CHAPTER - II

INSTITUTIONAL FINANCE
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I. Introduction:

The Non-Farm Activities (NFA) require financial support for successful working. Finance is required at various stages; Buying land and setting up the unit, buying machinery and other equipment, buying raw-materials and paying wages to labours, under-taking marketing activities and even consumption capital is during the gestation period and so on. For all these finance is must. An entrepreneur requires long-term capital for investment and working capital to meet day to day expenses. Sometimes he requires consumption capital during the gestation period. Many committees have noted in their report that agriculture and allied activities and rural industries are starved of Institutional Finance as a result they have become a pray to local moneylenders who naturally exploit them to maximum extent.

II. Institutional Framework for Financing Non-Farm Sector*

Financial assistance is available to the non-farm sector from the various government agencies and the banking system. The government's assistance is routed generally, indirectly through

promotional developmental and banking agencies in the form of loans at a consessional rate of interest, grants, subsidies, interest subsides, margin money, seed capital etc. The institutional framework for the flow of institutional financial assistance comprises Banks (Commercial, Co-operative, Land Development Banks, Regional Rural Banks), State Financial Corporations (SFCs), Organisations like Scheduled Castes/Tribes Development Corporation, Khadi and Village Industries Corporation (KVIC), National Small Industries Corporation (NSIC), National Co-operative Development Corporations (NCDC) and several Government Departments/ Boards/ Corporations which provide direct loans, while State Financial Corporations provide term loan and seed capital assistance. National Small Industries Corporation and State Small Industries Corporations provide credit for hire purchase of equipment/machinery besides extending other forms of assistance. A major portion of the assistance from commercial banks is given by way of working capital. The Co-operative banks provide credit facilities to Industrial Co-operative Societies for their production and marketing requirements. NCDC provides subsidies, loans at consessional rates of interest and organisational assistance to co-operatives.

The Reserve Bank of India (RBI) being the Central Bank of the country is entrusted with the management of currency and credit, controls and regulates the activities of the banking system. It frames credit policies in tune with the overall national objectives.
In pursuance of its policies aimed at rapid development of the country consistent with the socio-economic objectives it has become in the post independence period a major source of refinance support to apex financial agencies.

The Reserve Bank of India transfers every year out of its net profits sizable amounts depending upon the anticipated requirements to the National Industrial Credit Fund, out of which refinance assistance is provided to Industrial Development Bank of India (IDBI). The Reserve Bank of India also contributes substantial amounts to the National Rural Credit Fund and National Rural Credit (stabilization) Fund maintained by NABARD. Besides, it provides a general line of credit to NABARD to enable it, to meet the production and working capital requirements of Co-operatives, RRBs. IDBI assistance is provided to tiny industries indirectly through banks and SFCs under various refinance schemes operated by it. The more important of which relate to the Automatic Refinance Facility Schemes (ARS) and the composite loan scheme.

Under ARS, Commercial Banks and SFCs are eligible for 100 per cent refinance assistance at a consessional rate of interest in respect of their lending to SSI, upto Rs.7.5 lakh per scheme. The banks are themselves to process and sanction the schemes and then lodge the application for refinance, in triplicate, one copy of
which is stamped and returned by IDBI in token of having accepted the same for providing refinance assistance.

III. Role of NABARD:

After the formation of NABARD, special responsibility was entrusted to it for financing village, cottage, tiny/rural industries etc. In order to fulfil these responsibilities NABARD had constituted seven task force in various fields viz, Hand-loom, Handicrafts, Sericulture, Coir, Khadi and Village Industries etc. The Task Force comprised experts from the sector concerned, representatives of government, banks etc. These were set up to study the credit requirements of the sector concerned and make suitable recommendations for extension of financial assistance from NABARD. Based on these recommendations, NABARD has formulated several schemes extending credit to these sectors through Commercial Banks, Co-operative Banks and RRBs. The salient features of the various schemes are broadly summarised as follows.

