

The Apex Bank's Leadership Role to the Co- Operative and Commercial Banks in India

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Abstract

The NABARD is an Apex level institution. Setting up of the NABARD was in fact warranted by the embarrassing gaps, which palpably persisted in the rural credit structure, still towards the close of the 1970s- a time when expansion of the commercial banks' branches in the rural areas already made a significant headway. It is now high time to ponder and see how far the NABARD has played its leadership role in growth and development to the Co-operative and Commercial Banks in India and to identify the lines along which it can play its part in effecting the much desired institutional changes of the Co-operative and Commercial Banks. This study will make a revaluation of the catalyst role of the Apex Bank in respect of growth and development to the Co-operative and Commercial Banks and also to suggest the qualitative dimensions of its possible new role in bringing about the desired institutional reforms and structural changes of the Co-operative and Commercial Banks.

Key-words: Apex Bank; Client Banks; Refinance; Non-solvent; Near Non-solvent; "weak" Co-operative Banks; State Action Plans; Kishan Credit Card; Research and Development (R&D) Fund; Monitoring.

1. Introduction

The National Bank for Agricultural and Rural Development (NABARD) came into being in July 1982 as an apex level bank. The primary aim of the NABARD was to provide an exclusive attention to the credit needs of the rural sector. The NABARD is performing all the functions performed by the Reserve Bank of India with regard to agricultural credit. Various promotional efforts have been made by the NABARD for development of the Co-operative and Commercial Banks. The National Bank has been providing financial assistance to the Co-operative Banks and the RRBs from its Research and Development (R&D) Fund for establishment of and strengthening their Technical, Monitoring and Evaluation (TME) cells. During the post-NABARD period in India growth rate of the Co-operative and Commercial Banks are impressive as compare to the pre-NABARD period. But various types of pitfalls were found in the working of the NABARD. The solution to the problem of rural credit, of institutional financing that had the type we have experienced in India, but in a wide-ranging set of reforms oriented to structural change of the banking sector, which can truly remove the

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economic, social and political weaknesses of the vast population of the underprivileged peoples. This study will also help for economic development of India.

As an apex body at the National level for rural development, the NABARD was meant to discharge its functions by way of extending refinance assistance as also providing short and medium-term credit to the various District Co-operative Banks (DCBs), the Regional Rural Banks (RRBs), the Commercial Banks (CBs) and the different State Governments for a variety of approved purposes under different schemes of agricultural financing and of rural infrastructure development. In the same way, the NABARD plays a positive leadership role in growth and development of the Co-operative and Commercial Banks in India. The objective of this paper is to make a critical appraisal of the role played by the NABARD in providing leadership to the banks and the Co-operatives in India. The Leadership role of the NABARD comprises four major functions; such as,

- a) In providing refinance to lending institutions in the rural areas.
- b) In strengthening the institutional credit system.
- c) In playing a direct role in the promotion of rural development.
- d) In evaluating, monitoring and inspecting the client banks.

The paper attempts to discuss each of them in four separate sections with a concluding remark at the end.

2. NABARD’s Operations

2.1. Refinance

The NABARD provides assistance by way of refinance or otherwise, at concessional rates of interests to the client banks viz. the CBs, the State Land Development Banks (SLDBs), the State Co-operative Banks (SCBs) and the RRBs. While refinance for term investment credit is available to all the client banks, short-term credit for production and marketing and medium-term credit for investment and for conversion of short-term loans are confined to the SCBs and the RRBs. The NABARD’s refinance functions can conveniently be divided, for the purposes of analysis, into two broad categories—medium-term investment finance and short-term production and marketing finance. Since its inception, the medium-term (investment) credit disbursed through the client banks has recorded a steadily rising trend as shown in Table 1.

Table 1: Long –term and Medium-term Refinance Disbursements in India (in Rs Crores)

Year	Co-operatives	RRBs	CBs	Total
1997-98	809	197	672	1778
1999-00	1102	360	785	2267
2002-03	1332	462	815	2609
2004-05	1731	502	841	2664
2006-07	2800	805	703	4308
2008-09	4512	1203	905	5679.3
2010-11	9121	1820	1205	12148
2012-13	18025	1730	1645	21400

Sources: Annual Reports of NABARD, 1986-87, 1997-98, 2001-02, 2005-06, 2007-08, 2010-11, 2012-13

Table 1 reveals the following facts:

- Total disbursement in India had increased steadily from Rs1778.00 crore in 1997-98 to Rs 21400 crore in 2012-13.
- However, the disbursement to the RRBs by the NABARD had increased from Rs 197 crore in 1997-98 to Rs 1730 crore in 2012-13.
- At the same time total disbursement by the NABARD to the CBs had increased from Rs 672 crore 1997-98 to 1645 crore in 2012-13.

