



THE ROLE OF NABARD IN THE RURAL DEVELOPMENT

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ABSTRACT

In the Indian context rural development assumes greater significance as nearly 70% of its population live in rural areas. Most of the people living in rural areas draw their livelihood from agriculture and allied sectors. Such areas are distinct from more intensively settled urban and suburban areas. Life styles in rural areas are different than those in urban areas, mainly because limited services are available. Governmental services like law enforcement, schools, fire departments, and libraries may be distant, limited in scope, or unavailable. Rural development is a national necessity and has considerable importance in India. The main objective of the rural development programme is to raise the economic and social level of the rural people. National Bank for Agriculture and Rural Development (NABARD) is set up as an apex institution by the Government of India with the main objective of providing and regulating credit and other facilities for the promotion of rural development. It is a single integrated organisation which looks after the credit requirements of all types of agricultural and rural development activities. Hence, an attempt is made to study the role of NABARD in the rural development. The study covered aspects such as objectives, functions, management and organizational hierarchy, sources of funds, activities achieved, loan assistance to various institutions, refinance assistance micro finance assistance etc.

KEYWORDS : NABARD, Rural Development, Loan, Refinance

1. Introduction : India lives in its villages, and while the cities have grown immensely over the last 20 years, rural areas have not seen that kind of development. For India's economy to be strong, the rural economy needs to grow. Rural areas are still plagued by problems of malnourishment, illiteracy, unemployment and lack of basic infrastructure like schools, colleges, hospitals, sanitation, etc. This has led to youth moving out of villages to work in cities. Our villages need to grow in tandem with cities and standard of life has to improve there for inclusive growth to happen. If rural India is poor, India is poor.

From times immemorial, Indian farmer was dependent on money lender for supply of finance. The money lender used to exploit his ignorance, illiteracy and need of the farmer. To relieve him from the clutches of money lender, primary cooperative credit societies were started at village level in 1904. Later, higher financing agencies were established to provide credit. Commercial banks kept themselves aloof from rural credit. After nationalization, though they were directed to extend credit to the agricultural sector both direct and indirect. But it was felt that they were unable to satisfy the credit needs of small farmers, agricultural labourers and weaker sections of the society. Cooperative banks have also miserably failed to provide credit at right time and in right quantity to Indian farmer. Regional rural banks were established to fill the regional and functional gaps in the rural credit institutional system. Later NABARD was established as a Development Bank with a mandate 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 promote integrated rural development and secure prosperity of rural areas, and for matters connected therewith or incidental thereto.

2. Need for the study : In the Indian context rural development assumes greater significance as nearly 70% of its population live in rural areas. Most of the people living in rural areas draw their livelihood from agriculture and allied sectors. Such areas are distinct from more intensively settled urban and suburban areas. Lifestyles in rural areas are different than those in urban areas, mainly because limited services are available. Governmental services like law enforcement, schools, fire departments, and libraries may be distant, limited in scope, or unavailable. Utilities like water, sewer, street lighting, and garbage collection may not be present. Public transport is sometimes absent or very limited. At the time of independence around 83 per cent of the Indian populations were living in rural areas. Accordingly, from the very beginning, our

planned strategy emphasized rural development and will continue to do so in future. Strategically, the focus of our planning was to improve the economic and social conditions of the underprivileged sections of rural society. Thus, economic growth with social justice became the proclaimed objective of the planning process under rural development.

Rural development is a national necessity and has considerable importance in India. It is a process of bringing change among rural community from the traditional way of living to progressive way of living. The main objective of the rural development programme is to raise the economic and social level of the rural people. NABARD is set up as an apex institution by the Government of India with the main objective of providing and regulating credit and other facilities for the promotion of rural development. It is a single integrated organisation which looks after the credit requirements of all types of agricultural and rural development activities. Hence, an attempt is made to study the role of NABARD in the rural development.

3. Objectives: The objectives of the present study are as follows.

- To study the role of NABARD in the rural development.
- To assess the performance of NABARD as refinancing agency.
- To evaluate the loan assistance to various institutions.

4. Data Collection and Statistical techniques : The study is primarily based on the secondary data which includes books, magazines, annual reports, records, websites etc. For interpretation of the data percentage to total has been used.

