# The National Bank for Agriculture and Rural Development (Amendment) Bill, 2017

## Introduction

In a developing economy like India, where more than 70 percent of the population depends upon agriculture for their livelihood, agriculture credit/rural finance becomes a matter of credit concern. The need for agricultural credit ascends due to lack of concurrence between the realization of income and act of expenditure, lumpiness of investment in fixed capital formation and stochastic surges in capital needs and savings that accompany technological innovation. India witnessed the evolution of institutional credit to agriculture sector in four distinct phases – 1904-1969 (predominance of co-operatives and setting up of Reserve Bank of India (RBI)), 1969-1975 (nationalization of commercial banks and setting up of Regional Rural Banks (RRBs)), 1975-1990 (setting up of National Bank for Agriculture and Rural Development (NABARD, following the recommendations of the "Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development")) and from 1991 onwards (financial sector reforms).

With the establishment of NABARD in 1982, the long and short term credit needs of farmers at a cheaper rate of interest was met. Its establishment was the beginning of the evolution of agricultural finance. Besides providing finance to credit institutions, NABARD offers innovations in regard to formulation of schemes, monitoring of implementation, evaluation of results and evolution of suitable supporting structures of all kinds of agricultural activities. A Rural Infrastructural Development Fund (RIDF) was established under NABARD in 1995-96 to support the schedule commercial banks to the extent of their shortfall in agriculture lending under the priority sector targets. At present, RIDF disbursements at INR 25,600 crore registered 8.8 percent growth over 2016 (INR 23,507 crore). As on 31 March 2017, total cumulative sanctions under the 22 tranches of RIDF have gone up to INR 2,87,129 crore with disbursements of INR 2,29,809 crore there against.

Since its inception, the NABARD has vigorously continued its efforts for promoting investments in the agricultural sector in the less developed/under banked states. U.P., Bihar, M.P., Rajasthan and Odisha in that order, have been the biggest beneficiaries.

## Current Progress of NABARD

In recent times, NABARD has focused on creating sustainable and equitable rural prosperity by taking initiative in form of "Producers' Organisation Development Funds" amounting to INR 200 crore, Tribal Development Programme (Waadi) amounting to cumulative sanction of INR 1952.95 crore for 633 projects covering 4.85 lakh families etc. Further, NABARD has been accredited as National Implementing Entity (NIE) for Green Climate Fund (GCF), and it aims to deploy GCF resources for climate resilient development in India. NABARD has registered a healthy increase from INR 3,10,385 crore last year to INR 3,48,119 crore on 31st March 2017 registering growth of 12.16 percent. The table below shows the financial assistance sanctioned by NABARD in last six years.

**Table 1: Financial Assistance Sanctioned by NABARD in India (2010-2016) INR in Billion**

| Year | Number of Schemes Sanctioned | Total Financial Assistance Sanctioned | NABARD's Commitment | Disbursements |
|---|---|---|---|---|
| **2010-11** | 130598 | 1714.44 | 1492.59 | 1436.59 |
| | -(3.00) | -(147.38) | -(134.86) | -(134.86) |
| **2011-12** | 130600 | 1872.02 | 1646.81 | 1590.81 |
| | -(2.00) | -(157.58) | -(154.22) | -(154.22) |
| **2012-13** | 130601 | 2052.64 | 1823.55 | 1767.55 |
| | -(1.00) | -(180.62) | -(176.74) | -(176.74) |
| **2013-14** | 130604 | 2271.69 | 2038.41 | 1982.41 |
| | -(3.00) | -(219.05) | -(214.86) | -(214.86) |
| **2014-15** | 130604 | 2594.13 | 2352.68 | 2296.68 |
| | (0.00) | -(322.44) | -(314.27) | -(314.27) |
| **2015-16** | 130604 | 3084.57 | 2833.32 | 2777.32 |
| | (0.00) | -(490.44) | -(480.64) | -(480.64) |

**Source:** Reserve Bank of India. (ON1220) & Past Issue.

As on 31st March 2016, NABARD's paid up capital stands at INR 5,000 crore as compared to initial capital of INR 100 crore. Consequent to the revision in the composition of share capital between Government of India and RBI, the Government of India today holds INR 4,980 crore (99.60 percent) while Reserve Bank of India holds INR 20.00 crore (0.40 percent). This had caused conflict in the central bank's role as banking regulator and shareholder in NABARD. In 2010, RBI sold majority of its holding in NABARD to the Central Government.

