

# Analytical Study of Central Co-Operative Banks, NABARD and Its Role in Rural credit

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**Abstract -** In the early stages funds for the finance obtained from the sources was inadequate and at the same time there was absence of organized supervision which accounted for the closure of a large number of societies. These difficulties of supervision and finance were solved by starting central banks. The objects of the present paper of the Central Co -operative Banks and Co-operative Central Banking Unions to finance co-operative societies within a certain area (usually a sub-division of a district) at the same time, RBI had also set up the Agricultural Refinance Development Corporation (ARDC) to provide refinance support to the banks to promote programmes of agricultural development, particularly those requiring term credit.

**Keywords –** Co-Operative Bank, Rural Credit, NABARD, ARDC.

## I. INTRODUCTION

After the separation of Bihar and Orissa from Bengal in 1912 and the passing in the same year of the new Co-operative Societies Act, which permitted the organisation and registration of non-credit societies and Central Financing Institutions the Co-operative Movement in this province undertook the task of redeeming all the debts of the members so as to free them completely from the clutches of Mahajans. In the early stages funds for this purpose were found by the Government and other sympathizers including Sir Daniel Hamilton But the finance obtained from these sources was inadequate and at the same time there was absence of organized supervision which accounted for the closure of a large number of societies. These difficulties of supervision and finance were solved by starting central banks. The objects of the Central Co -operative Banks and Co-operative Central Banking Unions were [1] to finance co-operative societies within a certain area (usually a sub-division of a district) [2] to supervise and control its affiliated societies, [3] to develop the co-operative movement within the area it served and generally to promote its interests in every possible way. The individual shareholders in Central Co-operative Banks as distinguished from central unions who provided the capital got a preference dividend. The village societies affiliated to the bank was its ordinary shareholders. Either class of shareholders elected half the directors and the sub-divisional officer, or in the Sadar Sub-division the Collector was usually an ex-officio-director, and often was the chairman. The Banks were managed by the directors, who raised capital by means of deposits and loans. No person could take shares in the bank who was not a resident of the area served by it. As a rule of first 7½ per cent had to be

paid for deposits for a year and 8 per cent used to be given on loan for fixed periods, but the provincial Bank used to give cash credits and grants fixed loans at 5 to 6 per cent and deposit rates had been consequently reduced to 5 per cent and below. Money was lent out to the affiliated societies at 10 ½ per cent to 12 per cent and this large margin enabled a Central Co-operative Bank to maintain a staff for itself and for the inspection and supervisor of societies. The Nawadah Central Co-operative Bank started in May, 1910 was the first bank of this type. In addition to affiliated to supply business ability and local influence, as well as finance. The policy of the movement in the first ten years of its existence after the separation of the province from Bengal was to have as little government control as possible and to leave the organisation, finance and supervision of societies to non-official honorary organizers with such help as the district and sub-divisional officers could afford to give. It sought to multiply central banks as fast as possible to finance members fully for all purposes including Sharda, marriages and debt redemption in order to release the debtor completely from the clutches of Mahajans. There was some inherent defects in this policy. In many areas, the ground was never thoroughly prepared for organisation of Co-operative Societies. No suitable provision was made for supervision or training by the department, since at that time official intervention was regarded as in desirable. In the interest of administrative symmetry and expansion it was laid down as an ideal that there was to be a Central Bank for each subdivision which came to be fulfilled at 54 in 1936.

## II. NABARD AND ITS ROLE IN RURAL CREDIT

Since its inception, RBI had shown keen interest in agricultural credit and maintained a separate department for this purpose. RBI extended short-term seasonal credit as well as medium-term and long-term credit to agriculture through State level co-operative banks and land development banks. At the same time, RBI had also set up the Agricultural Refinance Development Corporation (ARDC) to provide refinance support to the banks to promote programmes of agricultural development, particularly those requiring term credit. With the widening of the role of bank credit from "agricultural development" to "rural development" the Government proposed to have a more broad-based organisation at the apex level to extend support and give guidance to credit institutions in matters relating to the formulation and implementation of rural development programmes.[4-6] A National Bank for Agriculture and Rural Development (NABARD) or the National Bank, for short, was, therefore, set up in July 1982 by an Act of Parliament to take over the functions of ARDC and the refinancing functions of RBI in relation to co-operative banks and RRBs. NABARD is linked organically with the RBI by the latter contributing half of its share capital the other half being contributed by the Government of India and nominating three of its Central Board Directors on the board of NABARD, besides a Deputy Governor of RBI being appointed as Chairman of NABARD.

