

The authorized share capital of the Corporation was Rs. 25 crore with a paid-up share capital of Rs. 5 crore. The share of the ARDC was guaranteed by the Government of India. The sources of funds were share capital, issue and sale of bonds guaranteed by the Government of India and loans from RBI.

Management

It was managed by a Board consisting of 9 members with Deputy Governor of RBI as the Chairman. Managing Director was appointed by RBI and one more Director was also nominated by RBI. Three directors were nominated by the Government of India. Three more directors were elected from among share-holders of State Co-operative Land Development Banks, State Co-operative Banks, scheduled commercial banks, Life Insurance Corporation of India and other insurance companies.

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT (NABARD)

Genesis

ARDC has not made much headway in the field of direct financing and delivery of rural credit against the massive credit demand for rural development. Its role to meet

the challenges of integrated rural credit through institutional buildings, training, research, policy-making, planning and providing expertise in the diverse disciplines of finance was inadequate and insufficient. As a result, many Committees and Commissions, viz., Banking Commission (1972), National Commission on Agriculture (1976) and Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) in 1979 were constituted. CRAFICARD under the chairmanship of B. Sivaraman, former member of Planning Commission were constituted, recommended the setting up of a national level institution called NABARD for providing all types of production and investment credit for agriculture and rural development. In pursuance of its recommendations, NABARD came into existence on 12 July 1982. The then existing national level institutions such as Agricultural Refinance and Development Corporation (ARDC), Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of RBI were merged with NABARD with a paid up capital of Rs. 500 crore equally contributed by Government of India and Reserve Bank of India. It operates through its head office at Mumbai, 17 regional offices, one each in major States, 10 sub offices in smaller States/union territories and 213 district offices.

Board of Management

All the directors in the Management Board are appointed by the Central Government in consultation with RBI. The Board is envisaged with the role of providing direction, management and supervision of various financial affairs of NABARD. The Chairman and the Managing Director are the two major top level executives. The Managing Director is the chief executive of NABARD and he is primarily responsible for the various operations and performance of the bank.

In addition to Chairman and Managing Director, the Board consists of 13 other directors and these directors form the Advisory Council of NABARD. Of the 13 directors two are experts in rural economics and rural development. Three directors are representatives of co-operatives and three from commercial banks. Three directors are officials of the Government of India and two belong to State Governments.

Sources of Funds

Authorized Share Capital of NABARD	Rs. 500 crore
Issued and paid up capital	Rs. 100 crore

Other sources are

1. Borrowings from the Government of India and any institution approved by the Government of India.
2. Issue and sale of bonds by the Government of India
3. Borrowings from RBI
4. Deposits from State Governments and local authorities and
5. Gifts and grants received.

Objectives

As an apex refinancing institution, NABARD purveys all types of credit needed for the farm sector and rural development. It is also vested with the responsibility of promoting and integrating rural development activities through refinance. The bank

is also providing direct credit to any institution or organization or an individual, subject to the approval of the Central Government. It has close links with RBI for guidance and assistance in financial matters. As an effective catalytic agent for rural development and in formulating appropriate rural development plans and policies, its role is remarkable.

Functions

The activities of NABARD are presented under three broad categories.

- A. Credit activities
- B. Developmental activities and
- C. Regulatory activities

A. Credit Activities

1. It prepares for each district annually a potential linked credit plan, which form the basis for district credit plan
2. It participates in finalisation of annual action plan at block, district and State level
3. It monitors implementation of credit plans
4. It lays down the terms and conditions to be followed by credit institutions in financing production, marketing and investment activities of rural farm and non-farm sectors and
5. It provides refinance facilities as detailed below:

Short-term Refinance

The purposes for which short-term refinance extended are

1. Agricultural production operations and marketing of crops by the farmers and farmers' cooperatives, *etc.*
2. Marketing and distribution of inputs like fertilizers, seeds, pesticides, *etc.* and
3. Production and marketing activities of village and cottage industries, handicrafts, handlooms, powerlooms, artisans and other rural non-farm enterprises.

The eligible institutions are State Co-operative Banks (SCBs), Regional Rural Banks (RRBs) and commercial banks and other financial institutions approved by RBI. The time period is up to 12 months.

Medium and Long-term Refinance

The purposes for which medium and long-term refinance extended are

1. Investment in agriculture and allied activities such as minor irrigation, farm mechanization, land development, soil conservation, dairy, sheep rearing, poultry, piggery, plantation/horticulture, forestry, fishery, setting up of storage and market yards, sericulture, apiculture, animals and animal driven carts, agro-processing, agro-service centres, compost plants, installation of pumpsets, *etc.*
2. Investment activities of artisans, small, scale industries, village and cottage industries, handicrafts, hand looms, power looms, *etc.*
3. Activities of voluntary agencies/self-help groups of rural poor and
4. Investment in share capital/securities of institutions concerned with agriculture and rural development. The period is up to a maximum of 15 days.

