Ploughmen are the earth’s axle-pin;  
They carry the entire world.

- Thirukkural

“I am sure, everyone will remember this old man one day when it is realized that India has no alternative except to develop village industries. Any Government formed by any party, congress, socialist or communist will be forced to accept this truth. We do not realize this today, but we shall realize it after we stumble in our attempt to compete with America or Russia”.

- Mahatma Gandhi

CHAPTER I

Introduction
CHAPTER I

INTRODUCTION

In developing countries, agriculture plays a predominant role in shaping and molding the lives of people to a great extent. In fact, agriculture is viewed as a way of life as far as these people are concerned and it has never been viewed by them in the narrow sense of business-producing, retailing, purchasing, profit making and so on. It is true that man does not live by food alone. But without food, which he derives from agriculture, man cannot exist at all and on that existence only rests his ability to enjoy many other comforts of life. That is the significance and pride of agriculture.

Experts do differ in their views regarding the role of agriculture in shaping the society. But one thing is certain: agriculture beckons man back to nature and tries to keep him there, which is ecologically more beneficial whereas, modern industry forces man to lead a kind of life, which is artificial and devoid of the soothing caresses of Mother Nature.

There have been orthodox thinkers like Bakers, Wilson Barsodi and Humphries who view agriculture as the fundamental and most excellent industry. Their views are based on the fact that it is agriculture which feeds the human race and hence it is the basis of the existence of Homo sapiens.

The orthodox thinkers came to the conclusion that if agriculture ceases to support and sustain the social structure, all other aspects which too support civilization would collapse.
But the modern thinkers adopt a different outlook challenging the assumptions of the orthodox thinkers. The most famous representative of the group of modern thinkers is Mr. J.S. Davis, who sums up the modern view as follows: "The wealth and welfare of nations depend upon many complex conditions. In modern times, agriculture is not uniquely basic, and the prosperity of a nation depends largely on factors other than the work of those who till the soil." ²

Between these extreme views, there are also some other thinkers who take a balanced view of things. Karl Brandt, H.R. Tolley and P. Chew belong to this middle-of-the course point of view. They made a study of the agricultural and industrial communities both in the East and the West, and concluded that agriculture as well as other sectors of economy enjoy equal importance. They based their argument on the analogy of the whole body feeling the pain, even if only one limb is affected. In other words, one part of the country depending on agriculture cannot be happy and prosperous, if another part supported by industrial enterprises is in distress, and vice versa. ³

Renowned economists like, W.F. Gwen, Regnar Nurkse, P.N. Rosenstein Rondan, T.A. Scitovsky and Arthur W. Lewis suggested a balanced growth approach giving equal priority to both, the farm and non-farm sectors for healthy economic progress. ⁴ Lewis recommended an approach based on balanced growth of both agricultural and industrial sectors and treating them both as equally important. Economists like T.W.
Schultz, W.W. Rostow and Simon Kuznets held the view that if we aspired for the development of the industrial sector as well as for the overall development of economy, then the transformation of agriculture would become unavoidable. According to Simon Kuznets, “If agriculture itself grows, it makes a product contribution; if it trades with others, it renders a market contribution; if it transfers resources to other sectors, these resources being productive factors, it makes a factor contribution.”

Indian economists like C.N. Vakil and P.R. Brahmanand warn against concentrating all our energies on industry only. They observe: “A determined persistence in expansion of the fixed-capital to the neglect of expansion of wage goods (food grains) will land the economy in a ridiculous state in which there would tend to be unemployment of labour as well as equipment with no possible escape out of it.”

According to P. Christensen, Raymond, “Historical records clearly show that no country has moved from chronic stagnation into the take-off stage of economic development without first achieving a substantial gain in agricultural productivity. The United Kingdom, Germany, Japan and a few other countries have relied heavily on imported supplies of agricultural products. But, this usually was after they had achieved substantial economic progress in agriculture and after industrial development was well underway. In a few of less advanced countries, development of petroleum, mineral or other natural resources has led to large increases in incomes for a small part of the total population. But where this natural resource development has not
been accompanied by improvement in agricultural productivity, most people
continued to live under conditions of abject poverty.”

1.1. THE PLACE OF AGRICULTURE IN NATION’S ECONOMY

It has been acknowledged by archaeologists the world over that, India
is one of the cradles of civilization. All these civilizations were nurtured by
rivers and were mainly agricultural in character. The Indian civilization has
strong agricultural roots. Even now, in spite of tremendous progress in
industrialization, agriculture continues to remain the occupation for the
majority of rural Indians. Agriculture is the largest industry in the country
giving livelihood for over 59 per cent of the population. Three out of every
four Indians live in the rural areas, depending on agriculture (2003-2004).

