CHAPTER 7

SUMMARY, CONCLUSIONS AND POLICY SUGGESTIONS
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In this chapter, a summary of the foregoing chapters and the broad conclusions emerging from the analysis have been furnished. With the rapid growth of population and land fragmentation, the number of marginal and small holdings has been increasing over the years in India. These small farmers eke out their living from agriculture and related occupations. The land distribution is highly skewed and about 77 per cent of the farmers belong to marginal and small categories who own only about 29 per cent of the cultivable land with the average size of landholding being around 0.90 hectares.

In order to ensure an overall development of all the segments of rural society, many developing countries are increasingly focusing attention on assistance to the marginal and small farmers, agricultural labourers and other rural poor in the recent years. In this process, the developing countries are expecting credit institutions to play a major role in implementing the rural development programmes including those meant for the rural poor. This realisation came after the bitter experiences and failures in implementing many rural development programmes which were based on "trickle down" theory, which, in turn, relied primarily on a higher rate of growth in Gross National Product (GNP) of a country. This theory has been discarded by many

8. One of the development strategies advocated to develop the poor countries was massive capital investment in core sectors of the economy, instead of investing meagre amounts in all the sectors. This was expected to increase growth rates of not only those sectors which received huge capital investment but also of other sectors, due to the working of spread effects in the economy. This theoretical line of thinking placed emphasis primarily on increasing the production (GNP) rather than on equitable distribution.
empirical studies (Belshaw 1959 and Padmanathan 1988), and there is a growing emphasis on devising integrated programmes, covering all the sectors and sections of the people, for the harmonious development of rural areas. Most of the developing countries, including India, are now implementing such various rural development programmes. One important component of these programmes is credit, i.e., provision of loans and subsidies through institutional credit agencies like banks and cooperative societies to enable the rural poor to undertake various producing schemes.

The literature that appears relevant has been discussed under six areas as follows:

7.1 Problems and prospects of the banking institutions.

7.2 Institutional credit and rural poor, a review of empirical literature in India.

a) those dealing with distribution of credit across different sections of rural society under the general functioning of cooperative and CBs and

b) those specialised institutions and programmes which have been started specially for rural poor. The studies coming under the first and second categories are examined in detail.

7.3 The Economic Impact of Institutional Loans:

7.4 Institutional Credit and Adoption of New Agricultural Technology:

7.5 Impact on Farm Development, Asset Creation and Poverty Alleviation:

7.6 Studies dealing with NABARD as an Organisation:

The exhaustive review of literature reveals that the bank credit has positive impact on the landless, marginal, small, medium and large farmers and rural artisans which has resulted in agricultural and rural development. Though very few studies
point out that the credit had little impact on income and employment generation of the rural poor, the fact remains that it had greater impact on the same. If this is the case, one should think about the funding sources of these CCS, RRBs and CBs. The main funding sources are, The Reserve Bank of India, Government of India and Kamataka and the NABARD. There is exhaustive literature on the RBI and the government sponsored programmes. But, unfortunately, there are very few studies which can be counted on finger-tips about the NABARD and its role in agricultural and rural development.

Thus, the studies dealing with specialised institutions and programmes meant for the rural poor reveal that as a result of their creation the access of rural poor to the institutional credit agencies has improved significantly. A large number of hitherto discriminated households have been able to borrow from the institutional sources. However, they also indicate that a) the coverage of rural poor is fairly low when compared to their magnitude; b) only a very small proportion of them have been able to maintain regular access to the institutional credit agencies; and c) a considerable proportion of the households covered by the special institutions and programmes belong to non-target groups or richer sections.

The stories received reveal that though a major portion of the institutional loan is being utilised for productive purposes, a significant share of it is also being diverted for various non-productive purposes particularly by small farmers and agricultural labourers. Therefore, it is clear that credit plays an important role in influencing the adoption of new technology and, in turn, in increasing the farm production and income particularly in the case of small farmers.
Thus, almost all studies dealing with the impact of investment loans on farm
development and asset creation show a positive impact on borrower household. The
studies have concluded that provision of investment credit has not only helped in
strengthening the capital and asset base of borrowers but has also brought about
significant changes in technology, output, employment and income. Regarding loans
given to the rural poor under various credit-based poverty alleviation programmes, a
similar pattern of impact is discernible in the case of programmes like SFDA which
are aimed at relatively better-off sections like the small farmers among the rural poor.
In the case of schemes like IRDP which are mainly aimed at much poorer sections
like the landless labourers and rural artisans, though a positive impact of loan is to be
found, the extent of income does not seem to be substantial enough to make a
majority of them to cross the poverty line. In other words, the studies indicate that the
extent of impact of institutional loans on different categories of rural households
depends on the resource base of the households like land and other assets.