Conversion and Rescheduling of Refinance

Under conditions of drought, famines or other natural calamities, military operations, etc., short-term refinance facilities granted for production activities of farm and non-farm sectors are converted into medium term refinance. Similarly, installments falling due for repayment under medium and long term are rescheduled for repayment in future years.

Criteria and Extent of Refinance

The criteria of refinance to any scheme submitted by financing institutions are

1. Technical feasibility of the project and adequate response from prospective beneficiaries
2. Financial viability and adequate incremental income to the ultimate borrower to repay the loan within a reasonable period and
3. Organizational arrangements to ensure close supervision by financing banks.

While all the funds are routed through institutional agencies, the ultimate beneficiaries of investment finance may be individuals, partnership concerns, State owned corporations, co-operative societies, etc. The ultimate beneficiaries of production credit are generally individuals.

NABARD's refinance ranges from 50 per cent to 10 per cent, the balance being met by banks or the concerned State Governments/Government of India in the case of State land development banks.

The extent of refinance under various activities is as under.

1. Pilot rainfed farming projects (100%)
2. Waste land development schemes where individuals are beneficiaries (100%)
3. Non-farm sector schemes (outside the purview of IRDP) (100%)
4. Agro-processing units (75%)
5. Bio-gas schemes (75%)
6. All other schemes including IRDP (70%)
7. Farm mechanization (50%)
8. Rural Electrification Corporation (REC) (50%).

The rate of interest on refinance and the ultimate lending rates by the banks are fixed from time to time. The banks get a margin of 3 per cent to 5 per cent. NABARD stipulates beneficiary's contribution to the project cost in order to ensure his stake in the investment. Such margin money varies from 5 to 25 per cent according to the type of investment and the class of borrowers. Corporate borrowers such as Irrigation Corporations, Forest Development Corporations, etc., provide higher contribution up to 25 per cent of the investment cost.

Apart from refinance facilities to credit institutions, NABARD also provides direct finance to

- i) State Governments and
- ii) State sponsored corporations directly for development of infrastructure projects in priority areas like minor and medium irrigation, land development, soil conservation, etc. NABARD also finances State Governments for contributing to the share capital of co-operative credit institutions and thereby improving their financial strength.

NABARD pays special attention to monitoring the assisted projects in order to ensure their proper implementation. It also undertakes consultancy work for projects even in cases where refinance is not availed from NABARD.

B. Development Activities

The following are the developmental activities undertaken by NABARD for the productive use of credit.

I. Institutional Development

1. It helps co-operative banks and RRBs to undertake a critical review of their own operations and come up with development action plans (DAPs) for themselves.
2. It enters into memoranda of understanding (MOUs) with State Governments and co-operative banks, specifying the obligations of each to improve the banks affairs within a stipulated time
3. It helps RRBs and their sponsor banks to enter into MOUs specifying their commitments and relative obligations to improve affairs of RRBs in stipulated time
4. It provides financial assistant to co-operative and RRBs for the establishment of technical and monitoring cells with them to improve the quality of their project formulation, implementation and project monitoring
5. It provides organization development intervention (ODI) through training institute (Bankers Institute for Rural Development (BIRD), Lucknow, National Bank staff college, Lucknow, College of Agricultural Banking (CAB, Pune) to staff of selected RRBs and co-operative banks
6. It provides financial assistance for the training institute of co-operative banks
7. It provides training for senior and middle level executives of commercial banks, RRBs and co-operative banks at training institutes of NABARD (BIRD, Lucknow and CAB, Pune)
8. It provides borrowers education on ethics of repayment in selected areas through Vikas Volunteer Vahini, etc.

II. Research and Development Fund

NABARD maintains a research and development fund for

- 1) Supporting operational research projects aimed at upgradation and transfer of technology from lab to land
- 2) Conducting research studies on subjects of topical interest in economics and banking
- 3) Organising national and international seminars, conferences, symposia, etc., on subjects related to rural development and banking
- 4) Conducting programmes for upgrading skills of prospective borrowers
- 5) Providing grants to select Krishi Vikas Kendras

III. Agricultural and Rural Enterprises Incubation Fund (AREIF)

Under this fund, assistance is provided on flexible terms to new and innovative rural small and micro enterprises undertaking innovative and potentially viable ventures carrying high and market risks.