### Resources of NABARD

The authorized share capital of NABARD was Rs. 500 crores and its paid-up capital was Rs. 100 crores, contributed equally by the Central Government and the Reserve Bank. The paid-up capital of NABARD was raised from Rs. 100 crores to Rs. 500 crores and then to Rs. 2,000 crores by the year 1999-00. The resources of the National Agricultural (long term operations and stabilisation) funds were transferred to NABARD. World Bank and IDA have also been providing funds to NABARD for implementation of the projects financed by them. The most important source of NABARD's funds are now RIDF deposits, closely followed by market borrowings.

In recent years, there has been considerable improvement in the resource position of NABARD mainly due to:

- (a) Significant rise in the deposits under the Rural Infrastructure Development Fund (RIDF) by commercial banks;
- (b) use of tax-free bonds through the issue of capital gains bonds and priority sector bonds.
- (c) acceptance of priority sector deposits from private banks.

NABARD cannot accept short-term public deposits and therefore, it has depended on the general line of credit (GLC) from RBI from its inception in 1982. NABARD's dependence on GLC from RBI's quite large and NABARD uses this source to meet short-term credit and working capital requirements.

### Functions of NABARD

NABARD has a dual role to play:

(a) as an apex institution and

(b) as a refinance institution - NABARD has inherited its apex role from RBI i.e. it is performing all the functions formerly performed by RBI with regard to agricultural credit. At the same time, NABARD has taken over the functions of ARDC and thus provides refinance facilities to all banks and financial institutions lending to agriculture and rural development.

(i) NABARD services as a refinancing institution for all kinds of production and investment credit to agriculture, small-scale industries, cottage and village industries, handicrafts and rural crafts and real artisans and other allied economic activities with a view to promoting integrated rural development;

(ii) it provides short-term, medium-term and long-term credits to State Co-operative Banks (SCBs), RRBs, LDBs and other financial institutions approved by RBI;

(iii) NABARD gives long-term loans (up to 20 years) to State Governments to enable them to subscribe to the share capital of co-operative credit societies;

(iv) NABARD gives long-term loans to any institution approved by the Central Government or contribute to the share capital or invests in securities of any institution concerned with agriculture and rural development;

(v) NABARD has the responsibility of coordinating the activities of Central and State Governments, the Planning Commission and other all-India and State level institutions entrusted with the development of small scale industries, village and cottage industries, rural crafts, industries in the tiny and decentralised sectors, etc;

(vi) it has the responsibility to inspect RRBs and co-operative banks, other than primary co-operative societies; and

(vii) it maintains a Research and Development Fund to promote research in agriculture and rural development, to formulate and design projects and programmes to suit the requirements of different areas and to cover special activities.

