to shoulder the responsibility.

- In the opinion of the Dantwala Committee, “the total replacement of rural branches of commercial banks by RRBs and their branches over a period of time would be acceptable to commercial banks and be welcomed by the rural clientele”.

- There has been since 1969 rapid expansion of rural branches of commercial banks. The Dantwala Committee has suggested that the Reserve Bank may discuss with the Commercial Banks “the policy of extension of their rural branches during the first phase of selective establishment of RRBs. The Committee has recommended that the Government of India and the
Reserve Bank may take steps to initiate the process of making RRBs an integral part of the rural credit structure”.

➢ The Dantwala Committee was of the opinion that "ideally the jurisdiction of a rural bank (RRBs) should be confined to one district. Since the size and the state of economic development of districts vary a great deal, it is advisable to retain some flexibility in this and other related matters. Naturally one RRB should cover a population of 10 to 15 lakhs. From the angle of financial viability and managerial efficiency, the reasonable number of branches (per district) of each RRB will be between 50-60. Each RRB branch would cover approximately a population of about 20,000."

**Major Recommendations of the Working Group on Rural Banks**

The working Group took note of the fact that while the major strength of the cooperative credit institutions lies in the local feel of the village society, the main strong point of commercial banks has been its professional management. The working group also took note of the weaknesses of both the cooperative institutions as well as the commercial banks, and realized that there does exist a gap on the rural credit scene both in terms of functional needs as well as geographical coverage. It further noted that steps have to be taken to meet the financial needs of the landless labourers, small and marginal farmers and village artisans who have been often neglected by both the cooperative, as well, Commercial Banks. With these considerations in mind, the Working Group made the following recommendations:
1. that new institutions to be called 'Regional Rural Banks' be set up which should be State sponsored, Regionally based and Rural-oriented Commercial Banks, and should combine the 'local feel' and familiarity with rural problems, which cooperatives possess, and the degree of business organization, ability to mobilize deposits, access to central money markets and a modernized out-look which the Commercial Banks have.  

2. that the major objective of these banks should be to mobilize resources from the region, and deploy them within the same region.  

3. that the areas of operations of various credit institutions, including Regional Rural Banks, should be judiciously planned so as to avoid duplication, and that the role of the regional rural banks should be supplement to and not supplant, the other institutional agencies in the field.  

4. that the area of operation or region for each such bank should be an economic region, possibly a backward region with homogeneous agro-climate and socio-economic conditions, and holding out promise and potential for development. It need not necessarily be a district.  

5. that the major thrust of the lending activities of these banks (50 percent at the minimum) should be towards providing productive credit for small and marginal farmers, landless labourers, the small traders, the rural artisans and the like belonging to the weaker sections of the rural society, though the lending to some richer farmers should not be excluded. Consumption loans could also be given by these banks to the poorer sections of the rural clientele upto a specified limit in genuine cases.  

6. that these banks should be Scheduled Commercial Banks, with authorized capital of Rs. 1 crore, and initial
issued paid up capital of Rs. 25 lacs which should be contributed by the Government of India, sponsoring Commercial Bank, concerned State Government and other institutions or individuals in the proportion of 50:25:10:15 respectively.\textsuperscript{32}

7. that the sponsoring commercial bank should be the Lead Bank of the area.

8. that the new banks should not follow the organizational hierarchy, high wage structure procedures, systems and behavioural pattern or the culture of the existing commercial banks. Consequently while it envisaged that initially the managerial personnel and some other staff may have to be borrowed from the sponsor banks, it required the rural banks to prepare long term plans to recruit and train the necessary staff preferably from local manpower resources.

9. that these banks should exercise utmost economy in the establishment expenditure; and

10. that initially about five banks be set up to operate in selected areas. The expansion in the number of banks and their extension to other areas should be considered after evaluating the experience gained from the working of these banks.

The Government of India accepted the recommendations of the Working Group after consultations with the Chief Ministers of the States, Chairman of Public Sector Banks, Chairman of the Federations of the State Cooperative Banks and the State Land Development Banks. The Government of India promulgated an ordinance on September 26, 1975 to provide for the incorporation and regulation of the Regional Rural Banks. Initially five Regional Rural Banks started working from Oct. 2, 1975 in
four states. The first five banks set-up under the Regional Rural Bank (Ordinance) were located at Moradabad and Gorakhpur in Uttar Pradesh, Bhiwani in Haryana, Jaipur in Rajasthan, and Malda in West Bengal. The Regional Rural Bank Act replaced the ordinance, 1976 on February 9, 1976. The Government also decided to set up a total of 50 RRBs by the end of March 1977 with an expected total number of 785 branches. Each RRB was expected to open a minimum of 20 operating branches within the first year of its operation and 20 to 30 more branches in the second year to cover all relatively unbanked or under-banked centers in the area of its operation. The Government of India expected the 60 RRBs to be able to land Rs. 300 crores for one full year of their operation; and consequently set a target of Rs. 5 lacs per branch per year for deposit mobilisation.

Agricultural Refinance and Development Corporation

The Agricultural Refinance Corporation was set up on July 1, 1963. However, in order to reflect more clearly the promotional and development role being played by the Corporation in agriculture, its name was changed to Agricultural Refinance and Development Corporation (ARDC). The Corporation essentially was a refinancing agency and provided assistance to those agricultural development projects which could not be financed by other institutions either because of the large outlay involved or because the projects could not be brought within the normal
rules business of those institutions. Its establishment was recognition of the fact that if commercial and other institutions were to embark on agricultural finance on a large scale, refinance had to be provided. The main objectives of the Corporation were:

(i) Provision of medium and long-term credit by way of refinance to the primary lenders for facilitating agricultural development.

(ii) Grant of credit otherwise than by refinance up to a maximum period of 25 years to approved cooperative societies.

(iii) Subscribe to the debentures of any eligible institutions, whose payment of interest and repayment of principal were fully granted by concerned State Governments.

(iv) Perform certain development and promotional functions such as locating growth pockets, and rendering necessary expertise for formation, appraisal and implementation of development projects.

With the establishment of the National Bank for Agriculture and Rural Development (NABRD) in July 1982, all the functions of ARDC have been taken over. But in retrospect, since its inception in 1963 up to the end June 1982, the Corporation sanctioned 19,611 schemes with the commitments and disbursements amounting to Rs. 4,650 crores and Rs. 2,808 crore respectively.

Agricultural Finance Corporations Ltd.

Soon after the scheme of social control over banks was finalized, the agricultural finance corporation was established on April 10, 1968 as a consortium of commercial
banks. The main thrust of the AFC activities is in the area of ‘project formulation’ with special attention to backward areas and the weaker sections.\(^5\)

It has completed the formulation of its command area development projects. These projects aim at realizing the full potential of the investments made by undertaking, among others, minor irrigation, consolidation of land holdings, development of land and water resources and infrastructure facilities, crop planning, and agriculture extension and development of small marginal farmers and agricultural labourers.\(^6\)

To make banking institution an effective source of rural finance, various new schemes such as the Lead Bank Scheme (LBS), village Adoption Scheme (VAS), Service Area Plan (SAP), Intensive Centre Scheme (ICS), and Regional Rural Bank Scheme (RRBs) were introduced.

**State Bank of India (SBI)**

The bank was established on 1 July 1955 by taking over the entire assets and liabilities of Imperial Bank of India. This is the biggest commercial bank, which stands itself in “A” Class by itself.\(^7\)

Other commercial banks entered in the field of agricultural and rural finance. Since 1968, the SBI has been providing credit in this field since its inception. The SBI grants direct advances to farmers for all agricultural
operations and not merely be used for substitution of any existing institutional credit channel. The factors, which govern the eligibility of the proposals for agricultural advances, are primarily the progressiveness of the farmers and the economic viability of their schemes. The SBI also provides its financial assistance for special farming activities such as animal husbandry, dairy farming, pisciculture, piggery and poultry farming horticulture and fruit cultivation. The SBI also provides finances to agro-industries corporations to enable them to purchase tractors, power-tillers, pumpsets, etc. and extend hire purchase facilities to farmers for the purchase of agricultural machinery and equipment, custom service units and the storage and distribution of agricultural inputs like fertilizers, pesticides and seeds etc.

To facilitate the financial assistance to Indian farmers, the SBI has created agricultural credit cells at its local head offices and at the head offices of the subsidiaries as also in strategic locations. These cells have been entrusted to the appropriate officers who coordinate the work of agricultural finance in their respective circles and subsidiaries. The SBI also caters to training arrangements with agricultural universities and with the Bankers. Training College of the RBI, Agricultural department officials of various State Governments have also been taken on a deputation basis for
assisting the bank in implementation of its various schemes in the field of agricultural development.

**Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD)**

The committee to Review the arrangements for institutional credit for agricultural and rural development (CRAFICARD) appointed by the Reserve Bank, which in its report submitted in 1981 examined the role of RRBs in the rural credit system, and made some observation. The important among them accepted by the Government of India for its far-reaching consequences are: 38

(i) As these banks were more suitable for rural development work, preference should be given to them with regard to licensing of branches in the rural areas:

(ii) The Reserve Bank may take necessary steps to facilitate the transfer of eligible business of rural commercial bank branches to the RRBs when such proposals were presented.

(iii) The losses in the initial years should be made good by the shareholders

(iv) Various facilities provided by the sponsor banks should continue for a period of 10 years and

(v) The control, regulation and promotional responsibility of RRBs should be transferred to the newly proposed National Bank for Agriculture and Rural Development (NABARD) from the Government of India and the Reserve Banks.
National Bank for Agriculture and Rural Development

The NABARD has emerged as an apex refinancing institution for agricultural and rural credit in the country since July 1982. It has taken over refinancing functioning from the RBI in respect of State Cooperative Bank and Regional Rural Bank. It has also taken over the ARDC and now it provides all types of production and investment credit to agriculture, small-scale industries and other allied economic activities.

In short the rural credit has been provided by different agencies in Commercial Banks, Cooperatives, Private Institutions and individuals. In view of more credit requirements it was recommended to establish NABARD to look into the rural credit to meet agricultural requirements of the country.
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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.¹

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.”¹

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 offshoot 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
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.

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:
(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, technoeconomic 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 in most 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


Chapter 4

Structure of Organisation and Management Pattern of NABARD

The very success or failure even the survival of a rural development programme depends on its management. When we talk of management, we mean those few men-the executives or programme directors or managers, who are most concerned with giving directions to the entire operations. On the quality and performance of its managers and on the effectiveness of their directions, depends the overall productivity of the assets-both personal and material. Ineffective management cuts at the very roots of the development and its standing of any rural development programme.

Further, any rural development programme or part of it cannot be seen as a separate entity of organizational development. Rural development programme must be seen in totality and as part of the organizational function or responsibility. As we all know an organization is a structure made up of two or more people who accept coordinated direction to achieve certain predetermined goals. It refers to total system of relationships, arrangements and procedures of which the structure is a component. In an organization, there will be a formal structure consisting of pattern of positions, and parts created by those in-charge of an
Structure of Organisation and Management Pattern of NABARD

enterprise which forms the institutional framework within which it operates, and the informal structure, a pattern of relationships which grows up as a result of interaction between people in the organization and management.

In any organization, there are four common aspects namely: (1) a set of objectives, (2) a set of individuals, (3) clearly differentiated responsibilities for its members and (4) structure or system of co-ordinative relationship. In rural development programmes too these four aspects are found interrelated. Functionally, this hierarchy of relationship is the locus Standi for allocating and integrating roles and facilities in order to achieve the goals of the social system. It is here in these relationships that the arrangement of status, the provision of facilities, the organization of procedures, the regulation of activity, and the evaluation of performance take place. And these deep relationships are keys for the success of rural development programmes.1

The operational efficiency of any financing/refinancing institution depends to a larger extent or organizational set-up of administration and management. Before focusing our study on refinance operations of the NABARD, it would be appropriate to examine the organization and management which is the basis of the working efficiency of an organization or institution. According to Peter F. Drucker” a poor organization structure makes good performance impossible no matter how good the individual may be”. In the same way, a good management is necessary to guide and
direct people who constitute an important part of an organisation. As impressed by Peter F. Drucker, that ".... Management is the organ the life giving cutting dynamic organ of the institution it manages." The organizational structure may be defined as which is built up for realization of common objectives. Thus "the success of management of a development bank depends to a great extent on its organizational set up, the degree of delegation of authority that exists and the extent of independence it enjoys in its day-to-day functioning.

The term 'organisation' is used in structural sense as well as in functional sense. In the former sense, an organization is a structural device in which inputs are transferred into output and as a function it refers to the structure as relationship among positions and jobs, which is built up for realization of the common objects.

The term 'management' has been defined in different ways by various authors. Generally, all the definitions are relevant and true as they lay stress on different aspects of the management. So without going into analytical study of various definitions of the term 'management', we may use it to forecast to plan, to organize, to command, to coordinate and to control.

The management of NABARD vests in a Board of Directors. The Directors of NABARD comprises of Chairman,
Managing Directors representatives from RBI, GOI and State Government.\(^9\)

According to Section 5(1) of the NABARD Act 1981, the general superintendence, direction and management of the affairs and business of the National Bank shall vest in the Board of Directors, which shall exercise all powers and do all acts and things, which may be exercised or done by the National Bank.

Under the provision Section 5 (2), subject to the provision of this Act, the Board in discharging its functions, shall act on business principles with due regard to public interest.

Under the sub Section (3) of Section 5 of the NABARD Act 1981, subject to the provisions of Sub-Section (i) and save as otherwise provided in the regulations made under this Act, the managing Director shall also have power of general superintendence direction and management of the affairs and business of the National Bank and may also exercise all powers and do all acts and things which may be exercised or done by the National Bank.

Under the provision Section 5 (4), any whole time director appointed under sub-section (3) of Section 6 shall assist the Managing Director in the discharge of his functions under sub-section (3) and perform such duties as the Board may entrust or delegate to him.
Under the Provision Section (5), in the discharge of his power and functions under Sub-Section (3), the Managing Director shall follow such directors as the Chairman may give.

Under the Provision Section 5 (6), in the discharge of its functions under this Act, the National Bank shall be guided by such directions in matters of policy involving public interest as the Central Government, in consultation with the Reserve Bank may give in writing.

**Board of Directors**

Under the provision of sub-section (1) of the Section 6 of the NABARD Act, 1981, the Board of Directors of the National Bank shall consist of the following namely:-

- A chairman
- Two directors from amongst experts in rural economics, rural development handicrafts and other rural crafts, village and cottage industries and small-scale industries or in any other matter, the special knowledge or professional experience in which is considered by the central Government as useful to the National Bank.
- Three directors out of whom two shall be persons with experience in working cooperative banks and one with experience in the working of commercial banks.
- Three directors from out of the directors of the Reserve Bank.
- Three directors from among the officials of the central Government.
- Two directors from amongst the officials of the state Government and
A managing director who is assisted in his day to day working by chief General Manager, General Manager, Deputy General Manager, and other staff who are assigned specific roles in the Head Office and the Regional office.

Under Section 6 and sub-section (2) of the NABARD Act 1981, the chairman and other directors shall be appointed by the central government, in consultation with the Reserve Bank, that it is necessary to do, it may appoint one or more whole-time directors with such designations as may be deemed appropriate by that Government and any whole time director so appointed that also be a member of the Board.