The share of agriculture in national income up to the First World War
(1914-18) was a fatty 65 per cent and it was 57 per cent for the period 1925-29.
During the middle of Great Depression (1931), the share of agriculture was 53
per cent. But after 1960-61, the share of agriculture in national income sharply
deprecated. The figures supplied by the Central Statistical Organization and the
Income Committee reveal that the share of agriculture and allied activities
(animal husbandry, forestry, fisheries, etc.) was 52 per cent of national income
in 1960-61, but its share in national income declined to 41.2 per cent in 1979-80
and again fell down to 39.8 per cent in 1983-84. During 2003-2004
agriculture contributed 26 per cent of the national income and continues to
support 60 per cent of employment in rural areas.
Despite the declining share of agriculture’s contribution to national income in India, some of the leading industries in the country depend on agricultural sector for the supply of raw materials. Some of these agro-based industries are: cotton and jute textile industries, sugar, vanspati, plantation, rubber, tea, coffee, hydrogenated oils, food products, soap manufacture, etc. There are some other industries also which depend indirectly on agriculture for their functioning. Out of the total income generated by the manufacturing sector in India, 50 per cent of the income is derived from the above mentioned agro-based industries. Moreover, the agricultural sector supplies raw materials to small and cottage industries also such as handloom wearing, oil crushing, rice husking, etc. \(^{12}\)

Not only within the country, but in international trade also agriculture plays a key role. India exports, among other things, many agricultural products like tea, sugar, oil seeds, tobacco, spices, fruits and vegetables etc. About 13 per cent (2004) of the total Indian exports comes from agricultural trade. India’s share of the world rice exports is about 20 per cent, in world tea exports, India’s share sometimes even reaches 100 per cent. \(^{13}\)

1.2. IMPORTANCE OF STUDYING THE ROLE OF CREDIT IN AGRICULTURE

Agricultural credit may be explained as the amount of invertible funds made available for the purpose of development of farm productivity. \(^{14}\) According to the Agricultural Development Finance Corporation it is “the amount of money needed by a farmer to achieve a proper combination of
productive factor, like, land, labour, inputs, machinery, livestock and managerial ability, so that the planned level of income is generated at his farm.\textsuperscript{15} It is true that credit alone cannot generate new resources, but credit is an important factor of integrated approach for improving production and productivity, marketing, land tenures, farmers’ organizations and other aspects which are dependent on each other.\textsuperscript{16} Agricultural finance is not merely a subject of banking business. There is more to it than disbursing credit to farmers or fishermen. Though the amount of credit demanded by the individual borrower may be small but, in aggregate, it represents considerable risks.\textsuperscript{17}

Most of the cultivators live just at or just above the below poverty line, practically with no internally generated funds for meeting the lump sum outlays needed at the time of sowing or transplantation or so. Naturally, they tend to borrow money for conducting agricultural operations. These needy farmers should be helped with the sanction of credit as and when they require it. The paper work should be completed quickly. A strong foundation of agriculture is essential to maintain and continue the overall performance of agricultural sector in the economy and for socio-economic development in general.

In India, until the 1980s, agricultural credit had been marked by predominance of non-institutional credit such as private moneylenders, traders, relatives, and similar individual lenders. Credit from these private sources is generally on unfavorable terms and, therefore, farmers land in
heavy debt adversely affecting the production. There are numerous instances of exploitation of the indebted farmers by the moneylenders. If farmers are to be given incentive for adopting improved farm practices, there must be institutional arrangements to supply all their credit needs.

Modern agriculture requires high quantum of credit. Various short-term cash inputs, like, use of improved seeds, fertilizers, insecticides, etc., medium and long-term investment for irrigation, land improvements, etc., are compulsory for increasing agricultural production. Further, modern agriculture also requires co-ordination of various activities, like, appropriate estimate of credit, timely and adequate supply of inputs, repayment arrangements favorable to farmers, efficient machinery for recovery of loans and adequate marketing accommodations, etc. Introduction of institutional channel of credit is necessary to meet the increased needs.

1.3. CLASSIFICATION OF AGRICULTURAL CREDIT

Generally, agricultural credit may be classified into two types, namely direct and indirect. In direct type, credit is provided directly to farmers for productive purpose, such as, land improvement, irrigation, crop production, purchase of machinery, equipment, development of dairy, sheep rearing, poultry, fisheries, etc., development of plantation, tea, coffee, rubber, coconut, cashew, etc. Indirect type of agricultural credit is credit provided to the institutions involved in the supply of production inputs. The indirect credit is given for financing distribution of farm inputs and includes refinancing primary agricultural cooperative banks, District Central Cooperative Banks,
State Cooperative Banks, and co-operative marketing societies, refinancing Regional Rural Bank (RRBs), financing State Electricity Board for energisation of farm pump sets, financing service institutions that provide farm produce storage facilities, such as, godowns, cold storage and warehouses, financing for establishment of Regulated Markets, financing Agro-Industries Corporation, Food Corporation of India, Jute Corporation of India, State Warehousing Corporation, etc. Most of the indirect finance is referred to as refinance to the link institutions that finance/assist directly or indirectly the farmers. Agricultural credit may be further classified into the following ways.

