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CHAPTER I

INTRODUCTION

India is a developing country where majority of the population is concentrated in rural areas. People in villages largely depend on agriculture and other related activities for their livelihood. Problems of poverty, unemployment and socio-economic inequalities are more pronounced in rural sector than in urban areas. Therefore role of rural development in the over all development scenario is crucial and its place cannot be under estimated. As per the latest report available 37 per cent of the rural population is still living below poverty line in India (Chaudhary et al., 1998). Both fanning and non-fanning activities are the determinant factors to raise the standard of living of the rural masses in general and rural poor in particular.

Credit is an indispensable input, for the development process. It is an essential ingredient for effecting changes in the scale of production and technology. But technology or innovation will have no meaning unless the capital starved farmer is provided credit for capital investment and for meeting the needs of working capital. A large proportion of the marginal and small farmers have low income without savings of their own. They often depend on the sources of formal and mfonnal credit. Strengthening of the fonnal credit source for provision of timely and adequate credit as well as augmenting of the land base of the poor could help in poverty eradication.

To make the rural development process self-sustaining financial support from banking institutions should take up the cause of rural development by providing liberal credit facilities gradually eliminating the money-lenders from the rural credit scenario. In India considerable efforts have been made over the past 50 years to develop the rural credit system as a means of rural
development. The basic concept of development banking and social banking in rural areas implies that credit is used as a lever of development. It calls for initiatives and energetic involvement on the part of the banks in developing the potential opportunities of the undeveloped or under developed section or sectors through selective and strategic input of credit (CRAFICARD, 1981).

Significance of Institutional Credit in Rural Development

Credit is the confidence reposed in a person, which enables him to obtain from another for temporary use a thing of value (Patnaik et al 1993). Institutional credit refers to the funds made available by Cooperatives (Coop.), Commercial Banks (CBs), Regional Rural Banks (RRBs) and Government. Agriculture is a vital industry and, like other industries, it also requires capital Credit is a weapon which can be used to stimulate the tempo of agricultural production. Agricultural credit, thus, in a practical sense, is the nucleus of the system of farm operation.

With the vicious cycle of low productivity, low income, low saving and low investment in operation, farmers are not able to make the investment necessary to adopt new technology both in farm and non-farm sector. So, they are compelled to borrow. Hence provision of sufficient and timely credit at fair interest rates is an integral part of the Five Year Plans. What Nicholson observed as early as in 1895, that "the history of rural economy, alike in Europe, America and India, has no lesson more distinct than this, that agriculturists must and will borrow-is true even today. This necessity is due to the fact that an agriculturist's capital is locked up in his land and stock, and must be temporarily mobilized-Hence credit is not necessarily objectionable, nor is borrowing necessarily a sign of weakness" (Uduman Mohideen, 1991). It is well known that credit is a crucial input as it helps in procuring all the inputs for crop production. For modernizing agriculture, Indian farmers require credit for the following purposes (Meshram P.J, 1995):
i) For the purpose of operating inputs like seeds, feed, fertilizer and pesticides by the marginal and small farmers operating 73 per cent of the agricultural holdings;

ii) For the adoption of modern farm technology with high yielding varieties of crops along with the complementary inputs;

iii) For undertaking permanent farm improvement measures like well digging and deepening, tube well construction and for addition of livestock;

iv) For matching, "cash inflows and outflows" and smooth out the fluctuations in farm income and expenditure;

v) For avoiding "distress sales" and to continue their farm operations; and for meeting their past obligations.

Rural Credit System In India:

In India, the development of institutional system of rural credit began with the Government lending to the farmers through the Land Improvement Loan Act of 1883 and the Agriculturists Loan Act of 1884. However, a more formal, and permanent institutional system of agricultural credit came into being in India with the enactment of the Cooperative Credit Societies Act of 1904. As the Royal Commission on Agriculture (1926) observed, "the salvation of the rural masses from their crushing burden of debt rests in the growth and spread of a healthy and well-organized movement... Cooperative credit provides the only satisfactory means of financing agriculture on sound lines". This was also highlighted by the All India Rural Credit Survey Committee (1951-52) when it recommended the cooperative society as the suitable credit agency for villages.

The present three-tier system of cooperative institutional structure for short and medium-term loans and a separate cooperative institutional set up for long-term loans came to be permanently established in the late thirties. But the cooperatives could not meet even one-tenth of the credit needed by the farmers
in 1951-52, as estimated by the All India Rural Credit Survey Committee (1951-52). The objective of the rural credit policy in India, since 1951, has been to enlarge the role of institutional credit agencies and to correspondingly reduce the role of non-institutional credit agencies, especially the private money-lenders. This led to the intensification of the cooperatives' credit activities during the first three Five Years Plans. Despite intensive efforts, the institutional sources met only 18.70 per cent (Cooperatives 15.5 percent) of the credit needs of farmers in 1961-62 (NAB ARD, 1982-83).