A. Term Loan Assistance for Production Activities:

1. Term/Composite Loan for Tiny Industries

Scheduled commercial banks and state/central co-operative banks can extend financial assistance to individual entrepreneurs, groups of individuals and proprietary/partnership concerns to the
extent of Rs.5 lakhs by way of a block capital loan or composite loan including working capital requirements for one operating cycle. The block capital required could be site development, investment in plant and machinery, equipment and tools etc. All SSI activities approved by the Development Commissioner of SSI are eligible for financial assistance under the scheme. A margin of Rs.1 lakh and 10 per cent for loans above Rs.1 lakh will have to be provided. The rate of interest is 12.5 per cent per annum to the ultimate beneficiary and 8 per cent per annum to the financing bank. Repayment period is upto 10 years with a moratorium period of 12 months. Refinance is to the extent of 100 per cent of the bank loan and given an automatic basis.

2 (a) Composite loan scheme for individual Artisans (all banks)

Refinance facilities are extended to banks financing composite loans to individual artisans for the purpose of investment in equipment and tools and working capital requirements covering all SSI activities classified under 22 broad groups of cottage and village industries. Also to any other industrial activity identified by the Development Commissioner of Small Scale Industries. Refinance is provided as an automatic basis. The maximum loan per beneficiary is Rs.30,000/-. The rate of interest on NABARD's refinance is 6.5 per cent per annum to the banks and 10 per cent per annum to the ultimate beneficiary. The
repayment period is upto 10 years with a moratorium period of 12 months. Refinance is provided to the extent of 100 per cent of bank loan.

**b) Composite Loan Scheme to PACs/LAMPs/FSS/Primary Level Societies**

NABARD has with effect from 29 June 1987 extended the scheme mentioned at (2-a) above to individual/rural artisan’s members of PACS/LAMPs/FSS/Primary Industrial Societies. The repayment period is from 3 to 10 years. All other terms and conditions are similar to (2-a) above.

The facilities indicated at (1) and (2) above have now been extended to service oriented industries which do not have investment in fixed assets exceeding Rs.5 lakhs and are situated in rural areas and towns with a population of one lakh or less. Examples of such units are pumpset repairs, electronic repairing, automobile repairs, machine cutting, grinding, polishing units etc.

For small borrowers all eligible banks may sanction a composite loan of Rs.30,000/- while for bigger borrowers commercial banks and State Co-operative Banks (SCBs) can sanction a loan up to Rs.5 lakhs provided the activity is not purely of a trading or business nature and there exists sufficient scope for industry in the area. RRBs can extend similar facilities up to Rs.30,000/- per borrower. In the case of RRBs a maximum composite loan of
Rs.5,000/- to a single individual and Rs.30,000/- in the case of group loans may be sanctioned for small scale establishments owned by tribals.

3. Individual Members of PACS/LAMPS/FSS and Industrial Co-operatives (for SCBs only)

Term loans extended by SCBs for individual members of PACS/LAMPS/FSS and Industrial Co-operatives by DC (SSI) and the 22 broad groups of cottage and village industries are eligible for refinance from NABARD subject to pre-sanction procedure. The maximum loan amount per beneficiary is Rs.10,000/-. The rate of interest to the ultimate beneficiary is 10 per cent per annum. NABARD's rate of interest on refinance is 6.5 per cent per annum. The repayment period is 3 to 10 years.

4. Refinance for Acquisition of Powerlooms:

NABARD provides refinance to co-operative banks financing members of primary handloom/powerloom weavers societies as also powerloom weaver's societies themselves for acquisition of power looms. The maximum number of looms which may be acquired by an individual will be limited to 4 and the quantum of loan will be limited to Rs.25,000/- per loom or actual cost whichever is less. In the case of societies the quantum of loan is the same as above but there is no ceiling on the number of looms.
provided the total investment in plant and machinery does not exceed the limit fixed under Small Scale Industries (SSI).

