CHAPTER - 1

INTRODUCTION
AND
REVIEW OF LITERATURE
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1.0 Introduction

Three fourths of India's population live in villages and 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 resent years, 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 the Gross National Product (GNP) of a country. The weakness of their theory has been expressed by many empirical studies (Belshaw 1959 and Padmanabhan 1988), and there is a growing emphasis on devising integrated...
programmes, covering all the sectors and sections of the people, for the uniform 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 co-operative societies to enable the rural poor to undertake various productive schemes.

The conception of credit investment-oriented programmes in developing countries is based on the prevailing conditions in the rural areas of such countries on the one hand and the assumptions, (Von Pischke et. al., 1983 and Adams et.al. 1984), underlying the rural development theories on the other. Some of the assumptions are:

i. the rural poor are taking loans from non-institutional sources (say private money-lenders) which are costlier due to their higher interest rates. Hence, the rural poor are to be provided institutional credit (say commercial banks) with concessional interest rates (Lipton 1976);

ii. Hunter (1970) assumes that small farmers need various management services for getting credit and diversify their economy. They also need to have input deliveries on schedule and need help in marketing their produce. Further he points out that it is also necessary to help small farmers to organise their own association to deal with some of these needs.

iii. the small farmers are efficient but poor so they need external assistance (Hayami 1971);

iv. to reduce the inequalities of income and wealth distribution among the rural households (Singh 1973), on the one hand and to improve the financial position of rural weaker sections on the other, there is a need for positive
discrimination in the rural development policies including credit policies (say subsidy-oriented programmes) in favour of the poor (Prasad 1978).

v. Hunter and Bottrall (1974), assume that credit plays an important role to diversify the small farmers from traditional agriculture to highly rewarding modern agriculture;

vi. to reduce the dominance of rich in credit co-operatives in the villages there is a need for government policy intervention (Rao 1975);

vii. lack of capital for investment is one of the most important reasons for poverty in rural areas (Stevans 1977);

viii. the adoption of improved technology in agriculture irrigation, land development and dairying requires massive investment on the part of the farmers but since their savings are low they are to be assisted with external institutional finance (Adhvarya 1979);

ix. the diversification of rural economy is often suggested as one of the means for rapid economic development (in India) which, requires deployment of more capital (both directly and indirectly) in rural areas3;

x. Gunashekaran (1985) feels that expansion of credit and monitoring services will help the marginal and small farmers to diversify their economy;

xi. Prahladachar and Mohanasundaram (1985) feel that provision of better credit facilities and support services to the farmers lead to diversification;

xii. small farmers cannot go in for capital intensive technology which is difficult to adopt in the Indian context as the resource requirements of these are higher

Since the late sixties (under special developmental programmes), various state governments have spent large sums of money on animal husbandry, poultry, forestry and logging and fishing, particularly with a view to improving the economic conditions of the relatively weaker sections of the rural population.
than the farmers' resource position and relatively narrow range of options offered by them (Jodha 1986); and

the growing inequalities between urban and rural areas in the developing countries have been attributed to a large extent to the unequal distribution of capital investment between these two areas. Thus, a shift in government policies including credit policies from urban orientation to rural orientation is warranted to cement the gap (Nanjundappa 1987).

The report of the Food and Agricultural Organisation (FAO 1975) noted that, "this situation (food and economic crisis) has been exacerbated by the fact that, while several of the underdeveloped countries have recorded notable achievements in agricultural production, such economic progress as they have made has largely by-passed the vast numbers of impoverished small farmers and landless agricultural labourers. The gap between urban-rural incomes and, even more, the gap between rich and poor in rural areas has not narrowed, but actually widened". In this context, it recommended an integrated rural development programme and further suggested that the credit programmes should be formulated as an integral part of the development programmes in different areas. They should be conceived as part of the development of specific substantive sectors such as food crops or animal husbandry or agro-industries. And should be part of programmes aimed at developing national and local institutions which are capable of serving small farmers (even in the remotest part of the country) in a number of important and related matters such as the supply of inputs, marketing, the stabilisation of food prices, and so forth.

While reviewing the progress of provision of agricultural credit in developing countries during the thirty-year period ending 1975, the above cited report distinguished four stages as follows:-
First came the hopeful era of the fifties and early sixties with large amounts of funds involved. But little was known of the problems of servicing small farmers with credit and the programmes ended, broadly, in failure.

Second, there was the "careful banking" period, with the shift in bank portfolios to large commercial enterprises and a consequent reinforcement of dualism in many developing economies.

The third stage was characterised by a willingness on the part of many governments to implement the policies; and by the efforts of the credit institutions to simplify the hitherto cumbersome procedures, which were identified as necessary to bring credit successfully to the small farm sector.

The decade after 1975 may be termed as the fourth stage, extending it on the lines of FAO report. This stage is characterised by an integrated approach towards rural development. More significantly, the credit institutions were expected to cover all the rural poor (i.e., even below the small farmers like marginal farmers, agricultural labourers and rural artisans) and extend financial help to them under various development programmes. This marked a distinct shift from the 'asset based' lending policies to the 'need based' lending policies (Tendulkar 1983).

