CHAPTER I

INTRODUCTION AND DESIGN OF THE STUDY

“In the village itself no form of credit organisation will be suitable except the co-operative society - Co-operation has failed, but co-operation must succeed”

- All India Rural Credit Survey.

1.1 Introduction

The Raiffeisen model credit co-operatives were introduced in India, mainly to solve the credit needs of Indian farmers. As farmers were in need of short-term, medium-term and long-term credit, the initial years of last century were devoted for the organisation of short-term agricultural credit structure consisting of village credit co-operatives, District Central Co-operative Banks and State Co-operative Banks. The organisation of long-term agricultural credit structure was felt slightly late, by co-operators as well-wishes of the farmers. The long-term agricultural credit structure under went changes in its nomenclature from land mortgage bank of the earlier days to recent (1997) Agriculture and Rural Development Banks.

Present study is mainly on the role of Agriculture and Rural Development Bank in the promotion of Rural Economy, by providing long-term credit to the farm sector as well as the non-farm sector of the rural India. In the following passage, an attempt is made to trace the evolution of co-operative long-term agricultural credit structure.
Term lending for agricultural development has a long history in India. The Government used to assist the farmers in the form of ‘taccavi loans’ which is a formal and conventional form of assistance to agriculture through government organisations. Taccavi loans were previously granted by the Government for agricultural purposes during the period of natural calamities and other crisis. Such a loan turned out to be a record of inadequacies and inequality of distribution mainly due to the fact that medium and long-term loans which formed the bulk of taccavi were normally disbursed to the well-do-to farmers. This type of ‘taccavi’ lending long-term credit system.

The first bank in the pattern of land mortgage bank was setup by an English Company styled as ‘Credit Fencier Indian in 1863 and was registered in London. Arrangements for providing long-term credit came only in 1883 with the passing of the land improvement loan Act. Even with the introduction of Co-operative Credit Movement in India in 1904, the agricultural credit societies could not make any progress in the sphere of long-term credit mainly due to the risks involved in long-term financing and locking up of funds for long years. There was an urgent need for an institutional augment to meet the long-term credit requirements of Indian agriculture. The Royal Commission on Agriculture remarked, “There is a widespread tendency to look for a financing agency which wields greater resource than the village credit
societies: which can meet the rural credit needs of the rural masses.¹ Co-operatives were considered as suitable agencies for this purpose, but the problem was whether to allow the existing three fire short-term co-operative structures to handle these function also, or to have to separate agency in the form of the Co-operative Land Mortgage Banks. There was a serious defate over this for a decade and the Government delayed action in dealing with this problem.

However, Mr. H.C. Calvert Registrar of Co-operative Societies in Punjab, took advantage of the provisions of the already passed Indian Co-operative Societies Act of 1912, and set up the first Co-operative Land Mortgage Bank at Thaug (now in Pakistan) on 30th June 1926, However, it failed to perform well and showed only poor progress.

The real beginning of Land Mortgage Banking in India was marked by the establishment of Central Land Mortgage Bank in Madras on 21st December 1929. It was organised to raise funds needed by the primaries through the issue of debentures and thereby co-ordinating the working of primary land mortgage banking started in the country with the organisation of similar banks in Bombay (1935) in Mysore (1929) and in Cochin (1935). The establishment of Central Land Mortgage Banks lid to the rapid expansion of the operations of

Primary Land Mortgage Banks. Their main aim was to advancing loans for redemption of prior debts.

However, these land mortgage banks could not make much progress in the initial years. The RBI has rightly observed that, ‘inspite of its successful land banking structure’.²

The Rural Credit Survey Committee appointed by RBI conducted a survey during 1951-52 and found that only six states had land mortgage banks. The committee reviewed the performance of those land mortgage banks and felt that these banks should re-orient their operations to production and should give priority to productive loans. In pursuance of the recommendation of the Rural Credit Survey Committee, the emphasis was shifted from land mortgage banking to development banks.³ With this there came about a new direction in their lending operations focused on ‘production’ rather than ‘redemption’. Further impetus was provided in subsequent years, when the five year plans land stress on increased agricultural production by improved production methods and increased irrigation facilities. To suit their new role of provision of loans for developmental activities the change in nomenclature, from land mortgage banks to co-operative land development banks was initiated.

²ACDRBI Review of Co-operative Movement in India, 1939-46, p.34.
³RBI, Report of the All India Rural Credit Survey, Vol.11, p.437.
Thereafter, there had been a substantial progress in the field of long-term lending programmes for agriculture.