5. **Financing of Individual Weavers Registered with Handloom Development Corporation** :

Refinance is provided to commercial banks for extending term loan facilities to individual weavers registered with the Handloom Development Corporation for acquisition/modernisation of handlooms subject to pre-sanction procedure. The rate of interest is 10 per cent per annum to the ultimate borrower and the period of repayment is 3 to 5 years. Similar facility is available to the members of weavers’ co-operative societies through co-operative banks.

6. **Coir : Term Loan Assistance for Setting up of Defibering Units** :

Term loan refinance assistance is provided to SCBs for financing primary coir co-operative societies and to commercial banks for financing individuals for setting up of defibering units.

7. **Sericulture** :

Scheduled banks and State/Central Co-operative Banks can extend term loan facilities to individual sericulturist for minor irrigation for mulberry, for setting up rearing houses, grainage units, acquiring rearing and reeling equipment in the non-
8. **Term/Composite loans for registered Industries:**

Refinance is provided to commercial banks in respect of term loans integrated loan comprising one operating cycle extended to institutions registered under the Societies' Registration Act, 1860 for investment in plant, machinery and tools, relating to Khadi or those connected with village industries. The loan can also be availed of for construction of work sheds, godowns, opening of showrooms and purchase of delivery van/truck. The rate of interest to the ultimate borrower is 9 per cent per annum. The rate of interest charged by NABARD is 6.5 per cent per annum. Repayment period will be 3 to 10 years with a moratorium period of 2 years.

**B. Term Loan Assistance for Infrastructural and Promotional Support Activities:**

1. **Construction of Worksheds:**

Refinance is extended to commercial banks and RRBs for financing individual artisans and to state co-operative banks for financing individual members of PACS/LAMPS/FSS and to Industrial Co-operatives for the construction of worksheds. The rate of interest to the ultimate beneficiary is 10 per cent per
annum. The repayment period is 3 to 10 years. The quantum of loan to the beneficiary ranges between Rs.3,000 and Rs.7,500. In the case of Industrial Co-operatives a margin of 10 per cent is required.

2. Project Formulation and Consultancy Services:

Refinance is provided to commercial banks and SCBs for providing loan assistance up to Rs.10,000 to entrepreneurs/units towards the cost of engaging the services of a consultant for project formulation. Refinance is also provided for implementation where absolutely necessary in cases where the entrepreneurs/units avail of loan assistance under all refinance schemes except in the case of a composite loan scheme of Rs.30,000 and a scheme for financing to worksheds to individual artisans. The margin money 10 per cent will have to be provided. The rate of interest is 6.5 per cent per annum and 10 per cent per annum to the bank and to the beneficiary, respectively. Repayment period is up to 7 years. The extent of refinance is up to 100 per cent.

3. Promotional Organisations:

Refinance is provided to commercial banks for financing promotional organisation for the purpose of rawmaterial supply and marketing support (opening/renovation of emporia/showrooms/godowns, purchase of delivery van/truck). The rate of interest is 8 per cent per annum and 12.5 per cent per annum to
the bank and to the ultimate beneficiary, respectively. Repayment period is up to 7 years with a moratorium period of 12 months. The quantum of loan is up to Rs. 1 lakh for depots and prevalent cost for the delivery van. In the case of emporia the loan amount is Rs. 2 to Rs. 5 lakhs and Rs. 4 lakhs in case of godowns. The margin money of 10 per cent is required.

4. Government/Quasi Government/Voluntary Agencies:

Refinance is given to commercial banks and RRBs for financing Government/Quasi Government organisations and voluntary agencies to facilitate the organisation of technical and extension services, training facilities, collective purchase/marketing, joint publicity etc. The margin money is 5 per cent. The rate of interest is 8 per cent and 12.5 per cent per annum to the bank and to the ultimate beneficiary respectively. The repayment period is up to 10 years with a moratorium period of 12 months.