Changes in the thinking and policy orientation which was observed in India during the above mentioned fourth stage received an effective support at the Annual Conference of the Indian Society of Agricultural Economics held in 1981 when it noted that special schemes designed for rural poor should not be relief oriented but development oriented (Shah 1981).
1.1 Problem Identification

To estimate the credit requirements and lending to the agriculture sector, rural artisan sector, rural industries, and other economic activities in the rural areas, a separate organisation was required as it was difficult to access credit as there were several agencies to deal with, it was also an extremely difficult task to estimate the credit requirements of the farmers. The most important hurdle which came in the way of such estimation was uncertainties, uncertain monsoon conditions and the natural factors. Since expected agricultural production cannot be predicted with a given input as in the case of industrial sector, the estimate could be made precisely. Further, production and consumption needs are so intermixed that it is not always possible to separate them from each other. Another factor which caused problem in the estimation of credit requirement was that a portion of finance came from farmers themselves. So, it was not an easy task to point out the exact amount that farmers would contribute and the amount required from outside agencies. Therefore, one has to operate only with rough approximation of credit requirements.

Various agencies, from time to time, have undertaken the task of estimation of credit requirements of Indian agriculture. The estimation conducted in 1951-52 by the All-India Rural Credit Survey Committee showed that the annual borrowing of the farmers was Rs. 750 crores. The estimation of the Working Group on Agricultural credit in 1970-71 reveals that the credit requirement was Rs. 1,421 crores. The National Commission on Agriculture (NCA) had estimated the short-term and long-term credit requirements at Rs. 7,884 crores and Rs. 8,665 crores respectively by 1985. Thus the total credit requirement was at Rs. 16,549 crores for
the period. The present credit requirement is much higher than the above.

To meet the growing demand for the credit by the agriculture and allied sectors, the researchers felt the need for the reorganisation of the banking sector. Accordingly, the Committee to Review Arrangements for Institutional Credit for Agriculture and Rural Development (CRAFICARD) was appointed by the Reserve Bank of India (RBI) in March 1979, at the instance of the Government of India under the Chairmanship of Shri B. Shivaraman. The Committee reviewed the existing institutional arrangements for agriculture and rural development and it submitted the Report in January 1981. It recommended the establishment of a National Bank for Agriculture and Rural Development (NABARD) to act as a service agency to look after the needs of rural sectors mentioned.

The Government of India (GOI) and the RBI approved the proposal of CRAFICARD. The Parliament through the ACT 61 of 1981, approved its setting up. The NABARD Act was passed by the Parliament on 1st December 1981 and the institution came into existence on July 12, 1982 and started functioning with effect from July 15, 1982. The NABARD was established, in terms of the preamble to the Act "for providing credit for the promotion of agriculture, small-scale industries, handicrafts and other allied economic activities in rural areas with a view to promoting integrated rural development and securing the prosperity of rural areas".

Though a separate bank has been established at the national level to take care of the agriculture and allied sectors, even now the farmers, specially the marginal and small farmers, have been depending on money-lenders, landlords and other non-institutional sources for their credit requirements. This has made them pay exorbitant interest rates engulfing them in the vicious circle throughout
their lives. At this juncture, it is rewarding to study the NABARD - the organisation itself, about its activities like growth and development in terms of capital mobilisation, lending capacity for various developmental activities. If the organisation has not been able to cope with the requirements, what are the problems it has been facing to meet the requirements of the co-operative banks and Regional Rural Banks and other commercial banks have to be studied.

1.2 Conceptual Framework and a Brief Review of Literature

The main focus in this section is to present a resume of conceptual formulations pertaining to the credit and its impact on the agriculture sector, in general, based on a review of literature. The studies in the field cover issues like functioning of formal and informal credit agencies, the demand for credit, distribution of credit, coverage of weaker sections, utilisation pattern of loans, the economic impact of loans on borrower households and the repayment and overdue of loans. Keeping the objectives for which the RRBs have been established, in this section, an attempt has been made to review briefly to understand how far the institutional credit agencies have been able to meet the credit requirements of the poor like small and marginal farmers, agricultural labourers, and rural artisans. And it is also intended to study the role of institutional credit in bringing about agricultural and rural development, in general, and poverty alleviation, in particular. The literature that appears relevant has been classified under six areas as follows:

1.2.1. Problems and prospects of the banking institutions.
1.2.2. 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 co-operative; and CBs and
   b) those specialised institutions and programmes which have been started
specially for the rural poor. The studies coming under the first and second categories have been examined in detail.

1.2.3. The Economic Impact of Institutional Loans;
1.2.4. Institutional Credit and Adoption of the New Agricultural Technology;
1.2.5. Impact on Farm Development, Asset Creation and Poverty Alleviation;
1.2.6. Studies dealing with NABARD as an Organisation:

1.2.1 Problems and prospects of the banking institutions

Jugale (1992) concludes that the credit is responsible for transforming the cropping and land use patterns with remarkable increase in the productivity and employment in-farm and off-farm activities. Both socio-economic changes have been brought about by credit. However, credit is not the sole instrument of change alone. The use of bio-technology and mechanical technology has become more intense phenomenally because of credit.