1.2 Organization Structure of Agriculture and Rural Development Bank in India

The structure of land development banks in India in either of (a) Federal structure or of (b) Unitary structure. The federal structure has got a state land development bank at the apex level and independent primary land development banks at the block/taluk level forming a two-tier structure. Under the Unitary structure, there would be a state land development bank and its branches spread over the entire state.4

The Primary Land Development Bank under the two-tier structure functions as an independent corporate body, doing the work of accepting mortgages, advancing and recovering loans within its area of operation. The branch of a state land development bank under the unitary type functions as an functional unit under the control and direction of the state level organization, the head office.

With a view to decentralize their administrative functions almost all the state land development banks, whether of federal or unitary structure opened regional offices at the regional or district level. In some states primary land development banks also have branches. Broadly the organizational structure of

land development banking in different states and union territories as at present are indicated in the following chart:

**CHART 1.1**
**UNITARY STRUCTURE**
State Co-operative Agricultural Rural Development Bank

- Branch

**Farmer borrowers**

**CHART 1.2.**
**FEDERAL STRUCTURE**
State Co-operative Agricultural Rural Development Bank

- PCARDB
  - Members (BorrowersFarmers)
  - Members (Farmers)
  - Members (Farmers)
  - Members (Farmers)

**CHART 1.3**
**MIXED STRUCTURE**
State Co-operative Agricultural Rural Development Bank

- PCARDB
  - Members (Borrowers)
- Branch of SCARDB
  - Farmer Borrowers
1) Unitary Structure

Under the unitary structure, the State Co-operative Agriculture and Rural Development Bank with its branches and sub-branches, serve the former borrowers. This structure is in operation in Tripura, Bihar, Jammu and Kashmir, Maharashtra, Pondicherry and Uttar Pradesh. In fact in Tripura, the SCARDB finances the farmers directly where as in other states mentioned, they operate through their branches and such branches provide finances to the farmers.

2) Federal Structure

The PCARDB formed at the taluk level federate together to form the SCARDB. The PCARDB functions as independent corporate unit, carrying out lending and related operations independent of the SCARDB. SCARDB functions as apex organisation providing finance and refinance to the PCARDBs at taluk levels. Federal structure of land development banking in being followed in Assam, Andhra Pradesh, Haryana, Karnataka, Orissa and Punjab.

This structure, with a slight alteration at the base level is in operation in the states of Kerala, Madhyapradesh, Rajasthan and Tamil Nadu. In these states the PCARDBs have established branches and operate through such branches.
3) Mixed Structure

Operations of SCARDB, PCARDBs along with branches of SCARDB, indicate the mixed structure of land banking. In states like Gujarat and Himachal Pradesh and West Bengal the SCARDB, operates through its branches in some parts of the state at the same time permitting PCARD to operate independently in certain other parts of the state.

In the newly formed states of the country state co-operative banks themselves, function as a long-term agricultural credit co-operatives. The state co-operative banks provide long-term credit either directly or through their branches as seen in the case of unitary structure or through the Primary Agriculture Co-operative Credit Societies, as found in the two-tire structure.

The National Bank for Agricultural and Rural Development (NABARD) was set up in July 1982 an apex national institution entrusted with all matters concerning policy, planning and operations in the field of credit for farm, non-farm sector and other economic activities in the rural areas. Non-Farm Sector covers all off farm activities outside agriculture and allied activities in secondary and tertiary sectors of the economy. NABARD has been extending refinance for the development of Non-Farm Sector (NFS) as well as grant assistance to various promotional programmes under NFS since 1985-86. The grant assistance flow for NFS has substantially increased across the country. NABARD provides refinance facility to all institutional agencies, viz.,
Commercial Banks (CB), Regional Rural Bank (RRB), State Cooperative Bank (SCB) and SCARDBs for providing loans to NFS.

1.3 Objectives of Agriculture and Rural Development Banks

The main objectives of Agriculture and Rural Development Banks is to give priority to productive purposes. In pursuance of the recommendations of the Registrar’s Conference (1926) Royal Commission on Agriculture (1928) and Indian Central Banking Enquiry Committee (1931) on CBDs, emphasized, lending operations in terms of production rather than redemption. Further impetus was provided in subsequent years, when the five year plans laid stress on increased agricultural production by improved production methods and increased irrigation facilities. The major source of funds of these banks for carrying out credit operations is through refinancing support of National Bank for Agricultural and Rural Development (NABARD) ⁵.