5. Opening/Renovation of Handloom Emporia:

Refinance assistance is provided to commercial banks for opening/renovation of emporia by the State Handloom Development Corporations and SCBs for financing apex/regional Weavers' Co-operative Societies for opening/renovation of handloom emporia. The rate of interest is 8 per cent per annum to the bank and 11.5 per cent per annum to apex/regional Weavers Societies and 12.5 per cent per annum.
to Handloom Development Corporations. The repayment period is 5 to 7 years with a moratorium period of 2 years in the case of new emporia only. The quantum of loan is up to Rs.4 lakhs with a margin of 25 per cent.

6. **Purchase of Shares in Consumer type of Co-operative Spinning Mills:**

Refinance facilities are available through SCBs/DCCBs for advancing medium term loans to members of handloom weavers' co-operative societies for purchase of shares in consumer type of co-operative spinning mills producing at least 75% of the yarn in hank form. The facility is available for newly set up as well as existing mills for the purpose of modernisation/expansion/diversification. The rate of interest is 7.5 per cent per annum to the bank and 9% per annum to the beneficiary. The repayment period upto 7 years with a moratorium period of 2 years.

7. (a) **Opening/Renovation of Handicraft Emporia (Commercial Banks):**

Refinance facilities are provided to commercial banks for financing State Handicraft Development Corporations for setting up/renovation of emporia. The rate of interest is 8 per cent per annum to the bank and 12.5 per cent per annum to the beneficiary. The repayment period is from 5 to 7 years with a moratorium period of 2 years (new emporia only).
(b) Opening/Renovation of Handicraft Emporia

(State Co-operative Banks):

The above facilities are also extended to SCBs for financing apex handicraft societies. The terms and conditions are the same.

(c) Soft Loan Assistance for Margin Money:

Individual, proprietary/partnership concerns, groups of individuals, promotional organisations and industrial co-operatives availing of financial assistance for investment in plant and machinery etc ranging between Rs.1 lakh and Rs. 5 lakhs are required to provide margin money ranging between 5% and 10% of the loan amount. In the case of such promoters/entrepreneurs/units who have requisite talents and skills of entrepreneurship but find it difficult to provide margin money, the financing banks may grant soft loan assistance for meeting margin money requirements. The amount of assistance is up to 100% of shortfall in promoters’ contribution and the extent of refinance is 100% of the bank loan. No interest is charged. However, the financing banks may levy a service charge of 1 per cent per annum on the amount of margin money. The repayment period is upto 10 years. Pre-sanction procedures will have to be followed in this case.
(d) Short-term Assistance for Working Capital

1. Financing of working capital requirements of individual rural artisan members of PACS/LAMPS/FSS and Industrial Co-operatives:

   Refinance is provided to state co-operative banks, for extending working capital requirements for individual rural artisan members engaged in any of the 22 broad groups of cottage and small-scale industries for production and marketing activities. The quantum of the loan is normally 40% of the anticipated production. The rate of interest from NABARD to a bank is 7% per annum and from a bank to a beneficiary is 10.5% per annum.

2. Financing of Individual Artisans by RRBs:

   Refinance is provided for financing individual artisans by RRBs for meeting their working capital requirements including handloom weavers in the village, cottage/tiny sector industries. The rate of interest on NABARD refinance is 7% per annum. The rate of interest to the ultimate beneficiary is as per RBI directives.

3. Primary Industrial Co-operative Societies:

   Refinance is provided to SCBs for financing Industrial Co-operative Societies (covered by the 22 broad groups of cottage and small scale industries) for their production and marketing activities. The rate of interest is 7.5% per annum from NABARD to
the bank and 9% per annum to the ultimate beneficiary. The quantum of loan is normally up to 40% of anticipated production.