5. Period of Study: The study covered a period of 5 years from 2011-12 to 2015-16. The data relating to the year 2015-16 is provisional data.

6. Scope: The study made an attempt to enlighten the role of NABARD in the upliftment of rural poor. The study covered aspects such as objectives, functions, management and organizational hierarchy, sources of funds, activities achieved, loan assistance to various institutions, refinance assistance micro finance assistance etc. for the above said period.

7. Profile of NABARD : With the increasing role of institutional credit in the integrated rural development of the country, a need was felt for a single broad based organization which would not only extend adequate financial assistance to the various credit institutions of the rural areas but also provide guidance in all the matters concerning the formulation and implementation of rural

development programmes. The Government of India Reserve Bank of India (RBI), constituted a committee to review the arrangements for institutional credit for agriculture and rural development (CRAFICARD) on 30 March 1979, under the Chairmanship of Shri B. Sivaraman, former member of Planning Commission, Government of India to review the arrangements for institutional credit for agriculture and rural development. The Committee, in its interim report, submitted on 28 November 1979, felt the need for a new organisational device for providing undivided attention, forceful direction and pointed focus to the credit problems arising out of integrated rural development and recommended the formation of NABARD. The Parliament, through Act 61 of 1981, approved the setting up of NABARD. The bank came into existence on 12 July 1982 by transferring the agricultural credit functions of RBI and refinance functions of the then Agricultural Refinance and Development Corporation (ARDC). It is one of the premier agencies providing developmental credit in rural areas. It is India's specialised bank for Agriculture and Rural Development in India.

7.1. Objectives: NABARD has been established with the following objectives:

- To give undivided attention and purposeful direction to integrated rural development.
- To act as a centre piece for the entire rural credit system at the national level.
- To act as a provider of supplemental funding to rural credit institutions.
- To arrange for investment Credit to small industries, village and cottage industries, handicrafts and other rural Crafts, artisans and farmers.
- To improve the credit distribution system by institution building, rehabilitation of credit institutions and training of bank personnel.
- To provide refinance facilities to State Land Development Banks (SLDBs), State Co-operative Banks, (SCBs), Regional Rural Banks (RRBs) and Commercial Banks (CBs) for development purposes in rural areas.
- To Co-ordinate the working of different agencies engaged in development work in rural areas at the regional level, and to have liaison with Government of India, RBI, State Government and other policy making institutions at the national level and
- To inspect, monitor and evaluate various projects.

7.2. Functions: The major functions of NABARD are as follows:

- It serves as an apex financing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas.
- It takes measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.
- It co-ordinates all agricultural and rural development activities with the objective of tying them up with planned development activities in the rural sector.
- It maintains liaison with Government of India, state governments, RBI and other national level institutions concerned with policy formulation.
- It undertakes monitoring and evaluation of projects refinanced by it.
- It provides refinancing facilities to State Co-operative Banks (SCBs), Land Development Bank (LDBs), Regional Rural Banks (RRBs) and other approved financial institutions for financing rural economic activities.
- It partakes in development of institutions which help the rural economy.
- It also keeps a check on its client institutes.
- It regulates the institutions which provide financial help to the rural economy.
- It provides training facilities to the institutions working in the field of rural upliftment.
- It regulates the cooperative banks and the RRB's.

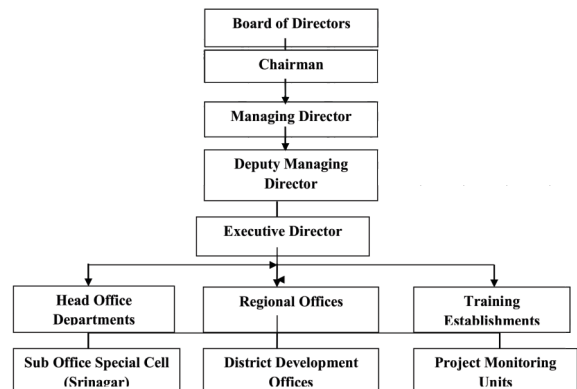
- It extends assistance to the government, the Reserve Bank of India and other organizations in matters relating to rural development.
- It offers training and research facilities for banks, cooperatives and organizations working in the field of rural development.
- It helps the state governments in reaching their targets of providing assistance to eligible institutions in agriculture and rural development.
- It provides short-term, medium-term and long-term credit to SCBs, LDBs, RRBs and approved financial institutions.
- It provides long-term assistance (not exceeding 20 years) to State Governments.
- It has the responsibility of inspecting co-operative banks and RRBs.
- It maintains a research and development fund to promote research in agriculture and rural development.