Nanjundappa (1997) in his work reveals that one should go deeper into the reason for overdue of the Gramina Banks (GBs). Despite NABARD taking several initiatives in support of institutional development, the performance of a large number of Co-operative Banks (CBs) and the Regional Rural Banks (RRBs) in terms of recovery of loans, profitability, non-performing assets and operational and managerial effectiveness was not satisfactory. As acknowledged in the NABARD's Annual Report for 1992-93, the factors which inhibited the progress of GBs were mainly defective loan policies and procedures; failure of the credit agency to initiate prompt action for the recovery of loans; lack of active support by the state governments in the recovery of loans; inadequate supervision over the end-use of credit; political interference in the working of institutions; and loan waiver and interest rebate schemes announced by the governments in the past. The non-
viability of the GBs is reported to be a serious concern and it is argued that these banks need to be suitably restructured to pave the way for the removal of their internal weaknesses.

Chadha (1997) reveals that low rate of recovery of loans has been a bane of rural banking and in recent years, the problem has assumed alarming proportions. The present state of affairs has as much to do with the omissions and commissions of the banking system as with compelling extraneous factors over which the banker has little control. The inadequacies in the banking system vis-a-vis the rural business with its geographic spread renders effective servicing of the business difficult.

Giriyappa (1997) advises that financial institutions in particular have to include, in their agenda, a programme for rural banking in specific fields and with specific development-orientation. Owning to their peculiar placement, it would be worthwhile to see if they could be better co-ordinators and deliveries of goods in association with the people's organisations.

Shenoy (1997) concludes that a strong consensus has to be developed in favour of building a viable rural banking system with a long-term perspective. All the concerned agencies, viz., commercial banks, co-operatives and RRBs, together with the apex institutions, should strive to create greater awareness in this regard among the public and in the political system. The harm that has been caused and the retarding effects experienced on account of mis-use of the rural banking system through grant of loan and interest waivers by the central and state governments should not be permitted.
Joshi (1997) concludes that without strong co-operatives, village development programmes cannot become successful. If they proceed to induce the farmers to repay the loans taken from the institutional agencies, they will indeed do the job expected of them. In the case of those small and marginal farmers who are steeped in difficulties, the crop loans may be converted into medium-term loans. But the co-operatives should not hesitate to take action against well-to-do farmers who have chosen to be defaulters.

Tarapore (1997) states that NABARD has been principally a refinancing agency. With the restructuring of the rural credit system and the emergence of large credit incentives; NABARD is facing difficulties. It is imperative that NABARD expeditiously undertake a major restructuring of its own operations. It is being increasingly recognised that created money has deleterious effects and hence, NABARD should plan its activities on the basis that large resources would not continue to flow from the RBI to it. NABARD is now a teenager and it can no longer afford to wear its swaddling-clothes. It must, therefore, revamp its activities to drastically reduce its reliance on created money. The belief that created money can contribute to the output is a charade; it can only contribute to inflation. Thus, NABARD should progressively raise the bulk of its resources from the market and the bulk of its lending should be at market-related interest rates.

Subsidised lending by NABARD would necessarily have to become a relatively smaller segment of its total lending. It would, no doubt, be unfair to expect NABARD to adjust to the overall financial sector reform without greater flexibility to reduce the areas where it is required to provide subventions. Illustratively, it is not reasonable to expect NABARD to continue to provide refinance to a commercial banking system which, at the present time, is afflicted by excess liquidity.
Withdrawal of refinance to the commercial banks would not significantly affect the lending programmes of commercial banks while it could substantially reduce the resources crunch of NABARD. The NABARD should also be able to progressively reduce its large refinance operations to the state co-operative banks which, in turn, have large surplus resources parked with scheduled commercial banks via money market operations. A rationalisation of counter-productive inter-institutional credit flows would greatly help NABARD to prepare itself for the emerging milieu.

Sreekantaradya (1997) concludes that the financial sector reforms assume very great importance in the context of economic reforms which aim at improving the efficiency and productivity in the Indian economy. The financial sector's efficiency and productivity also need to be improved so that it may be in a position to support the development of the real economy. The banking reforms proposed or implemented so far have their implications for rural banking.

A study by Rayudu (1991) reveals that the co-operative societies were intended to relieve the agriculturists from the clutches of money-lenders and to combat rural indebtedness. The credit co-operative movement has been playing a significant role during the successive five year plans with huge plan allocations. Large-sized societies were started to extend the area of operation and to make them financially sound. There has been a significant increase in the number of societies and quantum of credit supplied by them in recent years. Efforts should, therefore, be made towards not only the expansion but also stabilisation of the existing societies. This is, to some extent overdue. The strict implementation of the recommendations of various committees would improve their working in a greater way.
A study by Chandra and Dinesh (1993) reveals that if the formal sector has not been properly built up, the rural economy will be tied to the informal sector agencies and their transaction practices. On the other hand, if the rural economy makes a break through and there is a spectacular increase in agricultural production the demand for money for short-term investment increases manifold. Such demands cannot be satisfied by formal sector and all categories of producers will compulsively rely on the agencies of the informal sector whose principal agent is the trade-cum lender. In the case of informal sector, the flexibility is greater compared to the rigid policy of the formal lending system. Therefore, it is advised that to overcome the problem formal lending system should be smoothened.