Since 1969, with the nationalization of Commercial Banks, the flow of credit to rural sector has increased to a significant level. But, surprisingly, the benefit of such increased flow by-passed the relatively weaker section of the rural community (Agarwal K.P. et al., 1997).

Structure of Credit Institutions:

A very large number and types of institutions have been set up to provide credit to the rural poor to achieve the main objective of national credit policy, i.e., 'development through credit'. Chart 1.1 portrays the organizational structure of financial institutions in India showing the arrangement of the network of their units for reaching the people.

The credit needs of the rural sector, to a large extent, are served by a vast rural credit delivery network consisting of approximately 1.51 lakhs grass root level units of financial institutions in almost all of the 5,57,137 villages (Rengarajan. V, 1997).

Table 1.1 brings out the fact that the total number of lending units of financial institutions in India aggregate 1,51,715 of which 69 per cent belongs to cooperative sector, while Commercial Banks including RRBs constitute 31 per cent.
<table>
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<tr>
<th>INSTITUTIONS</th>
<th>NUMBER</th>
<th>BRANCHES</th>
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<td></td>
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<td>All India</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tamil Nadu</td>
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<td>1. Commercial Banks (Rural and Semi-Urban)</td>
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<td>32,890</td>
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<td>1,847</td>
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<td>2. Regional Rural Banks</td>
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<td>14,475</td>
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<td>3. Cooperative Banks</td>
<td></td>
<td></td>
</tr>
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<td>i) Short-term Structure</td>
<td></td>
<td></td>
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<td>State Cooperative Banks</td>
<td>28</td>
<td>789</td>
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<td></td>
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<td>District Central Cooperative Banks</td>
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<td></td>
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<td>697</td>
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<td>Primary Agricultural Cooperative Banks</td>
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<td>92,000</td>
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<td></td>
<td></td>
<td>4,589</td>
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<tr>
<td>ii) Long-term Structure</td>
<td></td>
<td></td>
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<tr>
<td>State Cooperative Agricultural and Rural Development Banks</td>
<td>20</td>
<td>1,154</td>
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<td></td>
<td></td>
<td>20</td>
</tr>
<tr>
<td>Primary Cooperative Agricultural and Rural Development Banks</td>
<td>-</td>
<td>1,500</td>
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<tr>
<td></td>
<td></td>
<td>181</td>
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</table>

CHART 1.1
STRUCTURE OF FINANCIAL INSTITUTIONS IN INDIA

RBI → GOI

→ NABARD

→ Cooperative
  Credit
  Institutions
  → Commercial
    Banks
  → Regional
    Rural Banks
  → Local
    Area Banks

→ Short-term
  Structure
  → SACBs
  → DCCBs
  → PACBs

→ Long-term
  Structure
  → CSARDBs
  → Semi-urban
    Branches
  → PCARDBs

→ Metropolitan
  Branches
  → Urban Branches
  → Semi-urban
    Branches
  → Rural Branches

Depositors and Borrowers

Note: SACBs = State Agriculture Cooperative Banks
DCCBs = District Central Cooperative Banks
PACBs = Primary Agriculture Cooperative Banks
CSARDBs = Cooperative State Agriculture and Rural Development Banks
PCARDBs = Primary Cooperative Agriculture and Rural Development Banks
Genesis of National Bank for Agriculture and Rural Development  
(NABARD)

In 1969 the Government made a significant shift away from a single agency approach to the multi-agency approach involving Commercial Banks (CBs) on a large scale in the provision of institutional agricultural credit. CBs, which were following an urban-centered lending policy, were to involve in the process of rural development by lending to the priority sector. A mandate to this effect was given by the nationalization of 14 major CBs in July 1969 and another six banks in April 1980. Subsequently, the Regional Rural Banks were established in 1975 to focus special attention on the marginal and small farmers, agricultural labourers and rural artisans.

As regards the Reserve Bank of India, which historically as well as by nature of its organization has had to combine diverse functions and duties including rural credit, increasingly failed to set aside, amidst its multifarious responsibilities, the necessary time for giving attention, direction and focus to the details of the complex credit problems of integrated rural development.