4. Production and Marketing Activities of Primary Handloom Weavers Co-operative Societies:

Short-term credit limits are sanctioned to SCBs on behalf of DCCBs for financing primary handloom and power loom weavers' societies for their production and marketing activities. Credit limits for this purpose are also sanctioned on behalf of those DCCBs which are ineligible for refinance from the national Bank for seasonal agricultural operations on account of their level of overdues. In areas where DCCBs are not extending credit facilities for one reason or the other, SCBs can undertake financing of the societies directly subject to certain safeguards.

The primary weavers' societies, which are working as production-cum-sale units only are eligible for refinance facilities from the National Bank. The societies proposed to be, financed should be viable or potentially viable and should have employed paid managers/secretaries. The credit limits to the societies are sanctioned by taking into account the anticipated production, capacity to provide the prescribed margin, sales of product during the previous year, operations on the credit limits sanctioned during the previous year etc. In the case of established societies the credit limits are sanctioned on the basis of anticipated production during
the year. In the case of newly formed societies or dormant societies to be reactivised, the credit requirements are assessed on the basis of per loom scale of finance for the first four years period. After the initial period of four years, the credit requirements of such societies are also assessed with reference to anticipated production as in the case of established societies.

5. Financing of Apex/Regional Weavers Societies:

Refinance is provided to SCBs for financing apex/regional weavers’ societies for their procurement and marketing of handloom products. The rate of interest is 7.5% per annum from NBAARD to the bank and also to the ultimate beneficiary. The credit limits are assessed on the basis of anticipated sales during the previous year; normally it is upto 40% to 50% of anticipated sales. State governments are required to provide a 3% interest subsidy.

Refinancing is also provided to SCBs for financing apex/region weavers’ societies for trading in yarn. For this purpose, the credit limit is sanctioned to apex societies upto a limit of multiple of its net disposable resources and its ability to provide a margin of 10%. Each drawl from the limit is required, to be repaid within 90 days from the date of drawl. The rate interest is 10% per annum to banks and the apex weavers’ co-operative societies are charged 11.5 per cent to 12 per cent per annum.
6. Financing of Individual Artisan Weavers:

Weavers who are scattered in villages and not in a position to form a weavers co-operative society can avail of refinance facility through PACS/LAMPS/FSS of which they are members. Refinance to SCBs in such cases is provided at 3% below the bank rate and the ultimate beneficiary is charged at 10.5% per annum.

7. Production and Marketing Activities of Primary Coir Co-operative Societies and Coir Mats and Matting Societies:

Refinance is provided to SCBs on behalf of DCCBs for advancing loans to primary co-operatives, mats and matting societies for their production and marketing activities. The credit limits are sanctioned to primary coir societies on the basis of 75% of anticipated production of husk and 33 1/3% of anticipated production of coir yarn to the mats and matting societies. The rate of interest to the ultimate beneficiary is 9% per annum.

8. Central Coir Co-operative Marketing Societies:

Short-term credit limits are sanctioned to SCBs for financing central Coir Co-operative Marketing Societies for their production and marketing activities. The credit limits are sanctioned on the basis of anticipated sales (40%) during the year. The rate of interest to the bank is 7.5% per annum and 9% to the ultimate beneficiary.
9. **Reelers/Twisters’ Co-operative Societies (Sericulture)**:

Working capital requirements of reelers’ co-operative societies and twisters’ co-operative societies are eligible for refinance from NABARD. The credit limit is to the extent of 40% of the anticipated production in the case of twisters’ co-operative societies. The rate of interest to the ultimate beneficiary is 9% per annum.

10. **Special Refinance Scheme for Financial Assistance to Tribal Artisan/North-Eastern Region (Commercial Banks and RRBs)**:

A special refinance scheme has been formulated for giving financial assistance to tribal artisans. It will also cover individual artisans located in the North Eastern region. Some of the activities for which assistance can be granted are listed below:

1) Preparation of Khoya out of surplus milk

2) Collection of fruits, seeds, leaves

3) Limestone burning and lime making, bell metal work

4) Earthen pots for social forestry plants

5) Oil extraction from oil seeds of tree origin

6) Coal briquettes

7) Spinning and weaving of woollen items and embroidery work

8) Saw mill/carpentry etc.
Under this scheme loan eligibility for individuals is upto Rs.5000 and for groups of individuals upto Rs.30,000. The rate of interest to the ultimate borrower is 9% per annum and to the financing bank it is 6.5% per annum. No margin money is required. The rate of refinance is to the extent of 100% of the bank loan. Repayment period is upto 10 years with a moratorium of 12 months. Refinance is also provided to commercial banks for financing Tribal Development Corporations and the promotional agencies in North-Eastern regions for establishing common facility centres.

