

## Establishment of the National Bank for Agriculture and Rural Development

**K. Vijayakumari**

Ph.D. Research Scholar (Reg. No.9712)  
Department of History  
Manonmaniam Sundaranar University,  
Abishekapatti, Tirunelveli – 627 012, Tamil Nadu, India

**Dr. Revathi Thomas**

Research Supervisor  
Post Graduate and Research Department of History,  
Women's Christian College, Nagercoil – 629 001.  
(Affiliated to Manonmaniam Sundaranar University, Abishekapatti,  
Tirunelveli – 627 012, Tamil Nadu, India)

*National Bank for Agriculture and Rural Development (NABARD) is a fully Government of India owned financial institution that came into existence on July 12, 1982 to address credit related issues of rural sector and also, to promote sustainable and equitable agriculture and rural development through participative financial and non-financial interventions, innovations, technology and institutional development for securing prosperity. This paper seeks to give an overview of the NABARD, its organization, its objectives, functions, the Acts related to it and the overall achievements.*

**Keywords:** NABARD, Credit, Rural Development, Rural Prosperity.

### Introduction

The National Bank for Agriculture and Rural Development (NABARD) was established on 12 July 1982 by the Government of India by merging the Agricultural Credit Department of the RBI, the Agricultural Refinance and Development Corporation, the National Agricultural Credit (Long Term Operations) Fund and the National Agricultural Credit (Stabilisation) Fund of the RBI.

### Objectives of NABARD

The NABARD is an apex development bank which provides help for agricultural and rural development. It has been established with the following objectives:

1. To give undivided attention and purposeful direction to integrated rural development.
2. To act as a centre piece for the entire rural credit system at the national level.
3. To act as a provider of supplemental funding to rural credit institutions.
4. To arrange for investment credit to small industries, village and cottage industries, handicrafts and other rural crafts, artisans and farmers.
5. To improve the credit distribution system by institution building, rehabilitation of credit institutions and training of bank personnel.

## Functions of NABARD

The functions of NABARD have been divided into three categories: (a) Credit Distribution; (b) Development and (c) Regulatory. These are discussed as under:

**(a) Credit Distribution:** The NABARD provides refinance of various types to the following institutions:

**(1) Short Term Credit.** It provides short term credit to State Cooperative Banks (SCBs), Regional Rural Banks (RRBs) and other financial institutions approved by the RBI for the following purposes: (i) seasonal agricultural operations; (ii) marketing of agricultural produce; (iii) marketing and distribution of such inputs as pesticides, fertilizers, etc.; (iv) other activities related to rural/agriculture sector; (v) real commercial trade activities; (vi) production and marketing of the following activities: handicrafts, small industries, village and cottage industries, artisans, silk industry, etc. The duration of short term loans for the above purposes is up to 15 months.

**(2) Medium Term Credit.** The NABARD provides medium term credit to SCBs, LDBs, RRBs and other approved institutions for a period ranging from 18 months to 7 years. The medium term loans are given for investment schemes relating to agriculture and rural sector.

**(3) Long Term Credit.** The NABARD provides long term credit to State Land Development Banks; RRBs, commercial banks, SCBs and to any approved financial institution. It provides refinance for investment in the following activities: (i) minor irrigation, land development, soil conservation; dairy development, sheep rearing, poultry farming, pig rearing, farm mechanization, afforestation, fish farming, storage and market yard, agricultural operations through aeroplane, biogas and other alternative sources of energy, silk production, bee-keeping, cattle and cattle driven carts, compost equipment, pump set, and other agricultural and related activities. The duration of the loan is for a period of 25 years.

**(b) Developmental Functions:** The NABARD performs the following developmental functions: (i) coordinates the rural credit institutions; (ii) takes measures towards institution building to improve the capacity of credit delivery system; (iii) develops specialization to solve problems relating to agriculture and villages; (iv) helps the Government, RBI, and other institutions in their rural development efforts; (v) acts as an agent of the Government and RBI for monitoring work in agricultural related areas.