1.4 Business Operations of Agriculture and Rural Development Bank

Majority of the activities of ARDBs are supported by refinancing from NABARD. Being Development Banks in the co-operative sector, their operations are funded by owned source as well as borrowed source. The owned source comprises of share capital contributions, entrance fees and statutory reserves. The borrowed funds of these banks have two components. The first

⁵ Review of the Co-operative Movement in India, 1976-78, p.111.
being the refinance facilities offered by NABARD under various schemes and second in taping the debenture market. These banks float debentures in the market and raise funds, such debentures are floated on the security of the guarantee given by the concerned State Government for the repayment of Principal and interest and supported by the mortgages furnished by the borrowers.

Apart from debentures, the ARDBs also have substantial owned funds, comprising paid-up share capital and reserves. Contributions to the share capital of the banks come from borrowers as a proportion of loans sanctioned to them and an additional share capital of 5 per cent of the loan applied for has to be remitted by the borrower. The State Governments also a matter of policy to strengthen the financial base contribute to the share capital of ARDBs. Reserves are build up by the banks from profits by transferring, through statutory requirements. The provision of State Co-operatives Societies Acts and by-laws of the concerned banks by lay down that a minimum of 25 per cent of the profits is taken to reserve funds of the banks. Such a provision has resulted in building up of funds considerably.

The ARDBs are not totally free to raise deposits from the public, as in the case of commercial and co-operative banks through they are permitted to accepted fixed deposits for periods of one or two years. The banks have not been successful in taping savings from the public mainly because they are not banking institutions and cannot provide normal banking services to the
depositors. Moreover, such deposits are costly for being used as working capital. However, in the context of deregulation of interest rates on borrowings and lendings, it is possible for ARDB to raise substantial deposits and deploy such resources remuneratively for developing agriculture and other rural economic development activities.

As regards lending the ARDBs had switched over from advancement of long-term credit for redemption of debts to that of productive loans, particularly after the introduction of five year plans for the development of the economy. After this switch over, the ARDBs made rapid progress and contributed significantly to the development of agriculture. In the content of agriculture development, emphasis has always been for developing the minor irrigation potential and infact, is the plan programmes and strategy, minor irrigation has been accorded the highest priority. It is only natural that ARDBs concentrated their efforts for financing minor-irrigation works taken up mostly by individual farmers. Even now minor-irrigation pumpsets and pipelines is the most dominant single purpose financed by the banks accounting for about 50 per cent of total loan disbursements, other traditional development activities financed by the banks include land reclamation and development farm mechanization like purchase of tractors and power trillers, setting up of horticulture farms and plantations development. ARDBs denying the last two decades have considerably diversified their loans to certain non-traditional operations which are not land-based and are subsidiary to agriculture. Some of
the important non-traditional activities which are financed by the ARDB are animal husbandry and dairy farming, cattle breeding sheep and goat rearing, piggery and poultry farming, posiculture, sericulture, forestry, gobar gas plants, bullock carts, godowns and cold storages and market yards. Many of these developmental activities are taken up by small farmers to supplement their income. The scope for diversification of loans is enormous and the banks are increasingly making efforts to widen their operations to non-traditional purpose.

A significant development in the business operations of the banks took place in 1986, when they took up financing non-farm sector activities i.e., small scale industries, handicrafts, garments for export, power looms, handlooms, (SRTO) Small Road Transport Operation, Rural Hospital and Rural Housing. During the last 15 years the banks have emerged as a major player in this field of rural financing accounting for over 50 per cent of the NABARD refinance support to eligible institutions for this purpose.

Yet another area of their entry since last 6 years is ‘housing’ and they are providing credit to farmers in rural areas for building houses. Rural housing finance by these banks have become a reality with the refinance support of National Housing Bank another apex level organization in the country.
1.5 Performance of ARDBs

At all India level the structure of long term credit is not uniform. Federal, unitary, mixed and integrated structure exist at present (Chart. 1.1). The National Federation of State Cooperative Agriculture and Rural Development Bank is functioning at Mumbai. The main function of this federation is advocacy. At the State level, there are 20 State level federations of ARDBs functioning across the country.

Table 1.1 highlights the performance of SCARDBs at national level. It was found that the share capital position of SCARDBs has increased from
Rs.668 crore during the year 1998-99 to Rs. 789 crore in the year 2007-08. In the case of owned funds, it was found that in the year 1998-99, reserves owned by these federations was Rs. 2353 crore, which has increased over the years and stood at Rs. 2685 crore in 2007-08. These banks were not concentrating on deposit mobilization which was evident from the fact that the total deposits mobilized were Rs. 240 crore in 1998-99. This had grown over the years and stood at Rs. 695 crore in 2007-08. Due to Government waiving policies across the country, the total loan issued by the structure was also affected severely.