7.3. Management & Organisation Structure: The management and Organisation Structure of NABARD is as follows. The NABARD is managed by a Board of Directors consisting of

- A Chairman
- A managing director
- Two directors from amongst experts in rural economics and rural development.
- Three directors out of whom two will be persons with experience in Co-operative Banking and one with experience in commercial banking.
- Three directors from out of the directors of the Reserve Bank
- Three directors amongst the official of the Central Government
- Two directors amongst the official of the State Government, and
- One or more whole time directors if and when appointed by the Government.

The Chairman as well as the Managing Directors will have a five years term whereas each director's term will be 3 years. The diagrammatic representation of organisational hierarchy of NABARD is as follows.

Organisational hierarchy of NABARD



7.4. Sources of Funds : The resource position of NABARD is as follows.

- The initial corpus of NABARD was Rs.100 crores. Consequent to the revision in the composition of share capital between Government of India and RBI, the paid up capital as on 31 March 2016, stood at Rs.5000 crores with Government of India holding Rs.4,980 crores and Reserve Bank of India Rs.20.00 crores.
- For its long term operations, NABARD will draw funds from the Government of India, the World bank and other multilateral and bilateral agencies and the market.
- Another source of long term operation will be " National Rural Chit Fund" that NABARD will maintain and to which will be transferred the "National Agricultural Credit (Long term operations) Fund" of the Reserve Bank of India, with further

contributions to the fund every year.

- For the purpose of converting short-term loans into medium term loans, funds will be drawn from National Rural Credit (stabilisation) Fund to which will be transferred the National Agricultural Credit (stabilisation) fund of the Reserve Bank of India with further contribution made to it every year.
- For its short term operations, it will draw funds mainly from the Reserve Bank.
- A "Research and Development Fund" will be created and maintained through contribution from profits every year.

8. Activities of NABARD: NABARD is a single integrated organisation which looks after the credit requirements of all types of agricultural and rural development activities. The following are some of the activities performed by NABARD during 2011-12 and 2015-16.

8.1. NABARD Infrastructure Development Assistance (NIDA): NIDA is a new line of credit support for funding rural infrastructure projects. It is designed to fund State owned institutions/ corporation through direct financing based upon risk appraisal of the specific project for creation of rural infrastructure. The assistance under NIDA is available on flexible interest terms with longer repayment period upto 15 years.

8.2. Financing and supporting Producer Organisations : NABARD has taken an initiative for supporting producer organizations, adopting a flexible approach to meet the needs of producers. In order to give a special focus, the **Producers Organization Development Fund** has been set in the year 2011. The fund is used to support Producers Organizations across three levers, viz. credit support, capacity building & market linkage. The objective of the fund is to meet end to end requirements of Producers Organization as well as to ensure their sustainability & economic viability.

8.3. Short term loans: NABARD provides short term credit up to 18 months to State cooperative banks for seasonal agricultural operations, marketing of crops, distribution of fertilisers and working capital requirements of cooperative sugar mills.

8.4. Medium term loans : NABARD provides relief to farmers whose crops are damaged due to natural calamities, by way of conversion of current short term agricultural loans into medium term loans for a period of 8 months to 7 years to State cooperative banks and Regional rural banks.

8.5. Long Term Loans: The long term credit is normally provided for a period of 3 to 15 years. It is intended to create income generating assets in the sectors like Agriculture and allied activities such as minor irrigation, farm mechanisation, land development, soil conservation, dairy, sheep/goat rearing, poultry, piggyery, plantation/horticulture, forestry, fishery, storage and market yards, bio-gas and other alternate sources of energy, sericulture, apiculture, animals and animal driven carts, agro-processing, agro-service centres, etc. and non-form sector like, artisans, small scale industries, micro enterprises, handicrafts, handlooms, powerlooms, voluntary agencies and self-help groups working among the rural poor.