The idea of an All-India organization for agricultural development was mooted by the Agricultural Finance Committee (Gadgil Committee 1945) but the All-India Rural Credit Survey Committee (1951-54) and the Committee on Cooperative Credit disfavoured any such type of organization for agricultural development. Again, the All-India Rural Credit Review Committee (1960) and the Administrative Reforms Commission (1970), disfavoured a separate bank for agriculture. The National Commission on Agriculture (1976) exhorted the Reserve Bank of India (RBI) to take steps in accordance with its historic role in integrating the total structure for financing agriculture and rural development from ground level upwards right up to the creation of an Agricultural Development Bank of India. The 'Committee to Review Arrangements for
Institutional Credit for Agriculture and Rural Development' (CRAFICARD) was constituted by the Reserve Bank of India (RBI) in March 1979, at the instance of Government of India under the chairmanship of B. Shivaraman. The committee examined, in detail, arguments in favour and against the establishment of a National Bank for Agriculture. The analogy of the Institutional Development Bank of India (IDBI) as an argument for the establishment of a National Bank was not accepted by the CRAFICARD, because the new institution would have to deal not only with long-term funds as the IDBI does but also with short-term credit. The committee came to the conclusion of setting up of a national level Bank with close link with the RBI. The committee envisaged the role of the RBI as one of spawning, fostering and nurturing the new bank. The proposal of the CRAFICARD was approved by the Government of India and the RBI, and the NABARD Act was passed by Parliament on the 1st December 1981. The Hon'ble Prime Minister Smt. Indira Gandhi dedicated the bank, which came into existence on 12 July 1982, to the service of the Nation on 5th November 1982.

NABARD took the functions of the erstwhile Agriculture Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of the RBI and the Agricultural Refinance and Development Corporation (ARDC). Its subscribed and paid-up capital were Rs.100 crores, contributed by the Government of India (GOI) and RBI in equal proportions (NABARD, 1982-83).

NABARD is an apex institution entrusted with all matters concerning policy, planning and operations in the field of credit for agriculture and other economic activities in rural areas. The main objectives of NABARD are as follows. NABARD will
(i) serve as an apex refinancing agency for the institutions providing investment and production credit for promoting the various developmental activities in rural areas;
(ii) take measures towards institution building for improving absorptive capacity of the credit delivery system, including monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel etc;

(iii) coordinate the rural financing activities of all the institutions engaged in developmental work at the field level and maintain liaison with Government of India, State Governments, RBI and other national level institutions concerned with policy formulation; and,

(iv) undertake monitoring and evaluation of projects refinanced by it.

In compliance with its responsibilities NABARD has enunciated the following principles which have come to be known as 'NABARD Principles' (Gupta S.C, 1987).

1. Credit must be used in accordance with the most suitable method of science and technology (Effectiveness)

2. The terms and conditions of credit or what is known as techno-economic parameters must be fully respected (Feasibility)

3. Work must be carried out with the desired skill so as to realize optimum increase in productivity and income (productivity)

4. A part of the additional income created by credit must be saved (Capital formation)
5. Loan install merits must be repaid in time and regularly so as to re-cycle the credit (Recovery)

Management and Organisational Set-up

The general superintendence, direction and management of the affairs and business of the NABARD are vested in a Board of Directors. The board exercises all powers and does all acts and things which may be exercised or done by NABARD. The board, while discharging its functions, acts on business principles with regard to public interest. The Managing Director of the Bank is also empowered with general superintendence, direction and management of the affairs and business of the Bank.

Various Departments of NABARD:

The different departments through which NABARD discharges its functions are given below:

1. Projects and Operation Department
2. Inspection Department
3. Finance and Accounts Department
4. Human Resource Management Department
5. Management Service Department
6. Law Department
7. General Administration and Premises Department
8. Secretary's Department
9. Internal Audit Department
10. Vikas Volunteer Vahini Department
11. Planning and Development Department
12. Institutional Development Department
13. Economic Analysis and Publications Department
14. Technical Services Department
<table>
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<tr>
<th>Year</th>
<th>Capital</th>
<th>Reserves</th>
<th>NRC (LTO) Fund</th>
<th>NRC (Stab.) Fund</th>
<th>Borrowing from GOI including IDA/IBRD</th>
<th>General line of credit from RBI</th>
<th>Borrowing from RBI under ARDR</th>
<th>Open market borrowing</th>
<th>RIDF Deposit Scheme 1990</th>
<th>Others</th>
<th>Total</th>
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<td>1989-90</td>
<td>100</td>
<td>408</td>
<td>4,912</td>
<td>743</td>
<td>1,930</td>
<td>2,951</td>
<td>-</td>
<td>543</td>
<td>-</td>
<td>259</td>
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<td>1990-91</td>
<td>100</td>
<td>471</td>
<td>5,687</td>
<td>773</td>
<td>1,736</td>
<td>2,391</td>
<td>692</td>
<td>633</td>
<td>-</td>
<td>268</td>
<td>12,751</td>
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<tr>
<td>1991-92</td>
<td>100</td>
<td>576</td>
<td>6,602</td>
<td>813</td>
<td>1,609</td>
<td>3,022</td>
<td>723</td>
<td>732</td>
<td>-</td>
<td>395</td>
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<tr>
<td>1992-93</td>
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<td>654</td>
<td>7,127</td>
<td>833</td>
<td>1,463</td>
<td>3,437</td>
<td>781</td>
<td>832</td>
<td>-</td>
<td>560</td>
<td>15,787</td>
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<td>1993-94</td>
<td>120</td>
<td>767</td>
<td>7,683</td>
<td>836</td>
<td>1,291</td>
<td>3,425</td>
<td>249</td>
<td>910</td>
<td>-</td>
<td>413</td>
<td>15,694</td>
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<td>1994-95</td>
<td>330</td>
<td>1,232</td>
<td>7,934</td>
<td>838</td>
<td>1,229</td>
<td>4,343</td>
<td>318</td>
<td>1,000</td>
<td>-</td>
<td>767@</td>
<td>17,991</td>
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<tr>
<td>1995-96</td>
<td>500</td>
<td>1,738</td>
<td>8,185</td>
<td>846</td>
<td>1,294</td>
<td>4,787</td>
<td>204</td>
<td>1,045</td>
<td>350</td>
<td>595</td>
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<td>8,636</td>
<td>842</td>
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<td>4,765</td>
<td>110</td>
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<td>1,392</td>
<td>960#</td>
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<td>2,731</td>
<td>9,187</td>
<td>943</td>
<td>1,059</td>
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<td>1,370</td>
<td>2,399</td>
<td>766$</td>
<td>25,207</td>
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<td>1998-99</td>
<td>500</td>
<td>2,820</td>
<td>10,020</td>
<td>1,044</td>
<td>1,003</td>
<td>5,649</td>
<td>-</td>
<td>1,633</td>
<td>3,608</td>
<td>941*</td>
<td>28,986</td>
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Note: @ Includes borrowings from RBI under GSRF and Short-term borrowings.
# Other liabilities include Rs 4 crores as deposits.
$ Other liabilities include Rs 257 crores as deposits.
* Other liabilities include Rs 350 crores as deposits.
Sources of Funds