**(c) Regulatory Functions:** The NABARD also performs the following regulatory functions: (i) It inspects the working of RRBs and cooperative banks of all types except the primary cooperative banks. (ii) It also inspects apex cooperative marketing federations, state handloom weaving societies, etc. which are financed on voluntary basis.

## Organization

The NABARD is managed by a 15-member Board of Directors consisting of Chairman, Managing Director, two experts of rural economies, three experts from cooperative and commercial banks, three directors from the current directors of the RBI, three directors from the Government of India, and two directors representing the State Governments.

## Rural Development Act 1981

An Act to establish a development bank to be known as the National Bank for Agriculture and Rural Development for providing and regulating credit and other facilities for the promotion and development 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, and for matters connected therewith or incidental thereto.

This Act may be called the National Bank for Agriculture and Rural Development Act, 1981.

It extends to the whole of India.

It shall come into force on such date as the Central Government may, by notification in the Official Gazette, appoint, and different dates may be appointed for different provisions of this Act, and any reference in any provision to the commencement of this Act shall be construed as a reference to the coming into force of that provision.

### **Establishment**

(1) With effect from such date as the Central Government may, by notification in the Official Gazette, appoint, there shall be established for the purposes of this Act, a bank to be known as the National Bank for Agriculture and Rural Development

(2) The bank shall be a body corporate with the name aforesaid having perpetual succession and a common seal with power, subject to the provisions of this Act, to acquire, hold and dispose of property and to contract, and may by that name sue and be sued.

(3) The head office of the National Bank shall be at 1[Mumbai] or at such other place as the Central Government may, by notification, specify. (4)The National Bank may establish offices, branches or agencies at any place in India, and with the previous approval of the Central Government and in consultation with the Reserve Bank, at any place outside India.

### **Management**

(1) The general superintendence, direction and management of the affairs and business of the National Bank shall vest in a Board of Directors, which shall exercise all powers and do all acts and things which may be exercised or done by the National Bank.

(2) Subject to the provisions of this Act, the Board in discharging its functions, shall act on business principles with due regard to public interest.

(3) Subject to the provisions of sub-section(1) and save as otherwise provided in the regulations made under this Act, the Managing Director shall also have powers 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.

### **Committees of National Bank**

(1) The Board may constitute an Executive Committee consisting of such number of directors as may be prescribed.

(2) The Executive Committee shall discharge such functions as may be prescribed or may be delegated to it by the Board.

(3) The Board may constitute such other committees, whether 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 delegated to it by the Board.

(4) The Executive Committee shall meet at such times and places and shall observe such rules of procedure in regard to the transaction of business at its meetings as may be prescribed.

### **Achievements of NABARD**

The NABARD is an apex institution in the organized rural credit structure. It plays an important role in reducing regional disparities and helps small farmers, marginal farmers and the weaker sections of the society. It channelizes its refinance facilities for agricultural and rural development in the country through major financial intermediaries like SCBs, SLDBs, RRBs, commercial banks, etc.

*a. Short Term Credit.* During 2002-03, it sanctioned Rs.8,764 crores as short term credit to SCBs and RRBs for financing seasonal agricultural operations, marketing of crops, purchase and distribution of fertilisers, and working capital requirements of the cooperative sugar factories.

*b. Medium Term Credit.* The NABARD sanctioned Rs.496 crores in 2002-03 as medium term credit to SCBs and RRBs for approved agricultural purposes.

*c. Long Term Credit.* The NABARD provides long term loans not exceeding 20 years to State Governments to enable them to contribute to the share capital of the cooperative credit institutions. In 2002-03 it sanctioned Rs.62 crores to State Governments for this purposes.

*d. Schematic Lending.* The NABARD provides refinance facilities relating to minor irrigation, land development, farm mechanization, plantation horticulture, poultry, sheep breeding, piggyery, fisheries, dairy development, storage, market yards, IRDP, etc.