Hierarchical Levels:- A graph indicating hierarchical level/tier in National Bank is given below:

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Chairman
  ↓
MD (Managing Director)
  ↓
EDs (Executive Directors Grade F+)
  ↓
GGM (Chief General Manager - Grade F)
  ↓
GM (General Manager - Grade E)
  ↓
DGM (Deputy General Manager Grade D)
  ↓
AGM (Assistant General Manager Grade C)
  ↓
Manager (Manager - Grade B)
  ↓
AM (Assistant Manager - Grade A)
  ↓
Clerks/Assistants/Typists/Secretaries/Hostel Supervision (Group B Staff) Messenger staff/Semi-skilled/Skilled Staff (Group C Staff)
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Source: NABARD Training Centre, Lucknow 1996, p. 64
Concept of Balanced Board

The Board of Management, which is nominated by the Government, carries out the administration of the NABARD. The Board of Management is represented by the Reserve Bank of India, Government of India, State Government and other institutions.

The constitution of Board should be balanced one. In order to keep a well defined balanced board for a model bank like NABARD there must be representation from all segments of the society like technocrats, politicians, management, social workers, farmers industrialist etc. To some extent it is applicable in the constitution of the Board of Directors in these banks as people from varied interests are there. Some of the Board members belong to the different departments/branches. Some experts of different fields are also given directorship. The need is to develop a system of directorship in which persons having wide and varied experience in the spheres of banking, management, social
development of village industry and political economy will be represented on the Board of Directors. Only such a Board would be able to carry out efficiently and day-to-day business and policies of the NABARD for common interest of rural masses.

NABARD has more or less similar Board of Management, which ordinarily meets once in a quarter of each year. The managing Directors may also call a requisition meeting under the Chairmanship of one of the Senior Directors, and in the absence of a Senior Director, an ordinary general meeting should be convened. In view of the present situation of the balanced board of the NABARD it is clear that the meeting shall be convene only by requisition or a normal ordinary meeting by the Directors. But in my view some alternative arrangements should also be followed to convene a meeting wherever required by the rural masses in order to solve their day-to-day problems. NABARD is established for the benefits of rural masses through Cooperatives and Regional Rural Banks. Hence the Cooperatives, Regional Rural Banks should also be permitted to requisition a meeting for their Agenda.

Out of the total number of Directors of NABARD only two directors were experts in rural economics, three directors, out of whom two shall be the persons with experience in the working of cooperative banks and one with the experience working in commercial banks, three directors
of RBI, three directors representatives of the central government, two directors from amongst the officials of the state government and a managing director who is assisted in his day-to-day working by Chief General Manager.

In view of the shortcomings of nominated directors mentioned above, the author recommends that there should be an increased number of directors which will balance the board one of the Directors should be appointed for a specified period i.e. 3 years to manage the NABARD accordingly. This will lead to the creation of a Balanced Board in the NABARD because Directors nominated by-the Central Government on advice of Reserve Bank of India as well as out of different areas will represent the commercial banks, rural areas, state government, Reserve Bank of India, central government and other experiences of various institutions. A balanced board will contain the master minds to the development of Rural Areas and the Board and the Directors which are having a comprehensive God gifted knowledge with business talents to give an impact to its key officers. The Chairman, the Secretary, Directors, Managing Directors, General Manager, Deputy General Manager and Regional officer-in-Charge etc. should also be men of proven competence in the technical and management field which will ultimately search for their proper training etc. The Directors are supposed to be the key officers who should develop cordial relationship with their subordinates so as to make effective teams-work. The policy formulation can come only
if there are competent persons at the top of the board for proper functioning. The people involved in the functioning should have been extremely sensitive towards financial and technical competence and have paid a little attention towards managerial skill and experience. There is an imperative need for executive development and managerial growth in the organisational set-up of other banks also.

Legal Frame Work

Term of office of Chairman and other directors, retirement and payment of fees:-

According to Section 7 (1) of NABARD Act 1981, the Chairman shall hold office for such term not exceeding five years and shall receive such salary and allowances as the Central Government may, at the time of appointment specify.

Under Section 7 and sub section (1-A), not withstanding anything contained in sub-section (1) the Central Government shall have the right to terminate the term of office of the Chairman at any time before the expiry of the term specified under the sub-section by giving him a notice of not less than three months in writing or three months' salary and allowances in lieu of such notice.

Under the Provision of Section 7 (2), the directors of the NABARD appointed under clauses (b) to (f) for sub-section (i) of section 6 shall hold office for a term of three years. At the time of expiration of his term such director shall hold office until the joining of his successor.
Under the Section 7 (3), the Central Government may, in consultation with the Reserve Bank, remove the Chairman or any other director referred to in sub-section (2) at anytime before the expiry of his term of office after giving him a reasonable opportunity of show cause notice against the proposed removal.

Under section 7 (4), the Chairman and the Directors referred to in sub-section (2) shall be paid such fees and allowances as may be prescribed for attending the meetings of the Board or of any of its committees and for attending to any other work of the National Bank, provided that no such fee shall be payable to the chairman or any other director, who is an officer of the government or an officer of the Reserve Bank.

Term of office of Managing Director and whole-time directors conditions of service

Under the provision of section 8 (1), the Managing Director and any whole time director appointed under sub-section (3) of Section 6 shall:

(a) hold officer for such term not exceeding five years as the central Government may at the time of appointment specify;

(b) receive such salary and allowances and be governed by such terms and conditions of service as the Board may with the previous approval of the Central Government and in consultation with the Reserve Bank, determine; provided that the managing Director and any such whole time director appointed to the first Board shall receive such salary and allowances and be governed by
such terms and conditions of service as the Central Government may in consultation with the RBI determine.

Under section 8 (2), the Central Government may in consultation with the Reserve Bank, remove the Managing Director or any whole time director appointed under the sub section (3) of section 6 at any time before the expiry of his term of office, after giving him a reasonable opportunity of show cause notice against the proposed removal.

Under Provision Section 8 (3), notwithstanding anything contained in sub-section (1) or sub-section (2) the Central Government shall have the right to terminate the term of office of the Managing Director or of any whole-time director appointed under sub-section (3) of Section 6 consult the Reserve Bank.

Disqualifications

Under Provision Section 9 (1) The person shall be a director who

- disqualifications is of unsound mind and stands so declared by a competent court; or
- is or has been convicted of any offence which, in the opinion of the central Government, involves moral turpitude; or
- is, or at any time has been adjudicated insolvent or has suspended payment of his debts or has compounded with his creditors.
According to Section 9 (2), the appointment as Director of any person who is a member of Parliament or the legislature of any state shall, unless within two months of the date of his appointment he ceases to be such a member, be void on the expiry of the said period of two months and if any Director is elected or nominated as a member of Parliament or of any state legislature he shall cease to be a Director as from the date of such election or nomination, as the case may be.

**Vacation and Resignation of Office by Directors**

Under the section 10 (1), if a director:

- becomes subject of any of the disqualification mentioned in section 9; or
- is absent without leave of the Board for more than three consecutive meetings thereof. In seat shall thereupon become vacant.

According to Section 10 (2), any director may resign his office by giving notice thereof in writing to the Central Government, and on his resignation being accepted by the central Government or if his resignation is not sooner accepted, on the expiry of three months from the receipt thereof by the Central Government, he shall be deemed to have vacated his office.

**Meetings of the Board**

According to Section 12 (1), the Board shall meet at such times and places and shall observe such rules of
procedure in regard to the transaction of business at its meeting as may be prescribed.

Under Section 12 (2), the Chairman of the Board, or if, for any reason he is unable to attend any meeting, any other Director nominated by the Chairman on his behalf, and in the absence of such nomination, any other director elected by the Directors present at meeting, shall preside at the meeting of the Board.

Under the provision of sub-Section (3) of section 12, all questions, which come up before any meeting of Board shall be decided by a majority of votes of the directors present and absent, the person presiding, shall have a second or casting vote.

The board shall meet once a quarter in each year. The Managing Director shall convene the meeting of the Board in the absence of the Director. The meeting shall be ordinarily held at Bombay but if so directed by the Board, may be held at any other place in India. Any five directors may for the purpose of consideration of the business to be specified in their requisition, require the Chairman to convene a meeting of the Board. The Chairman shall, on receipt of such requisition, convene a meeting of the Board by giving a sufficient notice. The date of the meeting so convened shall not be less than 21 days from the date of the requisition. Except in respect of the first meeting of the Board, ordinarily not less than one clear fortnight’s notice shall be given of
each meeting of the Board. Such notice shall be sent to every
director to his registered address. If it is found necessary to
convene an emergency meeting, a notice of not less than
seven days shall be given to every director who is at that
time in India, to enable him to attend.

No business other than that for which the meeting was
convened shall be discussed at a meeting of the Board, except
with the consent of the Chairman of the meeting and a
majority of the directors present, unless one clear week's
notice has been given of the same in writing to the Chairman.
Sir directors shall form a quorum for the transaction of the
business at the meeting of the Board. A copy of the
proceedings of each meeting of the Board shall be circulated
for the information of the directors as soon as possible after
the Chairman signs the minutes of that meeting.

A resolution in writing circulated to all the directors in
India and approved and signed by a majority of such
directors who are then in India, one of whom shall be the
Chairman, shall be valid and effectual and shall be deemed
to be the resolution passed by the Board on the date on which
it is approved and signed by the last signatory to the
resolution. Any resolution passed as aforesaid shall be
placed before the next meeting of the Board.

The Board of Directors should be comprised of fourteen
members excluding chairman according to the NABARD Act.
Our analysis of composition of Board has revealed that there
were only 12 directors appointed in year 1988-89 but there were five directors appointed in year 1998-99. In 1999-2000, there were 9 directors nominated and in 2000-01, 5 directors appointed but there were 11 directors appointed in the year 2002-03. As on 31st March 2003, two vacancies under section 6 (1) (b) and 6 (1) (g) of the NABARD Act, 1981 existed on the Board of Directors. As per the provisions of the Act, the directors from all disciplines should be nominated to provide a balanced shape to the Board and also to represent appropriately various sectors.

During the year 1983-84, the Union Finance Minister Sri Pranob Mukherjee addressed the sixth meeting of the Board of Directors. The Board organized five meetings in the year 1998-99 but in 1999-2000 and 2000-01 held four meetings in each year and six meetings in 2002-03.

Committees of NABARD

Executive Committee

The Board of the NABARD may constitute an Executive Committee consisting of such number of directors as may be prescribed. This committee shall discharge such functions as may be prescribed or may be delegated to it by the Board. The Executive Committee of the NABARD shall meet at such times and places and shall observe such rules or procedures in regard to the transaction of business at its meetings as may be prescribed.
The Executive Committee shall consist of the Chairman, the Managing Director and other Directors nominated by the Chairman. These Directors should be from amongst the directors appointed under clauses (b), (c), (d) and (e) of the Section 6(1) and one of the whole time directors (if any).

The regulations and such special and general directions as the Board may give from time to time, the Executive Committee shall have all the powers of the Board to transact the usual business of the NABARD except powers in relation to matters which are specifically reserved by the Act to the Board.

The Chairman may call a meeting of the Executive Committee ordinarily once in two months at Bombay on such date and such time as he may specify. For this a notice of not less than ten clear days shall be given to the members of the Executive Committee to enable them to attend the meeting. If the Chairman considers necessary to call an emergency meeting of the Executive Committee, a notice of not less than five clear days shall be given to the members of the Executive Committee to enable them to attend the meeting.

The Chairman, or if for any reason he is unable to attend any meeting, any other member of the Executive Committee nominated by the Chairman in this behalf and in the absence of such nomination, any other members of the Executive Committee elected by the members present at the meeting shall preside at the meeting of the said committee.
Three members of the Executive Committee of whom one should be a director appointed under clause (b) or (c) or (d) or (e) of Section 6(1), shall form the quorum at its meetings. Copy of the proceedings of each meeting of the Executive Committee shall be circulated for information to the directors of the Board as soon as possible after the same are signed by the member presiding at that meeting or the next succeeding meeting.

The executive board held meeting five times in year 1998-99 but in 1999-2000 and 2000-01, six meetings are held in each year. The Executive Committee held five meeting in 2002-03.

Other Committees

The Board may constitute such other committee consisting wholly of directors or wholly of other persons or partly of directors and partly of other persons as it thinks fit and for such purposes as it may decide and every committee so constituted shall discharge such functions as may be delegate to it by the board. The time and place at which any such constituted committee shall meet, the rules of procedure which such committee shall observe in regard to the transaction of business at its meetings, and the fees and allowances which may be paid to the members of such committee for attending the meetings of the committee and for attending to any other work of the NABARD shall be such as may be specified by the Bank.
Other Committee held (project sanctioning committee for loans under RIDF) its meetings seven times during the year 1998-99 and 1999-2000 in each. In 2000-01 & 2002-03 the meeting of the other committee was held nine times in each year.

**Advisory Council**

The Board shall constitute an Advisory Council consisting of such number of directors and such other persons who, in the opinion of the Board, have special knowledge of agricultural credit, cooperation and rural Economics, small-scale industries, village and cottage industries and handicrafts and other rural crafts or have special knowledge and appreciation of the country’s overall development policies and in particular overall monetary and credit policies, which are considered by the Board as useful to NABARD.

The Advisory Council shall advise the NABARD in such mattes as may be referred to the Advisory Council by the NABARD. The Council may discharge such other functions as may be entrusted or delegated to the Advisory Council by NABARD. A member of the Advisory Council shall hold the office for such term not exceeding five years as the NABARD may fix. The member of the Council may receive such fees and allowances as may be prescribed for attending the meeting or any other work of the NABARD. The Advisory Council shall meet at such times and places and shall observe
such rules of procedure in regard to transaction of business at its meetings, as may be prescribed. The Chairman or in his absence the Managing Director may convene a meeting of the Advisory Council once in six months at the Head Office of the NABARD on such date and at such time as he may specify. For this a notice of not less than once clear fortnight shall be given to the members of the Advisory Council to enable them to attend the meeting.

The Chairman and in his absence any other members of the Advisory Council nominated by the Chairman for the purpose shall preside at the meeting of the Council. In the absence of such nominated member any other member of the Advisory Council elected by the members present at meeting shall preside the meeting of the Advisory Council. One-third of the members of the Advisory Council (any fraction being ignored) or five members thereof whichever is less shall form the quorum at its meetings.

Each member of the Advisory Council other than a director or an officer of the Government or of the Reserve Bank of India shall receive a fee of Rs. 200 on every meeting of the Advisory Council attended by him. Each member shall be reimbursed travelling and halting expenses if any.

A member of the Advisory Council who is a director (other than a Managing Director or a whole time director) shall receive such fees and allowances as are admissible to him for attending a meeting of the Board. A member of the
Advisory Council who is an officer of the Government or the Reserve Bank of India shall receive such allowances as are admissible to him for attending a meeting of the Board.  

The Advisory Council of the National Bank met four times during the year 1998-99. The fifth meeting of the reconstituted training advisory of the National Bank was held in 1999-2000, but the advisory council met once during the year 2002-03 and discussed strategies to augment water resources available in the country.

Organisation Structure of NABARD

“A key to the successful performance of any institution and maintenance of a healthy portfolio is the existence of an efficient and adequate organizational set up.”

The organizational structure depends on the following departments.

- Planning and Development Policy Department (Farm Sector and Non Farm Sector)
- Institutional Development Department
- Inspection Department
- Economic Analysis and Publications Department
- Project and Operations Department
- Technical Services Department
- Human Resources Management Department
Various Departments of NABARD

The recommendations made by a team of management consultants from Indian Institute of Management (IIM), Ahmedabad, appointed by the erstwhile ARDC, the set-up at the Head Office and the Regional Offices of NABARD was reorganized. The new structure was introduced in September 1982.