NABARD obtains its financial resources from the following sources:

(i) Share Capital
(ii) Reserves and surplus
(iii) Borrowings
(iv) Deposits
(v) Other liabilities, and
(vi) Current liabilities

Table 1.2 shows the position of resource management in different years.

Functions of NABARD:

NABARD has taken several measures, both at policy and operational levels, for improving the quality of lending by ensuring adherence to technical and financial parameters and by supporting national policies for increasing agricultural production and rural employment through efficient use of national resources. NABARD aims at increasing the refinance absorption capacity of the credit delivery system by improving the health of the credit agencies involved in credit dispensation. NABARD has been performing a variety of role functions in tune with its mandate.

The functions of NABARD can be classified into two broad categories—credit functions and other functions.

1. Credit Functions:

(a) Production and Marketing Credit

NABARD provides loans and advances repayable on demand or on expiry of the fixed period (maximum eighteen months), by way of refinance. The SCBs, RRBs or any other financial institutions or any class of financial
institutions approved by the RBI may avail this refinance from NABARD. The purposes for which the refinance may be provided are - agricultural operations, marketing of crops, the marketing and distribution of inputs necessary for agricultural development and any other activity for the promotion of agriculture and rural development. The bonafied commercial/trade transactions and production and marketing activities of rural artisans/small scale industry in the tiny and decentralised area/village and cottage industries or those engaged in the field of handicrafts and other crafts are also the eligible purposes for providing refinance.

NABARD also grants loans and advances to any SCBs if the loan or advance is fully guaranteed for repayment of principal and interest by Government.

b) Conversion Loan for Production Credit

The NABARD is authorized to provide loans and advances to any SCB, RRB or any institution approved by the RBI. Such assistance may be provided if the Bank is satisfied that it will deem fit to provide loans and advances due to drought, famine or other natural calamities, military operations or enemy actions. This type of refinance is repayable on expiry of fixed not exceeding seven years on such terms and conditions as specified by the Bank.

Loans and advances may be made under this category is only for the purpose of enabling borrowing bank or institution to pay any dues to NABARD for credit extended for financing agricultural operations or the marketing of crops. This type of loans and advances enable the borrowing bank/institution to make loans and advances to central cooperative banks or primary rural credit societies for agricultural operations or for reimbursement of such loans or advances which have been converted into medium-term loans or advances. But no loans or advances shall be made under this category to a State cooperative bank unless such loans and advances is fully guaranteed by the State Government.
c) **Rescheduling of Loans to Artisans, Small-Scale Industries**

NABARD may provide its refinance by way of loans and advances where it is satisfied that owing to unforeseen circumstances, the rescheduling of loans and advances made to artisans, small-scale industries, industries in the tiny and decentralised sector, village and cottage industries and those engaged in the field of handicrafts and other rural crafts by any SCB, RRB or any other financial institution and any financial institution approved by the RBI in this behalf is necessary. Such assistance is repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years against such securities as specified by NABARD.