The study has been undertaken with the objective of examining NABARD, its
objectives, management and organisational set-up. This objective has been
formulated to understand the organisation itself which helps, further, to understand
the organisation in-depth. To what extent NABARD is sound enough to lend money
for agriculture, in turn, for economic development. To study NABARD and its total
lending in Karnataka state and in the Kolar district is the second objective. This
explains the NABARD's role in the economic development of Karnataka state and in
the Kolar district. The third objective is to study the Regional Rural Banks (RRBs)
and Credit Cooperative Societies/Banks (CCSs) in terms of their resource
mobilisation and lending. As these banks have been depending on NABARD for re-
financing, it will be useful to know to what extent NABARD is re-financing these
lending agencies. To study the co-ordinating role of NABARD: This objective is
intended to explain to what extent NABARD is capable of taking other organisations along with to attain the economic development.

As the study is intended to take up NABARD itself for analysis, the organisation itself is the area of study and there is no other specified area for the study. However, to see the impact of NABARD on the credit cooperative societies and the Regional Rural Banks, Kolar district in the Karnataka state has been selected as Kolar district is one of the backward districts in the state. The major data base is secondary sources and only one chapter has been studied by using the primary data of the CCSs and RRBs. The secondary data was collected from various published and un-published sources of the government and also the non-government agencies. The main sources are various publications of NABARD, the Reserve Bank of India Bulletin, statistical abstracts of the Karnataka state and India, season and crop reports of the Karnataka state and India, Economic Survey, Economic Intelligence Survey, Currency and Finance, Karnataka at a Glance, the hand book of statistics of the Government of Karnataka and Kolar district and other relevant sources required for the study. The data has been analysed by using suitable statistical techniques. For the study, regression, a statistical technique, has been used to work out the Compound Growth Rates (CGR) to show that how the bank is growing in terms of mobilising and lending of financial resources. The percentages and averages have been worked out to analyse the primary data of CCSs and RRBs to work out the two way and three way tables. And also the graphs and pie-charts are drawn to show the performance of these development agencies accurately. In addition to these, the correlation is worked out to show the relationship between the credit, Gross State Domestic Product (GSDP), Net State Domestic Product (NSDP) and income from agriculture.
7.7 Major Findings of the Study

The inception of NABARD is a landmark in the evolution of agricultural finance. It has the objective of promoting the health and strength of credit institutions like credit co-operative societies, CBs, RRBs, PLDBs and other rural formal lending institutions.

The intention of having an all-India organisation for agricultural development was initiated by Agricultural Finance Committee (Gadgil Committee 1945), but the All-India Rural Credit Survey Committee, 1951-54 and Committee on Co-operative Credit disfavoured such type of any organisation for agricultural development. Again, All-India Rural Credit Review Committee, 1960, and the Administrative Reforms Commission, 1970, disfavoured a separate bank for agriculture. The National Commission on Agriculture, 1976, exhorted the RBI to take steps in accordance with its historic role in integrating the total structure for financing agriculture and rural development right up to the creation of an Agricultural Development Bank of India. The Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was appointed by the RBI in March 1979, at the instance of the Government of India under the Chairmanship of B. Shivraman.

The above Committee examined, in detail, arguments in favour and against the establishment of NABARD for Agriculture. The Committee found a number of gaps and deficiencies in the existing arrangements from top to bottom. The analogy of the IDBI as an argument for the establishment of a NABARD was not accepted by the CRAFICARD. Because the new institution would have to deal not only with long-term funds as the IDBI does but also with short-term credit. The Committee came to the conclusion for setting up of a national level bank with close link with RBI. The Committee envisaged the role of the RBI as one of spawning, fostering and nurturing
the new bank. The proposal of the CRAFTICARD was approved by the Government of India and the RBI and the NABARD Act was passed by the Parliament on the 1st December 1981. The NABARD came into existence on July 12, 1982 with the functions of Agricultural Credit Department (ACD) and Rural Planning and Credit Cell (RPCC) of the RBI.