### Working of NABARD

NABARD is the apex organisation with respect to all matters relating to policy, planning and operational aspects in the flow of 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. NABARD is performing the various functions assumed by it smoothly and efficiently. For instance, it sanctioned short-term credit limits worth Rs. 8,820 crores during 2003-04 and Rs. 16,100 crores during 2006-07 for financing seasonal agricultural operations at the concessional rate of 3 per cent below the Bank Rate. NABARD has attempted to ensure the flow of credit to weaker sections of society under the new 20-point programme by making it obligatory for banks to disburse a specified percentage of short-term loans to small and marginal farmers and other economically weaker sections. NABARD has continued to follow the policy earlier laid down by the Reserve Bank in regard to sanction of medium credit limits for approved agricultural purposes. It also grants long-term credit to State Governments for contribution to the share capital of co-operative credit institutions. [7] NABARD provides two types of refinance - The first is extended to RRBs, Apex Rural Credit Institutions, viz., State Cooperative Banks and State Governments. The second type of refinance is extended to provide resources for ground level deployment of rural credit. In the first case, NABARD provides refinance to State Cooperative Banks and RRBs for their short-term and medium-term requirements. The total outstanding refinance to State Cooperative Banks and RRBs amounted to Rs. 14,600 crores during 2006-07. NABARD's refinance facilities to State Governments are for long periods and are specifically meant to help State Movements to contribute to the share capital of weak credit cooperative societies and banks. The total outstanding refinance to State Governments came to Rs. 335 crores by the end of June 2007. The second type of refinance from NABARD is meant to increase ground level credit to finance short-term seasonal agricultural operations through credit co-operatives. The Central Cooperative Banks (CCBs) can secure refinance facilities from NABARD under certain minimum eligibility conditions or norms-as for example, CCBs are required to have minimum loan recovery of 50 per cent or NPA (non-paying assets) not exceeding 20 per cent of outstanding loans and advances. Apart from short-term seasonal agricultural operations, NABARD provides refinance facilities for buying, stocking and distribution of fertilizers and other inputs and for production and marketing activities of weaver's societies, industrial cooperative societies, etc. Purpose-wise, minor irrigation has continued to occupy an important place in schematic lending of NABARD - about 13 per cent of the schemes sanctioned in recent years consisted of minor irrigation works; it was as high as 24 per cent during 1992-93. Farm mechanization has been a major area of NABARD refinancing - it is around 28 per cent of total refinance. NABARD's refinance assistance under IRDP is specifically to help weaker sections of the rural community for minor irrigation, dairy development, sheep/goat/piggery rearing, fisheries, small business, etc. Land development, command

area development (CAD), plantations and horticulture, poultry, sheep breeding etc. are more important schemes which are financed by NABARD. State Cooperative Agricultural and Rural Development Banks (SCARDBs - formerly the land development banks) now lead in availing refinance facilities from NABARD, closely followed by commercial banks including RRBs and State Cooperative Banks. NABARD has vigorously continued its efforts in promoting investments in the agricultural sector in the less developed/under-banked states-Uttar Pradesh, Bihar, Madhya Pradesh, Rajasthan and Orissa, in that order, have been the biggest beneficiaries. NABARD is playing an energetic role in strengthening and re-organizing the co-operative credit structure in the country. The programme of reorganization of Primary Agricultural Credit Societies (PACs), aimed at building a strong and viable base level structure in the co-operative credit system is more or less complete in all states except Gujarat, Maharashtra and Jammu and Kashmir. NABARD has formulated a set of guidelines for planning the future development of reorganized societies in a phased manner. NABARD is also working towards an effective integration of co-operative credit institutions. Under an original suggestion made by RBI, State Governments have been asked to take steps to ensure functional coordination between short-term and long-term cooperative credit - NABARD has set up a cell to monitor implementation of this programme. NABARD is constantly reviewing the rehabilitation programme of those Central Cooperative Banks (CCBs) who have been identified as weak and who were being helped to rehabilitate themselves. NABARD is also helping in rehabilitating as well as improving the organisation and managerial efficiency of State Agriculture and Rural Development Bank and Agriculture and Rural Land Development Banks.

**NABARD and Rural Infrastructure Development Fund (RIDF)**

The Government was worried at the lack luster growth in agricultural investment particularly in rural infrastructure. The RIDF was created to extend loans to State Governments to enable them to complete the implementation of the existing rural infrastructural projects which were held up for want of funds. Infrastructure projects refer to irrigation, rural roads, rural bridges, watershed development, flood protection, market yard/godown, cold storage, fisheries, forest development, inland water ways, etc [8].