A study conducted in the state of Bihar by Singh (1990) concludes that land development banking in Bihar has a long way to go not only in reaching to each block of the state but also in serving the farmers in the state adequately and effectively. This means that Land Development Banks (LDBs) in Bihar have to grow from strength to strength to meet the challenges of agricultural development in Bihar. It needs to strengthen its organisational set-up, improve the accounting system, build up a proper personnel management and above all develop skills in financial as well as loan management.

Rajendran (1997) feels that at the all India level, the share of governmental agencies in the supply of credit to rural areas has remained almost constant at about three per cent during the three decades following independence even though in absolute terms a great increase is noticeable. In comparison with the other institutional agencies, the performance of government as a credit agency is, however, found to be poor, judged in terms of supervision of loan use and recovery
of loans. In spite of the fact that the various institutional credit agencies have expanded their activities in the rural areas, a significant proportion of the rural households still continue to lean heavily on the informal sources of credit supply.

A study by Meshran (1995) concludes that the role of agriculture in the Indian economy has been well recognised. It plays a strategic role in promoting a balanced growth. Thus, the agricultural sector requires credit for utilising these inputs and the role of commercial banks in supplying credit has been recognised. Rural credit should help identify the poorest of the poor families in the rural areas and help them rise above the poverty line. It is also useful to acquire productive assets and technological skill by way of providing them help through state governments, nationalised banks, co-operative banks and voluntary agencies.

Devi (1996) expresses that a strategy for rural development must recognise three points. Firstly, the rate of transfer of people from low productivity agriculture and related activities into more rewarding pursuits has been slow; and given the relative size of the modern sector in most developing countries, it will remain slow. Secondly, the mass of the people in the rural areas of developing countries face varying degrees of poverty; their position is likely to get worse if population increases at unprecedented rates while limitations continue to be imposed by available resources, technology, institutions and organisations. Thirdly, rural areas have labour and land, and if, at least some capital is mobilised, it could reduce poverty and improve the qualities of life. This implies fuller development of the existing resources, including the construction of infrastructure such as roads and irrigation works, the introduction of new production technology, and the creation of new types of institutions and organisations.
1.2.2 Institutional Credit and Rural Poor - a Review of Empirical Literature in India

1.2.2a Distribution of Credit by Co-operatives and CBs

A study by the National Council of Applied Economic Research on the effectiveness of co-operative credit for agricultural production in Bellary district of Karnataka during 1965-68, reveals that the small and marginal farmers (< 5 acres) who accounted for 37 per cent of the membership with 16 per cent of land area got 33 per cent of short-term credit. However, the landless cultivators and tenants who accounted for 12 per cent of the membership got only four per cent of the short-term credit. In the case of long-term loans from co-operative land development banks, the major share went to the big farmers (> 10 acres). The average amount of loan received increased with the size of landholding. This was found mainly due to the lending policy of fixing the loan amount on the basis of the value of land owned.

Jodha (1986), in his study of the land development bank in Gujarat State during 1966-68, found that small farmers (<5 acres) had not been able to benefit substantially in the matter of receiving long-term loans. Not only the proportion of small farmers to the number of borrowers was low but even their share in the total loan was also low. The land-based credit policy, i.e., of advancing only 50 per cent of the value of land, was found responsible for such a kind of distribution.

Rao and Sutar (1982), in their analysis of the advances of land development banks across different states, have found that the coverage of small farmer households was very poor as compared to others. The small farmer households who accounted for about 75 per cent of the rural households, constituted only 36 per cent of the total borrowers. However, they borrowed 25 per cent of the total advances even though the area owned by them was only 22 per cent.
Kurulkar (1983), in his study on the problems of long term credit in an economically backward district of Aurangabad in Maharashtra, found that in the distribution of credit from co-operative land development banks (1973-74), while small farmers (<5 acres) obtained only about 5 per cent of the total credit, the medium (>5 acres) and large farmers (> 25 acres) were able to appropriate 43 per cent and 52 per cent respectively of the total loans. On an average, small, medium and large farmers had received Rs. 2,280, Rs. 2,800 and Rs. 7,695 from the land development bank respectively. The security-oriented policy was found to be the main reason for such a bias against the small farmers. Even the supply of short-term and medium-term loans from Central Co-operative Bank (CCB) showed a similar pattern.

Rao and Malya (1980), in their study of working of CBs in a relatively well-developed banking district of South Canara in Karnataka during 1974-75, conclude that CBs even after nationalisation had not made any considerable headway in the process of meeting the credit requirements of the rural poor. Major benefits had gone to the better off categories like medium and large farmers (>5 acres).

