



ROLE OF NABARD IN THE PRIORITY SECTOR LENDING

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Abstract

It is says that India is the country of villages. Indian economy is agricultural economy and real India lies in villages. Without the development of the rural economy, the objectives of economic planning cannot be achieved. Hence, banks and other financial institutions are considered to be a vital role for the development of the rural economy in India. NABARD are playing a pivotal role in the economic development of the rural India. The present study is a modest attempt to make an appraisal of the rural credit structure and the role played by NABARD in the Priority Sector Lending. The paper analyses the role of NABARD in rural development. Purpose wise Flow of Priority sector lending (agricultural credit) during the year 2013-14 is also analyzed. It also throws a light on NABARD's past and present performance and its major achievements for the year 2013-14. The study finds and concludes that NABARD in India has significantly improved rural economy.

Key Words: Priority Sector Lending, NABARD, Rural Economy.

Introduction

Agriculture is the core sector of the Indian economy. It accounts for 21% of GDP and about two-thirds of the population is dependent on this sector. It is thus rightly said that agriculture is the backbone of our economy and its prosperity can largely be responsible for the well being of the entire economy. The vigorous growth of agriculture sector demands adequate flow of finance. Farm finance has a place of pride in the agro-socioeconomic development of the country both at micro and macro levels. Its catalytic role strengthens the farming business and augments the productivity of scarce resources. Application of new technological inputs obtained through farm finance helps boost of agricultural productivity. Farm finance can also contribute to reduction in regional economic imbalances. Thus, the role of farm finance in strengthening and development of both input and output markets in agriculture is crucial and significant.

Agricultural development was given high priority in the past fifty years and especially under various Five year plans. Bank credit is available to the farmers in the form of short term credit for financial crop production programmes and in the form of medium-term/ long-term credit for financing capital investments in agriculture and allied activities like land development including purchase of land, minor irrigation, farm mechanization, dairy development, poultry animal husbandry, fisheries, plantation and horticulture. Loans are available for storage, processing and marketing of agricultural produce Now a days the long term and short term credit needs of these institutions are also being met by National Bank for Agricultural and Rural Development (NABARD). It is the evolution of agricultural finance.

Objectives of the Study

1. To Know and discuss the meaning of Priority Sector Lending.
2. To discuss the National Bank for Agriculture and Rural Development.
3. To Study the schemes undertaken by NABARD

Research Methodology

Data Collection

This is a descriptive research paper based on secondary data. Data have been collected through the Books, Magazines, Journals, Research Papers and Websites.

Meaning of Priority Sector Lending

Priority sector was first properly defined 1972; after the National Credit Council emphasized that there should be a large involvement of the commercial banks in the priority sector. The sector was then defined by Dr. K. S. Krishaswamy Committee. The priority sectors include those sectors which may not get adequate institutional credit due to social, cultural and economic reasons. Common priority sectors include Agriculture Finance, Small Enterprises, Retail Trade, Micro Credit, Education Loans and housing Loans.

Following important points cover the core meaning of priority sector lending:

1. Priority sector lending scheme is a policy of providing a specified portion of bank lending to the important sectors of the economy.
2. It includes agriculture, small-scale industries, cottage sector, tiny sector, export sector, and other small business (service) firms.



3. The Reserve Bank of India was first to initiate priority sector lending scheme in India.
4. The main purpose of this scheme was to see that timely and sufficient credits (loans) are given (provided) to the priority sector.
5. Previously, only public sector banks were asked to give loans to this sector. However, now even private and foreign banks have to give loans to this sector.

Review of Literature

There are many researches are held regarding the role of NABARD in priority sector lending. A study titled “Role of NABARD and RBI in agricultural sector growth” analyzes NABARD has taken over refinancing functions from the Reserve Bank of India with respect of State Cooperative Banks and Regional Rural banks. This study reveals NABARD is involved in the implementation of projects assisted by World Bank and its affiliate, the International Development Association (IDA). NABARD has been associated with implementation of 42 projects with external credit out of which 38 projects are assisted by IBRD.

National Bank for Agriculture and Rural Development (NABARD)

National Bank for Agriculture and Rural Development (NABARD) came into existence on 12 July, 1982. NABARD was established for providing credit for promotion of agriculture, small-scale industries, cottage and village industries, handicrafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing prosperity of rural areas. The paid-up capital of NABARD stood at Rs 2000 crore as on 31 March 2010. The profit after tax amounted to Rs 1558 crore during the year 2009-10 as against Rs 1390 crore during the year 2008-09. Since 1995-96, NABARD has been providing finance to the State Governments for rural infrastructure projects under Rural Infrastructure Development Fund (RIDF). Total sanctions by NABARD under RIDF (RIDF-I to RIDF-XV), as on 31 March 2010, aggregate to Rs 1,03,718.00 crore while the cumulative disbursements stand at Rs 68,439.74 crore. This fund is meeting the financing needs of the State Governments for 31 approved activities, important among which include projects covering irrigation, rural roads and bridges, health and education, soil conservation, drinking water schemes, etc. In 2006-07, a separate window of Bharat Nirman for construction of Rural Roads under PMGSY was started. Total sanctions by NABARD to National Rural Road Development Agency (NRRDA) under RIDF as on 31 March 2010, aggregate to Rs 18,500 crore and the entire amount has been released to NRRDA.