1.3.1.1 Short-term Credit

Short-term or seasonal credit is granted for the purpose of meeting the working capital requirements of the farmers. The period for which this type of credit is provided generally ranges from 6 months to 15 months, depending on crop type. According to the All-India Rural Credit Review Committee, the short-term credit is lump sum credit facility, which is provided to fill up the gap in outlay which cannot be met by the farmers with their own resources during the period between two harvests. The various purposes for which short-term credit is provided include purchase of seeds, fertilizers and insecticides, hiring of labour, hire charges of agricultural machineries, payment of electricity bills, tax on lands, godown charges, etc. The demand of this type of credit is expected to increase at the time of sowing/transplantation. This type of credit is also known as ‘crop loans’.
These loans are disbursed through Primary Agricultural Credit Societies (PACS), commercial banks and Regional Rural Banks (RRBs).

1.3.1.2. Medium-term Credit

Medium-term credit is the credit required for improvement of land, purchase of implements, machinery, livestock and conversion of cultivation system, etc. This credit is provided for periods more than 15 months but not exceeding 5 years and in few cases not exceeding 7 years.

1.3.1.3. Long-term Credit

The long-term loans are sanctioned for a longer period, i.e., more than 5 years up to 10 years. In some cases it may also be granted for a period up to 20 years. Among the various types of uses of loan-term loans, the principal ones are: purchase of farm or buying of additional land, construction of buildings for farm operations, provision of drainage, reclamation of land and other improvements.

1.3.2. Classification on the Basis of Purpose

According to the Reserve Bank of India’s classification, agricultural credit may be classified into three types, namely credit for farm business, non-farm business and family expenditure. Credit for farm business is meant for purchase of seeds, fertilizers, insecticides, hiring of labour, land improvements by irrigation and drainage, purchase of agricultural implements, machinery and livestock, construction of farm house, cattle shed, tanks and embankments, laying of orchards, etc. In other words, this credit is provided to support the working capital expenses on farm business. In case of
credit for non-farm business, credit is provided to meet the working capital expenses on non-farm business, such as, repair of production and transport equipment and furniture, purchase/construction and repair of buildings, purchase of non-farm equipments, etc. Credit for family expenditure includes credit to meet the household expenditures like, clothing, education, medicine, expenses regarding marriage, death ceremonies and other social events in family, litigation expenses, payment of old debts, etc.

1.3.3. Classification on the Basis of Security

Agricultural credit may be categorized as secured credit and unsecured credit. Secured credit includes ‘farm mortgage credit’ and ‘Chattel or Collateral Credit’. The secured credit is secured against some tangible property of the borrowers. In such cases, borrower’s livestock, crops, warehouse receipts, shares, bonds, insurance policies, etc., are offered as security. Unsecured credit is granted on the personal security of the borrowers. It is provided on the promissory or personal notes of the borrowers with or without guarantees.

1.3.4. Classification on the basis of Creditor

The agricultural credit may be classified on the basis of creditor or lender also. There are two main sources of credit—institutional and non-institutional. The institutional credit includes credit granted by co-operatives, commercial banks, RRBs, and the Government while the non-institutional credit includes credit granted by moneylenders, commission agents, relatives and friends and others.
1.3.5. Classification on the basis of Debtor

The borrowers’ groups could be crop farmers, dairy farmers, poultry farmers, fishermen, etc.

1.4. ESSENTIAL FEATURES OF AGRICULTURAL CREDIT SYSTEM

It is essential that a sound system of credit should be built up so as to fulfill the credit needs of the farmers and to ensure that agricultural credit serves the national economy in a dynamic way. Various criteria for a good credit system have been laid down by various experts and institutions. In this regard, the following criteria have been laid down by Lewis Tardy, a famous agricultural economist:

i. The agricultural credit should be provided for a satisfactorily long period and it should commensurate with the operations for which it is designed to facilitate.

ii. It should be provided at lower rates of interest.

iii. With a view to preventing the misuse of credit, it should be adequately secured but the security should not necessarily be material property. The credit should be granted against personal security of the borrower and on the basis of farming ability.

iv. Credit should be provided according to the average yield of the farms and capacity to repay, especially in times of economic depression.
v. The credit should be provided through institutions, the officials of which have availed special training and have actual banking experience.

According to RBI, the credit system should have the following features: 22

i. The credit system for modern agriculture should integrate the credit with services, like arrangements for supply of inputs etc, so that the chances of the same being used for wasteful consumption purposes, imposing an extra burden on the borrower, can be effectively reduced.

ii. Under the credit system, all areas and farmers (specially small and marginal farmers) should be covered. In other words, the credit system should be so efficient as to expand its activities horizontally as well as vertically.

iii. Under a good system of credit for modern agriculture, emphasis should be given to issue loans for production purposes. But the consumptions loans should not be prohibited completely. The loans should be provided on the basis of anticipated production or increased income which would occur due to the use of credit rather than tangible security or existing income. It will help the small farmers to avail the credit and implement their own plan of cultivation.
iv. The cost of handling credit and services should be lower. In the absence of this, most of the farmers will reject credit which may cause a burden beyond their repaying capacity.

v. The credit system should be such which mobilizes sufficient resources to provide finance for the purpose of investment required for modern agriculture. Some features of a sound agricultural credit system have been determined by the All-India Rural Credit Survey Committee. These are:

i. It should be associated with the possible support of the State.

ii. It should be an effective alternative to the private agencies of credit.

iii. It should have the strength of adequate resources and of well trained personnel.

iv. It should lend not merely on security of land and other usual forms of security but also on the security of anticipated crop yield.

v. It should effectively supervise the use of credit and consequently bear in mind the borrower’s legitimate needs and interests.