d) **Investment Credit - Medium-term**

If NABARD considers necessary, it may provide such financial assistance by way of loans and advances to SCBs and RRBs. Such loans and advances shall be repayable on the expiry of fixed periods not being less than eighteen months and not exceeding seven years. It may be provided against such securities as may be specified by NABARD and such loans and advances may be made for agriculture, rural development, or such other purposes as determined by NABARD from time to time.

e) **Purchase and Sale of Shares**

NABARD may contribute to the share capital of, or purchase and sell shares of, or invest in the securities of any institution engaged in agriculture and rural development, which the GOI may notify in consultation with the RBI.

f) **Loans to State Government for Share Capital Contribution**

Loans and advances may be made by NABARD to state governments from National Rural Credit (Long-Term Operations) Fund established under section 42 of the NABARD Act for enabling them to subscribe directly or indirectly to the share capital of a cooperative credit society. These loans and advances may be provided for a period not exceeding twenty years.
g) **Direct Leans**

NABARD is authorized to make loans and advances by way of refinance to any institution approved by the central government on such terms and conditions (including security) and repayable within such period not exceeding twenty-five years as the NABARD may deem fit.

i) **Commission**

NABARD receives commission or other consideration in respect of rendering of any services related to its various credit functions and other functions.

i) **Power to Call for Repayment Before Agreed Period**

In the absence of contrary arrangements in any agreement the NABARD may (by notice or writing) require any borrowing institution to which it has granted any loan or advance to discharge forthwith in full its liabilities to the NABARD.

- if it appears to the Board total false or misleading information given in the application for the loan or advance, or
- if the borrowing institution has failed to comply with any of the terms of its contract with NABARD
- if there is a reasonable apprehension that the borrowing institution is unable to pay its debts or that proceedings for liquidation may be commenced in respect thereof.

n. Other **functions** of NABARBs

NABARD also performs other functions as given below.
a) Co-ordination, Study and Consultation

NABARD coordinates its operations and the operations of various institutions engaged in the field of rural credit, it maintains expert staff to study all problems relating to agriculture and rural development. It will also be available for consultation to central government, the RBI, the state governments and the other institutions engaged in the field of rural development.

b) NABARD acts as an Agent

NABARD acts as an agent for the central government or a state government or the RBI in the transaction of any business in respect of loans and advances granted or to be granted of bonds or debentures purchased or subscribed for or to be purchased or to be subscribed for.

c) Training Facilities and Promotion of Research

NABARD provides facilities for training, for dissemination of information and for promotion of research including, the undertaking of studies, researches, techno-economic and other surveys in the field of rural banking, agriculture and rural development. For these purposes the Bank extends grants by way of provision for fellowship and chairs to any institution.

d) Credit Information

NABARD, for the purpose of the efficient discharge of its functions under the act, collects from or furnishes to the central government, the RBI or any banking company or such other financial institution as notified by the central government, about credit information or other information.

e) Deposits and Investments

NABARD invests its funds in promissory notes, stocks and the securities of the Central Government. It may keep its money deposits with the RBI or with any agency of the RBI or in consultation with the RBI with a state cooperative bank or a scheduled bank.
Special Development Programmes:

a) Bank Assistance for Integrated Rural Energy Programme (IREP)

In keeping with the declared policy of the GOI to accelerate the development and use of technologies based on new and renewable sources of energy especially in rural areas, NABARD decided to involve itself actively in the implementation of the IREP. The role of NABARD is mainly to co-ordinate the efforts of State Planning Department, nodal departments and financing institutions. NABARD also ensures that while preparing the Annual Action Plan under the District Credit Plan, adequate provision is made for financing this programme. NABARD has also requested CBs, RRBs, SCBs and SLDBs, to extend adequate credit facilities for the various activities coming under the programme. Refinance facility from NABARD is available against loans granted for the purpose of installation of bio-gas plants, duel fuel engines, wind mills and solar cookers.

b) Financing of Public Distribution System (PDS) by Cooperative Banks:

In view of the high priority assigned by the Government of India to the distribution of essential commodities in rural areas, it was recognized that the Primary Agricultural Cooperative Banks (PACBs) being village level institutions were ideally suited to undertake this activity in the rural areas. Accordingly, it was decided to reckon the involvement of funds by the Central Cooperative Banks (CCBs) in financing the PACBs undertaking public distribution activities.

Other Development Initiatives."

Di strict Credit Plans (DCP):

Planning for credit had not received much attention in development planning for the agricultural sector prior to the nationalization of commercial
banks. The Government of India initiated the scheme of social control over banks in December 1967 to bring about wider diffusion of banking facilities and changes in the pattern of lending. The system of credit planning which has become an integral part of credit policy and the Lead Bank Scheme (LBS), which seeks to make the banking system function as an instrument of development, are the outcome of social control. Lead Bank Scheme and District Credit Plans can be considered as, perhaps, the first attempt in decentralized credit planning. The first set of District Credit Plans was prepared and launched in 1978. These plans, however, reflected significant differences among themselves in regard to approach, methodology and quality.