Before we discuss the functions performed by various departments in detail, it would be appropriate to mention that all the departments work directly under the Managing Director and the heads of the departments are directly responsible to him.
Planning and Development Department

This department functions under the headship of Chief General Manager. It contains three divisions, viz., Policy Formulation (farm sector) Division, External Aid Division and Perspective Planning and General and Advisory Services Division. A separate Deputy General Manager supports each division. The Policy Formulation Division undertakes the responsibility of formulation of various plans for the development of agriculture and other farm sector activities. The External Aid Division is responsible for the implementation of such projects in which amount of external aid from World Bank and its affiliate International Institutions/Agencies is involved. The Third division of the Planning and Development Department is responsible for perspective Planning. It also provides general and advisory services.

Another Planning and Development Department is also established. It is also headed by a General Manager and supported by a Deputy General Manager. The division of this department is responsible for the formulation of such policies related to non-farm sector.

Institutional Development Department

This department acts under the headship of Chief General Manager. Mainly there are two divisions of the department. This first division may be divided as RRBs Division and Commercial Banks Division, while the other
may be Cooperative Banks Division, LDBs Division and Special Investigation Division. The department is responsible for implementing such measures, which may improve the efficiency of various credit institutions engaged in the field of agricultural credit.

The RRBs division acts for improving the overall performance of the RRBs. For this purpose this division undertakes various activities such as, recruitment and promotion policies of RRBs, feasibility of enlarging the scope of lending by RRBs, increasing the RRBs involvement in schematic lending, enabling the RRBs to formulate viable schemes and other assistance for the improvement in their performance.

The Commercial Banks Division performs such functions, which are related to ensure the participation of CBs in refinancing, review of system of maintaining demand, collection and balance (DCB) register by CBs, review of their recovery performance etc. This division helps to increase the involvement of CBs in agricultural and rural lending.

The Cooperative Bank Division performs various activities such as rehabilitation of cooperative institutions, strengthening of cooperative structure investigation of overdues, augmenting the bad debt reserves, stepping up recovery measures, rationalization of loan policies and procedures, toning up the management of CCBs.
The LDBs Division takes different measures to improve the functioning of the SLDBs like, stipulation of recovery discipline for lending eligibility PLDBs/branches of SLDBs, training of SLDB staff, drawing up rehabilitation programmes, providing organization and managerial improvements of SLDBs and PLDBs, etc.

The Special Investigation Division undertakes various types of investigations to sort-out the problems of the cooperative sector and provide appropriate suggestions.

**Department of Inspection**

Chief General Manager is the head of this department and it is located at Hyderabad. The inspection Department is divided into divisions. The first has two parts-Policy and Programme Division and Editing and Follow-up Division. It is under the charge of one Deputy General Manager.

The second is the Inspection Division. The Division is also under the charge of a Deputy General Manager. The Inspection Departments through its various divisions conduct the inspection of SCBs, RRBs and CCBs. The purpose behind this function of the department is to ensure that the interests of the depositors are protected and the banking institutions related with NABARD followed the healthy and approved banking practices and not against the interests of the depositors. The department prepares the inspection reports, which include suggestions for improvement in the working of the banks. These reports are sent to the concerned
institutions and to other concerned authorities for necessary action. In this regard the various actions taken by the concerned banks and other authorities to remove the defects and implementation of the department follows up the suggestions mentioned in the inspection reports.

Economic Analysis and Publications Department

This department acts under the headship of Chief General Manager. There are two divisions of the department and a Deputy General Manager supports each. One of these divisions is divided in three-parts, viz., the first is Evaluation Studies Division which is responsible for launching evaluation studies regarding projects implemented by the NABARD, while the second is Monitoring and Analysis Division which undertakes monitoring of schemes and by monitoring the division provides a feedback on current and completed schemes. The monitoring and evaluation activities enable NABARD to learn useful lessons from the experience of development schemes. The third is Data Bank and Publication Division. This is responsible to collect and publish various types of data and other literature regarding institutional credit for agriculture and rural sector.

The Special Studies Division undertakes various studies of farm and non-farm sector.

The Economic Analysis and Publication Department publishes reports on studies undertaken and brings out other publications covering matters connected with rural
development. Besides the Annual Report and other ad-hoc publications, it brings out a journal ‘National Bank News Review’ on monthly basis. The circulars of NABARD and statistical statements relating to cooperative movement in India (credit and non-credit societies separately) are also brought out annually by this department. Advance statistics on important items of assets, liabilities, etc., of credit and non-credit societies are also brought out to serve the immediate requirements of user institutions before the regular publications relating to these societies are published. The department also publishes a Hindi-English house journal entitled ‘NABARD PARIVAR’ to provide a medium of expression for the literary, artistic and other creative talents amongst its employees.

Projects and Operation Department

The projects and operation departments have been set up with a purpose to cover different regions of the country, three projects and operation Departments have been established. The departments prepare various projects for agricultural and rural development. These departments also implement the various operations, which are performed by NABARD.

The first Project and Operation Department is headed by the General Manager and is divided into three divisions. For the support of General Manager one Deputy General has been deputed in each division. These divisions are the
Northern Division, the Southern Division and a General Division, which are responsible for the preparation of multi-state projects and monitoring and administration in the Northern, and Southern divisions.

A General Manager also heads the second Project and Operation Department. This department has two divisions, i.e., the Western Division and General Division. One Deputy General Manager for each division has been appointed. The Western Division is responsible for the preparation of projects and implementation of other operations in the area. The general division of this department undertakes the implementation of credit authorization schemes and various other operational policies.

Chief General Manager heads the third Project and Operation Department with support of a Deputy General Manager. It performs its activities in Eastern Division.

Technical Services Department

The Managing Director heads this department. It provides all types of technical assistance, advice and other support in implementing various programmes of agricultural and rural development. Under this department various cells have been established for various purposes. These are forestry, land development/soil conservation/agronomy agricultural engineering/farm mechanization, handlooms and khadi and village type industries cells. Each acts under a manager rank official. While civil engineering and market
yards are under the charge of a Deputy Manager. The fisheries, animal husbandry and dairy, minor irrigation, hydrogeology and irrigation engineering and horticulture and plantation cells are functioning under Deputy General Manager.

**Department of Human Resource Management**

This department is headed by the Chief General Manager and is divided into three divisions i.e. Personnel Administration Division, Personnel Policy Division, and Training Division. Each division is under the charge of a Deputy General Manager. This department is responsible for preparing various schemes for upgrading the human resource in NABARD and other credit institutions. The department also prepares outlines for various training courses, seminars and workshops, etc. It is also responsible for personal administration and industrial relations.13

During the year 2002-03, 1774 officers received training in various courses conduct by the National Staff College (NBSC), Lucknow and 1364 officers were trained by NBSC through 62 programmes. Therefore, 172 staff members (Group B) were trained with a view to upgrading their skills for improved job performance and shouldering higher responsibilities and NBTC organized 5 general programems for 98 (Group C) employees.

Two teams comprising 28 and 27 senior officers from the National Bank attended the 'Change Management
Programme’ at Management Development Institute (MDI), Gurgaon with exposure visits to Germany and France and at Administrative Staff College of India (ASCI), Hyderabad with exposure visits to the Netherlands, France and Italy to study the key issues associated with effective corporate strategies and for playing an effective lead role in introducing changes in the Bank.

162 officers from the National Bank and 44 officials from partner institutions (11 from cooperative banks, 31 from RRBs and 2 from NGOs) were deputed abroad for various overseas training programmes/exposure visits, workshops and seminars.¹⁴

Department of Management Services

Organisation structure at Regional office is based on the recommendation made by the Management Service Department. However, depending on the needs of concerned officers, some flexibility in groupings of functions is possible.¹⁵ The department is headed by the Chief General Manager and supported by a Manager. This department performs all the functions related to the management services.

Human Resource Development Department

The HRDD was set up in 2000 by combining activities of the management service department and the training activities from the Human Resource Management
Department. The Chief General Manager heads the department.\textsuperscript{16}

**Department of Finance and Accounts**

The Finance and Accounts Department is very important for any institution. This department is headed by a Chief General Manager and supported by a Deputy General Manager. A training division of the human resource management department under the charge of Deputy General Manager is also attached with the department. The finance and accounts department is responsible for: (i) preparation of budget, (ii) planning and mobilization or resources, (iii) preparation of reports, returns and other correspondence therewith, (iv) planning for utilization of funds, (v) framing of rules relating to provident funds, medical benefits and other allowances payable to the employees of the NABARD (vi) maintenance of proper books of accounts of all receipts and payments, (vii) preparation of bills and disbursement of salaries, to deposits accounts maintained by the NABARD.

**Department of Law**

The Department of Law is headed by the Chief General Manager and supported by a Manager. It is responsible for:

- ascertaining the legal accuracy and title deed verification of assets acquired by NABARD.
- preparation and execution of all legal documents, and
taking legal actions where it is necessary to protect the interest of NABARD, etc.

Secretary’s Department

This department is headed by Chief General Manager and supported by a secretary. This department performs all the secretarial works.

Internal Audit Department

The department is headed by Chief General Manager and acts under the charge of Deputy General Manager. The department conducts internal audit from time to time to ensure compliance with rules and efficient discharge of functions both in the Regional Offices and Head Office. The department completed first round of audit of All Regional offices by December, 1982. Under the second round the audit of 3 Regional Offices was completed by June 1983. But the Zonal Audit Cell at Kolkata completed inspection in respect of 4 Ros in the NER. Complete inspections of four HO Departments, besides partial inspection of two departments were undertaken during the year 2002-03.

General Administration and premises Department

The Chief General Manager heads the department. It is divided in two divisions, namely General Administration division and Premises Division. The two divisions are under the charge of a Deputy General Manager. This department is responsible for establishment work and maintenance of
premises. Acquisition of land, arrangement of additional accommodation and construction of premises and buildings are performed by this department.

National Bank continued to lay considerable emphasis on preventive vigilance system in the organization. Vigilance Awareness Week was observed by the Bank from October 31 to 6 November 2002 as advised by the Central Vigilance commission, GoI. During the week, a pledge, as forwarded by the Commission was administered to all the staff. A special training programme on Vigilance-Domestic enquiry and Related Aspects' was conducted for 27 officers at NBSC, Lucknow in October 2002. Preventive Vigilance Inspection of 13 Ros/TEs was also conducted during the year 2002-03. 18

Industrial relations during the year continued to be cordial. Periodical discussions were held with the All India NABARD Officers’ Association; the All India NABARD Employees’ Association and the All India NABARD Progressive Employees’ Welfare Association (AINPEWA)

Vikas Volunteer Vahini Department

The Director General of NABARD heads this department. The department is located in New Delhi. This department is established for disseminating the five principles of ‘Development Through Credit’ among the rural masses. The five principles briefly are: (i) Credit must be used in accordance with suitable methods of science and technology, (ii) The terms and conditions of credit (techno-
economic parameters) must be fully respected, (iii) work must be carried out with the desired skill so as to realize optimum increase in the productivity and income. (iv) A part of the additional income created by credit must be saved, and (v) Loan installments must be repaid in time and regularly to facilitate recycling of credit.

**Investment and Monitoring Department**

With a view to strengthening the mechanism for monitoring refinance supported investment projects implemented with loans from Rural Infrastructure Development (RIDF), an exclusive Department of Investment Monitoring (DIM) has been set up at the Head Office of the National Bank from 15 September 2000. DIM has been assigned the responsibility of monitoring and evaluation of projects under RIDF, earlier looked after by the State Projects Department (SPD) as also District Oriented Monitoring (DOM) studies, taken over from the Investment Credit Department (ICD). Chief General Manager heads this department.

**Resource Mobilisation Department**

Recognizing the importance of resource mobilization and having been permitted to issue Capital Gains Bonds under Section 54(EC) of Income Tax Act, 1961, as announced in the Union Budget 2000-01, the National Bank set up a new Department at it’s Head Office. The Department is responsible for the entire gamut of resource mobilization by
the National Bank, including borrowings from GoI, RBI, domestic as well as international agencies and mobilization of funds from the open market. Chief General Manager heads this department.¹⁹

**Regional Offices / Sub Office**

Initially NABARD operated through 28 regional offices and a sub-office and with 6 training centers with head office at Bombay, but the Bank will have offices in all states and union territories. There is also a thinking of opening offices below the state level for divisions and eventually at every district level.

The NABARD has opened 28 regional offices in different parts of the country, viz., Agartala Ahmedabad, Aizawl, Bangalore, Bhopal, Bhubaneshwar Chandigar, Chennai, Dehradun, Dimapur, Gangtok, Guwahati, Hyderabad, Imphal, Itanagar, Jaipur, Jammu, Kolkata, Lucknow, New Delhi, Panji, Patna, Pune, Ranchi, Raipur, Shillong, Shimla and Thiruvananthapuram and sub-office/cell at Port Blair and Sri Nagar Sale. The Regional Offices are headed by General Manager/Deputy General Manager Regional Office in-charge and Managers depending upon the coverage of the region and demand of the refinance from the respective areas. Managers and Deputy General Manager head these sub-offices and division.
In the last, for the better management of the Bank, a provision is made for the constitution of an executive committee consisting of some members of the board to discharge such functions as may be prescribed by the Board. There is also a committee to guide the all activities of various departments. The committee is named as management committee. The aim of this committee is to assist the Board to take major policy decisions and to monitor the process of implementation of the decisions made by the board. The members of the committee may invite other members accordingly to the agenda of the meeting which be held once in every week.

The style of functioning of different authorities is always through a judicious planning careful regulation and vigilant control. It is suggested that NABARD should open its branches at district level so that they may help and guide the lead banks in the preparation of annual action plans/district credit plans. This will also result in more effective evaluation and monitoring of various schemes.

With this background the next chapter deals with the role played by the NABARD in financing the rural projects with a view to do ameliorate the rural economy.
NABARD'S OFFICE/TRAINING CENTRE IN INDIA

- Regional Offices
- Sub Office
- * Training Centres
Reference:


5. Sinha, S.L.N.: Development Banking in India, 1976, p. 18

6. Organisation is also defined as a function of management when it refers to dividing upon the activities which are necessary to any purpose and arranging them in groups which are assigned to individual.


9. NABARD (A profile) 2003, p.1

10. NABARD Act 1981

11. Annual Reports of the NABARD

13 NABARD, Training Centre, Lucknow, 1996, p. 64
14 Annual Report of the NABARD, 2003, p. 221
15 NABARD Training Centre, Lucknow, 1996
16 Annual Report of the NABARD 2000, p. 179
17 Annual Report of the NABARD 2003, p. 227
18 Ibid. p. 223
19 Annual Report of the NABARD 2001, p. 199
Chapter 5

Role of NABARD in Rural Financing

This chapter is dealt with the role of NABARD in rural financing for different refinance operations through various institutions for a number of purposes and assorted terms. NABARD provides refinance facility for purposes covering both investment and production Credit, Farm and non-farm activities both included in these credit facilities by the bank. The major objectives are given below which guide refinance support for various activities through different institutions by the bank. These are following:

- To support national policies for increasing agricultural production and rural employment through efficient use of national resources.
- Reduction of regional imbalance,
- Equitable distribution of growth, ensuring credit support to the weaker sections of the society through special programmes, like Integrated Rural Development Programme (IRDP),
- Increasing the credit absorptive capacity of the credit involved in disbursement of credit and improving quality of credit through proper control of technical and financial parameters and propagation of the repayment ethics.\(^1\)

Terms and conditions for Refinance by NABARD

NABARD has prescribed detailed terms and conditions on the basis of which credit facilities are provided by it. The terms and conditions for short-term and medium-term loans on non-schematic basis depend on both, the type of facility and the institution to which the refinance is given. The
important terms and conditions of the NABARD’s refinance facility on schematic basis, are as follows:

Unit Cost

Unit cost is related to technical parameters. For different types of investment has been prescribed realistic average unit cost. However, unit cost in the individual cases, is to be determined on the basis of technical plans, quotations etc. Financing banks can take care of any marginal increase in the unit costs. In such cases, where the unit cost increases or any abnormal escalation takes place in the cost during the implementation of the scheme, the financing banks can approach the NABARD with suitable details. For this purpose, in each of the Regional offices of the National Bank, a Standing Committee has been constituted. This Committee reviews the norms of unit costs of various investments on half-yearly basis. The committee may revise the same, if feels necessary. Thus, we find that the realistic costs are adopted under the system of refinance.