The co-ordination of NABARD has been vested with a Board consisting of fifteen members. The first three Chairmen of NABARD did not complete their full term of five years. In view of non-completion of the full term of five years by the Chairmen of NABARD it was suggested that necessary measures should be taken to ensure that the Chairman remains in the office for full term. This will enable the Chairman to prepare long-term plans for the growth and development of NABARD. Further, the Board should also ensure that all the fifteen members as prescribed in the Act, are appointed and attend the meetings of the Board regularly.

The Board consists of the members from co-operative banks, CBs, RBI, State Governments and experts in rural finance, rural economics, rural development, handicrafts and other rural problems specialists.

To have efficient administration, NABARD is empowered to appoint various committees, for example, there exists an Executive Committee for discharging such functions as may be delegated to it by the Board. Similarly, NABARD is also authorised to appoint Advisory Council to advise the NABARD.

The entire functions of NABARD have been assigned to fourteen departments. These are further divided into divisions and cells according to the requirement.
The NABARD has been expanding its branches and sub-branches. At present it has sixteen regional offices and seven sub-offices at various State capitals.

Since NABARD has been engaged in refinancing activities it requires large amount of funds to discharge its functions efficiently. NABARD obtains its resources from share capital, reserves and surplus, long-term funds, deposits, borrowings, other liabilities and current liabilities.

The study reveals that long-term funds dominated in the total sources of funds. Since, in long-term funds, the Government's contribution is not made on regular basis, it is suggested that Government should make regular contribution in the fund as is done by the RBI and the NABARD. This will strengthen the resource base of the NABARD.

As NABARD's main function is refinancing, the profitability is low. In view of the low Rate of Return (ROR) on capital employed and total assets, NABARD should take necessary steps so that the overall profitability may be increased. The ROR of less than five per cent cannot be said as satisfactory in any way. Although, it is argued that profitability and social purpose cannot go together but in spite of its role in financing priority sectors and contributing to the promotion of welfare of common man, NABARD must earn a reasonable amount of profit.

The objectives which guide the refinance support for different activities, through the eligible institutions by NABARD, are to support national policies for increasing agricultural production and rural employment through efficient use of national resources, reduction of regional imbalances, ensuring credit support to
weaker sections of the society through special programmes are some of the major functions of NABARD.

NABARD as an organisation has certain weaknesses and strengths. However, in terms of its resources it is stable and improving over a period of time. It is weak in terms of investment as its main objective is not making profit out of business. Its main objective is to promote agriculture, rural industries like agro-processing industries, village small scale household industries, weaving and other related activities and it is working towards that end. Therefore, NABARD’s role has been justified for overall rural development.

Indigenous banking in India has suffered from quite a few defects like the blending of banking with non-banking activities, a poor system of maintaining accounts, little attention to deposit-banking and the failure to mobilise rural savings, the lack of organisation and effective leadership, and little connection with the commercial banks. The Reserve Bank of India, has, in the past, tried to integrate indigenous banks with organised banking by laying down certain rules. Ironically the desired integration could not take place due to so many other problems. Even now the RBI has not been successful in inducing the indigenous bankers to accept its rules because of the intransigence of the indigenous bankers who refuse to accept these conditions.

Due to heavy exploitation by the indigenous bankers and to safeguard the farmers and other general public from these lending agencies, the Government of India started encouraging the organised banking, in general, and in the rural areas, in particular, to give impetus for the development of agriculture. This has resulted in the establishment of the Reserve Bank of India, State Bank of India, Commercial Banks
(CBs), State Credit Cooperative Societies (SCSs), Regional Rural Banks (RRBs) and Land Development Banks (LDBs). As already mentioned, to facilitate the CBs, RRBs, SCBs and LDBs to finance the agriculture sector the NABARD for Agriculture and Rural Development (NABARD) was came into existence to finance and re-finance these lending institutions so that agricultural credit flows smoothly in the rural regions.