From the above discussion, a suitable criteria for a good sound system of agricultural credit can be given as follows:

i. All the credit needs – short, medium and long-term credit needs of the farmers should be met.

ii. Credit should be made available at points as near as possible and as and when needed by the farmers.
iii. It should generate savings and accelerate economic growth.

iv. The borrower should be encouraged to adopt new technologies without which sufficient capital cannot be generated to repay loans.

v. Supply of other services too should be made available to them.

vi. The lending agency should be geared to financing the entire farming system.

vii. The credit agency should be in a position to interlink with marketing agencies to ensure full recovery of loans.

Thus, in a sound system of agricultural credit there should be a provision for continuous evaluation of the credit programmes. This will assist in estimation of the impact or improvement in respect of farm production, cropping pattern, cropping intensity, farm output, employment opportunity and actual farm income. Under a sound credit system, guidance should be available to credit institutions in this regard from time to time. In the words of E.C. Johnson, “The fundamental problem of the agriculture credit is to increase the income of farmers, improve their capacity to repay and raise their standard of living.” 24

1.5. STUDY OF STATE AND ITS PROFILE

The research work relates to the State of Tamil Nadu and that a brief profile of the State is given. Tamil Nadu, the southern most State of India, is located in North Latitude between 8°5’ and 13°35’ and East Longitude between 76°15’ and 80°20’. The State is bounded by Kerala on the West,
Andhra Pradesh and Karnataka States on the North, Bay of Bengal on the East and Indian Ocean in the South. For administrative convenience, the State is divided into 29 districts including the State capital Chennai and further into 201 taluks.

**Physical Features:** Tamil Nadu occupies 4 per cent of India’s geographical area and possesses only 3 per cent of the water resources of India. The total geographical area of the State is 12.99 million ha. Entire Eastern part of the State has coast line having a length of 992 km.  

**Demographic Features:** According to 2001 census, Tamil Nadu has a population of 62.11 million and is the sixth most populous State in the country. Coimbatore district tops the list of districts with largest population at 2.99 million followed by Chennai district with 2.74 million. Tamil Nadu is classified as one of the most urbanized State in the country with 42 per cent of its population living in urban areas.  

**Economic Indicators:** Agriculture is the mainstay of the rural economy of Tamil Nadu. It provides livelihood to 65 per cent of the State’s population and contributes to 62 per cent of employment generated in the State. This sector contributes on an average 20 per cent to the State’s Net Domestic Product. As per the composite index of infrastructure development constructed by Centre for Monitoring Indian Economy (CMIE), Tamil Nadu was the third best in the country with an index of 144 behind Punjab (191.4) and Kerala (157.1).
Land Utilization: The total geographical area of the State is 12.99 million ha. Forest area in the State covered 2.13mn.ha. permanent pastures and grazing land is 1.18mn.ha. and land under tree crops is 0.26mn.ha. net sown area in the State is 5.17mn.ha. (39.8% of total geographical area) and area sown more than once is 1.05mn.ha. taking the gross cropped area to 6.22mn.ha. and cropping intensity to 120%. The State had 8.23 million farms holdings and 73 per cent of them were marginal farmers having area less than one ha. and they operated 29 per cent of total area. Small farmers (owning 1 ha. to 2 ha.) had a share of 16 per cent in number and 23 per cent of the operated area. Semi-medium and medium farmers accounted for 10 per cent in number and 40 per cent in the operated area. Large farmers with more than 10 ha. are a negligible minority but the area operated by them is 8 per cent of total. Average size of holding in the State is 0.91 ha. 

Area and Production of Major Crops: Of the total gross cropped area of 6.22 m. ha. food crops accounted for 72.2 per cent and non - food crops formed 27.8 per cent. Paddy, the major crop in the State, accounted for 33.1 per cent of the total cropped area in the State during 2001-02. Oilseed covered 0.55 mn.ha., cotton 0.07 mn.ha. and sugarcane 0.32mn.ha. during the year. The State could achieve amazing heights in productivity of rice from around seven quintal per ha. during early fifties to more than 39 quintal per hectare during 2001-02. Tamil Nadu ranks first in productivity of jowar and bajra among the Indian States.
**Agri-Inputs:** Good quality seeds and fertilizers contribute to total agricultural productivity. During 2001-02, 20716 tons of seeds for food grains and 4376 tons of seeds for non-food grains was distributed by the State. Micro nutrient mixture to the tune of 1123 metric tons was produced and distributed during 2001-02. 31

