

Professor Archana Singh

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Rural Economics

Unit III

### **National Bank for Agriculture and Rural Development**

*The National Bank for Agriculture and Rural Development (NABARD) is a national financial institution in India with a total balance sheet of over US\$ 40 billion. It has the mandate of promoting sustainable agriculture and rural development through innovative, sustainable and equitable agriculture and rural prosperity by providing financial and technical support. It has built partnerships with other national entities, financial institutions and non-governmental organizations in order to implement innovative ideas through loans, guarantees, blended finance and other structures in the areas of agriculture, natural resources management, fisheries, rural livelihood improvement, renewable energy and micro finance among others. Almost one-third of its cumulative disbursements are related to climate change adaptation and mitigation activities. NABARD sought accreditation to the GCF in order to continue implementing its climate change adaptation and mitigation projects and programmes, which are well aligned with the results areas of the GCF, particularly food and water security, forestry and landscape management, enhancing livelihoods and ecosystem services. Leveraging its long-standing partnerships and experience, NABARD intends to undertake low-emissions and climate-resilient sustainable development that reduces the impacts of climate change.*

#### **Introduction**

NABARD is a development bank focussing primarily on the rural sector of the country. It is the apex banking institution to provide finance for Agriculture and rural development. Its headquarter is located in Mumbai, the country's financial capital.

- It is responsible for the development of the small industries, cottage industries, and any other such village or rural projects.
- It is a **statutory body** established in 1982 under Parliamentary act-**National Bank for Agriculture and Rural Development Act, 1981**.

#### **Functions**

- NABARD's initiatives are aimed at building an empowered and financially inclusive rural India through **specific goal oriented departments** which can be categorized broadly into three heads: **Financial, Developmental and Supervision**.
- It provides **refinance support** for building rural infrastructure.
- It prepares **district level credit plans** to guiding and motivating the banking industry in achieving these targets.
- It **supervises Cooperative Banks and Regional Rural Banks (RRBs)** and helping them develop sound banking practices and integrate them to the **CBS (Core Banking Solution) platform**.
- **Core Banking Solution (CBS)** is **networking of branches**, which enables Customers to operate their accounts, and avail banking **services from any branch of the Bank on CBS**

**network**, regardless of where he maintains his account. The customer is no more the customer of a Branch. **He becomes the Bank's Customer.**

- It is involved in designing Union government's development schemes and their implementation.
- It provides **training to handicraft artisans** and helps them in developing a **marketing platform** for selling these articles.
- NABARD has various **international partnerships** including leading global organizations and **World Bank-affiliated institutions** that are breaking new ground in the fields of rural development as well as agriculture.
  - These international partners play a **key consultant's role** in providing advisory services as well as **financial assistance** designed to ensure uplifting of rural peoples as well as optimization of various agricultural processes.

### **History**

- The importance of institutional credit in boosting rural economy has been clear to the Government right from its early stages of planning.
- The Reserve Bank of India (RBI) at the insistence of the Government of India, constituted a **Committee to Review the Arrangements for Institutional Credit for Agriculture and Rural Development** (CRAFICARD) in 1979, under the Chairmanship of **Shri B. Sivaraman**, former member of Planning Commission.
  - The Committee's report (1979) outlined the need for a **new organisational device** for providing **undivided attention, forceful direction** and **pointed focus to credit** related issues linked with **rural development**.
- It resulted in foundation of NABARD (National Bank for Agriculture and Rural Development) in **1982** as a statutory body under Parliamentary act-**National Bank for Agriculture and Rural Development Act, 1981**.
  - Its initial **paid up capital** was Rs. 100 cr. contributed with 50: 50 by government of India and Reserve bank of India. It stood at Rs. 10,580 cr. as on 31 March 2018.
- To support Indian Rural economy with credit facility, RBI was apex body before formation of NABARD.
  - It resulted in making NABARD as **an apex development financial institution in India**.
  - The NABARD's role is basically a **continuation of the RBI role** in the sphere of Agriculture and Rural Development.
- The functions of the 3 institutes of RBI (1) the **Agricultural Credit Department** (ACD), (2) **Rural Planning and Credit Cell** (RPCC), (3) and Agricultural Refinance and Development Corporation (ARDC) were transferred to NABARD.
  - **ACD**: RBI provided through its ACD short term refinance to **cooperatives**.
  - **RPCC**: It was dealing with the **Regional Rural Banks** (RRBs) since 1979
  - **ARDC**: RBI set up the Agricultural Refinance Corporation (ARC) in 1963 to work as a refinancing agency in providing medium term and long term **agricultural credit** to

support investment credit needs for agricultural development.

