

# **Village Development Boards (VDBs) in Nagaland**

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## **Abstract :**

The article describes the constitution and functions of VDBs in NAGALAND where VDBs are considered as “*Financial Intermediaries*” or “*Non-Banking Financial Intermediaries*”. They are integrating the ever important credit mechanism in the rural areas for fostering the economic development process.

## **1.Introduction**

Nagaland emerged as a State, carved out of the Naga Hills districts of Assam and North Eastern Frontier Agency (NEFA) province in 1963. The State has a population of 19.89 lakh with an area of 16.8 thousand Sq. kms as per 2001 census. It has 11 districts and 52 blocks covering 1286 villages. There are 11 DRDAs and 1083 Village Development Boards (VDBs). The density of population is 120 per sq.km. Rural population constitutes 82.26% and urban population 17.74% of the total. Overall literacy ratio is 67.14%.

Though Nagaland has heavy rainfall, it lacks water storage facilities. This infrastructure limitation leads to greater challenge in bringing more areas under irrigation. The average net area irrigated to total crop area is low at 43%. This indicates that 57% of agriculture is being carried out under rain-fed irrigation

Agriculture is the main operation of the people of Nagaland. About 65% of the population depends on agriculture as per 2001 census. Shifting (Jhum) and terrace cultivation remain the dominant form of the land use pattern of the State. Jhum cultivation has been devised over generations and terraced rice cultivation has been practised for decades. Rice cultivation is mostly done in the plain area of Dimapur, Wokha, Mokokchung and Mon districts. Government of Nagaland has promoted terracing as an alternative to jhum cultivation.

Use of technological innovations in terms of improved seeds, fertilizers and better implements has been limited. The level of fertilizers consumption in Nagaland was 4 kg/ha of net sown area. This practice of harmonizing with nature and influence of environment enabled Nagaland to experience and explore organic farming practices.

## **2. New Governance Systems**

In the past four decades there has been remarkable extension of the administrative reach to the far-flung corners of Nagaland. In many ways, the organization of the districts along with general tribe geographical boundaries has provided continuity to traditional tribal practices and linguistic affiliations. Village Councils are an important component of the modern governance system in Nagaland. While the District Planning and Development Boards provide the needed flexibility to ensure a responsive and holistic approach towards development for the district, linkages to the grassroots through the Village Development Boards ( VDB) have been established for delivering the rural developmental inputs. These linkages have become vital for decentralizing governance and decision-making in the post-independence and Statehood eras.

As an introduction to the role of the Village Councils and Village Development Board in Nagaland, it is imperative that the constitutional provisions in regard to the State as enshrined in the Constitution of India are understood.

### **In terms of Article 371(A) of the Indian Constitution,**

No Act of Parliament in respect of –

- (i) Religious or social practices of the Nagas
- (i) Naga customary law and procedure
- (ii) Administration of civil and criminal justice involving decisions according to Naga customary law
- (iii) Ownership of transfer of land and its resources

shall apply to the State of Nagaland unless the Legislative Assembly of Nagaland by a resolution, so decides.

It would therefore be observed from the above Constitutional provisions and safeguards that no Act of Parliament can be made applicable particularly in relation of land and customary laws of Nagaland unless the State Assembly decides in its favour.

### **3. Village Council**

It is in this context that the role of the Village Council assumes significance. The Village Council is the overall authority for the administration of justice within the village. Under the Nagaland Village and Area Council Act, 1978, every recognized village in the State shall have a Village Council. Its powers and duties as enshrined in the said Act, provide for the following:

1. To formulate Village Development Schemes to supervise proper maintenance of water supply, roads, forest, education and other welfare activities.
2. To help various Govt. Agencies in carrying out development works in the village.
3. To take development works on its own initiative or on request by the Govt.
4. To borrow money from the Govt., Banks or financial institutions for application in the development and welfare work of the village and to repay the same with or without interest as the case may be.
5. To apply for and receive grant-in-aid, donations, subsidies from the Govt. Or any agency.
6. To provide security for due repayment of loan received by any permanent resident of the village from the Govt., Bank or Financial Institution;
7. To lend money from its funds to deserving permanent residents of the village and to obtain repayment thereof with or without interest.
8. To forfeit the security of the individual borrower on his default in repayment of loan advanced to him or on his commission of a breach of any of the terms of loan agreement entered into by him with the Council and to dispose of such security by public auction or by private sale.
9. To enter into any loan agreement with the Govt., Bank and Financial Institutions or a permanent resident of the village
10. To realize registration fees for each litigation within its jurisdiction;

11. To raise fund for utility service within the village by passing a resolution subject to the approval of the state Govt.;
- Provided that all monetary transactions shall be conducted through a scheduled bank or the Nagaland State Coop. Bank;
12. To constitute a Village Development Board (VDB);
13. To empower certain Acts in the event of epidemic.

On the outbreak of an epidemic or infectious disease Village Council shall initiate all preventive measures. The council shall have full powers to deal with the internal administration of the village, maintenance of law and order, enforce orders passed by competent authority, etc.

#### **4. Village Development Board (VDB)**

The VDB is a statutory body, functioning under the primary village authority known as Village Council. The institution of the VDBs, which are synonymous with the concept of decentralized grass root level planning in Nagaland, was first set up in 1976 in Ketsapomi village in Phek district on an experimental basis. Nevertheless, on seeing the success of the Ketsapomi VDB, a mass campaign was launched since 1980 to expand the coverage of this unique institution through the state. VDBs were thereafter gradually constituted in the remaining parts of the State and the concept institutionalized with the enactment of VDB Model Rules, 1980. The initial allocation of Rs. 5000.00 per VDB was provided by the Government under what was known as common funds, which later was termed as matching cash grant scheme. The VDBs were advised to open account in the local SBI and commercial banks for deposit of this fund, which provided for the registration of the VDBs. An intensive interaction by the Department officers with village elders and council members including public leaders was initiated during the period from 1981 to 1982. Based on overwhelmingly positive response, the concept of VDB was socially accepted. Accordingly, a General Conference was convened for the Chairmen of all Village Councils and VDB Secretaries at Kohima from 20 - 22 May 1980. In this conference mass scale adoption of VDBs in the state was taken up.

The VDBs are involved in all phases of developmental activities as a part of their responsibilities. These include receipt of allocation of funds, selection of beneficiaries or schemes, monitoring of progress of works & expenditure and completion of schemes. They are accountable organization, where book keeping of accounts is mandatory, open and subject to any audit of its account. Funds are available in the form of grants to all 1083 recognized villages through the VDBs. The allocation is made on the basis of number of households of every village in proportion to the size of each village to ensure that each citizen of the State is equally involved and provided for in all rural development activities. The funds released are being collectively pooled for implementation of the schemes for the benefit of the entire community. Through the involvement of VDBs, several major schemes have been successfully implemented. This has been made possible by way of contribution of free community labour organized by VDBs to ensure that schemes are completed. The State of Nagaland has been exempted from the purview of 73rd Amendment of the Constitution, due to existence of local self government activities through Village Council and VDBs.

#### **5. Salient Features and Objectives of VDBs**

The Village Council is the final Authority on all matters relating to the welfare and security of the village. Further, the Village Development Board of each village has been constituted under section 12 (12) of the Nagaland Village and Area Council Act, 1978. The VDBs are therefore covered by the said Act and are governed by the VDB Model Rules 1980, (revised). Under the said rules all permanent residents of a village shall be members of the Village Development

Board. However, the management of the VDB would be entrusted with a Management Committee. The members of the Management Committee of the VDB are chosen by the Village Council concerned. The members of the Management Committee (MC) may include members of the Village Council. Women members would constitute 25 % of the total members of the MC. The Deputy Commissioner of the District is the ex-officio Chairman of all the VDBs under his jurisdiction. All funds received by the Village either as grant-in-aid, matching cash grant, and any other Govt. Programmes are operated by the VDB but only with the sanction of the Village Council. All cash A/cs maintained by the VDB shall be operated jointly by the Chairman and the secretary of the MC. Thus all funds/ cash transactions need to be cleared by the Chairman (Dy. Commissioner) before the same can be drawn by the VDB for various developmental purposes. This is to ensure proper utilisation of funds. The *salient features* of the VDBs are :