Bandyapadhyya (1984), in his study of the nature of agricultural credit markets in West Bengal (1974-75), has concluded that the formal sector was serving mainly the large farmers. The small farmers did not have any significant access to the organised sector because of unfavourable terms and conditions and were, therefore, compelled to resort to informal sources of credit.

Subbarao (1980), in his study on the nature of constraints on the demand for short-term production credit in eastern UP, has found that the institutional agencies
supplied 79 per cent of the total credit requirements of large farms as against 27 per cent for the small farms. Such a difference in the share of institutional credit was found mainly due to the small size of holdings and poor resource base of the small farmers. Even relaxing of supply side constraints by way of establishing SFDAs and RRBs, the short-term borrowing per household from institutional sources had remained low particularly for the small farmers.

Bhende (1986), in his study of credit market in these villages of semi-arid region of south India, has concluded that formal agencies might have introduced distribution of credit as that by money-lenders. The proportion of borrowers from formal sources was found to be concentrated in the richer households having larger farm size. Most of the large farmers took credit from institutional sources but not from private sources. But marginal and small farmers went for money-lenders.

Kailas Sarup (1987), in his study of the working of credit market in Sambalpur district of Orissa during 1981-82, has concluded that the poor households like landless and marginal farmers (<2.5 acres) did not have any satisfactory access to institutional loans as compared to large farmers (>10 acres). They depended on informal credit market to meet their consumption and production requirements. Besides, their lower bargaining strength, factors like procedural formalities and asset based lending policies prevented the poor from getting adequate credit from the institutional sources.

Banakar and Suryaprakash (1987), in their study on the pattern of borrowing of crop production loans in Bellary district of Karnataka (1981-82), have found that small farmers were neglected by all the financial institutions including RRBs. Even RRBs showed preference to large farmers which was against the very purpose of their set-up.
Almost all the studies reviewed above have concluded that institutional credit agencies have benefited mainly the rich-like big farmers - as compared to small and marginal farmers, tenants and agricultural labourers. The security-oriented lending policy followed by the institutional agencies is found to be the main reason for the inequitable distribution of credit. Now, in the following paragraphs, the studies dealing with specialised institutions and programmes like Farmers Service Societies, RRBs, Small Farmers' Development Agency (SFDA) and IRDP have been examined. These institutions and programmes have been started with the aim of increasing the access of rural poor to the institutional credit as the existing institutions have been found to be not well disposed towards the rural poor.

1.2.2b Institutions and programmes initiated for the rural poor

Gaikwad and Parmar (1983), in their study of a Farmers' Service Society in Karnataka (1973-78), have found that though the society could enrol about 67 per cent of the total agricultural families in its area of operation, in the case of marginal farmers and agricultural labour families, the coverage was 35 per cent and 16 per cent respectively. In the case of disbursement of short-term agricultural loans which constituted the bulk of total loans, the society covered less than 13 per cent of the small and marginal farmers.

As regards RRBs, Mohan Rao (1980), in his study of a RRB in AP has concluded that given the coverage, the bank was functioning well in meeting the credit requirements of the target groups.

Reddy and Suresh Kumar's (1982), study of a RRB in AP has found that weaker sections like marginal and small farmers and agricultural labourers got the major share of credit from the bank - 72 per cent of the crop credit and 86 per cent of the investment credit.
Jagadish Prasad and Sunil Kumar (1985), in their study of a RRB in Bihar, have found that the bulk of the loanee households (87.5 per cent) belonged to the poorer sections having family income of less than Rs. 4,000.

Singh's (1985), study of a RRB in Bihar has concluded that the bank had exclusively financed the weaker sections highlighting the image of a small man's bank.

Pandey and Khanna (1980), in their study of SFDA in Haryana, have found that though both the coverage of small farmers and amount disbursed to them by the credit institutions had increased, yet the big farmers received much advantage.

Rajpurohit (1975) has found that SFDA in Mysore district of Karnataka (1973-74) had covered an only very small proportion of the small farmers i.e., only about 7 per cent in its area of operation.

Hanumappa's (1983) study of SFDA in Bangalore district has revealed that a major portion of the assistance went to the small farmers and agricultural labourers as most of the schemes were found to be land-based in nature.

George (1984), in his study of IRDP in Alwar district of Rajasthan (1982-83), has found that nearly 60 per cent of the beneficiaries were landless whose main occupation was agricultural labour before getting the assistance.

Patnaik (1986), in his evaluation of rural development programmes like IRDP in Keojhar district of Orissa, has found that as a result of the target-oriented approach, a large number of poor households (42 out of 44 households) like
landless, marginal and small farmers had been able to obtain credit assistance from the institutional agencies.

Rao and Erappa (1987), in their study of IRDP in Karnataka, have concluded that bulk of the beneficiaries, 369 out of 390, belonged to lower and middle economic groups. The direct linkage of IRDP scheme to the rural rich was found to be negligible. However, the land linkedness of IRDP weakened its capacity to reach the lowest strata like the landless.

Kurien (1987) in his all-India study of IRDP, has found that institutional credit agencies like CBs were involved themselves in a big way. A vast majority of the IRDP beneficiaries, i.e., 80 per cent were deservingly poor.