- In 1975, ARC was **renamed** as Agriculture Refinance and Development Corporation (ARDC) to give focussed attention to credit off-take, development and promotion of the agricultural sector.
- **The NABARD (Amendment) Bill, 2017 passed in 2018:**
  - Amendment in Act enabled Union Government to increase the **authorized capital of NABARD** from Rs. 5,000 crore to Rs. 30,000 crore.
  - **Increase in capital of NABARD:** Under the 1981 Act, NABARD may have a capital of Rs 100 crore. This capital can be further increased to Rs 5,000 crore by the central government in consultation with the Reserve Bank of India (RBI). The Bill allows the central government to increase this capital to Rs 30,000 crore.
  - **Transfer of the RBI's share to the central government:** Under the 1981 Act, the central government and the RBI together must hold at least 51% of the share capital of NABARD. The Bill provides that the central government alone must hold at least 51% of the share capital of NABARD. The Bill transfers the share capital held by the RBI and valued at Rs 20 crore to the central government. The central government will give an equal amount to the RBI.
  - **Micro, small and medium enterprises (MSME):** Under the 1981 Act, NABARD was responsible for providing credit and other facilities to industries having an investment of upto Rs 20 lakh in machinery and plant. The Bill extends this to apply to enterprises with investment upto Rs 10 crore in the manufacturing sector and Rs five crore in the services sector.
  - Under the 1981 Act, experts from small-scale industries are included in the Board of Directors and the Advisory Council of NABARD. Further, banks providing loans to small-scale, tiny and decentralised sector industries are eligible to receive financial assistance from NABARD. The Bill extends these provisions to the micro, small, and medium enterprises.

#### NABARD and RBI

- Reserve Bank of India is the central bank of the country with sole right to regulate the banking industry and supervise the various institutions/banks that also include NABARD defined under **Banking Regulation Act of 1949**.
- Many developmental and regulatory works are done by RBI and NABARD in co-operation.
  - RBI provides 3 directors to NABARD's Board of Directors.
- **NABARD provides recommendations to Reserve Bank of India on issue of licenses to Cooperative Banks, opening of new branches by State Cooperative Banks and Regional Rural Banks (RRBs).**

#### Governance

### **Board of Directors**

- NABARD's affairs are governed by a **Board of Directors**. The Board of Directors are appointed by the Government of India in consonance with NABARD Act. It is constituted of following:

- The Chairperson;
- **3 directors** from amongst experts in
  - rural economics,
  - rural development,
  - village and cottage industries,
  - small-scale industries,
  - or persons having experience in the working of co-operative banks, regional rural banks or commercial banks,
  - or any other matter the special knowledge or professional experience which is **considered by the Central Government as useful to the National Bank;**
- 3 directors from out of the directors of the Reserve Bank;
- 3 directors from amongst the officials of the Central Government;
- 4 directors from amongst the officials of the State Government;
- **such number of directors elected** in the prescribed manner, **by shareholders** other than the Reserve Bank, the Central Government and other institutions owned or controlled by the Central Government;
- The Managing Director;
- The Chairperson and other directors (**except elected ones by share-holders and officials of the Central Government**) shall be appointed by the Central Government in consultation with the RBI.

#### Executive Committees

- **The Board of Directors** may constitute an **Executive Committee consisting of such number of directors** (called Executive Director) as may be prescribed.
- The Executive Committee shall discharge such functions as may be prescribed or may be **delegated to it by the Board.**

#### Contribution

The NABARD has touched almost every aspect of rural economy in terms of Financial, Developmental and Supervision functions

### **Financial Contribution**

- **Refinance - Short Term Loans:** Crop loans are extended to farmers for crop production by financial institutions, which support in ensuring food security in the country.
- **Long Term Loans:** NABARD's long-term refinance provides credit **to financial institutions** for a wide gamut of activities encompassing farm and non-farm activities **with tenors of 18 months to more than 5 years.**
- **Rural Infrastructure Development Fund (RIDF):** It was set up with NABARD in 1995-96 by the RBI out of **the shortfall in lending to priority sector by scheduled commercial banks** for supporting rural infrastructure projects.
- **Long-Term Irrigation Fund (LTIF):** The LTIF in NABARD was setup with an initial corpus of Rs 20,000 crore for funding **99 irrigation projects** during 2016-17 following announcement in the Union Budget.
- **Pradhan Mantri Awaas Yojana - Grameen (PMAY-G).**