*e. Assistance to Non-Farm Sector.* The NABARD provides financial assistance to the non-farm sector. The ceiling on individual loans under Composite Loan Scheme is Rs.50,000 and under Integrated Loan Scheme Rs.7.5 lakhs to enable the financing banks to meet the credit requirements of entrepreneurs for setting up cottage, tiny, village and small scale industries. Further, State Co-operative Banks have been permitted to get refinance on an automatic basis from the NABARD through CCBs for financing industrial cooperative societies upto Rs.7.5 lakhs. The Integrated Loan Scheme has also been extended to Land Development Banks for financing non-farm activities upto Rs.7.5 lakhs. SCBs have been permitted to draw refinance on automatic basis for loans to industrial cooperative societies for modernization of existing units upto Rs.7.5 lakhs. With the introduction of Swarnajayanti Gram Swarozgar Yojana from April 1999 in rural areas, the NABARD provides refinance to commercial banks for loans extended by them under the scheme. A wide spectrum of activities covering agricultural allied activities, industries, services and business that are bankable and viable are eligible for refinance.

*f. Other Types of Assistance.* The NABARD has started the following types of assistance recently:

1. It undertakes on a modest scale cofinancing/direct financing of hi-tech and other special projects.
2. Beginning 1995-96, it has started sanctioning a separate Short Term (Seasonal Agricultural Operations) Credit limit to each of the SCBs/RRBs operating in the 114 identified districts in the country.
3. To step up credit flow to weaker sections including SCs/STs, the NABARD has earmarked a sum of Rs.150 crores for refinance under the "SC/ST Action Plan" for allocation among commercial and cooperative banks. The level of refinance is 100 per cent.

*g. Institutional Development.* One of its important functions is institutional development. In addition to the inspection of cooperative banks and RRBs, it helps in their rehabilitation, reorganization and re-establishment.

*h. Cooperative Development Fund (CDF).* The NABARD set up CDF in 1993 for strengthening the cooperative credit institutions in the areas of organizational structure, human resource development, resource mobilization, recovery position, etc. The assistance is provided to SCBs, CCBs, etc. by way of a grant or a soft loan or both. At the end of March 2003, cumulative loans sanctioned from CDF amounted to Rs.65 crores.

*i. Rural Infrastructure Development Fund (RIDF).* RIDF-I was set up in 1995-96 with a corpus of Rs.2,000 crores for providing funds to State Governments and State owned corporations to enable them to complete various types of rural infrastructure projects. This scheme had been continued in subsequent years as RIDF-II with Rs.2,500 crores in 1996-97, RIDF-III with Rs. 2,500 crores in 1997-98, RIDF-IV with Rs. 3,000 crores in 1998- 99, RIDF-V with Rs. 3,500 crores in 1999-2000, RIDF-VI with Rs. 4,500 crores in 2000-01, RIDF-VII with Rs. 5,000 crores in 2001-02, RIDF-VIII with Rs. 5,500 crores in 2002-03 and RIDF-IX with Rs. 5,500 crores in 2003-04. The amount mobilised under various RIDF schemes amounted to Rs. 16,145 crores as at ending March 2002. The cumulative sanctions of loans under RIDF were Rs. 29,475 crores as at 31 March, 2003.

*j. Memorandum of Understandings (MOUs).* The NABARD signs MOUs with the Cooperative banks and the concerned State Government for revamping and improving the cooperative credit structure. Similar MOUs exist between the RRBs and the sponsor banks.

*k. Research and Development.* It has been providing financial assistance for research and training to the staff of rural banking structure out of its R & D Funds and for strengthening the technical, monitoring, and evaluation cells of RRBs. Its three staff colleges, CAB, and Banker Rural Development Institute have been providing research and training facilities in rural credit and development to the staff of banks. Despite its manifold achievements, NABARD has yet to become an apex regulator and development bank for farm lending.

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