The NABARD's refinance for short-term production and marketing is confined to the SCBs and the RRBs for which purpose these banks are sanctioned annual credit limits from out of the General Line of Credit of the RBI. The most important type of refinance is meant for seasonal agricultural operations or what is popularly known as crop loans issued by the Co-operative Credit Societies and the RRBs. Short-term credit refinance had increased steadily over the years. In India it has increased from Rs 703 crore in 1997-98 to Rs 5679.30 crore in 2012-13.

2.2. Institutional Development

Critical Review

The NABARD Act, 1981, requires the NABARD to undertake the responsibility of institutional development. The Act requires that the NABARD's lever of refinance should be effectively used as an instrument to enforce institutional development. A major reason of formation of the NABARD was that the Agricultural Refinance and Development Corporation (ARDC) was unable to expand its developmental role towards institution building. The NABARD has accepted its responsibility of institution building. Development of the rural credit system cannot be achieved solely through regulation. The NABARD, as an apex body, is well placed to develop a positive climate for institutional development on a collaborative basis with the support of the Government of India, the Reserve Bank and the State Governments.

Different Steps for Developmental Initiatives

The various steps taken by the National Bank can be broadly classified as developmental initiatives and rehabilitation measures.

2.2.1. Developmental Initiatives

The role of the NABARD in creating and strengthening the necessary institutional infrastructure has widened over the years since its formation. Many States had no apex co-operative bank. The development initiatives taken by the NABARD included establishment of the National Agriculture Credit Funds, supervision and inspection of banks, annual discussions with the State Governments, systematisation of the crop loan operations and training of personnel of the co-operative banks.

Current Policy Initiatives by the National Bank:

The NABARD has introduced a number of other action plans for institutional development. The major ones are highlighted in what follows:

2.2.1.1. Development Action Plans (DAPs)

The basic philosophy of the DAPs is to prepare institution-specific action plans, taking into account their strengths and weaknesses, diagnosing the past and looking into the future, anticipating the course of events and preparing the strategies of coping, the implementation of which would improve their viability. In order to assess the viability status of the institutions,

a thorough analysis of the various aspects such as financial, organizational, systems and procedures and human resource development having a bearing on viability of the credit institutions is envisaged. On the basis of such an analysis, the factors that affect the viability of the banks are identified and specific remedial measures are chalked out. A distinctive feature of the preparation of the DAPs is the break even analysis of the credit institutions carried out for projecting the year-wise growth in loans and advances and level of recovery to be achieved, besides other performance obligations which would enable the banks to attain viability within the specific time frame.

2.2.1.2. State Action Plans

As the different tiers of the co-operative institutions have a high degree of inter-dependence and mutual interest, it was considered appropriate for the apex institutions such as the SCBs and the SLDBs to prepare a State Action Plan incorporating therein the action points emanating from the DAPs of the affiliated Co-operative units at the lower tiers.

2.2.1.3. Memorandum of Understanding (MOU)

The performance obligations on the part of the co-operative credit institutions and the State Governments arising out of the DAPs/SAPs of the short-term and long-term credit structures would form the basis of the MOU to be entered into by the apex level Co-operative Banks (SCBs/SLDBs) and the State Governments with the National Bank. In view of the involvement of many agencies and their interdependence, it would be necessary for each agency to fulfil its commitment adhering to the time frame to make the action plans effective. The Memorandum of Understanding seeks to ensure such commitment. Separate MOUs are also required to be entered into between the SCB and each of the affiliated DCCBs as well as between the SLDBs and each of the affiliated PLDBs in the States where federal co-operative credit structure exists.

2.2.2. Rehabilitation Measures

A programme of rehabilitation of the “weak” co-operative banks, as referred to earlier, has been under implementation since early seventies by the RBI and later by the NABARD, but this has not met with significant success. For instance, as at the end of June 30, 1986, 173 DCCBs were under the programme, of which 58 had been under the programme for over 10 years and 43 between 5 and 10 years continuously. Further, several banks apparently revived under the programme, were found to have relapsed, one or two years later, only to go back into rehabilitation. The NABARD itself recognised that the programme had not been successful and as such, developed and launched new programmes, namely the 10-point programme for the LDBs in 1985 and the 12 point programme for the DCCBs in 1987. In course of their visits to the client banks, the Agriculture Credit Review Committee identified the following reasons for the failure of the previous programmes.