Thus, the studies dealing with specialised institutions and programmes meant for the rural poor have reveal that as a result of their creation the access of the rural poor to the institutional credit agencies had improved significantly. A large number of hitherto discriminated households had been able to borrow from the institutional sources. However, they also indicated that; a) the coverage of the rural poor was fairly low when compared to their magnitude; b) only a very small proportion of them had 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 belonged to non-target groups or richer sections.
1.2.3 The Economic Impact of Institutional Loans

Bhat (1971), in his study of credit markets in rural south India, has found that in nearly 66 per cent of the extent and nature of utilisation of long-term loans of Land Development Banks (LDBs), the diversion of loans had taken place to the extent of 9 to 37 per cent across different states.

Singh's (1988) study in Cuttack district of Orissa during 1974-77 has shown that nearly 76 per cent of the short-term credit and 83 per cent of the long-term credit were used for productive purposes.

Mohan Rao (1980) has found that 100 per cent of the loans in irrigated area and 90 per cent of the loans in un-irrigated area had been utilised for productive purposes by the borrowers of grameena bank in AP during 1978-79.

Ramaswamy and Meskel (1988), in their study on CB's lending to agriculture in Coimbatore district of TN have found mis-utilisation of loan to the extent of 38 per cent by agricultural labour households and 20 per cent by small farmers.

The above studies thus 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.

1.2.4 Institutional Credit and Adoption of New Agricultural Technology

The studies under this category have tried to examine the effect of institutional credit on the adoption of new technology like high-yielding varieties
(HYVs) of seeds and use of chemical fertilizers, and the resultant impact on farm production and income.

Singh and Jha (1971), in their normative analysis of the impact of capital availability on farm income in three villages of Delhi (1967-68), have found that adoption of advanced technology was positively associated with the availability of credit which, in turn, helped in augmenting farm incomes.

Sharma and Prasad (1971), in their study in north-west UP, have found that adoption of improved technology with adequate credit doubled the incomes of the farmers.

Prashanth Kumar Bhanja's (1971), study has revealed that the inadequacy of institutional credit and high risk impeded large scale adoption of HYVs by small farmers (<5 acres).

Schluter (1974) has found the significance of access to co-operative credit as an important factor in the adoption of modern varieties of bajra and rice which involved high degree of uncertainty. Capital availability also showed substantial impact on levels of fertilizer used.

Subramanyan and Patel (1973), in their study of impact of credit on farm income and cropping pattern in West Godavari district of AP, have found that the availability of credit helped not only in the introduction of HYVs of paddy especially on small and medium farms but also in increasing the net farm income.
Subbarao (1980) has found that institutional credit did not appear to have much impact in the adoption of new technology. The difference in the proportion of area under HYVs and fertilizer use was not much between borrowers and non-borrowers.

Singh and Ramanna (1981), in their study, have proved that adequate credit coupled with adoption of improved technology dynamises the entire gamut of income and employment potential.

Noor Basha Abdul and Dakshinamurthy (1986), in their analysis in Guntur district of AP, have also found a significant impact of farm production credit on the yield of paddy and cotton.

Thus, the above studies indicate 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.

1.2.5 Impact on Farm Development, Asset Creation and Poverty Alleviation

The studies under this type may be grouped into two categories: i) those examining the impact of loans given under general schemes of credit institutions; and ii) those examining the impact of loans given to rural poor under various credit based poverty alleviation schemes like SFDA and IRDP. First, let us examine the studies dealing with the impact of loans given under the first category.

1.2.5a Impact of Loans Given Under General Schemes

Singh and others (1971), in their study of economic rationale of credit use in Varanasi district of UP in 1968-69, have found a significant impact on crop returns
of investment made on irrigation. However, investment on draft cattle did not show any significant impact on crop returns.

Rai and others (1975), in their study of the impact of institutional credit on farm income in Kanpur district of UP during (1973-74), have concluded that institutional credit exerted a greater influence on the level of farm income. They have found a significant difference between borrowers and non-borrowers in cropping intensity, area under high-yielding varieties and farm business.

George and Srivastava (1975) have found that investments on buffaloes had made positive impact on the returns of the farmers.

Kurulkar (1983) has found that the investment on wells and pump sets had brought about significant changes in cropping pattern, cropping intensity and net incremental income of sample farmers.

1.2.5b Impact of loans given under SFDA & IRDP

In order to discern the impact of credit on rural poor, let us now look into the studies dealing with the impact of various credit based poverty alleviation schemes like SFDA and IRDP.

Mohan Rao (1980) has found that as a result of the bank finances there was significant change in the cropping intensity, area under HYBs and asset holding of target groups like small and marginal farmers, agricultural labourers, artisans and traders.

Rao, Pawar and Sutar (1982), have found a significant improvement in
variables like levels of irrigation, cropping intensity, value of assets, net returns from farm and non-farm activities and employment.

Hemchand Jain (1988), has found that as a result of borrowed funds, crop production and net income of borrowers increased by 43 and 28 per cent respectively as compared to 18 and 20 per cent for non-borrowers.