8.6. Financing and developing Primary Agriculture Cooperatives (PACs) into multi-service centres : PACS being the registered cooperative society has been providing credit and other services to its members. It has been observed that PACS are generally meeting out the credit requirements of its members. However there is a need to provide other services to the farmers and hence PACS should be developed as a unit to meet all their needs. In order to enable PACS to provide more services to their members and generate income for themselves, an initiative has been taken by NABARD to develop PACS as multi service centres. This will enable PACS to provide ancillary services to its members and diversify its activities. The facilities such as agro-Storage centre, agro-service

Centre, agro-processing centre, agro-information centre and agro-transportation & marketing facilities can be taken up by PACS to the farmers.

8.7. Umbrella Programme for Natural Resource Management: The development of agriculture (farm sector) on a sustainable basis has always been the main agenda of NABARD. In pursuance of this goal, it has taken a number of initiatives, such as watershed development, livelihood-based programmes, natural resource management, agricultural technology transfer and development of tribal farmers under various initiatives for sustainable agricultural development. Water is the leading input in agriculture. Significantly, the Umbrella Programme for Natural Resource Management aims to boost rural livelihoods by supporting community-managed sustainable natural resource management projects. Realizing the importance of challenges arising from climatic change, NABARD has taken a few initiatives to facilitate ecologically sustainable development.

8.8 Dairy entrepreneurship development scheme: This Dairy Entrepreneurship Development Scheme was launched in 2010-11 to encourage the development of modern dairy farms that produce clean milk and heifer-rearing farms to conserve good breeding stock. It also supports the upgradation of technology to handle milk on a commercial scale and facilitates initial processing of milk at the village through structural improvements in the unorganized sector.

9. Loan assistance to various institutions :

9.1. Institution-wise assistance to agricultural sector: NABARD provides loan assistance to the agricultural sector through various institutions like Cooperative banks, Regional Rural banks, Commercial banks. It can be observed from the Table 1 that out of the total loan assistance, the share of Commercial banks varied between 71.21 per cent and 72.25 per cent

Table 1 : Institution-wise Loan Assistance to Agricultural Sector during 2011-12 and 2015-16

(Rs.Crores)

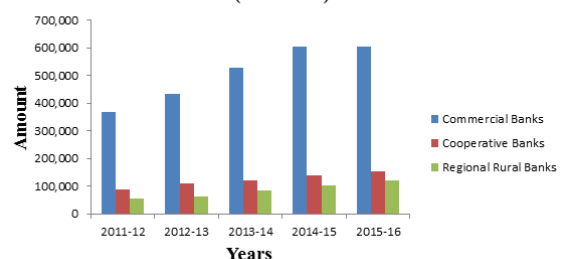
Institution	2011-12	2012-13	2013-14	2014-15	2015-16
Commercial Banks	3,68,616 (72.13)	4,32,491 (71.21)	5,27,506 (72.25)	6,04,376 (71.50)	6,04,668 (68.92)
Cooperative Banks	87,963 (17.21)	1,11,203 (18.31)	1,19,964 (16.43)	1,38,469 (16.38)	1,53,295 (17.48)
Regional Rural Banks	54,450 (10.66)	63,681 (10.48)	82,653 (11.32)	1,02,483 (12.12)	1,19,261 (13.60)
Total	5,11,029 (100.00)	6,07,375 (100.00)	7,30,123 (100.00)	8,45,328 (100.00)	8,77,224 (100.00)

Source: Annual Report of NABARD 2015-16

Note: Figures in parentheses indicate the percentage to total

during 2011-12 and 2015-16. The proportion of Cooperative banks ranged between 16.38 per cent and 18.31 per cent during the study period. The share of Regional Rural banks to total loan formed in the range of 10.48 per cent – 12.12 per cent during the above period. It can be concluded that Commercial banks ranked first followed by Co-operative banks and Regional Rural banks.