There are about 17 National Financial Institutions in the country, which have been financing in Karnataka State. Among these financial institutions, the (IDBI) has advanced high amount of loans compared to any other organisation. The second place goes to NABARD in terms of lending for the agriculture sector, agro-processing industries in rural areas and other rural non-farm sector.

The banking institutions which are related to industrial sector have been growing faster after liberalisation though there was slow growth during pre-liberalisation period. The banks which have been lending money for co-operative sector, agricultural and rural sectors have not maintained the steady growth. They did well during the pre-liberalisation period and their performance is poor during the post-liberalisation period. A few lending agencies started growing negatively during the post-liberalisation period.

The analysis clearly reveals that the performance of Commercial Banks during the pre-liberalisation period has been better than the post-liberalisation period in terms of number of sanctions, advances and per capita advances. The only positive factor is that the deposits have grown which again acts as a negative factor for agriculture, industry and for overall economic development.
The performance of the CCBs has increased considerably during the post-liberalisation period. However, the per capita disbursements in absolute terms has not been satisfactory though it has increased marginally. Except credit co-operative societies, the performance of all other banking institutions has gone down during the post-liberalisation period. When compared to the total advances of the four lending institutions during the pre-liberalisation period the performance of RRBs was the highest. During post-liberalisation period, the credit co-operative banks' lending is high and it is followed by RRBs and commercial banks.

The analysis clearly reveals that the long term finance was not encouraged by NABARD in the rural sector as its main focus was on short-term loans as short-term loans were focused on crop loans where recovery rate was very much high.

The NABARD's performance in terms of growth was better during pre-liberalisation period whereas it came down during the post-liberalisation period. When comparison is made between the Karnataka State and at the All India level it can be concluded that the NABARD's performance in Karnataka state is low compared to All India with minor differences in financial assistance and NABARD's commitment. Therefore, there is lot of scope for NABARD to invest in Karnataka State and, in turn, help agricultural and rural development as NABARD's main focus is on these items.

In Karnataka State, formulation of the schemes has been low compared to the all India level during the pre-liberalisation period. When we compare across the lending agencies the performance of the co-operative banks seems to be worse as it is growing negatively, whereas the same co-operative banks' performance has been higher compared to any other lending institution at the all India level. The
performance of all the lending institutions in Karnataka, compared to the institutions at the all India level, has been lower.

During the post-liberalisation period, all the lending institutions have shown negative growth rate in the state and also at the all India level. However, the negative growth rate is lower in case of Karnataka state when compared to the performance at the all India level. Though one cannot say that performance of the State improved but the decline rate is lower when compared to the country as a whole.

The re-finance of the NABARD has started declining during the liberalisation regime. One should have positive hope that it increases further. It is a positive hope because the positive increase in re-finance has direct effect on financing agriculture sector as most of the NABARD's refinance (around 92 per cent) goes to crop loan and agricultural activities.

The economic indicators reveal that there was a positive growth of all the indicators during the pre-liberalisation period though the percentage varied from one indicator to another. During the post-liberalisation period the growth rate of GSDP, NSDP, GSDP and NSDP of agriculture has increased considerably. However, the growth rate of credit and re-finance has come down when compared to the Pre-liberalisation period. And also when compared to the other economic indicators the growth rate of credit and re-finance is lower which was vice-versa during pre-liberalisation period.

It is interesting to observe from the table that the per capita GSDP and NSDP of agriculture has been lower than the per capita credit by various financial institutions. However, the re-finance per capita is too low. There is a close
correlation between the total credit and GSDP, NSDP, GSDP and NSDP of agriculture. Even the total re-finance has maintained close relationship with the same factors.

The growth rate of credit flow from all the banking institutions is positive in Kolar district, of course, with minor variations between various banks. The highest growth rate is found in the case of Land Development Banks. The lowest growth rates is found in the case of Regional Rural Banks. The major portion of credit has been lent towards crop loan. This clearly shows that credit has been playing a major role in drought-ridden Kolar district.

The credit towards horticultural crops has been increasing year after year. Grapes have taken the highest share out of the total credit followed by mango fruit.

