CHAPTER VIII

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Introduction

NABARD provides refinance facility to the financial institutions such as Commercial Banks (CBs), Regional Rural Banks (RRBs) and Co-operatives so as to enable them lending for agriculture and rural development purposes. NABARD has just completed two decades of its service. Under these circumstances it is necessary to assess its role in development at the grass-root level and analyse whether the benefits of its schemes reached the various classes of rural people. The available studies relate to evaluation of institutional credit, utilization, and repayment at the macro-level lending. But there is dearth of studies on the performance of NABARD holistically including refinancing, development and coordinating activities. Considering this fact, the present study is conceived and it aims at studying the various issues connected with the "Role of NABARD in promoting Rural Development- A case study in Dharmapuri District". This study is restricted to the beneficiaries of Primary Agricultural Co-operative Banks (PACBs) in 18 blocks of Dharmapuri district of Tamil Nadu. It makes a deeper analysis based on the macro level data and supports the views and facts with data analysis at the micro level.

Objectives of the study

The specific objectives of the study are:

i) to study genesis, objectives, functions and organization and management set up of NABARD;

ii) to assess the resource structure and financial performance of the NABARD;
iii) to review the refinance operations of NABARD at all India and Tamil Nadu level;

iv) to study the extent of utilization pattern of credit of the sample borrowers in the study area;

v) to assess the impact of bank credit on employment, asset creation, income and occupation of the beneficiaries in the study area;

vi) to examine the major socio economic factors affecting the repayment performance of the sample borrowers; and

vii) To offer suggestions for improving the repayment performance.

**Methodology**

The present study is descriptive in nature and the analysis is based on both secondary data collected from the reports and records of banks and primary data collected from 300 respondents drawn from 30 PACBs located in 18 blocks. The study employed various statistical tools for analysis of data. The tools include F-test, t-test, McNemar test and multiple regression analysis.

**Summary of findings**

The following are the findings of the study.

1 **Resource structure and financial performance of NABARD**

1.1 **Share Capital:** The share capital of the NABARD was Rs.100 crores in 1982-83 and it has increased to Rs.2000 crores in 2002-03. The percentage of share capital to total working funds showed an increasing trend from 1994-95 to 1998-99 and thereafter it showed a declining trend. The share capital of NABARD has increased in a phased manner while the quantum of total working funds increased year after year.
1.2 Reserves and Surplus: Reserves and Surplus of NABARD has registered 7.5-fold increase. Amount transferred to reserve and surplus was found to be high during 1994-95, 1997-98, 2001-02 and 2002-03. The proportion of reserves in the total sources of funds and in the total working funds has not presented any definite trend. The proportion of reserves to total sources of funds registered a lowest of 0.21 percent in 2000-01 and highest percent (24.19%) in 1995-96. The proportion in relation to total working funds ranged between 3.95 percent (1991-92) and 10.83 percent in 1997-98. The reserves recorded a highly volatile trend while total sources of funds and total working capital registered steady upward trend. Among the various reserves created by the bank, the General Reserve Fund forms the major chunk followed by Special Reserves and Capital Reserve.

1.3. Long-term funds: It shows an increasing trend, registering three-fold increase. The highest amount transferred towards L.T.Funds was Rs.1202 crores in 2000-01. A comparison of long-term funds position with total sources of funds position revealed that it highly fluctuated over the years. The long-term funds in total sources of funds, ranked first for two years and fifth place during 2002-03. National Rural Credit (Long-term operations) Funds accounted for major portion in the long-term funds of the NABARD.

1.4. Deposit: Only in seven out of 12 years there was an inflow of deposit funds and during the remaining five years there was no deposit at all. Highest amount received towards deposit was Rs.7,223.06 crores during 2000-01. The proportion of deposit in the total working funds was 1.11 percent in March 1992 and 24.07 percent in 2002-03. The percentage of deposits with total sources of funds was 10.78 percent in 1996-97 and there was a remarkable increase in this percentage in 2000-01 (64.78%). In the recent years the deposits become the most important source of funds with first or second major source among the total sources of funds.
Among the different types of deposits, Commercial banks (Deposit under RIDF) accounted a major proportion of deposits in the recent years.