Though credit planning under the Lead Bank Scheme has contributed to coordinate the approach to some extent on the part of the lending agencies in meeting the credit requirements, it could not effectively achieve the objectives of decentralized credit plan unit. Various evaluations of agricultural credit projects have brought out that the impact of credit-supported investments has been less than optimal for a variety of reasons, such as, inadequate infrastructure, poor extension support and absence of forward and backward linkages. These differences could, perhaps, be minimized when credit planning is more decentralized.

Potential Linked Credit Plan (PLCP):

In keeping with its role as the apex institution in the field of rural credit, with the mandate for ensuring integrated development of the rural economy, NABARD has taken the initiative to build a more meaningful link between the development plan at the district level and the process of credit planning for supporting agricultural and rural development. Recognising some of the deficiencies earlier observed in the District Credit Plans (DCPs) and taking
advantage of the experience available to it in the preparation of projects for the provision of refinance support for long-term investments in agriculture, NABARD in 1987-88, took the initiative of preparing Potential Linked District Plans for agriculture and rural development. The basic objective of Potential Linked Credit Plan is to explore the existing potentials for development and evolve an appropriate mechanism through which such potentials may be exploited over a specified time-frame. These plans represent an effort at making projections of credit requirements in different sectors in a district, taking into account the long-term physical potential, availability of infrastructure, marketing support and refinance absorption capacity and other strength and weaknesses of the credit institutions. An important feature of this exercise is that these plans are expected to reflect in a more realistic way the local needs and potentials and linkages with developmental agencies.

For this purpose, detailed guidelines have been formulated in consultation with officials of state governments and of banks functioning in the districts concerned. The guidelines envisage estimation of long-term development potential (in terms of potential units) in each sector of agriculture and rural development, e.g., minor irrigation, land development, plantation and horticulture, forestry, dairy, poultry, etc., with reference to the natural and human resources endowments and a phased annual programme for development keeping in view the relative national and state priorities. Alongside, the infrastructure requirements are identified and compared with the present status and likely development as reflected in the plans drawn up by the government.

The Potential Linked District Plans (PLDPs) represent a viable model of decentralised credit planning at the district level. Unlike the DCPs, PLDPs represent an in-depth and realistic assessment of resource potential that can be tapped with institutional credit support. While the District Credit Plans
reflected the dominant influence of constraints in supply of credit, the PLDPs, in contrast are more indicative of normative demand for credit related to exploitation of resource potential. The PLDP is more growth-oriented since it has a long-term perspective of development spanning 6-7 years. In as much as it explicitly recognizes the refinance absorption capacity of the banks, it will be able to ensure greater feasibility in implementation of the plan.

**Vikas Volunteer Vahini (VVV):**

The VVV is an experiment in social engineering in the field of rural banking in India. It was started by NABARD in 1983 as the part of an attempt to address itself to the problems posed by mounting overdues of agricultural loans of primary lending institutions in India, by creating an environment of securing "Development Through Credit (DTC)" for the proper use of loans and its timely repayment.

**Assistance to Rural Women in Non-Farm Development (ARWIND):**

An exclusive scheme for women entrepreneurs to encourage group activities amongst rural women leading to establishment of individual or group enterprises and generation of employment opportunities in rural areas was launched in October 1993.

**Strategy:** - Under the aegis of sponsoring agency, the rural women will be organized into compact groups for imparting skill training/Entrepreneur Development Programme (EDP) or orientation or sensitization/trainings. Thereafter, they will be assisted to set up their own home-based or other individual/group/cooperative satellite units/enterprises. The sponsoring agency will be assisted selectively to set up mother units/Common Service Centers (CSC) for providing the umbrella services to such units.
Implementing Agencies:- The implementing agency can be a reputed voluntary agency/NGO with a proven track record in the field of rural employment generation. The satellite units can take support from NGOs or Village Agencies or Cooperatives or Women Development Corporations or Trusts or any registered institution/University departments.

Assistance available from NABARD: - Promotional support in the form of grant assistance not exceeding Rs. 10,000/- per woman trainee for meeting the training expenses and also for setting up of mother unit/common service center on a selective basis is given. If the agency is finding it difficult to arrange for bank credit for the small units, Revolving Fund Assistance (RFA) is also provided by NABARD on a very selective basis.

Refinance/Loan Assistance: All types of manufacturing, servicing, processing activities excluding those, which are not socially desirable such as breweries producing intoxicants are eligible for bank loan with refinance support from NABARD.

Location and Size: - While there is no restriction on the mother unit in regard to location and size, Common Service Centres (CSCs) and the satellite units should be located in rural areas and their size shall not exceed Small Scale Industry limits.