Rajpurohit (1975) in his study of various schemes under SFDA in Mysore district of Karnataka during 1973-74, has found that the schemes besides increasing the productive base of the borrowers had also increased employment, value of production and total income of the beneficiaries.

Garg and Pandey (1975), in their study of SFDA in Pratapgarh district of UP during 1973-74, have found that as a result of SFDA scheme, the value of fixed capital, area under modern varieties, proportion of irrigate area, fertilizer consumption, and productivity of major corps increased substantially. The net income nearly doubled.

George (1984), in his study of impact of IRDP in Alwar district of Gujarat during 1982-83, has found that there was a significant increase in employment and income of the beneficiaries from dairy, Camel cart and sheep rearing schemes financed under the IRDP.

Khatkar (1989), in his economic evaluation of IRDP schemes in Mahendragarh district of Haryana during (1984-85), has found significant improvement in income employment and consumption status of rural poor. The
schemes contributed about 33 per cent of the total income of the beneficiaries and enabled about 29 per cent of the poor to cross the poverty line.

Kurien (1987) has concluded that most of the beneficiaries were relatively better-off after the assistance (1985-86) as there was significant increase in their family incomes. For nearly 38 per cent of the households, the family income increased by over 50 per cent, and about 41 per cent of the poor crossed the poverty line of Rs. 3,500.

Kutti Krishnan (1984), in his impact study of IRDP in Cannanore district of Kerala during 1982-83, has concluded that the programme failed in raising the income of those households which were below poverty line to the desired level.

Patnaik (1986), in his study of IRDP and other schemes in Keonjhar district of Orissa, has found only a meagre increase in the income of the households. The production functional base of the borrowers also did not change significantly.

Hanumantha Rao and Rangaswamy (1988), in their study of efficiency of investments under IRDP in UP during 1984-86, have found that on account of IRDP there was net increase in incomes to the extent of 33 per cent of the beneficiaries. But, only about 5 per cent of the beneficiaries were found to have crossed the poverty line (Rs. 6,400).

Robert.V.Pulley (1989), also, in his case study of viability of IRDP as a credit-led poverty alleviation scheme in UP, has found that IRDP was able to increase the asset holding for a large number of poor households. There was an average gain in income to the extent of 42 per cent, which, however, was found to
be only temporary and not sustainable over years. Only about 6 per cent of the beneficiaries who were below poverty line (Rs. 6,400) before the assistance could cross it after 4 years. In other words, IRDP had failed to bring up significant number of beneficiaries over the poverty line.

Thus, almost all studies dealing with the impact of investment loans on farm development and asset creation showed a positive impact on borrower household. The studies have concluded that the provision of investment credit had not only helped in strengthening the capital and asset base of borrowers but 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 was discernable in the case of programmes like SFDA which were 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 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.

1.2.6 Studies Dealing with NABARD as an Organisation

Singh (1993) has concluded that the NABARD acted as an apex refinance institution as well as development institution in the field of agriculture and rural as well as development institution in the field of agriculture and rural development in true sense. The overall performance of NABARD can be said as satisfactory. What is needed is making available more resources at the disposal of NABARD
and active co-operation of various state governments and agencies disbursing credit directly. However, it takes considerable time in further improving the operations of NABARD.

Rao (1997) has given some of the recent initiatives of NABARD for improving the flow of rural credit as follows:

NABARD's refinance support being raised from 70 per cent to 90 per cent of the bank loans to facilitate greater flow of credit in north-eastern states.

Disbursement of refinance at 90 per cent of bank loans for investments in 100 per cent export-oriented units.

Preparation of project profiles for selected agro-processing activities in tiny and decentralised sectors.

Taking up pilot projects for intensive development of rural industries in five selected districts, with an outlay of Rs. 125 crores.

Pilot project for linking 500 self-help groups with banks.

Bulk lending to selected voluntary agencies either directly or through banks to meet the credit needs of the rural poor.

Setting up Venture Capital Fund (initial corpus- Rs. 5 crores) to support systems improvement and human resources development in co-operative banks.

Margin money assistance to technocrats and other entrepreneurs for setting up units.

Prioritisation in tissue culture, dry land agriculture, wasteland development, development of implements for small farmers through research and development fund of NABARD.

NABARD initiative in micro-planning through PLPs for each district.
Opening of 250 district offices for credit planning, monitoring and coordination.

Performance monitoring of 196 RRBs, 351 DCCBs and the LT co-operative structure.

NABARD’s initiative in preparation of action plans for institutional strengthening programme for co-operatives/RRBs.

1.2.6 The Need for the Present Study

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 have pointed out that 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, Governments of India and Karnataka 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 tips-finger about the NABARD and its role in the agriculture and rural development.

NABARD as a refinancing organisation was established to fund the CCSs, RRBs, CBs, LDBs and other lending agencies which, in turn, lent for the development of agriculturists, rural artisans and other minor activities in the rural areas. Such a premier organisation has so far, not attracted the researchers. Whatever studies that exist, have been done in the early part of the 1990s’ and the latest developments in the organisation have not been documented. Therefore, it is intended to study NABARD as a funding organisation for the agricultural
development, and in turn, for overall rural development, in general, and Kolar district, in particular.