Chart 1 : Institution-wise Agricultural loan Assistance (Rs.Crores)



9.2. Scheme-wise loan disbursement to agricultural sector:

The NABARD provides two types of agricultural credit namely crop loans and term loans. It can be analysed from Table 2 that 80 per cent of the total agricultural loan assistance is in the form of crop loans. The

Table 2 : Scheme-wise Agricultural Loan Disbursement during 2011-12 and 2015-16

(Rs.Crores)

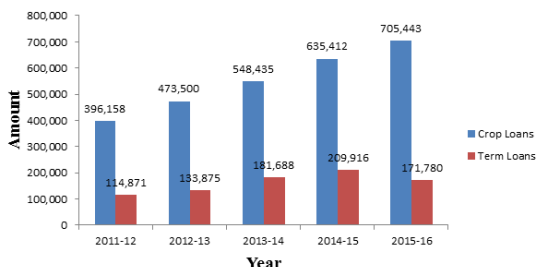
Scheme	2011-12	2012-13	2013-14	2014-15	2015-16
Crop Loans	3,96,158 (77.52)	4,73,500 (77.96)	5,48,435 (75.12)	6,35,412 (75.17)	7,05,443 (80.42)
Term Loans	1,14,871 (22.48)	1,33,875 (22.04)	1,81,688 (24.88)	2,09,916 (24.83)	1,71,780 (19.58)
Total	5,11,029 (100.00)	6,07,375 (100.00)	7,30,123 (100.00)	8,45,328 (100.00)	8,77,224 (100.00)

Source: Annual Report of NABARD 2015-16

Note: Figures in parentheses indicate the percentage to total

crop loan amount gradually increased from Rs.3,96,158 crores during 2011-12 to Rs.7,05,443 crores during 2015-16. With regard to term loans the percentage fluctuated between 19.58 per cent and 24.88 per cent.

Chart 2 : Scheme-wise Agricultural Loan Assistance during 2011-12 and 2015-16 (Rs.Crores)



10. Refinance assistance by NABARD: NABARD serves the Rural Financial Institutions (RFIs) like Cooperative banks, Regional Rural banks, Commercial banks etc. with refinance which supports RFIs to increase the flow of credit to meet working capital needs and finance investments in agriculture, leading to capital formation.

10.1. Short term refinance : It refinances short term loans given by cooperative banks and RRBs for production, marketing and procurement activities.

Table 3 : Short Term Refinance Assistance to Rural Financial Institutions during 2011-12 and 2015-16

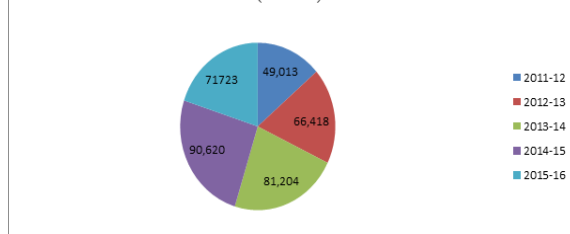
(Rs.Crores)

Year	Amount	% of change over previous year
2011-12	49,013	---
2012-13	66,418	35.51
2013-14	81,204	22.26
2014-15	90,620	11.60
2015-16	71723	-20.85

Source: Annual Report of NABARD 2015-16

It can be seen from the above Table 3 that short term refinance provided by NABARD constantly increased from Rs.49,013 crores to Rs.90,620 crores during 2011-14. However, the year 2015-16 witnessed a decrease. The percentage of change over previous year gradually declined from 35.51 per cent to 11.60 per cent during the said period. The year 2015-16 recorded a negative change of 20.85 per cent.

Chart 3 : Short Term Refinance Assistance during 2011-12 and 2015-16 (Rs Crores)



10.2. Institution-wise refinance assistance: The NABARD provides refinance to various RFIs. The following table gives a detailed picture on the refinance assistance by NABARD during 2011-12 and 2015-16.

Table 4 : Institution-wise Refinance Assistance to Rural Financial Institutions during 2011-12 and 2015-16

(Rs.Crores)

Institution	2011-12	2012-13	2013-14	2014-15	2015-16
Commercial Banks	8,433.75 (54.69)	8,708.77 (49.27)	13,254.62 (61.69)	13,675.20 (43.51)	22,823.54 (47.49)
Regional Rural Banks	3,086.19 (20.01)	4,753.66 (26.90)	4,303.67 (20.03)	10,220.91 (32.52)	12,139.68 (25.26)
State Cooperative Agriculture & Rural Development Banks	2,444.93 (15.85)	1,741.31 (9.85)	1,814.95 (8.45)	2,923.97 (9.30)	3,258.26 (6.78)
State Cooperative Banks	1,192.29 (7.73)	2,071.06 (11.72)	1,713.32 (7.97)	3,818.09 (12.16)	6,231.12 (12.96)
NABARD Subsidiaries	210.46 (1.37)	330.20 (1.87)	369.60 (1.72)	789.13 (2.51)	611.12 (1.27)
Primary Urban Co-operative Banks	54.08 (0.35)	69.29 (0.39)	30.00 (0.14)	--	--
Non-Banking Financial Companies(NBFCs)	--	--	--	--	3,000.00 (6.24)
Total	15,421.70 (100.00)	17,674.29 (100.00)	21,486.20 (100.00)	31,427.30 (100.00)	48,063.72 (100.00)