1.5. Borrowings: The quantum of borrowings has shown an increasing trend. But in terms of percentage to total working funds it showed a declining trend. The borrowings with total sources of funds show a fluctuating trend. The borrowing from RBI under General Line of Credit was the highest among all types of borrowings. Among all sources of borrowings the funds collected through the issue of bonds and securities have also been becoming the major source gradually and steadily in the recent years.

1.6. Current Liabilities: Current liabilities increased 10.43 times over 12 years. Highest amount transferred to this head was Rs.450.76 crores during 2001-02. The percentage of current liabilities to total working fund was fluctuating till 1998-99 and thereafter it increased continuously. The percentage of current liability to total sources of funds showed a fluctuating trend. The current liabilities were not found to have an important place in the financial sources of the bank. Among the various current liabilities Interest accrued but not due constitutes the major source of finance.

1.7. Other Liabilities: The quantum of other liabilities has increased continuously up to 1999-00 except during 1994-95 and the same has suddenly started declining from 2000-01 onwards. The percentage of other liabilities to total working funds was found to be fluctuating. Highest percentage of other liabilities to total working funds was noticed in 1999-00 (16.92%). Other liabilities to total sources of funds stood as prime source for four years with first rank from 1996-97 to 1999-00. Among the various types of other liabilities, funds received as grants from International Agencies constitute the major source of funds.
Among various sources of funds, Borrowings emerged as the important source of fund closely followed by NRC (LTO) and NRC (stabilization fund).

2. Refinance operations of the NABARD

2.1 Short-term Credit: The refinance disbursement under short-term credit for Seasonal Agricultural Operations (SAO) registered a steady growth (except during 1984-85) from Rs.1,347.20 crores in 1982-83 to Rs.7,972 crores in 2002-03 and reached 5.98 fold increase in 21 years. The average maximum drawals was 80 percent of the loan sanctioned. The quantum of outstanding of ST(SAO) credit registered declines during 1983-84 (-0.2) and 1990-91 (-1.4) and 1992-93 (-1.7). The percentage of utilization of ST(SAO) credit was not satisfactory, as in most of the years it has grown at a declining rate.

Refinance disbursement of NABARD under ST(OSAO) has registered 3.45 fold increase from Rs.311.2 crores in 1982-83 to Rs.1,072.90 crores in 2002-03. The growth on ST(OSAO) has not however been satisfactory as the rate of growth in terms of percentage on limits sanctioned and maximum outstanding were found to be negative in most of the years. The average outstanding under ST(OSAO) forms 76 percent of the limits sanctioned during the period.

The total short-term credit (both SAO & OSAO) has registered 3.55 fold increase from Rs.1,658.4 crores to Rs.5,890.1 crores in 2002-03. On the whole it was found to be growing at a declining rate during seven years. Out of two types of short-term credit, NABARD gives more importance to ST (SAO) than ST(OSAO) as it gives much attention to agricultural operations. The compound growth rate of ST(SAO) constitutes 10.28 percent as against 7.4 percent for ST(OSAO).
2.2 Medium term credit: NABARD provides two types of medium term loans such as conversion loan and non-schematic loan. Under medium term credit, major share of the credit is sanctioned for conversion of ST loans into MT loans. NABARD sanctioned Rs.173.99 crores in 1982-83 and it has increased to Rs.383.42 crores in 2002-03 growing almost 2.2 times over a period of 21 years. During the study period, such loans registered declined during 9 years. That is, there is no consistency in its progress. The limits were utilized to the extent of 50 percent only. NABARD sanctioned a considerable portion of total medium term loans for conversion purposes during 2002-03 (Rs.866.63 crores).

Amount disbursed under Non-schematic loans shows a fluctuating trend throughout the study period. The average credit sanctioned during the study period was Rs.41.96 crores. A declining trend was noticed in the case of loans for Non-schematic purposes. The average growth rate of refinance assistance provided for conversion purposes during 1982-83 to 2002-03 was 5.99 percent but whereas the Non-schematic loans registered an average decrease of 5.71 percent per annum. The co-efficient of variation is also less in the case of conversion loans. This shows that the National Bank has been discouraging non-project based lending for agricultural operations.