As sericulture has been one of the major activities in the district, dairy development has taken place significantly. Among the milch animals, the milch cows have taken a major share out of the total credit to milch animals. Therefore, most of the households in Kolar district owns a milch animal.

The credit flow has been more towards the cultivation of vegetables. Next to vegetable crops, the credit towards sugarcane has been higher in terms of absolute credit. The sugarcane has been followed by groundnut. In fact, all the crops, vegetables, sugarcane, groundnut, paddy and ragi showed positive growth.

The importance of credit has been increasing in the district as the percentage of credit has been increasing at a faster rate when compared to the growth rate in the state. The re-finance growth rate has been higher than the growth rate of agricultural
Credit in the district. The growth rate of credit has been higher than the growth rate of the income in the district.

Credit has a positive relationship with production. Therefore, the farmers in the villages are badly in need of credit, otherwise, they need to take loans from the private sources where the interest rate is too high. Sometimes, the interest rate is too exorbitant which is beyond imagination when compared to the bank. For example, to buy the groundnut seeds the person has to give one bag for a bag of groundnut in the next year. This means he is paying cent per cent interest. In case crop fails the poor farmer cannot recover from the clutches of the moneylenders / landlords and other private moneylenders.

A farmer, Muniyappa, has got loan from the bank. The bank offered the finance well in time at the lower rate of interest. Therefore, he could construct a better house with a rearing shed. As Muniyappa says "I would not have gone for rearing shed without the credit from DCCB. In the absence of rearing shed every year I was losing two crops which amounted to Rs.10,600, which has been a considerable portion of my net income."

Shanthappa is a progressive marginal farmer. He is a progressive farmer because, with limited income, he was able to construct a comfortable pucca house for his stay and also rear silkworms. He himself admits that he was greatly helped by the DCC bank in time to expand the mulberry area. With this, he was able to produce about 30 kgs of cocoons for just one crop. On an average, he can increase the production of cocoons by 120 kgs per year, though credit was not solely responsible for the improvement but it was instrumental and encouraging to Shanthappa to take it up. Therefore, he appreciates the services of DCCB and in turn NABARD.
Though Gowda is a rich farmer, sometimes, he too finds it difficult to mobilise the resources in a particular period of time. The NABARD’s refinance to DCC bank in turn, crop loan to the farmers irrespective of the category of farmers has been a great help.

Ananthappa is a small farmer with his four acres of land. As the family size is large and all are grown up they were under-employed. He could not think of wage earning as it was below their status to do the same. In turn, their family income was low and leading the subsistence level of life and they were not comfortable. After receiving the loan, they started getting weekly steady income. As a result within one and half year’s time they could buy a moped, television and other minimum furniture. Their general standard of living has gone up. Therefore, Ananthappa has all appreciation to DCC bank, in turn, NABARD.

Devarappa has been credit-worthy. He has been paying the instalments regularly. The bank authorities expressed happiness about his performance. He did a better job of borrowing credit and in turn, saved his family members from suffering and also increased the cocoon yield by minimising the crop loss. Therefore, the financial assistance was timely from the DCC bank and he has all gratefulness to the bank and NABARD.

Venkataronappa is a rational farmer as he can make out the real problems in the way of his own development. Therefore, within a short period of time he realised the problems and has gone for loans to rectify them. Though the service charge is more, it comes down gradually with the payment of instalments. He says, "Once the instalments are over I will be the rich farmer in the village with all my assets and yearly income." The DCC bank has done a commendable job by taking the re-
finance from NABARD. Therefore, the DCC bank and NABARD deserve appreciation from the farmers.

Narayanaswamy is a teacher and getting regular salary. Therefore he does not require any loan for the cultivation of crops. His monthly salary income is sufficient for the purpose. However, he has taken loan to solve his personal problems. This he says "Almost helping me to peacefully concentrate in agriculture, sericulture, dairy enterprises and teaching job". Though the loan amount was miss-utilised it was not having any negative impact on his crop enterprises.

Institutionalisation of rural credit has been achieved to a large extent with the ubiquitous multi-agency institutional arrangements for provision of credit for agriculture and rural development. The second phase of institutional development witnessed several initiatives taken by the RBI and NABARD for the rehabilitation of weak units in the co-operative sector. These included 12-Point Programme for rehabilitation of weak DCCBs, 15-Point Programme for rehabilitation of ground level co-operative institutions, 10-Point Programme for rehabilitation of weak PLDBs and lastly, the institutional strengthening programme covering 'non-solvent' and 'near-non-solvent' banks.