Table 1.2
Performance of PCARDBs at National Level
(Rs.Crore)

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Share Capital</th>
<th>Reserves</th>
<th>Deposits</th>
<th>Borrowings</th>
<th>Loan Issued</th>
<th>Loan outstanding</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998-99</td>
<td>745</td>
<td>(0.00)</td>
<td>610</td>
<td>1167</td>
<td>6777</td>
<td>1735</td>
<td>6778</td>
</tr>
<tr>
<td></td>
<td>(3,380)</td>
<td></td>
<td>(17.99)</td>
<td>(67.67)</td>
<td>(15.09)</td>
<td>(8.84)</td>
<td>(16.06)</td>
</tr>
<tr>
<td>1999-00</td>
<td>755</td>
<td>(1.34)</td>
<td>689</td>
<td>1378</td>
<td>7647</td>
<td>1818</td>
<td>7611</td>
</tr>
<tr>
<td></td>
<td>(12.95)</td>
<td></td>
<td>(18.08)</td>
<td>(31.32)</td>
<td>(12.83)</td>
<td>(4.78)</td>
<td>(12.28)</td>
</tr>
<tr>
<td>2000-01</td>
<td>732</td>
<td>(3.040)</td>
<td>718</td>
<td>1628</td>
<td>8412</td>
<td>1865</td>
<td>8380</td>
</tr>
<tr>
<td></td>
<td>(4.20)</td>
<td></td>
<td>(18.14)</td>
<td>(7.79)</td>
<td>(10.00)</td>
<td>(2.58)</td>
<td>(10.10)</td>
</tr>
<tr>
<td>2001-02</td>
<td>768</td>
<td>(4.910)</td>
<td>1091</td>
<td>2494</td>
<td>10334</td>
<td>2045</td>
<td>9982</td>
</tr>
<tr>
<td></td>
<td>(51.94)</td>
<td></td>
<td>(53.19)</td>
<td>(8.93)</td>
<td>(22.84)</td>
<td>(9.65)</td>
<td>(19.51)</td>
</tr>
<tr>
<td>2002-03</td>
<td>768</td>
<td>(0.00)</td>
<td>1008</td>
<td>2730</td>
<td>11217</td>
<td>2151</td>
<td>10775</td>
</tr>
<tr>
<td></td>
<td>(-7.60)</td>
<td></td>
<td>(9.46)</td>
<td>(13.28)</td>
<td>(8.54)</td>
<td>(5.18)</td>
<td>(7.94)</td>
</tr>
<tr>
<td>2003-04</td>
<td>766</td>
<td>(-0.260)</td>
<td>918</td>
<td>2141</td>
<td>11917</td>
<td>2164</td>
<td>11229</td>
</tr>
<tr>
<td></td>
<td>(-8.92)</td>
<td></td>
<td>(-21.57)</td>
<td>(17.76)</td>
<td>(6.24)</td>
<td>(0.46)</td>
<td>(4.21)</td>
</tr>
<tr>
<td>2004-05</td>
<td>727</td>
<td>(-5.09)</td>
<td>927</td>
<td>2254</td>
<td>12847</td>
<td>2505</td>
<td>12614</td>
</tr>
<tr>
<td></td>
<td>(0.98)</td>
<td></td>
<td>(5.27)</td>
<td>(53.30)</td>
<td>(7.80)</td>
<td>(15.88)</td>
<td>(12.33)</td>
</tr>
<tr>
<td>2005-06</td>
<td>696</td>
<td>(-4.36)</td>
<td>920</td>
<td>2683</td>
<td>13163</td>
<td>2254</td>
<td>12880</td>
</tr>
<tr>
<td></td>
<td>(-0.75)</td>
<td></td>
<td>(19.03)</td>
<td>(3.55)</td>
<td>(2.45)</td>
<td>(-10.05)</td>
<td>(2.10)</td>
</tr>
<tr>
<td>2006-07</td>
<td>696</td>
<td>(0.14)</td>
<td>922</td>
<td>2646</td>
<td>12767</td>
<td>1970</td>
<td>12108</td>
</tr>
<tr>
<td></td>
<td>(0.21)</td>
<td></td>
<td>(-1.3)</td>
<td>(-6.5)</td>
<td>(-3.0)</td>
<td>(-12.5)</td>
<td>(-5.99)</td>
</tr>
<tr>
<td>2007-08</td>
<td>697</td>
<td>(0.14)</td>
<td>912</td>
<td>3289</td>
<td>12411</td>
<td>1822</td>
<td>11756</td>
</tr>
<tr>
<td></td>
<td>(-1.08)</td>
<td></td>
<td>(24.3)</td>
<td>(-1.4)</td>
<td>(-2.7)</td>
<td>(-7.5)</td>
<td>(-2.90)</td>
</tr>
</tbody>
</table>