2.3 Investment Credit

2.3.1 All India and Tamil Nadu: Refinance disbursement of NABARD at all India level has registered more than 10 fold increase from Rs.703 crores in 1982-83 to Rs.7,419 crores in 2002-03. The average annual refinance provided by the NABARD was Rs.2,962.57 crores and it has grown at the average rate of 11.72 percent. Declining trend was noticed during 1988-89 (-14.3%). Disbursement at the all India level shows an upward trend throughout the study period.
The refinance disbursement registered a steady growth in Tamil Nadu from Rs.39 crores in 1982-83 to Rs.683 crores in 2002-03, registering 17.51 fold increase in the last 21 years. On an average Tamil Nadu availed 5 to 9 percent of that overall investment credit provided by the NABARD. The compound growth rate of refinance assistance to Tamil Nadu during the period 1982-83 to 2002-03 was 14.04 percent as against 11.72 percent at all India level. Disbursement at the all India level is however more consistent than in Tamil Nadu.

2.3.2 Region wise and state wise refinance: Southern Region accounts for the highest amount of refinance (Rs.864.07 crores) followed by Central Region (Rs.625.90 crores). The North-Eastern region has received the lowest (Rs.57.27 crores) share of refinance. Among the various states, Uttar Pradesh has accounted for the lion’s share (Rs.455.29 crores) in the average refinance disbursed, followed by Andhra Pradesh (Rs.299.14 crores). Tamil Nadu availed average disbursement of Rs.229.76 crores. The highest average growth rate was registered in the case of Himachal Pradesh (23.29%) and lowest being Bihar (4.68%). The study reveals that Andhra Pradesh, Karnataka, Tamil Nadu, Himachal Pradesh, Uttar Pradesh, and Punjab states witnessed an increasing trend except for a few years, while the rest of the states have shown fluctuating trend in the receipt of refinance facilities.

2.3.3 Agency wise disbursement: Out of four agencies, the State Co-operative Agriculture and Rural Development Banks (SCARDBs) accounted for the highest share (Rs.1,207.29 crores) in the refinance facility availed followed by Commercial banks (CBs) (Rs.915.43 crores). The least share of refinance was availed by SCBs (Rs.407.62 crores). The average growth rate shows that SCBs have recorded the highest growth rate of 19.43 percent followed by RRBs (15.22%). The disbursement made to commercial banks shows a greater
stability compared to other agencies and the least consistency was recorded in the case of State Co-operative Banks.

2.3.4 Purpose wise refinance: Farm Mechanisation has continued to be the single largest item of investment credit disbursement followed by IRDP/SGSY. The share of assistance provided for establishment of storage and market yards, Forestry and Biogas was insignificant during the period under study. The average rate of growth was found to be high in the case of lending for Non-farm sector (38.54%) followed by assistance to Dairy Development purposes (22.61%). Lowest growth rate was found in the case of IRDP/SGSY (2.99%) purpose. Assistance to Biogas has recorded decrease at an average rate of 12.10 percent. Co-efficient of variation is less in the case of IRDP/SGSY followed by extent of assistance to Minor Irrigation. There was higher percentage of variation in the quantum of refinance disbursement to storage and market yard purposes.

3. Credit disbursement to sample borrowers

3.1 Utilisation of loan

185 out of 300 farmers (61.7%) reported have completely utilized the credit for the purpose for which it was sanctioned. Thirty percent of the borrowers had partially utilized and about 8.3 percent of the borrowers have not at all utilized the credit for the purpose. About one-third of the respondents are not making proper use of production credit. Most of the farmers who spent the loan amount for other purposes mainly spent for consumption purposes followed by repayment of old debts.

The factors like age, education, size of the family, family income, number of members engaged in farm work, land holding, agricultural yield, type of loan and the quantum of loan amount have closely associated with credit utilisation pattern of the
borrowers. Other variables such as type of family, distance between society and residence, cultivation status and extent of land holding have not shown association with credit utilisation pattern of the farmers.