Assistance for Marketing of Non-Farm Products of Rural Women (MAHIMA):

'MAHIMA', a scheme aimed at developing a 'pro women' market and helping the agencies engaged in marketing of products produced by poor rural women was introduced in November 1997 as a part of the NABARD's initiatives to promote credit for women through promotion of Rural Non-Form Sector (RNFS).
Support was extended from Research and Development Fund (RDF) for undertaking research and studies, which could provide new insight into problems of agricultural and rural development. NABARD also provided assistance for setting up of training-cum-production centres (TPC) for rural artisans and for conduct of entrepreneurial development programmes in non-farm sector.

Institutional Development:

Institutional development is yet another important role of NABARD. NABARD has given special attention to the institutional building activities in line with the recommendations made by the Agriculture Credit Refinance Corporation and Parliamentary Committee on Agriculture. The initiatives taken in this regard include (i) policy support operational guidelines to cooperatives and RRBs to attain consistent improvements in outreach, together with sustainable viability, (ii) extending grant assistance to cooperative banks and RRBs to enable and strengthen their technical monitoring and evaluation cells with professionally qualified personnel for formulating, appraising and evaluation projects/schemes for farm and non-farm activities (iii) conduct of seminars of chief extension officers of SCBs/SLDBs to identify their basic problems and evolve remedial policy measures (iv) discussions with individual SCBs/SLDBs for encouraging them to prepare time bound action plans for mitigating some of their problem areas like unsatisfactory recovery, dwindling viability, need for human resource development (v) continuance of chairman's state level discussions with the representatives of state government and cooperatives, CBs and RRBs, (vi) preparation of state-wise papers on status of cooperative credit institutions, highlighting the areas of strength and weaknesses, and (vii) allowing RRBs to take up non-target group financing up to 40 percent of their fresh lending.
The efforts under institution building is to help the intermediary financial institutions to improve their credit absorption capacity and to enable them to deliver credit in a more effective manner.

Innovative Schemes:

Self Help Group (SHG) - Bank Linkage programme-

There are many instances where the poor have demonstrated their potential for self help to secure greater economic and financial strength by forming SHGs. Many such SHGs have come into existence spontaneous or with the active involvement of voluntary agencies or development agencies. Such SHGs have been formed generally around specific issues confronting the poor or specific production activities and often they have mobilized savings among their members, who would normally not be expected to have any savings and used such resources to meet the emergent credit needs of the members of the group. The democratic functioning and group dynamism, their adroitness in assessing and appraising the credit needs of members, their business-like functioning and efficiency in recycling the funds often with repayment rates nearing cent per cent, are additional welcome features.

Under the linkage project, the main advantages to the banks are the externalization of apart of the work items of the credit cycle viz. assessment of credit needs, appraisal, disbursal, supervision and repayment (i.e.) reduction in the formal paper work involved and a consequent reduction in the transaction costs. The larger mobilization of small savings is equally advantageous. For the groups the advantages lie in the access to a larger quantum of resources as compared to their meager corpus generated through thrift, access to better technology and skill upgradation through different schemes of the banking sector and a general improvement in the nature and scale of operations.
Micro-Credit Innovations:

The concept of Micro Credit to the rural poor for self-employment activities was started by Prof. Muhammed Yuruius, a pioneer in micro credit in Bangladesh. The idea of micro credit has been praised world wide and in 1997 Micro-Credit Summit was organised in which the decision was taken to provide 100 million of the worlds' poorest families with credit for self-employment activities by 2005 (Pankaji Naithani, 2001). As micro-credit has been talcing deep roots in the south asian region and making definite impact on the improvement of standard of living of poor house-holds, Indian rural credit system has also accepted it for financing from the year 1992, in addition to the existing programmes so as to increase the coverage in view of the large size of country and varying requirements of rural population. Micro-credit has been defined by the RBI as the provision of thrift, credit and other financial services and products of small amounts to the poor in rural, semi-urban and urban areas to enable them to raise their standards of living (Patel A.R, 2000). It may cover not only consumption and production loans for various farm and non-farm activities being pursued by the poor but also include their own credit needs such as housing and shelter improvements. Batiks have been endeavouring their best towards increasing the access of the rural poor to formal banking services through promotion and credit linking of SHGs of rural poor.

In view of appreciable diversity in the socio-economic structure of the poor rural households and establishing their sustainable relationship with the different types of formal banks in India, the definition of the SHGs has been made broad based. With the credit linking of 81,780 SHGs (61,650 with NABARD refinance) during 1999-2000, the programme far exceeds the target of 50,000 envisaged in the union budget 1999-2000. Cumulatively, 1,14,775 SHGs (94,645 with NABARD) were linked with banks and bank loan amounting to Rs.193 crore was disbursed till the end of March 2000 (NABARD, 2000).
The RBI issued a circular to scheduled commercial banks including RRBs in February 2000, mainstreaming micro-credit and permitting its reckoning towards priority sector lending. A high power Task Force set up by the NABARD under the chairmanship of Sri. Y.C Nanda, Managing director, NABARD examined critical issues involved in the orderly growth of micro-finance sector in the country and formulated supportive policy and regulatory framework submitted its report to RBI on 18th October 1999.