Source: NABARD, Annual Reports for various years
Note: Figures in brackets are growth rate over previous year
Table 1.2 depicts the performance of PCARDBs at national level. The total number of PCARDBS functioning in the country as on 1998-99 was 745. This has reduced to 697 in 2007-08 due to the reorganization of PCARDBs. The share capital of the PCARDBS has increased from Rs. 610 crore to Rs. 912 crore during the study period. The reserves and deposits position have also increased over the years. There was a marked increase in borrowings during the study period. i.e. from Rs. 6777 crore to Rs.12411 crore. Consequent to this, the total loan issued and loan outstanding have also considerably increased during the study period.

1.6 Tamil Nadu State Co-operative Agriculture and Rural Development Bank (TSCARDB)

The Tamil Nadu State Co-operative Agriculture and Rural Development Bank is the apex institution for all primary co-operative agriculture and rural development banks, constituted for issuing long-term loans for the purpose of developing agriculture and allied activities. The bank organised in 1929 has now 18 regional offices each covering one or two districts. The 181 primary co-operative agriculture and rural development banks located at taluk levels throughout the state are affiliated to the Tamil Nadu State Co-operative Agriculture and Rural Development Bank.

In the beginning the PCARDBs were advancing loans mainly to receive the indebtedness of farmers. When the five year plans were formulated to increase agricultural production in our country. Land Development Banks have
started advancing loans for development purposes. The banks were known as, “Land Mortgage Banks” till then were renamed was Land Development Banks” in the year 1969. In view of the changing role of the land development banks in agriculture and rural development, the name of the land development banks was changed as agriculture and rural development banks.⁶

1.6.1 Organization Setup/ Structure of Operations

The Tamil Nadu State Co-operative Agriculture and Rural Development Bank provides services (credit facilities) to the Agriculturists and Rural Entrepreneurs, throughout the State of Tamil Nadu through 18 Regional Offices located at district level and 181 affiliated PCARDBs covering 384 blocks in 172 taluks of Tamil Nadu.

Among the 181 PCARD Banks affiliated to the SCARD Bank 121 PCARD Banks are serving the taluks in which they are located whereas 60 PCARD Banks operate within the blocks in which they are located. Table 1.3 shows the number of PCARDBs located in taluks and blocks of different districts of Tamil Nadu.

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⁶The real beginning of Land Development banking in India was marked by the establishment of Central Land Development Bank in Madras on 12th December 1929.
### TABLE 1.3
**NUMBER OF PCARDBs IN TAMIL NADU**

<table>
<thead>
<tr>
<th>Sl.No.</th>
<th>Name of the District</th>
<th>No. of PCARDBs functioning as Taluk Level</th>
<th>Block Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Kanchipuram</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>2.</td>
<td>Thiruvallur</td>
<td>6</td>
<td>4</td>
</tr>
<tr>
<td>3.</td>
<td>Vellore</td>
<td>5</td>
<td>4</td>
</tr>
<tr>
<td>4.</td>
<td>Thiruvannamalai</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>5.</td>
<td>Villupuram</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>6.</td>
<td>Thanjavur</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>7.</td>
<td>Cudalore</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>8.</td>
<td>Nagapattinam</td>
<td>3</td>
<td>--</td>
</tr>
<tr>
<td>9.</td>
<td>Thiruvanur</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>10.</td>
<td>Trichy</td>
<td>5</td>
<td>--</td>
</tr>
<tr>
<td>11.</td>
<td>Karur</td>
<td>3</td>
<td>--</td>
</tr>
<tr>
<td>12.</td>
<td>Perambalur</td>
<td>3</td>
<td>--</td>
</tr>
<tr>
<td>13.</td>
<td>Pudukottai</td>
<td>4</td>
<td>5</td>
</tr>
<tr>
<td>14.</td>
<td>Madurai</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>15.</td>
<td>Theni</td>
<td>3</td>
<td>1</td>
</tr>
<tr>
<td>16.</td>
<td>Dindigul</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>17.</td>
<td>Virudhunagar</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>18.</td>
<td>Ramanathapuram</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>19.</td>
<td>Tirunelveli</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>20.</td>
<td>Sivagnagai</td>
<td>4</td>
<td>2</td>
</tr>
<tr>
<td>21.</td>
<td>Thoothukudi</td>
<td>3</td>
<td>--</td>
</tr>
<tr>
<td>22.</td>
<td>Kanyakumari</td>
<td>4</td>
<td>1</td>
</tr>
<tr>
<td>23.</td>
<td>Salem</td>
<td>5</td>
<td>1</td>
</tr>
<tr>
<td>24.</td>
<td>Namakkal</td>
<td>4</td>
<td>3</td>
</tr>
<tr>
<td>25.</td>
<td>Dharmapuri</td>
<td>5</td>
<td>--</td>
</tr>
<tr>
<td>26.</td>
<td>Coimbatore</td>
<td>6</td>
<td>7</td>
</tr>
<tr>
<td>27.</td>
<td>Nilgiris</td>
<td>4</td>
<td>--</td>
</tr>
<tr>
<td>28.</td>
<td>Erode</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>121</strong></td>
<td><strong>60</strong></td>
</tr>
</tbody>
</table>
1.7 Statement of the Problem