Out of fifteen independent variables selected for statistical analysis (F-test and t-test) only two variables viz size of the family and type of loan has a significant association with utilisation of loan. Other variables though have influence on the extent of loan utilisation, the influence was not statistically significant.

According to multiple regression analysis the proportion of irrigated land in the total acreage and type of loan has a significant association with utilisation of loan.

3.2 Impact on Employment, Asset, Occupation and Income

3.2.1 Employment: A high variation was found in employment generation among different categories of labourers in the before and after the bank loan situation. The impact on employment generation among different categories of labourers was found to be statistically significant. Among the different categories, the number of additional man-days was found to be more in the case of casual labourers than the permanent labourers. The financial assistance to the farmers enabled provision of employment to coolies in an increasing scale. Though the bank finance has better impact on the employment generation among the farmers and the agricultural labourers, the employment so generated was not rewarding, as it is not reflected in the income status of the farmers. There has been better utilisation of human resources in the farm sector on account of institutional finance to agriculture.

3.2.2 Asset: The financial assistance has an impact on the various assets except the land holdings (both in value and area). The financial assistance to farmers enabled them to build up their resource base in the form of various assets. However, the landholdings, the prime
asset of the farmers remained more or less constant without any appreciation in the post loan period.

3.2.3 Income: There is significant variation in income generation from agricultural sector between pre- and post-reform periods. Agricultural operations created significant impact on the level of income of the farmers.

Thus, the financial assistance from the banking institutions for agricultural operations has created significant impact on the level of income, employment in terms of number of days both to the landowners and to the agricultural coolies, and thereby resulted in the formation of assets. However, the study has proved that the impact is very little and limited, when it comes to either improvement in the extent of land holdings or in the value of lands.

3.3 Repayment performance of the borrowers

48 out of 300 borrowers (16%) are reported to have fully repaid the loan. 47.70 percent of them have not at all repaid the loan amount. Crop failure and death of livestock were the major reasons attributed by the farmers for non-repayment.

Variables like education, type of family, size of the family, number of members engaged in the farm work, land holdings, agricultural yield value, family income, distance between the society and residence and the quantum of loan have an association with repayment performance of the farmers.

The five variables such as type of family, distance between the society and residence, dry land holdings, types of loan and the quantum of loan have significant association with the repayment performance of the farmers. Among socio-demographic variables, the independent variables like proportion of irrigated acres, quantum of loan, sanction and release of loan in
time, better yield, desire for getting future loan, efforts of bank officials and farmers urge to get rid off the debt burden which were found to have more significant relation with the repayment of loan.

4 Suggestions

4.1 Refinance Operation of NABARD

i. NABARD gives more importance to Short-term credit on Seasonal Agricultural operation (SAO) than Short-term credit Other Seasonal Agricultural Operation (OSAO). During the study period, the growth on ST (SAO) has been found satisfactory as the percentage growth on limits sanctioned and maximum outstanding were found to have registered declining trend in most of the years. To benefit the farming community from the new global market access opportunities, the internal agricultural marketing system in the country needs to be integrated and strengthened. According to Expert Committee on Agricultural marketing under the Chairmanship of Shri Shankarlal Guru, NABARD should make available financial assistance to agricultural marketing purposes in order to get reasonable price for agricultural produce. Hence, it is suggested that NABARD should also pay required attention on provision of refinance for Short-term (OSAO) so as to enhance earning capacity of the farmers.

ii. The study reports that 69 percent of the farmers’ repayment capacity was affected by low yield/crop failure on account of drought in the recent years. This is one reason why defaults are large. The present rescheduling of loans or postponement of current dues is only a temporary measure to give some relief from repayment of current dues. This is in no way of help to the farmers as this measure added debt burden to be serviced in the subsequent years. There should be some tangible relief to farmers at the times of natural calamities particularly when they are affected in consecutive years. The debt burden has to be reduced the extent of
interest portion to facilitate repayment. It is, therefore, suggested that Central and State Govts. should constitute a Natural Calamity Fund to provide relief to farmers at times of natural calamities, which besides causing damage to crops also results in destroying of the assets created out of loans. Unless suggested measure is considered, farmers will continue to suffer and forced to fail repayment as and when the nature plays havoc.