The first three programmes were not able to make any serious impact on the working of the weak units mainly because of lack of adequate resources support, and low recoveries, the fourth programme viz., institutional strengthening programme was a non-starter as it did not find favour with the State Governments mainly due to their inability to fund their share as envisaged under the programme. However, the latest initiative taken by NABARD for revamping both the co-operatives and RRBs, through DAPs and MoU, has received a much greater impetus with the reforms initiated in the financial sector by the Government.
In the long-term perspective, though the commercial banks are expected to meet their share of growing demand for rural credit, the co-operatives and RRBs which enjoy a pivotal position with a good network of branches in rural areas will have to shoulder a major responsibility in the supply of rural credit. And, therefore, these institutions need to be adequately strengthened, to enable them to play an effective and meaningful role in meeting fully the credit demand of the rural credit.

In this context, it is worthwhile recalling the observations of the All India Rural Credit Survey Committee also known as Committee of Directions (1954) that "our principal recommendations are virtually related to one another and together form a unit of policy and action, from which no main component may be removed without imperiling the whole". These observations would be appropriate to the current initiatives of NABARD too. To sum up, institutional development, in a sense, is a continuum, a long distance, in terms of time and the objective of creating a healthy credit delivery system. This has already been traversed. A lot has been done. Yet, the agenda is far from complete.

7.8 SUGGESTIONS

Many studies reveal that credit plays an important role in the economic development of the rural areas, that to a greater extent, agriculture, as most of the Indian population depends on agriculture. Therefore, after studying the operations of NABARD thoroughly a few suggestions have been made by keeping rural economic development in view.

NABARD has been stable in terms of its resources. But is weak in terms of investment, as its main objective is not making profit out of business. Its main objective is to promote agriculture, rural industries like agro-processing industries,
village small scale household industries, weaving and other related activities and it is working towards that end. However, NABARD can involve in direct lending so that it can be a model for other banking institutions in terms of lending for genuine and development-oriented activities.

When comparison is made between the Karnataka State and at the All India level it can be concluded that NABARD's performance in Karnataka state is low compared to All India with minor differences in financial assistance and NABARD's commitment. Therefore, there is lot of scope for NABARD to invest in Karnataka State and in turn, help the agricultural and rural development as NABARD's main focus is on these issues.

The re-finance of NABARD has started declining during the liberalisation regime. A study has to be carried out to understand why NABARD's operations have come down and to give policy suggestions to improve upon it.

Credit has a positive relationship with production. The farmers in the villages are badly in need of credit as therefore, they have to be assisted from time to time. Otherwise, they need to take loans from the private sources where the interest rate is too high and farmers become defaulters as their returns will not be sufficient to meet the interest rate of the private moneylenders.

NABARD has to enhance the re-finance to various lending institutions, specially the Co-operative Banks, Regional Rural Banks and the Land Development Banks as these banks have been concentrating their operations in the rural areas for agriculture and rural development.
A positive correlation has been established between the income from agriculture and the total credit. The re-finance has to be enhanced to a greater extent which results in the prosperity of agricultural sector in Karnataka State.

The farmers in the field have made a few suggestions for better credit flow as it leads to rural economic development. Firstly, the banks have to reduce interest rate some more as the farmers have been directly making use of the loan for agriculture purpose. Secondly, the formalities to avail loan have to be simplified as the administrative officials and others exploit the farmers. Thirdly, the bank gives crop loan which is sufficient to cultivate an acre of any crop. Therefore, the finance should be crop specific and also the extent of area cultivated.

NABARD and the RBI have to play a major role in co-ordinating all the banking institutions, particularly the institutions mentioned in the study. The financial institutions working in the rural India are weak and cannot self-sustain in terms of resources. However, they are working in rural areas for the development of agriculture and allied activities including village non-farm sector. Therefore, they have to be supported in terms of resources, planning and implementation. NABARD as a pioneering agency and has to carry these institutions towards the development path for overall economic development.