- **NABARD Infrastructure Development Assistance (NIDA):** NIDA has been **designed to complement RIDF**.
- **Warehouse Infrastructure Fund (WIF):** Union government created WIF in the year 2013-14 with NABARD with a corpus of Rs 5,000 crore for providing loans to meet the requirements for **scientific warehousing infrastructure** for **agricultural commodities** in the country.
- **Food Processing Fund**
- **Direct Lending to Cooperative Banks**
- **Credit Facility to Marketing Federations (CFF):**
- **Producer Organizations Development Fund (PODF) for POs & PACS:**
  - NABARD set up Producer Organizations Development Fund (PODF) with an initial corpus of Rs 50 crore to support and finance **Producer Organizations (POs)** and **Primary Agriculture Credit Societies (PACS)** to operate as Multi Service Centres.
  - **Producer Organisation (PO):** it is a **legal entity formed by primary producers, viz. farmers, milk producers, fishermen, weavers, rural artisans, craftsmen**. A PO can be a producer company, a cooperative society or any other legal form which provides for sharing of profits/benefits among the members.
  - **Primary Agricultural Credit Society (PACS)** is a basic unit and smallest co-operative credit institution in India. It works on the grassroots level (gram panchayat and village level). It provides credit to farmers in the form of term loans and recovers the amount after harvesting of crop from the cultivator.

### **Developmental Contribution**

- **Kisan Credit Card Scheme for Farmers:** The **Kisan Credit Card (KCC)** scheme was designed by NABARD in association with the RBI in August **1998** for providing crop loans.
- **RuPayKisan Cards (RKC)s:** NABARD has been at the forefront of technology revolution by helping rural financial institutions in providing RuPayKisan Cards (RKC)s **to all their farmer clients**.
- **Tribal Development: the Tribal Development Programme**
- **Climate Resilient Agriculture**
- **Umbrella Programme on Natural Resource Management (UPNRM):**
  - The UPNRM started in 2007, works at **enhancing investments in rural areas**, creating business opportunities and enabling rural communities to sustainably **utilise their natural resources**.
- **Microfinance Sector:**
  - NABARD had launched the **Self Help Group-Bank Linkage Programme (SHG-BLP)** in 1992. Over 23 lakh SHGs were credit-linked during 2017-18 financial year.
  - **EShakti:** In a bid to digitise SHGs, project EShakti was launched on 15 March 2015.
  - **Skill Development: Promoting an entrepreneurial culture** among the rural youth and encouraging them to start enterprises in the **rural off-farm sector** has been NABARD's strategy for over three decades.

- **Marketing Initiatives:** For providing marketing opportunities to rural artisans and producers, NABARD has traditionally facilitated their participation in exhibitions across the country.

### **Incubation Centres**

- **To commercialise innovations** and to shape **agricultural entrepreneurship** in the country, NABARD extended support to **Chaudhary Charan Singh Haryana Agricultural University**, Hisar and **Tamil Nadu Agricultural University**, Madurai for establishing **Agri Incubation Centres** with a total financial commitment of **Rs 23.99 crore**.

### **Challenges**

- **As an offspring of the RBI**, NABARD shares the work **culture, ethos** and development **orientation** of its parent institution.
  - Snapping of this link (the transfers of **0.4 per cent equity of RBI** in NABARD to the Union Government under NABARD Act 2017) has led to a great disadvantage for both the RBI and NABARD.
  - This has weakened any role or participation RBI can have over its activities.
  - A strong relationship between the central bank and the development institution will help the cause of agriculture and rural development at a critical juncture when the country is faced with a serious agrarian crisis.
- **Cost of financing** has gone up since market borrowings of NABARD add up to 80 per cent of its resources. **Member-driven and de-bureaucratized cooperative structures** have to fill-in the **gaps** of institutional credit left open by **commercial banks**.
- **The north-eastern states** has been getting little share of the NABARD's credit funds. The northeast gets 1% of the credit, leading to farmers trapping in the net of money-lenders.
- The penetration of banks in **insurgency-hit state** is less and it should be stepped up.

### **Conclusion**

More than 75 per cent people of India depend on agriculture. Rural infrastructure investments help in raising the socio-economic status of the rural people through increased income levels and quality of life.

NABARD being an apex institution for providing credit facilities and capacity building to Indian rural economy, it has great a opportunity for poverty reduction and socio-economic empowerment of rural India.