iii. During the study period, in the case of medium term credit (both Non-schematic and conversion) the limits were utilised to the extent of 50 percent only. Mere sanctioning of refinance is not enough. So it is suggested that NABARD should monitor the credit institutions so as to make sure that the loan sanctioned is made better use of. Credit institutions, in turn, should monitor the beneficiaries for proper utilisation.

iv. The major objectives of the national policy are the reduction of regional economic imbalance in the development. But NABARD provides the least refinance facility to North Eastern Region. It is suggested that NABARD should provide more refinance facility to the less developed states especially North Eastern Region and Eastern Region.

v. NABARDs credit functions have substantially contributed to capital formation in the form of Farm mechanization and Minor irrigation besides supporting credit flow for the largest poverty alleviation programme of the country, namely Integrated Rural Development Programme/Swarajanti Gram Swarojgar Yojana (IRDP/SGSY). The share of refinance for purposes such as storage and market yards, forestry was insignificant during the last two decades. Thus, NABARD should concentrate on storage and market yard purposes in the future.

vi. Restrictions, which are imposed by NABARD on disbursement of loan to Cooperative/RRBs, also need to be looked into and liberalized, as these were the institutions

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very closer to people at the grassroots level. All the artificial restrictions in the operations of short-term and long-term credit structures should be removed. They should be allowed to do all types of banking and credit business in a competitive environment.

4.2 Utilisation

i. Nearly 38 percent of the loan is diverted for other purposes by the sample borrowers. Thus, it is suggested to District Central Cooperative Bank/Primary Agricultural Co-operative Banks (DCCB/PACBs) that precautionary measures should be undertaken for the proper utilisation of production credit. Adequate consumption loans should also be provided to the agriculturists to ensure purposeful use of loans and credit.

ii. For proper utilisation of loan, variables like size of family, type of loan, proportion of irrigated acres should be considered.

iii. The bank should undertake post sanction follow up measures to ensure proper utilisation and control diversion of loans.

4.3 Impact of bank credit: The institutional financial assistance to farmers has created significant impact on the level of income, employment. But the study has proved that impact is very little and limited, when it comes to improvement in the extent of land holdings or the value of lands. Non-creation of assets especially extension of land is the major set back in the credit programmes. Therefore, adequate steps must be taken that the farmers should create awareness and knowledge needed for the acquisition and retention of new income generating assets.
4.4 Repayment

i. It is suggested that the loan should be disbursed at right time and at the right quantity so that it will help the farmers in proper utilisation of the facility provided by the banks for income generation and to increase agricultural production.

ii. Post loan supervision by the lending institutions will motivate the borrowers to use the credit for productive purposes, which leads to prompt repayment.

iii. Proper incentives should be provided to those who repay the loan promptly.

iv. The banks have to be very careful while selecting the borrowers. The variables like education, size of the family, type of the family, land holdings, past agricultural production, quantum of loan and past repayment behaviour should be considered for ensuring prompt repayment by the farmers.

v. There is a tendency among the farmers that the government will write off the farm loans. This will affect the repayment performance of the borrowers. So, it is suggested that the state government should desist from making loan waiver announcements.

vi. It is suggested that DCCB/PACBs should have regular campaign to create awareness among the borrowers for timely repayment.

vi. PACBs should also make necessary arrangements for education of borrowers about the benefits of co-operation and involvement of members in the operations of the cooperative institutions.
5. Conclusion

To conclude, NABARD, being an apex and refinance bank, has managed its activities in a more effective manner for the success of banking institutions especially in the field of agriculture and the rural development. It has devised various measures and created ground level institutions to support the national policies and programmes for increasing agricultural production. Generation of rural employment and income generation through efficient use of national resources, reduction of regional and social imbalances through continued financial support and implementing special programmes to weaker sections are also done successfully towards the fulfillment of the banks objectives. Despite these efforts and achievements the National Bank has to go a long way and make further improvements in the operation to realize the objectives of NABARD namely reduction of regional and economic imbalances. National Bank should give special attention and concentration through the greater flow of credit to agriculture and rural development especially to the less developed states like North-Eastern and Eastern regions.