Contribution of Beneficiaries

As stipulated by the NABARD the borrowers have to contribute a sum of money to the total investment cost. The limit of contribution depends upon the status of the borrower, such as, small, medium or large farmers and the nature of investment. In the cases of small farmers, the beneficiary’s contribution (including obligatory purchase of shares, own labour and other contribution in cash or kind) is a minimum of 5 percent of investment cost for all purposes. In the cases of medium farmer, it is a minimum of 10 percent (7 percent for two or more farmers in a group loan) of investment cost. For other beneficiaries this limit is 15 percent (10 for two or more farmers in a group loan). But for the purpose of pumpsets under minor irrigation the
Role of NABARD in Rural Financing

beneficiary’s contribution is 10 per cent. In the cases of corporate bodies, a still higher down payment is stipulated which is not less than 20 per cent. It depends on the type of project, viability etc. In the case of schemes with capital subsidy, particularly, for small and marginal farmers and landless labourers, the subsidy is treated as down payment of the borrower, thus, providing relief to the weaker sections. Similarly, in the case of all such schemes financed by LDBs the down payment by the ultimate beneficiary is included in the mandatory share capital contributions.

Refinance Amount

The financing banks/State Governments are required to make certain stipulated level of contribution for financing the project. The amount of refinance sanctioned by the NABARD ranges between 50 per cent and 95 per cent of the bank loans. For priority sectors, like minor irrigation, land development. Integrated Rural Development Programme (IRDP) and other programmes for the benefit of weaker sections, the higher amount of refinance is available. NABARD has also fixed the higher rate of refinance in the cases where the SLBs. Backward Entire North Eastern makes advances and eastern regions will also be benefited through this type of arrangement.

Refinance Security

State Government or the financing bank should guarantee the refinancing of the bank and at the same time furnish other security to the satisfaction of the National Bank. There is a provision of waivement of the security or Government guarantee for any eligible institution or any class of eligible institution on the merits of each case. Generally the National Bank waives security in the cases of CBs including RRBs because of the operational problems in creating sub-mortgage or hypothecation of security.
In the case of SCBs, the State Government should guarantee the refinance. This guarantee can be waived by the National Bank if the SCBs fulfils certain conditions. In the case of LDBs, the concerned State Government should guarantee the special development debentures. Under the provisions of the NABARD Act, 1981, this is also provided that all the securities obtained by the borrowing institution from the ultimate borrowers should be held in trust on behalf of the National Bank according to section 29(2), provided therein.

Security from the Side of Ultimate Beneficiaries

The financing banks prescribe the security from ultimate borrowers. For this, the RBI and the National Bank issue guidelines from time to time, for example, generally the SLDBs obtain the security in the form of mortgage of lands. Thus, these institutions can float debentures under such cover. Therefore, some of the SLDBs have amended their byelaws for sanctioning loans against the hypothecation of movable assets, group guarantee, etc.

Rationalisation of Interest Rate on Refinance

The rates of interest charged by the NABARD on its refinance and the rates of interest charged by the financing institutions are subject to be determined from time to time keeping in the view the general interest rates structure and the policy of the GOI and the RBI in this regard. At the time of establishment of the NABARD the rate of interest on its refinance to banks and the rates of interest for loans by banks to the ultimate borrowers are given below.
The banks are allowed to charge 0.5 per cent evaluation fee of the cost of investment for processing charges of loan applications under the provisions of the NABARD Act, 1981. NABARD is authorized to fix the maximum period of loan upto 25 years. This maximum period of loan fixed by the National Bank depends upon the nature of development and economics of the investment. Under the IRDP advances the minimum period of loans and the grace period required for each type of investment has been specified to ensure that too short maturity periods are not fixed. The maturities of loans are fixed on the basis of repaying capacity but does not exceed the useful life of the assets financed. Generally such loan maturities do not exceed 15 years.

In the cases of financing to small farmers the maximum repayment period fixed is 9 years for the pump sets and 15 years for all other minor irrigation loans. In the cases of other farmers this period is fixed 9 years for the same purposes mentioned above. Lending for diversified purposes, repayment periods are based on repaying capacity of the beneficiaries but in any case it will exceed 15 years.
In some cases the gestation or grace period is allowed before repayment starts. In the case of minor irrigation and land development purposes, generally, the grace period is provided which is based on type of investment, keeping the fact in the view that the beneficiary is not called upon to repay till the plantations reach economic bearing state. In such cases the provision to defer the interest is allowed during gestation period in the general interest of farmers.

**Repayment of Loans**

The repayment from different banks to the NABARD is drawn up at the time of each drawl of refinance, if the refinance from above mentioned banks more or less coincide with the agreed dates for collection from ultimate borrowers as per schedule given below:

<table>
<thead>
<tr>
<th>All repayments of loan eligible for refinance and due from borrowers</th>
<th>Repayment of refinance on or before</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. From January to 30th June of each year</td>
<td>31st July each year</td>
</tr>
<tr>
<td>2. From 15th July to 31st December of each year</td>
<td>31st January of subsequent year</td>
</tr>
</tbody>
</table>

Moreover, the SLDBs, have faced difficulty in obtaining full recovery of their loans from individual borrowers to redeem the special development debentures on annual basis. Under such circumstances the NABARD has permitted SLDBs to float special development debentures with a maturity period of not more than two years in excess of the period of the corresponding loans granted to the ultimate borrowers provided the maximum period of debentured does not exceed 15 years. But this facility is
not applicable for such special development debentures to corporate bodies, such as, Electricity Board, Lift Irrigation Corporations etc. according to the Bank’s provisions.

Eligibility Criteria

NABARD has adopted the policy to regulate the lending of Cooperative and Commercial Bank including RRBs on the basis of their recovery performance, with a view to bringing about awareness on their part for taking appropriate measures for ensuring full recovery and thereby facilitating recycling of scare capital resources. The National Bank has imposed a discipline according to which these financing banks are eligible to obtain more quantum of refinance when their recovery performance improves. These banks can participate in project lending with NABARD’s assistance only when they achieve a recovery level of not less than 60 per cent of demand.

Sanctions of Schemes – Documentation

NABARD examines the technical feasibility and financial viability of scheme proposals/projects made by the eligible institutions for different purposes. After proper examination, the NABARD sanctions the schemes and releases the refinance against drawl applications.

Purposes of Refinance

Purposes, for which the NABARD provides refinance support, are given below:

Short-Term

a. Seasonal agricultural operations and marketing of crops,
b. Stocking and distribution of chemical fertilizers, and
Role of NABARD in Rural Financing

Medium/Long-Term

a. Approved agricultural purposes,
b. Conversion loans,
c. Purchase of shares in the cooperative sugar factories and other proceeding societies,
d. Various minor irrigation investments, such as, construction of dugwells, dug-cum-bore wells, filter points, shallow/medium/deep tube-wells, lift irrigation units, agricultural pump-sets, sprinkler irrigation, living 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 diary, 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 IRDP,
m. Work animals, animal driven carts, etc., and
n. Other purposes, like, dryland farming, command area development projects, export oriented agricultural project etc.

Non-Farm Activities

Short-Term/Working Capital

a. Production and marketing activities of powerloom/handloom weavers' societies primary coir cooperatives other cottage and small scale industrial cooperatives and village artisans through primary societies,
Role of NABARD in Rural Financing

b. Procurement and marketing activities of apex/regional weaver’s societies and central coir marketing societies.

c. Silk reeling and twisting activity of cooperatives, and

d. Collection and marketing of minor forest produce.

Medium/Long-Term

a. Purchase of shares by powerloom owners/powerloom weaver’s societies and handloom weavers in consumer type of cooperative spinning mills.

b. Handloom acquisition, modernization, etc. of looms, construction of workshed, acquisition of shares in consumer type cooperative spinning mills by weavers, opening/renovation of handloom emporia etc.

c. Powerlooms - acquisition of powerlooms.

d. Coir-Establishment of coir delivering units, setting up of showrooms/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 multi purposes societies (LAMPS) and farmers service societies (FSS) for purchase of equipment and tools, etc.

g. Tiny/Cottage and Village Industries-Package of credit measures 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 industries, services and business (ISB) component of IRDP and Scheduled Caste (SC)/Scheduled Tribes (ST) Action Plan outside IRDP.

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

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

m. Term loan assistance to meet the margin money requirement of cottage, thing and village industries units.⁴

**Eligible Refinancing Institutions**

The eligible institutions for the purpose of obtaining refinance facilities from NABARD are SLDBs, SCBs CBs and RRBs (Gramin Banks). Various types of refinance accommodations are provided by the NABARD.⁵

The short-term (ST) refinance is provided to SCBs on behalf of CCBs in states with three-tier cooperative credit structure. In such states where three-tier 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 industries, societies and production and marketing activities of rural artisans. But the period of such type of refinance does not exceed 18 months.

The medium-term (MT) refinance facility for the purpose of approved agricultural purposes’ and ‘conversion of ST crop loans into MT loans due to natural calamities and enemy action’ is provided by the 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 18ᵗʰ 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.
NABARD provides refinance support to states for the contribution to share capital of cooperative Government credit institutions. Such type of refinance is sanctioned for a period not exceeding 20 years. Composite credit is also sanctioned by NABARD to RRBs for all the purposes as discussed earlier other than working capital requirements of cooperative sugar factories and purchase of shares of processing societies.

The details of the refinance facility provided to eligible institution are as follows:

**State Cooperative Banks (SCBs)**

**Farm Activities**

**Short-Term Facilities**

**Seasonal, Agricultural Operations (Crop Loans)**

Such types of refinance is provided by the National Bank at 3 per cent below the bank rate, i.e. NABARD sanctions ST credit limits to SCBs on behalf of Central Cooperative Banks (CCBs) to supplement their resources for providing financial support for seasonal agricultural operations of the farmers. While sanctioning, the ST credit limits, the NABARD has prescribed some criteria, such as, financial soundness, of the CCBs, realistic landing programme. Own resources, submission of satisfactory compliance on inspection reports, capacity to provide non overdue cover for borrowings, owned fund of the bank and the audit clarification. The sanctions of credit limits and permission for drawals are subject to certain disciplines (as noted below) to ensure that the utilization of availed credit limit is need-based and the CBs are capable of handling and recycling the funds.

1. The sanction for the current year’s limit is linked with the recovery performance of the bank during the preceding year, i.e., level of
overdues. But for such banks situated in North-Eastern Region, the recovery performance is not considered while sanctioning the credit limits.

ii. The drawals of the credit limit is restricted upto the non-overdues cover is available.

iii. The SCBs/CCBs are provided concessional credit when they make efforts towards deposit mobilization and the banks own involvement of funds in ST agricultural loans by prescribing a certain minimum portion of their total internal lendable resources are to be involved in ST agricultural lending.

iv. A specified percentage of refinance assistance is to be prescribed for small and marginal farmers.

v. Observance of the seasonality discipline, which prescribes minimum level of recovery performance at the end of Kharif and Rabi seasons every year.

vi. For Kharif and Rabi seasons separate credit limits are sanction and the total credit limits reduced to the normal level after the Rabi financing season.

vii. The separate credit limit is sanctioned to support the oil seed production.

viii. Insisting on the observance of all the essential features of production-oriented system of lending for agriculture.

NABARD also provides credit limits to SCRs against Government pledge and other approved securities, from time to time, to finance seasonal agricultural operations.

In the area of operation of such CCBs which are not eligible to avail credit limits from NABARD, the SCBs/CCBs are required to ensure that the credit needs of all new and non-defaulting members of PACS and the small and marginal farmers having small accounts in default, are met in full. NABARD provides assistance to SCBs by sanctioning additional limits on behalf of eligible CCBs for approved purposes in such states where number
Role of NABARD in Rural Financing

of ineligible CCBs is large and thereby causing resource constraints for the SCBs to finance such CCBs.

Advances against Approved Securities under Agricultural Credit Stabilisation Fund

Such type of credit limits are sanctioned to SCBs at the Bank Rate against pledge to Government and over trustee securities representing investments in their Agricultural Credit (Stabilisation) Fund to meet their share in MT conversion loans. The draw of actual limits sanctioned under this category are restricted upto the extent of the actual utilization of fund for conversion of ST crop loans in such areas which are affected by natural calamities.

Marketing of Crops

The ST credit limits for marketing of crops are provided by NABARD at the Bank Rate to SCBs to help the farmers in marketing of their produce at more remunerative prices and to enable them to repay their dues to PACS so as to be eligible for fresh production loans subject to certain stipulations. The SCBs are provided such type of credit limits to assist the cooperative marketing societies, production loan and other dues of PACS which are recovered out of the produce pledge loans and sale proceeds of crop marketed and remitted to PACS. This credit facility is also available to those marketing societies, which combine processing activities with their regular functions, to improve market ability of the produce.

In the case of marketing of cotton and ‘kapas’ separate credit limits are sanctioned. The selective credit control directives of the RBI govern the operations of these limits.
Role of NABARD in Rural Financing

Procurement, Stocking and Distribution of Fertilisers

Such types of credit limits are sanctioned at 1 per cent above the bank rate. Generally, a consortium of the SBI GROUP, CBs, fulfills the credit needs for procuring, stocking and wholesale distribution of chemical fertilizers. However, the SCBs are sanctioned short-term credit limits by NABARD to cover the credit gap, which cannot be met by the other banks.

SCBs/CCBs should, normally meet the credit requirements of retail distribution of fertilizers by primary cooperative marketing societies and PACS on cash and PACS on cash and carry basis, from their own resources. But where the SCBs/CCBs are unable to meet these requirements, the NABARD provides refinance to the extent of the credit gap.

Financing Cooperatives Sugar Factories

To meet the credit needs of cooperative sugar factories relating to their working capital, the NABARD provides ST credit limits to SCBs on a very selective basis against their sugar stocks at 5 per cent above the bank rate. In such cases the period of operation on the credit limit is fixed on the basis of credit needs during the crushing season.

Medium-Term (MT) Purposes (Non-Schematic)

Approved Agricultural Purposes

The NABARD sanctions MT credits limits to SCBs on behalf of CCBs to enable them for financing investment in approved agricultural purposes at 3 per cent below the bank rate. As far as possible, the cooperative banks are required to formulate schemes and seek refinance under schematic lending. Where the formulation of schemes is not possible, the cooperative banks may claim refinance under sporadic lending. As per NABARD Act, the MT loans can be granted for a maximum period of 7 years, but at present the MT...
Loans are granted for 3 to 5 years. To avail this facility, SCBs are required to ensure that the credit needs for investment purposes of new and non-defaulting members of the PACS and the small and marginal farmers with small amount of defaults are met in full, especially in the area of operation of ineligible CCBs. The SCBs will also have to ensure that 50 per cent of the MT loans issued by CCBs during a calendar year are utilized to finance small and marginal farmers.

Conversion Loans

The NABARD provides MT conversion loans at 3 per cent below the bank rate from the NRC (Stabilisation) Fund. The loans are granted to SCBs on behalf of CCBs during the time of natural calamities which affect the crop yield, and to enable them to repay ST agricultural loans borrowed by them from NABARD earlier on behalf of affiliated CCBs. This facility is available in those areas where the crop yield due to natural calamities is low and the Government has allowed suspension/remission of revenue dues. In such conditions where crop insurance scheme is in force, loans eligibility for conversion will be based on net of insurance claims. These loans are generally granted for 3 years, which are shared between CCB, SCB, State Government and NABARD.