**Performance of NABARD**

**Table 2.1 Refinance Assistance by NABARD**

<table>
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</tr>
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<tbody>
<tr>
<td>Non-farm Activities</td>
<td>305</td>
<td>408</td>
<td>532</td>
<td>652</td>
<td>874</td>
<td>844</td>
</tr>
<tr>
<td>(12.9%)</td>
<td>(14.8%)</td>
<td>(17.6%)</td>
<td>(21.3%)</td>
<td>(24.8%)</td>
<td>(21.5%)</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2360</td>
<td>2745</td>
<td>3011</td>
<td>3064</td>
<td>3524</td>
<td>3930</td>
</tr>
</tbody>
</table>

Source: RBI report on currency and finance (various volumes)

It is clear from the table that the refinance assistance extended by NABARD is showing increasing trend since 1992-93. Along with this the assistance extended to non-farm activities which was only 12.9% in 1992-93 has increased to 24.8% in 1996-97. This is a clear indication of increasing interest shown by NABARD in promoting non-farm activities in recent years. Therefore it may be concluded that the non-farm activities have bright future.
Financial Sector Reforms and Rural Non-Farm Activities

While discussing the role of financial institutions in the development of non-farm activities in rural areas, it would be appropriate to take into account the financial sector reforms and their impact on availability of credit to the target sector. In the post financial sector reforms many have expressed the fear about delivery of bank credit to the priority sector. Priority sector is redefined to cover the weakest in the rural areas and its lending should be restricted to 10% of the credit advanced. The banks to achieve competitiveness and efficiency are rationalise of their interest rate structure in which Differential Rate of Interest (DRI) loses much of its significance. In fact critics have doubted that financial sector reforms have acquired anti-poverty image, they suggest some facts to substantiate their arguments. Firstly, concessionality in the interest rate structure has been virtually abolished, even a small borrower now has to pay high interest as against low interest earlier. Secondly provisioning has become essential for small loans, banks are now required to provide on ad-hoc 7.5% on all advances below Rs. 25,000/-, as a result banks have become increasingly reluctant to lend to small borrowers. Thirdly RBI used to contribute to the National Rural Credit Long Term Operation Fund, this fund used to help NABARD on
sustainable bases. The NABARD in its turn was able to offer refinance facility to banks and cooperatives. The support to NABARD has been withdrawn by RBI since 1992-93.

The Narasimhan Committee has suggested some structural changes in the rural credit delivery system to improve of RRBs. It recommended that RRBs might be allowed to engage in all type of activities though their focus should continue to be on target group. It recommended that a mechanism should be worked out under which the RRBs could place their surplus fund either with NABARD or a special federal type agency to be setup for the purpose of investment in order to augment the income of the RRBs.

The financial sector reforms mainly directed towards strengthening the banking structure against shares scams and increasing cost of credit. They have less to recommend with respect to rural non-farm activities in particular. Still in the coming years the Liberalisation, Privatisation and Globalisation are the forces likely to affect RNFAs. They can be strengthened only by assuring them regular market for their product with finance.

**Recent Development in the field of Rural Finance.**

In recent years, a number of micro-finance initiatives have been introduced. Micro-finance is a novel approach to "Banking
with Poor' as they attempt to combine lower transaction costs and high degree of repayments. This is essentially because of the involvement of the potential beneficiaries of rural credit in the credit delivery mechanism. The major thrust of these microfinance initiatives is through the setting up of Self-Help Groups (SHGs), Non-Governmental Organisations (NGOs), Credit Unions etc. NABARD has actively promoted these initiatives through SHGs-Bank linkage programme and training and also through providing refinance revolving fund assistance and grants.