To address this conflict, Finance Minister Mr. Arun Jaitley on April 5th, 2017 introduced the National Bank for Agriculture and Rural Development (Amendment) Bill, 2017 in Lok Sabha. This brief analyses the current Bill, with respect to its objectives and salient features to provide a detailed understanding.

## The National Bank for Agriculture and Rural Development (Amendment) Bill, 2017[1]

[1] http://pib.nic.in/newsite/PrintRelease.aspx?relid=159755, accessed as on 25th May 2017

The National Bank for Agriculture and Rural Development (Amendment) Bill, 2017 introduced in the Lower House, seeks to *amend the National Bank for Agriculture and Rural Development Act, 1981*. The NABARD Act 1981 aimed to create a development bank for providing and regulating credit and other facilities for the promotion and development of agriculture, small-scale industries, cottage and village industries, handicraft and other rural craft and other allied economic activities in rural areas for promoting rural development and securing prosperity of rural areas.

The objective of the proposed Bill is to *empower the central government to increase the capital of NABARD from INR 5,000 crore to INR 30,000 crore and enable the transfer of RBI's balance equity of INR 20 crore in the bank to the central government*.

**Analysis of the Salient Features of the Bill**

The Bill seeks to revise some prominent clauses in the NABARD Act 1981 to remove conflict of interest among Central Govt., RBI and NABARD. The salient features of the Bill have been analysed below:

- **Transfer of the RBI's share to the Central Government**: According to the NABARD Act 1981, the Central Government and the RBI together must hold at least 51 percent of the share capital of NABARD. The RBI presently holds 0.4 percent of the paid-up capital of NABARD and the remaining 99.6 percent is held by the Central Government. This causes dispute in RBI's role as banking regulator and shareholder in NABARD. Thus, the proposed Bill amends Sub-Section (2) of Section 4 of the NABARD Act 1981 and states that the Central Government alone will hold at least 51 percent of the share capital of NABARD. The Bill transfers the share capital held by RBI, valued at INR 20 crore, to the Central Government. The government will give an equal amount to the RBI.

- **Capital Expansion of NABARD**: As per the NABARD Act 1981, NABARD started with an initial capital of INR 100 crore. This amount can be further escalated to INR 5,000 crore by the Central Government in consultation with RBI. With the proposed Bill, the Central Government can expand the capital to INR 30,000 crore. In addition to this, the capital can be increased to more than 30,000 crores by the Central Government in consultation with RBI. This proposed increase in the capital would facilitate NABARD to respond to the commitments it has undertaken with respect to Long Term Irrigation Funds[2] and the recent Cabinet decision regarding on-lending to cooperative banks.

  Further, it would support NABARD to augment its business and enhance its activities which would facilitate promotion of integrated rural development and securing prosperity of rural areas including generation of more employment[3].

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[2] http://www.nabard.org/content.aspx?id=2, accessed as on 22nd April, 2017

[3] as on 31st March, 2017, NABARD has sanctioned **81 projects** towards Central Government share and **63 projects** towards State Government with loans totalling **INR 49,890 crore**. A sum of INR **9,086 crore** has been already disbursed under the Fund

- **Harmonization with the Companies Act, 2013**: The proposed Bill substitutes references to provisions of the Companies Act, 1956 under the NABARD Act, 1981 with the Companies Act, 2013. The substitutes include provisions that looks into the definition of government company and qualification of auditors.
- **Redefining in line with Micro, Medium and Small Enterprises**: The proposed Bill states that the term 'small scale industry' and 'industry in the tiny and decentralized sector' would be replaced with 'micro enterprises', 'small enterprises' and 'medium enterprises' as per MSME Development Act, 2006. This would allow banks which provide loans to MSME to be eligible for financial assistance from NABARD.

  Under the 1981 Act, NABARD was responsible for providing credit and other facilities to industries having an investment of upto INR 20 lakh in machinery and plant. The proposed Bill extends this to enterprises with investment upto INR 10 crore in the manufacturing and INR 5 crore in the service sectors.

## Conclusion

The analysis of the salient features of proposed Bill, highlights the necessary changes that should be undertaken in the NABARD Act 1981. With the amendment in place, NABARD now can function more effectively and without any conflict of interest with any of its shareholders. It remains to be seen how NABARD uses its new found reach and abilities in the coming years.