If the recurrence of natural calamities affects the crop yield, NABARD provides the facility of rephasing of MT conversion loans or rescheduling of the loans installments of SCBs. In such cases the period of loans is extended to 5 years and the due installment is deferred that particular year. The outstanding conversion loan amount is also rephased to 5 years.
Role of NABARD in Rural Financing

Purchase of Shares in the Cooperative Sugar Factories and Other Processing Societies

Under this category NABARD sanctions credit limits to SCBs on behalf of CCBs to enable them to provide MT loans to cultivators for purchase of shares in cooperatives sugar factories and other approved processing societies, such as, cooperative spinning mills, cotton ginning and pressing units, ground-nut oil mills and rice mills and also in cooperative marketing societies/federations for the purpose of setting up such units. Each loan is granted for a period not exceeding 5 years at the bank rate.

Medium/Long-term (Schematic)

The NABARD provides MT/LT loans to CCBs, who issue these loans for development of agriculture and allied activities. The CCBs are eligible to avail this facility from NABARD on a schematic basis by satisfying the eligibility criteria of minimum 60 per cent recovery in the preceding cooperative year.

Non-farm Activities

Production and Marketing Activities of Primary Weavers Societies

It is provided at 2.5 per cent below the bank rate. Under this category NABARD sanctions ST credit limits to SCBs on behalf of CCBs to assist production and marketing of handloom products of primary weavers' societies. This type of credit limit is also sanctioned on behalf of those CCBs which are ineligible to obtain refinance from NABARD for seasonal agricultural operations, on account of their level of overdues, etc. subject to certain safeguards.
The drawal or credit is allowed only to those primary weavers societies which are working as production-cum-sale units. The amount of such credit is a subject to be determined on the basis of anticipated production programme, capacity to provide the prescribed margin, adequate supervision arrangements, sale of handloom products and operations on the previous year’s limit, etc. The new established societies or societies to be activised can avail the finance on the basis of their anticipated production of per loom scale of finance for the first two years of their working.

Procurement and Marketing of Handloom Cloth and Trading in Yarn by Apex/Regional Societies

NABARD sanctions separate credit limits to SCBs for procurement and marketing of handloom cloth and trading in yarn undertaken by the apex/regional weavers’ societies at 2.5 per cent below the bank rate in case of limits for dealing in cloth and at the bank rate in the case of limits for trading in yarn. There are some aspects which are considered before sanctioning credit limits for above purposes, such as, financial soundness and operational efficiency of the units, the credit requirements of the society which is determined on the basis of anticipated sale in case of marketing of handloom cloth and is restricted to a multiple of its net disposable resources in case of trading in yarn and the ability of the society to maintain a margin of 10 per cent as cover for all borrowings in the form of stock in trade.

Financing of Individual Weavers

NABARD provides refinance for such individual weavers scattered in village and are unable to form a weaver’s cooperative society. Such weavers can obtain refinance from PACS/LAMPS/FSS of which they are members. For these purposes the refinance is provided to SCBs at 3 per cent below the bank rate.
Role of NABARD in Rural Financing

Procurement and Marketing Activities of Central Coir

Marketing Societies

Such ST credit limits are sanctioned at 2.5 per cent below the bank rate to SCBs to finance central coir marketing societies for their procurement and marketing activities. The credit limits are sanctioned on the basis of anticipated sales during the year subject to fulfilment of certain conditions.

Production and Marketing Activities of Primary Coir Cooperative and Coir Mats and Matting Societies

The refinance is provided by NABARD to SCBs on behalf of CCBs for granting loans to primary coir and mats and matting societies for their production and marketing activities at 2.5 per cent below the bank rate. The credit limits are sanctioned on the basis of anticipated production of husk and coir yarn and on the basis of anticipated production of mats, respectively.

Reelers'/Twisters’ Cooperative Societies

The refinance is available from NABARD to SCBs on behalf of CCBs at 2.5 per cent below the bank rate to support the activities of reelers’ cooperative societies without insisting that the societies should be functioning purely on production-cum-sale basis. The refinance is also available to twisters’ cooperative societies without insisting that twisting societies work is done on the societies’ own account subject to certain conditions/safeguards.

Production and Marketing of other Cottage and Small Scale Industries

Such ST credit limits are extended at 2.5 per cent below the bank rate to SCBs on behalf of CCBs to enable them in assisting the production and marketing activities of approved cottage and small-scale industrial
cooperative societies. The working capital requirements of industrial cooperatives/societies are determined on the basis of their anticipated production levels for the forthcoming year.

Financing of Rural Artisans

This ST credit limit is sanctioned at 3 per cent below the bank rate to SCBs on behalf of CCBs to finance the production and marketing activities of weavers and other rural artisans engaged in any of the 22 broad groups of cottage and small scale industries. This is channelised through village level cooperatives, viz; PACS, FSS and LAMPS.

Collection and Marketing of Minor Forest Produce

The refinance facilities are sanctioned to SCBs on behalf of CCBs to assist the collection and marketing of minor forest produce by the adivasi and tribal people at the bank rate.

Pisciculture-Production and Marketing Credit

The NABARD provides refinance to SCBs on behalf of CCBs to finance primary fisheries societies of both types-marine and inland, functioning as either credit societies or production-cum-marketing societies at 3 per cent below the bank rate. The limits sanctioned can be utilized for repairs and maintenance of country boats, costs of feeds, fertilizer, fingerlings etc. in the case of inland fisheries and also of season credit issued to members.

Medium-Term

Purchase of Shares by Powerloom Owners in Consumer Type of Cooperative Spinning Mills

The refinance accumulation is available from NABARD to SCBs on behalf of CCBs to provide MT loans to powerloom weavers societies and powerloom owners for purchase of shares in consumer type of cooperative
spinning mills at the bank rate. The period of loan is not exceeding 5 years including 2 years moratorium period.

**Purchase of Shares by Handloom Weavers in Consumer Type of Cooperative Spinning Mills**

The NABARD sanctions refinance to SCBs for granting MT loans through CCBs/Societies to the members of handloom weaver's cooperative societies to purchase the shares of consumer type of cooperative spinning mills organized or to be organized in the country. The loan is granted for a period not exceeding 7 years including 2 years moratorium period at 2.5 per cent below the bank rate.

**Investment Credit**

The SCBs on behalf of CCBs are provided refinance from NABARD in respect of loan advanced to members of handloom weaver's cooperative societies and also to weaver members of PACS, LAMPS and FSS. The refinance is provided for modernisation and acquisition of loans and for construction of work-shed. The individual members of primary handloom or powerloom weaver's societies and the powerloom societies themselves can avail this refinance facility for acquisition of powerlooms. The apex/regional weaver's societies are financed through SCBs for opening or renovation of handloom emporia.

**Coir**

For this purpose refinance is sanctioned to such SCBs situated in Kerala in respect of the term loans issued to Kerala State Cooperative Coir Marketing Federation and CBs of their loans to Kerala Coir Cooperative for setting up showrooms/sales depots in hired premises. The refinance is
available to SCBs for financing primary cooperative societies engaged in spinning of yarn from brown fiber for installation of delivering unit.

Sericulture

The NABARD provides refinance through SCBs/CCBs/SLDBs for advancing loans to sericulturists societies and individual sericulturists, members of PACS/LAMPS and FSS. The purposes for which this assistance is provided are - minor irrigation development for cultivation of mulberry, new planting planning/replanting of mulberry, acquisition of rearing equipments, construction of rearing houses, setting up of grainage units and rearing and reeling activities in non-mulberry sector for production of Muga, Tasar and Eri Silk ad acquisition of equipments for reeling and twisting activities.

Industrial Cooperatives

The SCBs on behalf CCBs can avail refinance of NABARD for financing the industrial societies for providing term loans to industrial cooperatives for acquisition of equipments/tools, construction of workshed/showroom/godown, purchase of delivery van and for financing apex handcraft societies for establishment/renovation of handicrafts emporia.

Margin Money Assistance

The scheme of providing margin money loan assistance has been introduced by NABARD. This scheme is launched for such industrial cooperative societies, which are unable to meet the required margin for availing of term loan refinance for acquisition of equipments and tools, construction of workshed/showroom/godown and purchase of delivery van. This assistance is provided through SCBs and CCBs.
Role of NABARD in Rural Financing

Individual Rural Artisan Members of PACS/LAMPS/FSS

The NABARD sanctions refinance to SCBs on behalf of CCBs and primary cooperative societies for financing identified beneficiaries for ISB activities under IRDP for composite loans on automatic basis upto Rs. 10,000 and beyond that with prior sanctions from NABARD.

Refinance Assistance for ISB Activities to under the Beneficiaries under SC/ST Action Plan Outside IRDP (Composite Loan)

The NABARD sanctions refinance to the banks for composite loans on automatic basis upon Rs. 10,000 granted by them to such SC/ST beneficiaries who are covered under the SC/ST Action Plan of State Governments, Scheduled Caste Development Corporations and who are identified by the concerned agencies even if they are not covered under IRDP for ISB activities.

Financial Assistance for Installation of Bio-gas Plants under National Project for Bio-gas Development (NPBD)

NABARD provides refinance to SCBs on behalf of CCBs on automatic basis in respect of such loans issued for installation of bio-gas plants under the NPBD at a uniform rate of interest of 10 per cent per annum to the ultimate beneficiaries. The NABARD also provides refinance upto Rs. 5,000 per plant for repairing of defunct and defective bio-gas plants. This assistance is also provided in such cases where bio-gas plants were originally installed without any loan assistance.

Purchase of Dual Fuel Engine and Installation of Bio-gas Plants of the Respective Size

The refinance is provided to eligible banks by the NABARD for loan granted by them to purchase dual fuel engine (run on diesel and bio-gas) and installation of bio-gas plants of the respective size or for the purchaser of
dual fuel engine alone if the beneficiary already has plant of the requisite size.

Other Non-conventional Energy Sources

NABARD considers proposals and provides refinance to the eligible banks for individual projects which generate power by using non-conventional energy sources like, solar cookers, wind mills, etc.

Composite Loans

Under refinance facility from NABARD, SCBs on behalf of CCBs are eligible to provide composite loans upto Rs. 30,000 to the individual artisans, craftsmen and handicraftsmen. Under this facility SCB can also provide term loans or integrated loan upto Rs. 5 lakhs directly to the individual promoters entrepreneurs (Proprietary and partnership concerns) and group of individuals for establishing production units in the cottage, tiny and village industries sector. A group of individuals is liberally interpreted to include an informal group with maximum 25 members of a formal group represented by a public or private limited company, a corporate body, a registered institution, a cooperative society, a voluntary agency, a trust, etc. Such promoters and entrepreneurs who are to engage in consultants for project formulation, implementation and operation can also avail the loan assistance upto Rs. 10,000.

Regional Rural Banks (RRBs)

The NABARD refinance in respect of investment credit on schematic basis is available to RRBs for financing agricultural and allied activities. The NABARD also sanctions separate credit limits to RRBs for short-term and medium-term (non-schematic) loans. The refinance facility is provided for various purposes and terms.
Role of NABARD in Rural Financing

Short-term Credit Limits – Farm and Non-Farm Activities

This facility is provided at 3 per cent below the bank rate for the purposes of:

- short-term advances for agriculture, short-term advances and working capital loans for production, marketing activities of artisans including handloom weavers, for village, cottage and tiny sector industries or the other productive purpose,
- short term advances and working capital requirements to persons of small means engaged in trade or commerce including marketing and distribution of inputs for agriculture and rural development.

These ST credit limits are operative like, cash credit limit. In other words, any number of drawls and repayments are allowed during the year. The outstanding limits are repayable on demand.

The NABARD has prescribed some conditions for sanctioning credit limits to RRBs, such as, minimum involvement of RRBs and concerned sponsor banks, maintenance of the prescribed level of overdues, realistic lending programme, receipt of audit reports, etc. The drawls on the limit sanction are allowed on the basis of availability of non-overdues cover.

Medium-term Limits – Farm and Non-Farm Activities

The MT limits are sanctioned at 3 per cent below the bank rate. The refinance is provided against term loans issued by RRBs. The approved purposes for which loans are issued are MT loans (Non-schematic) sanctioned for reclamation of land, bunding and other improvements which are necessary for the cultivation of crops, preparation of land for orchards and plantation, construction/maintenance and development of irrigation sources, purchase of such livestock/implements/machinery and transport equipments which are necessary for or conductive to agriculture,
Role of NABARD in Rural Financing

construction of farm houses/cattle sheds and purchase/construction development or maintenance of such equipments as may be required, carrying on animal husbandry and allied activities such as dairy, poultry, pig breeding, sheep/goat rearing, pisciculture, etc., whether or not jointly undertaken with agricultural and rural development.

The refinance is also available for non-farm activities as specified by the NABARD from time to time. The drawls against MT (Non-Schematic) limits are treated as a separate loan repayable in 5 annual installments.

The amount of the refinance is limited to 60 per cent of the RRBs eligible MT (Non-Schematic) loans. The contribution of the RRBs should not be less than 10 per cent any time of such loans. The sponsor banks are expected to meet the rest 30 per cent of loan.

Credit Limits for Conversion of Short-Term Agricultural Loans into Medium-Term Loans

ST limits sanctioned to RRBs are issued for granting agricultural and non-agricultural purposes. But during the natural calamities the conversion of ST limits into MT limits is realized for providing relief to farmers and to maintain the flow of credit. In such circumstances NABARD provides such facilities to RRBs. The medium-term (conversion) loans are sanctioned by the NABARD to the extent of 70 per cent of short-term loans converted due to natural calamities by the RRBs are expected to bear the burden of converted loans as 25 per cent and 5 per cent, respectively. The facility is also required to be availed of only to cover the gap after adjustment of the compensation available to the farmers under the crop insurance scheme.
Term Loans on Schematic Basis

Farm Sector

RRBs have access to the refinance facilities from NABARD in respect of term loans issued by them on a schematic basis for various types of investments subject to other restrictions imposed on them regarding confining financing to the borrowers in the target group, non-financing of costly equipments like, tractors, etc. By submitting specific schemes in advance to NABARD, the RRBs can avail this facility. The sanction of schemes is subject to technical feasibility and economic viability. The NABARD has prescribed certain terms and conditions for the sanction of schemes. The drawls are allowed after fulfilling them.

Non-farm Sector

Sericulture Activities

For the sericulture activities, NABARD provides refinance to RRBs for minor irrigation, for cultivation of mulberry, new plantation/re-plantation of mulberry, acquisition of rearing equipments, construction of rearing houses, setting up of grainage units and rearing and reeling activities in non-mulberry sector for production of Muga, Tasar and Eri-silk and acquisition of equipments and machinery for reeling and twisting activities, such as, improved charkhas, cottage basins, semi-automatic reeling machines and twisting machines with or without shed.

Refinance Assistance to Cottage, Tiny and Village Industries

The refinance for cottage, tiny and village industries is provided through RRBs. These activities of industries can be broadly classified into following three categories:-
i. General Refinance Schemes for artisans/cottage units - Composite loans;  

ii. Regional scheme for infrastructure-Construction of worksheds; and  

iii. Refinance Scheme for tribals and rural artisans in the North-Eastern Region artisans in other Regions.  

Under the first category, i.e., General Refinance Scheme, the assistance upto Rs. 30,000 is provided in the form of composite loans for establishing tinier amongst the tiny units like, carpentry units, blacksmiths, leather products, handicrafts, centrally decentralized engineering products, etc.  