- (a) While rightly concentrating upon loan recovery, the programmes do not provide for an expansion component and development of new opportunities for lending and other services once recoveries are improved, so that banks can become more viable business units;
- (b) Lack of adequate initiative, involvement and effort on the part of the “weak” banks itself in implementing the programmes, in several cases;
- (c) Frequent management changes in the “weak” units;
- (d) Inadequate direct supervision, monitoring and evaluation of progress by the Apex bank, co-ordinating committees.

2.3. Institutional Strengthening Programme

The Agriculture Credit Review Committee (ACRC) (1989) which had reviewed the rural financial system in the country and evaluated the major problems and issues affecting the agricultural credit system had suggested that the National Bank should formulate a programme to strengthen and revitalise the rural credit institutions, especially the co-operatives. Accordingly, in 1991 the National Bank formulated the Institutional Strengthening Programme covering “non-solvent” and “near non-solvent” banks. The programme was to be completed within a specified time frame of 3 to 5 years with a provision that in case the concerned banks fails to turn the corner within the time frame, the concerned State Governments would make alternative arrangements for credit dispensation in the areas of operation of such banks. The programme was, however, a non-starter since it did not find favour with the State Governments mainly due to their inability to fund their share as envisaged under the programme.

2.4. Strengthening of Rural Financial Institutions

2.4.1. Co-operatives

In order to improve the long-term viability of the co-operative credit institutions, the National Bank has initiated the process for drawing up the DAPs for the district level co-operative credit institutions. Similarly, the State Action Plans (SAPs) incorporating the action points emanating from the DAPs, are also being prepared. These plans are intended to be implemented through the mechanism of the MOU to be entered into by respective State level banks and the State Governments with the National Bank. Separate MOUs are envisaged for the short-term and the long-term co-operative credit structure.

Financial Package for Co-operative Banks

The DAPs prepared by the co-operative banks has shown that many of the banks would not be in a position to attain sustainable viability because of heavy accumulated losses and other loss assets. The quantum of resources required to cleanse the balance sheets of the co-operative credit institutions, both under short-term and long-term structure, have been tentatively estimated to be of the order of Rs. 2800 crore. While this estimate needs to be reassessed precisely, after a thorough analysis of balance sheets of the co-operative credit institutions as at the end of March 1995, a suitable mechanism for mobilisation of resources required for the purpose from within and outside the systems needs to be evolved urgently. As a sequel to the recommendations of the Parliamentary Committee on Agriculture (1992), the National Bank has established the ‘Co-operative Development Fund’ during the year 1992-93.

2.4.2. Regional Rural Banks

Organization Development Intervention (ODI) in RRBs

The NABARD commissioned (1997-98) the Organisation Development Intervention (ODI) programmes in the 49 selected RRBs through its staff college and the Bankers Institute of Rural Development (BIRD), Lucknow to ensure implementation of the Development Action Plans. A mid-term review of selected banks covered under the ODI indicated perceptible improvements in all spheres, viz., business levels, productivity, recovery, profit margins, staff motivation/initiative and commitment besides innovations in systems and procedures. The positive changes are the combined result of several initiatives taken by the National Bank in the revamping programmes including those such as the Organization Development Intervention (ODI).

3. Promotion of Rural Development

3.1. Kishan Credit Card Scheme (KCC)

The Hon`ble Union Finance Minister in his Budget speech for the year 1998-99 had announced the introduction of a Kishan Credit Card Scheme and desired that the banks should issue the Kishan Credit Cards to the farmers on the basis of their land holdings so that farmers may use them to readily purchase agricultural inputs such as seeds, fertilisers, pesticides etc. and draw cash for their production needs. Against this, the NABARD was supposed to prepare model scheme for uniform adoption by the banks.

3.2. Bankers Institute of Rural Development (BIRD)

The National Bank independently set up the Bankers Institute of Rural Development (BIRD) at the National level and two Regional Training Centres with an attention to the training of a large number of rural bankers in general and the RRB personnel in particular. The exclusive attention for training of the RRB personnel continued till 1992 in the training establishments of the National Bank. At the same time, the National Bank continued its support both academically and financially for training the personnel of the Land Development Banks (LDBs) in their Junior Level Training Centre (JLTCs). Thus, training as a part of the institutional development has been supported in the BIRD, the Regional Training Centres (RTCs), the CAB of the RBI and the JLTCs of the SLDBs with financial back up and other support from the National Bank.

3.3. Agriculture Co-operative Staff Training Institutes (ACSTIs)

The National Bank also encourages the SCBs and the District Central Co-operative Banks (DCCBs) to develop their human resources by extending support for conduct of training programmes in the Agricultural Co-operative Staff Training Institutes (ACSTIs) since 1994. The Bank is also supporting the initiatives for formulating HRD/ manpower plan along with the business development plan as a part of the Development\Planning exercise both for short-term and long-term co-operative credit institutions.