The Agriculture and Rural Development Banks are renamed with the purpose of looking after the entire credit need of rural folk to accelerate rural development. The switchover of Land Development Banks (LDBs) from long-term lending to medium and short-term lending and even extension of its coverage from farm sector to non-farm sector make this study a significant one. In fact these agriculture and rural development banks have to join hands with commercial bank and primary agriculture co-operative credit society in their efforts to develop the rural India. Though these banks are located in district and taluk headquarters their services are channalised either though their own branches or through Primary Agriculture Co-operative Credit Societies. This study assumes importance as in the PCARDBs as organs of short-term credit and long-term credit, direct their efforts towards rural development.

It is pertinent to assess and appraise the extent of their efforts and the effects in the context of poverty. Rural unemployment, migration necessity to check them are PCARDBs role in this regard.

The agricultural sector, due to declining size of landholding, and the organised industry have not been able to generate the needed employment opportunities. That underscores the need for alternative avenues for employment generation in rural areas.
The increase in non-farm component of the rural work force has been attributed to both developmental and distress factors which sometimes have been operating in a mutually reinforcing way. The developmental factors like agricultural modernization, commercialization, increased demand for non-crop goods and services, urbanization, growing literacy and even welfare oriented policy interventions leading to increased job opportunities have tried to pull the labour force away from agriculture towards more lucrative non-farm sector activities. At the same time, distress factors like poverty, unemployment/underemployment due to the inability to absorb the surplus labour, and even frequent natural calamities like drought have tried to push the rural households to go in search of various non-farm sector activities to supplement their farm income and employment.

The large scale industries which are concentrated in few a cities do not provide solution to unemployment and poverty. It also requires more capital investment, latest technical know-how and more infrastructural facilities, for its growth which are available only in urban areas and cities. Therefore, obviously the position is that this sector cannot grow fast enough to provide an answer to the unemployment and poverty problems of the country. Besides both the farm and industrial sectors cannot absorb the unemployed and under employed rural youth.
In the words of Mohalanobis, in view of meagerness of capital resource there is no possibility in the short-run, for creating much employment through the factory/industries. Now consider the household or cottage industries, they require very little capital, with any given investment, employment possibilities would be ten or fifteen or even twenty times greater in comparison with corresponding factory/industries. The NFS is dynamic and vibrant sector of the economy, because it supplies many goods and services to rural poor. It also assists the industries through supplying raw materials and other necessary goods for its maintenance. It provides employment to lakhs of people. Due to these advantages, a large portion of rural people turn to the NFS.

A healthy development of rural non-farm sector is that it takes-off much of the workforce-pressure on agriculture. Similarly, a balance growth approach giving equal priority to both farm and NFS is essential for healthy economic progress. In this context, for the development of NFS, the Government of India has been giving greater importance through liberalized policies and procedures. The provision tax relaxation, entrepreneur development and human resources development are made for the development of NFS.

Regarding the development of NFS, the report of various studies, communities and planning commission have stated that there are problems of inadequacy of capital, training and lack of motivation to take NFS activities. The report of the NABARD has also strongly emphasized that generally the
rural people are very poor and their difficulties are inadequate credit, higher operation cost, lack of motivation and encouragement to take up sustainable economic activities.

Thus, in this context it is important to study these non-farm activities as a vital segment of rural economic structure. Co-operatives directly as well as indirectly influence the pace of rural development in our country. The programmes of rural non-farm development and its financing assume significance in view of the following.