Under the second category, i.e., scheme of infrastructural development, the assistance is provided upto maximum of Rs. 3,000 for construction of worksheds to artisans under tiny entrepreneurs and for meeting the individual artisans contribution towards the construction of common worksheds by Government/Quasi-Government and voluntary organizations.  

Under the third category, i.e., schemes for tribals and artisans in the North-Eastern Region, the assistance is provided in the form of composite loans to artisans of North-Eastern Region and tribals of all regions for taking up artisans/tribal activities including agro and forest based processing activities. Under the scheme individuals and group of individuals are provided upto Rs. 5,000 and Rs. 30,000, respectively.  

Under these schemes, the whole procedure for releasing the refinance for banks has been simplified by dispensing the normal presentation procedures. For this, the banks have to appraise the proposal received and grant loans in conformity with the guidelines as also the terms and lending criteria relating to different schemes and then submit their refinance
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applications through concerned Regional Offices of the NABARD for sanction and release of refinance.  

State Land Development Banks (SLDBs)

Long Term Agricultural Loans

For investment purposes, the SLDBs provide loans either directly through their branches or through their primary land development banks. Such loans are granted against the mortgage of land and SLDBs float debentures on the strength of such mortgaged land. There are two types of loans issued by these banks, namely, sporadic loans and schematic loans. The debentures floated in respect of sporadic lending are called Ordinary Debentures and the Special Development Debentures are floated in respect of schematic lending. The NABARD does not subscribe to the ordinary debenture but it helps the SLDBs in mobilizing the necessary support for these debentures from other investors like CBs, LIC, etc. Generally, the bulk of loans issued by SLDBs fall in the category of schematic loans and the Special Development Debentures are floated against these loans. The major portion of it is contributed by the NABARD, while the concerned State Governments and Central Government Contribute a small portion. The repayment of debenture is based on annual installments. The NABARD has undertaken a proposal for consideration to switch over from the system of floating debentures to the system of providing direct refinance.

Interim Accommodation

In order to help the SLDBs to mobilize funds for the purpose of issuing loans before flotation of debentures, the NABARD provides interim accommodation to these banks, before sanctioning the limits, the financial position of the banks the immediate need for funds and the prospects of
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issuing loans are taken into account. To avail this facility SLDBs are required to float debentures within a reasonable time and also repay the outstanding under the limit. To make the recovery position satisfactory the SLDBs are encouraged as the interest at 8.5 per cent per annum is charged in such SLDBs, where recovery performance at primary level is not less than 75 per cent of the demand at the end of previous year as against the normal rate of interest at 9 per cent per annum.

Short-term Loans for Agriculture Purposes

It is realized that only by providing seasonal production credit requirements of the farmers the optimum of the investment credit can be ensured. It has been observed that in many cases the PACS which are the normal and closer agencies are unable to provide this to the borrowers of investment credit from the SLDBs due to their own weakness, it is decided by the NABARD to provide refinance facility to SLDBs for providing short-term loans also to their borrowers who have obtained long-term loans. The facility is prescribed only for those areas where the PACS are weak.

Refinance Assistance for Financing Non-farm Activities

In a country like India, the pace of rural industrilisation needs to be accelerated. Keeping this view in mind the NABARD has decided to provide refinance to SLDBs to enable them for financing directly to individual artisans, craftsmen, handicraftsmen and small entrepreneurs. Under this facility the amount upto Rs 30,000 by way of composite loans is provided for undertaking various non-farm activities subject to certain conditions and safeguards. According to the scheme, the SLDBs are required to appraise the proposals themselves and grant loans in conformity with the guidelines prescribed and submit their refinance applications to NABARD.
The NABARD's refinance is also provided to SLDBs for their loans for installation and repairs of bio-gas plants at concessional rate of interest of 10 per cent to the ultimate beneficiary.

**Commercial Banks (CBs)**

The commercial banks can avail refinance from NABARD only as term loans either for agricultural purposes or for non-agricultural purposes. The short-term or working capital needs of the borrowers to be covered under the NABARDs refinance, are subjects to be provided by CBs themselves out of their own resources. In a few selected cases, where a certain level of working capital requirements is allowed to be capitalized and built into the investment cost, the NABARD provides refinance for this portion also.

**Agricultural Purposes**

The terms conditions and purposes for which the refinance is provided by CBs for long-term investment have been discussed in earlier paragraphs. In such cases where specific schemes are required to be submitted to the NABARD for sanction, CBs are eligible to draw refinance after the sanction of the schemes and dispersal of the loans by banks as per the terms and conditions. In such cases where automatic refinance scheme has been made available, the drawls applications of CBs are treated as scheme proposals and refinance is released by the NABARD.

**Non-farm Sector - Term Loans**

**The Handlooms**

The NABARD's refinance is available to CBs for granting loans for acquisition/modernization of handlooms and construction of worksheds by weavers registered with State Handloom Development Corporations. The
loans issued to Handloom Development Corporations for opening/renovation of handloom emporia are also eligible for refinance.

Handicrafts

The loans are eligible for NABARD’s refinance, which are provided to Handlooms Development Corporation for setting up/renovation of emporia.

Coir

The loans from CBs issued for setting up of delivering plants in the brown fiber sector by the individual entrepreneurs and for setting up of showrooms/sales depots on hire basis by the Kerala State Coir Corporation are eligible for refinance.  

Refinance Assistance for Industries, Services and Business (ISB) Component under ITDP

Refinance facility under this head is available in the same manner as in the case of RRBs.

Bio-gas Plants

The automatic refinance to the ultimate beneficiaries is provided for installation of bio-gas plants under the National Project for Bio-gas Development at uniform rate of interest of 10 per cent per annum. Other facilities of refinance under this head are similar to that of RRB.

Refinance Assistance for Financing of Registered Societies

The refinance is available in respect of term loans granted to institutions registered under the Societies Registration Act, 1860 for investment in plant, machinery and tools of Khadi and those connected with village industries and the activities covered by the 22 broad groups of cottage and small scale industries.
Role of NABARD in Rural Financing

Automatic Refinance Policy

The total procedure relating to release of funds under refinance to banks under these schemes is made simplified by dispensing with the pre-sanction procedures. For this, the banks are require to apprise the proposals received and provide loans in conformity with the guidelines as also the terms and lending criteria relating to the various schemes and submit their refinance applications to NABARD for the purpose of sanctioning it for refinance.

Margin Money/Assistance to Cottage, Tiny and Village Industrial Units

This scheme is introduced to provide margin money assistance to perspective entrepreneurs having requisite talents but lack of required monetary resources to meet the margin money requirement for availing the financial assistance. Under the scheme the promoters/entrepreneurs comprising individuals, proprietary/partnership concerns, group of individuals, Government/Quasi-Government agencies, promotional agencies, development corporation registered and charitable institutions and voluntary organizations availing the assistance under General Refinance Scheme for setting-up production units as well as infrastructural and promotional support projects for establishment of raw material supply centers, marketing outlet centers, common facility units, etc. are eligible to avail margin money assistance. Under the scheme, the banks are permitted to charge the ultimate beneficiary at not more than 1 per cent in the form of service charges.
### Role of NABARD in Rural Financing

Table 2

Agency-wise Ground Level Credit flow for Agriculture and Allied Activities 1998-99 to 2002-03

(Rs. crore)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Cooperative Banks</td>
<td>15,957</td>
<td>18260</td>
<td>20718</td>
<td>23453</td>
<td>24296</td>
</tr>
<tr>
<td>Regional Rural Banks</td>
<td>2460</td>
<td>3172</td>
<td>4220</td>
<td>4822</td>
<td>5467</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>18443</td>
<td>24733</td>
<td>27807</td>
<td>33587</td>
<td>41033</td>
</tr>
<tr>
<td>Other Agencies</td>
<td>-</td>
<td>103</td>
<td>82</td>
<td>80</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>36860</td>
<td>46268</td>
<td>52827</td>
<td>61942</td>
<td>70810</td>
</tr>
</tbody>
</table>

Percentage Increases  
15%  
25%  
14%  
17%  
14%

P= Provision  
E= Estimates  
Sources: Annual Reports of NABARD

### Z - proportional test

\[
Z = \frac{p_1 - p_2}{\sqrt{pq \left( \frac{1}{n_1} + \frac{1}{n_2} \right)}}
\]

\[
p_1 = \frac{x_1}{n_1}
\]

\[
p_2 = \frac{x_2}{n_2}
\]

\[
p = 1 - p
\]

\[x_1 = \text{Year wise amount of 1}^{st} \text{ Bank}\]

\[x_2 = \text{Year wise amount of 2}^{nd} \text{ Bank}\]

\[n_1 = \text{Total amount of 1}^{st} \text{ Bank in five years}\]

\[n_2 = \text{Total amount of 2}^{nd} \text{ Bank in five years}\]
n1 and n2 show the application of Z-test of Five years of Cooperative Banks and Regional Rural Banks, Cooperative Banks and other agencies, Regional Rural Banks and Commercial Banks, Regional Rural Banks and other agencies and Commercial Bank and other agencies.

We applied Z-proportional test for proportion in all years. All the banks are significantly different. (p<0.05)

Graph A

Ground Level Credit for Agriculture

The total ground level credit for agriculture and allied activities, disbursed by various credit institutions, viz., cooperatives, Regional Rural Banks (RRBs) and commercial banks is estimated to have reached Rs. 46268 crore during 1999-2000 registering a growth of about 25 per cent over the total credit of Rs. 36860 crore disbursed during 1998-99. In the year 2000-01, the ground level credit was Rs. 52,827 crore resulting in growth of about 14
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per cent, but amount of ground level credit was Rs. 61942 crore in 2001-02, which registered growth of about 17 per cent. But after that during the year 2002-03, the aggregate amount was Rs. 70810 crore with growth rate of 14 per cent in comparison to previous 2001-02 year. Therefore, the five years of ground credit flow has shown as an increment trend in table 2 and graphs A.

Graph A-1

Graph (A-1) has shown the ground level credit for agriculture and allied activities disbursed by Cooperative Banks. It is estimated to have reached Rs. 18,260 crore with growth rate of 14.43 per cent (during the year 1999-2000) in comparison to previous year Rs. 15,957 crore with growth rate of 13.29 per cent. During the year 2000-01, the estimated amount was Rs. 20,718 crore which shows 13.46 per cent increase and during the year 2001-02 and 2002-03, the estimated amount were Rs. 23,453 crore and Rs. 24,296 crore with growth rate of 13.20 per cent and 3.59 per cent respectively.

Graph (A-2) indicates ground level credit disbursed by RRBs. During the year 1998-99 and 1999-2000, the estimated amount stood at Rs. 2,460 crore (which 20.59 per cent increment in comparison to previous year 1997-98) and Rs. 3,172 crore (8.21 percent growth rate) respectively. The amount of
disbursement by RRBs is Rs. 4,220 crore during the year 2000-01 which has shown an increased rate of 33.04 per cent. But during the year 2001-02 and 2002-03, the estimated amount were Rs. 4,822 crore and Rs. 5,467 crore with growth rate of 14.27 per cent and 13.38 per cent respectively.

Graph A-3 has described ground level credit by Commercial Banks, disbursement amount was Rs. 18,443 crore (16.5 per cent rate of increment) in the year 1998-99. During the years 1999-2000 and 2000-01 the estimated amount were Rs. 24,733 crore and Rs. 27,807 crore respectively with 34.11 per
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cent and 12.43 per cent increase in comparison to previous year. For the agriculture and allied activities the amount disbursed by CBs is estimated to have reached at Rs. 33,587 crore and Rs. 41,033 crore with growth rate of 20.79 per cent and 22.17 per cent respectively in the years 2001-02 and 2002-03.

Graph A-4

[Graph showing the data mentioned in the text]

Graph (A-4) shows ground level credit disbursed by other agencies. The estimated amount was Rs. 103 crore in 1999-2000 in comparison to previous year was Rs. Nil. During the years 2000-01 and 2001-02, the estimated amount were Rs. 82 crore and Rs. 80 crore respectively with decrease rate of 20.39 per cent and 2.44 per cent respectively. The ground level disbursed amount by agencies is estimated at Rs. 14 crore with 82.5 per cent decrease rate in 2002-03.

The Kisan Credit Card (KCC) scheme introduced during 1998-99 for short-term (ST) loans for Seasonal Agricultural Operations (SAO) has since been implemented in all the states and union territories by the public sector commercial banks, State Cooperatives Banks/District Central Cooperative Banks (SCBs/DCCBs) and RRBs. Since the inception of the scheme, these agencies have issued 313.45 lakh cards upto 31 March 2003. Cooperative
banks accounted for the largest share (62%) of the total cards issued, followed by commercial banks (30%) and RRBs (8%). The implementation of the scheme has helped in augmenting GLC flow of short-term crop loans. The National Bank has taken various steps and conducted several workshops and seminars during 2002-03 for encourage the banks to issue KCCs so that all eligible farmers are covered by 31 March 2004.

In order to monitor the progress and assess the impact of the KCC scheme at ground level as also to obtain feedback on constraints, the National bank has carried out studies on the implementation of the scheme in 91 select districts across the country. These studies revealed certain positive features as also some areas of concern/bottlenecks in the implementation of the scheme such as, lack of awareness about KCC among the farmers as well as bankers. National Bank has since initiated a number of publicity measures to re-orient the bankers and farmers about the benefits of the KCC scheme.

### Table 3

<table>
<thead>
<tr>
<th>Year</th>
<th>Cooperative Banks</th>
<th>RRBs</th>
<th>Commercial Bank</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-1999</td>
<td>1.56</td>
<td>0.06</td>
<td>4.45</td>
<td>6.07</td>
</tr>
<tr>
<td>1999-2000</td>
<td>35.95</td>
<td>1.73</td>
<td>13.66</td>
<td>51.34</td>
</tr>
<tr>
<td>2000-2001</td>
<td>56.14</td>
<td>6.48</td>
<td>23.90</td>
<td>86.52</td>
</tr>
<tr>
<td>2001-02</td>
<td>54.36</td>
<td>8.34</td>
<td>30.71</td>
<td>93.41</td>
</tr>
<tr>
<td>2002-2003</td>
<td>45.80</td>
<td>9.64</td>
<td>20.67*</td>
<td>76.11</td>
</tr>
</tbody>
</table>

Data upto 31 December 2002
Source : Annual Report 2002-03
The refinance support provided by the National Bank to Cooperative Credit Institutions Regional Rural Banks and Commercial Banks during 1998-99 to 2000-03 are described below:

Short-term

State Cooperative Banks

Seasonal Agricultural Operations (SAO)

During 1982-83 (July-June) ST credit limits for SAO aggregating Rs. 1,120 crore were sanctioned and on March 1999-2000 ST credit limits for SAO were sanctioned amount Rs. 6,080.54 crore were sanctioned to 17 state cooperative Banks on behalf of 281 District Central Cooperative Banks as compared to Rs. 5,998.99 crore sanctioned during 1998-99. Therefore, year 2000-01 ST credit limits for SAO to Rs. 6,399.92 crore were sanctioned. During 2002-03 (upto March 2003) ST credit limits for SAO aggregating Rs. 6,674.52 crore were Programme (NPDP) and Rs. 194.31 crore for meeting the production credit requirements of tribals under the Development of Tribal Population (DTP).