- ☞ All permanent residents of the villages constitute the Central body of the VDB;
- ☞ A Management Committee is formed from the general body to manage the affairs of the VDBs for a period of three years. A quorum of not less than 51% of the Management Committee is required to pass resolutions;
- ☞ The DC of the district functions as the Ex-Officio Chairman to the VDBs
- ☞ All funds/accounts are operated jointly between the Chairman/DC and the Secretary of the VDBs;
- ☞ VDBs are to maintain their Fixed Deposit Accounts as this forms the main basis for the existence of the VDB;
- ☞ Funds received and programme/scheme selection are taken up during the monthly meeting;
- ☞ A panel of auditors approved by the Chairman audits VDBs accounts annually.

The **basic objectives** of the VDBs are:

- ✍ To make each of the 1083 VDBs as vibrant, with powers to take decisions and implementation of schemes within the guidelines both for state and Centrally Sponsored Scheme (CSS);
- ✍ To enable themselves to mobilize its internal resources for investment in various income generating and economically productive activities;
- ✍ To check migration of educated unemployed rural youth to towns by ensuring self-employed opportunities through their involvement in taking up income generating and economically productive activities in the rural areas;
- ✍ To gradually transform the rural areas into the standards of semi-urban areas in so far as availability of the basic common facilities is concerned and
- ✍ To facilitate acting as financial intermediaries to manage their own rural credit and loan activities

## **6. Grant-in-aid to Village Development Boards (VDBs)**

Grant-in-aid to the VDBs is a state sponsored scheme introduced during 1980-81 for the creation of minimum infrastructure and special employment programme in every recognized village in Nagaland. *The Grant-in-aid is allotted each year to the VDBs on the basis of the tax paying households. The initial allocation was Rs. 100 per households during 1980-81. At present it increased to Rs. 800 per households.* This is the only assured fund provided for

taking up development activities best suited to their requirements for the villagers. This programme ensures participation of women by earmarking 25% of the Grant-in-aid allotted to each VDB for their development programmes. Another 20% and 55% of the fund is also meant for the youth and general welfare in all the villages. To ensure that the benefits under the programmes are not deprived to small villages, a minimum cut off ceiling @ 66 household for all small villages has been fixed. The state has so far spent an amount of Rs. 190.94 crore out of Pan Outlay. It has been well established that a number of Developmental Programmes which have resulted in the creation of durable assets including infrastructure have been made possible mainly through this unique programme.

## **7. Source of Funds**

The state has been implementing 2 major resource mobilization schemes. These are (i) Matching Cash Grant (MCG) and (ii) Post Office Time Deposit (POTD) schemes.

- (i) **MCG Scheme** - This is prerequisite compulsory scheme to be implemented by every VDB. VDBs which don't implement this scheme are not recognized. *The ceiling for the VDB share was initially Rs. 75,000, which has been raised to Rs. 2.50 lakh since several VDBs have now been able to deposit more than the ceiling. Each VDB is expected to mobilize Rs. 5.00 lakh which includes states' contribution of Rs. 2.50 lakh. The deposit is used as collateral security for loans required for VDBs to implement income generating schemes where funds are not sufficient. The amount mobilized upto date accounts to nearly Rs. 10.00 crore currently.*
- (ii) **POTD Scheme** - The VDBs are required to maintain term deposit in Post Office, which was introduced in 1996-97. The department has prescribed a *minimum deposit of Rs. 10,000.00 for each VDB of 50 house holds or less and there after @ Rs. 200 for every additional household. The deposit under the title of "VDB Welfare Fund" has a fixed locking period of 5 years. The total deposit under the scheme amounts to Rs. 37,70,09,405. After maturity, the matured amount is transferred and deposited to Matching Cash Grant/Fixed Deposit.*

The department of Rural Development provides all funds to the VDB on the basis of households of every village through allocation of funds of all state and centrally sponsored programmes that are being implemented for rural development and poverty alleviation of rural poor.