Source: Annual Report of NABARD 2015-16

Note: Figures in parentheses indicate the percentage to total

It can be inferred that the NABARD provided more than 40 per cent of refinance to Commercial banks followed by Regional Rural banks, State Cooperative Agriculture & Rural Development Banks, State Cooperative Banks, NABARD Subsidiaries and Primary Urban Co-operative Banks during 2011-12 and 2015-16. In the year 2015-16, NABARD started providing refinance assistance to NBFCs and it formed 6.24 per cent in the total refinance assistance.

11. Assistance to Micro Finance Programme : The programme is being expanded with a view to cover all eligible poor rural households, with a focus on resource-poor states, providing livelihood opportunities to self - help groups (SHG) members and covering the areas which have not been reached. Efforts are being made to revive dormant SHGs and prevent the functional ones from disintegrating, through measures such as capacity-building and hand-holding support.

Table 5 : Micro Finance Assistance by NABARD during 2010-11 and 2014-15

Year	Amount	Number of SHGs (lakhs)	% of change over previous year (col 2)
(1)	(2)	(3)	(4)
2011-12	14,547	11,96,000	--
2012-13	16,534	11,48,000	13.66
2013-14	20,585	12,19,821	24.50
2014-15	24,017	13,66,421	16.67
2015-16	34,068	8,23,580	41.85

Source: Annual Report of NABARD 2015-16

From the above table, it can be observed that the amount of micro finance assistance to SHGs gradually increased from Rs.14,547 crores in the year 2011-12 to Rs.34,068 crores in 2015-16. However, there are ups and downs in respect of percentage of change over previous year. With regard to number of SHGs there are fluctuations. The number of SHGs decreased from 15,86,822 to 8,23,580 during the study period.

12. Conclusion: From times immemorial, Indian farmer was dependent on money lender for supply of finance. The money lender used to exploit his ignorance, illiteracy and need of the farmer. To relieve him from the clutches of money lender, primary cooperative credit societies were started at village level in 1904. Later, higher financing agencies were established to provide credit. Commercial banks kept themselves aloof from rural credit. Cooperative banks have also miserably failed to provide credit at right time and in right quantity to Indian farmer. Regional rural banks were established to fill the regional and functional gaps in the rural credit institutional system. Later NABARD was established as a Development Bank with a mandate 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. The bank came into existence on 12 July 1982. It serves as an apex financing agency for the institutions providing investment and production credit. It also provides refinancing facilities to State Co-operative Banks, Land Development Banks, Regional Rural Banks and other approved financial institutions for financing rural economic activities. The NABARD is managed by a Board of Directors. NABARD as a single integrated organisation has taken number of activities for the agricultural and rural development.

In respect of agricultural loan assistance to various institutions, Commercial banks ranked first followed by Co-operative banks and Regional Rural banks. The NABARD provides two types of agricultural credit namely crop loans and term loans. 80 per cent of the agricultural loan assistance is in the form of crop loans. NABARD serves the Rural Financial Institutions like Cooperative banks, Regional Rural banks, Commercial banks etc. with refinance which supports RFLs to increase the flow of credit to meet working capital needs and finance investments in agriculture, leading to capital formation. The NABARD provided more than 40 per cent of refinance to Commercial banks followed by Regional Rural banks, State Cooperative Agriculture & Rural Development Banks, State Cooperative Banks. In the year 2015-16, it started providing refinance assistance to NBFCS. It has also taken up micro finance programme covering all eligible poor rural households, with a focus on resource-poor states, providing livelihood opportunities to self-help groups (SHG) members and covering the areas which have not been reached.

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