4. MONITORING AND EVALUATION

The purpose of monitoring is to measure and oversee the progress towards predetermined targets and identify reasons for poor performance, while evaluation takes into account all factors affecting the performance in order that the reasons for the degree of achievement can be determined. In fact, monitoring and evaluation by the NABARD together play a vital role in measuring, both the performance of its programmes and effectiveness of its strategies for the development of the credit system.

This paper identifies the pitfalls of the Apex Bank's leadership role and suggests a framework of the probable new areas of its active involvement in bringing about the desired institutional changes and structural reforms of the Co- operative and Commercial Banks. Pitfalls that on notice in this respect are outlined below:

- There is lack of co-ordination amongst its various activities.
- There is neither effective integration of the farm and the non-farm credit planning nor the linkage between short and medium-term refinancing.
- The responsibilities of the Rural Financial Institutions are limited, especially in the areas of formulating investment guidelines and performance monitoring of refinance.
- The Apex Bank's has no power to grant or withdraw licenses. It only makes recommendations to the Reserve Bank for licenses to the banks inspected.

- The Apex Bank's inspection reports typically highlight defects (about which the bank's management is well aware), without providing any analysis of their causes and *recommendations* for their solution.
- There are very limited links between inspection and other functions of the NABARD. Institutional development and inspections do not make any positive contribution to the Institution building process.

5. Recommendations

5.1. Creation of Recovery Climate

Many of the farmers are financially weak. The Governmental agencies are not able to provide adequate marketing facilities or remunerative prices to their product. While the prices of industrial products are fixed by taking into account their cost of production, the prices of agricultural products are fixed arbitrarily or from the consumers' point of view. The main beneficiaries are the middlemen and the industrialists who purchased them and also who supplied the inputs and equipments. It is therefore said that in the absence of remunerative prices for their products, they are neither in a position to repay the principal nor the interest.

5.2. Proper Utilization of Research and Development (R&D) Fund

There is need to use the NABARD's Research and Development (R&D) Fund more imaginatively and aggressively to identify, evaluate, develop and promote new initiatives in rural development.

5.3. Monitoring and Evaluation

Monitoring and Evaluation is one of the clues to the smooth functioning and rapid expansion of the client banks. At any time it is the source for its preparedness to respond swiftly and effectively to the needs of the poor. Intense attention is paid by it to the performance of individual staff members; inefficiencies are nipped in the bud and merit is quickly rewarded. Extensive records are continuously updated. Monitoring and evaluation thus is valued for its present and potential contribution to future management and organizational development beyond the function of keeping an eye on the operations.

5.4. Co-ordination among Different Banks

There is an urgent need for co-ordination between the different banks and agencies providing credit to agriculturists. This co-ordination should be at three levels; **(i)** the co-ordination between financial institutions themselves; **(ii)** the co-ordination between the financial institutions and the non-institutional sources of agricultural credit; and **(iii)** the co-ordination among the financial institutions, the non-institutional sources and the Governmental departments dealing with the matters relating to the agricultural sector.

A permanent body for the agricultural development and distribution and recovery of agricultural credit should be constituted at the district as well as block level. These bodies should look after the credit-needs of rural households, the functioning of different sources of credit, the preparation of credit plans for the development of block and district, the preparation of plan for agricultural development and the day-to-day functioning of the Co-operative Societies.

5.5. Follow-up Measures

Personal contacts and continuous touch with the borrowers would go a long way in reducing overdue. It is, therefore, necessary to introduce suitable measures in order to ensure continuous touch with the borrowers of the banks until the loan is repaid fully.

In order to make the credit effective, the banks should not only see that it is properly utilized but also “ensure supply of production credit and agricultural requirements like seeds and fertilizers to their borrowers as also assistance by way of technical guidance from the extension staff or the staff in the technical departments in order to enable them to adopt the proposed cropping pattern and to improve their repaying capacity”

6. Conclusion

Form the present study it may be concluded that the NABARD has a dual role to play as an apex level institution and as a refinancing institution. It has inherited its apex role from the Reserve Bank of India. In other words, it is performing all the functions performed by the Reserve Bank of India with regard to Development of Co-operative Banks and Commercial Banks. Various promotional efforts have been made by the NABARD for development of Co-operative Banks and Commercial banks. But various types of pitfalls were found in the contribution of the NABARD and the present paper suggests a framework of the probable new areas of its active involvement in bringing about the desired institutional changes and structural reforms of the Co-operative and Commercial Banks.

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