1) It has the capacity to generate employment opportunities at a relatively low capital cost.
2) It can generate employment opportunities close to the place of residence of the beneficiary.
3) It is generally labour and skill intensive.
4) It can engender local initiative entrepreneurship and self reliance.
5) It can exploit locally available raw material with the use of simple manufacturing techniques.
6) It is the instrument of checking migration of rural labour to urban areas.
7) It facilities utilization of various traditional skill and manpower at various levels of traditional occupations.
8) It ultimately helps in increasing the income of rural people and their purchasing power and improving the overall quality of rural life.

Keeping in view the importance of NFS activities for rural development, a study was programmed in Erode District of Tamil Nadu mainly to evaluate various aspects of non-farm activities.

1.8 Objectives of the study

Main objectives of the study are:

1. To study the different types of NFS advances made by PCARDBs in Erode District.
2. To study the extent of contribution of NFS advances for the economic development
3. To examine the features and progress of NFS activities in the district
4. To survey the impact of advances upon the beneficiaries in terms of employment creation and income generation.
5. To study the sectoral coverage of NFS advances in Erode district.
6. To suggest measures for effectively using NFS advances as an engine of economic growth.

1.9 Hypothesis of the study

☞ Ho: There is no significant difference between mean income prior to NFS activity and mean income after undertaking NFS activity.

☞ Ho: There is no significant difference between mean assets prior to NFS activity and mean assets after undertaking NFS activity.
Ho: Loan amount received has no significant effect on the amount of loan repaid.

1.10 Methodology

This empirical study covers 100 percent of the NFS beneficiaries of the sample units of the district. To assess and analyse the effects of NFS advances, a pre-tested schedule has been administered to collect the facts relating to NFS advance requirements, their application and then effects. The primary data was collected from the NFS beneficiaries of the sample PCARDBs. The official records of the four sample PCARDBs constituted the source of secondary data for this study. Further the personal interview with the officials of the sample banks had also provided necessary information for this study. Then, the collected data were classified and presented in the form of simple frequency tables to facilitate analysis and application of statistical tools. Simple statistical tools like mean, standard deviation, co-efficient of variation, analysis of variance, were used to analyze and interpret the data.

1.11 Sampling Procedure

Multi Stage Sampling procedure has been adopted for the study. Erode District is one of the industrially forward districts of the State of Tamil Nadu.

- In the first stage, Erode district has been purposively selected because of its unique characteristics.
In the second stage, Among 12 PCARDBs functioning in Erode District, four PCARDBs viz., Bhavani, Erode, Kangayam\(^7\) and Perundurai PCARDBs have been randomly selected for the study.

In the third stage, all the non-farm loan beneficiaries of these four banks have been interviewed. The total sample size constitutes 137.

The PCARDBs in Erode District financed for a number of Non-Farm activities, which came under ten groups of activities viz., Small Road Transport Operators Scheme (SRTO), Food processing, Building Materials Industry, Agro based Industry, General Engineering, Textile Industry, Printing and Stationary Industry, Service Industry, Rural Housing and Miscellaneous Industries.

1.12 Definition of Concepts

**Defaulter**

A borrower, who does not repay the loan in time, is defined as defaulter.

**Duration of Membership**

It is the total number of years from the date of membership in the cooperative society to till date.

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\(^7\) Kangayam taluk has come under the jurisdiction of newly formed Tirupur District from the year 2007-08 onwards i.e., at the end of the study period. The study period falls between 1998-99 and 2007-08. All the data and details from Kangayam PCARDB has been collected and analyzed by the researcher during this period when it was within the limits of Erode District.
Employment generation

It is the number of man-days generated by the respondents by investing the loan amounts on various NFS activities. In this study eight hours of work is taken as one man day.

Household Industry

Cottage industry in which at least one member of the family is actively engaged in production activity.

Income Generated

It is the total income obtained through various investments made with the help of borrowed amount on various NFS activities.

Investments

It is the total amount invested by the respondent on various NFS activities expressed in Rs.10,000 (here one unit is Rs.10,000).

Industry

It undertakes any productive activity involving collection, processing, preservation, manufacturing, repairing, addition, alteration, servicing etc., covering all types of secondary activities.

Long -Term Loan

Long-term loan is generally granted for periods longer than 5 years and extending up to 15 years. Such loan is granted for making permanent improvements on purchasing of land, erection of machinery etc.,
**Medium-term Loan**

Loans provided for a period from 3-5 years for the purpose of making improvements, purchase of implements, machinery, livestock etc., are called as medium-term loans. These loans are known as term loans or investment loans.