**IV. Finance to Non-Farm Sector at Grassroots Level:**

The above analysis gives an account of refinance facilities made available at various stages by the institutional agencies. It is necessary to know how actually the entrepreneur engaged in non-farm activities gets financial assistance. By and large all non-farm activities are eligible to get financial assistance. The quantum of assistance depends upon the purpose and nature of activity and its requirement and eligibility conditions. There is no restriction on the amount of assistance provided to non-farm activities. Subsidies are also made available for certain categories of entrepreneurs, for instance KVIC provides 25% of the project cost as subsidy, in case of SC/ST people undertaking the activity the subsidy is even 30% and DIC also extends 20-30% of fixed capital by way of subsidy.
However, it should be noted such subsidy is available only to the industrial activities involving production and the service sector but no subsidy is available for trading activities (grocery shops, tea stalls, fertilizers).

For a long time the commercial banks were hesitant to enter rural sector including both farm and non-farm activity, the difficulty is getting required surety for the money advance. Most of the borrowers did not have tangible, marketable assets to pledge, therefore like agriculture, even non-farm activities in rural areas were starved of financial facilities but now the finance has changed from asset nexus to productivity nexus. Finance is now made available on the basis of productivity of the activity, the borrowers must be customers of the bank and they should also be creditworthy, a local enquiry conducted by the bank to ascertain the credit worthiness of the borrowers. Technical feasibility and economic viability, would be ascertained by the bank staff. Loan up to Rs.25000 does not require surety, LIC policies NSC and UTI bonds etc, will serve as sureties, however internal interview of credit worthiness of borrowers is considered. The financial institutions make periodic visits through its field officers to ensure proper utilization of finance provided. In most of the cases certain margin money is insisted as a pre condition for getting loan, however for loans dispersed under government scheme, margin money is not insisted. The application for loans would be processed
by the financing institutions after making thorough enquiry about the genuineness of the loan. Feasibility of the scheme, economic viability of the activity, credit worthiness of the borrowers, bonafide borrowers through property documents and ration cards etc. Once the applications are properly processed, they will be placed before local administration organisations like Gram Panchayat, Taluka Boards and District Offices for approval. The bank officials attend the Meetings conducted by the Gram Panchayats.

Rate of interest also varies on the basis of purpose and quantum of the loan normally it varies between 15 to 18 per cent. For economically weaker section, differential rate of Interest (DRI) scheme is also available, under which only 4% rate of interest charged. An important problem faced by bankers is the recovery of loan. The recovery period varies from two years to 10 years (120 months) depending upon repaying capacity of the activity, installments are fixed according to convenience of entrepreneurs, it may be monthly, bi-monthly, quarterly, half yearly even yearly as agreed to between the borrower and financial institutions. A gestation period is also allowed during which installments are not insisted because the entrepreneur is to set up his activity and collecting the different inputs, initiate production, arrange for marketing etc. A graded installment are also allowed where in the earlier periods low installments are fixed, while in the latter periods installments would be higher.
Thus, it is clear that, both farm and non-farm activities which suffered due to lack of adequate availability of finance at reasonable rate of interest, are now finding large flow of funds at reasonable rate of interest. Hence, there is ample scope for the development of non-farm activities. The various requirement of non-farm activities either for starting of new activities or for expansion of the existing activity are met by different financial agencies. In addition some of the activities also get subsidy varying between 20 to 30 percent. The repayment of loan is fixed in convenient installments. Therefore, the non-farm activities have got sufficient scope for their development in rural areas. In view of this it is felt necessary to examine the role of financial institutions in promoting the non-farm activities and also to assess as to what extent there is growth of these activities in rural areas.