The repayments by members of the SHGs was around 98 per cent and SHGs to banks was over 99.5 per cent. Such a significant performance of the programme is mainly due to active participation of the agencies/individuals involved in it, namely, the bank, bankers and NGOs. It is also due to NABARD's initiative of,

» Encouraging and supporting NGOs to attempt group approach
« Creating favourable policy environment for SHGs to easily open their bank account
® Training and sensitization of bankers
• Capacity building supports to Banks, NGOs and SHGs
• Close monitoring
« Dissemination of knowledge
® Constitution of High Powered Task Force to make recommendation with regards to policy and regulation of the micro finance sector (Pankaji Naithani, 2001).

Artisan Guilds:

To promote a spirit of self-help and mutual support among the widely dispersed artisans and to organize them under a common forum for initiating support measures for development of their activities, a scheme of assistance, by way of grant, to Artisan Guilds has been formulated. The grant assistance under the scheme is expected to cover cost of common facilities such as work-shed, godowns, machinery, besides cost of upgradation of staffs, transfer of modern technology and recruitment.
Rural Infrastructure Development Fund (RIDF):

Lack of infrastructure in rural areas has been considered as serious problem for our planners for quite some time. Due to inadequacy of infrastructure in rural areas, the credit absorption capacity in rural areas started diminishing. The banks were not able to achieve their target in priority sector lending due to the poor quality of the infrastructure available in rural areas.

Infrastructure development was the responsibility of the state governments. But many states could not take up this area due to fund constraints. There are many rural infrastructure projects, which have been started but could not be completed for want of funds. They represent a major loss of potential income and employment to the rural poor. Since development of agriculture and ensuring prosperity of rural area are the main objective of NABARD, the management of the fund is entrusted with NABARD.

Rural Entrepreneurship Development Programme (REOP):

An Interim evaluation study of the REDP undertaken by National Bank revealed that the programmes had motivated the trainees to consider self-employment as a real option (NABARD, 1993-94). However, non-availability of bank credit was the main constraint faced by them, which proposed to be overcome by greater involvement of banks in selection of trainees and co-sponsorship of REDPs by banks and NABARD. It was observed that majority of the trained persons were able to find employment and that EDPs with emphasis on skill training and programmes conducted by local voluntary organizations for candidates drawn from compact areas demonstrated REDPs conducted exclusively for women showed better results.
Flexible Approach:

A new concept, viz., flexible approach was introduced in the year 1993-94 with a view to broadening the scope of experimental non-farm sector promotional projects with greater flexibility and choice of action to the implementing VAs/NGOs. In exceptional cases, government sponsored autonomous promotional institutions with the necessary competence were also considered for the assistance under the new concept. NABARD’s support would consist of credit and grant components. Refinance assistance is to be provided for the credit component. The grant component would be need based and directly related to the rural employment opportunities to be created.

District Rural Industries Project (DRIP):

The credit intensification programme for rural non-farm sector, with an area approach covering a district was started in the year 1993-94. It aims at providing an umbrella type of support to various rural industrial activities in the districts. The total credit and promotional support involved in each project has been estimated at Rs.25 crores envisaging setting up of about 5,000 rural units and employment generation for about 25,000 persons over a period of 5 years. A series of measures were initiated to launch the survey, to identify the constraints in the credit delivery system and to suggest remedial action. These surveys would also help in evolving appropriate modules for training of staff of primary lending institutions, voluntary agencies, in addition to serving as a benchmark for future evaluation of the project. The projects are closely monitored by the Project Coordination and Guidance Committees and Monitoring Committees set up at district and state levels. NABARD is playing a catalytic role in the implementation of the programme.
Future outlook:

The task before the rural credit system in the current century is formidable and complex as it has to deal with two diverse challenges, namely, addressing the basic problems of rural development and globalising Indian agriculture. Thus, it has to deal with two distinct clientele groups: one having small individual credit needs but accounting for high proportion of total credit and the other requiring huge amount of credit for practicing capital-intensive, export-oriented hi-tech agriculture. Hence, what is needed is to gear the existing credit system to these challenges. Against the above backdrop, NABARD marches forward to meet the greater challenges in the coming years. NABARD is on the verge of completing two decades of its existence and has been promoting agriculture and rural development in the States including Tamil Nadu. The present study is focused on the role of NABARD in promoting rural development in Tamil Nadu with special reference to Dindigul District.
Notes and References:


