CHAPTER - I

DESIGN AND EXECUTION OF THE STUDY
1.1 Introduction

In India, agriculture is the largest industry, which is the backbone of the country. It provides employment to a large majority of the work force in the country. The role of agriculture in the Indian economy is significant. The Statistics of the Central Statistical organization reveal that the share of agriculture in GDP has been in the range of 55 to 52 per cent between 1950-51 and 1960-61, but it declined sharply to 24 per cent in 2003-04, as a result of industrialization and economic growth. However, agriculture contributes a major share of the national income of India. The share of agriculture in national income has been decreasing continuously and the share of other sectors is increasing.

Census of India reveals that 97 million persons were employed in agriculture in 1951 and it increased to 235 million in 2001. The proportion of cultivators to total working population declined from 50 per cent in 1951 to 32 per cent in 2001. The people working on land decreased from 70 per cent in 1951 to 59 per cent in 2001. The remaining work force is working in non-agricultural sector. The result from 2001 Census clearly shows a shift from agriculture to non-agriculture sector.

Many industries depend on agriculture as the source of supply of raw materials. Small industries and cottage industries are not exceptions to this. Agriculture and other industries are mutually dependent for the raw materials and for marketing their products. Agriculture supply inputs to many industries and in turn the agriculture industry is using the products of other industries. The Green Revolution,
which made the agriculturists to use High Yielding Variety seeds, fertilizers, and pesticides, led to a shift in the production technology. This was largely facilitated by investment in irrigation and land development. India attained self sufficiency in food production by mechanization and use of agricultural inputs but has failed to provide employment to the surplus labour.

In India, agriculture, industry and service sectors have not absorbed the labour force adequately and the problems of poverty, unemployment, underemployment and out-migration continue to exist. Poverty is the crux of the problems in India. Teeming millions is the root cause for these problems. The census data and the National Sample Survey Organisation [NSSO] data reveal the economic status of our people.

During 1987-88, 43.4 per cent of the population in Tamil Nadu was below the poverty line as against 38.9 per cent at all India level. In 1999-00, the percentage of population below the poverty line in Tamil Nadu came down to 21.1 as against 26.1 per cent at all India level. During 1999-00, 8.05 million people in rural areas of Tamil Nadu were below the poverty line, constituting 20.55 per cent of the people in rural areas of Tamil Nadu. In urban areas, 5 million people were below the poverty line, constituting 22.11 per cent of the people. The total number of people, who were below the poverty line in Tamil Nadu during 1999-00 stood at 13.05 million. Poverty and unemployment force the people to leave their villages and move them to other places for seeking employment.

Migration takes place when the employment opportunities are insufficient locally. Poor people individually or with their families migrate to urban centers in search of employment in manufacturing, construction, service or transport sectors.
"As per 1991 census, 226 million persons changed places of residence within the country, of which only 9 per cent of persons moved for employment reasons and 2 per cent moved for business reasons, while inter State migration accounted for 12 per cent of all migrants, it accounted for 29 per cent of those who migrated for employment or business reasons".1

Unemployment problem emerges, when the number of people in rural areas exceeds the capacity of agriculture to provide sustainable livelihood opportunities. "As population pressure increases it is more difficult for the rural poor to rely on natural resource based activities. For many, livelihoods have become less secure and sources of income more varied.[Ellis, 1998]"2 Agriculture and allied activities have failed to provide avenues of employment. The diversification of rural economy with non-farm sector activities appears to be an important avenue of employment. This alternate avenue creates an enormous number of gainful employment opportunities in rural areas, discharge out-migration and improve the standard of life of the rural people.

"The RNFE is of great importance to the rural economy because of its production linkages and employment effects, while the income it provides to rural households represents a substantial and sometimes growing share of rural incomes. Often this share is particularly high for the rural poor. There is evidence that these contributions are becoming increasingly significant for food security, poverty alleviation and farm sector competitiveness and productivity."3

1.2 Importance of NFS Activities

The non-farm sector, which is heterogeneous, consists of all economic activities other than agriculture and allied activities. It includes trade, transport and
manufacturing activities. "The Non-Farm 'Sector' includes all economic activities in rural areas except agriculture, livestock, fishing and hunting. Since it is defined negatively, as non-agriculture, it is not in any sense a homogeneous sector." The Non-Farm Sector helps reduce poverty by giving employment opportunities to the poor people particularly living in rural areas.

An important element of the developing strategy is the diversification of the rural economy. Many developing countries including India have 'poverty alleviation' as a major component of the national policy agenda. "Creating adequate employment opportunities to absorb the existing unemployed and underemployed as well as the increase in labour force has been the important and continuing concern of Indian development policy." 

Shift from agriculture to non-agriculture is considered essential for reducing poverty in all developing and underdeveloped countries. The rural non-farm sector is increasingly playing an important role in the development of rural India.

"Although rural households have traditionally depended on agriculture for their livelihoods, growth in the Rural Non-Farm Sector [RNFS] is expected to shift the workforce from agriculture to non-agriculture. It is now recognised that households can diversify their activities to rural non-agriculture and work in multiple activities." 

RNFE is complementary measure to employment in agriculture and not a substitute for employment in agriculture. RNFS activities should be viewed as a supplementary measure to agricultural development aimed at eradicating rural poverty. Mechanization in agriculture push some workers from agriculture and force them to look for employment in the rural non-farm sector. However, it is still
important to develop agriculture as necessary precondition for the development of rural economy. The promotion of RNFE also should be undertaken within the broader context of rural development.

“For providing fuller employment in rural areas, it is desirable that apart from emphasizing upon agriculture, matching stress is also laid on the development of non-farm activities as well. This will bring about integrated upliftment of rural areas and those, who are not fully employed in farming activities, would find avenues for their livelihood through other activities. These activities may fall under any of the sub-sectors namely industries, service or business.”

Integrated rural development is possible through the development of farm sector and non-farm sector activities in rural areas and this is achieved by co-operative institutions particularly the Land Development Banks.

“The wider availability of non-farm employment can have positive effect like: smoothing seasonal variations in non-farm labour demand and incomes, reducing risk by spreading it across diverse activities, raising income, allowing investments in assets, increasing female income and therefore welfare. To increase wages in agriculture and shift worker to more productive areas, the promotion of non-farm sector is advocated”

1.3 Statement of the Problem

The co-operative credit movement was sponsored in India by the then British Government in the year 1904, when the first Co-operative Credit Societies Act was enacted. This Act paved the way for the organization of credit societies in rural and urban areas with the primary objective of providing credit to the members.
At the early stages, the rural credit societies supplied credit for redemption of old debts, purchase of land and the requirements of the farm. These loans were sanctioned for a year, but in many cases these were renewed from year to year and became long-term loans. The number of defaulters mounted and large number of societies came to grief.

It was soon realized that the primary credit societies were not a proper agency to provide long-term credit to farmers. Village societies, based on Raiffeisen model, were designed to meet the requirements of the small farmers. The establishment of land mortgage banks, with the objectives of providing long-term loans against mortgage of land, was considered necessary to provide facile and adequate credit to the agriculturists. Hence, the establishment of co-operative land mortgage banks.

As a result, the first co-operative Land Mortgage Bank was established at Jang in Punjab [now in Pakistan] in 1920. In Madras, the first Central Co-operative Land Mortgage Bank was established in 1929. The Royal Commission on Agriculture [1928] was of the view that the village credit societies were not suitable agencies for lending long-term credit to the farmers on mortgage securities.

The Conference of the Registrars of Cooperative Societies in 1926 strongly recommended the organization of co-operative land mortgage banks. The Central Banking Enquiry Committee [1931] also recommended the establishment of co-operative land mortgage banks.

Initially the land mortgage banks did not pay much attention on production credit. The All India Rural Credit Survey Committee [1954] recommended that the co-operative land mortgage banks should give priority to loans for productive
purposes. The Co-operative Land Mortgage Banks were advised to change their names to “Co-operative Land Development Banks” to lay stress on developmental role.

The banks were renamed as Co-operative Land Development Banks in 1969. The nomenclature of banks was again changed into Primary Co-operative Agriculture and Rural Development Banks in the early nineties, whereas in Tamil Nadu, the names of the banks were changed on 1.07.1997. Primary Co-operative Agriculture and Rural Development Banks have been providing long-term loans to the farmers for making permanent improvement on land, farm mechanisation, plantation and horticulture etc.

In India, about 70 per cent of the people still depend on agriculture and the share of agriculture in Gross Domestic Product is around 30 per cent. However, the agricultural industry is unable to generate enough employment opportunities among the rural people, as it is carried on during seasons only.

Diversification of activities, from agriculture to activities other than agriculture, was considered to augment the generation of employment opportunities in rural areas. Diversification of lending to non-farm sector activities by PCARDBs became necessary to improve the socio-economic conditions of farmers, artisans and others. Investment in non-farm sector was considered to be a prudent activity by the PCARDBs. Hence, lending to non-farm sector.

In this context, it is appropriate to study the role of Primary Co-operative Agriculture and Rural Development Banks in the development of Rural Non-Farm Sector Economy. Whether the diversification of lending to Non-Farm Sector has helped the rural people by generating employment opportunities and income?
Whether the PCARDBs have found the Non-Farm Sector to be an area for their investment?

These questions would be answered through studies, which would help institutions improve their performance and achieve their objectives. Hence, this study titled “A Study on Non-Farm Sector Finance by Primary Co-operative Agriculture and Rural Development Banks in Dharmapuri District”.

1.4 Review of Literature

A number of studies have been conducted on the Rural Non-Farm Sector [RNFS] in India and abroad. It is worth to review some of the studies.

A study on Financing Non-Farm Sector Activities [power looms] by Tamil Nadu Co-operative State land Development Bank Limited was conducted by G.P.Gupta, Joint Director, Planning, Research and Development Cell of the National Co-operative Agriculture and Rural Development Banks’ Federation Limited during 1993-94.

The study revealed that a number of weavers were employed and a number of women artisans were also getting employment along with the weavers. However, they were being exploited by the middlemen/master weavers. The recovery of loan instalments was better than other sector loaning by the PCARDBs. Training of the technical personnel was identified as pre-requisite to undertake NFS activities by the banks.⁹

A study conducted by M. Boothalingam in 1995 in Karnataka State revealed that in Gulbarga district, the major non-agricultural activity was stone cutting and stone polishing. The banks provided loans for setting up of oil mills, stone polishing, purchase of grain thresholders, sugarcane crusher, basket making, establishment of
hotels, cold drink shops etc. Most of the borrowers said that the loans were not adequate. Loans were fully utilized in most of the cases. Annual earning out of the projects varied between 9 per cent and 63 per cent.10

A study conducted by Daniel C. Clay, Theobald Kampayana and Jean Kayilsinga in Rwanda in 1988 on “Inequality and the Emergence of Non-Farm Employment in Rwanda” revealed the following findings.

Approximately, 47 per cent of farm households in Rwanda engaged in some form of off-farm employment.

i. Time spent of the farm in artisanal activities was the heaviest in the construction industry.

ii. Nearly 80 per cent of all off-farm employment was held by men.

iii. Nearly a third of all such employment was held by 17.4 per cent of the individuals, who managed to complete primary school.

iv. Woman generally lacked the training necessary for non-farm employment.11

In his Micro Study of 18 villages, G.K.Chadha [1994] conducted detailed employment and poverty household surveys across three States of differing levels of development: Bihar considered a backward region; Andhra Pradesh, an agriculturally developed region and Uttar Pradesh, a State with both developed agricultural and non-agricultural sectors. He concluded that a quickly growing and productive agricultural economy is able to promote well developed non-agricultural activity within the village itself. However, he concludes that this linkage between the sectors can not be taken for granted, highlighting his finding that as the
economy develops, the proportion of non-farm income increases in poorer households.\textsuperscript{12}

A Study of RNFS by NABARD [1994] in Orissa State revealed the following findings.

i. There was a regional variation in the importance of the RNF sector to the local economy within Orissa.

ii. High growth RNF sub-sectors in Orissa were identified as services, water and electricity and jute products.

iii. The majority of the artisans and cottage level producers in traditional activities used traditional technologies, while a minority of larger units such as rice mills used modern technology.

iv. A sustained growth in both domestic and export demand for RNF products, was found to be an important determining factor in the growth of sub-sectors in Orissa.

v. Among the working population of Orissa, the percentage of self-employed, waged employed and casual labourers of the RNF sector was 14.4, 5.1 and 5.0 per cent respectively during 1987-88. Their respective decadal growth rates were 6.2, 5.1 and 4.6 per cent.

vi. Orissa had a dominance of artisan-based enterprises in the industrial sector.\textsuperscript{13}

\textbf{Peter Lanjouw, P.; Shariff, A.} Conducted a study on rural data collected on 32,000 households across India in 1993-94. In this study, it was found that non-farm incomes accounted for roughly one third (34 per cent) of household income in rural India on average, with considerable variation across population sectors and
between States. Education appeared to improve the prospects of finding non-farm employment. Women were able to get lower income from non-farm activities. Those with larger per capita land holdings were more likely to find non-farm work, yet on average had lower non-farm income.  

Vissaria and Basant [1994] identified that during 1961-88, the share of the rural non-farm sector in the total rural workforce increased. The trend was more evident among male workers than the female workers. Within the rural non-farm sector, the increase in the share of tertiary sector exceeded that in the secondary sector.

The increase in the non-farm employment was a consequence of an increase in the proportion of casual non-agricultural workers. Participation in RNF employment is inversely proportional to the size of household landholding.

Unni conducted a micro study of 30 villages in Gujarat in 1996. She concludes that older men specialize in agricultural activities and better educated men specialize in non-agricultural employment.

Men in households of significant assets [especially lands] also specialize in non-farm activity. High population densities and proximity to rural towns [markets] also foster such specialization. Many more women engage in casual and part-time work, particularly concentrated in the agricultural labour sector. RNF sector may be particularly important for woman by drawing them away from poorly remunerated agricultural work.

A study by S.Iyampillai and N.Jayakumar on Non-Farm Employment was conducted in Thiruchirappalli District, in Tamil Nadu in 1997. The Study revealed i. the relationship between caste hierarchy and the land holding status; ii. There was
Domination of SC households in casual NFE including construction activities and the domination of Non-SC households in the regular NFE including govt. jobs, self employment and business.

Many of the households received a high proportion of their income from NFE. For majority of the SCs, the diversification of employment was due to force i.e., ‘distress diversification’. NFE was the major source of income for majority of the landless and small farmer categories. On the basis of economic status, only 18 per cent of the sample households were living below the poverty line earning less than Rs.11,000 at 1997 prices. Households taking part in NFE earned roughly about 40 per cent of their income from NFE. Large land owners got better income earnings from NFE also. Transport facilities appeared to be very strong determinant for raising their level of income.\(^\text{17}\)

Islam conducted a study in Bangladesh in 1997. His findings are as follows:

i. The factors that lead to distress-push participation in the RNFE include successive droughts that depress income and hence increase the need for alternative sources of income, usually through low skill jobs.

ii. Factors that lead to demand –pull diversification include the increased income of lower and middle-income households and increased demand from urban areas for rural products.

iii. Education was another potentially important facilitator of access to higher-income sectors.\(^\text{18}\)

Another study titled “A Study on Non-Farm Sector Loans by District Central Co-operative Banks in Tamil Nadu” was conducted by G. Nagarajan.
The Study was conducted in four District Central Co-operative Banks viz., Coimbatore DCCB, Kumbakonam DCCB, Salem DCCB and Tirunelveli DCCB. He analysed the performance of these four DCCBs, which disbursed S.T., M.T. and L.T. loans for NFS activities.

The study found that Maharashtra and Gujarat were the States ahead of other States in the disbursement of NFS loans. The other findings are:

The Index number of short-term loans [CDCCB] for NFS activities went up from 100 in 1987-88 [Base Year] to 663.90 in the year 1996-97.

The Index number of short-term loans [KDCCB] for NFS activities went up from 100 in 1987-88 to 369.84 in the year 1996-97.

The Index number of short-term loans [SDCCB] for NFS activities went up from 100 in 1987-88 to 948.01 in the year 1996-97.

The Index number of short-term loans [TDCCB] for NFS activities went up from 100 in 1987-88 to 306.53 in the year 1996-97.

Tamil Nadu had highest average amount of NFS loans, Rs. 231.957 lakhs followed by Maharashtra with Rs 215.169 lakhs, Gujarat with Rs 148.57 lakhs and Kerala with Rs.120.97 lakhs.

The status of issue of Medium-Term loans for NFS activities for the period between 1987-88 and 1996-97 showed moderate progress.

SSI loans and Housing loans in Coimbatore DCCB registered a remarkable progress during the period of study.

In Salem DCCB, SSI loans accounted for 3 per cent only. In Tirunelveli DCCB, the advances for NFS remained higher than farm sector loans.
Analysis of place of NFS loans in the total loan issued reveals the emergence of NFS loans as an important avenue for deployment of funds for DCCBs. There is definite shift towards NFS loans in the selected banks in all categories of loans. Arrangements for recovery of loans at the selected District Central Co-operative Banks are satisfactory.¹⁹

A study conducted by NABARD on Rural Non-Farm Sector in Ludhiyana and Sangrur districts of Punjab during 1999-00 covered PCARDBs, Commercial Banks, RRBs, and State Cooperative Bank. The reference period of the study was 1998-99. The study revealed the following findings.

i. It was found that the grace period allowed by the branches of PARDBs, CCBs and RRB was not having any relevance with the generation of income from the activity financed.

ii. The repayment period fixed did not have any relevance with generation of income as higher or lower period of repayment was fixed for the similar activity involving lesser/higher amount of loan.

iii. The loan disbursed to sample borrowers for meeting their block and working capital requirements was 77 per cent. Around 21 per cent of loan amount was utilized exclusively for the purpose of block capital investments. Around 2 per cent of the amount was financed for meeting working capital needs of the sample borrowers.

iv. Total recurring employment created by the sample NFS activities was 507,830 man days with average potential of 25,883 man days per unit.
A study on Rural Non-Farm Investments conducted by NABARD in Gujarat, Orissa, Tamil Nadu and Uttar Pradesh during 1999-00, revealed the following findings.

i. A large proportion of the borrowers had studied up to secondary level (47.6%), followed by those who studied up to primary level (19.8%) and graduates (16.3%). The level of illiteracy among the sample borrowers was at 16.3 per cent only.

ii. Among the borrowers, business was reported as primary occupation by 27.5 per cent.

iii. Around 30 per cent of the borrowers underwent training.

iv. Delay in sanction of loans, documentation, inadequacy of loan amount, and working capital not sanctioned were identified as problems in obtaining bank loans.

v. Problems in setting up and running the units were reported by 4.3 per cent of the sample borrowers.

The annual employment generated per person, on an average, was the highest in coir units at 278 days as compared to only 178 in threshing units, which is indicative of seasonality of employment in threshing units in the agro based sector.

In manufacturing sector, average additional recurring employment in person days per unit was highest in Zari works units (31,958 person days).
Under the trade, retail business was the major activity among trading units and it generated an average additional employment of 9795 units.

Overall recovery performance was 59 per cent of the demand for all the sample borrowers.21

A study on “Non-Farm Economy and Rural Development”, sponsored by the Planning Commission, Govt. of India, was conducted by GIRI Institute of Development Studies, Lucknow in 2002. The study was conducted in the State of Uttaranjal [India] to examine the structure, growth, development potentials and the kinds of problems existing in the properly functioning of various non-farm activities and finally to investigate about the possibility and measures to be initiated for developing different non-farm activities.

The findings of the study are:

i. A large majority of around 44 per cent of the entrepreneurs constituted quite old of above 45 years, 10 per cent entrepreneurs accounted for over 60 years of age and only 27 per cent entrepreneurs followed to young age group of below 35 years.

ii. They found that around 12 per cent of the entrepreneurs of sample non-farm enterprises, comprising 14 per cent in high hills, followed by 10 per cent in middle hills and 9 per cent in low hills areas are illiterate. Another 17 per cent possessed only functional literacy. Around 4 per cent of the entrepreneurs attended graduation level and 37 per cent of them had the secondary level of educational attainment.
iii. A majority of around 56 per cent non-farm activities were the origin of the first and present generation.

iv. It was found that the present location [of the units] was the home place of each of the entrepreneurs of different non-farm activities.

v. Nearly one-third of the non-farm activities were traditional by nature and were established over three generations ago. The family members of the non-farm households motivated 42 per cent of the entrepreneurs for establishing non-farm activities. And around 23 per cent of the entrepreneurs were motivated by their friends and relatives and remaining only 3.04 per cent of the entrepreneurs had decided to establish concerned non-farm activities after motivating them by the Government.

vi. Non-farm activity was found to be a very profitable occupation in rural areas. The margin of all non-farm activities together was estimated to be around 42 per cent.

vii. Of the 3437 households, as covered by the study, around 72 per cent of them belonged to general castes, 28 per cent scheduled castes/scheduled tribes and only less than one per cent Muslims and other castes.

viii. The average of the family in the sample areas consisted of 5.25 members.

ix. Forty three per cent of the workforce engaged in non-farm sector. The proportion of the workforce participating in non-farm activities
was significantly larger among the women [49 per cent] as compared to their male counterpart [38 per cent].

x. The manufacturing activities are the most important components of rural non-farm sector in term of role in providing employment opportunities. 22

A study on Rural Non-Farm Sector activities in Kollam and Allapuzha Districts of Kerala was conducted by NABARD during 2002-03. The activities covered were Fish Processing, Concrete Works, Mat Making, Furniture Making, Brick Manufacturing and Common Catering. The following are the findings of the study.

i. The average net income of the activities (units) ranged from Rs.23,485 to Rs.77,224.

ii. The highest number of man days of employment generated (960 male + 160 female) was found in Brick Manufacturing Industry.

iii. The average number of man days of employment generated by all the activities was 647 for male and 87 for female.

iv. On the whole, 45 per cent of the units were regular in repayment of loans and 42.86 per cent of the units had repaid more than half the loan.

v. It was observed that the repayment performance in smaller investments, i.e., Concrete Work, Fish Processing and Mat Making was better than those of bigger investments, i.e., Furniture Making, Brick Manufacturing and Multi Catering Units. 23
A study was undertaken by NABARD on Employment Generation, Health and Sustainability of RNFS units in Shimoga District, Karnataka during 2003-04. The study covered 146 units financed by Sahayadri Grahmin Bank, KSCARDB, Shimoga DCCB and Commercial Banks. The study revealed the following findings.

i. Seventy per cent of the sample borrowers were male and thirty per cent were female.

ii. About 66 per cent of the borrowers studied between SSC and Graduation and 5 per cent had technical qualification.

iii. All the sample beneficiaries covered under the service activities reported the activity financed as their main activity.

iv. About 48 per cent of the sample borrowers had chosen their activities without any proper experience or training.

v. The Handicrafts units (22) generated 10,848 man days of employment during the study period followed by 56,482 man days by Manufacturing Industry (26), 45,698 man days by Agro based Industry (25), 60,425 man days by Service Industry (48), and 40,050 man days by Retail Trade / Small Business (25).

vi. About 64 per cent of the units were observed to be regular in repayment. Nearly a fourth (24%) of the loan accounts was observed to be chronic default.

vii. The main reasons for chronic default were willful defaults, and unrealistic projection of income, diversion of funds for emergent consumption purposes etc.

A study was conducted by NABARD in East Godavari District in Andhra Pradesh during 2004. The study covered Readymade Garments/Tailoring, Village Industries, Agro Industries, Service Industries and Miscellaneous Industries financed by Andhra Bank, State Bank of India and RRB. The study revealed the following.
It was found that the units had potential for self-employment generation.

i. Fashion Technology was practiced as a group activity and members got employment through their activities for about 220 days a year.

ii. While coir mat weaving provided full time employment to each unit, i.e., about 350 days/year, coir rope making could not provide any additional employment as the investment became infructuous.

iii. About 58 per cent of the sample borrowers repaid the loans regularly.\textsuperscript{25}

1.5 Objectives of the Study

The following are the objectives of the study.

i. To study the performance of Primary Co-operative Agriculture and Rural Development Banks in India.

ii. To study the performance of PCARDBs in Tamil Nadu.

iii. To study the performance of PCARDBs in Dharmapuri District in Tamil Nadu.

iv. To review the role of State Co-operative Agriculture and Rural Development Banks in India.

v. To review the policies and procedures by the ARDBs for providing loans to Non-Farm Sector and the role of NFS in employment generation in rural areas.

vi. To offer suggestions for effective disbursement and utilization of NFS finance.
1.6 Hypotheses

The following are the hypotheses of the study

i. There is no significant relationship between Activity and Nature of Occupation.

ii. There is no significant difference among the activity groups in the average contribution of borrowings in total investment.

iii. There is no variation in the mean number of days of self employment among the activity groups before undertaking NFS activity.

iv. There is no variation in the mean number of days of self employment among the Education groups before undertaking NFS activity.

v. There is no significant difference between nature of Occupation and Number of days of self employment prior to undertaking NFS activity.

vi. There is no significant difference among the activity groups and in the average number of days of self employment per month in NFS.

vii. There is no significant difference among the age groups in the average number of days of self employment in NFS.

viii. There is no significant difference among the education groups in the average number of days of self employment in NFS.

ix. There is no significant difference between NFS being primary occupation and NFS being secondary occupation in the average number of days of self employment in NFS.
x. There is no significant difference among the years of existence in NFS groups and in the average number of days employed in NFS.

xi. There is no significant difference in the mean number of days in different activities.

xii. There is no significant difference among the activity groups in the average number of man-days of employment generated.

xiii. There is no significant difference among the mean net income of the different NFS activities.

xiv. There is no significant difference among the Education groups in the average income from NFS activity.

xv. There is no significant difference between NFS being primary occupation and NFS being secondary occupation in the average income from NFS activity.

xvi. There is no significant difference among the duration of NFS activity groups in the average income from NFS activity.

xvii. There is no significant difference among the activity groups in the average per cent contribution of NFS income.

xviii. There is no significant difference among the Education groups in the average per cent contribution of income to total income.

xix. There is no significant difference among the years of existence in NFS activity groups in the average per cent contribution of NFS income to total income.
xx. There is no significant difference between NFS being Primary Occupation and NFS being Secondary Occupation in the average per cent contribution of NFS income to total income.

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

xxii. There is no significant relationship between satisfaction and activity.

xxiii. There is no significant relationship between default and activity.

xxiv. There is no significant relationship between defaulter and education.

1.7 Definition of Concepts

The following are the definitions of concepts used in this thesis.

1.7.1 Ancillary Industry

"An industrial undertaking, which is engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates or the rendering of services and which supplies at least 50% of its production or services to one or more other industrial undertakings and whose investment in plant and machinery does not exceed Rs. 1 crore" [Rs.10 million].

1.7.2 Artisan

"Rural craftsman possessing manual skill in operation of small tools and machines, either in self employment or working for another artisan for earning one's livelihood."

1.7.3 Borrowed Funds

"Borrowed capital and deposits constitute borrowed funds."
1.7.4 Cottage Industry

"Industries in which fixed capital does not exceed Rs. 25,000 and the number of persons employed is less than 9.

1.7.5 Craftsmen

"Craftsman producing articles by skill of the hand and a special vocation acquired over a period — A handicraft article, to be distinct from rural craft, must undergo at least one operation /process involving skill of hand. They cover artistic / utilitarian handicrafts."

1.7.6 Defaulter

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

1.7.7 Household Industry

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

1.7.8 Industry

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

1.7.9 Non-Farm Sector

The Rural Non-Farm Sector (RNFS) has not been defined in any official document. Many authors have defined the Non-Farm Sector, which are given below.

G. Oja has quoted the NFS in the classical approach as “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.”

Ann Gordon and Catherine Craig have defined Non-Farm Sector as “Non-Farm refers to those activities that are not primary agriculture or forestry or fisheries. However, non-farm does not include trade or processing of agricultural products”.

They have also said that the term ‘non-farm’ should not be confused with off-farm. The latter generally refers to activities undertaken away from the household’s own farm, and some authors [e.g. Ellis, 1998] use it to refer exclusively to agricultural labouring on some one else’s land, so ‘off-farm’ used in this sense would not fall within the normal definition of ‘Non-Farm’.

Ann Gordon and Catherine have excluded trading and processing of agricultural produce.

Junior Davis says, “the rural non-farm economy [RNFE] may be defined as comprising all those non-agricultural activities which generate income to rural households [including income in kind and remittances], either through waged work or in self-employment”. Junior Davis has not excluded any activity from the purview of RNFE.

Steven Haggblade, Peter Hazell and Thomas Reardon have defined the RNFS as follows.

“The Rural Non-Farm Economy [RNFE] includes all rural economic activity outside agriculture. It includes self employment, wage employment, fulltime, part-time, formal, informal seasonal and episodic non-farm production.
Non-farm activity may take place at home, in factories or by itinerant traders. It includes small and large scale activities of widely varying technological sophistication.

They have brought all economic activities undertaken outside agriculture irrespective of the place of work under the purview of Non-Farm Sector.

NABARD has defined Rural Non-Farm Sector as those enterprises and artisan activities which would be classified as household, decentralised, 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 income to person residing in rural areas.

NABARD has included in its definition all kinds of Non-Farm activities providing employment and income to the rural people.

The researcher has used the following definition, which includes the features of Non-Farm Sector as given in the definitions stated above.

"Non-Farm Sector includes all those economic activities, which are undertaken outside the agriculture and allied activities. It covers all non-agricultural activities in rural areas including trade, transport, services and other manufacturing activities”.

1.7.10 Non-Wilful Defaulter

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

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

1.7.12 Owned Funds

"Paid up share capital and Reserve Fund constitute owned funds".

1.7.13 Rural Area

NABARD defined Rural Area as "The areas comprised of any village and towns with population up to 50,000", which is adopted in this study.

1.7.14 Rural Industry

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

1.7.15 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."

1.7.16 Tiny Enterprise

"All Small Scale Units with investment limit in plant and machinery up to Rs.25 lakhs [Rs.2.5 million] irrespective of the location of the unit are called Tiny Enterprises."
1.7.17 Wilful Defaulter

"A wilful 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."

1.7.18 Working Capital

"Working Capital includes owned funds and borrowed funds."

1.8 Methodology and Sampling

The study is ex post facto. Survey method was adopted for the study. Dharmapuri district is one of the most backward and drought prone districts of the State of Tamil Nadu. Frequent failures of crops and drought conditions resulted in large scale unemployment in the district. It has a large number of landless farm labourers. It is educationally most backward ie., 29th rank in the State as per 2001 census. About 29 per cent of the men and 50 per cent of the women in the district were illiterates. According to 2001 Census, 176398 families were below the poverty line. The people of the district are seeking employment in quarries, granite units and farms in Kuppam and Chittoor areas of Andhra Pradesh and in construction works in Karnataka State.

So, thousands of people migrate to neighboring States for employment, because agriculture industry does not provide sufficient employment to the people. The people of the district are forced [Push Factor] to undertake non-farm activity. The industrial town of Hosur is very famous for all kinds of industries. In view of large number of different kinds of industries present in Hosur area, there is more scope for non-farm sector activities. The avenues for non-farm activities
are larger in this district. Hence, Dharmapuri District [before bifurcation] was chosen for the study.

There are five Primary Co-operative Agriculture and Rural Development Banks in Dharmapuri District. All these banks were selected for the study. Both Primary and secondary data were collected and used for the study.

The PCARDBs in Dharmapuri 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.

The details about activities and beneficiaries financed were taken from the PCARDBs. The borrowers, who borrowed loans for non-farm sector activities from these banks were stratified on the basis of purposes of borrowing [ie., the groups of activities]. For each group of activities 25 per cent of borrowers were randomly selected making a total sample frame of 250 respondents. The activity wise selection of the sample respondents is given below.

**TABLE 1.1 SELECTION OF THE RESPONDENTS**

<table>
<thead>
<tr>
<th>Activity</th>
<th>Population</th>
<th>No of Sample Respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>SRTO</td>
<td>175</td>
<td>44</td>
</tr>
<tr>
<td>Food Processing</td>
<td>24</td>
<td>6</td>
</tr>
<tr>
<td>Building Materials</td>
<td>136</td>
<td>34</td>
</tr>
<tr>
<td>Agro based</td>
<td>143</td>
<td>36</td>
</tr>
<tr>
<td>Service</td>
<td>144</td>
<td>36</td>
</tr>
<tr>
<td>General Engineering</td>
<td>48</td>
<td>12</td>
</tr>
<tr>
<td>Textiles</td>
<td>96</td>
<td>24</td>
</tr>
<tr>
<td>Printing</td>
<td>32</td>
<td>8</td>
</tr>
<tr>
<td>Rural Housing</td>
<td>96</td>
<td>24</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>104</td>
<td>26</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>998</strong></td>
<td><strong>250</strong></td>
</tr>
</tbody>
</table>
1.9 Instrumentation

Personal interview constituted the main tool of collecting primary data. An interview schedule for the individuals was prepared. Schedules for Primary Co-operative Agriculture and Rural Development Banks and Tamil Nadu Co-operative State Agriculture and Rural Development Bank were prepared. The schedules for the individual borrowers were administered after pretest for collecting data.

1.10 Reference Period

A period of ten years from 1994-95 to 2003-04 was covered under this study.

1.11 Framework of Analysis

Simple percentages, indices and averages were used for interpretation of data. Statistical tools like Chi square, t-test and ANOVA were worked out for analysis.

1.12 Limitations of Study

i. While interviewing, some members were hesitating to disclose their income, savings etc., due to the fear that the data could be used against their interest. However, the researcher could establish good rapport by explaining the purpose of the study and collect as much data as was required.

ii. Loan particulars on activity basis were not available for NFS loans except Rural Housing at PCARDBs. The particulars of loans for various NFS activities except Rural Housing were written under the head ‘NFS loans’. Hence, comparison of loans on different activities became impossible. Even at SCARDB, activity-wise data were not
available except for NFS and Rural Housing. Hence, the particulars
of NFS loans were given in the tables under the heads NFS and Rural
Housing.

iii. Generally rural industries do not maintain proper records for the
transactions and all the business are carried out by the entrepreneur
by following rudimentary accounting system. The recall of memories
of the respondents serves as the source for primary data. However,
the researcher, through cross-questioning and clarification has
minimized bias to the extent possible.

iv. The study period has been confined to ten years from 1994-95 to
2003-04, because NABARD stopped lending to TNCSARDB from
April 2004, due to withdrawal of Guarantee from Tamil Nadu
Government to NABARD.

1.13 Chapter Scheme

The present Study has the following chapter scheme:

i. The First chapter deals with the Design and Execution of the Study.

ii. The Second chapter analyses the History, Structure, Growth and
Performance of the Primary Co-operative Agriculture and Rural
Development Banks in India.

iii. The Third Chapter analyses the performance of Primary Co-operative
Agriculture and Rural Development Banks in Tamil Nadu.

iv. The fourth Chapter analyses the performance of Primary Co-operative
Agriculture and Rural Development Banks in Dharmapuri District in
Tamil Nadu.
v. The Fifth Chapter analyses the role of State Co-operative Agriculture and Rural Development Banks in India.

vi. The Sixth Chapter presents the Generation of Employment and Income by NFS activities financed by PCARDBs in Dharmapuri District.

vii. The Seventh Chapter presents the findings, conclusions and suggestions.

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