1.3 Major Objectives of the Study

The following objectives have been formulated to study NABARD as a lending agency and its repercussions on the Karnataka state and the Kolar district.

1. To study NABARD, its objectives, management and organisational set-up: This objective has been formulated to understand the organisation itself which facilitates understanding of the organisation in-depth.

2. To study resource structure and make a financial analysis of NABARD: This objective deals with to what extent NABARD is sound enough to lend money for agriculture, in turn, for economic development.

3. To study NABARD and its total lending in Karnataka state and in Kolar district. This objective explains NABARD's role in the economic development of Karnataka state and Kolar district.

4. To study the Regional Rural Banks (RRBs) and Credit Co-operative 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.

5. 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 it to attain economic development.
1.4 Hypothesis of the Study:

Keeping the above objectives in mind, certain hypotheses have been formulated after reviewing the existing literature. The hypotheses are that:

1. the establishment of NABARD is crucial for the economic development of the country;
2. the resources of NABARD are not sufficient to meet the growing demand for the credit in Karnataka state and Kolar district; and
3. the re-financing of NABARD to the co-operative societies and the Regional Rural Banks is not at the expected level.

1.5 Methodology

This study has taken up NABARD itself for detailed analysis, and therefore, the organisation itself forms the area of study. However, to examine the impact of NABARD on credit co-operative societies and Regional Rural Banks, Kolar district in Karnataka state, which is one of the backward districts, has been selected. One other reason for selecting Kolar district for study is the district reveals that the re-finance is always either lower or higher of the target which has been fixed by the bank.

As the study is intended to study the re-financing of the CCSs and the RRBs, the primary unit of this study is the CCSs and the RRBs. Both the primary and secondary data have been used in the analysis. However, the major database is secondary source and only one chapter mainly depends on primary data of the CCSs and RRBs. The secondary data have been 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 Surveys, Economic Intelligence Surveys, Currency and Finance, Karnataka at a Glance, the handbook of statistics of the government of Karnataka and Kolar district and other relevant materials required for the study.

The primary data has been collected from the CCSs and the RRBs of the Kolar district to understand to what extent NABARD has been meeting the requirements of these lending agencies. A few interviews of the officials, working in CCSs and RRBs, of various capacities have also been conducted. And also, to know the performance of these CCSs and RRBs, a few beneficiaries, at grass-roof level, have been considered for conversational interviews and their opinions have been well documented for further reference.

The data have been analysed by using suitable statistical techniques. For this study, regression, a statistical technique, has been used to work out the Compound Growth Rates (CGR) to show 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 CCSs and RRBs in terms of their lending.
1.6 Scope of the Study

NABARD itself has taken up many impact studies on the areas of agriculture, village industries and other agricultural and allied activities in various states and districts. However, there are very few studies which deal with NABARD itself. Therefore, this study has focused mainly on the functioning of NABARD and its relations with the CCSs and RRBs. It is assumed that the study will help the policy makers and others to devise suitable policies for the success and development of the organisation and, in turn, lead to the better functioning of the CCSs and RRBs which have been working for the rural development established in the rural areas.

1.7 Limitations of the Study

The study deals with NABARD, the agency itself. However, this study does not deal with the performance of NABARD in all the states and the districts in the country except giving an aggregate picture at the all India level. It is difficult to cover all these aspects in this study. Therefore, this study provides scope to other researchers to explore these areas to facilitate the policy makers to take up suitable measures in order to develop and strengthen the NABARD, and in turn, the grass-root lending agencies like CCSs and RRBs, which ultimately lead to the overall development of the economy.

1.8 Chapterisation

Chapter I contain introduction, review of relevant literature, research problem, and general methodology followed in the study.
Chapter II highlights NABARD, its objectives, management and organisational set-up and also the district profile. This chapter helps to understand the organisation itself and also the socio-economic situation of the Kolar district.

The resource structure and financial analysis of NABARD have been given in Chapter III. This Chapter discusses to what extent NABARD is sound enough to lend money for agriculture, in turn, for economic development.

Chapter IV contains the total lending in Karnataka state and the Kolar district. It explains NABARD's role in the agricultural and economic development of Karnataka state and the Kolar district.

Chapter V deals with the Regional Rural Banks (RRBs) and Credit Co-operative Societies/Banks (CCSs) in terms of their resource mobilisation and lending in Kolar district.

The co-ordinating role of NABARD has been discussed in Chapter VI. This Chapter explains to what extent NABARD is capable of taking other organisations along with it to attain economic development.

Finally, Summary and conclusions from the present study and policy suggestions for further development of agriculture have been given in the last chapter.

For the analysis of Chapters III, IV, V and VI, regression, a statistical package, has been used to work out the growth rates to demonstrate the growth and development of NABARD, its lending and the re-finance in Kolar district, in
particular and the Karnataka state, in general. Correlation, a statistical package, has been used to work out the relationship between credit and agricultural development. In addition to these, percentages and averages have also been used wherever necessary.