The main areas under priority sector lending scheme are as follows:

1. Agriculture sector.
2. Small-scale industrial loans.
3. Small road and water transport operators.
4. Professional and self-employed.
5. Retail trade loan.
6. Educational loan.
7. Housing loan
8. Consumption loan
9. State-sponsored corporations for SC/ST.
10. Other recommended priority sectors.

Table1: Flow of Priority Sector Lending (Agricultural Credit)

YEAR	Rupees in Crore	
	Target	Achievement
2006-2007	175,000	229,400
2007-2008	225,000	254,658
2008-2009	280,000	301,908
2009-2010	325,000	384,514
2010-2011	375,000	446,779
2011-2012	475,000	476,550
2012-2013	575,000	607,375
2013-2014	700,000	723,225

As on 3rd March 2014, Source: Annual Report NABARD, Annual Report RBI, Ministry of Agriculture.

Data Analysis

Table1 shows that targeted credit flow to agriculture during the year 2006-2007 is 175,000 (in crores), corresponding achievement is 229,400. The percentage of achievement on targeted is 131%. During the year 2007-2008 agricultural credit flow achieved Rs. 254,658 against the targeted amount Rs. 225,000. It shows that agricultural credit flow achieved is 113%. As compared to the year 2006-07 agricultural credit flow is less during the year 2007-08. Five years after i.e. 2011-12 the



target of credit fixed Rs.4,75,000 crore and the achievement Rs.476,550crore,represents 100.32% of the targets. During 2013-14 the targeted credit flow Rs.7,00,000 crore and the achievement isRs.7,23,225 crore,103 per cent of target. We can understand the percentage of credit flow is showing decreasing trend up to 2011-12 and slightly improved thereafter.

Schemes/ Programmes of NABARD: At A Glance

a) Self-Help Group (SHG) Bank Linkage Programme

The SHG-Bank Linkage Programme is a major plank of the strategy for delivering financial services to the poor in a sustainable manner. It was started as an Action Research Project in 1989, which was the offshoot of a NABARD initiative during 1987 through sanctioning Rs.10 lakh to MYRADA as seed money assistance for experimenting Credit Management Groups. The experiences of these early efforts led to the approval of a pilot project by NABARD in 1992. The pilot project was designed as a partnership model between 3 agencies viz., the SHGs, banks and NGOs.

b) Kishan Credit Card (KCC)

KCC Scheme was introduced in 1998-99. It was launched to provide timely and adequate supply of Short Term (ST) credit from the banking system to the farmers to meet their crop production requirements in a flexible, hassle free and cost effective manner. The objective was to provide an instrument, which would allow farmers to purchase agricultural inputs such as seeds, fertilizers, and pesticides and also withdraw some cash for meeting their production- related requirements.

c) Farmers' Club

The programme aims to organize farmers to facilitate accessing credit, extension services, technology and markets. NABARD encourages banks to promote Farmers' Club in rural areas under the Farmers' Club Programme, earlier known as "Vikas Volunteer Vahini (VVV) Programme". Farmers' Club are grass root level informal forums of farmers. Such clubs are organized by rural branches of banks with the support and financial assistance of NABARD for the mutual benefit of the banks concerned and the village farming community/rural people.

d) District Rural Industries Project

NABARD on a pilot basis had launched an integrated area based credit intensification programme in collaboration with Government, Banks and other development strategies with focus on district known as District Rural Industries Project during 1993-94 with a view to evolving a role model for rural industrialization.

e) Rural Infrastructure Development Fund (RIDF)

RIDF is a major source of fund for the development of infrastructure in the rural areas of the State.

f) Watershed Development

The objective of developing watersheds is to significantly mitigate the drought induced distress of farmers in the area. NABARD anchors 4 types of watershed development programmes in the country. These programmes are: Indo-German Watershed Development Programmes, Participatory Watershed Development Programme, Prime Minister's Package in 4 states and Integrated Watershed Development programme.

Conclusion

India is a country of villages. According to Census of India's 2011 Provisional Population, out of 121 crore Indians, 83.3 crore live in rural areas while 37.7 crore stay in urban areas. There are about 6 lakhs villages in our country. Around 70% of the population of India lives in villages i.e. rural areas. So the rural areas need to be developed. NABARD plays a significant role in developing rural economy. NABARD, being an apex Development Bank, facilitates Priority sector lending and it also supports all other allied economic activities in rural areas. In the present study, the role of NABARD in the rural credits structure has been analyzed. The rural credit structure consists of priority sector and there has been tremendous achievement in disbursing loans to this sector. The priority sector loans constituted higher in percentage throughout the study. The target of agricultural credit flow was fixed at Rs.700,000 crore during 2013-14 and the achievement Rs.7,23,225 crore, represents 103% of target. NABARD have lent money to the agricultural sector through the short-term and term-loans for the development of the agriculture sectors in the economy. Generally, non-agricultural sector indirectly helps the rural economy in many ways. Keeping in view, the NABARD may enhance the percentage of loan to this sector. This finding may be considerable use to rural banking institutions and policy makers in developing and shaping the appropriate credit structure as NABARD are integral part of the rural credit structure in India.

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