The SCBs reached a maximum outstanding level of Rs. 573 crore till June 1983 indicating the level of utilization of the credit limits sanctioned at 51% and the level of utilization of the credit limits Sanctioned at 74% and the SCBs reached a maximum outstanding level of Rs. 4,398 crore till March 1999 but in 2000 maximum outstanding level of Rs. 4,848 crore constituting 85% of the credit limits sanctioned. The reached outstanding of SCBs for SAO of Rs. 4,888 crore till March 2003 (Rs. 6485 crore during 2001-02) indicating the level of utilistion of the credit limits sanctioned during the previous year.
Table 4

SAO - Level of Utilisation by SCBs

<table>
<thead>
<tr>
<th>Utilisation to Limits Sanctioned (%)</th>
<th>SCBs (No)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Above 90</td>
<td>6</td>
</tr>
<tr>
<td>80-90</td>
<td>4</td>
</tr>
<tr>
<td>70-80</td>
<td>1</td>
</tr>
<tr>
<td>60-70</td>
<td>1</td>
</tr>
<tr>
<td>Below 60</td>
<td>5</td>
</tr>
</tbody>
</table>

No limits were sanctioned to Jammu & Kashmir, Nagaland and Tripura SCBs

Source: Annual Report 2002-03

Weavers Finance

During the year 1999-00 (April-March) ST credit limits aggregated to Rs. 786.52 crore (Rs. 753 crore during 1998-99) sanctioned to SCBs on behalf of DCCBs for financing production/procurement and marketing activities of weavers cooperative societies, against which, the maximum outstanding reached was Rs. 574.44 crore forming 73 per cent of the limits sanctioned. But, short-term credit limits for weavers stood at Rs. 686.28 crore sanctioned to SCBs against which the maximum outstanding of Rs. 555.59 crore forming 81 per cent of the limits sanctioned. During the year 2002-03 (April-March) ST credit limit aggregating at Rs. 550.93 crore as against Rs. 683.52 crore/during 2001-02 were sanctioned to different SCBs on behalf of concerned DCCBs, against which the maximum outstanding reached was Rs. 347.85 crore forming 63 per cent (72 per cent in 2001-02) of the limits sanctioned during the year 2002-03.
Regional Rural Banks (ST SAO and OSAO)

The short-term credit limit was not sanctioned to RRBs during the year 1982-83 (July-June). The short-term credit limits sanctioned for SAO to 160 RRBs during the year 1999-2000 aggregated at Rs. 1,005.57 crore, registering a marginal decline from Rs. 1,034 crore during 1998-99. But during 2000-01, the ST credit limits sanctioned for SAO to 160 RRBs stood at Rs. 1,114.41 crore. The short-term credit limits sanctioned for ST (SAO) to 159 RRBs during the year 2002-03 (upto March 2003) stood at Rs. 1,252.36 crore (as against Rs. 1,192.14 crore on 2002) including Rs. 116.17 crore for OPP (for 27 RRBs) and Rs. 42.97 crore for DTP (for 31 RRBs). Among the states, Andhra Pradesh with Rs. 263.84 crore continued to have the largest share of credit limits sanctioned to RRBs, followed by Karnataka with Rs. 236.34 crore. The aggregate sanction of credit during the year (upto March 2003) stood at Rs. 153.42 crore.

Commercial Banks (ST-OSAO)

During 1998-99 no limit was sanctioned for ST (OSAO) but, ST credit limit aggregating Rs. 3.97 crore was sanctioned for financing state Handloom Development Corporation during the year 1999-00, against which Rs. 3.93 crore were utilized. And ST credit limit sanction was Rs. 4.49 crore during 2000-01. After that no ST credit limit was sanctioned for commercial banks.

Medium Term Credit

Approved Agricultural Purposes (Non-Schematic)

The National Bank continued the general policy of encouraging banks to formulate schemes for financing investment in agriculture. This led to a further reduction in refinance given for non-schematic purposes. Thus, as against Rs. 0.40 crore and Rs. 6.76 crore sanctioned to SCBs and RRBs
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respectively, during the year 1999, but limits sanctioned in the corresponding period in 2000 aggregated at Rs. 0.10 crore and Rs. 6.75 crore only. The MT sanctioning of the credit limits for supporting their general non-schematic medium-term lending continued to be low during the year 2002-03. Credit limits sanctioned to 7 RRBs in 4 states (Bihar, Madhya Pradesh, Uttar Pradesh and West Bengal), during the year 2002 stood at Rs. 3.19 crore. The limits were utilized to the extent of 11 per cent only, i.e., Rs. 0.34 crore.

Conversion of ST (SAO) Loans

Owing to natural calamities like flood, drought, etc, limit for conversion of ST (SAO) loans into MT loans was to the extent of Rs. 430 crore which was sanctioned to 8 SCBs and Rs. 39 crore was sanctioned to 7 RRBs during the year 1998-99. During the year 1999-2000, Rs. 126.79 crore were sanctioned for conversion of ST (SAO) loans but in 2000-01 and 2001-02 sanctioned amount was Rs. 267.27 crore. Credit limits for conversion of ST (SAO) loans of borrowers on account of damage to crops owing to natural calamities like floods, drought, Rs. 493.47 crore was sanctioned to SCBs in Madhya Pradesh, Maharashtra, Punjab, Rajasthan and Uttar Pradesh during the year 2002-03.

Long Term Loans to State Governments

The National Bank provides long term loans to State Governments for contribution to the share capital of cooperative credit institutions, subject to certain norms. During the year 1998-99 Rs. 65 crore was sanctioned. During 2000-01 loans aggregating to Rs. 67.78 crore was sanctioned to 12 state governments for contribution to the share capital of various Cooperatives Credit Institutions in the states compared to Rs. 91.07 crore sanctioned to 13 states during 1999-00. During the year 2002-03 loans aggregating Rs. 60.55
crore were sanctioned to eleven state governments viz., Andhra Pradesh, Gujarat, Haryana, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Manipur, Orissa, Punjab and Tamil Nadu for contribution to the share capital of various cooperatives credit institutions. The state governments have drawn Rs. 28.16 crore upto March 2003.

Investment Credit

The total disbursement of refinance to commercial banks, RRBs, State Cooperative Banks, State Cooperative Agriculture and Rural Development Banks, Agriculture and Rural Development Finance Companies, Scheduled Primary (Urban) Cooperative Banks and North Eastern Development Finance Corporation Ltd. for Schematic lending for the year 1999-2000, reached the programmed level of Rs. 5,215 crore registering a growth of 15 per cent compared to the disbursement of Rs. 4,521 crore disbursed during 1998-99. But in 2001, the total disbursement aggregated to Rs. 6,158.10 crore. The total refinance disbursed by the National bank during the year 2002-03 for investment purposes reached at Rs. 7,418.77 crore as compared to Rs. 6,682.91 crore during the previous year (2001-02), registering a growth of 11 per cent.

Agency Wise Disbursement

The agency wise refinance disbursements during the years (1998-1999 to 2002-03) are shown in table 5 and graph B.
### Table 5
Agency wise refinance disbursements
(1998-1999 to 2002-03)

<table>
<thead>
<tr>
<th>Agency</th>
<th>1998-99</th>
<th>% of total</th>
<th>1999-00</th>
<th>% of total</th>
<th>2000-01</th>
<th>% of total</th>
<th>2001-02</th>
<th>% of total</th>
<th>2002-03</th>
<th>% of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>SCARDBs</td>
<td>2168</td>
<td>48</td>
<td>2346</td>
<td>45</td>
<td>2340</td>
<td>38</td>
<td>2731.84</td>
<td>40.9</td>
<td>2853.50</td>
<td>38.5</td>
</tr>
<tr>
<td>SCBs</td>
<td>430</td>
<td>9</td>
<td>540</td>
<td>10</td>
<td>723</td>
<td>12</td>
<td>1089.06</td>
<td>16.3</td>
<td>1783.73</td>
<td>24.1</td>
</tr>
<tr>
<td>RRBs</td>
<td>714</td>
<td>16</td>
<td>775</td>
<td>15</td>
<td>866</td>
<td>14</td>
<td>1178.21</td>
<td>17.6</td>
<td>1538.63</td>
<td>20.7</td>
</tr>
<tr>
<td>CBs</td>
<td>1206</td>
<td>27</td>
<td>1547</td>
<td>30</td>
<td>2201</td>
<td>36</td>
<td>1608.05</td>
<td>24.1</td>
<td>1241.54</td>
<td>16.7</td>
</tr>
<tr>
<td>ADFCs/PCBs</td>
<td>3</td>
<td>-</td>
<td>7</td>
<td>-</td>
<td>26</td>
<td>-</td>
<td>75.75</td>
<td>1.1</td>
<td>1.37</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>4521</td>
<td>100</td>
<td>5215</td>
<td>100</td>
<td>6158</td>
<td>100</td>
<td>6682.91</td>
<td>100</td>
<td>7418.77</td>
<td>100</td>
</tr>
<tr>
<td>Percentage increases</td>
<td>15.27</td>
<td>-</td>
<td>15</td>
<td>-</td>
<td>18</td>
<td>-</td>
<td>8.52</td>
<td>-</td>
<td>11</td>
<td>-</td>
</tr>
</tbody>
</table>

Sources: Annual Reports of NABARD 1999-2003
The total refinance assistance provided by the National Bank, during the year 1998-99 and 1999-2000, aggregated to an amount of Rs. 4,521 crore (growth rate in comparison to previous year is 15.27 per cent) and Rs. 5212 crore respectively (15 per cent growth rate shown in Table 5 and graph B). Again in the year, 2000-01, the aggregate amount was Rs. 6,158 crore which shows 18 per cent increment in comparison to previous year, also in the year 2001-02, 2002-03 aggregate amounts were Rs. 6,682.91 crore and Rs. 7,418.77 crore with growth rates of 8.52 per cent and 11 per cent respectively.

Hence, the total growth rate of increment in disbursement for the following five years (1998-99 to 2002-03) is 13.56 per cent and agency-wise disbursement and growth rate in shown graphs B-1 to B-5.

Graph – B 1

Graph (B-1) shows disbursement for SCARBs. During the years 1998-99 and 1999-2000, the aggregating amounts was Rs. 2,168 crore (which 3.24 per cent increment in comparison to previous year) and Rs. 2,346 crore (8.21 percent growth rate) respectively. The aggregate amount was Rs. 2,340 crore
as disbursement during the year 2000-01 which shows a decrease rate of 0.26 per cent. But during the years 2001-02 and 2002-03, aggregate amount was Rs. 2,731.84 crore and Rs. 2,853.50 crore with growth rates of 16.71 per cent and 4.49 per cent respectively, the five graph shows fluctuation trend.

Graph – B 2

Graph B-2 indicates disbursement of SCBs during the years 1998-99 and 1999-2000, it explains that aggregate amount were Rs. 430 crore and Rs. 540 crore respectively with growth rate of 23 per cent and 25.58 per cent. The aggregate amount was Rs. 723 crore, with 33.89 per cent growth rate in 2000-01. In the years 2001-02 and 2002-03, aggregate amount stood at Rs. 1,089.06 crore (50.63 per cent rate of increment) and Rs. 1,783.73 crore (63.79 per cent growth rate in comparison to previous year) respectively. The 5 years graphs shows increasing trend.
Graph (B-3) has described refinance assistance provided by the Bank to RRBs and aggregated amount was Rs. 714 crore (6.89 per cent rate of increment) in the year 1998-99. During the years 1999-2000, 2000-01, the aggregate amount were Rs. 775 crore and Rs. 868 crore (which 8.54 per cent and 12.2 per cent increment in comparison to previous year) respectively. The disbursement for RRBs, provided by the Bank was to the time of Rs. 1,178.21 crore and 1538.63 crore with the growth rates of 35.74 per cent and 30.59 per cent respectively in the year 2001-02 and 2002-03. The five years graph shows an upward trend.

Graph – B 4
An analysis of Graph (B-4) shows that the refinance assistance for CBs provided by the National Bank during the years 1998-99 and 1999-2000, were Rs. 1,206 crore and 1,547 crore with growth rates of 6.34 per cent and 28.28 per cent respectively. Therefore, disbursement amount was Rs. 2,201 core in 2000-01, but in 2001-02 and 2002-03 the aggregated amount stood at Rs. 1,608.05 crore (which 26.94 per cent decreases) and Rs. 1,241.54 crore (which 22.78 per cent decreases in comparison of previous year) respectively. The graph shows fluctuation trend.

Graph – B 5

Table (B-5) reveals refinance for ADFCs/PCBs. The aggregate amounted to Rs. 3 crore and Rs. 7 crore (with growth rates of 3 per cent and 133.33 per cent) respectively during the years 1998-99 and 1999-2000. But during the year 2000-01, the aggregate amount was Rs. 26 crore with increment rate of 271.45 per cent. During 2001-02 the aggregated amount was Rs. 75.75 crore (191.35 per cent heavy growth rate in 2001-02, but in 2002-03 the aggregated amount was Rs. 1.37 crore (decreases 98.18 per cent)

The agency-wise growth rates of disbursement for the previous 5 years viz., 1998-99 to 2002-03 respectively are 2.48 per cent for SCARB, 31.46 per cent for SCBs, 18.75 for RRBs, 1744 for CBs, and 100.20 for ADFCs/PCBs.
Role of NABARD in Rural Financing

National Bank has taken a conscious decision to encourage lending by DCCBs which are financially weak, so that gap in meeting the credit needs of the members of cooperatives are contained in respect of investment credit. As a result, the flow of refinance to SCBs increased significantly, i.e., by 64 per cent during 2002-03 over 2001-02.

Spatial Disbursement of Refinance

During the year 1998-99 and 1999-2000, the flow of refinance varied widely across different stages with Uttar Pradesh absorbing the largest amount of Rs. 684.26 crore and 773.34 crore respectively. In 2000-01, the spatial distribution of refinance to different states with Uttar Pradesh absorbing the largest share of Rs. 925.98 crore.

The flow of refinance varied widely across different states. The largest amount of Rs. 1,175.64 crore was availed of by various agencies in Uttar Pradesh, followed by Andhra Pradesh (Rs. 761.34 crore), Tamil Nadu (Rs. 682.86 crore), Maharashtra (Rs. 589.60 crore), Punjab (Rs. 573.31 crore). The states in the southern region accounted for 29.8 per cent of refinance followed by the states. The aggregate disbursement to the states in the central region 22.7 per cent and northern region 21.8 per cent. The aggregate disbursements to the states in the NER, including Sikkim, stood at Rs. 123.36 crore compared to Rs. 83.04 crore during the previous year, registering a growth of 48.6 per cent.

State Cooperative Banks in Gujarat, Karnataka, Maharashtra, Punjab and Tamil Nadu claimed 60.9 per cent of the refinance disbursed to all the SCBs in the country. As much as 65.8 per cent of the refinance disbursed to SCARDBs was absorbed in the states of Haryana, kerala, Madhya Pradesh, Punjab and Uttar Pradesh, RRBs in the states of Andhra Pradesh, Karnataka,
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Orissa, Uttar Pradesh and West Bengal availed 70.2 per cent of the total refinance disbursed to them.

Purpose Wise Disbursement

Comparative position of disbursement (purpose wise) during the year 1998-99 to 2002-03 is furnished in table 6.