**Irrigation:** Tamil Nadu is moderately placed in terms of adequacy of water resources. The net area irrigated as percentage to net sown area was 54.1 per cent during 2001-02. The highest percentage of the net area irrigated to the net sown area was in Thiruvarur (district 96.4%), whereas the lowest percentage was in Nilgiris (1.3%). There are 65 major and medium reservoirs, 39202 tanks and 1839754 wells in the State. Tamil Nadu has all the three sources of irrigation viz., canal, tanks and wells. Wells were the major source of irrigation covering 51.7 per cent of the net irrigated area followed by canals (28.6%) and tanks (19.2%). 32

**Agricultural Marketing:** Marketing has an important role in sustaining the tempo of rural economic development. At present, there are 20 Market Committees functioning in Tamil Nadu. There are 272 Regulated Markets, 15 sub-markets, 15 check posts, 108 rural godowns, and 108 grading centres under 20 market committees. Different kinds of services provided in the regulated markets are: correct weight, price information, input shops, godown, banking facilities, etc. Pledge-loan facilities for farmers and traders are also provided in the regulated markets. With a view to helping the producers realize better price for their produce, 96 commercial grading
centers, 11 kapas (cotton) grading centers and one tobacco grading centre are functioning in the regulated markets. 33

**Animal Husbandry:** Allied activities such as Animal Husbandry assume crucial importance in the rural economy as they offer gainful employment opportunities which augment the income of the farmers. Per capita availability of milk per day in the State increased from 166 gms during 1990-91 to 219 gms in 2001-02. Sheep and goat population in the State was 5.37 million and 6.32 million, respectively during the two years referred. Total poultry stock in the State was 27.34 million birds and the same is concentrated in Namakkal and Coimbatore districts. Total egg production in the State during 2001-02 was 4223 million. Per capital availability of eggs per annum has increased from 46 during 1990-91 to 68 during 2001-02. 34

**Rural Non Farm Sector (RNFS):** Small, Tiny and Cottage industries have contributed in a significant way to the development of rural areas in the State by providing employment and income to a large sections of population. Rural Non-Farm Sector in the State is dominated by the activities like power-loom, handloom, agro-based industries, leather-based activities, general engineering, plastic-based industries, gem cutting, electric and electronic industry, chemical industry, handicraft, hotels, etc. RNFS in the State registered 2.53 per cent annual growth during the decade, 1991-2000, and generated around one-fifth of total employment generated in rural area. The State accounted for around 70 per cent of the total leather tanning capacity in the country and contributed 31 per cent of cotton yarn produced by the
country. More than 60 per cent of power-driven pump in the country was also produced in the State. 35

Social Indicators: Tamil Nadu is generally regarded as a socially above average State of the Indian Union. Among the 15 major States of the country, Tamil Nadu holds impressive rank in general literacy rate, sex ratio, infant mortality rate, etc. According to 2001 census, literacy rate in the State was 73.4 per cent as against all India level of 65.4 per cent. Female literacy was at 64.55 per cent as against male literacy of 82.33 per cent. Tamil Nadu ranks third in terms of over all and female literacy rate, only behind Kerala and Maharashtra States. Literacy rate is highest in Kanyakumari district in Tamil Nadu State (88.1%) and lowest in Dharmapuri district (59.2%). 36

1.6. STUDY UNIT AND ITS PROFILE

National Bank for Agriculture and Rural Development (NABARD) is the study unit of this research work. Its refinancing activates in Tamil Nadu is the focus of the research work.

1.6.1 Genesis of National Bank

With a view to having a fresh look at the arrangements in existence for agricultural credit, Reserve Bank of India (RBI), at the instance of Government of India (GOI), appointed a ‘Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development’ (CRAFICARD) in 1979. The Committee sought to review/examine, inter alia, the structure and operations of Agricultural Refinance Development Corporation (ARDC) in the context of an increasing
need for term-loans for agriculture and the feasibility of integrating short-
term and medium-term credit structure with long-term credit structure at
national, state, district and village levels.

The CRAFTICARD felt that certain inherent handicaps inhibited the
effectiveness of the national level institutions in meeting the gigantic task of
integrated rural development which aimed at the enlistment of the weaker
sections in the rural areas, within a given time frame. In this context, the
Committee recommended the formation of a National Bank for Agriculture
and Rural Development as a national level organization to provide undivided
attention, forceful direction and pointed focus to the credit problems arising
out of the integrated approach to rural development. The proposal was
approved by GOI and RBI and the National Bank of Agriculture and Rural
Development Act, 1981, was passed by the Parliament and the National Bank
came into existence on 12 July 1982. The bank was established with a paid up
capital of Rs. 100 crores, equally subscribed by GOI and RBI. Subsequently,
the paid-up capital was raised on several occasions and the relative
contributions by the RBI and the GOI also got changed.

The establishment of National Bank, according to the preamble of the
Act, is “for providing credit for the promotion of agriculture, small scale
industries, cottage and village industries, handicrafts and other rural crafts
and other allied economic activities in rural areas with a view to promoting
integrated rural development and securing prosperity of rural areas, and for
matters connected therewith or incidental thereto.”
Some of the functions of erstwhile Agricultural Credit Department and Rural Planning and Credit Cell of the RBI and the entire functions of the erstwhile ARDC were taken over by National Bank. As the apex institution concerned with policy, planning and operations in the field of agricultural credit and other economic activities in rural areas, the main objectives which guide the functioning of National Bank are:

i. to provide refinance to eligible institutions viz., SLDBs, SCBs, scheduled CBs and RRBs for supporting production and investment credit for developmental activities in rural areas,

ii. to improve the absorptive capacity of the credit delivery system through institution-building by monitoring, formulation of rehabilitation schemes, restructuring of credit institutions, training of personnel, etc.,

iii. to co-ordinate the activities of different agencies engaged in developmental work at the field level and to keep liaison with GOI, State governments and RBI and other national level institutions connected with policy formulation, and

iv. to undertake monitoring and evaluation of projects refinanced by it.

1.6.2. Sources of Funds

The important source of NABARD funds is: Paid-up capital of NABARD Rs. 2000 Crores (as on 31st March 2004) contributed by the Government of India and RBI. The other sources of funds are: i. National
Rural Credit (Long Term Operations) Funds. ii. National Rural Credit (Stabilization) Fund. iii. Short-term General Line of Credit from RBI. iv. Open Market Borrowings, and v. World Bank Group institutions.

1.6.3. Functions of NABARD

The functions of NABARD have been primarily classified into three categories namely i. Credit dispensation ii. Development and iii. Regulatory functions. These functions are discussed below.

1.6.3.1 Credit Dispensation

NABARD provides different types of refinance through eligible institutions. Related factors are described below.

Institutions Eligible for Short-term Credit are: i. State Co-operative Banks (SCBs) ii. Regional Rural Banks (RRBs), iii. Other financial institutions approved by RBI.

Purposes: i. Seasonal agricultural operations and marketing of crops. ii. Marketing and distribution of inputs like fertilizers, pesticides, etc., iii. Any other activity connected with rural/agricultural sector. iv. Bona-fide commercial trade transactions. v. Production and Marketing activities of Artisans, Small Scale industries, Villages & Cottage Industries, Handicrafts, Sericulture, Handloom, etc. Period is up to 15 months.

Institutions eligible for Medium-term Credit are: i. State Co-operative Banks (SCBs), ii. State Land development Banks (SLDBs), iii. Regional Rural Banks (RRBs), iv. Other financial institutions approved by RBI.
**Purposes**: Any investment connected with agriculture and rural sector requiring MT credit assistance, Period between 15 months and 7 years.

**Institutions Eligible for Long-term Credit are**: i. State Co-operative Banks (SCBs), ii. State Land development Banks (SLDBs), iii. Regional Rural Banks (RRBs), iv. Other financial institutions approved by RBI.

**Purposes**: i. Refinance for investment in agriculture and allied activities such as minor irrigation, land development, soil conservation, dairy/sheep/poultry/piggery farm, farm mechanization, plantation/ horticulture, forestry, fishery, storage and market yards, agricultural aviation, biogas and other alternative sources of energy, sericulture, apiculture, animals and animals-driven carts, agro-processing, agro-services, centres, compost plants, modern abattoirs, pump sets, energisation, etc., ii. Refinance for artisans/small scale industries/tiny sector industries, village & cottage industries, handicrafts, etc., (Non-farm Sector). iii. Loans to State Governments for share capital contribution to co-operative institutions. iv. Investments in share capital/securities of institutions concerned with agriculture and rural development. Period Available up to a maximum of 25 years.

**Conversion & Rescheduling facilities**: NABARD provides refinance to eligible institutions, normally SCBs and RRBs for conversion and rescheduling of loans under conditions of droughts, famine or other natural calamities, military operations, enemy actions, etc. Similar facilities are also available in respect of loans made to artisans, small-scale industries, etc.
Period, generally not exceeding 7 years for financing cottage / village / small-scale industries, etc. All such industries located in ‘rural areas’ will be eligible for refinance from NABARD.

Criteria for Financing: Important criteria followed by NABARD in judging whether it can provide refinance to any scheme submitted by a financing bank/institution are:

i. technical feasibility of the project and adequate response from the prospective beneficiaries,

ii. financial viability and adequate incremental income to the ultimate borrower to repay the loan within a reasonable period, and

iii. organizational arrangement to ensure close supervision by the financing banks.

Ultimate Beneficiaries: While all funds are routed through the SLDBs/SCBs/CBs/RRBs by NABARD, the ultimate beneficiaries of investment finance can be individuals, partnership concerns, companies, state-owned corporations or co-operative societies. The ultimate beneficiaries of production credit are generally individuals who are members of primary agricultural credit/banking institutions.