**Nature of Occupation**

The occupation may be divided into primary and secondary occupation. Primary occupation means those who are actively and fully involved in their business, wholly depends upon their business only. In the case of secondary occupation, those who are doing business alternatively, the concentration is not much on that activity. For example, agriculture is primary occupation of an agriculturist and if he does some other business alternatively during off season like manufacturing bricks, centering sheet business etc., the concentration is likely to be less.

**Non-Farm Sector**

The non-farm activities were defined as such activities which were not related to either production or processing of agro products but were linked with employment and earning from all traditional activities either on self employment basis or on wage earning basis.

**Overdues**

Loan amounts, the installments of which have fallen due and have not been paid within the stipulated period of time, are called overdues.
Owned Funds

Paid up share capital and Reserve Fund constitutes owned funds.

Non-Wilful Defaulter

A non-wilful defaulter is one, who defaults unwillingly, mostly for reasons beyond his control.

Refinance

Refinance is the term used by NABARD for a bank lending at confessional rate to Rural Financial Institutions against the loan portfolio of the later.

Rural Area

Area comprised in any village irrespective of population and also in any town, the population of which does not exceed 50, 000.

Rural Non-Farm Sector (RNFS)

RNFS is defined as those enterprises and artisanal activities which could be classified as household, decentralized, tiny and small scale enterprises involved in production/ manufacturing, processing, preserving, storing and marketing of goods and/or engaged in services and agro processing having a bearing on providing employment and incomes to persons residing in rural areas.
Rural Industry

An activity, in which predominant manpower resides in the rural areas and local resources are used to transform products into finished goods is called Rural Industry.

Small Scale Industrial Undertaking (SSI)

An industrial undertaking, in which the investment in fixed assets in plant and machinery whether held in ownership terms or on lease or by hire purchase does not exceed Rs.100 lakhs (Rs.10 million) is called a Small Scale Industrial Undertaking.

Wilful Defaulter

A willful defaulter is one, who defaults willingly and has no other reason to default. He has sufficient income to repay the loan but he is not repaying it deliberately.

Working Capital

Working Capital includes owned funds and borrowed funds

1.13 Tools for Data collection

Two sets of interview schedule were used for this study. One was used for the collection of data from the borrower-respondents. The second schedule was used for the collection of data from the sample banks. These schedules
were pre-tested during pilot study and restructured to elicit needed data / information required for the study.

1.14 Tools used for data analysis

For the analysis purpose, the collected data were coded, tabulated and processed by using SPSS. Statistical tools were used such as percentage, Paired ‘T’, regression, Linear Discriminant function were used to interpret the data.

1.15 Period of the study

The study covered a period of 10 years. (ie., from 1998-1999 to 2007-2008).

1.16 Limitations of the Study

The role of PCARDBs in agriculture and rural development need not be over emphasized. Right from the beginning made during 1920s to till today, PCARDBs have been manifested in different directions and have been continuously diversifying their loan portfolios. The emergence of NFS was heralded as new business opportunity for PCARDBs. NFS borrowers of PCARDBs also generated additional income and employment. But, the poor financial performance of these banks affects the lending operations. As the loan beneficiaries were very low, especially in the case of NFS, the sample size of the study constitutes to 137.
The data/information regarding sector wise loan disbursement and repayment at macro level were not available. The net margin made available for sample banks due to the NFS lending were not made available. The reasons for the slow growth of NFS activities in sample PCARDBs areas could not be identified due to paucity of data. However, these limitations have not affected the purpose of this study and its logical presentation.

1.17 Chapter scheme

This study report consists of seven chapters, which are as follows:

1. The first chapter “Introduction and study design” deals with importance of the study, statement of problem, objectives and methodology.
2. The second chapter “Review of literature” is a survey of literature in the study area. It discusses different studies and the research work that helped the researcher to formulate the problem and design of the study.
3. The Third chapter, “Erode District” brings out the Geographical profile of the study area and also the PCARDBs’ structure and operations.
4. The Fourth Chapter “Operational features of PCARDBs in Erode district analyses the working of PCARDB in respect of NFS advances.
5. The Fifth chapter “Impact of NFS advances”, describes how the economic conditions of the beneficiaries are influenced.
6. The Sixth Chapter “A summary of findings and conclusion” gives a brief account of results of the study.
7. The Seventh Chapter, “Recommendation and scope for further study” in the field.