## **8. VDBs as Financial Intermediaries**

In Nagaland, 21 (twenty one) out of the 52 blocks are unbanked covering 421 villages. This indicates that 50% of the rural areas do not have adequate banking infrastructure. Bottlenecks such as lack of adequate infrastructural facilities, poor resources base and dearth of technical know-how have handicapped the VDBs in the developmental progress. Consequently all these are hampering the goal to achieve the desired level of all round development, especially in the rural areas. This project proposal has gained the importance and urgency with the State passing the very important "*Money Lenders Bill*". *The vacuum of readily available credit created through this Bill will have a grave effect on the resource needs. Hence, unless this vacuum is replaced with such assistance and schemes urgently, such landmark Acts would be always circumvented by elements of unscrupulous members of the society. The VDBs are the basis of the present Panchayati Raj System in the country. The latest innovative venture has been made to declare the VDBs as "Financial Intermediaries" or Non-Banking Financial Intermediaries to integrate the ever important credit mechanism in the rural areas for foster economic development. The ramification to this approach, if successful, would ensure that grass root level organizations of our country would control the credit/loan mechanism. Thus, the base of the economic progress of rural India will be determined by the poorest of the poor.*

## 9. Pilot Scheme for Financing Village Development Boards (VDBs)

Nagaland has been the State for experimenting with a Pilot scheme, where the VDBs took the loan from the banks and disbursed it to the village people and also arranged for recovery of the same. The *Pilot scheme was launched during the early part of 2004-05 for 25 identified VDBs. The VDBs, State Govt., NABARD and Central Government shared in creating a corpus of Rs. 25 lakh (Rs. 1 lakh per VDB) in the proportion of 40:20:20:20 respectively.* The corpus was maintained against which loan in multiple of corpus sanctioned by the SBI was available to VDBs for loaning operations. The VDB received bank loan @ 7.50% and disbursed the same to beneficiaries at a maximum permissible interest of 18% per annum. Taking stock of the present position, it was proposed that another 25 VDBs were identified for extending credit support under the scheme. Proposal for providing corpus funds to the newly identified VDBs by Government of India, State Government and NABARD @ 20% has been mooted.

## 10. Limitations of Pilot Scheme

The State Bank of India, the Lead Bank for the State of Nagaland, provided loans for 25 VDBs. However, some problems in regard to such pilot scheme have been encountered and these are highlighted below:

- (i) **High number of Agents/ Players** - Replication of this scheme to other VDBs, as envisaged in the proposal, has become a major obstacle. VDBs are required to have approval and consent of each agency.
- (ii) **Limited Coverage** - Only 25 VDBs were financed from a total of 1083 VDBs
- (iii) **Bank** - Only one participating bank ie. SBI

## 11. Success Stories of Pilot Scheme

The success of innovative initiatives of the State are visible from the view point of the quantum of funds mobilized by the VDBs. All these schemes are bank dependent programmes where villagers need to spend huge resources and time to make frequent visits from far-flung areas to isolated bank branches of SBI.

The feedback of the Pilot Project, where 25 VDBs have been participating in this experimental programme has been very encouraging. *The loan recovery is 100% and the credit cycle has been very fast in comparison with the normal bank loans.*

With such a potential scheme underway, the natural process would be to follow it up and expand the area of operations. However, resource constraints have been the only factor for the scheme to be still tied down to the 25 VDBs. *Taking advantage of the inherent social and community strength of the villagers of the State, the integration and expansion of this scheme to all the VDBs of the State will have a massive impact on the economic growth of the State.*

The resources mobilized by VDBs till date are matched by a one time grant for an amount of *Rs. 47 crore. The fund will be utilized as a common community resource for loan, credit and guarantee. The Deputy Commissioner/Chairman of VDB and VDB Secretary will jointly operate the account. Concerned VDB will be made responsible from the stages of beneficiary selection to loan recovery.*

## 12. Implementing Agency

The VDBs have proved to be a capable organizations implementing agency to take up all rural based activities where responsibility has been given to them successfully. Through the involvement of VDBs, several major schemes have been executed.