**Table 1 : Financial Assistance under RIDF by NABARD**

(Rs. crores)

RIDF Phase	Year	Fund Corpus	Amount Sanctioned	Amount Disbursed	Disbursement as percentage of sanctions
RIDF I to III	1995-97	7,000	7,290	6,600	92-90
RIDF IV	1998-	21,500	21,950	13,470	78-40

to VIII	02				
RIDF IX	2003-04	5,500	5,600	4,000	72
RIDF X	2006-07	10,000	10,600	1,540	15
Total		60,000	61,540	37,560	71

SOURCE: RBI, *Report on Trend and Progress of Banking in India, 2006-07.*

The Union Budget for 1995-96 proposed the creation of Rural Infrastructure Development Fund (RIDF) in NABARD with a corpus of Rs. 2,000 crores. This corpus was contributed by all the Indian scheduled commercial banks (other than RRBs) to make up for their short fall in agricultural lending target of 18 percent of net bank credit. With every successive budget, the Indian Government continued RIDF, designating as RIDF-I, RIDF-II and so on. The mode of contributions by scheduled commercial banks was, however, changed. Table 1 brings out the sanctions and disbursement of loans under RIDF by NABARD.

The progress of completion of projects was satisfactory only under RIDF-I to RIDF-III when the disbursement was as high as 90 to 91 %. From RIDF-IV, disbursements declined considerably. For insurance, between RIDF-IV to RIDF-VIII (for the years 1998-2002), loans disbursed as percentage of loans sanctioned declined from 78 percent to 40 percent. The fund was extremely underutilized and, in fact, during the year 2006-07, disbursement was a pathetic 15 per cent of the loans sanctioned. Under-utilisation of funds under RIDF was essentially due to the indifference and incompetence of State Governments in getting various infrastructural projects prepared and in getting the necessary clearances in time [9].

**TABLE 2: Amount of Debt by Occupational Categories**

Year	Amount of Debt (R.I. Crores)		All	Share of cultivators in (%)	
	Cultivators	Non-Cultivators		Total Debts	Total No. of Households
1971	3374	474	3848	87.7	72.4
1981	5737	456	6193	92.6	76.3
1991	17668	453	22211	79.5	66.1
2002	81709	29759	111468	73.3	59.7

Source: NSS 59thRound (January-December 2002).

NABARD was able to mobilise deposits from all banks under RIDF to the tune of Rs. 35,720 crores between 1996 and 2007. This was in addition to Rs.60,000 crores contributed by the Government. NABARD has initiated several measures to make the loans under RIDF more attractive and to increase the reach of such loans. For instance, the interest rate on RIDF loans has been reduced

from 13% to 10.5% and finally to 6.5%. Apart from State Governments, other institutions and groups, such as Panchayat Raj institutions, self-help groups, NGO's etc. can now implement RIDF projects. The scope of the projects eligible for RIDF loans has also been enlarged to include innovative projects such as mini-hydel under power sector, rain-water harvesting, construction of primary schools, primary health centres, etc. The total number of projects financed through RIDF was over 2,44,000 in 2006-07. Purpose-wise, the funds of RIDF are being used for the construction completion of irrigation projects related to rural connectivity, viz., rural roads and bridges. Between 1995 and 2007, over Rs. 61,540 crores were sanctioned out of RIDF funds. Purpose-wise, rural roads and bridges-they relate to rural connectivity-account for 45 per cent of the all sanctioned amounts. If we include irrigation also, as much as 80 per cent of all sanctions out of RIDF funds went to three major purposes, viz., irrigation, rural roads and bridges. Other projects assisted by RIDF include: watershed development, flood protection, market yard/godowns, command area development, drainage, cold storage, fisheries, forest development, inland water ways, primary schools rural drinking water, soil conservation, etc.

### III. CONCLUSIONS

NABARD has thus been playing a pivotal role in the channelization of bank credit to the rural sector. It provides refinance and improves the resource base of institutions providing credit to the rural sector. It also supervises the working of the rural co-operative banks.

### IV. REFERENCES

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