Table 6

Purpose-wise Disbursement of Refinance

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Amount</td>
<td>Share (%)</td>
<td>Amount</td>
<td>Share (%)</td>
<td>Amount</td>
</tr>
<tr>
<td>Minor Irrigation</td>
<td>544</td>
<td>12</td>
<td>618</td>
<td>11.9</td>
<td>626</td>
</tr>
<tr>
<td>Land Development</td>
<td>64</td>
<td>1</td>
<td>75</td>
<td>1.4</td>
<td>106</td>
</tr>
<tr>
<td>Farm Mechanisation</td>
<td>1345</td>
<td>30</td>
<td>1705</td>
<td>32.7</td>
<td>1900</td>
</tr>
<tr>
<td>Plantation/Horticulture</td>
<td>182</td>
<td>4</td>
<td>195</td>
<td>3.7</td>
<td>247</td>
</tr>
<tr>
<td>Dairy Development</td>
<td>457</td>
<td>10</td>
<td>581</td>
<td>11.1</td>
<td>769</td>
</tr>
<tr>
<td>Poultry</td>
<td>118</td>
<td>3</td>
<td>111</td>
<td>2.1</td>
<td>71</td>
</tr>
<tr>
<td>Sheep/Goat/Piggery</td>
<td>109</td>
<td>2</td>
<td>107</td>
<td>2.1</td>
<td>117</td>
</tr>
<tr>
<td>Fisheries</td>
<td>30</td>
<td>1</td>
<td>27</td>
<td>0.5</td>
<td>34</td>
</tr>
<tr>
<td>Forestry</td>
<td>12</td>
<td>0.2</td>
<td>13</td>
<td>0.2</td>
<td>16.09</td>
</tr>
<tr>
<td>Storage &amp; Market Yard</td>
<td>15</td>
<td>0.3</td>
<td>101</td>
<td>1.6</td>
<td>227.14</td>
</tr>
<tr>
<td>SGSY</td>
<td>735</td>
<td>16</td>
<td>590</td>
<td>11.3</td>
<td>642</td>
</tr>
<tr>
<td>Non-Farm Sector</td>
<td>654</td>
<td>15</td>
<td>837</td>
<td>16.1</td>
<td>1022</td>
</tr>
<tr>
<td>Rural Housing</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>SC/ST Action Plan</td>
<td>106</td>
<td>2</td>
<td>109</td>
<td>2.1</td>
<td>100</td>
</tr>
<tr>
<td>Self-Help Group</td>
<td>98</td>
<td>1.9</td>
<td>251</td>
<td>4.1</td>
<td>395.26</td>
</tr>
<tr>
<td>Other</td>
<td>177</td>
<td>4</td>
<td>135</td>
<td>2.6</td>
<td>159</td>
</tr>
<tr>
<td>Total</td>
<td>4512</td>
<td>100</td>
<td>5215</td>
<td>100</td>
<td>6158</td>
</tr>
</tbody>
</table>

In 1998-99 others include forestry, storage and market yards etc.

In 2001-02 and 2002-03 others include rural godowns and cold storage, two wheelers, home-stead farming, contract farming, bullock-carts, etc.

Sources: Annual Reports of NABARD 1999-2003
Minor Irrigation

The disbursement under minor irrigation (excluding disbursement under SGSY) amounted to Rs. 618 crore (against Rs. 544 crore in 1998-99) during the year 1999-2000 accounting for 12 per cent of the total disbursement. In 2000-01 the total disbursement is Rs. 626 crore, accounting for 10.17 per cent of the total disbursements. The disbursements for minor irrigation stood at Rs. 691.06 crore (10.3% of total disbursement) and Rs. 854.97 crore (11.5% of total disbursement) respectively during the years 2001-02 and 2002-03.

Farm Mechanisation

The share of farm mechanization was Rs. 1,705 crore (against Rs. 1,345 crore in previous year 1998-99) which constituted about 33 per cent of the total disbursement during the year 1999-2000. The disbursement under farm mechanization amounted to Rs. 1,900 and 1,358.89 crore respectively during the calendar years 2000-01 and 2001-02 but during the year 2002-03, the total amount of disbursement for form mechanization stood at Rs. 992.60 crore accounting for 13.4 per cent of the total disbursement.
Plantation and Horticulture

The SCARDBs have been promoting investments in plantation and horticulture activities on a significant scale. Out of the total, disbursement is Rs. 182 crore and 195 crore respectively in 1998-99 and 1999-2000. The share of plantation and horticulture constituted 4 per cent in each year 1998-99 and 1999-2000. The refinance disbursement for plantation and horticulture amounts to Rs. 247 crore during the year 2000-01. The years 2001-02 and 2002-03 the share of plantation and horticulture was Rs. 280.34 crore and 292.03 crore respectively which is 4.2 per cent and 3.9 per cent of the total disbursement.

Dairy Development

The disbursement under dairy development increased appreciably to Rs. 581 crore (Rs. 457 crore during 1998-99) accounting for 11 per cent of the total disbursement during 1999-2000. In 2000-01, the refinance of disbursement for dairy development was Rs. 769 crore constituting 12.5 per cent of the total disbursement. During the years 2001-02 and 2002-03, the share of dairy development is Rs. 821.18 crore and Rs. 909.19 crore respectively. The share of dairy development was 12.3 per cent of the total disbursement in each year 2001-02 and 2002-03.
Non-farm Sector

The disbursement for non-farm sector stood at Rs. 837 crore (Rs. 654 crore during 1998-99) constituted 16 per cent of the total disbursement during 1999-2000. The share of non-farm sector is Rs. 1,022 crore in 2000-01. But in 2001-02 and 2002-03 amount Rs. 1,115.65 crore and 1,237.87 crore respectively constituting 16.7 per cent in each year.

SGSY (Swarnjayanti Gram Swarojgar Yojana)

The disbursement under IRDP at 735 crore registered increase of 20 per cent over previous year amount was Rs. 611 crore constituting 16 per cent of the total disbursement during 1998-99.

Government of India has launched the SGSY programme with effect from 1, April 1999 by restructuring the on going self employment programmes, viz., IRDP TRYSEM, DWCRA, etc. The disbursement under SGSY during the year 1999-2000 was Rs. 590 crore. On 2000-01 and 2001-02
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disbursement of refinance for SGSY was Rs. 642.34 crore and 558.98 crore respectively, constituting 10.43 per cent and 8.4 per cent of the total refinance and during the year 2002-03 was Rs. 401.29 crore. The RRBs and commercial banks accounted for 87.2 per cent of the total disbursement under SHSY. Disbursement was largely concentrated in the states of Bihar, Jammu & Kashmir, Maharashtra and Uttar Pradesh.

SC/ST Action Plan

The National Bank continued to make special efforts to increase the flow of refinance to the weaker section of the population. The disbursement under SC/ST Action Plans was Rs. 109 crore (Rs. 106 crore during 1998-99) in 1999-2000. In 2000-01, the disbursement of refinance for SC/ST Action Plan was Rs. 100 crore. During the year 2002-03 the disbursement stood at Rs. 112.08 crore (Rs. 130.54 crore last year 2001-02). Among the states, West Bengal availed the maximum amount of refinance followed by Uttar Pradesh, Maharashtra and Himachal Pradesh.

Self Help Groups

The SHGs was established in 1992. The SHG which is a group of about 20 people from a homogeneous class are initially brought together to address their common problems and are later encouraged to make voluntary thrift on regular basis and use the pooled resources to make small interest bearing
loans to their members. Once the group learns to handle resources and mature in financial behaviour, the banks are encouraged to make loans to the SHGs in multiples of their accumulated savings at market rates. The groups continue to decide the terms of loan to their own members and the peer pressure ensures timely repayments which replace the "collateral" security for the bank loan.  

The NGO's which act as SHPLs were provided with supplementary financial assistance for capacity enhancing in the form of promotional grant and infrastructural support. During the year 2002-03, promotional grant amounting to Rs. 3.65 crore was sanctioned to Rs. 24,332 SHGs as against Rs. 2.64 crore sanctioned to 17,966 SHGs, during the previous year 2001-02.

Coverage of Small Farmers

The National Banks have been emphasizing on wider coverage of small farmers under its refinance programmes. But, 71 per cent of the refinance provided (excluding refinance in respect of loans for farm mechanization and to institutions) by the National bank was again on loan disbursement to small farmers during 1998-99. During 1999-2000 and 2000-01, 68 per cent of the refinance provided by the National Bank was against loan disbursement to small farmers in each year. The National Bank provides
41% of refinance (excluding refinance in respect of loans for farm mechanization, institution, etc.) against loans disbursed to small farmers, which decreased to 17 per cent in 2002-03 from the previous year 2001-02.

**Investment Specific Studies**

The National Bank monitors the projects/schemes and programmes supported by refinance assistance through a system called District Oriented monitoring (DOM) Studies, wherein, all the major ongoing schemes including government sponsored programmes in a district are studied and reviewed on a rational basis. The concerned agencies (participating bankers and government functionaries in the district) are advised to take remedial/corrective action, wherever warranted. During the year 1999-2003 34 district oriented monitoring studies (DOM) were conducted.

In order to obtain feedback on the emerging ground level trends in the financing of various investments and the end-use of the financial assistance extended to the ultimate beneficiaries, 23 investment specific studies and 22 scheme specific studies were conducted during 1999-2000. But during the year 2002-03, the bank conducted 26 investment specific studies and 14 scheme specific studies. These studies covered the utilization of financial assistance, systems and procedures, adequacy and effectiveness of the forward/backward linkages, income generation, problems and constraints in implementation etc.

**Physical Achievement under investment credit**

With the refinance support of Rs. 4,521 crore disbursed under the investment credit during the year 1999 the cumulative refinance support extended by the National Bank for investment purposes aggregated Rs. 39,509 crore.
Table 7
Physical Units Financed and Completed
(Rs. Crore)

<table>
<thead>
<tr>
<th>S.No</th>
<th>Investments</th>
<th>Units</th>
<th>Units Financed upto</th>
<th>Units Completed upto</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>31 March 2002</td>
<td>31 March 2003</td>
</tr>
<tr>
<td>1.</td>
<td>Minor Irrigation*</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Tubewells with pumpsets</td>
<td>'000</td>
<td>1,426</td>
<td>1,448</td>
</tr>
<tr>
<td></td>
<td>ii. Dugwells with pumpsets</td>
<td>'000</td>
<td>2,037</td>
<td>2,041</td>
</tr>
<tr>
<td></td>
<td>iii. Dugwells with</td>
<td>'000</td>
<td>1,274</td>
<td>1,526</td>
</tr>
<tr>
<td></td>
<td>conventional lifts</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>iv. Pumpsets on existing</td>
<td>'000</td>
<td>2,131</td>
<td>2,223</td>
</tr>
<tr>
<td></td>
<td>wells</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>Land Development</td>
<td>'000 ha</td>
<td>2,945</td>
<td>3,048</td>
</tr>
<tr>
<td>3.</td>
<td>Farm Mechanisation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>i. Tractors</td>
<td>'000</td>
<td>1,159</td>
<td>1,194</td>
</tr>
<tr>
<td></td>
<td>ii. Power tillers</td>
<td>'000</td>
<td>144</td>
<td>149</td>
</tr>
<tr>
<td></td>
<td>iii. Other farm equipments</td>
<td>'000</td>
<td>393</td>
<td>472</td>
</tr>
<tr>
<td>4.</td>
<td>Plantation &amp; Horticulture</td>
<td>'000 ha</td>
<td>1,792</td>
<td>1,899</td>
</tr>
<tr>
<td>5.</td>
<td>Forestry*</td>
<td>Lakh ETPs</td>
<td>2,306</td>
<td>2,315</td>
</tr>
<tr>
<td>6.</td>
<td>Storage</td>
<td>'000 tonnes</td>
<td>15,111</td>
<td>16,375</td>
</tr>
<tr>
<td>7.</td>
<td>Market Yards</td>
<td>No</td>
<td>1,978</td>
<td>1,999</td>
</tr>
<tr>
<td>8.</td>
<td>Poultry</td>
<td>Lakh birds</td>
<td>1,639</td>
<td>1,693</td>
</tr>
<tr>
<td>9.</td>
<td>Sheep/Goat Rearing</td>
<td>'000 animals</td>
<td>36,162</td>
<td>36,310</td>
</tr>
<tr>
<td>10.</td>
<td>Dairy Development</td>
<td>'000 animals</td>
<td>13,407</td>
<td>13,702</td>
</tr>
<tr>
<td>11.</td>
<td>Piggery</td>
<td>'000 animals</td>
<td>1,612</td>
<td>1,620</td>
</tr>
<tr>
<td>12.</td>
<td>Fishery</td>
<td>No</td>
<td>21,147</td>
<td>21,565</td>
</tr>
<tr>
<td></td>
<td>i. Mechanised boats</td>
<td>No</td>
<td>72,126</td>
<td>72,543</td>
</tr>
<tr>
<td></td>
<td>ii. Other boats</td>
<td>No</td>
<td>4,780</td>
<td>5,055</td>
</tr>
<tr>
<td></td>
<td>iii. Brackish water</td>
<td>'000 ha</td>
<td>340</td>
<td>351</td>
</tr>
<tr>
<td></td>
<td>aquaculture</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>iv. Fresh water aquaculture</td>
<td>'000 ha</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13.</td>
<td>Non-Farm Sector</td>
<td>'000</td>
<td>3,762</td>
<td>4,735</td>
</tr>
<tr>
<td>14.</td>
<td>Miscellaneous $</td>
<td>'000</td>
<td>11,076</td>
<td>11,551</td>
</tr>
</tbody>
</table>

Sources: Annual Report of NABARD, 2002-03

The refinance of Rs. 6,158 crore (5,215 crore disbursed in March 31, 2000) was disbursed under investment credit during March 31, 2001. The cumulative refinance support extended by the National Bank for investment purposes aggregated Rs. 50,882 crore (44,724 crore in 2000). As a result of the National Bank’s refinance support the cumulative ground level investment
up to March 2001 was estimated at about Rs. 93,965 crore (83,652 crore in 2000).

With the refinance of Rs. 7,418.77 crore disbursed under investment credit during the year, the cumulative refinance support extended by the National Bank for investment purposes aggregated to Rs. 64,984 crore as on 31 March 2003. Sector wise details on the estimates of Physical units created through refinance support from the National Bank under various activities have been presented in table 7.

Externally Aided Projects

a. On-going Projects

In all, nine externally aided projects are at various stages of implementation. Project wise financial details indicating the National Bank’s disbursement during the year in cumulative up to 31 March 2003 an amount of Rs. 367.27 million has been actually received as grant assistance towards different projects.
b. Project in pipeline

The following projects were at various stages of negotiation and progress:

i. KfW, Germany has committed to provide grant assistance of Euro 9.20 million to selected projects executing NGOs exclusively towards partial financing of the investment costs for the rehabilitation of watersheds in Gujarat as well as consulting costs for the project.

ii. Indo-German Watershed Development Programme in Maharashtra (Phase III) involving Euro 19.94 million is in the stage of finalisation of agreement.

iii. KfW, Germany has, in principle, agreed to provide a grant assistance of Euro 15.83 million for Watershed Development Programme in Rajasthan and Euro 7.16 million for extension of Adivasi Development Programme in Gujarat (Phase II).

In short the NABARD has made a dent on rural financing through its financial help to Regional Rural Banks, Cooperative Organisation and Self Help Groups. In next chapter contains suggestions to its effective role in future.
References:

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2. SHANDILYA, Tapan Kumar, & Prasad, Umesh, Agricultural Credit & NABARD, 2003, pp. 87-92


4. SHANDILYA, Tapan Kumar, & Prasad, Umesh, Agricultural Credit & NABARD, 2003, pp. 93-94


7. Ibid. p. 137

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9 SHANDILYA, Tapan Kumar, & Prasad, Umesh, Agricultural Credit & NABARD, 2003.

10 Major Schemes of financial Assistance extended by National Bank for Agricultural and Rural Development (NABARD), published by National Resource Centre National Cooperative Union of India, New Delhi. p. 11


12 Annual Report 2000-01,

13 Annual Report of NABARD, 2002-03, p. 169

14 Ibid. pp. 175,179
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
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;
Conclusions and Suggestions

➢ 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;
Conclusions and Suggestions

- 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 in-depth 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 up to the creation of
Conclusions and Suggestions

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
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
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
Conclusions and Suggestions

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.
Conclusions and Suggestions

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.
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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), 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
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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,
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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 misutilised, 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.
Conclusions and Suggestions

- 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 set up 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
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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.
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