### **13. Area of Concern**

The area of concern of the project is to provide an alternative means to the rural people for availment of credit and loans against the resources mobilized. Thus, credit related activities in the rural areas could generate income required for the rural economy.

### **14. Modalities**

The modalities of the project are given below:

- (i) Funds will be utilised according to the existing modality of MCC/FD scheme
- (ii) Funds will be pooled as a singly community resource for loan, credit and guarantee
- (iii) The account will be jointly operated by the Chairman, VDB and the VDB Secretary

### **15. Project Rationale**

The rationale for the project are:

- (i) To provide ready and easily available financial resources to ensure timely implementation of schemes, accelerating the process of development
- (ii) to develop the villages into an income generating, producing and marketing unit
- (iii) To create awareness among the rural people as regards operations, financial management, accounting, availing of credit, recovery of loan and credit
- (iv) To turn idle lean season period into productive period of activity through short-term loan for short duration income generation activities
- (v) Through income generating activities, marketing infrastructure is expected to be developed and established spontaneously.
- (vi) The local income generated will improve the living standards of the people and thereby enhancing community resources.

### **16. Micro-Financing Activities through VDBs**

The Govt. of Nagaland has declared VDBs as financial intermediaries for micro financing activities. Out of the State programme allocation of Rs. 2723 crore, an amount of Rs. 5.40 crore has been earmarked for giving financial assistance to 540 VDBs @ Rs. 1.00 lakh to each VDB during 2006-07. This is a follow-up to the pilot project being implemented by 25 VDBs in the state. The Govt. of Nagaland proposed that players involved in the scheme may be limited to the concerned bank providing revolving fund assistance and the VDBs through their contribution of Rs. 1.00 lakh.

State Bank of India (SBI), has already financed 220 VDBs. Additional finance will depend Government of Nagaland's (Rural Development Department) feedback. It is learned from the Special Secretary (Finance) , Govt of Nagaland that the Government will apprise regarding the performance of VDBs to SBI in due course.

### **17. Constitution of Committee**

The Hon'ble Governor of Nagaland has since constituted a committee for the implementation and operationalization of micro finance activities consisting of the following members:-

- 1. The Principal Secretary to the Govt. (RD Dept.) - Chairman
- 2. The DGM, NABARD, Nagaland RO - Member

- |    |                                  |   |                  |
|----|----------------------------------|---|------------------|
| 3. | Lead Bank Manager, Nagaland      | - | Member           |
| 4. | Dept. of Finance Representatives | - | Member           |
| 5. | One Project Director (DRDA)      | - | Member           |
| 6. | The Addl. Director, RD           | - | Member Secretary |

The first meeting of such committee was convened on 23<sup>rd</sup> May 2006 chaired by Shri M. Jamir, Director, Rural Development Dept., Govt. of Nagaland.

### **18. Operational Aspects**

Govt. of Nagaland will extend the above credit delivery system taking VDBs as financial intermediary particularly in the un-banked 21 CD Blocks of the state. For these purpose 540 VDBs have been identified with an amount of Rs. 540.00 lakh.

As regards NABARD's supports for corpus funds for 540 VDBs, Nagaland RO apprised the Govt. of Nagaland that this issue will be decided by our Head Office at the higher level. NABARD may be given the role of coordinator for effective implementation of the project in collaboration with banks and State Govt. NABARD may also extend training / awareness programmes and liquidity support by way of refinance to banks.

### **19. Conclusion**

It is too early to make any comment on NABARD's Corpus Fund support to 540 VDBs. This requires a comprehensive study to assess the impact of pilot the scheme in terms of income, employment and all round development on the rural community, particularly the weaker section of the society of Nagaland. There is a need to study the various types of innovative fundings and microenterprises financed through VDB model of financial intermediations. There is also a need to study why a similar scheme failed in to take off in Mizoram.

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