Lending Terms: The lending terms of NABARD are described below

Quantum of Refinance: NABARD’s refinance forms a major portion ranging from 70 to 95%, of the on-lending made by the banks/institutions to the ultimate beneficiaries. In order to stimulate the credit flow to the rural non-
form sector in the context of the importance attached to the development of non-farm activities in the seventh plan, NABARD has set up a quantum of refinance up to 100% covering cottage, tiny and village industries, rural artisans, etc.

Rates of Interest: The rates of interest on refinance and the ultimate lending rate are fixed from time to time by the direct lending institution/bank.

Margin money: NABARD stipulates beneficiary’s contribution to the project cost in order to ensure his/her stake in the investment. Such margin money varies from 5% to 25% according to “type of investment and the class of the borrower.” It is nominal in the case of small farmers. This can be by way of contribution in cash or by way of own or family labour. Corporate borrowers, such as irrigation corporations, Forest Development Corporation, etc., provide higher contribution up to 25% of the investment cost.

1.6.3.2 Developmental Functions: Developmental Functions of NABARD are:

i. Coordinating the operations of rural credit institutions.

ii. Ensuring institution-building to improve absorptive capacity of the credit delivery system.

iii. Developing expertise to deal with agricultural and rural problems.

iv. Assisting Governments, RBI and other institutions in rural development efforts.

v. Providing facilities for training and research and dissemination of information in rural banking and development.
vi. Assisting State Governments to enable them to contribute to the share capital of eligible institutions.

vii. Providing direct loans in cases approved by Central Government.

1.6.3.3. Regulatory Functions: Regulatory Functions are:

i. The banking regulations Act, 1949, empowers NABARD to undertake inspection of RRBs and co-operative banks (other than primary co-operative banks).

ii. Any RRB or co-operative bank seeking permission of RBI for opening branches, etc. will have to obtain the recommendation of NABARD.

1.6.4. Organizational Setup

NABARD is managed by a Board of Directors comprising 15 members and consists of Chairman, Managing Director, two experts in Rural Economics, three experts form co-operative and commercial banks, three sitting Directors from the Board of RBI, three directors from Government of India and two members representing the state Governments. The Board of Directors can constitute an Advisory Council. The structure of delivery of rural credit in India is given in figure 1.
Figure 1: Institutional Arrangement for Agriculture and Rural Credit in India.

Source: The Role of National Bank in the Sphere of Rural Credit, Agricultural Development Banking in India—P.R. Nayak, chairman, NABARD.
1.7. IMPORTANCE OF THE STUDY

Agriculture and allied activities continue to be the livelihood of over 65% of the total population, and almost the whole of rural population of the country. Hence in agriculture and rural development lies the development of the standard of living of vast segment of the country’s population.

Finance is a critical input in the development process of the farm and non-farm sectors of rural India. As the agrarian community is still at the subsistence level, internally generated finance for farm operations is hardly available. To ensure that the poor agrarian community does not fall into the clutches of non-institutional financial sources, institutional finance to the community is given thrust ever since the NABARD has come into being.

NABARD being the apex institution with the mandate to ensure timely and adequate flow of finance into agriculture and rural development, has devised many schematic lending programmes (mostly refinancing) to banks/institutions that lend/assist in turn the farming and non-farming operations in the country.

In this context an assessment of the schemes of refinance, the trend in refinance of NABARD and the pros and cons of NABARD operations on the ultimate beneficiary agrarian community is needed to take stock of achievements, strengths and challenges. Based on the findings suitable suggestions for improvement could be evolved. Hence the importance of the study.
1.8. OBJECTIVES OF THE STUDY

The main objectives of the study are as under:

i. To enquire into the schemes of refinance operated by NABARD.

ii. To examine the trend in refinance assistances rendered by NABARD to Tamil Nadu.

iii. To evaluate pros and cons of refinancing assistances rendered by NABARD to Tamil Nadu.

1.9. HYPOTHESES OF THE STUDY

Hypotheses relating to the role of NABARD in providing refinance are formulated and tested at 5% significant level. The hypotheses of the study are as under:

i. Significance of difference between top 5 and top 10 districts in respect of mean amount of financial assistance provided by financial institutions and mean amount of refinance provided by NABARD, during the period from 1996-97 to 2001-2002 to test whether or not the top 5 and top 10 districts differed significantly.

ii. Significance of difference between cumulative percent share of NABARD refinancing disbursement under each of the schemes at All India and at Tamil Nadu levels to test whether or not the All India pattern and the Tamil Nadu pattern differed significantly.

iii. Significance of association between personal profile factors of respondents on the one hand and level of satisfaction as to the general impact of the NABARD, personal impact of the NABARD
and overall impact of the NABARD on the other hand to test whether or not the said factors are significantly associated.

iv. Significance of difference between cumulative per cent share of NABARD refinancing disbursement under each of the schemes at all India and at Tamil Nadu level.

1.10. METHODOLOGY

The study is both descriptive and analytically evaluative in nature. Both primary and secondary data are used. The methodology of the study in terms of the period delimitation, sources of data, tools for data collection, sample design for primary data collection, etc. are presented below.

1.10.1 Period Of Study: The study covers a Six Year-Period i.e., 1996-97 to 2001-02

1.10.2 Sources of Data: The data required for this study were collected from both primary and secondary sources. The primary data were collected through interviews, primarily to elicit views on effectiveness of the schemes, the pros and cons thereof, etc.

Major chunk of data for the study are however, secondary data relating to refinance assistance from NABARD, scheme-wise, year-wise, district-wise, and so on. Secondary data on the schemes of refinance and trend therein were collected from the annual reports of the NABARD, books, articles, magazines, journals, RBI bulletins and economic and business dailies.
1.10.3. Data Collection Tool: The primary data for the study were collected using a specially designed interview schedule with vernacular version too. A draft interview schedule was prepared after a wide review of literature and keeping in view the objectives of the study. Pre-testing was done on a sample of 60 farmers. After pre-testing the schedule was redrafted and used for data collection.

The specially designed interview schedule, given in Appendix contained three sections covering i. Respondents’ satisfaction level on the general impact of NABARD assistance, ii. Respondents’ satisfaction level as to the personal impact of NABARD’s assistance and iii. Respondents’ satisfaction level as to the overall impact of NABARD’s assistance.

1.10.4. Sample Design

The opinion survey part of the study, related to the pros and cons of NABARD operations, was conducted in four major agricultural districts of Tamil Nadu, namely, Madurai, Tiruchrapalli, Coimbatore and Thanjavur. The names of the farmers were culled out of the list available in the financial institutions. That constituted the sample frame. From this, samples of 300 respondents were chosen, adopting lottery method of random sampling, for item selection. Out of the 300 respondents contacted 252 respondents gave their opinion in full to the specially designed schedule. Out of the 252 respondents, 108 were from Tiruchirapalli, 51 from Madurai, 42 from Coimbatore and 51 from Thanjavur districts.
1.10. 5. Pilot Study: A pilot study was conducted with twenty four farmers. This enabled the researcher in fine-tuning the interview schedule and re-shaping his approach to data-collection.

1.10. 6. Tools For Analysis & Data: Data presentation is done using extensive tables and charts. The non-parametric Chi-square test was used to explore the association between the personal profile factors and levels of satisfaction on the general and personal impact of NABARD. One-way Analysis of Variance and Student t-test are used to test the significance of group-mean scores. Factor analysis using principal component method, is used to find the principal factors contributing positively and negatively to overall satisfaction of the respondents. Mann-Whitney ‘U’ test is used to find the significance of difference between the all-India and the Tamil Nadu pattern in respect of the scheme-wise cumulative disbursements per cent shares.

1.10. 7. Limitations of The Study: Due to operational constraints like time, the study is limited only to the Tamil Nadu state. The role of other financial institutions, in the promotion of overall development of agricultural and rural development, has not been taken into consideration and the same has not been covered in this study.
1.11. CHAPTERIZATION

This dissertation is divided into six chapters.

Chapter-I, that is this chapter, captioned "INTRODUCTION" provides inter alia, the importance, objectives, methodology, sampling design and limitations of the study. The Tamil Nadu State profile and the profile of the study unit, NABARD, are also given in this chapter.

Chapter-II presents a review of relevant literature. Literature relating to NABARD's activities and achievements and rural credit is presented.

Chapter-III is devoted to give an overall account of the schemes of refinancing operated by the NABARD. The refinancing operations of NABARD are spread over thirteen schemes, with sub-schemes in some cases. Each scheme is presented with features, refinancing limit, and terms associated therewith, etc.

Chapter IV examines the trend in refinance assistance rendered by NABARD to Tamil Nadu. The analysis covers a period of six years from 1996-97 to 2001-02. The analysis is made scheme-wise as well as district-wise. NABARD's participation is analyzed in terms of number of projects under each scheme (year-wise and district-wise) and amount of refinance extended by NABARD, both year-wise and district-wise. In addition, the amount of assistance given by the financial institutions, (scheme-wise, year-wise and district-wise) is also analyzed. The per project average assistance extended by the NABARD and financial institutions also studied scheme-wise, year-wise
and district-wise. Test of hypotheses is also done wherever found relevant subject to data availability.

Chapter V is devoted to study the ‘pros and cons’ of NABARD’s assistance by eliciting opinion from the beneficiaries who availed assistance under NABARD refinance schemes. The analysis is entirely based on primary data and analyzed under four aspects, namely, the general pros and cons, the personal pros and cons, the overall satisfaction and dissatisfaction and dominant factors impacting satisfaction and dissatisfaction levels of beneficiaries on the NABARD’s schemes.

Chapter VI, the last and the final chapter, captioned “CONCLUSION”, presents the summary of the findings and the recommendations of the study.
REFERENCES


5. Ibid., p. 6.

6. Ibid., p. 8.


18. All India Rural Credit Review Committee; 1969, p.69.


34. State Focus Paper, Tamil Nadu-NABARD-2004-05, p. no. 30
